REPUBLIC BANCORP INC /KY/
Form 10-Q
August 07, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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 twelve 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 twelve months(or for such shorter period that the registrant was required to submit and post such files). x Yes o No

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

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

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

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

The number of shares outstanding of the registrant s Class A Common Stock and Class B Common Stock, as of July 31, 2015, was 18,603,369 and 2,245,492.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	$ 92,766	$ 72,878
Securities available for sale	456,612	435,911
Securities held to maturity (fair value of $43,600 in 2015 and $45,807 in 2014)	43,070	45,437
Mortgage loans held for sale, at fair value	10,277	6,388
Other loans held for sale, at the lower of cost or fair value	1,542	
Loans	3,323,977	3,040,495
Allowance for loan and lease losses	(25,248)	(24,410)
Loans, net	3,298,729	3,016,085
Federal Home Loan Bank stock, at cost	28,208	28,208
Premises and equipment, net	31,092	32,987
Premises, held for sale	2,468	1,317
Goodwill	10,168	10,168
Other real estate owned	2,920	11,243
Bank owned life insurance	52,117	51,415
Other assets and accrued interest receivable	36,250	34,976
TOTAL ASSETS	$ 4,066,219	$ 3,747,013
LIABILITIES		
Deposits:		
Non interest-bearing	$ 598,572	$ 502,569
Interest-bearing	1,681,038	1,555,613
Total deposits	2,279,610	2,058,182
Securities sold under agreements to repurchase and other short-term borrowings	229,825	356,108
Federal Home Loan Bank advances	916,500	707,500
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	26,072	25,252
Total liabilities	3,493,247	3,188,282
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	4,903	4,904
Additional paid in capital	135,246	134,889
Retained earnings	428,475	414,623

Accumulated other comprehensive income		4,348		4,315
Total stockholders equity		572,972		558,731
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	4,066,219	$	3,747,013

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME (*UNAUDITED*)

(*in thousands, except per share data*)

	Three Months Ended June, 2015	Three Months Ended June, 2014	Six Months Ended June, 2015	Six Months Ended June, 2014
INTEREST INCOME:				
Loans, including fees	$ 33,616	$ 30,110	$ 65,207	$ 60,272
Taxable investment securities	1,779	1,908	3,552	3,767
Federal Home Loan Bank stock and other	327	387	724	863
Total interest income	35,722	32,405	69,483	64,902
INTEREST EXPENSE:				
Deposits	1,021	937	2,165	1,915
Securities sold under agreements to repurchase and other short-term borrowings	17	22	55	44
Federal Home Loan Bank advances	2,997	3,267	5,925	6,831
Subordinated note	629	629	1,258	1,258
Total interest expense	4,664	4,855	9,403	10,048
NET INTEREST INCOME	31,058	27,550	60,080	54,854
Provision for loan and lease losses	904	693	1,089	(10)
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	30,154	26,857	58,991	54,864
NON INTEREST INCOME:				
Service charges on deposit accounts	3,247	3,563	6,286	6,858
Net refund transfer fees	1,907	1,836	17,242	16,224
Mortgage banking income	1,224	812	2,577	1,298
Interchange fee income	2,044	1,681	4,238	3,725
Gain on call of security available for sale	88		88	
Net loss on other real estate owned	(155)	(69)	(274)	(551)
Increase in cash surrender value of bank owned life insurance	353	379	702	570
Other	777	879	1,612	1,672
Total non interest income	9,485	9,081	32,471	29,796
NON INTEREST EXPENSES:				
Salaries and employee benefits	14,323	13,965	29,600	28,448
Occupancy and equipment, net	5,142	5,508	10,343	11,330
Communication and transportation	771	856	1,817	1,882
Marketing and development	977	803	1,562	1,331
FDIC insurance expense	474	414	1,148	983
Bank franchise tax expense	847	831	3,248	3,170
Data processing	1,092	874	2,058	1,671
Interchange related expense	931	847	1,938	1,844

Supplies		219		60		580		500
Other real estate owned expense		120		308		339		698
Legal and professional fees		528		438		2,143		949
Other		1,741		1,380		3,463		3,677
Total non interest expenses		27,165		26,284		58,239		56,483
INCOME BEFORE INCOME TAX EXPENSE		12,474		9,654		33,223		28,177
INCOME TAX EXPENSE		4,154		3,332		11,115		9,871
NET INCOME	$	8,320	$	6,322	$	22,108	$	18,306
BASIC EARNINGS PER SHARE:								
Class A Common Stock	$	0.40	$	0.31	$	1.07	$	0.88
Class B Common Stock	$	0.37	$	0.29	$	0.97	$	0.85
DILUTED EARNINGS PER SHARE:								
Class A Common Stock	$	0.40	$	0.30	$	1.07	$	0.88
Class B Common Stock	$	0.36	$	0.29	$	0.97	$	0.85
DIVIDENDS DECLARED PER COMMON SHARE:								
Class A Common Stock	$	0.198	$	0.187	$	0.385	$	0.363
Class B Common Stock	$	0.180	$	0.170	$	0.350	$	0.330

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (*UNAUDITED*)

(*in thousands*)

	Three Months Ended June,		Six Months Ended June,	
	2015	**2014**	**2015**	**2014**
Net income	$ 8,320	$ 6,322	$ 22,108	$ 18,306
OTHER COMPREHENSIVE INCOME				
Change in fair value of derivatives used for cash flow hedges	175	(364)	(221)	(704)
Reclassification adjustment for derivative losses recognized in income	103	99	204	199
Change in unrealized gain (loss) on securities available for sale	(1,056)	2,626	182	2,628
Reclassification adjustment for gain on security available for sale recognized in earnings	(88)		(88)	
Change in unrealized gain on security available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings	(4)	315	(26)	369
Net unrealized gains (losses)	(870)	2,676	51	2,492
Tax effect	304	(937)	(18)	(873)
Total other comprehensive income (loss), net of tax	(566)	1,739	33	1,619
COMPREHENSIVE INCOME	$ 7,754	$ 8,061	$ 22,141	$ 19,925

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (*UNAUDITED*)

SIX MONTHS ENDED JUNE 30, 2015

(in thousands)	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, 2015	18,603	2,245	$ 4,904	$ 134,889	$ 414,623	$ 4,315	$ 558,731
Net income					22,108		22,108
Net change in accumulated other comprehensive income						33	33
Dividend declared Common Stock:							
Class A Shares					(7,167)		(7,167)
Class B Shares					(786)		(786)
Stock options exercised, net of shares redeemed	8		2	182	(65)		119
Repurchase of Class A Common Stock	(14)		(3)	(86)	(238)		(327)
Net change in notes receivable on Class A Common Stock				(51)			(51)
Deferred director compensation expense - Class A Common Stock	5			109			109
Stock based compensation - restricted stock				147			147
Stock based compensation expense - options				56			56
Balance, June 30, 2015	18,602	2,245	$ 4,903	$ 135,246	$ 428,475	$ 4,348	$ 572,972

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (*UNAUDITED*) (*in thousands*)

	Six Months Ended June, 2015	2014
OPERATING ACTIVITIES:		
Net income	$ 22,108	$ 18,306
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization on investment securities, net	380	330
Accretion on loans, net	(1,649)	(4,494)
Depreciation of premises and equipment	3,251	2,724
Amortization of mortgage servicing rights	716	662
Provision for loan and lease losses	1,089	(10)
Net gain on sale of mortgage loans held for sale	(2,353)	(1,166)
Origination of mortgage loans held for sale	(96,008)	(33,284)
Proceeds from sale of mortgage loans held for sale	94,472	31,147
Origination of other loans held for sale	(24,410)	
Proceeds from sale of other loans held for sale	22,868	
Gain on call of security available for sale	(88)	
Net gain realized on sale of other real estate owned	(430)	(666)
Writedowns of other real estate owned	704	1,217
Deferred director compensation expense - Company Stock	109	91
Stock based compensation expense	203	268
Increase in cash surrender value of bank owned life insurance	(702)	(570)
Net change in other assets and liabilities:		
Accrued interest receivable	(131)	189
Accrued interest payable	(55)	(198)
Other assets	(1,859)	5,887
Other liabilities	581	(1,549)
Net cash provided by operating activities	18,796	18,884
INVESTING ACTIVITIES:		
Purchases of securities available for sale	(889,325)	(109,549)
Proceeds from maturities, calls and paydowns of securities available for sale	868,424	81,567
Proceeds from maturities and paydowns of securities held to maturity	2,342	2,269
Net change in outstanding warehouse lines of credit	(169,474)	(94,555)
Purchase of loans, including premiums paid	(63,163)	(14,695)
Net change in other loans	(48,458)	(25,008)
Proceeds from redemption of Federal Home Loan Bank stock		134
Proceeds from sales of other real estate owned	7,009	8,136
Net purchases of premises and equipment	(2,507)	(2,297)
Purchase of bank owned life insurance		(25,000)
Net cash used in investing activities	(295,152)	(178,998)
FINANCING ACTIVITIES:		
Net change in deposits	221,428	14,126
Net change in securities sold under agreements to repurchase and other short-term borrowings	(126,283)	31,884
Payments of Federal Home Loan Bank advances	(208,000)	(83,000)
Proceeds from Federal Home Loan Bank advances	417,000	118,000
Repurchase of Common Stock	(327)	(347)
Net proceeds from Common Stock options exercised	119	117
Cash dividends paid	(7,693)	(7,256)
Net cash provided by financing activities	296,244	73,524

NET CHANGE IN CASH AND CASH EQUIVALENTS		19,888		(86,590)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		72,878		170,863
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	92,766	$	84,273
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION:				
Cash paid during the period for:				
Interest	$	9,458	$	10,246
Income taxes		6,130		7,304
SUPPLEMENTAL NONCASH DISCLOSURES:				
Transfers from loans to real estate acquired in settlement of loans	$	1,922	$	4,492
Loans provided for sales of other real estate owned		2,962		1,294

See accompanying footnotes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2015 and 2014 (UNAUDITED) AND DECEMBER 31, 2014

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). The Bank 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. The Captive provides property and casualty insurance coverage to the Company and the Bank as well as five other third-party insurance captives for which insurance may not be available or economically feasible. 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.

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 U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. 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, 2014.

As of June 30, 2015, the Company was divided into four distinct business operating segments: Traditional Banking, Warehouse Lending (Warehouse), Mortgage Banking and Republic Processing Group (RPG). Management considers the first three segments to collectively constitute Core Bank or Core Banking activities. The Warehouse segment was reported as a division of the Traditional Banking segment prior to the fourth quarter of 2014, but realized the quantitative and qualitative nature of a segment by the end of 2014. All prior periods have been reclassified to conform to the current presentation.

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Traditional Banking, Warehouse Lending and Mortgage Banking (collectively Core Banking)

The Traditional Bank provides traditional banking products primarily to customers in the Company s market footprint. As of June 30, 2015, in addition to Internet Banking and Correspondent Lending delivery channels, Republic had 40 full-service banking centers with locations as follows:

- Kentucky 32
- Metropolitan Louisville 19
- 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 2

- Metropolitan Cincinnati, Ohio 1
- Metropolitan Nashville, Tennessee 2

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

Core Banking results of operations are primarily dependent upon net interest income, which represents the difference between the interest income and fees on interest-earning assets and the interest expense on interest-bearing liabilities. Principal interest-earning Core Banking assets represent investment securities and commercial and consumer loans primarily secured by real estate and/or personal property. Interest-bearing liabilities primarily consist of interest-bearing deposit accounts, securities sold under agreements to repurchase, as well as short-term and long-term borrowing sources. Federal Home Loan Bank (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 clients for trust services, increases in the cash surrender value of Bank Owned Life Insurance (BOLI) 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, interchange related expenses, marketing and development expenses, Federal Deposit Insurance Corporation (FDIC) insurance expense, franchise tax 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 began acquiring single family, first lien mortgage loans for investment through its Correspondent Lending channel in May 2014. Correspondent Lending generally involves the Bank acquiring, primarily from its Warehouse clients, closed loans that meet the Bank s specifications. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium.

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The Core Bank provides short-term, revolving credit facilities to mortgage bankers across the Nation through its Warehouse segment in the form of 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.

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 Tax Refund Solutions (TRS) division, primarily through refund transfers (RTs). 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 client s anticipated tax refund, which represented the sole source of repayment. While RALs were terminated in 2012, TRS may receive recoveries from previously charged-off RALs.

The Republic Payment Solutions (RPS) division is an issuing bank offering general purpose reloadable prepaid debit cards through third party program managers.

The Republic Credit Solutions (RCS) division offers short-term consumer credit products.

Accounting Standards Update (ASU) 2015-3 Interest Imputation of Interest *(Topic 835-30):* *Simplifying the Presentation of Debt Issuance Costs*

To simplify presentation of debt issuance costs, the amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. This ASU is not expected to have a material impact on the Company s financial statements.

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2. INVESTMENT SECURITIES

Securities Available for Sale

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

June 30, 2015 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 198,071	$ 905	$ (125)	$ 198,851
Private label mortgage backed security	4,037	1,194		5,231
Mortgage backed securities - residential	103,378	4,631	(129)	107,880
Collateralized mortgage obligations	127,922	1,065	(727)	128,260
Freddie Mac preferred stock		231		231
Mutual fund	1,000	15		1,015
Corporate bonds	15,010	134		15,144
Total securities available for sale	$ 449,418	$ 8,175	$ (981)	$ 456,612

December 31, 2014 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 146,625	$ 312	$ (15)	$ 146,922
Private label mortgage backed security	4,030	1,220		5,250
Mortgage backed securities - residential	118,836	5,511	(91)	124,256
Collateralized mortgage obligations	143,283	1,034	(1,146)	143,171
Freddie Mac preferred stock		231		231
Mutual fund	1,000	18		1,018
Corporate bonds	15,011	52		15,063
Total securities available for sale	$ 428,785	$ 8,378	$ (1,252)	$ 435,911

Securities Held to Maturity

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

June 30, 2015 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
	$ 1,536	$ 5	$ (2)	$ 1,539

U.S. Treasury securities and U.S. Government agencies								
Mortgage backed securities - residential		144		18				162
Collateralized mortgage obligations		36,390		554				36,944
Corporate bonds		5,000				(45)		4,955
Total securities held to maturity	$	43,070	$	577	$	(47)	$	43,600

December 31, 2014 (in thousands)		Carrying Value		Gross Unrecognized Gains		Gross Unrecognized Losses		Fair Value
U.S. Treasury securities and U.S. Government agencies	$	1,747	$	1	$	(7)	$	1,741
Mortgage backed securities - residential		147		20				167
Collateralized mortgage obligations		38,543		423		(4)		38,962
Corporate bonds		5,000				(63)		4,937
Total securities held to maturity	$	45,437	$	444	$	(74)	$	45,807

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At June 30, 2015 and December 31, 2014, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders equity.

Sales of Securities Available for Sale

During the three and six months ended June 30, 2015, the Bank recognized a gain of $88,000 on the call of one available for sale security.

During the three and six months ended June 30, 2014, there were no sales or calls of securities available for sale.

Investment Securities by Contractual Maturity

The amortized cost and fair value of the investment securities portfolio by contractual maturity at June 30, 2015 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	
June 30, 2015 (in thousands)	**Amortized Cost**	**Fair Value**	**Carrying Value**	**Fair Value**
Due in one year or less	$ 10,020	$ 10,041	$ 1,016	$ 1,021
Due from one year to five years	193,061	193,854	5,520	5,473
Due from five years to ten years	10,000	10,100		
Due beyond ten years				
Private label mortgage backed security	4,037	5,231		
Mortgage backed securities - residential	103,378	107,880	144	162
Collateralized mortgage obligations	127,922	128,260	36,390	36,944
Freddie Mac preferred stock		231		
Mutual fund	1,000	1,015		
Total securities	$ 449,418	$ 456,612	$ 43,070	$ 43,600

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-temporarily impairment (OTTI) charge of $2.1 million in 2008. 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 June 30, 2015, the Company s unrealized gain for its Freddie Mac preferred stock totaled $231,000.

Mortgage Backed Securities and Collateralized Mortgage Obligations

At June 30, 2015, with the exception of the $5.2 million private label mortgage backed security, all other mortgage backed securities and collateralized mortgage obligations (CMOs) held by the Bank were issued by U.S. government-sponsored entities and agencies, primarily Freddie Mac and the Federal National Mortgage Association (Fannie Mae or FNMA), institutions that the government has affirmed its commitment to support. At June 30, 2015 and December 31, 2014, there were gross unrealized losses of $856,000 and $1.2 million related to available for sale mortgage backed securities and CMOs. Because the decline in fair value of these 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 OTTI.

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Market Loss Analysis

Securities with unrealized losses at June 30, 2015 and December 31, 2014, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 months		12 months or more		Total	
June 30, 2015 (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	$ 19,880	$ (120)	$ 995	$ (5)	$ 20,875	$ (125)
Mortgage backed securities - residential	6,602	(129)			6,602	(129)
Collateralized mortgage obligations	3,963	(142)	28,736	(585)	32,699	(727)
Total securities available for sale	$ 30,445	$ (391)	$ 29,731	$ (590)	$ 60,176	$ (981)

	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	$ 518	$ (2)	$	$	$ 518	$ (2)
Corporate bonds	4,955	(45)			4,955	(45)
Total securities held to maturity	$ 5,473	$ (47)	$	$	$ 5,473	$ (47)

	Less than 12 months		12 months or more		Total	
December 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	$ 2,089	$ (15)	$	$	$ 2,089	$ (15)
Mortgage backed securities - residential	7,535	(91)			7,535	(91)
Collateralized mortgage obligations	46,058	(881)	12,534	(265)	58,592	(1,146)
Total securities available for sale	$ 55,682	$ (987)	$ 12,534	$ (265)	$ 68,216	$ (1,252)

	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	$ 517	$ (7)	$	$	$ 517	$ (7)
Collateralized mortgage obligations	9,045	(4)			9,045	(4)
Corporate bonds	4,936	(63)			4,936	(63)
Total securities held to maturity	$ 14,498	$ (74)	$	$	$ 14,498	$ (74)

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At June 30, 2015, the Bank s security portfolio consisted of 159 securities, 19 of which were in an unrealized loss position. At December 31, 2014, the Bank s security portfolio consisted of 157 securities, 17 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 $5.2 million at June 30, 2015. This security, with an average remaining life currently estimated at five years, is mostly backed by Alternative A first lien mortgage loans, but also has an insurance wrap or guarantee as an added layer of protection to the security holder. This asset is illiquid, and as such, the Bank determined it to be a Level 3 security in accordance with Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures.* Based on this determination, the Bank utilized an income valuation model (present value model) approach, in determining the fair value of the security. This approach is beneficial for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management s best estimate is used. Management s best estimate consists of both internal and external support for this investment.

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

Pledged Investment Securities

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

(in thousands)	June 30, 2015	December 31, 2014
Carrying amount	$ 328,844	$ 409,868
Fair value	329,417	410,307

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3. LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The composition of the loan portfolio at June 30, 2015 and December 31, 2014 follows:

(in thousands)	June 30, 2015	December 31, 2014
Residential real estate:		
Owner occupied	$ 1,100,133	$ 1,118,341
Owner occupied - correspondent*	243,140	226,628
Non owner occupied	101,765	96,492
Commercial real estate	799,158	772,309
Commercial real estate - purchased whole loans*	35,277	34,898
Construction & land development	47,038	38,480
Commercial & industrial	202,456	157,339
Lease financing receivables	7,242	2,530
Warehouse lines of credit	488,905	319,431
Home equity	267,570	245,679
Consumer:		
RPG loans	6,467	4,095
Credit cards	10,942	9,573
Overdrafts	1,404	1,180
Purchased whole loans*	3,607	4,626
Other consumer	8,873	8,894
Total loans**	3,323,977	3,040,495
Allowance for loan and lease losses	(25,248)	(24,410)
Total loans, net	$ 3,298,729	$ 3,016,085

** - Identifies loans to borrowers located primarily 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 June 30, 2015 and December 31, 2014:

(in thousands)	June 30, 2015	December 31, 2014
Contractually receivable	$ 3,329,849	$ 3,050,599
Unearned income(1)	(635)	(174)
Unamortized premiums(2)	4,191	4,490
Unaccreted discounts(3)	(10,859)	(15,675)
Net unamortized deferred origination fees and costs	1,431	1,255
Carrying value of loans	$ 3,323,977	$ 3,040,495

(1) Unearned income relates to lease financing receivables.

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

(3) - 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 channel. Correspondent Lending generally involves the Bank acquiring, primarily from Warehouse clients, closed loans that meet the Bank s specifications. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium. Loans acquired through the Correspondent Lending channel generally reflect borrowers outside of the Bank s historical market footprint, with 83% of such loans as of June 30, 2015 secured by collateral in the state of California.

In addition to secured mortgage loans acquired through its Correspondent Lending channel, 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 six months ended June 30, 2015 and 2014.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2015**	**2014**	**2015**	**2014**
Residential real estate:				
Owner occupied - correspondent*	$ 43,632	$ 12,067	$ 62,802	$ 12,067
Consumer:				
Purchased whole loans*		2,628	361	2,628
Total purchased loans	$ 43,632	$ 14,695	$ 63,163	$ 14,695

** - Represents origination amount, inclusive of purchase premiums, where applicable.*

Purchased Credit Impaired (PCI) Loans

PCI loans acquired during the Bank s 2012 FDIC-assisted transactions are accounted for under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality.*

The table below reconciles the contractually required and carrying amounts of PCI loans at June 30, 2015 and December 31, 2014:

(in thousands)	**June 30, 2015**	**December 31, 2014**
Contractually-required principal	$ 20,080	$ 26,571

Non-accretable amount		(2,076)		(6,784)
Accretable amount		(4,323)		(2,297)
Carrying value of PCI loans	$	13,681	$	17,490

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The following table presents a rollforward of the accretable amount on PCI loans for the three and six months ended June 30, 2015 and 2014:

(in thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Balance, beginning of period	$ (2,170)	$ (2,765)	$ (2,297)	$ (3,457)
Transfers between non-accretable and accretable	(3,378)	(1,029)	(3,354)	(2,340)
Net accretion into interest income on loans, including loan fees	1,225	1,307	1,328	3,310
Balance, end of period	$ (4,323)	$ (2,487)	$ (4,323)	$ (2,487)

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Credit Quality Indicators

Based on the Bank s internal analyses performed as of June 30, 2015 and December 31, 2014, the following tables reflect loans by risk category. Risk categories are defined in the Company s Annual Report on Form 10-K for the year ended December 31, 2014:

June 30, 2015 (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	$	$ 24,473	$ 15,456	$	$ 927	$	$ 40,856
Owner occupied - correspondent							
Non owner occupied		1,544	1,983		1,203		4,730
Commercial real estate	770,583	7,455	10,842		10,278		799,158
Commercial real estate - purchased whole loans	35,277						35,277
Construction & land development	44,199	115	2,687		37		47,038
Commercial & industrial	198,956	2,063	201		1,236		202,456
Lease financing receivables	7,242						7,242
Warehouse lines of credit	488,905						488,905
Home equity			2,658				2,658
Consumer:							
RPG loans							
Credit cards							
Overdrafts							
Purchased whole loans							
Other consumer		9	84				93
Total	$ 1,545,162	$ 35,659	$ 33,911	$	$ 13,681	$	$ 1,628,413

** - At June 30, 2015, Special Mention and Substandard loans included $183,000 and $4 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 and Industrial (C&I) and Commercial Real Estate (CRE) 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, 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	$	$ 26,828	$ 14,586	$	$ 1,205	$	$ 42,619
Owner occupied - correspondent							
Non owner occupied		844	2,886		1,709		5,439
Commercial real estate	736,012	7,838	15,636		12,823		772,309
Commercial real estate - purchased whole loans	34,898						34,898
Construction & land development	35,339	120	2,525		496		38,480
Commercial & industrial	153,362	625	2,108		1,244		157,339
Lease financing receivables	2,530						2,530
Warehouse lines of credit	319,431						319,431
Home equity			2,220				2,220
Consumer:							
RPG loans							
Credit cards							
Overdrafts							
Purchased whole loans							
Other consumer		13	38		13		64
Total	$ 1,281,572	$ 36,268	$ 39,999	$	$ 17,490	$	$ 1,375,329

** - At December 31, 2014, Special Mention and Substandard loans included $443,000 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 C&I and CRE 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 and Lease Losses

Activity in the allowance for loan and leases (Allowance) follows:

(in thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Months Ended June 30, 2015	Six Months Months Ended June 30, 2014
Allowance, beginning of period	$ 24,631	$ 22,367	$ 24,410	$ 23,026
Charge offs - Core Banking	(685)	(715)	(1,177)	(1,627)
Charge offs - RPG	(21)		(26)	
Total charge offs	(706)	(715)	(1,203)	(1,627)
Recoveries - Core Banking	377	364	715	857
Recoveries - RPG	42	63	237	526
Total recoveries	419	427	952	1,383
Net (charge offs) recoveries - Core Banking	(308)	(351)	(462)	(770)
Net (charge offs) recoveries - RPG	21	63	211	526
Net (charge offs) recoveries	(287)	(288)	(251)	(244)
Provision for loan and lease losses (Provision) - Core Banking	717	710	1,092	470
Provision - RPG	187	(17)	(3)	(480)
Total Provision	904	693	1,089	(10)
Allowance, end of period	$ 25,248	$ 22,772	$ 25,248	$ 22,772

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 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-performing and classified loans and leases;
- Changes in the value of underlying collateral for collateral-dependent loans and leases;

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

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

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

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The following tables present the activity in the Allowance by portfolio class for the three months ended June 30, 2015 and 2014:

Three Months Ended June 30, 2015 (in thousands)	**Residential Real Estate Owner Occupied**	**Residential Real Estate 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	$ 8,629	$ 579	$ 920	$ 7,553	$ 35	$ 958	$ 1,157	$ 40
Provision	(313)	29	10	353		142	52	36
Charge offs	(178)		(29)	(147)			(27)	
Recoveries	64		3	81			9	
Ending balance	$ 8,202	$ 608	$ 904	$ 7,840	$ 35	$ 1,100	$ 1,191	$ 76

(continued)	**Warehouse Lines of Credit**	**Home Equity**	**RPG Loans**	**Consumer Credit Cards**	**Consumer Overdrafts**	**Consumer Purchased Whole Loans**	**Other Consumer**	**Total**
Beginning balance	$ 1,058	$ 2,708	$ 44	$ 362	$ 245	$ 184	$ 159	$ 24,631
Provision	164	56	187	40	57	83	8	904
Charge offs		(21)	(21)	(31)	(103)	(60)	(89)	(706)
Recoveries		22	42	28	87		83	419
Ending balance	$ 1,222	$ 2,765	$ 252	$ 399	$ 286	$ 207	$ 161	$ 25,248

Three Months Ended June 30, 2014 (in thousands)	**Residential Real Estate Owner Occupied**	**Residential Real Estate 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	$ 7,751	$	$ 984	$ 7,901	$ 34	$ 1,192	$ 1,080	$
Provision	460	60	(141)	(206)		(185)	70	3
Charge offs	(202)		(7)	(2)		(1)	(20)	
Recoveries	46		3	3		84	22	
Ending balance	$ 8,055	$ 60	$ 839	$ 7,696	$ 34	$ 1,090	$ 1,152	$ 3

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

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The following tables present the activity in the Allowance by portfolio class for the six months ended June 30, 2015 and 2014:

Six Months Ended June 30, 2015 (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	$ 8,565	$ 567	$ 837	$ 7,740	$ 34	$ 926	$ 1,167	$ 25
Provision	(173)	41	90	164	1	174	42	51
Charge offs	(314)		(29)	(154)			(56)	
Recoveries	124		6	90			38	
Ending balance	$ 8,202	$ 608	$ 904	$ 7,840	$ 35	$ 1,100	$ 1,191	$ 76

(continued)	Warehouse Lines of Credit	Home Equity	RPG Loans	Consumer Credit Cards	Consumer Overdrafts	Consumer Purchased Whole Loans	Consumer Other Consumer	Total
Beginning balance	$ 799	$ 2,730	$ 44	$ 285	$ 382	$ 185	$ 124	$ 24,410
Provision	423	48	(3)	144	(22)	94	15	1,089
Charge offs		(72)	(26)	(71)	(249)	(72)	(160)	(1,203)
Recoveries		59	237	41	175		182	952
Ending balance	$ 1,222	$ 2,765	$ 252	$ 399	$ 286	$ 207	$ 161	$ 25,248

Six Months Ended June 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	$ 7,816	$	$ 1,023	$ 8,309	$ 34	$ 1,296	$ 1,089	$
Provision	578	60	(171)	(384)		(273)	13	3
Charge offs	(419)		(22)	(374)		(18)	(20)	
Recoveries	80		9	145		85	70	
Ending balance	$ 8,055	$ 60	$ 839	$ 7,696	$ 34	$ 1,090	$ 1,152	$ 3

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

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Non-performing Loans and Non-performing Assets

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

(dollars in thousands)	June 30, 2015	December 31, 2014
Loans on non-accrual status(1)	$ 24,624	$ 23,337
Loans past due 90-days-or-more and still on accrual(2)		322
Total non-performing loans	24,624	23,659
Other real estate owned	2,920	11,243
Total non-performing assets	$ 27,544	$ 34,902
Credit Quality Ratios:		
Non-performing loans to total loans	0.74%	0.78%
Non-performing assets to total loans (including OREO)	0.83%	1.14%
Non-performing assets to total assets	0.68%	0.93%

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

(2) *All loans past due 90-days-or-more and still accruing are 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		Past Due 90-Days-or-More and Still Accruing Interest*	
(dollars in thousands)	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Residential real estate:				
Owner occupied	$ 12,972	$ 10,903	$	$ 322
Owner occupied - correspondent				
Non owner occupied	1,344	2,352		
Commercial real estate	5,878	6,151		
Commercial real estate - purchased whole loans				
Construction & land development	2,080	1,990		
Commercial & industrial	201	169		
Lease financing receivables				
Warehouse lines of credit				
Home equity	2,065	1,678		
Consumer:				
RPG loans				
Credit cards				
Overdrafts				
Purchased whole loans				

Other consumer		84		94			
Total	$	24,624	$	23,337	$	$	322

** - 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, primarily retail, 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 (TDRs) 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:

June 30, 2015 (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	$ 2,173	$ 1,551	$ 3,803	$ 7,527	$ 1,092,606	$ 1,100,133
Owner occupied - correspondent					243,140	243,140
Non owner occupied					101,765	101,765
Commercial real estate	20		263	283	798,875	799,158
Commercial real estate - purchased whole loans					35,277	35,277
Construction & land development			1,500	1,500	45,538	47,038
Commercial & industrial					202,456	202,456
Lease financing receivables					7,242	7,242
Warehouse lines of credit					488,905	488,905
Home equity	202	183	1,169	1,554	266,016	267,570
Consumer:						
RPG loans	113	31		144	6,323	6,467
Credit cards	49	17		66	10,876	10,942
Overdrafts	154			154	1,250	1,404
Purchased whole loans	13	17		30	3,577	3,607
Other consumer	86	11		97	8,776	8,873
Total	$ 2,810	$ 1,810	$ 6,735	$ 11,355	$ 3,312,622	$ 3,323,977
Delinquency ratio**	0.08%	0.05%	0.20%	0.34%		

December 31, 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	$ 3,039	$ 1,329	$ 3,640	$ 8,008	$ 1,110,333	$ 1,118,341
Owner occupied - correspondent					226,628	226,628
Non owner occupied	36	635	105	776	95,716	96,492
Commercial real estate	585		2,387	2,972	769,337	772,309
Commercial real estate - purchased whole loans					34,898	34,898
Construction & land development			1,990	1,990	36,490	38,480
Commercial & industrial	211			211	157,128	157,339
Lease financing receivables					2,530	2,530
Warehouse lines of credit					319,431	319,431
Home equity	706	158	498	1,362	244,317	245,679
Consumer:						
RPG loans	107	34		141	3,954	4,095
Credit cards	124	10		134	9,439	9,573

Overdrafts	178			178	1,002	1,180
Purchased whole loans	12			12	4,614	4,626
Other consumer	38	29		67	8,827	8,894
Total	$ 5,036	$ 2,195	$ 8,620	$ 15,851	$ 3,024,644	$ 3,040,495
Delinquency ratio**	0.17%	0.07%	0.28%	0.52%		

** - All loans, excluding PCI loans, 90-days-or-more past due as of June 30, 2015 and December 31, 2014 were on non-accrual status.*

*** - Represents total loans past due by aging category 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 acquisition day estimate;
- All loans on non-accrual status and non-PCI loans past due 90 days-or-more still on accrual;
- All retail and commercial TDRs; and
- Any other situation where the full collection of the total amount due for a loan is improbable or otherwise meets the definition of impaired.

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

Information regarding the Bank s impaired loans follows:

(in thousands)	June 30, 2015	December 31, 2014
Loans with no allocated allowance for loan losses	$ 30,772	$ 32,560
Loans with allocated allowance for loan losses	45,647	53,620
Total impaired loans	$ 76,419	$ 86,180
Amount of the allowance for loan losses allocated	$ 5,757	$ 5,564

Approximately $7 million and $10 million of impaired loans at June 30, 2015 and December 31, 2014 were PCI loans. Approximately $4 million and $6 million of impaired loans at June 30, 2015 and December 31, 2014 were formerly PCI loans which became classified as Impaired through a post-acquisition troubled debt restructuring.

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The following tables present the balance in the Allowance and the recorded investment in loans by portfolio class based on impairment method as of June 30, 2015 and December 31, 2014:

June 30, 2015 (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	$ 3,874	$	$ 129	$ 757	$	$ 166	$ 233	$
Collectively evaluated for impairment	4,258	608	706	6,849	35	934	818	76
PCI loans with post acquisition impairment	70		69	234			140	
PCI loans without post acquisition impairment								
Total ending Allowance:	$ 8,202	$ 608	$ 904	$ 7,840	$ 35	$ 1,100	$ 1,191	$ 76
Loans:								
Impaired loans individually evaluated, excluding PCI loans	$ 39,845	$	$ 3,272	$ 17,530	$	$ 2,787	$ 3,702	$
Loans collectively evaluated for impairment	1,059,362	243,140	97,291	771,349	35,277	44,214	197,518	7,242
PCI loans with post acquisition impairment	398		1,083	3,882			1,167	
PCI loans without post acquisition impairment	528		119	6,397		37	69	
Total ending loan balance	$ 1,100,133	$ 243,140	$ 101,765	$ 799,158	$ 35,277	$ 47,038	$ 202,456	$ 7,242

(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	$	$ 36	$	$	$	$	$ 49	$ 5,244
Collectively evaluated for impairment	1,222	2,729	252	399	286	207	112	19,491
PCI loans with post acquisition impairment								513
PCI loans without post acquisition impairment								
Total ending Allowance:	$ 1,222	$ 2,765	$ 252	$ 399	$ 286	$ 207	$ 161	$ 25,248

Loans:								
Impaired loans individually evaluated, excluding PCI loans	$	$ 2,658	$	$	$	$	$ 95	$ 69,889
Loans collectively evaluated for impairment	488,905	264,912	6,467	10,942	1,404	3,607	8,777	3,240,407
PCI loans with post acquisition impairment								6,530
PCI loans without post acquisition impairment							1	7,151
Total ending loan balance	$ 488,905	$ 267,570	$ 6,467	$ 10,942	$ 1,404	$ 3,607	$ 8,873	$ 3,323,977

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December 31, 2014 (in thousands)	Residential Real Estate Owner Occupied	Residential Real Estate 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	$ 3,251	$	$ 101	$ 913	$	$ 187	$ 302	$
Collectively evaluated for impairment	5,264	567	672	6,462	34	739	800	25
PCI loans with post acquisition impairment	50		64	365			65	
PCI loans without post acquisition impairment								
Total ending Allowance:	$ 8,565	$ 567	$ 837	$ 7,740	$ 34	$ 926	$ 1,167	$ 25
Loans:								
Impaired loans individually evaluated, excluding PCI loans	$ 41,265	$	$ 3,388	$ 22,521	$	$ 2,627	$ 4,319	$
Loans collectively evaluated for impairment	1,075,871	226,628	91,395	736,965	34,898	35,357	151,776	2,530
PCI loans with post acquisition impairment	725		1,554	6,341			1,158	
PCI loans without post acquisition impairment	480		155	6,482		496	86	
Total ending loan balance	$ 1,118,341	$ 226,628	$ 96,492	$ 772,309	$ 34,898	$ 38,480	$ 157,339	$ 2,530

(continued)	Warehouse Lines of Credit	Home Equity	RPG Loans	Consumer Credit Cards	Consumer Overdrafts	Consumer Purchased Whole Loans	Consumer Other Consumer	Total
Allowance:								
Ending Allowance balance:								
Individually evaluated for impairment, excluding PCI loans	$	$ 225	$	$	$	$	$ 40	$ 5,019
Collectively evaluated for impairment	799	2,505	44	285	382	185	83	18,846
PCI loans with post acquisition impairment							1	545
PCI loans without post acquisition impairment								
Total ending Allowance:	$ 799	$ 2,730	$ 44	$ 285	$ 382	$ 185	$ 124	$ 24,410
Loans:								
Impaired loans individually evaluated, excluding PCI loans	$	$ 2,220	$	$	$	$	$ 52	$ 76,392
Loans collectively evaluated for impairment	319,431	243,459	4,095	9,573	1,180	4,626	8,829	2,946,613

PCI loans with post acquisition impairment							10	9,788
PCI loans without post acquisition impairment							3	7,702
Total ending loan balance	$ 319,431	$ 245,679	$ 4,095	$ 9,573	$ 1,180	$ 4,626	$ 8,894	$ 3,040,495

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The following tables present loans individually evaluated for impairment by class of loans as of June 30, 2015 and December 31, 2014 and for the three and six months ended June 30, 2015 and 2014. The difference between the Unpaid Principal Balance and Recorded Investment columns represents life-to-date partial write downs/charge offs taken on individual impaired credits.

	As of June 30, 2015			Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
(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	$ 13,604	$ 12,738	$	$ 9,152	$ 192	$	$ 7,769	$ 387	$
Owner occupied - correspondent									
Non owner occupied	2,520	2,399		2,494	45		2,268	90	
Commercial real estate	10,157	9,403		11,697	136		14,039	277	
Commercial real estate - purchased whole loans									
Construction & land development	2,120	2,120		2,122	33		2,138	67	
Commercial & industrial	1,559	1,559		2,589	25		3,251	51	
Lease financing receivables									
Warehouse lines of credit									
Home equity	2,788	2,515		2,285	41		2,030	83	
Consumer:									
RPG loans									
Credit cards									
Overdrafts									
Purchased whole loans									
Other consumer	38	38		19	1		19	2	
Impaired loans with an allowance recorded:									
Residential real estate:									
Owner occupied	27,646	27,505	3,944	31,677	243		33,436	487	
Owner occupied - correspondent									
Non owner occupied	1,956	1,956	198	2,435	24		3,007	48	
Commercial real estate	12,051	12,009	991	11,804	143		13,085	287	
Commercial real estate - purchased whole loans									
Construction & land development	667	667	166	673	10		580	20	
Commercial & industrial	3,310	3,310	373	2,331	50		1,890	101	
Lease financing receivables									
Warehouse lines of credit									
Home equity	147	143	36	389	2		419	4	
Consumer:									
RPG loans									
Credit cards									
Overdrafts									
Purchased whole loans									
Other consumer	57	57	49	51			59		
Total impaired loans	$ 78,620	$ 76,419	$ 5,757	$ 79,718	$ 945	$	$ 83,990	$ 1,904	$

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	As of December 31, 2014			Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
(in thousands)	Unpaid Principal Balance	Recorded Investment	Allowance Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
Impaired loans with no related allowance recorded:									
Residential real estate:									
Owner occupied	$ 6,598	$ 6,196	$	$ 7,104	$ 78	$	$ 6,925	$ 125	$
Owner occupied - correspondent									
Non owner occupied	2,368	2,215		1,474	15		1,401	25	
Commercial real estate	17,282	16,248		17,236	150		18,475	290	
Commercial real estate - purchased whole loans									
Construction & land development	2,144	2,144		2,081	1		2,083	2	
Commercial & industrial	3,943	3,943		4,181	61		4,206	121	
Lease financing receivables									
Warehouse lines of credit									
Home equity	1,969	1,814		1,903	11		1,794	21	
Consumer:									
RPG loans									
Credit cards									
Overdrafts									
Purchased whole loans									
Other consumer							6		
Impaired loans with an allowance recorded:									
Residential real estate:									
Owner occupied	36,361	35,794	3,301	35,048	253		34,731	493	
Owner occupied - correspondent									
Non owner occupied	2,755	2,727	165	5,791	122		6,123	175	
Commercial real estate	12,653	12,614	1,278	19,078	207		21,744	374	
Commercial real estate - purchased whole loans									
Construction & land development	483	483	187	508	6		563	11	
Commercial & industrial	1,534	1,534	367	1,540	58		1,651	60	
Lease financing receivables									
Warehouse lines of credit									
Home equity	452	406	225	586			620		
Consumer:									
RPG loans									
Credit cards									
Overdrafts									
Purchased whole loans									
Other consumer	62	62	41	79			79	1	
Total impaired loans	$ 88,604	$ 86,180	$ 5,564	$ 96,609	$ 962	$	$ 100,401	$ 1,698	$

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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 June 30, 2015 and December 31, 2014, $16 million and $14 million of TDRs were on non-accrual status.

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

	Troubled Debt Restructurings on Non-Accrual Status		Troubled Debt Restructurings on Accrual Status		Total Troubled Debt Restructurings	
June 30, 2015 (dollars in thousands)	**Number of Loans**	**Recorded Investment**	**Number of Loans**	**Recorded Investment**	**Number of Loans**	**Recorded Investment**
Residential real estate	81	$ 8,043	233	$ 29,467	314	$ 37,510
Commercial real estate	10	5,567	22	11,437	32	17,004
Construction & land development	3	2,080	6	706	9	2,786
Commercial & industrial	1	201	9	3,501	10	3,702
Total troubled debt restructurings	95	$ 15,891	270	$ 45,111	365	$ 61,002

	Troubled Debt Restructurings on Non-Accrual Status		Troubled Debt Restructurings on Accrual Status		Total Troubled Debt Restructurings	
December 31, 2014 (dollars in thousands)	**Number of Loans**	**Recorded Investment**	**Number of Loans**	**Recorded Investment**	**Number of Loans**	**Recorded Investment**
Residential real estate	74	$ 7,166	250	$ 31,966	324	$ 39,132
Commercial real estate	8	5,030	30	14,502	38	19,532
Construction & land development	2	1,990	6	637	8	2,627
Commercial & industrial			8	3,975	8	3,975

Total troubled debt restructurings	84	$	14,186	294	$	51,080	378	$	65,266

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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 June 30, 2015 and December 31, 2014 follows:

June 30, 2015 (dollars in thousands)	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential real estate loans (including home equity loans):						
Interest only payments	2	$ 637	5	$ 415	7	$ 1,052
Rate reduction	183	24,911	44	5,729	227	30,640
Principal deferral	10	843	7	789	17	1,632
Legal modifications	31	2,598	32	1,588	63	4,186
Total residential TDRs	226	28,989	88	8,521	314	37,510
Commercial related and construction/land development loans:						
Interest only payments	9	3,189	2	876	11	4,065
Rate reduction	13	6,664	5	2,564	18	9,228
Principal deferral	15	5,791	7	4,408	22	10,199
Total commercial TDRs	37	15,644	14	7,848	51	23,492
Total troubled debt restructurings	263	$ 44,633	102	$ 16,369	365	$ 61,002

December 31, 2014 (dollars in thousands)	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential real estate loans (including home equity loans):						
Interest only payments	2	$ 218	4	$ 389	6	$ 607
Rate reduction	173	25,080	61	7,376	234	32,456
Principal deferral	12	1,408	5	349	17	1,757
Legal modifications	33	2,675	34	1,637	67	4,312
Total residential TDRs	220	29,381	104	9,751	324	39,132
Commercial related and construction/land development loans:						
Interest only payments	10	4,170	2	926	12	5,096
Rate reduction	19	9,043	3	1,915	22	10,958
Principal deferral	14	5,820	6	4,260	20	10,080
Total commercial TDRs	43	19,033	11	7,101	54	26,134
Total troubled debt restructurings	263	$ 48,414	115	$ 16,852	378	$ 65,266

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As of June 30, 2015 and December 31, 2014, 73% and 74% of the Bank s TDRs were performing according to their modified terms. The Bank had provided $5 million and $4 million of specific reserve allocations to customers whose loan terms have been modified in TDRs as of June 30, 2015 and December 31, 2014. 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 and lease provisioning methodology. The Bank has not committed to lend any additional material amounts to its existing TDR relationships at June 30, 2015 or December 31, 2014.

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A summary of the categories of TDR loan modifications and respective performance as of June 30, 2015 and 2014 that were modified during the three months ended June 30, 2015 and 2014 follows:

June 30, 2015 (dollars in thousands)	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential real estate loans (including home equity loans):						
Rate reduction		$	2	$ 308	2	$ 308
Principal deferral			1	24	1	24
Legal modifications			2	55	2	55
Total residential TDRs			5	387	5	387
Commercial related and construction/land development loans:						
Interest only payments	1	92			1	92
Rate reduction	2	833	1	57	3	890
Principal deferral	4	884	1	201	5	1,085
Total commercial TDRs	7	1,809	2	258	9	2,067
Total troubled debt restructurings	7	$ 1,809	7	$ 645	14	$ 2,454

June 30, 2014 (dollars in thousands)	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential real estate loans (including home equity loans):						
Rate reduction	3	$ 194	4	$ 351	7	$ 545
Principal deferral	3	360	1	30	4	390
Legal modifications	4	160	3	95	7	255
Total residential TDRs	10	714	8	476	18	1,190
Commercial related and construction/land development loans:						
Interest only payments			1	443	1	443
Total commercial TDRs			1	443	1	443
Total troubled debt restructurings	10	$ 714	9	$ 919	19	$ 1,633

As of June 30, 2015 and 2014, 74% and 44% of the Bank s TDRs that occurred during the second quarters of 2015 and 2014 were performing according to their modified terms. The Bank provided $221,000 and $54,000 in specific reserve allocations to customers whose loan terms were modified in TDRs during the second quarters of 2015 and 2014. 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 for the three months ending June 30, 2015 and June 30, 2014.

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A summary of the categories of TDR loan modifications and respective performance as of June 30, 2015 and 2014 that were modified during the six months ended June 30, 2015 and 2014 follows:

June 30, 2015 (dollars in thousands)	Troubled Debt Restructurings Performing to Modified Terms			Troubled Debt Restructurings Not Performing to Modified Terms			Total Troubled Debt Restructurings		
	Number of Loans		Recorded Investment	Number of Loans		Recorded Investment	Number of Loans		Recorded Investment
Residential real estate loans (including home equity loans):									
Interest only payments	1	$	622		$		1	$	622
Rate reduction	4		403	5		465	9		868
Principal deferral				2		48	2		48
Legal modifications				5		290	5		290
Total residential TDRs	5		1,025	12		803	17		1,828
Commercial related and construction/land development loans:									
Interest only payments	3		467				3		467
Rate reduction	2		833	2		1,825	4		2,658
Principal deferral	6		884	1		201	7		1,085
Total commercial TDRs	11		2,184	3		2,026	14		4,210
Total troubled debt restructurings	16	$	3,209	15	$	2,829	31	$	6,038

June 30, 2014 (dollars in thousands)	Troubled Debt Restructurings Performing to Modified Terms			Troubled Debt Restructurings Not Performing to Modified Terms			Total Troubled Debt Restructurings		
	Number of Loans		Recorded Investment	Number of Loans		Recorded Investment	Number of Loans		Recorded Investment
Residential real estate loans (including home equity loans):									
Rate reduction	13	$	1,042	7	$	1,470	20	$	2,512
Principal deferral	3		360	1		30	4		390
Legal modifications	22		2,192	11		677	33		2,869
Total residential TDRs	38		3,594	19		2,177	57		5,771
Commercial related and construction/land development loans:									
Interest only payments				1		443	1		443
Rate reduction				1		1,103	1		1,103
Principal deferral				2		1,990	2		1,990
Total commercial TDRs				4		3,536	4		3,536
Total troubled debt restructurings	38	$	3,594	23	$	5,713	61	$	9,307

As of June 30, 2015 and 2014, 53% and 39% of the Bank s TDRs that occurred during the first six months of 2015 and 2014 were performing according to their modified terms. The Bank provided $635,000 and $142,000 in specific reserve allocations to customers whose loan terms were modified in TDRs during the first six months of 2015 and 2014. 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 for the six months ending June 30, 2015 and June 30, 2014.

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The following table presents loans by class modified as troubled debt restructurings within the previous twelve months of June 30, 2015 and 2014 and for which there was a payment default during the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
(dollars in thousands)	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential real estate:								
Owner occupied	6	$ 432	3	$ 149	11	$ 753	6	$ 1,219
Owner occupied - correspondent								
Non owner occupied								
Commercial real estate			1	443			2	1,546
Commercial real estate - purchased whole loans								
Construction & land development							1	1,500
Commercial & industrial								
Lease financing receivables								
Warehouse lines of credit								
Home equity								
Consumer:								
RPG loans								
Credit cards								
Overdrafts								
Purchased whole loans								
Other consumer								
Total	6	$ 432	4	$ 592	11	$ 753	9	$ 4,265

The following table presents the carrying amount of foreclosed properties held at June 30, 2015 and December 31, 2014 as a result of the Bank obtaining physical possession of such properties:

(in thousands)	June 30, 2015	December 31, 2014
Residential real estate	$ 405	$ 3,209
Commercial real estate	1,765	3,324
Construction & land development	750	4,710
Total other real estate owned	$ 2,920	$ 11,243

The following table presents the recorded investment in consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction as of June 30, 2015 and December 31, 2014:

(in thousands)	June 30, 2015	December 31, 2014
	$ 3,453	$ 2,466

Recorded investment in consumer residential real estate mortgage loans in the process of foreclosure	

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4. DEPOSITS

Ending deposit balances at June 30, 2015 and December 31, 2014 were as follows:

(in thousands)	June 30, 2015	December 31, 2014
Demand	$ 720,517	$ 691,787
Money market accounts	489,440	471,339
Brokered money market accounts	120,379	35,649
Savings	104,532	91,625
Individual retirement accounts*	35,113	28,771
Time deposits, $250,000 and over*	42,493	56,556
Other certificates of deposit*	120,904	104,010
Brokered certificates of deposit*(1)	47,660	75,876
Total interest-bearing deposits	1,681,038	1,555,613
Total non interest-bearing deposits	598,572	502,569
Total deposits	$ 2,279,610	$ 2,058,182

(*) *Represents a time deposit.*

(1) *Includes brokered deposits less than, equal to and greater than $250,000.*

5. FEDERAL HOME LOAN BANK (FHLB) ADVANCES

At June 30, 2015 and December 31, 2014, FHLB advances were as follows:

(dollars in thousands)	June 30, 2015	December 31, 2014
Overnight advance with an interest rate of 0.15% due on July 1, 2015	$ 387,000	$ 198,000
Variable interest rate advance indexed to 3-Month LIBOR plus 0.14% due on December 19, 2015	10,000	10,000
Fixed interest rate advances with a weighted average interest rate of 1.68% due through 2023	419,500	399,500
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	$ 916,500	$ 707,500

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

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At June 30, 2015 and December 31, 2014, Republic had available collateral to borrow an additional $254 million and $452 million, respectively, from the FHLB. In addition to its borrowing line with the FHLB, Republic also had unsecured lines of credit totaling $166 million available through various other financial institutions as of June 30, 2015 and December 31, 2014.

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

Year (dollars in thousands)		**Principal**	**Weighted Average Rate**
2015 (Overnight)	$	387,000	0.15%
2015		10,000	0.41%
2016		82,000	1.74%
2017		145,000	3.44%
2018		117,500	1.53%
2019		100,000	1.80%
2020		45,000	1.84%
Thereafter		30,000	1.95%
Total	$	916,500	1.32%

Information regarding short-term overnight FHLB advances follows:

(dollars in thousands)		**June 30, 2015**		**December 31, 2014**
Outstanding balance at end of period	$	387,000	$	198,000
Weighted average interest rate at end of period		0.15%		0.14%

	Three Months Ended June 30,				**Six Months Ended June 30,**			
(dollars in thousands)		**2015**		**2014**		**2015**		**2014**
Average outstanding balance during the period	$	111,193	$	11,047	$	73,783	$	3,199
Average interest rate during the period		0.15%		0.25%		0.15%		0.25%
Maximum outstanding at any month end during the period	$	387,000	$	93,000	$	387,000	$	93,000

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

(in thousands)	June 30, 2015	December 31, 2014
First lien, single family residential real estate	$ 1,338,184	$ 1,333,811
Home equity lines of credit	105,112	103,064
Multi-family commercial real estate	19,786	12,682

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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 interest 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: Interest rate swaps are recorded at fair value on a recurring basis. 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.

Premises, held for sale: Premises held for sale are accounted for at the 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.

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, other real estate owned and premises held for sale 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 at least an annual basis, the Bank performs a back test of collateral appraisals by comparing actual selling prices on recent collateral sales to the most recent appraisal of such collateral. Back tests are performed for each collateral class, e.g., residential real estate or commercial real estate, and may lead to additional adjustments to the value of unliquidated collateral of similar class.

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

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Assets and liabilities measured at fair value on a **recurring basis** as of June 30, 2015 and December 31, 2014, including financial assets and liabilities for which the Bank has elected the fair value option, are summarized below:

	Fair Value Measurements at June 30, 2015 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	$	$ 198,851	$	$ 198,851
Private label mortgage backed security			5,231	5,231
Mortgage backed securities - residential		107,880		107,880
Collateralized mortgage obligations		128,260		128,260
Freddie Mac preferred stock		231		231
Mutual fund	1,015			1,015
Corporate bonds		15,144		15,144
Total securities available for sale	$ 1,015	$ 450,366	$ 5,231	$ 456,612
Mortgage loans held for sale	$	$ 10,277	$	$ 10,277
Rate lock commitments		376		376
Financial liabilities:				
Mandatory forward contracts		1		1
Interest rate swap agreements		505		505

	Fair Value Measurements at December 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	$	$ 146,922	$	$ 146,922
Private label mortgage backed security			5,250	5,250
Mortgage backed securities - residential		124,256		124,256
Collateralized mortgage obligations		143,171		143,171
Freddie Mac preferred stock		231		231
Mutual fund	1,018			1,018
Corporate bonds		15,063		15,063
Total securities available for sale	$ 1,018	$ 429,643	$ 5,250	$ 435,911
Mortgage loans held for sale	$	$ 6,388	$	$ 6,388
Rate lock commitments		250		250
Financial liabilities:				
Mandatory forward contracts		33		33

Interest rate swap agreements	488	488

All transfers between levels are generally recognized at the end of each quarter. There were no transfers into or out of Level 1, 2 or 3 assets during the three and six months ended June 30, 2015 and 2014.

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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 is the only asset that was measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2015**	**2014**	**2015**	**2014**
Balance, beginning of period	$ 5,235	$ 5,270	$ 5,250	$ 5,485
Total gains or losses included in earnings:				
Net change in unrealized gain	(4)	315	(26)	369
Recovery of actual losses previously recorded		34	35	66
Principal paydowns		(158)	(28)	(459)
Balance, end of period	$ 5,231	$ 5,461	$ 5,231	$ 5,461

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 June 30, 2015 and December 31, 2014:

June 30, 2015 (dollars in thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Range**
Private label mortgage backed security	$ 5,231	Discounted cash flow	(1) Constant prepayment rate	(4.0)% - 6.5%
			(2) Probability of default	3.0% - 13.0%
			(2) Loss severity	60% - 90%

December 31, 2014 (dollars in thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Range**
Private label mortgage backed security	$ 5,250	Discounted cash flow	(1) Constant prepayment rate	0.5% - 6.5%

		(2) Probability of default	3.0% - 6.2%
		(2) Loss severity	60% - 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 resolution of these loans. Interest income is recorded based on the contractual terms of the loan and in accordance with Bank policy for such instruments. None of these loans were past due 90-days-or-more nor on nonaccrual as of June 30, 2015 and December 31, 2014.

As of June 30, 2015 and December 31, 2014, the aggregate fair value, contractual balance (including accrued interest), and gain or loss was as follows:

(in thousands)	**June 30, 2015**	**December 31, 2014**
Aggregate fair value	$ 10,277	$ 6,388
Contractual balance	10,057	6,265
Gain	220	123

The total amount of gains and losses from changes in fair value included in earnings for the three and six months ended June 30, 2015 and 2014 for mortgage loans held for sale are presented in the following table:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(in thousands)	**2015**	**2014**	**2015**	**2014**
Interest income	$ 57	$ 49	$ 113	$ 95
Change in fair value	(81)	159	97	124
Total included in earnings	$ (24)	$ 208	$ 210	$ 219

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Assets measured at fair value on a **non-recurring basis** as of June 30, 2015 and December 31, 2014 are summarized below:

	Fair Value Measurements at June 30, 2015 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	$		$		$	3,371	$	3,371
Non owner occupied						435		435
Commercial real estate						3,828		3,828
Home equity						1,266		1,266
Total impaired loans*	$		$		$	8,900	$	8,900
Other real estate owned:								
Residential real estate	$		$		$	143	$	143
Commercial real estate						1,031		1,031
Total other real estate owned	$		$		$	1,174	$	1,174
Premises, held for sale	$		$		$	1,251	$	1,251

	Fair Value Measurements at December 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**	
Impaired loans:								
Residential real estate:								
Owner occupied	$		$		$	1,678	$	1,678
Non owner occupied						702		702
Commercial real estate						6,122		6,122
Home equity						1,346		1,346
Total impaired loans*	$		$		$	9,848	$	9,848
Other real estate owned:								
Residential real estate	$		$		$	1,916	$	1,916
Commercial real estate						2,845		2,845
Construction & land development						4,427		4,427
Total other real estate owned	$		$		$	9,188	$	9,188
Premises, held for sale	$		$		$	1,317	$	1,317

** - The impaired loan balances in the above 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 June 30, 2015 and December 31, 2014:

June 30, 2015 (dollars in thousands)		**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Range (Weighted Average)**
Impaired loans - residential real estate owner occupied	$	3,371	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 38% (10%)
Impaired loans - residential real estate non owner occupied	$	435	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 33% (14%)
Impaired loans - commercial real estate	$	1,884	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 22 (4%)
	$	1,944	Income approach	Adjustments for differences between net operating income expectations	42% (42%)
Impaired loans - home equity	$	1,266	Sales comparison approach	Adjustments determined for differences between comparable sales	2% - 37% (19%)
Other real estate owned - residential real estate	$	143	Sales comparison approach	Adjustments determined for differences between comparable sales	10% - 80% (14%)
Other real estate owned - commercial real estate	$	1,031	Sales comparison approach	Adjustments determined for differences between comparable sales	33% (33%)
Premises, held for sale	$	1,251	Sales comparison approach	Adjustments determined for differences between comparable sales	5% (5%)

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December 31, 2014 (dollars in thousands)		Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans - residential real estate owner occupied	$	1,678	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 33% (7%)
Impaired loans - residential real estate non owner occupied	$	702	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 33% (18%)
Impaired loans - commercial real estate	$	2,615	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 9% (2%)
	$	3,507	Income approach	Adjustments for differences between net operating income expectations	3%-37% (22%)
Impaired loans - home equity	$	1,346	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 35% (12%)
Other real estate owned - residential real estate	$	1,916	Sales comparison approach	Adjustments determined for differences between comparable sales	9% - 23% (19%)
Other real estate owned - commercial real estate	$	1,378	Sales comparison approach	Adjustments determined for differences between comparable sales	11% - 14% (13%)
	$	1,467	Income approach	Adjustments for differences between net operating income expectations	19% (19%)
Other real estate owned - construction & land development	$	2,000	Sales comparison approach	Adjustments determined for differences between comparable sales	13% - 70% (38%)
	$	2,427	Income approach	Adjustments for differences between net operating income expectations	8% - 9% (8%)
Premises, held for sale	$	1,317	Sales comparison approach	Adjustments determined for differences between comparable sales	1% (1%)

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The following section details impairment charges recognized during the period:

Impaired Loans

Collateral dependent impaired loans are generally measured for impairment using the fair value 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.

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

(in thousands)	**June 30, 2015**	**December 31, 2014**
Carrying amount of loans measured at fair value	$ 7,727	$ 8,343
Estimated selling costs considered in carrying amount	1,173	1,505
Total fair value	$ 8,900	$ 9,848

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. All of the Bank s individual other real estate owned properties were carried at the lower of their fair value or cost at June 30, 2015 and December 31, 2014.

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

(in thousands)	**June 30, 2015**	**December 31, 2014**
Other real estate carried at fair value	$ 1,174	$ 9,188
Other real estate carried at cost	1,746	2,055
Total carrying value of other real estate owned	$ 2,920	$ 11,243

(in thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Other real estate owned write-downs during the period	$ 220	$ 333	$ 704	$ 1,217

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Premises, Held for Sale

The Company closed its Hudson, Florida banking center on January 16, 2015. The Hudson premises were held for sale at June 30, 2015 and December 31, 2014 and carried at $1 million, its fair value less estimated selling costs. Fair value was determined from an external appraisal using judgments and estimates. Many of these inputs are not observable and, accordingly, these measurements are classified as Level 3.

The Hudson premises were written down $33,000 and $66,000 during the three and six months ended June 30, 2015, respectively, with no similar write-downs for the same periods in 2014.

In July 2015, the Company formally agreed to sell its banking center in Elizabethtown, Kentucky. As of June 30, 2015, the premises of the banking center were carried at approximately $1 million, which equals the total costs of the premises less accumulated depreciation.

Mortgage Servicing Rights

MSRs are carried at lower of cost or fair value. No MSRs were carried at fair value at June 30, 2015 and December 31, 2014.

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The carrying amounts and estimated fair values of all financial instruments, at June 30, 2015 and December 31, 2014 follows:

		Fair Value Measurements at June 30, 2015:			
(in thousands)	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash and cash equivalents	$ 92,766	$ 92,766	$	$	$ 92,766
Securities available for sale	456,612	1,015	450,366	5,231	456,612
Securities be held to maturity	43,070		43,600		43,600
Mortgage loans held for sale, at fair value	10,277		10,277		10,277
Other loans held for sale, at the lower of cost or fair value	1,542		1,542		1,542
Loans, net of Allowance	3,298,729			3,332,960	3,332,960
Federal Home Loan Bank stock	28,208				NA
Accrued interest receivable	8,938		8,938		8,938
Other assets	376		376		376
Liabilities:					
Non interest-bearing deposits	598,572		598,572		598,572
Transaction deposits	1,434,868		1,434,868		1,434,868
Time deposits	246,170		246,670		246,670
Securities sold under agreements to repurchase and other short-term borrowings	229,825		229,825		229,825
Federal Home Loan Bank advances	916,500		929,972		929,972
Subordinated note	41,240		40,874		40,874
Accrued interest payable	1,207		1,207		1,207
Other liabilities	506		506		506

NA - Not applicable

		Fair Value Measurements at December 31, 2014:			
(in thousands)	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash and cash equivalents	$ 72,878	$ 72,878	$	$	$ 72,878
Securities available for sale	435,911	1,018	429,643	5,250	435,911
Securities be held to maturity	45,437		45,807		45,807
Mortgage loans held for sale, at fair value	6,388		6,388		6,388
Loans, net of Allowance	3,016,085			3,045,443	3,045,443
Federal Home Loan Bank stock	28,208				NA
Accrued interest receivable	8,807		8,807		8,807
Other assets	250		250		250

Liabilities:			
Non interest-bearing deposits	502,569	502,569	502,569
Transaction deposits	1,290,400	1,290,400	1,290,400
Time deposits	265,213	265,858	265,858
Securities sold under agreements to repurchase and other short-term borrowings	356,108	356,108	356,108
Federal Home Loan Bank advances	707,500	721,346	721,346
Subordinated note	41,240	41,198	41,198
Accrued interest payable	1,262	1,262	1,262
Other liabilities	521	521	521

NA - Not applicable

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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.

Other loans held for sale, at the lower of cost or fair value Other loans held for sale constitute short-term consumer loans generally sold within two business days of origination. The carrying amounts of these loans, due to their short-term nature, approximate fair value, resulting in a Level 2 classification.

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 time deposits 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 and other short-term borrowings The carrying amount for securities sold under agreements to repurchase and other short-term borrowings 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.

Other assets/liabilities Other assets and liabilities consist of interest rate swap agreements and other derivative assets and liabilities previously described above.

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

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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.

7. MORTGAGE BANKING ACTIVITIES

Activity for mortgage loans held for sale was as follows:

(in thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Balance, beginning of period	$ 12,748	$ 2,414	$ 6,388	$ 3,506
Origination of mortgage loans held for sale	50,173	19,174	96,008	33,284
Proceeds from the sale of mortgage loans held for sale	(53,775)	(15,447)	(94,472)	(31,147)
Net gain on sale of mortgage loans held for sale	1,131	668	2,353	1,166
Balance, end of period	$ 10,277	$ 6,809	$ 10,277	$ 6,809

The following table presents the components of Mortgage Banking income:

(in thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net gain realized on sale of mortgage loans held for sale	$ 1,209	$ 460	$ 2,098	$ 918
Net change in fair value recognized on loans held for sale	(81)	159	97	124
Net change in fair value recognized on rate lock commitments	(121)	99	126	179
Net change in fair value recognized on forward contracts	124	(50)	32	(55)
Net gain recognized	1,131	668	2,353	1,166
Loan servicing income	471	492	940	794
Amortization of mortgage servicing rights	(378)	(348)	(716)	(662)
Net servicing income recognized	93	144	224	132
Total Mortgage Banking income	$ 1,224	$ 812	$ 2,577	$ 1,298

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Activity for capitalized mortgage servicing rights was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2015**	**2014**	**2015**	**2014**