REPUBLIC BANCORP INC /KY/
Form 10-Q
May 09, 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 March 31, 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 April 30, 2014, was 18,537,025 and 2,257,646, respectively.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$ 343,386	$ 170,863
Securities available for sale	416,425	432,893
Securities held to maturity (fair value of $49,645 in 2014 and $50,768 in 2013)	49,577	50,644
Mortgage loans held for sale, at fair value	2,414	3,506
Loans	2,574,334	2,589,792
Allowance for loan losses	(22,367)	(23,026)
Loans, net	2,551,967	2,566,766
Federal Home Loan Bank stock, at cost	28,310	28,342
Premises and equipment, net	32,948	32,908
Goodwill	10,168	10,168
Other real estate owned	16,914	17,102
Bank owned life insurance	30,277	25,086
Other assets and accrued interest receivable	24,786	33,626
TOTAL ASSETS	$ 3,507,172	$ 3,371,904
LIABILITIES		
Deposits:		
Non interest-bearing	$ 568,162	$ 488,642
Interest-bearing	1,516,050	1,502,215
Total deposits	2,084,212	1,990,857
Securities sold under agreements to repurchase and other short-term borrowings	222,174	165,555
Federal Home Loan Bank advances	582,000	605,000
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	26,688	26,459
Total liabilities	2,956,314	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	4,891	4,894
Additional paid in capital	133,103	133,012
Retained earnings	409,863	401,766
Accumulated other comprehensive income	3,001	3,121

Total stockholders equity		550,858		542,793
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	3,507,172	$	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 March 31, 2014	Three Months Ended March 31, 2013
INTEREST INCOME:		
Loans, including fees	$ 30,162	$ 31,914
Taxable investment securities	1,859	2,040
Federal Home Loan Bank stock and other	476	447
Total interest income	32,497	34,401
INTEREST EXPENSE:		
Deposits	978	1,055
Securities sold under agreements to repurchase and other short-term borrowings	22	29
Federal Home Loan Bank advances	3,564	3,558
Subordinated note	629	629
Total interest expense	5,193	5,271
NET INTEREST INCOME	27,304	29,130
Provision for loan losses	(703)	(625)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	28,007	29,755
NON-INTEREST INCOME:		
Service charges on deposit accounts	3,295	3,210
Net refund transfer fees	14,388	12,014
Mortgage banking income	486	3,274
Debit card interchange fee income	1,935	1,811
Bargain purchase gain - First Commercial Bank		1,324
Net gain on sale of other real estate owned	402	277
Increase in cash surrender value of bank owned life insurance	191	
Other	763	615
Total non-interest income	21,460	22,525
NON-INTEREST EXPENSES:		
Salaries and employee benefits	14,483	16,114
Occupancy and equipment, net	5,822	5,577
Communication and transportation	1,026	1,030
Marketing and development	592	902
FDIC insurance expense	569	413
Bank franchise tax expense	2,339	1,715
Data processing	841	716
Debit card interchange expense	954	843
Supplies	440	354
Other real estate owned expense	1,070	889
Legal expense	412	430
Other	2,396	2,319

Total non-interest expenses		30,944		31,302
INCOME BEFORE INCOME TAX EXPENSE		18,523		20,978
INCOME TAX EXPENSE		6,539		7,622
NET INCOME	$	11,984	$	13,356
BASIC EARNINGS PER SHARE:				
Class A Common Stock	$	0.58	$	0.64
Class B Common Stock	$	0.56	$	0.63
DILUTED EARNINGS PER SHARE:				
Class A Common Stock	$	0.58	$	0.64
Class B Common Stock	$	0.56	$	0.62
DIVIDENDS DECLARED PER COMMON SHARE:				
Class A Common Stock	$	0.176	$	0.165
Class B Common Stock	$	0.160	$	0.150

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (*UNAUDITED)*

(*in thousands, except per share data*)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Net income	$ 11,984	$ 13,356
OTHER COMPREHENSIVE INCOME (LOSS)		
Change in fair value of derivatives used for cash flow hedges	(239)	
Unrealized gain (loss) on securities available for sale	2	(398)
Change in unrealized loss on securities available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings	54	184
Net unrealized losses	(183)	(214)
Tax effect	63	75
Net of tax	(120)	(139)
COMPREHENSIVE INCOME	$ 11,864	$ 13,217

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY *(UNAUDITED)*

THREE MONTHS ENDED MARCH 31, 2014

(in thousands, except per share data)	Class A Shares Outstanding	Common Stock Class B Shares Outstanding	Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance, January 1, 2014	18,541	2,260	$ 4,894	$ 133,012	$ 401,766	$ 3,121	$ 542,793
Net income					11,984		11,984
Net change in accumulated other comprehensive income						(120)	(120)
Dividend declared Common Stock:							
Class A ($0.176 per share)					(3,262)		(3,262)
Class B ($0.160 per share)					(362)		(362)
Stock options exercised, net of shares redeemed	2			34	(14)		20
Repurchase of Class A Common Stock	(15)		(3)	(95)	(249)		(347)
Net change in notes receivable on Common Stock				(7)			(7)
Deferred director compensation expense - Common Stock	2			53			53
Stock based compensation - restricted stock				75			75
Stock based compensation expense - options				31			31
Balance, March 31, 2014	18,530	2,260	$ 4,891	$ 133,103	$ 409,863	$ 3,001	$ 550,858

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (*UNAUDITED*)

THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (*in thousands*)

	2014	2013
OPERATING ACTIVITIES:		
Net income	$ 11,984	$ 13,356
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	(167)	462
Provision for loan losses	(703)	(625)
Net gain on sale of mortgage loans held for sale	(498)	(3,284)
Origination of mortgage loans held for sale	(14,110)	(84,593)
Proceeds from sale of mortgage loans held for sale	15,700	77,765
Net realized recovery of mortgage servicing rights		(152)
Net gain on sale of other real estate owned	(402)	(277)
Writedowns of other real estate owned	884	366
Deferred director compensation expense - Company Stock	53	51
Stock based compensation expense	106	139
Bargain purchase gain on acquisition		(1,324)
Increase in cash surrender value of bank owned life insurance	(191)	
Net change in other assets and liabilities:		
Accrued interest receivable	270	309
Accrued interest payable	(112)	30
Other assets	8,256	2,862
Other liabilities	157	12,782
Net cash provided by operating activities	21,227	17,867
INVESTING ACTIVITIES:		
Purchases of securities available for sale	(30,000)	(19,697)
Purchases of securities to be held to maturity		(10,000)
Proceeds from calls, maturities and paydowns of securities available for sale	45,868	36,476
Proceeds from calls, maturities and paydowns of securities to be held to maturity	1,472	3,710
Proceeds from sales of Federal Home Loan Bank stock	32	35
Proceeds from sales of other real estate owned	2,627	8,261
Net change in loans	14,701	54,016
Purchase of bank owned life insurance	(5,000)	
Net purchases of premises and equipment	(1,403)	(1,573)
Net cash provided by investing activities	28,297	71,228
FINANCING ACTIVITIES:		
Net change in deposits	93,355	88,868
Net change in securities sold under agreements to repurchase and other short-term borrowings	56,619	(130,667)
Payments of Federal Home Loan Bank advances	(48,000)	(30)
Proceeds from Federal Home Loan Bank advances	25,000	30,000
Repurchase of Common Stock	(347)	(4,094)
Net proceeds from Common Stock options exercised	20	
Cash dividends paid	(3,648)	(3,412)
Net cash provided by (used in) financing activities	122,999	(19,335)
NET CHANGE IN CASH AND CASH EQUIVALENTS	172,523	69,760
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	170,863	137,691
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 343,386	$ 207,451

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the period for:				
Interest	$	5,305	$	5,302
Income taxes		397		2,169
SUPPLEMENTAL NONCASH DISCLOSURES				
Transfers from loans to real estate acquired in settlement of loans	$	3,070	$	897
Loans provided for sales of other real estate owned		149		61
Change in fair value of derivatives used for cash flow hedges		(239)		

See accompanying footnotes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 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) and Republic Bank (RB) (collectively referred together as the Bank). Republic Bancorp Capital Trust (RBCT) is a Delaware statutory business trust that is a wholly-owned unconsolidated finance subsidiary of Republic Bancorp, Inc. All companies are collectively referred to as Republic or the Company. All significant intercompany balances and transactions are eliminated in consolidation.

On January 27, 2014, RB&T filed an application with the Federal Deposit Insurance Corporation (FDIC) and the Kentucky Department of Financial Institutions (KDFI) to merge RB&T and RB, with RB&T, a Kentucky-based, state chartered non-member institution, being the resulting institution and continuing to operate under the name Republic Bank & Trust Company. The Company expects the merger to be effective in May 2014.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three months ended March 31, 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 March 31, 2014, the Company was divided into three distinct business operating segments: Traditional Banking, Mortgage Banking and Republic Processing Group (RPG). Tax Refund Solutions (TRS), Republic Payment Solutions (RPS) and Republic Credit Solutions (RCS) operate as divisions of the RPG segment. The RPS and RCS divisions are considered immaterial for segment reporting.

Traditional Banking and Mortgage Banking (collectively Core Banking)

As of March 31, 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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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. The Bank also provides short-term, revolving credit facilities to mortgage bankers across the Nation through warehouse lines of credit. These credit facilities are secured by single family, first lien residential real estate loans.

Other sources of Core Banking income include service charges on deposit accounts, debit 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.

Republic Processing Group

Nationally, through RB&T, 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 RB&T has received the refund from the federal or state government. There is no credit risk or borrowing costs 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 in the near-term.

Through RB, the RPS division is an issuing bank offering general purpose reloadable prepaid debit cards through third party program managers. Through RB&T and RB, the RCS division is piloting short-term consumer credit products.

Accounting Standards Update (ASU) 2014-04 Receivables Troubled Debt Restructurings by Creditors ***(Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.***

The amendments in this ASU clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. 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:

March 31, 2014 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 98,230	$ 382	$ (54)	$ 98,558
Private label mortgage backed security	4,471	799		5,270
Mortgage backed securities - residential	137,845	4,552	(133)	142,264
Collateralized mortgage obligations	155,179	1,077	(1,955)	154,301
Mutual fund	1,000			1,000
Corporate bonds	15,014	43	(25)	15,032
Total securities available for sale	$ 411,739	$ 6,853	$ (2,167)	$ 416,425

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:

March 31, 2014 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
	$ 2,293	$ 7	$ (12)	$ 2,288

U.S. Treasury securities and U.S. Government agencies								
Mortgage backed securities - residential		416		47				463
Collateralized mortgage obligations		41,868		323		(280)		41,911
Corporate bonds		5,000				(17)		4,983
Total securities held to maturity	$	49,577	$	377	$	(309)	$	49,645

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 March 31, 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 months ended March 31, 2014 and 2013, there were no sales or calls of securities available for sale.

The tax provision related to the Bank s realized gains totaled $0 and $0 for the three months ended March 31, 2014 and 2013, respectively.

Investment Securities by Contractual Maturity

The amortized cost and fair value of the investment securities portfolio by contractual maturity at March 31, 2014 follows. Expected maturities may differ from contractual maturities if borrowers 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	
March 31, 2014 (in thousands)	**Amortized Cost**	**Fair Value**	**Carrying Value**	**Fair Value**
Due in one year or less	$ 24,445	$ 24,752	$ 504	$ 507
Due from one year to five years	77,799	77,882	1,789	1,781
Due from five years to ten years	11,000	10,956	5,000	4,983
Due beyond ten years				
Private label mortgage backed security	4,471	5,270		
Mortgage backed securities - residential	137,845	142,264	416	463
Collateralized mortgage obligations	155,179	154,301	41,868	41,911
Mutual fund	1,000	1,000		
Total securities	$ 411,739	$ 416,425	$ 49,577	$ 49,645

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 March 31, 2014 and December 31, 2013.

Mortgage Backed Securities

At March 31, 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 March 31, 2014 and December 31, 2013, there were gross unrealized/unrecognized losses of $2.1 million and $1.8 million related to available for sale mortgage backed securities. Because the decline in fair value of these mortgage backed securities is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these mortgage backed securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired.

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Market Loss Analysis

Securities with unrealized losses at March 31, 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	
March 31, 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	$ 22,041	$ (54)	$	$	$ 22,041	$ (54)
Mortgage backed securities - residential	8,675	(133)			8,675	(133)
Collateralized mortgage obligations	44,545	(1,151)	7,443	(804)	51,988	(1,955)
Corporate bonds	9,975	(25)			9,975	(25)
Total securities available for sale	$ 85,236	$ (1,363)	$ 7,443	$ (804)	$ 92,679	$ (2,167)

	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	$ 520	$ (12)	$	$	$ 520	$ (12)
Collateralized mortgage obligations	18,338	(280)			18,338	(280)
Corporate bonds	4,983	(17)			4,983	(17)
Total securities held to maturity	$ 23,841	$ (309)	$	$	$ 23,841	$ (309)

	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 March 31, 2014, the Bank s security portfolio consisted of 156 securities, 20 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 (OTTI)

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 changes 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 March 31, 2014. This security, with an average remaining life currently estimated at four years, is mostly backed by Alternative A first lien mortgage loans, but also has an insurance wrap or guarantee as an added layer of protection to the security holder. This asset is illiquid, and as such, the Bank determined it to be a Level 3 security in accordance with Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures.* Based on this determination, the Bank utilized an income valuation model (present value model) approach, in determining the fair value of the security. This approach is beneficial for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management s best estimate is used. Management s best estimate consists of both internal and external support for this investment.

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

Pledged Investment Securities

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

(in thousands)	March 31, 2014	December 31, 2013
Carrying amount	$ 270,904	$ 224,693
Fair value	271,119	224,989

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3. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the loan portfolio follows:

(in thousands)	March 31, 2014	December 31, 2013
Residential real estate:		
Owner occupied	$ 1,115,335	$ 1,097,795
Non owner occupied	101,489	110,809
Commercial real estate	765,819	773,173
Commercial real estate - purchased whole loans	34,358	34,186
Construction & land development	41,386	44,351
Commercial & industrial	127,776	127,763
Warehouse lines of credit	136,262	149,576
Home equity	228,757	226,782
Consumer:		
Credit cards	8,869	9,030
Overdrafts	916	944
Other consumer	13,367	15,383
Total loans	2,574,334	2,589,792
Less: Allowance for loan losses	22,367	23,026
Total loans, net	$ 2,551,967	$ 2,566,766

Purchased Credit Impaired (PCI) Loans

The contractual amount of PCI loans accounted for under Accounting Standards Codification (ASC) 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality,* decreased from $58 million as of December 31, 2013 to $50 million as of March 31, 2014. The carrying value of these loans was $41 million as of December 31, 2013 compared to $34 million as of March 31, 2014.

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

(in thousands)	March 31, 2014	December 31, 2013
Contractually-required principal	$ 49,511	$ 57,992
Non-accretable amount	(12,613)	(13,582)
Accretable amount	(2,765)	(3,457)
Carrying value of loans	$ 34,133	$ 40,953

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The following table presents a rollforward of the accretable amount on PCI loans for the three months ended March 31, 2014 and 2013:

(in thousands)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Balance as of January 1,	$ (3,457)	$ (3,231)
Transfers between non-accretable and accretable	(1,311)	(984)
Net accretion into interest income on loans, including loan fees	2,003	1,632
Other changes		283
Ending balance, March 31,	$ (2,765)	$ (2,300)

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Credit Quality Indicators

Based on the Bank s internal analysis performed, the risk rate category of loans by class follows:

March 31, 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	$	$ 28,465	$ 13,463	$	$ 1,796	$	$ 43,724
Non owner occupied		1,764	1,392		7,170		10,326
Commercial real estate	711,873	11,203	20,297		22,400		765,773
Commercial real estate - Purchased whole loans	34,358						34,358
Construction & land development	37,955	126	2,396		909	46	41,432
Commercial & industrial	123,841	126	2,024		1,567	218	127,776
Warehouse lines of credit	136,262						136,262
Home equity		250	2,481				2,731
Consumer:							
Credit cards							
Overdrafts							
Other consumer		17	62		27		106
Total rated loans	$ 1,044,289	$ 41,951	$ 42,115	$	$ 33,869	$ 264	$ 1,162,488

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
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
Warehouse lines of credit	149,576						149,576
Home equity		250	2,014				2,264
Consumer:							
Credit cards							
Overdrafts							
Other consumer		18	66		33		117
Total rated loans	$ 1,057,609	$ 40,167	$ 44,083	$	$ 40,731	$ 222	$ 1,182,812

** - Special Mention and Substandard loans include $1 million and $4 million at March 31, 2014 and $1 million and $6 million at December 31, 2013, respectively, which were removed from the PCI population due to a post-acquisition troubled debt restructuring.*

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

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Allowance for Loan Losses

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

	Three Months Ended March 31,	
(in thousands)	2014	2013
Allowance for loan losses at beginning of period	$ 23,026	$ 23,729
Charge offs - Traditional Banking	(912)	(554)
Recoveries - Traditional Banking	493	414
Recoveries - Refund Anticipation Loans	463	599
Total recoveries	956	1,013
Net loan (charge offs) recoveries - Traditional Banking	(419)	(140)
Net recoveries - Refund Anticipation Loans	463	599
Net loan (charge offs) recoveries	44	459
Provision for loan losses - Traditional Banking	(240)	(26)
Provision for loan losses - Refund Anticipation Loans	(463)	(599)
Total provision for loan losses	(703)	(625)
Allowance for loan losses at end of period	$ 22,367	$ 23,563

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 loan portfolio;
- Changes in experience, ability and depth of lending management and other relevant staff;
- Changes in the quality of the Bank s loan review system;
- Changes in lending 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 the loan portfolio, 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 March 31, 2014 and 2013:

Three Months Ended March 31, 2014 (in thousands)	**Residential Real Estate Owner Occupied**	**Residential Real Estate Non Owner Occupied**	**Commercial Real Estate**	**Commercial Real Estate - Purchased Whole Loans**	**Construction & Land Development**	**Commercial & Industrial**	**Warehouse Lines of Credit**
Beginning balance	$ 7,816	$ 1,023	$ 8,309	$ 34	$ 1,296	$ 1,089	$ 449
Provision for loan losses	118	(30)	(178)		(88)	(57)	28
Loans charged off	(217)	(15)	(372)		(17)		
Recoveries	34	6	142		1	48	
Ending balance	$ 7,751	$ 984	$ 7,901	$ 34	$ 1,192	$ 1,080	$ 477

(continued)

	Home Equity	**Refund Anticipation Loans**	**Credit Cards**	**Consumer Overdrafts**	**Other Consumer**	**Total**
Beginning balance	$ 2,396	$	$ 289	$ 199	$ 126	$ 23,026
Provision for loan losses		(463)	(18)	47	(62)	(703)
Loans charged off	(66)		(5)	(151)	(69)	(912)
Recoveries	41	463	10	117	94	956
Ending balance	$ 2,371	$	$ 276	$ 212	$ 89	$ 22,367

Three Months Ended March 31, 2013 (in thousands)	**Residential Real Estate Owner Occupied**	**Residential Real Estate Non Owner Occupied**	**Commercial Real Estate**	**Commercial Real Estate - Purchased Whole Loans**	**Construction & Land Development**	**Commercial & Industrial**	**Warehouse Lines of Credit**
Beginning balance	$ 7,006	$ 1,049	$ 8,843	$ 34	$ 2,769	$ 580	$ 541
Provision for loan losses	80	(90)	(66)		296	142	(108)
Loans charged off	(200)	(43)	(14)				
Recoveries	98	8	18		36	5	
Ending balance	$ 6,984	$ 924	$ 8,781	$ 34	$ 3,101	$ 727	$ 433

(continued)

	Home Equity	**Refund Anticipation Loans**	**Credit Cards**	**Consumer Overdrafts**	**Other Consumer**	**Total**
Beginning balance	$ 2,348	$	$ 210	$ 198	$ 151	$ 23,729
Provision for loan losses	(435)	(599)	121	56	(22)	(625)
Loans charged off	(43)		(10)	(175)	(69)	(554)
Recoveries	39	599	5	130	75	1,013

Ending balance	$	1,909	$		$	326	$	209	$	135	$	23,563

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Non-performing Loans and Non-performing Assets

Detail of non-performing loans and non-performing assets follows:

(dollars in thousands)	**March 31, 2014**	**December 31, 2013**
Loans on non-accrual status(1)	$ 21,792	$ 19,104
Loans past due 90 days or more and still on accrual(2)	2,247	1,974
Total non-performing loans	24,039	21,078
Other real estate owned	16,914	17,102
Total non-performing assets	$ 40,953	$ 38,180
Credit Quality Ratios - Total Company:		
Non-performing loans to total loans	0.93%	0.81%
Non-performing assets to total loans (including OREO)	1.58%	1.46%
Non-performing assets to total assets	1.17%	1.13%

(1) Loans on non-accrual status include impaired loans.

(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 of loans:

	Non-Accrual Loans		**Loans Past Due 90-Days-or-More and Still Accruing Interest***	
in thousands)	**March 31, 2014**	**December 31, 2013**	**March 31, 2014**	**December 31, 2013**
Residential real estate:				
Owner occupied	$ 9,937	$ 8,538	$ 482	$ 673
Non owner occupied	1,316	1,279		
Commercial real estate	6,605	7,643	511	
Commercial real estate - purchased whole loans				
Construction & land dev.	1,990	97		70
Commercial & industrial	143	327	1,254	1,231
Warehouse lines of credit				
Home equity	1,710	1,128		
Consumer:				
Credit cards				
Overdrafts				
Other consumer	91	92		

Total	$ 21,792	$ 19,104	$ 2,247	$ 1,974

** - 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 restructures (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 of loans:

March 31, 2014 (dollars in thousands)	**30 - 59 Days Delinquent**	**60 - 89 Days Delinquent**	**90 + Days Delinquent***	**Total Loans Delinquent**	**Total Loans Not Delinquent**	**Total Loans**
Residential real estate:						
Owner occupied	$ 1,976	$ 751	$ 3,675	$ 6,402	$ 1,108,933	$ 1,115,335
Non owner occupied	68		131	199	101,290	101,489
Commercial real estate			2,707	2,707	763,112	765,819
Commercial real estate - purchased whole loans					34,358	34,358
Construction & land development		558	1,500	2,058	39,328	41,386
Commercial & industrial	632		1,397	2,029	125,747	127,776
Warehouse lines of credit					136,262	136,262
Home equity	364	25	415	804	227,953	228,757
Consumer:						
Credit cards	58	15		73	8,796	8,869
Overdrafts	108			108	808	916
Other consumer	45	18		63	13,304	13,367
Total	$ 3,251	$ 1,367	$ 9,825	$ 14,443	$ 2,559,891	$ 2,574,334
Delinquent loans to total loans	0.13%	0.05%	0.38%	0.56%		

December 31, 2013 (dollars in thousands)	**30 - 59 Days Delinquent**	**60 - 89 Days Delinquent**	**90 + Days Delinquent***	**Total Loans Delinquent**	**Total Loans Not Delinquent**	**Total Loans**
Residential real estate:						
Owner occupied	$ 1,956	$ 733	$ 3,668	$ 6,357	$ 1,091,438	$ 1,097,795
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
Warehouse lines of credit					149,576	149,576
Home equity	665	48	397	1,110	225,672	226,782
Consumer:						
Credit cards	87	6	5	98	8,932	9,030
Overdrafts	159			159	785	944
Other consumer	67	27		94	15,289	15,383
Total	$ 4,335	$ 2,165	$ 9,723	$ 16,223	$ 2,573,569	$ 2,589,792
Delinquent loans to total loans	0.17%	0.08%	0.38%	0.63%		

** - All loans, excluding PCI loans, 90-days-or-more past due as of March 31, 2014 and December 31, 2013 were on non-accrual status.*

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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)	March 31, 2014	December 31, 2013
Loans with no allocated Allowance	$ 36,556	$ 36,721
Loans with allocated Allowance	63,651	71,273
Total impaired loans	$ 100,207	$ 107,994
Amount of the Allowance allocated	$ 6,211	$ 6,674

Approximately $18 million and $24 million of impaired loans at March 31, 2014 and December 31, 2013 were PCI loans. Approximately $5 million and $6 million of impaired loans at March 31, 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 March 31, 2014 and December 31, 2013:

March 31, 2014 (in thousands)	Residential Real Estate Owner Occupied	Residential Real Estate Non Owner Occupied	Commercial Real Estate	Commercial Real Estate - Purchased Whole Loans	Construction & Land Development	Commercial & Industrial	Warehouse Lines of Credit
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment, excluding PCI loans	$ 3,671	$ 81	$ 693	$	$ 257	$ 6	$
Collectively evaluated for impairment	4,029	637	6,719	34	935	761	477
PCI loans with post acquisition impairment	51	266	489			313	
PCI loans without post acquisition impairment							
Total ending allowance for loan losses	$ 7,751	$ 984	$ 7,901	$ 34	$ 1,192	$ 1,080	$ 477
Loans:							
Impaired loans individually evaluated, excluding PCI loans	$ 41,493	$ 2,397	$ 29,081	$	$ 2,594	$ 4,311	$
Loans collectively evaluated for impairment	1,072,046	91,922	714,293	34,358	37,883	121,679	136,262
PCI loans with post acquisition impairment	709	5,348	9,858			1,594	
PCI loans without post acquisition impairment	1,087	1,822	12,587		909	192	
Total ending loan balance	$ 1,115,335	$ 101,489	$ 765,819	$ 34,358	$ 41,386	$ 127,776	$ 136,262

(continued)

	Home Equity	Consumer Credit Cards	Consumer Overdrafts	Other Consumer	Total
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment, excluding PCI loans	$ 340	$	$	$ 43	$ 5,091
Collectively evaluated for impairment	2,031	276	212	45	16,156
PCI loans with post acquisition impairment				1	1,120
PCI loans without post acquisition impairment					
Total ending allowance for loan losses	$ 2,371	$ 276	$ 212	$ 89	$ 22,367
Loans:					
Impaired loans individually evaluated, excluding PCI loans	$ 2,731	$	$	$ 80	$ 82,687
Loans collectively evaluated for impairment	226,026	8,869	916	13,260	2,457,514
PCI loans with post acquisition impairment				11	17,520

PCI loans without post acquisition impairment								16		16,613
Total ending loan balance	$	228,757	$	8,869	$	916	$	13,367	$	2,574,334

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[redacted]

Allowance for loan losses:							
Ending allowance balance attributable to loans:							
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	449
PCI loans with post acquisition impairment	51	290	603		10	317	
PCI loans without post acquisition impairment							
Total ending allowance for loan losses	$ 7,816	$ 1,023	$ 8,309	$ 34	$ 1,296	$ 1,089	$ 449
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	149,576
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	$ 149,576

(continued)

	Home Equity	Credit Cards	Consumer Overdrafts	Other Consumer	Total
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment, excluding PCI loans	$ 203	$	$	$ 43	$ 5,402
Collectively evaluated for impairment	2,193	289	199	82	16,352
PCI loans with post acquisition impairment				1	1,272
PCI loans without post acquisition impairment					
Total ending allowance for loan losses	$ 2,396	$ 289	$ 199	$ 126	$ 23,026
Loans:					
Impaired loans individually evaluated, excluding PCI loans	$ 2,264	$	$	$ 85	$ 84,155
Loans collectively evaluated for impairment	224,518	9,030	944	15,265	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	$ 226,782	$ 9,030	$ 944	$ 15,383	$ 2,589,792

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The following tables present loans individually evaluated for impairment by class of loans as of March 31, 2014 and December 31, 2013 and for the three months ended March 31, 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 March 31, 2014			Three Months Ended March 31, 2014		
(in thousands)	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance Allocated**	**Average Recorded Investment**	**Interest Income Recognized**	**Cash Basis Interest Income Recognized**
Impaired loans with no related allowance recorded:						
Residential real estate:						
Owner occupied	$ 8,018	$ 7,350	$	$ 6,960	$ 52	$
Non owner occupied	1,532	1,356		1,306	8	
Commercial real estate	20,651	19,623		20,288	197	
Commercial real estate - purchased whole loans						
Construction & land development	2,081	2,081		2,084	1	
Commercial & industrial	4,208	4,208		4,233	59	
Warehouse lines of credit						
Home equity	2,071	1,938		1,758	9	
Consumer:						
Credit cards						
Overdrafts						
Other consumer				9		
Impaired loans with an allowance recorded:						
Residential real estate:						
Owner occupied	35,053	34,852	3,722	34,475	244	
Non owner occupied	6,389	6,389	347	6,589	71	
Commercial real estate	19,316	19,316	1,182	23,197	190	
Commercial real estate - purchased whole loans						
Construction & land development	513	513	257	594	6	
Commercial & industrial	1,697	1,697	319	1,785	3	
Warehouse lines of credit						
Home equity	793	793	340	740	2	
Consumer:						
Credit cards						
Overdrafts						
Other consumer	91	91	44	85		
Total impaired loans	$ 102,413	$ 100,207	$ 6,211	$ 104,103	$ 842	$

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(in thousands)	As of December 31, 2013 Unpaid Principal Balance	Recorded Investment	Allowance Allocated	Three Months Ended March 31, 2013 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	$	$ 13,664	$ 154	$
Non owner occupied	1,498	1,256		1,553	7	
Commercial real estate	21,886	20,953		18,198	239	
Commercial real estate - purchased whole loans						
Construction & land development	2,087	2,087		2,323	25	
Commercial & industrial	4,367	4,258		4,081	31	
Warehouse lines of credit						
Home equity	1,695	1,577		2,010	16	
Consumer:						
Credit cards						
Overdrafts						
Other consumer	18	18		405	4	
Impaired loans with an allowance recorded:						
Residential real estate:						
Owner occupied	34,393	34,097	3,657	31,674	210	
Non owner occupied	6,789	6,789	351	3,635	39	
Commercial real estate	27,080	27,078	1,835	25,601	289	
Commercial real estate - purchased whole loans						
Construction & land development	674	674	156	3,348	25	
Commercial & industrial	1,872	1,872	428	2,762	43	
Warehouse lines of credit						
Home equity	688	687	203	1,552	4	
Consumer:						
Credit cards						
Overdrafts						
Other consumer	79	79	44	69	1	
Total impaired loans	$ 110,262	$ 107,994	$ 6,674	$ 110,875	$ 1,087	$

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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 loans, including PCI loans subsequently restructured. The majority of the Bank s commercial related and construction TDRs involve a restructuring of loan 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 loan. 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, including: a) customers that declare bankruptcy under Chapter 7 of the Bankruptcy Code and fail to reaffirm their debt with the Bank or b) upon death of the customer before full repayment of their loan.

Management determines whether to classify a TDR as non-performing based on its accrual status prior to modification. Non-accrual loans modified as TDRs 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 March 31, 2014 and December 31, 2013, $16 million and $13 million of TDRs were also non-accrual loans.

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

March 31, 2014 (in thousands)	**Troubled Debt Restructurings on Non-Accrual Status**	**Troubled Debt Restructurings on Accrual Status**	**Total Troubled Debt Restructurings**
Residential real estate	$ 7,746	$ 33,215	$ 40,961
Commercial real estate	6,449	18,449	24,898
Construction & land development	1,990	705	2,695
Commercial & industrial	143	4,169	4,312
Total troubled debt restructurings	$ 16,328	$ 56,538	$ 72,866

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 the categories of TDR loan modifications outstanding and respective performance under modified terms at March 31, 2014 and December 31, 2013 follows:

March 31, 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	$ 224	$ 654	$ 878
Rate reduction	28,519	4,850	33,369
Principal deferral	1,000	485	1,485
Bankrupt customer	1,288	1,498	2,786
Deceased customer	2,070	373	2,443
Total residential TDRs	33,101	7,860	40,961
Commercial related and construction/land development loans:			
Interest only payments	4,208	1,208	5,416
Rate reduction	11,415	1,778	13,193
Principal deferral	7,701	5,372	13,073
Bankrupt customer		223	223
Total commercial TDRs	23,324	8,581	31,905
Total troubled debt restructurings	$ 56,425	$ 16,441	$ 72,866

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

As of March 31, 2014 and December 31, 2013, 77% 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 loan terms have been modified in TDRs as of March 31, 2014 and December 31, 2013. Specific reserve allocations 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 provided for or reserved for as part of the Bank s normal loan loss provisioning methodology. The Bank has not committed to lend any additional material amounts to its existing TDR relationships at March 31, 2014.

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A summary of the categories of TDR loan modifications that occurred during the three months ended March 31, 2014 and 2013 follows:

Three Months Ended March 31, 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	$	$ 2	$ 2
Rate reduction	1,102	1,134	2,236
Principal deferral	299		299
Bankrupt customer		291	291
Deceased customer	2,070	373	2,443
Total residential TDRs	3,471	1,800	5,271
Commercial related and construction/land development loans:			
Interest only payments	718		718
Rate reduction	2,352	1,134	3,486
Principal deferral	968	1,908	2,876
Total commercial TDRs	4,038	3,042	7,080
Total troubled debt restructurings	$ 7,509	$ 4,842	$ 12,351

Three Months Ended March 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):			
Rate reduction	$ 1,232	$ 888	$ 2,120
Principal deferral	355	200	555
Bankrupt customer	2,795	363	3,158
Total residential TDRs	4,382	1,451	5,833
Commercial related and construction/land development loans:			
Interest only payments	47		47
Rate reduction			
Principal deferral	6,074	2,092	8,166
Bankrupt customer			
Total commercial TDRs	6,121	2,092	8,213
Total troubled debt restructurings	$ 10,503	$ 3,543	$ 14,046

As of March 31, 2014 and 2013, 61% and 75% of the Bank s TDRs that occurred during the first quarters of 2014 and 2013 were performing according to their modified terms. The Bank provided $358,000 and $78,000 in specific reserve allocations to customers whose loan terms were modified in TDRs during the first quarters 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 March 31, 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 March 31, 2014 and 2013 and for which there was a payment default during the three months ended March 31, 2014 and 2013:

Three Months Ended March 31, 2014 (dollars in thousands)	**Number of Loans**		**Recorded Investment**
Residential real estate:			
Owner occupied	12	$	1,747
Non owner occupied			
Commercial real estate	1		1,134
Commercial real estate - purchased whole loans			
Construction & land development			
Commercial & industrial			
Warehouse lines of credit			
Home equity	2		28
Consumer:			
Credit cards			
Overdrafts			
Other consumer			
Total	15	$	2,909

Three Months Ended March 31, 2013 (dollars in thousands)	**Number of Loans**		**Recorded Investment**
Residential real estate:			
Owner occupied	31	$	3,154
Non owner occupied			
Commercial real estate	1		1,763
Commercial real estate - purchased whole loans			
Construction & land development			
Commercial & industrial	3		329
Warehouse lines of credit			
Home equity	6		367
Consumer:			
Credit cards			
Overdrafts			
Other consumer	4		77
Total	45	$	5,690

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4. DEPOSITS

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

(in thousands)	March 31, 2014	December 31, 2013
Demand	$ 663,203	$ 651,134
Money market accounts	485,218	479,569
Brokered money market accounts	33,537	35,533
Savings	85,854	78,020
Individual retirement accounts*	27,891	28,767
Time deposits, $100,000 and over*	74,609	67,255
Other certificates of deposit*	71,470	75,516
Brokered certificates of deposit*(1)	74,268	86,421
Total interest-bearing deposits	1,516,050	1,502,215
Total non interest-bearing deposits	568,162	488,642
Total deposits	$ 2,084,212	$ 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 March 31, 2014 and December 31, 2013, FHLB advances were as follows:

(in thousands)	March 31, 2014	December 31, 2013
Fixed interest rate advances with a weighted average interest rate of 1.91% due through 2021	$ 482,000	$ 505,000
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	$ 582,000	$ 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 March 31, 2014 and December 31, 2013, Republic had available collateral to borrow an additional $316 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 March 31, 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		140,000	2.53%
2015		10,000	2.48%
2016		82,000	1.74%
2017		145,000	3.44%
2018		97,500	1.50%
Thereafter		107,500	1.80%
Total	$	582,000	2.34%

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

(in thousands)		**March 31, 2014**		**December 31, 2013**
First lien, single family residential real estate	$	1,097,143	$	1,082,624
Home equity lines of credit		105,579		105,957
Multi-family commercial real estate		15,194		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). With the exception of the mutual fund investment and the private label mortgage backed security, all securities available for sale are classified as Level 2 in the fair value hierarchy.

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 monthly 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**, including financial assets and liabilities for which the Bank has elected the fair value option, are summarized below:

	Fair Value Measurements at March 31, 2014 Using:			
(in thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Fair Value**
Financial assets:				
Securities available for sale:				
U.S. Treasury securities and U.S. Government agencies	$	$ 98,558	$	$ 98,558
Private label mortgage backed security				