REPUBLIC BANCORP INC /KY/
Form 10-Q
November 07, 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 September 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 October 31, 2014, was 18,571,000 and 2,245,000, respectively.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	September 30, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$ 69,682	$ 170,863
Securities available for sale	452,974	432,893
Securities held to maturity (fair value of $47,541 in 2014 and $50,768 in 2013)	47,247	50,644
Mortgage loans held for sale, at fair value	5,890	3,506
Loans	2,908,535	2,589,792
Allowance for loan losses	(23,617)	(23,026)
Loans, net	2,884,918	2,566,766
Federal Home Loan Bank stock, at cost	28,208	28,342
Premises and equipment, net	32,395	32,908
Goodwill	10,168	10,168
Other real estate owned	11,937	17,102
Bank owned life insurance	51,037	25,086
Other assets and accrued interest receivable	31,163	33,626
TOTAL ASSETS	$ 3,625,619	$ 3,371,904
LIABILITIES		
Deposits:		
Non interest-bearing	$ 534,662	$ 488,642
Interest-bearing	1,525,174	1,502,215
Total deposits	2,059,836	1,990,857
Securities sold under agreements to repurchase and other short-term borrowings	275,874	165,555
Federal Home Loan Bank advances	662,000	605,000
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	29,301	26,459
Total liabilities	3,068,251	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	4,897	4,894
Additional paid in capital	134,109	133,012
Retained earnings	413,501	401,766
Accumulated other comprehensive income	4,861	3,121

Total stockholders equity		557,368		542,793
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	3,625,619	$	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 September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
INTEREST INCOME:				
Loans, including fees	$ 30,916	$ 31,619	$ 91,188	$ 95,268
Taxable investment securities	1,896	1,984	5,663	6,000
Federal Home Loan Bank stock and other	332	406	1,195	1,261
Total interest income	33,144	34,009	98,046	102,529
INTEREST EXPENSE:				
Deposits	930	1,043	2,845	3,073
Securities sold under agreements to repurchase and other short-term borrowings	28	11	72	53
Federal Home Loan Bank advances	3,116	3,788	9,947	11,081
Subordinated note	628	628	1,886	1,886
Total interest expense	4,702	5,470	14,750	16,093
NET INTEREST INCOME	28,442	28,539	83,296	86,436
Provision for loan losses	1,510	2,200	1,500	2,480
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	26,932	26,339	81,796	83,956
NON-INTEREST INCOME:				
Service charges on deposit accounts	3,568	3,676	10,426	10,384
Net refund transfer fees	(133)	152	16,091	13,849
Mortgage banking income	876	1,026	2,174	6,480
Debit card interchange fee income	1,551	1,519	5,224	4,986
Bargain purchase gain - First Commercial Bank				1,324
Net gain on sale of other real estate owned	67	403	733	1,714
Increase in cash surrender value of bank owned life insurance	381		951	
Other	834	723	2,388	1,961
Total non-interest income	7,144	7,499	37,987	40,698
NON-INTEREST EXPENSES:				
Salaries and employee benefits	12,164	12,226	40,612	43,426
Occupancy and equipment, net	5,544	5,462	16,874	16,354
Communication and transportation	905	990	2,787	3,011
Marketing and development	1,020	745	2,466	2,418
FDIC insurance expense	424	419	1,407	1,234
Bank franchise tax expense	731	707	3,901	3,279
Data processing	868	934	2,622	2,442
Debit card interchange expense	744	655	2,505	2,216
Supplies	205	228	705	800
Other real estate owned expense	950	497	2,580	2,331
Legal expense	367	1,343	867	3,111
Other	1,900	2,079	6,026	6,555
Total non-interest expenses	25,822	26,285	83,352	87,177
INCOME BEFORE INCOME TAX EXPENSE	8,254	7,553	36,431	37,477
INCOME TAX EXPENSE	3,008	2,950	12,879	13,399
NET INCOME	$ 5,246	$ 4,603	$ 23,552	$ 24,078

BASIC EARNINGS PER COMMON SHARE:								
Class A Common Stock	$	0.25	$	0.22	$	1.14	$	1.16
Class B Common Stock	$	0.24	$	0.21	$	1.09	$	1.12
DILUTED EARNINGS PER COMMON SHARE:								
Class A Common Stock	$	0.25	$	0.22	$	1.13	$	1.16
Class B Common Stock	$	0.24	$	0.21	$	1.08	$	1.11
DIVIDENDS DECLARED PER COMMON SHARE:								
Class A Common Stock	$	0.187	$	0.176	$	0.550	$	0.517
Class B Common Stock	$	0.170	$	0.160	$	0.500	$	0.470

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (*UNAUDITED)*

(*in thousands*)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net income	$ 5,246	$ 4,603	$ 23,552	$ 24,078
OTHER COMPREHENSIVE INCOME (LOSS):				
Change in fair value of derivatives used for cash flow hedges	28		(676)	
Reclassification amount for derivative losses realized in income	104		303	
Unrealized gain (loss) on securities available for sale	(10)	(198)	2,618	(3,163)
Change in unrealized gain on securities available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings	65	(4)	434	418
Net unrealized gains (losses)	187	(202)	2,679	(2,745)
Tax effect	(66)	71	(939)	962
Total other comprehensive income (loss), net of tax	121	(131)	1,740	(1,783)
COMPREHENSIVE INCOME	$ 5,367	$ 4,472	$ 25,292	$ 22,295

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY *(UNAUDITED)*

NINE MONTHS ENDED SEPTEMBER 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					23,552		23,552
Net change in accumulated other comprehensive income						1,740	1,740
Dividend declared Common Stock:							
Class A shares ($0.550 per share)					(10,201)		(10,201)
Class B shares ($0.500 per share)					(1,126)		(1,126)
Stock options exercised, net of shares redeemed	26		6	681	(244)		443
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							
Deferred director compensation expense - Class A Common Stock	2			145			145
Stock based compensation - restricted stock	(2)			328	3		331
Stock based compensation expense - options				38			38
Balance, September 30, 2014	18,567	2,245	$ 4,897	$ 134,109	$ 413,501	$ 4,861	$ 557,368

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (*UNAUDITED*)

NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (*in thousands*)

	2014	2013
OPERATING ACTIVITIES:		
Net income	$ 23,552	$ 24,078
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	4,753	3,846
Amortization (accretion) on investment securitites, net	446	328
Amortization (accretion) on loans, net	(5,618)	(7,880)
Amortization of mortgage servicing rights	996	1,811
Amortization of core deposit intangible asset		221
Provision for loan losses	1,500	2,480
Net gain on sale of mortgage loans held for sale	(1,894)	(6,340)
Origination of mortgage loans held for sale	(54,046)	(263,411)
Proceeds from sale of mortgage loans held for sale	53,556	270,562
Net realized recovery of mortgage servicing rights		(345)
Net gain on sale of other real estate owned	(733)	(1,714)
Writedowns of other real estate owned	2,042	1,074
Deferred director compensation expense - Company Stock	145	152
Stock based compensation expense	366	401
Bargain purchase gain on acquisition		(1,324)
Increase in cash surrender value of bank owned life insurance	(951)	
Net change in other assets and liabilities:		
Accrued interest receivable	(283)	1,115
Accrued interest payable	(310)	32
Other assets	1,750	4,137
Other liabilities	1,500	(7,447)
Net cash provided by operating activities	26,771	21,776
INVESTING ACTIVITIES:		
Purchases of securities available for sale	(119,427)	(175,275)
Purchases of securities to be held to maturity		(15,000)
Proceeds from calls, maturities and paydowns of securities available for sale	102,111	129,041
Proceeds from calls, maturities and paydowns of securities to be held to maturity	3,342	8,900
Proceeds from sales of Federal Home Loan Bank stock	134	35
Proceeds from sales of other real estate owned	8,991	19,642
Net change in outstanding warehouse lines of credit	(123,008)	93,766
Purchase of loans, including premiums paid	(144,669)	
Net change in other loans	(51,492)	1,718
Purchase of bank owned life insurance	(25,000)	
Net purchases of premises and equipment	(4,240)	(3,275)
Net cash provided by (used in) investing activities	(353,258)	59,552
FINANCING ACTIVITIES:		
Net change in deposits	68,979	36,857
Net change in securities sold under agreements to repurchase and other short-term borrowings	110,319	(144,511)
Payments of Federal Home Loan Bank advances	(108,000)	(25,580)
Proceeds from Federal Home Loan Bank advances	165,000	70,000
Repurchase of Common Stock	(347)	(4,095)
Net proceeds from Common Stock options exercised	443	295
Cash dividends paid	(11,088)	(10,400)

Net cash provided by (used in) financing activities	225,306	(77,434)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(101,181)	3,894
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	170,863	137,691
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 69,682	$ 141,585

(continued)

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CONSOLIDATED STATEMENTS OF CASH FLOWS (*UNAUDITED*)

NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (*in thousands*)

	2014	2013
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 15,060	$ 16,061
Income taxes	13,703	26,674
SUPPLEMENTAL NONCASH DISCLOSURES:		
Transfers from loans to real estate acquired in settlement of loans	$ 6,466	$ 8,690
Loans provided for sales of other real estate owned	1,331	644
Change in fair value of derivatives used for cash flow hedges	(676)	
Change in fair value of available for sale securities	3,052	(2,745)

See accompanying footnotes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 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 subsidiaries, Republic Bank & Trust Company (RB&T or the Bank) and Republic Insurance Services, Inc. (the Captive). RB&T is a Kentucky-based, state chartered non-member financial institution. The Captive, which was formed during the third quarter of 2014, is a wholly-owned insurance subsidiary of the Company that provides property and casualty insurance coverage to the Company and the Bank. The Captive provides reinsurance to five other third party insurance captives for which insurance may not be currently available or economically feasible in today s insurance marketplace. 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.

During the second quarter of 2014, Republic Bank, the Company s wholly-owned, federally chartered savings institution, was legally 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.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) 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 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 nine months ended September 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 September 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 TRS division comprises the substantial majority of revenues and expenses of RPG. The RPS and RCS divisions are considered immaterial for separate and independent segment reporting.

Traditional Banking and Mortgage Banking (collectively Core Banking)

As of September 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

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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.

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.

The Core 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. Outstanding balances on these credit facilities may be subject to significant fluctuations consistent with the overall market demand for mortgage loans.

The Core Bank began acquiring single family, first lien mortgage loans for investment through its Correspondent Lending division in May 2014. Correspondent Lending generally involves the Bank acquiring, primarily from its Mortgage Warehouse clients, closed loans that meet the Bank s specifications. 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 interest income on the level-yield method over the expected life of the loan. Loans acquired through the Correspondent Lending division generally reflect borrowers outside of the Bank s historical market footprint. As of September 30, 2014, a substantial majority of loans originated through the Company s Correspondent Lending division were secured by single family residences located in the state of California.

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.

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Recently Issued Accounting Standards Updates (**ASU**)

ASU 2014-14 Receivables Troubled Debt Restructurings by Creditors ***(Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure.***

The amendments in this ASU require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if: a) the loan has a government guarantee that is not separable from the loan before foreclosure; b) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and c) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. The separate other receivable recognized upon foreclosure should be measured based on the amount of the loan balance (principal and interest) expected to be received from the guarantor. 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.

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.

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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:

September 30, 2014 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 149,709	$ 257	$ (75)	$ 149,891
Private label mortgage backed security	4,158	1,179		5,337
Mortgage backed securities - residential	125,058	5,363	(156)	130,265
Collateralized mortgage obligations	150,355	1,167	(844)	150,678
Freddie Mac preferred stock		669		669
Mutual fund	1,000	10		1,010
Corporate bonds	15,012	112		15,124
Total securities available for sale	$ 445,292	$ 8,757	$ (1,075)	$ 452,974

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:

September 30, 2014 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 2,257	$ 7	$ (8)	$ 2,256
Mortgage backed securities - residential	409	49		458
Collateralized mortgage obligations	39,581	379	(24)	39,936
Corporate bonds	5,000		(109)	4,891

Total securities held to maturity	$	47,247	$	435	$	(141)	$	47,541

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 September 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 nine months ended September 30, 2014 and 2013, there were no sales or calls of securities available for sale or applicable income 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 September 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	
September 30, 2014 (in thousands)	**Amortized Cost**	**Fair Value**	**Carrying Value**	**Fair Value**
Due in one year or less	$ 23,543	$ 23,676	$ 496	$ 496
Due from one year to five years	131,178	131,283	1,761	1,760
Due from five years to ten years	10,000	10,056	5,000	4,891
Due beyond ten years				
Private label mortgage backed security	4,158	5,337		
Mortgage backed securities - residential	125,058	130,265	409	458
Collateralized mortgage obligations	150,355	150,678	39,581	39,936
Freddie Mac preferred stock		669		
Mutual fund	1,000	1,010		
Total securities	$ 445,292	$ 452,974	$ 47,247	$ 47,541

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 to $0. During the second quarter of 2014, based on active trading volume 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 September 30, 2014, the Company s unrealized gain for its Freddie Mac preferred stock totaled $669,000. In October 2014, the unrealized gain in the Company s Freddie Mac preferred stock fell to approximately $300,000 following a legal decision unfavorable to private investors in such stock.

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 September 30, 2014 and December 31, 2013.

Mortgage Backed Securities

At September 30, 2014, with the exception of the $5.3 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 September 30, 2014 and December 31, 2013, there were gross unrealized/unrecognized losses of $1.0 million and $1.8 million related to available for sale mortgage backed securities. Because the decline in fair value of

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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 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 September 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	
September 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	$ 57,722	$ (75)	$	$	$ 57,722	$ (75)
Mortgage backed securities - residential	7,795	(156)			7,795	(156)
Collateralized mortgage obligations	54,539	(660)	6,837	(184)	61,376	(844)
Total securities available for sale	$ 120,056	$ (891)	$ 6,837	$ (184)	$ 126,893	$ (1,075)

	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	$ 519	$ (8)	$	$	$ 519	$ (8)
Collateralized mortgage obligations	9,205	(24)			9,205	(24)
Corporate bonds	4,891	(109)			4,891	(109)
Total securities held to maturity	$ 14,615	$ (141)	$	$	$ 14,615	$ (141)

	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 September 30, 2014, the Bank s security portfolio consisted of 161 securities, 23 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 $5.3 million at September 30, 2014. This security, with an average remaining life currently estimated at three 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)	September 30, 2014	December 31, 2013
Carrying amount	$ 328,463	$ 224,693
Fair value	328,763	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, inclusive 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.

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)	**September 30, 2014**	**December 31, 2013**
Residential real estate:		
Owner occupied	$ 1,127,595	$ 1,097,795
Owner occupied - correspondent*	139,252	
Non owner occupied	98,365	110,809
Commercial real estate	771,765	773,173
Commercial real estate - purchased whole loans*	34,714	34,186
Construction & land development	44,462	44,351
Commercial & industrial	149,943	127,763
Lease financing receivables	819	
Warehouse lines of credit	272,584	149,576
Home equity	241,189	226,782
Consumer:		
RPG loans	3,460	1,827
Credit cards	9,230	9,030
Overdrafts	966	944
Purchased whole loans*	4,664	
Other consumer	9,527	13,556
Total loans**	2,908,535	2,589,792
Allowance for loan losses	(23,617)	(23,026)
Total loans, net	$ 2,884,918	$ 2,566,766

** - Identifies loans outside of the Bank s historical market footprint.*

*** - Total loans are presented inclusive of premiums, discounts and net loan origination fees and costs. See table directly below for expanded detail.*

The table below reconciles the contractually receivable and carrying amounts of loans at September 30, 2014 and December 31, 2013:

(in thousands)		**September 30, 2014**		**December 31, 2013**
Contractually receivable	$	2,922,238	$	2,614,632
Unearned income		(95)		
Unamortized premiums(1)		3,032		260
Unaccreted discounts(2)		(18,089)		(26,624)
Net unamortized deferred origination fees and costs		1,449		1,524
Carrying value of loans	$	2,908,535	$	2,589,792

(1) - Premiums predominately relate to loans acquired through the Bank s Correspondent Lending division.

(2) - Discounts predominately relate to loans acquired in the Bank s 2012 FDIC-assisted transactions.

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Loan Purchases

In May 2014, the Bank began acquiring single family, first lien mortgage loans for investment within its loan portfolio through its Correspondent Lending division. Correspondent Lending generally involves the Bank acquiring, primarily from its Mortgage Warehouse clients, closed loans that meet the Bank s specifications. 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 interest income on a level-yield method over the expected life of the loan. Loans acquired through the Correspondent Lending division generally reflect borrowers outside of the Bank s historical market footprint, with a substantial majority of loans originated through the division as of September 30, 2014, secured by single residences located in the state of California.

In addition to secured mortgage loans acquired through its Correspondent Lending division, the Bank also began acquiring unsecured consumer installment loans for investment from a third-party originator in April 2014. Such consumer loans are purchased at par and are selected by the Bank based on certain underwriting characteristics.

The table below reflects the purchased activity of single family, first lien mortgage loans and unsecured consumer loans, by class, during the three and nine months ended September 30, 2014. No purchases of these type loans were made during 2013.

(in thousands)	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
Residential real estate:		
Owner occupied - correspondent	$ 128,374	$ 139,632
Consumer:		
Purchased whole loans	2,524	5,037
Total purchased loans	$ 130,898	$ 144,669

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Purchased Credit Impaired (PCI) Loans

The contractual amount of PCI loans acquired during the Bank s 2012 FDIC-assisted transactions and 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 $36 million as of September 30, 2014. The carrying value of these loans was $41 million as of December 31, 2013 compared to $25 million as of September 30, 2014.

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

(in thousands)		**September 30, 2014**		**December 31, 2013**
Contractually-required principal	$	35,760	$	57,992
Non-accretable amount		(8,610)		(13,582)
Accretable amount		(2,418)		(3,457)
Carrying value of loans	$	24,732	$	40,953

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

	Three Months Ended September 30,				**Nine Months Ended September 30,**			
(in thousands)		**2014**		**2013**		**2014**		**2013**
Balance, beginning of period	$	(2,487)	$	(1,381)	$	(3,457)	$	(3,231)
Transfers between non-accretable and accretable		(609)		(3,725)		(2,949)		(5,421)
Net accretion into interest income on loans, including loan fees		678		1,916		3,988		5,179
Other changes								283
Balance, end of period	$	(2,418)	$	(3,190)	$	(2,418)	$	(3,190)

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Credit Quality Indicators

Based on the Bank s internal analyses performed as of September 30, 2014 and December 31, 2013, the following tables reflect loans by risk category, as such categories are defined in the Company s Annual Report on Form 10-K for the year ended December 31, 2013:

September 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	$	$ 27,485	$ 12,845	$	$ 1,612	$	$ 41,942
Owner occupied - correspondent							
Non owner occupied		1,173	2,329		3,988		7,490
Commercial real estate	729,403	9,549	15,794		16,978	41	771,765
Commercial real estate - purchased whole loans	34,714						34,714
Construction & land development	41,248	122	2,462		630		44,462
Commercial & industrial	146,183	493	1,803		1,253	211	149,943
Lease financing receivables	819						819
Warehouse lines of credit	272,584						272,584
Home equity			2,230				2,230
Consumer:							
RPG loans							
Credit cards							
Overdrafts							
Purchased whole loans							
Other consumer		14	48		19		81
Total	$ 1,224,951	$ 38,836	$ 37,511	$	$ 24,480	$ 252	$ 1,326,030

** - At September 30, 2014, Special Mention and Substandard loans included $1 million and $5 million, respectively, which were removed from PCI accounting in accordance with ASC 310-30-35-13 due to a post-acquisition troubled debt restructuring.*

*** - The above table excludes all non-classified residential real estate and consumer loans at the respective period ends. The table also excludes 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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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	$	$ 27,431	$ 10,994	$	$ 2,810	$	$ 41,235
Owner occupied - correspondent							
Non owner occupied		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							
Purchased whole loans							
Other consumer		18	66		33		117
Total	$ 1,057,609	$ 40,167	$ 44,083	$	$ 40,731	$ 222	$ 1,182,812

** - At December 31, 2013, Special Mention and Substandard loans included $1 million and $6 million, respectively, which were removed from PCI accounting in accordance with ASC 310-30-35-13 due to a post-acquisition troubled debt restructuring.*

*** - The above table excludes all non-classified residential real estate and consumer loans at the respective period ends. The table also excludes 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 September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Allowance, beginning of period	$ 22,772	$ 22,491	$ 23,026	$ 23,729
Charge offs - Traditional Banking	(1,071)	(1,627)	(2,698)	(4,744)
Charge offs - RPG	(2)		(2)	
Total charge offs	(1,073)	(1,627)	(2,700)	(4,744)
Recoveries - Traditional Banking	376	371	1,233	1,231
Recoveries - RPG	32	57	558	796
Total recoveries	408	428	1,791	2,027
Net (charge offs) recoveries - Traditional Banking	(695)	(1,256)	(1,465)	(3,513)
Net (charge offs) recoveries - RPG	30	57	556	796
Net (charge offs) recoveries	(665)	(1,199)	(909)	(2,717)
Provision for losses - Traditional Banking	1,542	2,257	2,012	3,276
Provision for losses - RPG	(32)	(57)	(512)	(796)
Total provision for losses	1,510	2,200	1,500	2,480
Allowance, end of period	$ 23,617	$ 23,492	$ 23,617	$ 23,492

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 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 September 30, 2014 and 2013:

Three Months Ended September 30, 2014 (in thousands)	Residential Real Estate Owner Occupied	Residential Real Estate Owner Occupied - Correspondent	Residential Real Estate Non Owner Occupied	Commercial Real Estate	Commercial Real Estate - Purchased Whole Loans	Construction & Land Development	Commercial & Industrial	Lease Financing Receivables
Beginning balance	$ 8,055	$ 60	$ 839	$ 7,696	$ 34	$ 1,090	$ 1,152	$ 3
Provision for losses	(148)	706	50	547		(4)	(81)	5
Charge offs	(161)		(135)	(365)				
Recoveries	26		17	9			37	
Ending balance	$ 7,772	$ 766	$ 771	$ 7,887	$ 34	$ 1,086	$ 1,108	$ 8

(continued)

	Warehouse Lines of Credit	Home Equity	RPG Loans	Consumer Credit Cards	Consumer Overdrafts	Consumer Purchased Whole Loans	Other Consumer	Total
Beginning balance	$ 610	$ 2,403	$ 46	$ 286	$ 280	$	$ 218	$ 22,772
Provision for losses	71	283	(32)	19	17	189	(112)	1,510
Charge offs		(146)	(2)	(23)	(136)		(105)	(1,073)
Recoveries		88	32	10	91		98	408
Ending balance	$ 681	$ 2,628	$ 44	$ 292	$ 252	$ 189	$ 99	$ 23,617

Three Months Ended September 30, 2013 (in thousands)	Residential Real Estate Owner Occupied	Residential Real Estate Owner Occupied - Correspondent	Residential Real Estate Non Owner Occupied	Commercial Real Estate	Commercial Real Estate - Purchased Whole Loans	Construction & Land Development	Commercial & Industrial	Lease Financing Receivables
Beginning balance	$ 7,563	$	$ 642	$ 8,763	$ 34	$ 1,587	$ 710	$
Provision for losses	1,198		157	686		16	232	
Charge offs	(578)		(67)	(307)		(16)	(102)	
Recoveries	20		59	38		7	19	
Ending balance	$ 8,203	$	$ 791	$ 9,180	$ 34	$ 1,594	$ 859	$

(continued)

	Warehouse Lines of Credit	Home Equity	RPG Loans	Consumer Credit Cards	Consumer Overdrafts	Consumer Purchased Whole Loans	Other Consumer	Total
Beginning balance	$ 462	$ 1,932	$	$ 344	$ 249	$	$ 205	$ 22,491
Provision for losses	(143)	104	(57)	(18)	26		(1)	2,200
Charge offs		(218)		(60)	(169)		(110)	(1,627)
Recoveries		55	57	4	95		74	428
Ending balance	$ 319	$ 1,873	$	$ 270	$ 201	$	$ 168	$ 23,492

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

Nine Months Ended September 30, 2014 (in thousands)	Residential Real Estate Owner Occupied	Owner Occupied - Correspondent	Non Owner Occupied	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	430	766	(121)	163		(277)	(68)	8
Charge offs	(580)		(157)	(739)		(18)	(20)	
Recoveries	106		26	154		85	107	
Ending balance	$ 7,772	$ 766	$ 771	$ 7,887	$ 34	$ 1,086	$ 1,108	$ 8

(continued)

	Warehouse Lines of Credit	Home Equity	RPG Loans	Consumer Credit Cards	Overdrafts	Purchased Whole Loans	Other Consumer	Total
Beginning balance	$ 449	$ 2,396	$	$ 289	$ 199	$	$ 126	$ 23,026
Provision for losses	232	518	(512)	41	177	189	(46)	1,500
Charge offs		(429)	(2)	(65)	(429)		(261)	(2,700)
Recoveries		143	558	27	305		280	1,791
Ending balance	$ 681	$ 2,628	$ 44	$ 292	$ 252	$ 189	$ 99	$ 23,617

Nine Months Ended September 30, 2013 (in thousands)	Residential Real Estate Owner Occupied	Owner Occupied - Correspondent	Non Owner Occupied	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	2,269		(106)	1,192		(604)	618	
Charge offs	(1,291)		(225)	(972)		(616)	(412)	
Recoveries	219		73	117		45	73	
Ending balance	$ 8,203	$	$ 791	$ 9,180	$ 34	$ 1,594	$ 859	$

(continued)

	Warehouse Lines of Credit	Home Equity	RPG Loans	Consumer Credit Cards	Overdrafts	Purchased Whole Loans	Other Consumer	Total
Beginning balance	$ 541	$ 2,348	$	$ 210	$ 198	$	$ 151	$ 23,729
Provision for losses	(222)	(248)	(796)	166	153		58	2,480
Charge offs		(354)		(120)	(474)		(280)	(4,744)
Recoveries		127	796	14	324		239	2,027
Ending balance	$ 319	$ 1,873	$	$ 270	$ 201	$	$ 168	$ 23,492

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Non-performing Loans and Other Assets

Detail of non-performing loans and other assets follows:

(dollars in thousands)	September 30, 2014	December 31, 2013
Loans on non-accrual status(1)	$ 21,447	$ 19,104
Loans past due 90-days-or-more and still on accrual(2)		1,974
Total non-performing loans	21,447	21,078
Other real estate owned	11,937	17,102
Total non-performing assets	$ 33,384	$ 38,180
Credit Quality Ratios		
Non-performing loans to total loans	0.74%	0.81%
Non-performing assets to total loans (including OREO)	1.14%	1.46%
Non-performing assets to total assets	0.92%	1.13%

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

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

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

	Non-Accrual		Past Due 90-Days-or-More and Still Accruing Interest*	
(in thousands)	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Residential real estate:				
Owner occupied	$ 9,457	$ 8,538	$	$ 673
Owner occupied - correspondent				
Non owner occupied	1,632	1,279		
Commercial real estate	6,739	7,643		
Commercial real estate - purchased whole loans				
Construction & land development	1,990	97		70
Commercial & industrial		327		1,231
Lease financing receivables				
Warehouse lines of credit				
Home equity	1,545	1,128		
Consumer:				
RPG loans				
Credit cards				
Overdrafts				

Purchased whole loans				
Other consumer	84	92		
Total	$ 21,447	$ 19,104	$	$ 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:

September 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	$ 1,440	$ 1,474	$ 2,983	$ 5,897	$ 1,121,698	$ 1,127,595
Owner occupied - correspondent					139,252	139,252
Non owner occupied	87	464	133	684	97,681	98,365
Commercial real estate			2,433	2,433	769,332	771,765
Commercial real estate - purchased whole loans					34,714	34,714
Construction & land development			1,990	1,990	42,472	44,462
Commercial & industrial					149,943	149,943
Lease financing receivables					819	819
Warehouse lines of credit					272,584	272,584
Home equity	194	149	420	763	240,426	241,189
Consumer:						
RPG loans	105	24		129	3,331	3,460
Credit cards	45	13	3	61	9,169	9,230
Overdrafts	150	1		151	815	966
Purchased whole loans					4,664	4,664
Other consumer	106	12		118	9,409	9,527
Total	$ 2,127	$ 2,137	$ 7,962	$ 12,226	$ 2,896,309	$ 2,908,535
Delinquency ratio**	0.07%	0.07%	0.27%	0.42%		

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	$ 1,956	$ 733	$ 3,668	$ 6,357	$ 1,091,438	$ 1,097,795
Owner occupied - correspondent						
Non owner occupied	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

Purchased whole loans						
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 September 30, 2014 and December 31, 2013 were on non-accrual status.*

*** - Delinquency ratio equals total delinquent loans by delinquency class 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)	September 30, 2014	December 31, 2013
Loans with no allocated Allowance	$ 32,748	$ 36,721
Loans with allocated Allowance	57,565	71,273
Total impaired loans	$ 90,313	$ 107,994
Amount of the Allowance allocated	$ 5,651	$ 6,674

Approximately $14 million and $24 million of impaired loans at September 30, 2014 and December 31, 2013 were PCI loans. Approximately $5 million and $6 million of impaired loans at September 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 September 30, 2014 and December 31, 2013:

September 30, 2014 (in thousands)	Residential Real Estate Owner Occupied	Owner Occupied - Correspondent	Non Owner Occupied	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	$ 3,298	$	$ 113	$ 788	$	$ 190	$	$
Collectively evaluated for impairment	4,436	766	595	6,574	34	896	813	8
PCI loans with post acquisition impairment	38		63	525			295	
PCI loans without post acquisition impairment								
Total ending Allowance:	$ 7,772	$ 766	$ 771	$ 7,887	$ 34	$ 1,086	$ 1,108	$ 8
Loans:								
Impaired loans individually evaluated, excluding PCI loans	$ 40,274	$	$ 3,138	$ 24,370	$	$ 2,656	$ 3,884	$
Loans collectively evaluated for impairment	1,085,709	139,252	91,239	730,376	34,714	41,176	144,595	819
PCI loans with post acquisition impairment	897		3,162	8,265			1,365	
PCI loans without post acquisition impairment	715		826	8,754		630	99	
	$ 1,127,595	$ 139,252	$ 98,365	$ 771,765	$ 34,714	$ 44,462	$ 149,943	$ 819

(continued)

	Warehouse Lines of Credit	Home Equity	RPG Loans	Consumer Credit Cards	Overdrafts	Purchased Whole Loans	Other Consumer	Total
Allowance:								
Ending Allowance balance:								
Individually evaluated for impairment, excluding PCI loans	$	$ 291	$	$	$	$	$ 49	$ 4,729
Collectively evaluated for impairment	681	2,337	44	292	252	189	49	17,966
PCI loans with post acquisition impairment							1	922
PCI loans without post acquisition impairment								
Total ending Allowance:	$ 681	$ 2,628	$ 44	$ 292	$ 252	$ 189	$ 99	$ 23,617
Loans:								
Impaired loans individually evaluated, excluding PCI loans	$	$ 2,230	$	$	$	$	$ 62	$ 76,614
Loans collectively evaluated for impairment	272,584	238,959	3,460	9,230	966	4,664	9,446	2,807,189
PCI loans with post acquisition impairment							10	13,699
							9	11,033

PCI loans without post acquisition impairment								
Total ending loan balance	$ 272,584	$ 241,189	$ 3,460	$ 9,230	$ 966	$ 4,664	$ 9,527	$ 2,908,535

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December 31, 2013 (in thousands)	Residential Real Estate Owner Occupied	Residential Real Estate Owner Occupied - Correspondent	Residential Real Estate Non Owner Occupied	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	Credit Cards	Consumer Overdrafts	Consumer Purchased Whole Loans	Consumer Other Consumer	Total
Allowance:								
Ending Allowance balance:								
Individually evaluated for impairment, excluding PCI loans	$	$ 203	$	$	$	$	$ 43	$ 5,402
Collectively evaluated for impairment	449	2,193	2	289	199		80	16,352
PCI loans with post acquisition impairment							1	1,272
PCI loans without post acquisition impairment								
Total ending Allowance:	$ 449	$ 2,396	$ 2	$ 289	$ 199	$	$ 124	$ 23,026
Loans:								
Impaired loans individually evaluated, excluding PCI loans	$	$ 2,264	$	$	$	$	$ 85	$ 84,155
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 September 30, 2014 and December 31, 2013 and for the three and nine months ended September 30, 2014 and 2013. The difference between the Unpaid Principal Balance and Recorded Investment columns represents life-to-date partial write downs/charge offs taken on individual impaired credits.

	As of September 30, 2014			Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
(in thousands)	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance Allocated**	**Average Recorded Investment**	**Interest Income Recognized**	**Cash Basis Interest Income Recognized**	**Average Recorded Investment**	**Interest Income Recognized**	**Cash Basis Interest Income Recognized**
Impaired loans with no related allowance recorded:									
Residential real estate:									
Owner occupied	$ 6,961	$ 6,577	$	$ 6,717	$ 66	$	$ 6,838	$ 190	$
Owner occupied - correspondent									
Non owner occupied	2,023	1,870		1,731	11		1,518	36	
Commercial real estate	17,767	16,516		15,682	95		17,985	434	
Commercial real estate - purchased whole loans									
Construction & land development	2,164	2,164		2,123	3		2,103	6	
Commercial & industrial	3,884	3,884		4,019	31		4,126	181	
Lease financing receivables									
Warehouse lines of credit									
Home equity	1,888	1,737		1,802	11		1,780	27	
Consumer:									
RPG loans									
Credit cards									
Overdrafts									
Purchased whole loans									
Other consumer							5		
Impaired loans with an allowance recorded:									
Residential real estate:									
Owner occupied	35,090	34,594	3,336	34,919	246		34,697	737	
Owner occupied - correspondent									
Non owner occupied	4,430	4,430	176	4,811	51		5,700	149	
Commercial real estate	16,158	16,119	1,313	17,479	186		20,338	499	
Commercial real estate - purchased whole loans									
Construction & land development	492	492	190	498	6		546	17	
Commercial & industrial	1,365	1,365	295	1,374	18		1,579	78	
Lease financing receivables									
Warehouse lines of credit									
Home equity	548	493	291	436			588		
Consumer:									
RPG loans									
Credit cards									
Overdrafts									
Purchased whole loans									
Other consumer	72	72	50	69	1		77	1	
Total impaired loans	$ 92,842	$ 90,313	$ 5,651	$ 91,660	$ 725	$	$ 97,880	$ 2,355	$

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(in thousands)	As of December 31, 2013			Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Unpaid Principal Balance	Recorded Investment	Allowance Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
Impaired loans with no related allowance recorded:									
Residential real estate:									
Owner occupied	$ 7,136	$ 6,569	$	$ 6,088	$ 35	$	$ 9,876	$ 89	$
Owner occupied - correspondent									
Non owner occupied	1,498	1,256		1,269			1,411	18	
Commercial real estate	21,886	20,953		18,566	451		18,382	809	
Commercial real estate - purchased whole loans									
Construction & land development	2,087	2,087		1,930	73		2,126	127	
Commercial & industrial	4,367	4,258		3,460	204		3,770	413	
Lease financing receivables									
Warehouse lines of credit									
Home equity	1,695	1,577		1,724	34		1,867	64	
Consumer:									
RPG loans									
Credit cards									
Overdrafts									
Purchased whole loans									
Other consumer	18	18		37			221		
Impaired loans with an allowance recorded:									
Residential real estate:									
Owner occupied	34,393	34,097	3,657	36,008	315		33,841	876	
Owner occupied - correspondent									
Non owner occupied	6,789	6,789	351	5,688	166		4,661	208	
Commercial real estate	27,080	27,078	1,835	26,508	549		26,055	998	
Commercial real estate - purchased whole loans									
Construction & land development	674	674	156	2,000	30		2,674	75	
Commercial & industrial	1,872	1,872	428	2,641	21		2,702	27	
Lease financing receivables									
Warehouse lines of credit									
Home equity	688	687	203	1,026	21		1,289	41	
Consumer:									
RPG loans									
Credit cards									
Overdrafts									
Purchased whole loans									
Other consumer	79	79	44	116	1		92	3	
Total impaired loans	$ 110,262	$ 107,994	$ 6,674	$ 107,061	$ 1,900	$	$ 108,967	$ 3,748	$

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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, such as bankruptcies.

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 September 30, 2014 and December 31, 2013, $15 million and $13 million of TDRs were on non-accrual status.

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

September 30, 2014 (in thousands)	**Troubled Debt Restructurings on Non-Accrual Status**	**Troubled Debt Restructurings on Accrual Status**	**Total Troubled Debt Restructurings**
Residential real estate	$ 6,836	$ 32,984	$ 39,820
Commercial real estate	6,258	15,665	21,923
Construction & land development	1,990	562	2,552
Commercial & industrial		3,884	3,884
Total troubled debt restructurings	$ 15,084	$ 53,095	$ 68,179

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 September 30, 2014 and December 31, 2013 follows:

September 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	$ 683	$ 395	$ 1,078
Rate reduction	27,970	4,399	32,369
Principal deferral	1,066	385	1,451
Legal modifications	3,390	1,532	4,922
Total residential TDRs	33,109	6,711	39,820
Commercial related and construction/land development loans:			
Interest only payments	3,703	950	4,653
Rate reduction	9,900	2,881	12,781
Principal deferral	6,507	4,209	10,716
Legal modifications		209	209
Total commercial TDRs	20,110	8,249	28,359
Total troubled debt restructurings	$ 53,219	$ 14,960	$ 68,179

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
Legal modifications	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
Legal modifications		391	391
Total commercial TDRs	29,027	7,726	36,753
Total troubled debt restructurings	$ 58,548	$ 15,424	$ 73,972

As of September 30, 2014 and December 31, 2013, 78% 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 September 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 had not committed to finance any additional material amounts to its existing TDR relationships at September 30, 2014.

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

Three Months Ended September 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	$	$ 395	$ 395
Rate reduction	358	127	485
Principal deferral	349		349
Legal modifications	149	198	347
Total residential TDRs	856	720	1,576
Commercial related and construction/land development loans:			
Interest only payments	368	392	760
Rate reduction	2,374		2,374
Principal deferral	1,172		1,172
Total commercial TDRs	3,914	392	4,306
Total troubled debt restructurings	$ 4,770	$ 1,112	$ 5,882

Three Months Ended September 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	$ 1,082	$	$ 1,082
Principal deferral			
Legal modifications	172	272	444
Total residential TDRs	1,254	272	1,526
Commercial related and construction/land development loans:			
Interest only payments	441	145	586
Rate reduction	3,407	189	3,596
Principal deferral	1,456		1,456
Legal modifications		167	167
Total commercial TDRs	5,304	501	5,805
Total troubled debt restructurings	$ 6,558	$ 773	$ 7,331

As of September 30, 2014 and 2013, 81% and 89% of the Bank s TDRs that occurred during the third quarters of 2014 and 2013 were performing according to their modified terms. The Bank provided $268,000 and $294,000 in specific reserve allocations to customers whose loan terms were modified in TDRs during the third 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 nine months ended September 30, 2014 and 2013 follows:

Nine Months Ended September 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	$	$ 397	$ 397
Rate reduction	2,053	1,451	3,504
Principal deferral	468	29	497
Legal modifications	2,146	796	2,942
Total residential TDRs	4,667	2,673	7,340
Commercial related and construction/land development loans:			
Interest only payments	672	392	1,064
Rate reduction	2,830	1,071	3,901
Principal deferral	1,420	1,744	3,164
Total commercial TDRs	4,922	3,207	8,129
Total troubled debt restructurings	$ 9,589	$ 5,880	$ 15,469

Nine Months Ended Septemer 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	$ 165	$	$ 165
Rate reduction	2,703	689	3,392
Principal deferral	64	160	224
Legal modifications	1,405	826	2,231
Total residential TDRs	4,337	1,675	6,012
Commercial related and construction/land development loans:			
Interest only payments	719	145	864
Rate reduction	3,407	189	3,596
Principal deferral	1,765		1,765
Legal modifications		167	167
Total commercial TDRs	5,891	501	6,392
Total troubled debt restructurings	$ 10,228	$ 2,176	$ 12,404

As of September 30, 2014 and 2013, 62% and 82% of the Bank s TDRs that occurred during the first nine months of 2014 and 2013 were performing according to their modified terms. The Bank provided $602,000 and $1 million in specific reserve allocations to customers whose loan terms were modified in TDRs during the first nine 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 September 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 September 30, 2014 and 2013 and for which there was a payment default during the three months ended September 30, 2014 and 2013:

Three Months Ended September 30, 2014 (dollars in thousands)	**Number of Loans**		**Recorded Investment**
Residential real estate:			
Owner occupied	1	$	45
Owner occupied - correspondent			
Non owner occupied	6		589
Commercial real estate	2		467
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			
Purchased whole loans			
Other consumer			
Total	9	$	1,101

Three Months Ended September 30, 2013 (dollars in thousands)	**Number of Loans**		**Recorded Investment**
Residential real estate:			
Owner occupied	14	$	979
Owner occupied - correspondent			
Non owner occupied			
Commercial real estate	2		357
Commercial real estate - purchased whole loans			
Construction & land development			
Commercial & industrial	1		145
Lease financing receivables			
Warehouse lines of credit			
Home equity	1		68
Consumer:			
RPG loans			
Credit cards			
Overdrafts			
Purchased whole loans			
Other consumer			
Total	18	$	1,549

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

Nine Months Ended September 30, 2014 (dollars in thousands)	**Number of Loans**	**Recorded Investment**
Residential real estate:		
Owner occupied	9	$ 1,388
Owner occupied - correspondent		
Non owner occupied	6	589
Commercial real estate	3	1,537
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		
Purchased whole loans		
Other consumer		
Total	19	$ 5,014

Nine Months Ended September 30, 2013 (dollars in thousands)	**Number of Loans**	**Recorded Investment**
Residential real estate:		
Owner occupied	32	$ 2,434
Owner occupied - correspondent		
Non owner occupied		
Commercial real estate	2	357
Commercial real estate - purchased whole loans		
Construction & land development		
Commercial & industrial	1	145
Lease financing receivables		
Warehouse lines of credit		
Home equity	2	74
Consumer:		
RPG loans		
Credit cards		
Overdrafts		
Purchased whole loans		
Other consumer		
Total	37	$ 3,010

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4. DEPOSITS

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

(in thousands)	September 30, 2014	December 31, 2013
Demand	$ 697,243	$ 651,134
Money market accounts	469,142	479,569
Brokered money market accounts	33,517	35,533
Savings	87,838	78,020
Individual retirement accounts*	26,846	28,767
Time deposits, $100,000 and over*	75,918	67,255
Other certificates of deposit*	68,370	75,516
Brokered certificates of deposit*(1)	66,300	86,421
Total interest-bearing deposits	1,525,174	1,502,215
Total non interest-bearing deposits	534,662	488,642
Total deposits	$ 2,059,836	$ 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 September 30, 2014 and December 31, 2013, FHLB advances were as follows:

(in thousands)	September 30, 2014	December 31, 2013
Overnight advance with an interest rate of 0.08% due on October 1, 2014	$ 130,000	$
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 1.84% due through 2023	422,000	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	$ 662,000	$ 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 September 30, 2014 and December 31, 2013, Republic had available collateral to borrow an additional $429 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 September 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		210,000	0.96%
2015		10,000	2.48%
2016		82,000	1.74%
2017		145,000	3.44%
2018		97,500	1.50%
2019		80,000	1.77%
Thereafter		37,500	1.93%
Total	$	662,000	1.86%

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

(in thousands)		September 30, 2014		December 31, 2013
First lien, single family residential real estate	$	1,253,537	$	1,082,624
Home equity lines of credit		100,783		105,957
Multi-family commercial real estate		9,373		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 September 30, 2014 and December 31, 2013, including financial assets and liabilities for which the Bank has elected the fair value option, are summarized below:

(in thousands)	Fair Value Measurements at September 30, 2014 Using: 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	$	$ 149,891	$	$ 149,891
Private label mortgage backed security			5,337	5,337
Mortgage backed securities - residential		130,265		130,265
Collateralized mortgage obligations		150,678		150,678
Freddie Mac preferred stock		669		669
Mutual fund	1,010			1,010
Corporate bonds		15,124		15,124
Total securities available for sale	$ 1,010	$ 446,627	$ 5,337	$ 452,974
Mortgage loans held for sale	$	$ 5,890	$	$ 5,890
Rate lock commitments		335		335
Financial liabilities:				
Mandatory forward contracts		18		18
Interest rate swap agreements		203		203

(in thousands)	Fair Value Measurements at December 31, 2013 Using: 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 nine months ended September 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 September 30, 2014 and 2013:

(in thousands)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Balance, beginning of period	$ 5,461	$ 5,641	$ 5,485	$ 5,687
Total gains or losses included in earnings:				
Net change in unrealized gain	65	(4)	434	418
Recovery of actual losses previously recorded	35	37	101	37
Principal paydowns	(224)	(217)	(683)	(685)
Balance, end of period	$ 5,337	$ 5,457	$ 5,337	$ 5,457

The fair value of 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 September 30, 2014 and December 31, 2013:

September 30, 2014 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range
Private label mortgage backed security	$ 5,337	Discounted cash flow	(1) Constant prepayment rate	0.0% - 6.5%
			(2) Probability of default	3.0% - 6.0%
			(2) Loss severity	60% - 75%

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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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 ultimate 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 September 30, 2014 and December 31, 2013.

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

(in thousands)	September 30, 2014	December 31, 2013
Aggregate fair value	$ 5,890	$ 3,506
Contractual balance	5,743	3,417
Gain	147	89

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2014	2013	2014	2013
Interest income	$ 38	$ 130	$ 133	$ 388
Change in fair value	(65)	(218)	59	(331)
Total included in earnings	$ (27)	$ (88)	$ 192	$ 57

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

	Fair Value Measurements at September 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	$	$	$ 1,224	$ 1,224
Non owner occupied			706	706
Commercial real estate			6,692	6,692
Home equity			1,157	1,157
Total impaired loans*	$	$	$ 9,779	$ 9,779
Other real estate owned:				
Residential real estate	$	$	$ 980	$ 980
Commercial real estate			1,385	1,385
Construction & land development			5,240	5,240
Total other real estate owned	$	$	$ 7,605	$ 7,605

	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	$	$	$ 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 6 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 September 30, 2014 and December 31, 2013:

September 30, 2014 (dollars in thousands)		Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans - residential real estate owner occupied	$	1,224	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 33% (9%)
Impaired loans - residential real estate non owner occupied	$	706	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 33% (15%)
Impaired loans - commercial real estate	$	4,952	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 9% (6%)
	$	1,740	Income approach	Adjustments for differences between net operating income expectations	3% (3%)
Impaired loans - home equity	$	1,157	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 35% (12%)
Other real estate owned - residential real estate	$	980	Sales comparison approach	Adjustments determined for differences between comparable sales	10% - 16% (16%)
Other real estate owned - commercial real estate	$	236	Sales comparison approach	Adjustments determined for differences between comparable sales	20% (20%)
	$	1,149	Income approach	Adjustments for differences between net operating income expectations	37% (37%)
Other real estate owned - construction & land development	$	2,488	Sales comparison approach	Adjustments determined for differences between comparable sales	13% - 70% (31%)
	$	2,752	Income approach	Adjustments for differences between net operating income expectations	13% - 30% (23%)

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

(in thousands)	September 30, 2014	December 31, 2013
Carrying amount of loans measured at fair value	$ 8,729	$ 7,629
Estimated selling costs considered in carrying amount	1,050	909
Total fair value	$ 9,779	$ 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 September 30, 2014 and December 31, 2013.

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

(in thousands)	September 30, 2014	December 31, 2013
Carrying value of other real estate owned	$ 11,937	$ 17,102

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2014	2013	2014	2013
Other real estate owned write-downs	$ 1,217	$ 190	$ 2,042	$ 1,074

Mortgage Servicing Rights

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

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

	Three Months Ended September 30,	Nine Months Ended September 30,

(in thousands)	2014	2013	2014	2013
Credit to mortgage banking income due to impairment evaluation	$	$ (33)	$	$ (345)

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

		Fair Value Measurements at September 30, 2014:			
(in thousands)	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash and cash equivalents	$ 69,682	$ 69,682	$	$	$ 69,682
Securities available for sale	452,974	1,010	446,627	5,337	452,974
Securities to be held to maturity	47,247		47,541		47,541
Mortgage loans held for sale, at fair value	5,890		5,890		5,890
Loans, net	2,884,918			2,922,976	2,922,976
Federal Home Loan Bank stock	28,208				N/A
Accrued interest receivable	8,555		8,555		8,555
Liabilities:					
Non interest-bearing deposits	534,662		534,662		534,662
Transaction deposits	1,287,740		1,287,740		1,287,740
Time deposits	237,434		237,886		237,886
Securities sold under agreements to repurchase and other short-term borrowings	275,874		275,874		275,874
Federal Home Loan Bank advances	662,000		673,135		673,135
Subordinated note	41,240		39,618		39,618
Accrued interest payable	1,149		1,149		1,149

		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
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:

September 30, (in thousands)	**2014**	**2013**
Balance, January 1	$ 3,506	$ 10,614
Origination of mortgage loans held for sale	54,046	263,411
Proceeds from the sale of mortgage loans held for sale	(53,556)	(270,562)
Net gain on sale of mortgage loans held for sale	1,894	6,340
Balance, September 30	$ 5,890	$ 9,803

The following table presents the components of Mortgage Banking income:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(in thousands)	**2014**	**2013**	**2014**	**2013**
Net gain realized on sale of mortgage loans held for sale	$ 689			