REPUBLIC BANCORP INC /KY/
Form 10-Q
August 08, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the 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.

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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.

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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.

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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.

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CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY *(UNAUDITED)*

SIX MONTHS ENDED JUNE 30, 2014

(in thousands, except per share data)	Common Stock Class A Shares Outstanding	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.

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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.

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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.

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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.

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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.

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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

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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

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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)

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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

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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.*

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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)

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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.*

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Allowance for Loan Losses

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

(in thousands)	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	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.

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

Three 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	$ 7,751	$ —	$ 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	Consumer RPG Loans	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

Three 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 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	Consumer RPG Loans	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

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

	Residential Real Estate							
Six Months Ended June 30, 2014 (in thousands)	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)

				Consumer			
	Warehouse Lines of Credit	Home Equity	RPG Loans	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

	Residential Real Estate							
Six Months Ended June 30, 2013 (in thousands)	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)

				Consumer			
	Warehouse Lines of Credit	Home Equity	RPG Loans	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

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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%

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(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.

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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.*

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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.

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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	Consumer 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

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December 31, 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
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	Overdrafts	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

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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.

(in thousands)	As of June 30, 2014 Unpaid Principal Balance	Recorded Investment	Allowance Allocated	Three Months Ended June 30, 2014 Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	Six Months Ended June 30, 2014 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	$

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(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	$

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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

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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.

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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.

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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.

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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

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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

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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
Total interest-bearing deposits	1,485,332	1,502,215
Total non interest-bearing deposits	519,651	488,642
Total deposits	$ 2,004,983	$ 1,990,857

(*) Represents a time deposit.

(1) Includes brokered deposits less than, equal to and greater than $100,000.

5. FEDERAL HOME LOAN BANK (FHLB) ADVANCES

At June 30, 2014 and December 31, 2013, FHLB advances were as follows:

(in thousands)	June 30, 2014	December 31, 2013
Overnight advance with an interest rate of 0.11% due on July 1, 2014	$ 93,000	$
Variable interest rate advance indexed to 3-Month LIBOR plus 0.14% due on December 19, 2014	10,000	10,000
Fixed interest rate advances with a weighted average interest rate of 1.89% due through 2023	437,000	495,000
Putable fixed interest rate advances with a weighted average interest rate of 4.39% due through 2017(1)	100,000	100,000
Total FHLB advances	$ 640,000	$ 605,000

(1) - Represents putable advances with the FHLB. These advances have original fixed rate periods ranging from one to five years with original maturities ranging from three to ten years if not put back to the Bank earlier by the FHLB. At the end of their respective fixed rate periods and on a quarterly basis thereafter, the FHLB has the right to require payoff of the advances by the Bank at no penalty. Based on market conditions at this time, the Bank does not believe that any of its putable advances are likely to be put back to the Bank in the short-term by the FHLB.

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At June 30, 2014 and December 31, 2013, Republic had available collateral to borrow an additional $277 million and $282 million, respectively, from the FHLB. In addition to its borrowing line with the FHLB, Republic also had unsecured lines of credit totaling $166 million available through various other financial institutions as of June 30, 2014 and December 31, 2013.

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Aggregate future principal payments on FHLB advances and the weighted average cost of such advances, based on contractual maturity dates are detailed below:

Year (dollars in thousands)		Principal	Weighted Average Rate
2014		198,000	1.38%
2015		10,000	2.48%
2016		82,000	1.74%
2017		145,000	3.44%
2018		97,500	1.50%
Thereafter		107,500	1.80%
Total	$	640,000	2.00%

The following table illustrates real estate loans pledged to collateralize advances and letters of credit with the FHLB:

(in thousands)		June 30, 2014		December 31, 2013
First lien, single family residential real estate	$	1,121,784	$	1,082,624
Home equity lines of credit		101,438		105,957
Multi-family commercial real estate		14,379		13,124

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6. FAIR VALUE

Fair value represents the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Bank used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Securities available for sale: Quoted market prices in an active market are available for the Bank s mutual fund investment and fall within Level 1 of the fair value hierarchy.

Except for the Bank s mutual fund investment and its private label mortgage backed security, the fair value of securities available for sale is typically determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities relationship to other benchmark quoted securities (Level 2 inputs).

The Bank s private label mortgage backed security remains illiquid, and as such, the Bank classifies this security as a Level 3 security in accordance with 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 this security.

See in this section of the filing under Footnote 2 Investment Securities for additional discussion regarding the Bank s private label mortgage backed security.

Mortgage loans held for sale: The fair value of mortgage loans held for sale is determined using quoted secondary market prices. Mortgage loans held for sale are classified as Level 2 in the fair value hierarchy.

Derivative instruments: Mortgage Banking derivatives used in the ordinary course of business primarily consist of mandatory forward sales contracts (forward contracts) and rate lock loan commitments. The fair value of the Bank s derivative instruments is primarily measured by obtaining pricing from broker-dealers recognized to be market participants. The pricing is derived from market observable inputs that can generally be verified and do not typically involve significant judgment by the Bank. Forward contracts and rate lock loan commitments are classified as Level 2 in the fair value hierarchy.

Interest rate swap agreements used for interest rate risk management: Interest rate swaps are recorded at fair value on a recurring basis. The Company utilizes interest rate swap agreements as part of the management of interest rate risk to modify the repricing characteristics of certain portions of the Company s interest-bearing liabilities. The Company values its interest rate swaps using Bloomberg Valuation Service s derivative pricing functions and therefore classifies such valuations as Level 2. Valuations of these interest rate swaps are also received from the relevant counterparty and validated against internal calculations. The Company has considered counterparty credit risk in the valuation of its interest rate swap assets and has considered its own credit risk in the valuation of its interest rate swap liabilities.

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Impaired Loans: Collateral dependent impaired loans generally reflect partial charge-downs to their respective fair value, which is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower s financial statements or aging reports, adjusted or discounted based on management s historical knowledge, changes in market conditions from the time of the valuation, and management s expertise and knowledge of the client and client s business, resulting in a Level 3 fair value classification. Collateral dependent loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches, including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments may be significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Bank. Once the appraisal is received, a member of the Bank s Credit Administration Department reviews the assumptions and approaches utilized in the appraisal, as well as the overall resulting fair value in comparison with independent data sources, such as recent market data or industry-wide statistics. On an annual basis, the Bank compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment, if any, should be made to the appraisal value to arrive at an estimated fair value.

Mortgage Servicing Rights: On a quarterly basis, mortgage servicing rights are evaluated for impairment based upon the fair value of the MSRs as compared to carrying amount. If the carrying amount of an individual grouping exceeds fair value, impairment is recorded and the respective individual tranche is carried at fair value. If the carrying amount of an individual grouping does not exceed fair value, impairment is reversed if previously recognized and the carrying value of the individual tranche is based on the amortization method. The valuation model utilizes assumptions that market participants would use in estimating future net servicing income and that can generally be validated against available market data (Level 2).

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Assets and liabilities measured at fair value on a **recurring basis** as of June 30, 2014 and December 31, 2013, including financial assets and liabilities for which the Bank has elected the fair value option, are summarized below:

	Fair Value Measurements at June 30, 2014 Using:			
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial assets:				
Securities available for sale:				
U.S. Treasury securities and U.S. Government agencies	$	$ 145,444	$	$ 145,444
Private label mortgage backed security			5,461	5,461
Mortgage backed securities - residential		136,418		136,418
Collateralized mortgage obligations		159,533		159,533
Freddie Mac preferred stock		718		718
Mutual fund	1,011			1,011
Corporate bonds		15,061		15,061
Total securities available for sale	$ 1,011	$ 457,174	$ 5,461	$ 463,646
Mortgage loans held for sale	$	$ 6,809	$	$ 6,809
Rate lock commitments		256		256
Financial liabilities:				
Mandatory forward contracts		42		42
Interest rate swap agreements		335		335

	Fair Value Measurements at December 31, 2013 Using:			
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial assets:				
Securities available for sale:				
U.S. Treasury securities and U.S. Government agencies	$	$ 97,465	$	$ 97,465
Private label mortgage backed security			5,485	5,485
Mortgage backed securities - residential		150,087		150,087
Collateralized mortgage obligations		163,946		163,946
Mutual fund	995			995
Corporate bonds		14,915		14,915
Total securities available for sale	$ 995	$ 426,413	$ 5,485	$ 432,893
Mortgage loans held for sale	$	$ 3,506	$	$ 3,506

Rate lock commitments	77	77
Mandatory forward contracts	12	12
Interest rate swap agreements	170	170

All transfers between levels are generally recognized at the end of each quarter. There were no transfers into or out of Level 1, 2 or 3 assets during the three and six months ended June 30, 2014 and 2013.

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Private Label Mortgage Backed Security

The table below presents a reconciliation of the Bank s private label mortgage backed security. This represents the sole asset that was measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods 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	$ 5,270	$ 5,688	$ 5,485	$ 5,687
Total gains or losses included in earnings:				
Net change in unrealized gain	315	238	369	422
Recovery of actual losses previously recorded	34		66	
Principal paydowns	(158)	(285)	(459)	(468)
Balance, end of period	$ 5,461	$ 5,641	$ 5,461	$ 5,641

The Bank s single private label mortgage backed security is supported by analysis prepared by an independent third party. The third party s approach to determining fair value involved several steps: 1) detailed collateral analysis of the underlying mortgages, including consideration of geographic location, original loan-to-value and the weighted average Fair Isaac Corporation (FICO) score of the borrowers; 2) collateral performance projections for each pool of mortgages underlying the security (probability of default, severity of default, and prepayment probabilities) and 3) discounted cash flow modeling.

The significant unobservable inputs in the fair value measurement of the Bank s single private label mortgage backed security are prepayment rates, probability of default and loss severity in the event of default. Significant fluctuations in any of those inputs in isolation would result in a significantly lower/higher fair value measurement.

The following table presents quantitative information about recurring Level 3 fair value measurements at June 30, 2014 and December 31, 2013:

June 30, 2014 (dollars in thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Range**
Private label mortgage backed security	$ 5,461	Discounted cash flow	(1) Constant prepayment rate	2.0% - 6.5%
			(2) Probability of default	3.0% - 7.0%
			(2) Loss severity	55% - 70%

December 31, 2013 (dollars in thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Range**

Private label mortgage backed security	$	5,485	Discounted cash flow	(1) Constant prepayment rate	2.5% - 6.5%
				(2) Probability of default	3.0% - 7.0%
				(2) Loss severity	55% - 75%

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Assets measured at fair value on a **non-recurring basis** as of June 30, 2014 and December 31, 2013 are summarized below:

	Fair Value Measurements at June 30, 2014 Using:			
(in thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Fair Value**
Impaired loans:				
Residential real estate:				
Owner occupied - bank originated	$	$	$ 1,597	$ 1,597
Non owner occupied - bank originated			113	113
Commercial real estate			5,039	5,039
Home equity			1,165	1,165
Total impaired loans*	$	$	$ 7,914	$ 7,914
Other real estate owned:				
Residential real estate	$	$	$ 918	$ 918
Commercial real estate			1,515	1,515
Construction & land development			4,239	4,239
Total other real estate owned	$	$	$ 6,672	$ 6,672
Mortgage servicing rights**	$	$ 1	$	$ 1

	Fair Value Measurements at December 31, 2013 Using:			
(in thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Fair Value**
Impaired loans:				
Residential real estate:				
Owner occupied - bank originated	$	$	$ 2,020	$ 2,020
Commercial real estate			5,488	5,488
Home equity			1,030	1,030
Total impaired loans*	$	$	$ 8,538	$ 8,538
Other real estate owned:				
Residential real estate	$	$	$ 1,716	$ 1,716
Commercial real estate			507	507
Construction & land development			6,195	6,195
Total other real estate owned	$	$	$ 8,418	$ 8,418

** - The impaired loan balances in the preceding two tables exclude TDRs which are not collateral dependent. The difference between the carrying value and the fair value of impaired loans measured at fair value is reconciled in a subsequent table of this Footnote and represents estimated selling costs to liquidate the underlying collateral on such debt.*

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The following tables present quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a **non-recurring basis** at June 30, 2014 and December 31, 2013:

June 30, 2014 (dollars in thousands)		**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Range (Weighted Average)**
Impaired loans - residential real estate owner occupied - bank originated	$	1,597	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 33% (7%)
Impaired loans - residential real estate non owner occupied - bank originated	$	113	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 10% (1%)
Impaired loans - commercial real estate	$	4,796	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 13% (7%)
	$	243	Income approach	Adjustments for differences between net operating income expectations	3% (3%)
Impaired loans - home equity	$	1,165	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 35% (7%)
Other real estate owned - residential real estate	$	918	Sales comparison approach	Adjustments determined for differences between comparable sales	13% (13%)
Other real estate owned - commercial real estate	$	1,515	Sales comparison approach	Adjustments determined for differences between comparable sales	28% (28%)
Other real estate owned - construction & land development	$	1,332	Sales comparison approach	Adjustments determined for differences between comparable sales	15% - 19% (16%)
	$	2,907	Income approach	Adjustments for differences between net operating income expectations	24% (24%)

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December 31, 2013 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans - residential real estate	$ 2,020	Sales comparison approach	Adjustments determined for differences between comparable sales	2% - 22% (7%)
Impaired loans - commercial real estate	$ 5,488	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 30% (19%)
Impaired loans - home equity	$ 1,030	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 10% (2%)
Other real estate owned - residential real estate	$ 1,716	Sales comparison approach	Adjustments determined for differences between comparable sales	10% - 53% (30%)
Other real estate owned - commercialreal estate	$ 507	Sales comparison approach	Adjustments determined for differences between comparable sales	23% - 33% (29%)
Other real estate owned - construction & land development	$ 2,236	Sales comparison approach	Adjustments determined for differences between comparable sales	17% - 58% (43%)
	$ 3,959	Income approach	Adjustments for differences between net operating income expectations	21% (21%)

The following section details impairment charges recognized during the period:

Impaired Loans

Collateral dependent impaired loans are generally measured for impairment using the fair market value for reasonable disposition of the underlying collateral. The Bank s practice is to obtain new or updated appraisals on the loans subject to the initial impairment review and then to evaluate the need for an update to this value on an as necessary or possibly annual basis thereafter (depending on the market conditions impacting the value of the collateral). The Bank may discount the appraisal amount as necessary for selling costs and past due real estate taxes. If a new or updated appraisal is not available at the time of a loan s impairment review, the Bank may apply a discount to the existing value of an old appraisal to reflect the property s current estimated value if it is believed to have deteriorated in either: (i) the physical or economic aspects of the subject property or (ii) material changes in market conditions. The impairment review generally results in a partial charge-off of the loan if fair value less selling costs are below the loan s carrying value. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

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The following section details impairment charges recognized during the period:

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans are as follows:

(in thousands)	June 30, 2014	December 31, 2013
Carrying amount of loans measured at fair value	$ 7,073	$ 7,629
Estimated selling costs considered in carrying amount	841	909
Total fair value	$ 7,914	$ 8,538

Other Real Estate Owned

Other real estate owned, which is carried at the lower of cost or fair value, is periodically assessed for impairment based on fair value at the reporting date. Fair value is determined from external appraisals using judgments and estimates of external professionals. Many of these inputs are not observable and, accordingly, these measurements are classified as Level 3. The fair value of the Bank s other real estate owned properties equaled or exceeded their carrying value on an individual basis at June 30, 2014 and December 31, 2013.

Details of other real estate owned carrying value and write downs follows:

(in thousands)	June 30, 2014	December 31, 2013
Carrying value of other real estate owned	$ 11,613	$ 17,102

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2014	2013	2014	2013
Other real estate owned write-downs	$ 333	$ 518	$ 1,217	$ 884

Mortgage Servicing Rights

MSRs are carried at lower of cost or fair value. No MSRs were carried at fair value at June 30, 2014 and December 31, 2013.

Adjustments to mortgage banking income recorded due to the valuation of MSRs for the three and six months ended June 30, 2014 and 2013 follow:

(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
Credit to mortgage banking income due to impairment evaluation	$	$ (160)	$	$ (312)

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Mortgage Loans Held for Sale

The Bank has elected the fair value option for mortgage loans held for sale. These loans are intended for sale and the Bank believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loan and in accordance with Bank policy for such instruments. None of these loans were past due 90-days-or-more nor on nonaccrual as of June 30, 2014 and December 31, 2013.

As of June 30, 2014 and December 31, 2013, the aggregate fair value, contractual balance (including accrued interest), and gain or loss was as follows:

(in thousands)	**June 30, 2014**	**December 31, 2013**
Aggregate fair value	$ 6,809	$ 3,506
Contractual balance	6,596	3,417
Gain	213	89

The total amount of gains and losses from changes in fair value included in earnings for the three and six months ended June 30, 2014 and 2013 for mortgage loans held for sale are presented in the following table:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(in thousands)	**2014**	**2013**	**2014**	**2013**
Interest income	$ 49	$ 145	$ 95	$ 258
Change in fair value	159	(247)	124	(113)
Total included in earnings	$ 208	$ (102)	$ 219	$ 145

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The carrying amounts and estimated fair values of all financial instruments, at June 30, 2014 and December 31, 2013 follows:

		Fair Value Measurements at June 30, 2014:			
(in thousands)	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash and cash equivalents	$ 84,273	$ 84,273	$	$	$ 84,273
Securities available for sale	463,646	1,011	457,174	5,461	463,646
Securities to be held to maturity	48,338		48,594		48,594
Mortgage loans held for sale, at fair value	6,809		6,809		6,809
Loans, net	2,702,245			2,742,302	2,742,302
Federal Home Loan Bank stock	28,208				N/A
Mortgage servicing rights	5,009		6,985		6,985
Accrued interest receivable	8,083		8,083		8,083
Liabilities:					
Non interest-bearing deposits	519,651		519,651		519,651
Transaction deposits	1,246,882		1,246,882		1,246,882
Time deposits	238,450		239,407		239,407
Securities sold under agreements to repurchase and other short-term borrowings	197,439		197,439		197,439
Federal Home Loan Bank advances	640,000		655,116		655,116
Subordinated note	41,240		38,062		38,062
Accrued interest payable	1,261		1,261		1,261

		Fair Value Measurements at December 31, 2013:			
(in thousands)	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash and cash equivalents	$ 170,863	$ 170,863	$	$	$ 170,863
Securities available for sale	432,893	995	426,413	5,485	432,893
Securities to be held to maturity	50,644		50,768		50,768
Mortgage loans held for sale, at fair value	3,506		3,506		3,506
Loans, net	2,566,766			2,585,476	2,585,476
Federal Home Loan Bank stock	28,342				N/A
Mortgage servicing rights	5,409		7,337		7,337
Accrued interest receivable	8,272		8,272		8,272
Liabilities:					
Non interest-bearing deposits	488,642		488,642		488,642
Transaction deposits	1,244,256		1,244,256		1,244,256
Time deposits	257,959		259,345		259,345
Securities sold under agreements to repurchase and other short-term borrowings	165,555		165,555		165,555
Federal Home Loan Bank advances	605,000		618,064		618,064
Subordinated note	41,240		38,020		38,020
Accrued interest payable	1,459		1,459		1,459

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Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the Bank s estimates.

The assumptions used in the estimation of the fair value of the Company s financial instruments are explained below. Where quoted market prices are not available, fair values are based on estimates using discounted cash flow and other valuation techniques. Discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following fair value estimates cannot be substantiated by comparison to independent markets and should not be considered representative of the liquidation value of the Company s financial instruments, but rather a good-faith estimate of the fair value of financial instruments held by the Company.

In addition to those previously disclosed, the following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and cash equivalents The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Loans, net of Allowance The fair value of loans is calculated using discounted cash flows by loan type resulting in a Level 3 classification. The discount rate used to determine the present value of the loan portfolio is an estimated market rate that reflects the credit and interest rate risk inherent in the loan portfolio without considering widening credit spreads due to market illiquidity. The estimated maturity is based on the Bank s historical experience with repayments adjusted to estimate the effect of current market conditions. The Allowance is considered a reasonable discount for credit risk. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Federal Home Loan Bank stock It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Accrued interest receivable/payable The carrying amounts of accrued interest, due to their short-term nature, approximate fair value resulting in a Level 2 classification.

Deposits Fair values for certificates of deposit have been determined using discounted cash flows. The discount rate used is based on estimated market rates for deposits of similar remaining maturities and are classified as Level 2. The carrying amounts of all other deposits, due to their short-term nature, approximate their fair values and are also classified as Level 2.

Securities sold under agreements to repurchase The carrying amount for securities sold under agreements to repurchase generally maturing within ninety days approximates its fair value resulting in a Level 2 classification.

Federal Home Loan Bank advances The fair value of the FHLB advances is obtained from the FHLB and is calculated by discounting contractual cash flows using an estimated interest rate based on the current rates available to the Company for debt of similar remaining maturities and collateral terms resulting in a Level 2 classification.

Subordinated note The fair value for subordinated debentures is calculated using discounted cash flows based upon current market spreads to London Interbank Borrowing Rate (LIBOR) for debt of similar remaining maturities and collateral terms resulting in a Level 2 classification.

The fair value estimates presented herein are based on pertinent information available to management as of the respective period ends. Although management is not aware of any factors that would dramatically affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, estimates of fair value may differ significantly from the amounts presented.

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7. MORTGAGE BANKING ACTIVITIES

Activity for mortgage loans held for sale was as follows:

June 30, (in thousands)	2014	2013
Balance, January 1	$ 3,506	$ 10,614
Origination of mortgage loans held for sale	33,284	208,094
Proceeds from the sale of mortgage loans held for sale	(31,147)	(199,942)
Net gain on sale of mortgage loans held for sale	1,166	5,408
Balance, June 30	$ 6,809	$ 24,174

The following table presents the components of Mortgage Banking income:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2014	2013	2014	2013
Net gain realized on sale of mortgage loans held for sale	$ 460	$ 3,439	$ 918	$ 5,677
Net change in fair value recognized on loans held for sale	159	(247)	124	(113)
Net change in fair value recognized on rate lock commitments	99	(1,521)	179	(388)
Net change in fair value recognized on forward contracts	(50)	453	(55)	232
Net gain recognized	668	2,124	1,166	5,408
Loan servicing income	492	546	794	1,092
Amortization of mortgage servicing rights	(348)	(650)	(662)	(1,358)
Change in mortgage servicing rights valuation allowance		160		312
Net servicing income recognized	144	56	132	46
Total Mortgage Banking income	$ 812	$		