REPUBLIC BANCORP INC /KY/
Form 10-Q
August 08, 2014
Table of Contents

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 quarterly period ended June 30, 2014

or

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky	**61-0862051**
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
601 West Market Street, Louisville, Kentucky	**40202**
(Address of principal executive offices)	(Zip Code)

(502) 584-3600

(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 o 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 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o 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.

Large accelerated filer o   Accelerated filer x   Non-accelerated filer o   Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

The number of shares outstanding of the registrant s Class A Common Stock and Class B Common Stock, as of July 31, 2014, was 18,548,340 and 2,245,492, respectively.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS *(in thousands) (unaudited)*

	June 30, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$ 84,273	$ 170,863
Securities available for sale	463,646	432,893
Securities held to maturity (fair value of $48,594 in 2014 and $50,768 in 2013)	48,338	50,644
Mortgage loans held for sale, at fair value	6,809	3,506
Loans	2,725,017	2,589,792
Allowance for loan losses	(22,772)	(23,026)
Loans, net	2,702,245	2,566,766
Federal Home Loan Bank stock, at cost	28,208	28,342
Premises and equipment, net	32,481	32,908
Goodwill	10,168	10,168
Other real estate owned	11,613	17,102
Bank owned life insurance	50,656	25,086
Other assets and accrued interest receivable	26,887	33,626
TOTAL ASSETS	$ 3,465,324	$ 3,371,904
LIABILITIES		
Deposits:		
Non interest-bearing	$ 519,651	$ 488,642
Interest-bearing	1,485,332	1,502,215
Total deposits	2,004,983	1,990,857
Securities sold under agreements to repurchase and other short-term borrowings	197,439	165,555
Federal Home Loan Bank advances	640,000	605,000
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	26,371	26,459
Total liabilities	2,910,033	2,829,111
Commitments and contingent liabilities (Footnote 9)		
STOCKHOLDERS EQUITY		
Preferred stock, no par value		
Class A Common Stock and Class B Common Stock, no par value	4,893	4,894
Additional paid in capital	133,320	133,012
Retained earnings	412,338	401,766
Accumulated other comprehensive income	4,740	3,121

Total stockholders equity		555,291		542,793
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	3,465,324	$	3,371,904

See accompanying footnotes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME (*UNAUDITED*)

(*in thousands, except per share data*)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
INTEREST INCOME:				
Loans, including fees	$ 30,110	$ 31,735	$ 60,272	$ 63,649
Taxable investment securities	1,908	1,976	3,767	4,016
Federal Home Loan Bank stock and other	387	408	863	855
Total interest income	32,405	34,119	64,902	68,520
INTEREST EXPENSE:				
Deposits	937	975	1,915	2,030
Securities sold under agreements to repurchase and other short-term borrowings	22	13	44	42
Federal Home Loan Bank advances	3,267	3,735	6,831	7,293
Subordinated note	629	629	1,258	1,258
Total interest expense	4,855	5,352	10,048	10,623
NET INTEREST INCOME	27,550	28,767	54,854	57,897
Provision for loan losses	693	905	(10)	280
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	26,857	27,862	54,864	57,617
NON-INTEREST INCOME:				
Service charges on deposit accounts	3,563	3,498	6,858	6,708
Net refund transfer fees	1,836	1,683	16,224	13,697
Mortgage banking income	812	2,180	1,298	5,454
Debit card interchange fee income	1,738	1,656	3,673	3,467
Bargain purchase gain - First Commercial Bank				1,324
Net gain on sale of other real estate owned	264	1,034	666	1,311
Increase in cash surrender value of bank owned life insurance	379		570	
Other	920	732	1,683	1,347
Total non-interest income	9,512	10,783	30,972	33,308
NON-INTEREST EXPENSES:				
Salaries and employee benefits	13,965	15,086	28,448	31,200
Occupancy and equipment, net	5,508	5,315	11,330	10,892
Communication and transportation	856	991	1,882	2,021
Marketing and development	983	880	1,575	1,782
FDIC insurance expense	414	402	983	815
Bank franchise tax expense	831	857	3,170	2,572
Data processing	913	792	1,754	1,508
Debit card interchange expense	807	718	1,761	1,561
Supplies	60	218	500	572
Other real estate owned expense	560	945	1,630	1,834
Legal expense	88	1,338	500	1,768

Other		1,730		2,157		4,126		4,476
Total non-interest expenses		26,715		29,699		57,659		61,001
INCOME BEFORE INCOME TAX EXPENSE		9,654		8,946		28,177		29,924
INCOME TAX EXPENSE		3,332		2,827		9,871		10,449
NET INCOME	$	6,322	$	6,119	$	18,306	$	19,475
BASIC EARNINGS PER COMMON SHARE:								
Class A Common Stock	$	0.31	$	0.30	$	0.88	$	0.94
Class B Common Stock	$	0.29	$	0.28	$	0.85	$	0.91
DILUTED EARNINGS PER COMMON SHARE:								
Class A Common Stock	$	0.30	$	0.30	$	0.88	$	0.94
Class B Common Stock	$	0.29	$	0.28	$	0.85	$	0.90
DIVIDENDS DECLARED PER COMMON SHARE:								
Class A Common Stock	$	0.187	$	0.176	$	0.363	$	0.341
Class B Common Stock	$	0.170	$	0.160	$	0.330	$	0.310

See accompanying footnotes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (*UNAUDITED)*

(*in thousands*)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net income	$ 6,322	$ 6,119	$ 18,306	$ 19,475
OTHER COMPREHENSIVE INCOME (LOSS):				
Change in fair value of derivatives used for cash flow hedges	(265)		(505)	
Unrealized gain (loss) on securities available for sale	2,626	(2,566)	2,628	(2,965)
Change in unrealized gain on securities available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings	315	238	369	422
Net unrealized gains (losses)	2,676	(2,328)	2,492	(2,543)
Tax effect	(937)	815	(873)	891
Total other comprehensive income (loss), net of tax	1,739	(1,513)	1,619	(1,652)
COMPREHENSIVE INCOME	$ 8,061	$ 4,606	$ 19,925	$ 17,823

See accompanying footnotes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (*UNAUDITED*)

SIX MONTHS ENDED JUNE 30, 2014

(in thousands, except per share data)	Common Stock Class A Shares Outstanding	Common Stock Class B Shares Outstanding	Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance, January 1, 2014	18,541	2,260	$ 4,894	$ 133,012	$ 401,766	$ 3,121	$ 542,793
Net income					18,306		18,306
Net change in accumulated other comprehensive income						1,619	1,619
Dividend declared Common Stock:							
Class A shares ($0.363 per share)					(6,727)		(6,727)
Class B shares ($0.330 per share)					(744)		(744)
Stock options exercised, net of shares redeemed	7		2	129	(14)		117
Repurchase of Class A Common Stock	(15)		(3)	(95)	(249)		(347)
Conversion of Class B Common Stock to Class A Common Stock	15	(15)					
Net change in notes receivable on Class A Common Stock				(85)			(85)
Deferred director compensation expense - Class A Common Stock	2			91			91
Stock based compensation - restricted stock	(2)			255			255
Stock based compensation expense - options				13			13
Balance, June 30, 2014	18,548	2,245	$ 4,893	$ 133,320	$ 412,338	$ 4,740	$ 555,291

See accompanying footnotes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS (*UNAUDITED*)

SIX MONTHS ENDED JUNE 30, 2014 AND 2013 (*in thousands*)

	2014	2013
OPERATING ACTIVITIES:		
Net income	$ 18,306	$ 19,475
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	3,386	2,715
Amortization (accretion) on investment securitites, net	330	337
Amortization (accretion) on loans, net	(4,494)	(4,989)
Provision for loan losses	(10)	280
Net gain on sale of mortgage loans held for sale	(1,166)	(5,408)
Origination of mortgage loans held for sale	(33,284)	(208,094)
Proceeds from sale of mortgage loans held for sale	31,147	199,942
Net realized recovery of mortgage servicing rights		(312)
Net gain on sale of other real estate owned	(666)	(1,311)
Writedowns of other real estate owned	1,217	884
Deferred director compensation expense - Company Stock	91	89
Stock based compensation expense	268	274
Bargain purchase gain on acquisition		(1,324)
Increase in cash surrender value of bank owned life insurance	(570)	
Net change in other assets and liabilities:		
Accrued interest receivable	189	604
Accrued interest payable	(198)	11
Other assets	5,887	(2,123)
Other liabilities	(1,549)	723
Net cash provided by operating activities	18,884	1,773
INVESTING ACTIVITIES:		
Purchases of securities available for sale	(109,549)	(78,205)
Purchases of securities to be held to maturity		(15,000)
Proceeds from calls, maturities and paydowns of securities available for sale	81,567	93,401
Proceeds from calls, maturities and paydowns of securities to be held to maturity	2,269	5,806
Proceeds from sales of Federal Home Loan Bank stock	134	35
Proceeds from sales of other real estate owned	8,136	15,055
Net change in other loans	(25,008)	(5,520)
Net change in outstanding warehouse lines of credit	(94,555)	38,886
Purchase of loans, including premiums paid	(14,695)	
Purchase of bank owned life insurance	(25,000)	
Net purchases of premises and equipment	(2,297)	(667)
Net cash provided by (used in) investing activities	(178,998)	53,791
FINANCING ACTIVITIES:		
Net change in deposits	14,126	(11,881)
Net change in securities sold under agreements to repurchase and other short-term borrowings	31,884	(122,352)
Payments of Federal Home Loan Bank advances	(83,000)	(556)
Proceeds from Federal Home Loan Bank advances	118,000	50,000
Repurchase of Common Stock	(347)	(4,095)
Net proceeds from Common Stock options exercised	117	111
Cash dividends paid	(7,256)	(6,792)
Net cash provided by (used in) financing activities	73,524	(95,565)

NET CHANGE IN CASH AND CASH EQUIVALENTS		(86,590)		(40,001)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		170,863		137,691
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	84,273	$	97,690
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$	10,246	$	10,612
Income taxes		7,304		20,100
SUPPLEMENTAL NONCASH DISCLOSURES:				
Transfers from loans to real estate acquired in settlement of loans	$	4,492	$	4,242
Loans provided for sales of other real estate owned		1,294		569
Change in fair value of derivatives used for cash flow hedges		(505)		

See accompanying footnotes to consolidated financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013 (UNAUDITED) AND DECEMBER 31, 2013

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation The consolidated financial statements include the accounts of Republic Bancorp, Inc. (the Parent Company) and its wholly-owned subsidiary, Republic Bank & Trust Company (RB&T or the Bank). The Bank is a Kentucky-based, state chartered non-member financial institution. Republic Bancorp Capital Trust (RBCT) is a Delaware statutory business trust that is a wholly-owned unconsolidated finance subsidiary of Republic Bancorp, Inc. All companies are collectively referred to as Republic or the Company. All significant intercompany balances and transactions are eliminated in consolidation.

On May 9, 2014, Republic Bank, the Company s wholly-owned, federally chartered savings institution, merged into RB&T. The merged institution operates under the name Republic Bank & Trust Company. The merger did not materially impact the Company s consolidated financial statements.

Subsequent to June 30, 2014, the Company formed Republic Insurance Services, Inc. (the Captive). The Captive is a wholly-owned insurance subsidiary of the Company that will provide property and casualty insurance coverage to the Company and the Bank and reinsurance to five other third party insurance captives for which insurance may not be currently available or economically feasible in today s insurance marketplace.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. For further information, refer to the consolidated financial statements and footnotes thereto included in Republic s Form 10-K for the year ended December 31, 2013.

As of June 30, 2014, the Company was divided into three distinct business operating segments: Traditional Banking, Mortgage Banking and Republic Processing Group (RPG). Tax Refund Solutions (TRS), Republic Payment Solutions (RPS) and Republic Credit Solutions (RCS) operate as divisions of the RPG segment. The RPS and RCS divisions are considered immaterial for separate and independent segment reporting.

Table of Contents

Traditional Banking and Mortgage Banking (collectively Core Banking)

As of June 30, 2014, in addition to an Internet delivery channel, Republic had 42 full-service banking centers with locations as follows:

- Kentucky 33
- Metropolitan Louisville 20
- Central Kentucky 8
- Elizabethtown 1
- Frankfort 1
- Georgetown 1
- Lexington 4
- Shelbyville 1
- Western Kentucky 2
- Owensboro 2
- Northern Kentucky 3
- Covington 1
- Florence 1
- Independence 1
- Southern Indiana 3
- Floyds Knobs 1
- Jeffersonville 1
- New Albany 1
- Metropolitan Tampa, Florida 3
- Metropolitan Cincinnati, Ohio 1

- Metropolitan Nashville, Tennessee 2

Republic s headquarters are located in Louisville, which is the largest city in Kentucky based on population.

Core Banking results of operations are primarily dependent upon net interest income, which represents the difference between the interest income and fees on interest-earning assets and the interest expense on interest-bearing liabilities. Principal interest-earning Core Banking assets represent investment securities and commercial and consumer loans primarily secured by real estate and/or personal property. Interest-bearing liabilities primarily consist of interest-bearing deposit accounts, securities sold under agreements to repurchase, as well as short-term and long-term borrowing sources. FHLB advances have traditionally been a significant borrowing source for the Bank.

The Bank provides short-term, revolving credit facilities to mortgage bankers across the Nation through mortgage warehouse lines of credit. These credit facilities are secured by single family, first lien residential real estate loans.

The Bank began acquiring single family mortgage loans for investment through its Correspondent Lending division in May 2014. Correspondent lending generally involves the Bank acquiring closed loans that meet the Bank s specifications from its Mortgage Warehouse clients. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium. Premiums on loans held for investment acquired though the Correspondent Lending division are amortized into income on the level-yield method over the expected life of the loan.

Other sources of Core Banking income include service charges on deposit accounts, debit and credit card interchange fee income, title insurance commissions, fees charged to customers for trust services and revenue generated from Mortgage Banking activities. Mortgage Banking activities represent both the origination and sale of loans in the secondary market and the servicing of loans for others, primarily the Federal Home Loan Mortgage Corporation (Freddie Mac or FHLMC).

Core Banking operating expenses consist primarily of salaries and employee benefits, occupancy and equipment expenses, communication and transportation costs, data processing, debit card interchange expenses, marketing and development expenses, FDIC insurance expense, and various general and administrative costs. Core Banking results of operations are significantly impacted by general economic and competitive conditions, particularly changes in market interest rates, government laws and policies and actions of regulatory agencies.

Table of Contents

Republic Processing Group

All divisions of the RPG segment operate through the Bank. Nationally, RPG facilitates the receipt and payment of federal and state tax refunds under the TRS division, primarily through refund transfers (RT s). RTs are products whereby a tax refund is issued to the taxpayer after the Bank has received the refund from the federal or state government. There is no credit risk or borrowing cost associated with these products, because they are only delivered to the taxpayer upon receipt of the tax refund directly from the governmental paying authority. Fees earned on RTs, net of rebates, are the primary source of revenue for the TRS division and the RPG segment, and are reported as non-interest income under the line item Net refund transfer fees.

The TRS division historically originated and obtained a significant source of revenue from Refund Anticipation Loans (RAL s), but terminated this product effective April 30, 2012. RALs were short-term consumer loans offered to taxpayers that were secured by the customer s anticipated tax refund, which represented the sole source of repayment. While RALs were terminated in 2012, TRS has received and expects to continue receiving recoveries from previously charged-off RALs.

The RPS division is an issuing bank offering general purpose reloadable prepaid debit cards through third party program managers. The RCS division is piloting short-term consumer credit products.

Reclassifications and recasts Certain amounts presented in prior periods have been reclassified to conform to the current period presentation. These reclassifications had no impact on prior years net income.

Accounting Standards Update (ASU) 2014-08 Presentation of Financial Statements and Property, Plant and Equipment ***(Topic 205 and Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.***

The amendments in this ASU change the criteria for reporting discontinued operations for all public and nonpublic entities. A discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results. The amendments in this ASU are effective for the Company beginning January 1, 2015 and are not expected to have a material impact on the Company s financial statements.

ASU 2014-11 Transfers and Servicing ***(Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings and Disclosures.***

The amendments in this ASU require that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty (a repurchase financing), which will result in secured borrowing accounting for the repurchase agreement. The amendments require an entity to disclose information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements, in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. In addition the amendments require disclosure of the types of collateral pledged in repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions and the tenor of those transactions. The amendments in this ASU are effective for the Company beginning January 1, 2015 and are not expected to have a material impact on the Company s financial statements.

ASU 2014-12 Compensation Stock Compensation ***(Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That Performance Targets Could Be Achieved after the Requisite Service Period.***

The amendments in this ASU are intended to resolve the diverse accounting treatment of share-based awards that require a specific performance target. The amendments in this ASU are effective for the Company beginning January 1, 2015 and are not expected to have a material impact on the Company s financial statements.

Table of Contents

2. INVESTMENT SECURITIES

Securities Available for Sale:

The gross amortized cost and fair value of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

June 30, 2014 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 144,821	$ 640	$ (17)	$ 145,444
Private label mortgage backed security	4,347	1,114		5,461
Mortgage backed securities - residential	131,702	4,803	(87)	136,418
Collateralized mortgage obligations	159,137	1,308	(912)	159,533
Freddie Mac preferred stock		718		718
Mutual fund	1,000	11		1,011
Corporate bonds	15,013	52	(4)	15,061
Total securities available for sale	$ 456,020	$ 8,646	$ (1,020)	$ 463,646

December 31, 2013 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 97,157	$ 409	$ (101)	$ 97,465
Private label mortgage backed security	4,740	745		5,485
Mortgage backed securities - residential	146,087	4,288	(288)	150,087
Collateralized mortgage obligations	164,264	1,228	(1,546)	163,946
Mutual fund	1,000		(5)	995
Corporate bonds	15,015	50	(150)	14,915
Total securities available for sale	$ 428,263	$ 6,720	$ (2,090)	$ 432,893

Securities Held to Maturity:

The carrying value, gross unrecognized gains and losses, and fair value of securities held to maturity were as follows:

June 30, 2014 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value

U.S. Treasury securities and U.S. Government agencies	$	2,275	$	5	$	(8)	$	2,272
Mortgage backed securities - residential		412		53				465
Collateralized mortgage obligations		40,651		387		(52)		40,986
Corporate bonds		5,000				(129)		4,871
Total securities held to maturity	$	48,338	$	445	$	(189)	$	48,594

December 31, 2013 (in thousands)		**Carrying Value**		**Gross Unrecognized Gains**		**Gross Unrecognized Losses**		**Fair Value**
U.S. Treasury securities and U.S. Government agencies	$	2,311	$	7	$	(13)	$	2,305
Mortgage backed securities - residential		420		43				463
Collateralized mortgage obligations		42,913		387		(184)		43,116
Corporate bonds		5,000				(116)		4,884
Total securities held to maturity	$	50,644	$	437	$	(313)	$	50,768

Table of Contents

At June 30, 2014 and December 31, 2013, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders equity.

Sales of Securities Available for Sale

During the three and six months ended June 30, 2014 and 2013, there were no sales or calls of securities available for sale or applicable tax provisions for such transactions.

Investment Securities by Contractual Maturity

The amortized cost and fair value of the investment securities portfolio by contractual maturity at June 30, 2014 follows. Expected maturities may differ from contractual maturities if securities issuers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are detailed separately.

	Securities available for sale		Securities held to maturity	
June 30, 2014 (in thousands)	**Amortized Cost**	**Fair Value**	**Carrying Value**	**Fair Value**
Due in one year or less	$ 23,493	$ 23,715	$ 500	$ 502
Due from one year to five years	126,341	126,794	1,775	1,771
Due from five years to ten years	10,000	9,996	5,000	4,870
Due beyond ten years				
Private label mortgage backed security	4,347	5,461		
Mortgage backed securities - residential	131,702	136,418	412	465
Collateralized mortgage obligations	159,137	159,533	40,651	40,986
Freddie Mac preferred stock		718		
Mutual fund	1,000	1,011		
Total securities	$ 456,020	$ 463,646	$ 48,338	$ 48,594

Freddie Mac Preferred Stock

During 2008, the U.S. Treasury, the Federal Reserve Board, and the Federal Housing Finance Agency (FHFA) announced that the FHFA was placing Freddie Mac under conservatorship and giving management control to the FHFA. The Bank contemporaneously determined that its 40,000 shares of Freddie Mac preferred stock were fully impaired and recorded an Other Than Temporary Impairment (OTTI) charge of $2.1 million for the shares. The OTTI charge brought the carrying value of the stock down to $0. During the second quarter of 2014, based on the active trading volume and price of Freddie Mac preferred stock, the Company determined it appropriate to record an unrealized gain to other comprehensive income (OCI) related to its Freddie Mac preferred stock holdings. Based on the stock s market closing price as of June 30, 2014, the Company s unrealized gain for its Freddie Mac preferred stock totaled $718,000.

Corporate Bonds

During 2013, the Bank purchased $20 million in floating rate corporate bonds with an initial weighted average yield of 1.36%. The bonds, which have a weighted average life of seven years, were rated investment grade by accredited rating agencies as of their respective purchase dates. The total fair value of the Bank s corporate bonds represented 4% of the Bank s investment portfolio as of both June 30, 2014 and December 31, 2013.

Mortgage Backed Securities

At June 30, 2014, with the exception of the $5.5 million private label mortgage backed security, all other mortgage backed securities held by the Bank were issued by U.S. government-sponsored entities and agencies, primarily Freddie Mac and the Federal National Mortgage Association (Fannie Mae or FNMA), institutions that the government has affirmed its commitment to support. At June 30, 2014 and December 31, 2013, there were gross unrealized/unrecognized losses of $999,000 and $1.8 million related to available for sale mortgage backed securities. Because the decline in fair value of these mortgage backed securities is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these mortgage backed securities, and it is likely that it will not be required to sell the

Table of Contents

securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired.

Market Loss Analysis

Securities with unrealized losses at June 30, 2014 and December 31, 2013, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 months		12 months or more		Total	
June 30, 2014 (in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Securities available for sale:						
U.S. Treasury securities and U.S. Government agencies	$ 2,106	$ (17)	$	$	$ 2,106	$ (17)
Mortgage backed securities - residential	8,312	(87)			8,312	(87)
Collateralized mortgage obligations	56,578	(778)	7,567	(134)	64,145	(912)
Corporate bonds	9,996	(4)			9,996	(4)
Total securities available for sale	$ 76,992	$ (886)	$ 7,567	$ (134)	$ 84,559	$ (1,020)

	Less than 12 months		12 months or more		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Securities held to maturity:						
U.S. Treasury securities and U.S. Government agencies	$ 521	$ (8)	$	$	$ 521	$ (8)
Collateralized mortgage obligations	18,274	(52)			18,274	(52)
Corporate bonds	4,871	(129)			4,871	(129)
Total securities held to maturity	$ 23,666	$ (189)	$	$	$ 23,666	$ (189)

	Less than 12 months		12 months or more		Total	
December 31, 2013 (in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Securities available for sale:						
U.S. Treasury securities and U.S. Government agencies	$ 44,041	$ (101)	$	$	$ 44,041	$ (101)
Mortgage backed securities - residential	19,494	(288)			19,494	(288)
Collateralized mortgage obligations	55,927	(1,546)			55,927	(1,546)
Mutual fund	995	(5)			995	(5)
Corporate bonds	9,850	(150)			9,850	(150)

Total securities available for sale	$	130,307	$	(2,090)	$		$		$	130,307	$	(2,090)

	Less than 12 months				12 months or more				Total			
		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses
Securities held to maturity:												
U.S. Treasury securities and U.S. Government agencies	$	521	$	(13)	$		$		$	521	$	(13)
Collateralized mortgage obligations		18,686		(184)						18,686		(184)
Corporate bonds		4,884		(116)						4,884		(116)
Total securities held to maturity	$	24,091	$	(313)	$		$		$	24,091	$	(313)

Table of Contents

At June 30, 2014, the Bank s security portfolio consisted of 162 securities, 19 of which were in an unrealized loss position. At December 31, 2013, the Bank s security portfolio consisted of 162 securities, 27 of which were in an unrealized loss position.

Other-than-temporary Impairment

Unrealized losses for all investment securities are reviewed to determine whether the losses are other-than-temporary. Investment securities are evaluated for OTTI on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in value below amortized cost is other-than-temporary. In conducting this assessment, the Bank evaluates a number of factors including, but not limited to:

- The length of time and the extent to which fair value has been less than the amortized cost basis;
- The Bank s intent to hold until maturity or sell the debt security prior to maturity;
- An analysis of whether it is more likely than not that the Bank will be required to sell the debt security before its anticipated recovery;
- Adverse conditions specifically related to the security, an industry, or a geographic area;
- The historical and implied volatility of the fair value of the security;
- The payment structure of the security and the likelihood of the issuer being able to make payments;
- Failure of the issuer to make scheduled interest or principal payments;
- Any rating change by a rating agency; and
- Recoveries or additional decline in fair value subsequent to the balance sheet date.

The term other-than-temporary is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a general lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized for the anticipated credit losses.

The Bank owns one private label mortgage backed security with a total carrying value of $5.5 million at June 30, 2014. This security, with an average remaining life currently estimated at four years, is mostly backed by Alternative A first lien mortgage loans, but also has an insurance wrap or guarantee as an added layer of protection to the security holder. This asset is illiquid, and as such, the Bank determined it to be a Level 3 security in accordance with Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures.* Based on this determination, the Bank utilized an income valuation model (present value model) approach, in determining the fair value of the security. This approach is beneficial for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management s best estimate is used. Management s best estimate consists of both internal and external support for this investment.

See additional discussion regarding the Bank s private label mortgage backed security under Footnote 6 Fair Value in this section of the filing.

Pledged Investment Securities

Investment securities pledged to secure public deposits, securities sold under agreements to repurchase and securities held for other purposes, as required or permitted by law are as follows:

(in thousands)	June 30, 2014	December 31, 2013
Carrying amount	$ 249,532	$ 224,693
Fair value	249,659	224,989

Table of Contents

3. LOANS AND ALLOWANCE FOR LOAN LOSSES

The Bank s financing receivables consist primarily of loans and a minimal amount of lease financing receivables (together referred to as loans). Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of purchase premiums or discounts, deferred loan fees and costs and the allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Lease financing receivables, all of which are direct financing leases, are reported at their principal balance outstanding net of any unearned income, deferred fees and costs and applicable allowance for losses. Leasing income is recognized on a basis that achieves a constant periodic rate of return on the outstanding lease financing balances over the lease terms.

The composition of loans follows:

(in thousands)	**June 30, 2014**	**December 31, 2013**
Residential real estate:		
Owner occupied - bank originated	$ 1,127,519	$ 1,097,795
Owner occupied - correspondent*	11,785	
Non owner occupied - bank originated	98,644	110,809
Commercial real estate	758,676	773,173
Commercial real estate - purchased whole loans	34,534	34,186
Construction & land development	41,109	44,351
Commercial & industrial	146,334	127,763
Lease financing receivables	310	
Warehouse lines of credit	244,131	149,576
Home equity	235,919	226,782
Consumer:		
RPG loans	3,022	1,827
Credit cards	9,321	9,030
Overdrafts	1,105	944
Other consumer	12,608	13,556
Total loans**	2,725,017	2,589,792
Less: Allowance for loan losses	22,772	23,026
Total loans, net	$ 2,702,245	$ 2,566,766

** - Loans acquired through the Bank s Correspondent Lending channel are generally outside of the Bank s historical market footprint.*

*** - Total loans are presented net of premiums, discounts and net loan origination fees and costs.*

Table of Contents

Purchased Credit Impaired (PCI   ) Loans

The contractual amount of PCI loans accounted for under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality,* decreased from $58 million as of December 31, 2013 to $39 million as of June 30, 2014. The carrying value of these loans was $41 million as of December 31, 2013 compared to $27 million as of June 30, 2014.

The table below reconciles the contractually required and carrying amounts of PCI loans at June 30, 2014 and December 31, 2013:

(in thousands)	June 30, 2014	December 31, 2013
Contractually-required principal	$ 38,934	$ 57,992
Non-accretable amount	(9,292)	(13,582)
Accretable amount	(2,487)	(3,457)
Carrying value of loans	$ 27,155	$ 40,953

The following table presents a rollforward of the accretable amount on PCI loans for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2014	2013	2014	2013
Balance, beginning of period	$ (2,765)	$ (2,300)	$ (3,457)	$ (3,231)
Transfers between non-accretable and accretable	(1,029)	(712)	(2,340)	(1,696)
Net accretion into interest income on loans, including loan fees	1,307	1,631	3,310	3,263
Other changes				283
Balance, end of period	$ (2,487)	$ (1,381)	$ (2,487)	$ (1,381)

Table of Contents

Credit Quality Indicators

Based on the Bank s internal analysis performed, the risk category of loans by class as defined in Republic s Form 10-K for the year ended December 31, 2013 follows:

June 30, 2014 (in thousands)	**Pass**	**Special Mention ***	**Substandard ***	**Doubtful / Loss**	**Purchased Credit Impaired Loans - Group 1**	**Purchased Credit Impaired Loans - Substandard**	**Total Rated Loans****
Residential real estate:							
Owner occupied - bank originated	$	$ 28,233	$ 13,182	$	$ 1,779	$	$ 43,194
Owner occupied - correspondent							
Non owner occupied - bank originated		1,678	2,048		4,600		8,326
Commercial real estate	713,947	9,589	16,736		18,361	43	758,676
Commercial real estate - Purchased whole loans	34,534						34,534
Construction & land development	37,725	124	2,388		872		41,109
Commercial & industrial	142,056	901	1,899		1,263	215	146,334
Lease financing receivables	310						310
Warehouse lines of credit	244,131						244,131
Home equity			2,246				2,246
Consumer:							
RPG loans							
Credit cards							
Overdrafts							
Other consumer		16	40		22		78
Total	$ 1,172,703	$ 40,541	$ 38,539	$	$ 26,897	$ 258	$ 1,278,938

December 31, 2013 (in thousands)	**Pass**	**Special Mention ***	**Substandard ***	**Doubtful / Loss**	**Purchased Credit Impaired Loans - Group 1**	**Purchased Credit Impaired Loans - Substandard**	**Total Rated Loans****
Residential real estate:							
Owner occupied - bank originated	$	$ 27,431	$ 10,994	$	$ 2,810	$	$ 41,235
Owner occupied - correspondent							
Non owner occupied - bank originated		919	1,292		7,936		10,147
Commercial real estate	709,610	11,125	25,296		27,142		773,173
Commercial real estate -							

Purchased whole loans	34,186						34,186
Construction & land development	40,591	128	2,386		1,246		44,351
Commercial & industrial	123,646	296	2,035		1,564	222	127,763
Lease financing receivables							
Warehouse lines of credit	149,576						149,576
Home equity		250	2,014				2,264
Consumer:							
RPG loans							
Credit cards							
Overdrafts							
Other consumer		18	66		33		117
Total	$ 1,057,609	$ 40,167	$ 44,083	$	$ 40,731	$ 222	$ 1,182,812

** - Special Mention and Substandard loans include $1 million and $5 million at June 30, 2014 and $1 million and $6 million at December 31, 2013, respectively, which were removed from the PCI population due to a post-acquisition troubled debt restructuring.*

*** - The above tables exclude all non-classified residential real estate and consumer loans at the respective period ends. The tables also exclude most non-classified small commercial & industrial and commercial real estate relationships totaling $100,000 or less. These loans are not rated by the Company since they are accruing interest and are not past due 80-days-or-more.*

Table of Contents

Allowance for Loan Losses

Activity in the allowance for loan losses (Allowance   ) follows:

(in thousands)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Allowance, beginning of period	$ 22,367	$ 23,563	$ 23,026	$ 23,729
Charge offs - Traditional Banking	(715)	(2,562)	(1,627)	(3,117)
Charge offs - RPG				
Total charge offs	(715)	(2,562)	(1,627)	(3,117)
Recoveries - Traditional Banking	364	445	857	860
Recoveries - RPG	63	140	526	739
Total recoveries	427	585	1,383	1,599
Net (charge offs) recoveries - Traditional Banking	(351)	(2,117)	(770)	(2,257)
Net (charge offs) recoveries - RPG	63	140	526	739
Net (charge offs) recoveries	(288)	(1,977)	(244)	(1,518)
Provision for losses - Traditional Banking	710	1,045	470	1,019
Provision for losses - RPG	(17)	(140)	(480)	(739)
Total provision for losses	693	905	(10)	280
Allowance, end of period	$ 22,772	$ 22,491	$ 22,772	$ 22,491

The Allowance calculation includes the following qualitative factors, which are considered in combination with the Bank   s historical loss rates in determining the general loss reserve within the Allowance:

- Changes in nature, volume and seasoning of the portfolio;
- Changes in experience, ability and depth of lending management and other relevant staff;
- Changes in the quality of the Bank   s credit review system;
- Changes in financing policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Changes in the volume and severity of past due, non-accrual and classified loans;
- Changes in the value of underlying collateral for collateral-dependent loans;

- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectibility of portfolios, including the condition of various market segments;

- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and

- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution s existing portfolio.

Table of Contents

The following tables present the activity in the Allowance by portfolio class for the three months ended June 30, 2014 and 2013:

	Residential Real Estate				Commercial Real Estate -			Lease
Three Months Ended June 30, 2014 (in thousands)	**Owner Occupied Bank Originated**	**Owner Occupied Correspondent**	**Non Owner Occupied Bank Originated**	**Commercial Real Estate**	**Purchased Whole Loans**	**Construction & Land Development**	**Commercial & Industrial**	**Financing Receivables**
Beginning balance	$ 7,751	$	$ 984	$ 7,901	$ 34	$ 1,192	$ 1,080	$
Provision for losses	460	60	(141)	(206)		(185)	70	3
Charge offs	(202)		(7)	(2)		(1)	(20)	
Recoveries	46		3	3		84	22	
Ending balance	$ 8,055	$ 60	$ 839	$ 7,696	$ 34	$ 1,090	$ 1,152	$ 3

(continued)

	Warehouse Lines of Credit	Home Equity	RPG Loans	Consumer Credit Cards	Overdrafts	Other Consumer	Total
Beginning balance	$ 477	$ 2,371	$	$ 276	$ 212	$ 89	$ 22,367
Provision for losses	133	235	(17)	40	113	128	693
Charge offs		(217)		(37)	(142)	(87)	(715)
Recoveries		14	63	7	97	88	427
Ending balance	$ 610	$ 2,403	$ 46	$ 286	$ 280	$ 218	$ 22,772

	Residential Real Estate				Commercial Real Estate -			Lease
Three Months Ended June 30, 2013 (in thousands)	**Owner Occupied Bank Originated**	**Owner Occupied Correspondent**	**Non Owner Occupied Bank Originated**	**Commercial Real Estate**	**Purchased Whole Loans**	**Construction & Land Development**	**Commercial & Industrial**	**Finance Receivables**
Beginning balance	$ 6,984	$	$ 924	$ 8,781	$ 34	$ 3,101	$ 727	$
Provision for losses	991		(173)	572		(916)	244	
Charge offs	(512)		(115)	(651)		(600)	(310)	
Recoveries	100		6	61		2	49	
Ending balance	$ 7,563	$	$ 642	$ 8,763	$ 34	$ 1,587	$ 710	$

(continued)

	Warehouse Lines of Credit	Home Equity	RPG Loans	Consumer Credit Cards	Overdrafts	Other Consumer	Total
Beginning balance	$ 433	$ 1,909	$	$ 326	$ 209	$ 135	$ 23,563
Provision for losses	29	83	(140)	63	71	81	905
Charge offs		(93)		(50)	(130)	(101)	(2,562)

Recoveries		33	140	5	99	90	585
Ending balance	$ 462	$ 1,932	$	$ 344	$ 249	$ 205	$ 22,491

Table of Contents

The following tables present the activity in the Allowance by portfolio class for the six months ended June 30, 2014 and 2013:

Six Months Ended June 30, 2014 (in thousands)	Residential Real Estate Owner Occupied Bank Originated	Owner Occupied Correspondent	Non Owner Occupied Bank Originated	Commercial Real Estate	Commercial Real Estate - Purchased Whole Loans	Construction & Land Development	Commercial & Industrial	Lease Financing Receivables
Beginning balance	$ 7,816	$	$ 1,023	$ 8,309	$ 34	$ 1,296	$ 1,089	$
Provision for losses	578	60	(171)	(384)		(273)	13	3
Charge offs	(419)		(22)	(374)		(18)	(20)	
Recoveries	80		9	145		85	70	
Ending balance	$ 8,055	$ 60	$ 839	$ 7,696	$ 34	$ 1,090	$ 1,152	$ 3

(continued)

	Warehouse Lines of Credit	Home Equity	RPG Loans	Consumer Credit Cards	Overdrafts	Other Consumer	Total
Beginning balance	$ 449	$ 2,396	$	$ 289	$ 199	$ 126	$ 23,026
Provision for losses	161	235	(480)	22	160	66	(10)
Charge offs		(283)		(42)	(293)	(156)	(1,627)
Recoveries		55	526	17	214	182	1,383
Ending balance	$ 610	$ 2,403	$ 46	$ 286	$ 280	$ 218	$ 22,772

Six Months Ended June 30, 2013 (in thousands)	Residential Real Estate Owner Occupied Bank Originated	Owner Occupied Correspondent	Non Owner Occupied Bank Originated	Commercial Real Estate	Commercial Real Estate - Purchased Whole Loans	Construction & Land Development	Commercial & Industrial	Lease Financing Receivables
Beginning balance	$ 7,006	$	$ 1,049	$ 8,843	$ 34	$ 2,769	$ 580	$
Provision for losses	1,071		(263)	506		(620)	386	
Charge offs	(713)		(158)	(665)		(600)	(310)	
Recoveries	199		14	79		38	54	
Ending balance	$ 7,563	$	$ 642	$ 8,763	$ 34	$ 1,587	$ 710	$

(continued)

	Warehouse Lines of Credit	Home Equity	RPG Loans	Consumer Credit Cards	Overdrafts	Other Consumer	Total
Beginning balance	$ 541	$ 2,348	$	$ 210	$ 198	$ 151	$ 23,729
Provision for losses	(79)	(352)	(739)	184	127	59	280
Charge offs		(136)		(60)	(305)	(170)	(3,117)

Recoveries		72	739	10	229	165	1,599
Ending balance	$ 462	$ 1,932	$	$ 344	$ 249	$ 205	$ 22,491

Table of Contents

Non-performing Loans and Other Assets

Detail of non-performing loans and other assets follows:

(dollars in thousands)	June 30, 2014	December 31, 2013
Loans on non-accrual status(1)	$ 19,606	$ 19,104
Loans past due 90-days-or-more and still on accrual(2)	734	1,974
Total non-performing loans	20,340	21,078
Other real estate owned	11,613	17,102
Total non-performing assets	$ 31,953	$ 38,180

Credit Quality Ratios

Non-performing loans to total loans	0.75%	0.81%
Non-performing assets to total loans (including OREO)	1.17%	1.46%
Non-performing assets to total assets	0.92%	1.13%

---

(1) Loans on non-accrual status include impaired loans, which are discussed subsequently in Footnote 3 in this section of the filing.

(2) All loans past due 90-days-or-more and still accruing were PCI loans accounted for under ASC 310-30.

The following table presents the recorded investment in non-accrual loans and loans past due 90-days-or-more and still on accrual by class:

	Non-Accrual		Past Due 90-Days-or-More and Still Accruing Interest*	
(in thousands)	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Residential real estate:				
Owner occupied - bank originated	$ 9,702	$ 8,538	$ 173	$ 673
Owner occupied - correspondent				
Non owner occupied - bank originated	1,250	1,279		
Commercial real estate	5,008	7,643	561	
Commercial real estate - purchased whole loans				
Construction & land dev.	1,990	97		70
Commercial & industrial	131	327		1,231
Lease financing receivables				
Warehouse lines of credit				
Home equity	1,444	1,128		
Consumer:				
RPG loans				
Credit cards				
Overdrafts				

Other consumer		81		92				
Total	$	19,606	$	19,104	$	734	$	1,974

** - For all periods presented, loans past due 90-days-or-more and still on accrual consist entirely of PCI loans.*

Non-accrual loans and loans past due 90-days-or-more and still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Non-accrual loans are typically returned to accrual status when all the principal and interest amounts contractually due are brought current and held current for six consecutive months and future contractual payments are reasonably assured. Troubled debt restructurings (TDR s) on non-accrual status are reviewed for return to accrual status on an individual basis, with additional consideration given to performance under the modified terms.

Table of Contents

Delinquent Loans

The following tables present the aging of the recorded investment in loans by class:

June 30, 2014 (dollars in thousands)	**30 - 59 Days Delinquent**	**60 - 89 Days Delinquent**	**90 or More Days Delinquent***	**Total Delinquent**	**Total Not Delinquent**	**Total**
Residential real estate:						
Owner occupied - bank originated	$ 1,462	$ 1,768	$ 3,114	6,344	$ 1,121,175	$ 1,127,519
Owner occupied - correspondent					11,785	11,785
Non owner occupied - bank originated	223	60	131	414	98,230	98,644
Commercial real estate	638	117	1,385	2,140	756,536	758,676
Commercial real estate - purchased whole loans					34,534	34,534
Construction & land development			1,990	1,990	39,119	41,109
Commercial & industrial			131	131	146,203	146,334
Lease financing receivables					310	310
Warehouse lines of credit					244,131	244,131
Home equity	284	25	344	653	235,266	235,919
Consumer:						
RPG loans	3	93		96	2,926	3,022
Credit cards	59	12	4	75	9,246	9,321
Overdrafts	124	2		126	979	1,105
Other consumer	75	18		93	12,515	12,608
Total	$ 2,868	$ 2,095	$ 7,099	$ 12,062	$ 2,712,955	$ 2,725,017
Delinquency ratio**	0.11%	0.08%	0.26%	0.44%		

December 31, 2013 (dollars in thousands)	**30 - 59 Days Delinquent**	**60 - 89 Days Delinquent**	**90 or More Days Delinquent***	**Total Delinquent**	**Total Not Delinquent**	**Total**
Residential real estate:						
Owner occupied - bank originated	$ 1,956	$ 733	$ 3,668	$ 6,357	$ 1,091,438	$ 1,097,795
Owner occupied - correspondent						
Non owner occupied - bank originated	195	967	131	1,293	109,516	110,809
Commercial real estate	874	384	3,940	5,198	767,975	773,173
Commercial real estate - purchased whole loans					34,186	34,186
Construction & land development	332		167	499	43,852	44,351
Commercial & industrial			1,415	1,415	126,348	127,763
Lease financing receivables						
Warehouse lines of credit					149,576	149,576
Home equity	665	48	397	1,110	225,672	226,782

Consumer:						
RPG loans					1,827	1,827
Credit cards	87	6	5	98	8,932	9,030
Overdrafts	159			159	785	944
Other consumer	67	27		94	13,462	13,556
Total	$ 4,335	$ 2,165	$ 9,723	$ 16,223	$ 2,573,569	$ 2,589,792
Delinquency ratio**	0.17%	0.08%	0.38%	0.63%		

** - Except for PCI loans, all loans 90-days-or-more past due as of June 30, 2014 and December 31, 2013 were on non-accrual status.*

*** - Delinquency ratio equals delinquent loans divided by total loans.*

Table of Contents

Impaired Loans

The Bank defines impaired loans as follows:

- All loans internally rated as Substandard, Doubtful or Loss;
- All loans internally rated in a PCI category with cash flows that have deteriorated from management s initial estimate;
- All loans on non-accrual status and non-PCI loans past due 90 days-or-more still on accrual;
- All retail and commercial TDRs; and
- Any other situation where the full collection of the total amount due for a loan is improbable or otherwise meets the definition of impaired.

See the section titled Credit Quality Indicators in this section of the filing for additional discussion regarding the Bank s loan classification structure.

Information regarding the Bank s impaired loans follows:

(in thousands)		June 30, 2014		December 31, 2013
Loans with no allocated Allowance	$	31,397	$	36,721
Loans with allocated Allowance		61,605		71,273
Total impaired loans	$	93,002	$	107,994
Amount of the Allowance allocated	$	5,866	$	6,674

Approximately $15 million and $24 million of impaired loans at June 30, 2014 and December 31, 2013 were PCI loans. Approximately $6 million of impaired loans at both June 30, 2014 and December 31, 2013 were formerly PCI loans which became classified as impaired through a troubled debt restructuring.

Table of Contents

The following tables present the balance in the Allowance and the recorded investment in loans by portfolio class based on impairment method as of June 30, 2014 and December 31, 2013:

[redacted]								
Allowance:								
[redacted]								
Individually evaluated for impairment, excluding PCI loans	$ 3,459	$	$ 87	$ 853	$	$ 256	$	$
[redacted]								
PCI loans with post acquisition impairment	43		127	503			317	
[redacted]								
[redacted]								
[redacted]								
Impaired loans individually evaluated, excluding PCI loans	$ 41,191	$	$ 3,038	$ 25,072	$	$ 2,584	$ 4,153	$
[redacted]								
PCI loans with post acquisition impairment	909		3,745	8,615			1,383	
[redacted]								
[redacted]								

(continued)

	Warehouse Lines of Credit	Home Equity	RPG Loans	Consumer Credit Cards	Consumer Overdrafts	Other Consumer	Total
Allowance:							
Ending Allowance balance:							
Individually evaluated for impairment, excluding PCI loans	$	$ 180	$	$	$	$ 40	$ 4,875
Collectively evaluated for impairment	610	2,223	46	286	280	177	16,906
PCI loans with post acquisition impairment						1	991
PCI loans without post acquisition impairment							

Total ending Allowance:	$	610	$	2,403	$	46	$	286	$	280	$	218	$	22,772
Loans:														
Impaired loans individually evaluated, excluding PCI loans	$		$	2,246	$		$		$		$	55	$	78,339
Loans collectively evaluated for impairment		244,131		233,673		3,022		9,321		1,105		12,531		2,619,523
PCI loans with post acquisition impairment												11		14,663
PCI loans without post acquisition impairment												11		12,492
Total ending loan balance	$	244,131	$	235,919	$	3,022	$	9,321	$	1,105	$	12,608	$	2,725,017

Table of Contents

December 31, 2013 (in thousands)	Residential Real Estate Owner Occupied Bank Originated	Residential Real Estate Owner Occupied Correspondent	Non Owner Occupied Bank Originated	Commercial Real Estate - Commercial Real Estate	Purchased Whole Loans	Construction & Land Development	Commercial & Industrial	Lease Financing Receivables
Allowance:								
Ending Allowance balance:								
Individually evaluated for impairment, excluding PCI loans	$ 3,606	$	$ 61	$ 1,232	$	$ 146	$ 111	$
Collectively evaluated for impairment	4,159		672	6,474	34	1,140	661	
PCI loans with post acquisition impairment	51		290	603		10	317	
PCI loans without post acquisition impairment								
Total ending Allowance:	$ 7,816	$	$ 1,023	$ 8,309	$ 34	$ 1,296	$ 1,089	$
Loans:								
Impaired loans individually evaluated, excluding PCI loans	$ 39,211	$	$ 2,061	$ 33,519	$	$ 2,494	$ 4,521	$
Loans collectively evaluated for impairment	1,055,774		100,812	712,512	34,186	40,611	121,456	
PCI loans with post acquisition impairment	1,455		5,984	14,512		267	1,609	
PCI loans without post acquisition impairment	1,355		1,952	12,630		979	177	
Total ending loan balance	$ 1,097,795	$	$ 110,809	$ 773,173	$ 34,186	$ 44,351	$ 127,763	$

(continued)

	Warehouse Lines of Credit	Home Equity	RPG Loans	Consumer Credit Cards	Consumer Overdrafts	Consumer Other Consumer	Total
Allowance:							
Ending Allowance balance:							
Individually evaluated for impairment, excluding PCI loans	$	$ 203	$	$	$	$ 43	$ 5,402
Collectively evaluated for impairment	449	2,193	2	289	199	80	16,352
PCI loans with post acquisition impairment						1	1,272
PCI loans without post acquisition impairment							
Total ending Allowance:	$ 449	$ 2,396	$ 2	$ 289	$ 199	$ 124	$ 23,026
Loans:							
	$	$ 2,264	$	$	$	$ 85	$ 84,155

Impaired loans individually evaluated, excluding PCI loans							
Loans collectively evaluated for impairment	149,576	224,518	1,827	9,030	944	13,438	2,464,684
PCI loans with post acquisition impairment						12	23,839
PCI loans without post acquisition impairment						21	17,114
Total ending loan balance	$ 149,576	$ 226,782	$ 1,827	$ 9,030	$ 944	$ 13,556	$ 2,589,792

Table of Contents

The following tables present loans individually evaluated for impairment by class as of June 30, 2014 and December 31, 2013 and for the three and six months ended June 30, 2014 and 2013. The difference between the Unpaid Principal Balance and Recorded Investment columns represents life-to-date partial write downs/charge offs taken on individual impaired credits.

	As of June 30, 2014			Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
(in thousands)	Unpaid Principal Balance	Recorded Investment	Allowance Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
Impaired loans with no related allowance recorded:									
Residential real estate:									
Owner occupied - bank originated	$ 7,276	$ 6,857	$	$ 7,104	$ 78	$	$ 6,925	$ 125	$
Owner occupied - correspondent									
Non Owner occupied - bank originated	1,767	1,591		1,474	15		1,401	25	
Commercial real estate	15,825	14,848		17,236	150		18,475	290	
Commercial real estate - purchased whole loans									
Construction & land development	2,081	2,081		2,081	1		2,083	2	
Commercial & industrial	4,201	4,153		4,181	61		4,206	121	
Lease financing receivables									
Warehouse lines of credit									
Home equity	2,008	1,867		1,903	11		1,794	21	
Consumer:									
RPG loans									
Credit cards									
Overdrafts									
Other consumer							6		
Impaired loans with an allowance recorded:									
Residential real estate:									
Owner occupied - retail	35,583	35,243	3,502	35,048	253		34,731	493	
Owner occupied - correspondent									
Non Owner occupied - bank originated	5,192	5,192	214	5,791	122		6,123	175	
Commercial real estate	18,877	18,839	1,356	19,078	207		21,744	374	
Commercial real estate - purchased whole loans									
Construction & land development	503	503	256	508	6		563	11	
Commercial & industrial	1,383	1,383	317	1,540	58		1,651	60	
Lease financing receivables									
Warehouse lines of credit									
Home equity	382	379	180	586			620		
Consumer:									
RPG loans									
Credit cards									
Overdrafts									
Other consumer	66	66	41	79			79	1	
Total impaired loans	$ 95,144	$ 93,002	$ 5,866	$ 96,609	$ 962	$	$ 100,401	$ 1,698	$

26

Table of Contents

(in thousands)	As of December 31, 2013 Unpaid Principal Balance	Recorded Investment	Allowance Allocated	Three Months Ended June 30, 2013 Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	Six Months Ended June 30, 2013 Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
Impaired loans with no related allowance recorded:									
Residential real estate:									
Owner occupied - bank originated	$ 7,136	$ 6,569	$	$ 11,625	$ 109	$	$ 12,119	$ 205	$
Owner occupied - correspondent									
Non Owner occupied - bank originated	1,498	1,256		1,778	5		1,450	7	
Commercial real estate	21,886	20,953		22,676	561		19,881	827	
Commercial real estate - purchased whole loans									
Construction & land development	2,087	2,087		2,292	67		2,223	90	
Commercial & industrial	4,367	4,258		3,295	62		3,568	94	
Lease financing receivables									
Warehouse lines of credit									
Home equity	1,695	1,577		2,313	35		2,057	51	
Consumer:									
RPG loans									
Credit cards									
Overdrafts									
Other consumer	18	18		248	2		294	2	
Impaired loans with an allowance recorded:									
Residential real estate:									
Owner occupied - bank originated	34,393	34,097	3,657	33,254	261		32,656	481	
Owner occupied - correspondent									
Non Owner occupied - bank originated	6,789	6,789	351	3,968	47		3,854	77	
Commercial real estate	27,080	27,078	1,835	24,655	497		25,204	768	
Commercial real estate - purchased whole loans									
Construction & land development	674	674	156	2,759	49		2,900	73	
Commercial & industrial	1,872	1,872	428	2,931	81		2,906	124	
Lease financing receivables									
Warehouse lines of credit									
Home equity	688	687	203	1,141	7		1,385	11	
Consumer:									
RPG loans									
Credit cards									
Overdrafts									
Other consumer	79	79	44	78	1		80	1	
Total impaired loans	$ 110,262	$ 107,994	$ 6,674	$ 113,013	$ 1,784	$	$ 110,577	$ 2,811	$

Table of Contents

Troubled Debt Restructurings

A TDR is the situation where, due to a borrower s financial difficulties, the Bank grants a concession to the borrower that the Bank would not otherwise have considered. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank s internal underwriting policy.

All TDRs are considered Impaired, including PCI loans subsequently restructured. The majority of the Bank s commercial related and construction TDRs involve a restructuring of financing terms such as a reduction in the payment amount to require only interest and escrow (if required) and/or extending the maturity date of the debt. The substantial majority of the Bank s residential real estate TDR concessions involve reducing the client s loan payment through a rate reduction for a set period of time based on the borrower s ability to service the modified loan payment. Retail loans may also be classified as TDRs due to legal modifications, which include: a) customers that declare bankruptcy under Chapter 7 of the Bankruptcy Code and fail to reaffirm their debt with the Bank or b) upon death of the customer before full repayment of their loan.

Management determines whether to classify a TDR as non-performing based on its accrual status prior to modification. Non-accrual loans modified as TDRs typically remain on non-accrual status and continue to be reported as non-performing loans for a minimum of six months. Accruing loans modified as TDRs are evaluated for non-accrual status based on a current evaluation of the borrower s financial condition and ability and willingness to service the modified debt. At both June 30, 2014 and December 31, 2013, $13 million of TDRs were on non-accrual status.

Detail of TDRs differentiated by loan class and accrual status follows:

June 30, 2014 (in thousands)	**Troubled Debt Restructurings on Non-Accrual Status**	**Troubled Debt Restructurings on Accrual Status**	**Total Troubled Debt Restructurings**
Residential real estate	$ 6,205	$ 33,872	$ 40,077
Commercial real estate	4,807	17,865	22,672
Construction & land development	1,990	700	2,690
Commercial & industrial	131	4,022	4,153
Total troubled debt restructurings	$ 13,133	$ 56,459	$ 69,592

December 31, 2013 (in thousands)	**Troubled Debt Restructurings on Non-Accrual Status**	**Troubled Debt Restructurings on Accrual Status**	**Total Troubled Debt Restructurings**
Residential real estate	$ 5,514	$ 31,705	$ 37,219
Commercial real estate	7,486	22,041	29,527
Construction & land development	97	2,608	2,705
Commercial & industrial	143	4,378	4,521

Total troubled debt restructurings	$ 13,240	$ 60,732	$ 73,972

Table of Contents

The Bank considers a TDR to be performing to its modified terms if the loan is in accrual status and not past due 30 days or more as of the reporting date. A summary of TDRs outstanding by modification and performance under modified terms at June 30, 2014 and December 31, 2013 follows:

June 30, 2014 (in thousands)	Troubled Debt Restructurings Performing to Modified Terms	Troubled Debt Restructurings Not Performing to Modified Terms	Total Troubled Debt Restructurings
Residential real estate loans (including home equity loans):			
Interest only payments	$ 697	$ 165	$ 862
Rate reduction	28,287	4,299	32,586
Principal deferral	1,327	412	1,739
Bankrupt customer	995	1,336	2,331
Deceased customer	2,166	393	2,559
Total residential TDRs	33,472	6,605	40,077
Commercial related and construction/land development loans:			
Interest only payments	3,750	1,146	4,896
Rate reduction	12,216	1,582	13,798
Principal deferral	6,179	4,427	10,606
Bankrupt customer		215	215
Total commercial TDRs	22,145	7,370	29,515
Total troubled debt restructurings	$ 55,617	$ 13,975	$ 69,592

December 31, 2013 (in thousands)	Troubled Debt Restructurings Performing to Modified Terms	Troubled Debt Restructurings Not Performing to Modified Terms	Total Troubled Debt Restructurings
Residential real estate loans (including home equity loans):			
Interest only payments	$ 430	$ 671	$ 1,101
Rate reduction	26,004	4,993	30,997
Principal deferral	1,840	632	2,472
Bankrupt customer	1,247	1,402	2,649
Total residential TDRs	29,521	7,698	37,219
Commercial related and construction/land development loans:			
Interest only payments	6,086	1,321	7,407
Rate reduction	13,958	663	14,621
Principal deferral	8,983	5,351	14,334
Bankrupt customer		391	391
Total commercial TDRs	29,027	7,726	36,753
Total troubled debt restructurings	$ 58,548	$ 15,424	$ 73,972

As of June 30, 2014 and December 31, 2013, 80% and 79% of the Bank s TDRs were performing according to their modified terms. The Bank had provided $4 million and $5 million of specific reserve allocations to customers whose debt terms have been modified in TDRs as of June 30, 2014 and December 31, 2013. Specific reserve allocations are generally assessed for commercial loans prior to loans being modified as a TDR, as most migrate from the Bank s internal watch list and have been specifically provided for or reserved for as part of the Bank s normal loss provisioning methodology. The Bank has not committed to finance any additional material amounts to its existing TDR relationships at June 30, 2014.

Table of Contents

A summary of the categories of TDR loan modifications that occurred during the three months ended June 30, 2014 and 2013 follows:

Three Months Ended June 30, 2014 (in thousands)	**Troubled Debt Restructurings Performing to Modified Terms**	**Troubled Debt Restructurings Not Performing to Modified Terms**	**Total Troubled Debt Restructurings**
Residential real estate loans (including home equity loans):			
Rate reduction	$ 194	$ 351	$ 545
Principal deferral	360	30	390
Bankrupt customer	26		26
Deceased customer	134	95	229
Total residential TDRs	714	476	1,190
Commercial related and construction/land development loans:			
Interest only payments		443	443
Total commercial TDRs		443	443
Total troubled debt restructurings	$ 714	$ 919	$ 1,633

Three Months Ended June 30, 2013 (in thousands)	**Troubled Debt Restructurings Performing to Modified Terms**	**Troubled Debt Restructurings Not Performing to Modified Terms**	**Total Troubled Debt Restructurings**
Residential real estate loans (including home equity loans):			
Rate reduction	$ 741	$ 118	$ 859
Principal deferral	165	27	192
Bankrupt customer	148	1,006	1,154
Total residential TDRs	1,054	1,151	2,205
Commercial related and construction/land development loans:			
Interest only payments	94		94
Principal deferral	409		409
Total commercial TDRs	503		503
Total troubled debt restructurings	$ 1,557	$ 1,151	$ 2,708

As of June 30, 2014 and 2013, 44% and 57% of the Bank s TDRs that occurred during the second quarters of 2014 and 2013 were performing according to their modified terms. The Bank provided $54,000 and $506,000 in specific reserve allocations to customers whose loan terms were modified in TDRs during the second quarters of 2014 and 2013. As stated above, specific reserves for commercial loans are generally assessed prior to loans being modified as a TDR, as most of these loans migrate from the Bank s internal watch list and have been specifically reserved for as part of the Bank s normal reserving methodology.

Table of Contents

A summary of the categories of TDR loan modifications that occurred during the six months ended June 30, 2014 and 2013 follows:

Six Months Ended June 30, 2014 (in thousands)	**Troubled Debt Restructurings Performing to Modified Terms**	**Troubled Debt Restructurings Not Performing to Modified Terms**	**Total Troubled Debt Restructurings**
Residential real estate loans (including home equity loans):			
Rate reduction	$ 1,042	$ 1,470	$ 2,512
Principal deferral	360	30	390
Bankrupt customer	26	284	310
Deceased customer	2,166	393	2,559
Total residential TDRs	3,594	2,177	5,771
Commercial related and construction/land development loans:			
Interest only payments		443	443
Rate reduction		1,103	1,103
Principal deferral		1,990	1,990
Total commercial TDRs		3,536	3,536
Total troubled debt restructurings	$ 3,594	$ 5,713	$ 9,307

Six Months Ended June 30, 2013 (in thousands)	**Troubled Debt Restructurings Performing to Modified Terms**	**Troubled Debt Restructurings Not Performing to Modified Terms**	**Total Troubled Debt Restructurings**
Residential real estate loans (including home equity loans):			
Interest only payments	$ 64	$	$ 64
Rate reduction	1,758	641	2,399
Principal deferral	460	293	753
Bankrupt customer	2,885	1,243	4,128
Total residential TDRs	5,167	2,177	7,344
Commercial related and construction/land development loans:			
Interest only payments	141		141
Principal deferral	8,339		8,339
Total commercial TDRs	8,480		8,480
Total troubled debt restructurings	$ 13,647	$ 2,177	$ 15,824

As of June 30, 2014 and 2013, 39% and 86% of the Bank s TDRs that occurred during the first six months of 2014 and 2013 were performing according to their modified terms. The Bank provided $142,000 and $869,000 in specific reserve allocations to customers whose loan terms were modified in TDRs during the first six months of 2014 and 2013. As stated above, specific reserves are generally assessed prior to loans being modified as a TDR, as most of these loans migrate from the Bank s internal watch list and have been specifically reserved for as part of the Bank s normal reserving methodology.

There were no significant changes between the pre and post modification loan balances at June 30, 2014 and December 31, 2013.

Table of Contents

The following tables present loans by class modified as troubled debt restructurings within the previous twelve months of June 30, 2014 and 2013 and for which there was a payment default during the three months ended June 30, 2014 and 2013:

Three Months Ended June 30, 2014 (dollars in thousands)	**Number of Loans**	**Recorded Investment**
Residential real estate:		
Owner occupied - bank originated	3	$ 149
Owner occupied - correspondent		
Non owner occupied - bank originated		
Commercial real estate	1	443
Commercial real estate - purchased whole loans		
Construction & land development		
Commercial & industrial		
Lease financing receivables		
Warehouse lines of credit		
Home equity		
Consumer:		
RPG loans		
Credit cards		
Overdrafts		
Other consumer		
Total	4	$ 592

Three Months Ended June 30, 2013 (dollars in thousands)	**Number of Loans**	**Recorded Investment**
Residential real estate:		
Owner occupied - bank originated	20	$ 2,712
Owner occupied - correspondent		
Non owner occupied - bank originated		
Commercial real estate	1	302
Commercial real estate - purchased whole loans		
Construction & land development		
Commercial & industrial		
Lease financing receivables		
Warehouse lines of credit		
Home equity	2	358
Consumer:		
RPG loans		
Credit cards		
Overdrafts		
Other consumer	2	328
Total	25	$ 3,700

Table of Contents

The following tables present loans by class modified as troubled debt restructurings within the previous twelve months of June 30, 2014 and 2013 and for which there was a payment default during the six months ended June 30, 2014 and 2013:

Six Months Ended June 30, 2014 (dollars in thousands)	**Number of Loans**	**Recorded Investment**
Residential real estate:		
Owner occupied - bank originated	6	$ 1,219
Owner occupied - correspondent		
Non owner occupied - bank originated		
Commercial real estate	2	1,546
Commercial real estate - purchased whole loans		
Construction & land development	1	1,500
Commercial & industrial		
Lease financing receivables		
Warehouse lines of credit		
Home equity		
Consumer:		
RPG loans		
Credit cards		
Overdrafts		
Other consumer		
Total	9	$ 4,265

Six Months Ended June 30, 2013 (dollars in thousands)	**Number of Loans**	**Recorded Investment**
Residential real estate:		
Owner occupied - bank originated	30	$ 3,367
Owner occupied - correspondent		
Non owner occupied - bank originated		
Commercial real estate	1	302
Commercial real estate - purchased whole loans		
Construction & land development		
Commercial & industrial		
Lease financing receivables		
Warehouse lines of credit		
Home equity	3	365
Consumer:		
RPG loans		
Credit cards		
Overdrafts		
Other consumer	2	328
Total	36	$ 4,362

Table of Contents

4. DEPOSITS

Ending deposit balances at June 30, 2014 and December 31, 2013 were as follows:

(in thousands)	June 30, 2014	December 31, 2013
Demand	$ 653,814	$ 651,134
Money market accounts	469,544	479,569
Brokered money market accounts	37,016	35,533
Savings	86,508	78,020
Individual retirement accounts*	27,404	28,767
Time deposits, $100,000 and over*	73,616	67,255
Other certificates of deposit*	68,597	75,516
Brokered certificates of deposit*(1)	68,833	86,421