REPUBLIC BANCORP INC /KY/
Form 10-Q
November 09, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

or

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)

Registrant's telephone number, including area code: (502) 584-3600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 Accelerated filer Non-accelerated filer Smaller reporting company

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

The number of shares outstanding of the registrant's Class A Common Stock and Class B Common Stock, as of October 31, 2016, was 18,616,873 and 2,245,174.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	September 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$ 302,167	$ 210,082
Securities available for sale	489,905	517,058
Securities held to maturity (fair value of $34,651 in 2016 and $39,196 in 2015)	34,539	38,727
Mortgage loans held for sale, at fair value	8,442	4,083
Consumer loans held for sale, at fair value	1,691	—
Consumer loans held for sale, at the lower of cost or fair value	1,093	514
Loans	3,823,031	3,326,610
Allowance for loan and lease losses	(30,436)	(27,491)
Loans, net	3,792,595	3,299,119
Federal Home Loan Bank stock, at cost	28,208	28,208
Premises and equipment, net	43,385	31,106
Goodwill	16,300	10,168
Other real estate owned	2,435	1,220
Bank owned life insurance	61,392	52,817
Other assets and accrued interest receivable	45,125	37,187
TOTAL ASSETS	$ 4,827,277	$ 4,230,289
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 947,602	$ 634,863
Interest-bearing	2,188,291	1,852,614
Total deposits	3,135,893	2,487,477
Securities sold under agreements to repurchase and other short-term borrowings	152,458	395,433
Federal Home Loan Bank advances	862,500	699,500
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	34,626	30,092

Total liabilities	4,226,717	3,653,742
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	4,906	4,915
Additional paid in capital	137,682	136,910
Retained earnings	454,998	432,673
Accumulated other comprehensive income	2,974	2,049
Total stockholders' equity	600,560	576,547
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 4,827,277	$ 4,230,289

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
INTEREST INCOME:				
Loans, including fees	$ 41,597	$ 34,040	$ 120,772	$ 99,247
Taxable investment securities	1,942	1,733	5,817	5,285
Federal Home Loan Bank stock and other	395	334	1,500	1,058
Total interest income	43,934	36,107	128,089	105,590
INTEREST EXPENSE:				
Deposits	1,620	1,068	4,359	3,233
Securities sold under agreements to repurchase and other short-term borrowings	11	17	51	72
Federal Home Loan Bank advances	2,664	2,982	8,590	8,907
Subordinated note	241	616	680	1,874
Total interest expense	4,536	4,683	13,680	14,086
NET INTEREST INCOME	39,398	31,424	114,409	91,504
Provision for loan and lease losses	2,489	2,233	9,489	3,322
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	36,909	29,191	104,920	88,182
NONINTEREST INCOME:				
Service charges on deposit accounts	3,416	3,399	9,838	9,685
Net refund transfer fees	132	97	19,119	17,339
Mortgage banking income	3,081	972	5,902	3,549
Interchange fee income	2,415	1,967	6,755	6,205
Republic Processing Group program fees	979	474	1,942	871
Gain on call of security available for sale	—	—	—	88
Net gains (losses) on other real estate owned	(137)	(8)	191	(282)
Increase in cash surrender value of bank owned life insurance	406	348	1,114	1,050
Other	1,009	557	2,163	1,772
Total noninterest income	11,301	7,806	47,024	40,277
NONINTEREST EXPENSES:				

Salaries and employee benefits	18,068	15,297	52,965	44,897
Occupancy and equipment, net	5,631	5,217	16,159	15,560
Communication and transportation	1,029	951	2,974	2,768
Marketing and development	1,076	756	2,773	2,318
FDIC insurance expense	345	474	1,483	1,622
Bank franchise tax expense	846	846	3,944	4,094
Data processing	1,659	959	4,535	3,017
Interchange related expense	1,118	909	3,069	2,847
Supplies	280	229	969	809
Other real estate owned expense	159	146	355	485
Legal and professional fees	539	653	1,965	2,796
FHLB advance prepayment penalty	846	—	846	—
Other	1,938	1,801	5,904	5,264
Total noninterest expenses	33,534	28,238	97,941	86,477
INCOME BEFORE INCOME TAX EXPENSE	14,676	8,759	54,003	41,982
INCOME TAX EXPENSE	4,848	3,119	18,100	14,234
NET INCOME	$ 9,828	$ 5,640	$ 35,903	$ 27,748
BASIC EARNINGS PER SHARE:				
Class A Common Stock	$ 0.47	$ 0.27	$ 1.73	$ 1.34
Class B Common Stock	0.43	0.25	1.58	1.22
DILUTED EARNINGS PER SHARE:				
Class A Common Stock	$ 0.47	$ 0.27	$ 1.73	$ 1.34
Class B Common Stock	0.43	0.25	1.57	1.22
DIVIDENDS DECLARED PER COMMON SHARE:				
Class A Common Stock	$ 0.209	$ 0.198	$ 0.616	$ 0.583
Class B Common Stock	0.190	0.180	0.560	0.530

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$ 9,828	$ 5,640	$ 35,903	$ 27,748
OTHER COMPREHENSIVE INCOME				
Change in fair value of derivatives used for cash flow hedges	127	(503)	(663)	(724)
Reclassification amount for derivative losses realized in income	83	100	256	304
Change in unrealized gain (loss) on securities available for sale	(788)	488	1,920	670
Reclassification adjustment for gain on security available for sale recognized in earnings	—	—	—	(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	57	(58)	(91)	(84)
Net unrealized gains (losses)	(521)	27	1,422	78
Tax effect	180	(11)	(497)	(29)
Total other comprehensive income, net of tax	(341)	16	925	49
COMPREHENSIVE INCOME	$ 9,487	$ 5,656	$ 36,828	$ 27,797

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

NINE MONTHS ENDED SEPTEMBER 30, 2016

(in thousands)	Common Stock Class A Shares Outstanding	Class B Shares Outstanding	Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, January 1, 2016	18,652	2,245	$ 4,915	$ 136,910	$ 432,673	$ 2,049	$ 576,547
Net income	—	—	—	—	35,903	—	35,903
Net change in accumulated other comprehensive income	—	—	—	—	—	925	925
Dividends declared Common Stock:							
Class A Shares	—	—	—	—	(11,469)	—	(11,469)
Class B Shares	—	—	—	—	(1,258)	—	(1,258)
Stock options exercised, net of shares redeemed	4	—	—	80	—	—	80
Repurchase of Class A Common Stock	(41)	—	(9)	(274)	(851)	—	(1,134)
Net change in notes receivable on Class A Common Stock	—	—	—	63	—	—	63
Deferred director compensation expense - Class A Common Stock	4	—	—	149	—	—	149
Stock based compensation expense - performance stock	—	—	—	381	—	—	381

units							
Stock based compensation expense - restricted stock	(2)	—	—	189	—	—	189
Stock based compensation expense - stock options	—	—	—	184	—	—	184
Balance, September 30, 2016	18,617	2,245	$ 4,906	$ 137,682	$ 454,998	$ 2,974	$ 600,560

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine Months Ended September 30,	
	2016	2015
OPERATING ACTIVITIES:		
Net income	$ 35,903	$ 27,748
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization on investment securities, net	425	506
Accretion on loans, deposits and core deposit intangible, net	(1,813)	(2,422)
Depreciation of premises and equipment	5,414	4,965
Amortization of mortgage servicing rights	1,200	1,057
Provision for loan and lease losses	9,489	3,322
Net gain on sale of mortgage loans held for sale	(5,647)	(3,189)
Origination of mortgage loans held for sale	(154,607)	(128,026)
Proceeds from sale of mortgage loans held for sale	154,766	129,077
Net gain on sale of consumer loans held for sale	(1,768)	(909)
Origination of consumer loans held for sale	(248,430)	(86,218)
Proceeds from sale of consumer loans held for sale	247,928	86,473
Net realized gain on sales, calls and impairment of securities	—	(88)
Net gain realized on sale of other real estate owned	(392)	(734)
Writedowns of other real estate owned	200	1,016
Net gain on sale of banking center	—	(28)
Deferred director compensation expense - Company Stock	149	171
Stock based compensation expense	754	311
Increase in cash surrender value of bank owned life insurance	(1,114)	(1,050)
Net change in other assets and liabilities:		
Accrued interest receivable	(83)	(228)
Accrued interest payable	(219)	(95)
Other assets	(3,064)	(1,709)
Other liabilities	(724)	5,336
Net cash provided by operating activities	38,367	35,286
INVESTING ACTIVITIES:		
Net change in cash for acquisition of Cornerstone Bancorp, Inc.	(9,088)	—
Purchases of securities available for sale	(400,079)	(994,305)
Proceeds from calls, maturities and paydowns of securities available for sale	428,649	968,812
Proceeds from calls, maturities and paydowns of securities held to maturity	4,504	4,357
Net change in outstanding warehouse lines of credit	(274,457)	(74,117)
Purchase of non-business-acquisition loans, including premiums paid	(48,876)	(87,619)
Net change in other loans	(62,932)	(96,916)
Proceeds from redemption of Federal Home Loan Bank stock	224	—
Proceeds from sale of mortgage loans transferred to held for sale	72,330	—
Proceeds from sales of other real estate owned	2,660	7,880

Proceeds from sale of banking center	—	1,623
Net purchases of premises and equipment	(5,466)	(2,312)
Net cash used in investing activities	(292,531)	(272,597)
FINANCING ACTIVITIES:		
Net change in deposits	443,745	309,648
Net change in securities sold under agreements to repurchase and other short-term borrowings	(242,975)	(46,484)
Payments of Federal Home Loan Bank advances	(267,000)	(208,000)
Proceeds from Federal Home Loan Bank advances	430,000	212,000
Payoff of subordinated note, net of common security interest	(4,000)	—
Repurchase of Common Stock	(1,134)	(477)
Net proceeds from Common Stock options exercised	80	244
Cash dividends paid	(12,467)	(11,767)
Net cash provided by financing activities	346,249	255,164
NET CHANGE IN CASH AND CASH EQUIVALENTS	92,085	17,853
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	210,082	72,878
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 302,167	$ 90,731
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 13,882	$ 14,181
Income taxes	18,956	12,219
SUPPLEMENTAL NONCASH DISCLOSURES:		
Transfers from loans to real estate acquired in settlement of loans	$ 3,939	$ 2,713
Transfers from loans held for investment to held for sale	71,201	—
Loans provided for sales of other real estate owned	256	2,962

See accompanying footnotes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – SEPTEMBER 30, 2016 and 2015 AND DECEMBER 31, 2015 (UNAUDITED)

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 is a wholly-owned insurance subsidiary of the Company that provides property and casualty insurance coverage to the Company and the Bank as well as 10 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. As a result of its acquisition of Cornerstone Bancorp, Inc. on May 17, 2016, Republic Bancorp, Inc. became the 100% successor owner of Cornerstone Capital Trust 1 ("CCT1"), an unconsolidated finance subsidiary. As permitted under the terms of CCT1's governing documents, the Company redeemed these securities at the par amount of approximately $4 million, without penalty, on September 15, 2016.

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 nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. 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, 2015.

As of September 30, 2016, 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 RPG segment includes the following divisions: Tax Refund Solutions ("TRS"), Refund Payment Solutions ("RPS") and Republic Credit Solutions ("RCS"). TRS generates the majority of RPG's income, with the relatively smaller divisions of RPG, RPS and RCS, considered immaterial for separate and independent segment reporting. All divisions of the RPG segment operate through the Bank.

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Core Bank (includes Traditional Banking, Warehouse Lending and Mortgage Banking segments)

The Traditional Banking segment provides traditional banking products primarily to customers in the Company's market footprint. As of September 30, 2016, Republic had 44 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 — 6
- 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 other general and administrative costs. Core Banking results of operations are significantly impacted by general economic and competitive conditions, particularly changes in market interest rates, government laws and policies and actions of regulatory agencies.

The Core Bank provides short-term, revolving credit facilities to mortgage bankers across the Nation through 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.

Primarily from its Warehouse clients, the Core Bank acquires single family, first lien mortgage loans that meet the Core Bank's specifications through its Correspondent Lending channel. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium.

Republic Processing Group

Tax Refund Solutions division — Republic, through its TRS division, is one of a limited number of financial institutions that facilitates the receipt and payment of federal and state tax refunds through third-party tax preparers located throughout the Nation, as well as tax-preparation software providers. Substantially all of the business generated by the TRS division occurs in the first half of the year. The TRS division traditionally operates at a loss during the second half of the year, during which time the division incurs costs preparing for the upcoming year's first quarter tax season.

Refund Transfers ("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 reported as noninterest income under the line item "Net refund transfer fees."

TRS offered its new Easy Advance ("EA") tax credit product during the first quarter of 2016. The EA product had the following features during the period it was offered through February 29, 2016:

- An advance amount of $750 per taxpayer customer;
- No EA fee charged to the taxpayer customer;
- All fees for the product were paid by the tax preparer or tax software company (collectively, the "Tax Providers") with a restriction prohibiting the Tax Providers from passing along the fees to the taxpayer customer;
- No requirement that the taxpayer customer pay for another bank product, such as an RT;
- Multiple funds disbursement methods, including direct deposit, prepaid card, check or the Walmart Direct2Cash® product, based on the taxpayer customer's election;
- Repayment of the EA to the Bank was deducted from the taxpayer customer's tax refund proceeds; and
- If an insufficient refund to repay the EA occurred:
  - there was no recourse to the taxpayer customer,
  - no negative credit reporting on the taxpayer customer, and
  - no collection efforts against the taxpayer customer.

Fees paid by the Tax Providers to the Company for the EA product are reported as interest income on loans under the line item "Loans, including fees." During 2016, EAs were generally repaid within three weeks after the taxpayer customer's tax return was submitted to the applicable tax authority. Provisions for loss on EAs were estimated when advances were made, with all loss provisions made in the first quarter of 2016. Unpaid EAs were charged-off within 81 days after the taxpayer customer's tax return was submitted to the applicable tax authority, with the majority of charge-offs recorded during the second quarter of 2016.

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

The Company reports fees related to RPS programs under "Republic Processing Group program fees." Additionally, the Company's portion of interchange revenue generated by prepaid card transactions is reported as noninterest income under "Interchange fee income."

Republic Credit Solutions division — The RCS division offers short-term consumer credit products. In general, the credit products are unsecured, small dollar consumer loans with maturities of 30-days-or-more, and are dependent on various factors including the consumer's ability to repay.

The Company reports RCS loans originated for investment under "Loans," while loans originated for sale are reported under "Consumer loans held for sale." The Company reports interest income and loan origination fees earned on RCS loans under "Loans, including fees," while any gains or losses on sale reported as noninterest income under "Republic Processing Group program fees."

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Accounting Standards Updates ("ASUs")

The following ASUs were issued during the nine months ended September 30, 2016 and are considered relevant to the Company's financial statements:

ASU. No.	Topic	Nature of Update	Date Adoption Required	Method of Adoption	Expected Impact to Company's Financial Statements
2016-2	Leases (Topic 842)	Most leases are considered operating leases, which are not accounted for on the lessees' balance sheets. The significant change under this ASU is that those operating leases will be recorded on the balance sheet.	January 1, 2019	Modified-retrospective approach, which includes a number of optional practical expedients.	Currently under analysis.
2016-4	Liabilities – Extinguishments of Liabilities (Topic 405-20)	Provides that liabilities related to the sale of prepaid stored-value products are financial liabilities and provide a narrow scope exception to the guidance in Subtopic 405-20 to require that breakage for those liabilities be accounted for consistent with the breakage guidance in Topic 606.	January 1, 2018	Modified-retrospective or a fully retrospective approach.	Immaterial
2016-5	Derivatives and Hedging (Topic 815)	Clarifies that a change in the counterparty to a derivative instrument that has been designated as the	January 1, 2017	Prospective or modified-retrospective approach.	Immaterial

		hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria (including those in paragraphs 815-20-35-14 through 35-18 of the Accounting Standards Codification) continue to be met.			
2016-9	Compensation – Stock Compensation (Topic 718)	Provides simplification in areas of accounting for share-based payments, including: the income tax consequences; classification of awards as either equity or liabilities; and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities.	January 1, 2017	Certain elements are applied retrospectively, some prospectively.	Immaterial
2016-13	Financial Instruments – Credit Losses (Topic 326)	Amends guidance on reporting credit losses for assets held at amortized-cost basis and available-for-sale debt securities.	January 1, 2020	Modified-retrospective approach.	Substantial, yet fully undetermined, increase in allowance for credit losses.
2016-15	Statement of Cash Flows (Topic 230)	Provides additional guidance for preparation of a cash flow statement.	January 1, 2018	Retrospective transition unless impractical.	Immaterial

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2. ACQUISITION OF CORNERSTONE BANCORP, INC.

OVERVIEW

On May 17, 2016, the Company completed its acquisition of Cornerstone Bancorp, Inc. ("Cornerstone"), and its wholly-owned bank subsidiary Cornerstone Community Bank ("CCB"), for approximately $32 million in cash. The primary reason for the acquisition of Cornerstone was to expand the Company's footprint in the Tampa, Florida metropolitan statistical area.

ACQUISITION SUMMARY

The following table provides a summary of the assets acquired and liabilities assumed as recorded by Cornerstone, the previously reported preliminary fair value adjustments necessary to adjust those acquired assets and assumed liabilities to fair value, recast adjustments to those previously reported preliminary fair values, and the fair values of those assets and liabilities as recorded by the Company. As provided for under GAAP, management has up to 12 months following the date of acquisition to finalize the fair values of the acquired assets and assumed liabilities. The preliminary fair value adjustments and the preliminary resultant fair values shown in the following table continue to be evaluated by management and may be subject to further recast adjustments.

Acquisition of Cornerstone Bancorp, Inc. - Summary of Assets Acquired and Liabilities Assumed

	May 17, 2016 As Previously Reported			As Recasted		
(in thousands)	As Recorded by Cornerstone	Fair Value Adjustments (1)		Recast Adjustments (1)		As Recorded by Republic
Assets acquired:						
Cash and cash equivalents	$ 22,707	$ —		$ —		$ 22,707
Investment securities	329	—		—		329
Loans	195,136	(5,525)	a	13	a	189,624
Allowance for loan and lease losses	(1,955)	1,955	a	—		—
Loans, net	193,181	(3,570)		13		189,624
Federal Home Loan Bank stock, at cost	224	—		—		224
Premises and equipment, net	7,770	4,457	b	—		12,227

Core deposit intangible	—	1,205	c	—	1,205
Deferred income taxes	3,714	(74)	d	—	3,640
Bank owned life insurance	7,461	—		—	7,461
Other assets and accrued interest receivable	658	—		—	658
Total assets acquired	$ 236,044	$ 2,018		$ 13	$ 238,075
Liabilities assumed:					
Deposits					
Noninterest-bearing	$ 52,908	$ —		$ —	$ 52,908
Interest-bearing	152,257	92	e	—	152,349
Total deposits	205,165	92		—	205,257
Subordinated note	4,124	—		—	4,124
Other liabilities and accrued interest payable	2,244	787	f	—	3,031
Total liabilities assumed	211,533	879		—	212,412
Net assets acquired	$ 24,511	$ 1,139		$ 13	25,663
Cash consideration paid					(31,795)
Goodwill					$ 6,132

(1) The Company's acquisition of Cornerstone closed on May 17, 2016. The fair value adjustments reported are preliminary estimates based on information obtained subsequent to May 17, 2016 and through September 30, 2016. Management is continuing to evaluate each of its estimates and may provide additional recast adjustments in future periods based on this continuing evaluation. To the extent that additional recast adjustments are posted in future periods, the resultant fair values and the amount of goodwill recorded by the Company will change.

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Explanation of preliminary fair value adjustments:

a. Adjustment reflects the fair value adjustment based on the Company's evaluation of the acquired loan portfolio and to eliminate the recorded allowance for loan losses.
b. Adjustment reflects the fair value adjustment based on the Company's evaluation of the premises and equipment acquired.
c. Adjustment reflects the fair value adjustment for the core deposit intangible asset recorded as a result of the acquisition.
d. This adjustment reflects the differences in the carrying values of acquired assets and assumed liabilities for financial reporting purposes and their basis for federal income tax purposes.
e. Adjustment reflects the fair value adjustment based on the Company's evaluation of the assumed time deposits.
f. Adjustment reflects the amount needed to adjust other liabilities to estimated fair value and to record certain liabilities directly attributable to the acquisition of Cornerstone.

Goodwill of approximately $6 million, which is the excess of the merger consideration over the fair value of net assets acquired, is expected to be recorded in the Cornerstone acquisition and is the result of expected operational synergies and other factors. This goodwill is all attributable to the Company's Traditional Banking segment and is not expected to be deductible for tax purposes. To the extent that management revises any of the above fair value adjustments as a result of its continuing evaluation, the amount of goodwill recorded in the Cornerstone acquisition will change.

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CORNERSTONE CONTRIBUTION FOR THE REPORTING PERIOD

The Company's consolidated statements of income include the impact of the Company's Cornerstone acquisition for the three and nine months ended September 30, 2016. The results of operations of the assets acquired and liabilities assumed in the Company's Cornerstone acquisition, inclusive of any pre-acquisition related costs, are summarized in the following table:

	Three Months Ended September 30, 2016				Nine Months Ended September 30, 2016			
(in thousands)	Non-Acquisition Related	Acquisition-Related		Total	Non-Acquisition Related	Acquisition-Related		Total
INTEREST INCOME:								
Loans, including fees	$ 2,348	$ 34	a	$ 2,382	$ 3,403	$ 34	a	$ 3,437
Taxable investment securities	547	—		547	750	—		750
Total interest income	2,895	34		2,929	4,153	34		4,187
INTEREST EXPENSE:								
Deposits	144	(5)	b	139	215	(9)	b	206
Borrowings	848	—		848	1,099	—		1,099
Subordinated note	25	—		25	37	—		37
Total interest expense	1,017	(5)		1,012	1,351	(9)		1,342
NET INTEREST INCOME	1,878	39		1,917	2,802	43		2,845
Provision for loan and lease losses	9	—		9	95	—		95
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	1,869	39		1,908	2,707	43		2,750
NONINTEREST INCOME:								
Service charges on deposit accounts	86	—		86	123	—		123
Interchange fee income	57	—		57	76	—		76
Other	140	—		140	176	—		176
Total noninterest income	283	—		283	375	—		375
NONINTEREST EXPENSES:								
Salaries and employee benefits	831	—		831	1,250	274	c	1,524

Occupancy and equipment, net	225	—		225	325	—		325
Communication and transportation	67	—		67	97	10	d	107
Marketing and development	100	—		100	127	—		127
FDIC insurance expense	11	—		11	30	—		30
Data processing	3	212	e	215	—	663	e	663
Supplies	24	—		24	31	20	f	51
Legal and professional fees	11	—		11	40	150	g	190
Other	152	45	h	197	220	76	h	296
Total noninterest expenses	1,424	257		1,681	2,120	1,193		3,313
INCOME (LOSS) BEFORE INCOME TAX EXPENSE	728	(218)		510	962	(1,150)		(188)
INCOME TAX EXPENSE (BENEFIT)	218	(67)		151	288	(348)		(60)
NET INCOME (LOSS)	$ 510	$ (151)		$ 359	$ 674	$ (802)		$ (128)

Explanation of acquisition-related items:

a. Accretion of loan discounts.
b. Amortization of deposit premiums.
c. Severance payouts and signing bonuses for former Cornerstone employees.
d. Notices to former Cornerstone stakeholders of change in ownership and merger-related travel.
e. Primarily core system conversion-related costs.
f. Costs to update forms and supplies to RB&T brand.
g. Includes legal, audit, tax and other acquisition related consulting costs.
h. Includes amortization of core deposit intangible asset.

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3. 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 ("AOCI") were as follows:

September 30, 2016 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 286,295	$ 1,350	$ —	$ 287,645
Private label mortgage backed security	3,864	1,004	—	4,868
Mortgage backed securities - residential	78,048	2,814	(30)	80,832
Collateralized mortgage obligations	95,173	660	(238)	95,595
Freddie Mac preferred stock	—	193	—	193
Community Reinvestment Act mutual fund	2,500	44	—	2,544
Corporate bonds	15,005	123	—	15,128
Trust preferred security	3,438	—	(338)	3,100
Total securities available for sale	$ 484,323	$ 6,188	$ (606)	$ 489,905

December 31, 2015 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 286,914	$ 59	$ (494)	$ 286,479
Private label mortgage backed security	4,037	1,095	—	5,132
Mortgage backed securities - residential	88,968	3,395	(95)	92,268
Collateralized mortgage obligations	113,972	748	(1,052)	113,668
Freddie Mac preferred stock	—	173	—	173
Community Reinvestment Act mutual fund	1,000	11	—	1,011
Corporate bonds	15,009	16	(103)	14,922
Trust preferred security	3,405	—	—	3,405
Total securities available for sale	$ 513,305	$ 5,497	$ (1,744)	$ 517,058

Securities Held to Maturity

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

September 30, 2016 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 509	$ 7	$ —	$ 516
Mortgage backed securities - residential	160	12	—	172
Collateralized mortgage obligations	28,795	254	(76)	28,973
Corporate bonds	5,075	—	(85)	4,990
Total securities held to maturity	$ 34,539	$ 273	$ (161)	$ 34,651

December 31, 2015 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 515	$ 1	$ —	$ 516
Mortgage backed securities - residential	53	6	—	59
Collateralized mortgage obligations	33,159	464	—	33,623
Corporate bonds	5,000	—	(2)	4,998
Total securities held to maturity	$ 38,727	$ 471	$ (2)	$ 39,196

At September 30, 2016 and December 31, 2015, 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.

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Sales of Securities Available for Sale

During the three and nine months ended September 30, 2016 there were no gains or losses on sales or calls of securities available for sale.

During the three months ended September 30, 2015 there were no gains on securities available for sale. During the nine months ended September 30, 2015 there was a gain of $88,000 on the call of one security available for sale.

Investment Securities by Contractual Maturity

The amortized cost and fair value of the investment securities portfolio by contractual maturity at September 30, 2016 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	
September 30, 2016 (in thousands)	Amortized Cost	Fair Value	Carrying Value	Fair Value
Due in one year or less	$ 96,170	$ 96,479	$ 509	$ 516
Due from one year to five years	195,130	196,203	5,075	4,990
Due from five years to ten years	10,000	10,091	—	—
Due beyond ten years	3,438	3,100	—	—
Private label mortgage backed security	3,864	4,868	—	—
Mortgage backed securities - residential	78,048	80,832	160	172
Collateralized mortgage obligations	95,173	95,595	28,795	28,973
Freddie Mac preferred stock	—	193	—	—
Community Reinvestment Act mutual fund	2,500	2,544	—	—
Total securities	$ 484,323	$ 489,905	$ 34,539	$ 34,651

Freddie Mac Preferred Stock

During 2008, the U.S. Treasury, the Federal Reserve Board and the Federal Housing Finance Agency ("FHFA") announced that the FHFA was placing Freddie Mac under conservatorship and giving management control to the

FHFA. The Bank contemporaneously determined that its 40,000 shares of Freddie Mac preferred stock were fully impaired and recorded an other-than-temporary impairment ("OTTI") charge of $2.1 million in 2008. The OTTI charge brought the carrying value of the stock to $0. In 2014, based on active trading volume of Freddie Mac preferred stock, the Company determined it appropriate to record an unrealized gain to AOCI related to its Freddie Mac preferred stock holdings. Based on the stock's market closing price as of September 30, 2016, the Company's unrealized gain for its Freddie Mac preferred stock totaled $193,000.

Corporate Bonds

The Bank maintains a portfolio of corporate bonds, $75,000 of which were obtained on May 17, 2016 in connection with the Bank's acquisition of CCB. The remaining corporate bonds were rated "investment grade" by accredited rating agencies as of their respective purchase dates. The total fair value of the Bank's corporate bonds represented 4% of the Bank's investment portfolio as of September 30, 2016 and December 31, 2015.

Mortgage Backed Securities and Collateralized Mortgage Obligations

At September 30, 2016, with the exception of the $4.9 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"). At September 30, 2016 and December 31, 2015, there were gross unrealized losses of $268,000 and $1.1 million related to available for sale mortgage backed securities and CMOs. Because these unrealized losses are attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these 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 have other-than-temporary impairment ("OTTI").

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Trust Preferred Security

During the fourth quarter of 2015, the Parent Company purchased a $3 million floating rate trust preferred security ("TRUP") at a price of 68% of par. The coupon on this security is based on the 3-month LIBOR rate plus 159 basis points, giving the Parent Company an expected yield to maturity of 4.27% when considering the discount. The Company performed an initial analysis prior to acquisition and performs ongoing analysis of the credit risk of the underlying borrower in relation to its TRUP.

Unrealized-Loss Analysis

Securities with unrealized losses at September 30, 2016 and December 31, 2015, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

September 30, 2016 (in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available for sale:						
Mortgage backed securities - residential	$ —	$ —	$ 4,619	$ (30)	$ 4,619	$ (30)
Collateralized mortgage obligations	20,765	(64)	17,557	(174)	38,322	(238)
Trust preferred security	3,100	(338)	—	—	3,100	(338)
Total securities available for sale	$ 23,865	$ (402)	$ 22,176	$ (204)	$ 46,041	$ (606)

December 31, 2015 (in thousands)	Less than 12 months		12 months or more		Total	
	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	$ 191,584	$ (433)	$ 9,914	$ (61)	$ 201,498	$ (494)
Mortgage backed securities - residential	5,727	(95)	—	—	5,727	(95)

Collateralized mortgage obligations	6,831	(212)	35,869	(840)	42,700	(1,052)
Corporate bonds	9,896	(103)	—	—	9,896	(103)
Total securities available for sale	$ 214,038	$ (843)	$ 45,783	$ (901)	$ 259,821	$ (1,744)

September 30, 2016 (in thousands)	Less than 12 months Fair Value	Unrealized Losses	12 months or more Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Securities held to maturity:						
Collateralized mortgage obligations	$ 74,312	$ (76)	$ —	$ —	$ 74,312	$ (76)
Corporate bonds	—	—	4,915	(85)	4,915	(85)
Total securities held to maturity	$ 74,312	$ (76)	$ 4,915	$ (85)	$ 79,227	$ (161)

December 31, 2015 (in thousands)	Less than 12 months Fair Value	Unrealized Losses	12 months or more Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Securities held to maturity:						
Corporate bonds	$ 4,998	$ (2)	$ —	—	$ 4,998	$ (2)
Total securities held to maturity	$ 4,998	$ (2)	$ —	$ —	$ 4,998	$ (2)

At September 30, 2016, the Bank’s security portfolio consisted of 173 securities, 19 of which were in an unrealized loss position.

At December 31, 2015, the Bank’s security portfolio consisted of 162 securities, 34 of which were in an unrealized loss position.

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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 following:

· 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 $4.9 million at September 30, 2016. This security, with an average remaining life currently estimated at four years, is mostly backed by "Alternative A" first lien mortgage loans, but also has an insurance "wrap" or guarantee as an added layer of protection to the security holder. This asset is illiquid, and as such, the Bank determined it to be a Level 3 security in accordance with Accounting Standards Codification ("ASC") Topic 820, Fair Value Measurements and Disclosures. Based on this determination, the Bank utilized an income valuation model ("present value model") approach, in determining the fair value of the security. This approach is beneficial for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support for this investment.

See additional discussion regarding the Bank's private label mortgage backed security under Footnote 10 "Fair Value" in this section of the filing.

Pledged Investment Securities

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

(in thousands)	September 30, 2016	December 31, 2015
Carrying amount	$ 205,553	$ 489,598
Fair value	205,773	490,074

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4. LOANS HELD FOR SALE

In the ordinary course of business, the Bank originates for sale mortgage loans and short-term consumer loans. Mortgage loans originated for sale are primarily originated and sold into the secondary market through the Bank's Mortgage Banking operations, while short-term consumer loans originated for sale are originated and sold through the RCS division of the Company's RPG segment.

Mortgage Loans Held for Sale, at Fair Value

See additional detail regarding mortgage loans originated for sale, at fair value under Footnote 11 "Mortgage Banking Activities" of this section of the filing.

Consumer Loans Held for Sale, at Fair Value

During the first quarter of 2016, RCS initiated a short-term installment loan program, in which the Company sells 100% of the receivables approximately 21 days after origination. The Company carries these loans at fair value, with the loans marked to market on a monthly basis, and any changes in their fair value reported as a component of "Republic Processing Group program fees."

Activity for consumer loans held for sale and carried at fair value was as follows:

(in thousands)	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Balance, beginning of period	$ 6,826	$ —
Origination of consumer loans held for sale	20,057	33,714
Proceeds from the sale of consumer loans held for sale	(25,397)	(32,355)
Net gain on sale of consumer loans held for sale	205	332
Balance, end of period	$ 1,691	$ 1,691

Consumer Loans Held for Sale, at Lower of Cost or Fair Value

RCS originates for sale its short-term, line-of-credit product and its credit-card product. The Bank sells 90% of the balances maintained through these products within two days of loan origination and retains a 10% interest. The short-term, line-of-credit product represents the substantial majority of activity in consumer loans held for sale and carried at the lower of cost or fair value, as RCS moved beyond the pilot phase for this product in June 2015. In December 2015, RCS began piloting its credit-card product. Any gains or losses on sale of such products are reported as a component of "Republic Processing Group program fees."

Activity for consumer loans held for sale and carried at the lower of cost or market value was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2016	2015	2016	2015
Balance, beginning of period	$ 1,122	$ 1,542	$ 514	$ —
Origination of consumer loans held for sale	99,346	66,320	214,716	86,218
Proceeds from the sale of consumer loans held for sale	(100,099)	(67,871)	(215,573)	(86,473)
Net gain on sale of consumer loans held for sale	724	663	1,436	909
Balance, end of period	$ 1,093	$ 654	$ 1,093	$ 654

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5. LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The composition of the loan portfolio at period end follows:

(in thousands)	September 30, 2016	December 31, 2015
Residential real estate:		
Owner occupied	$ 1,028,471	$ 1,081,934
Owner occupied - correspondent*	159,955	249,344
Non owner occupied	149,610	116,294
Commercial real estate	999,852	824,887
Commercial real estate - purchased whole loans*	36,085	35,674
Construction & land development	94,289	66,500
Commercial & industrial	250,094	229,721
Lease financing receivables	12,186	8,905
Warehouse lines of credit	661,186	386,729
Home equity	335,116	289,194
Consumer:		
RPG loans*	16,453	7,204
Credit cards	12,581	11,068
Overdrafts	795	685
Purchased whole loans*	6,895	5,892
Other consumer	59,463	12,579
Total loans**	3,823,031	3,326,610
Allowance for loan and lease losses	(30,436)	(27,491)
Total loans, net	$ 3,792,595	$ 3,299,119

*Identifies loans to borrowers located primarily outside of the Bank's 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 following table reconciles the contractually receivable and carrying amounts of loans at September 30, 2016 and December 31, 2015:

(in thousands)	September 30, 2016	December 31, 2015

Contractual receivable	$ 3,828,586	$ 3,329,741
Unearned income(1)	(963)	(741)
Unamortized premiums(2)	2,036	3,792
Unaccreted discounts(3)	(10,146)	(7,860)
Net unamortized deferred origination fees and costs	3,518	1,678
Carrying value of loans	$ 3,823,031	$ 3,326,610

(1) Unearned income relates to lease financing receivables.
(2) Premiums predominately relate to loans acquired through the Bank’s Correspondent Lending channel.
(3) Unaccreted discounts include accretable and non-accretable discounts and predominately relate to loans acquired in the Bank’s 2016 Cornerstone acquisition and its 2012 FDIC-assisted transactions.

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Loan Purchases

The Core Bank acquires for investment single family, first lien mortgage loans that meet the Core Bank's specifications through its Correspondent Lending channel. The loans acquired through the Correspondent Lending channel are primarily purchased from the Core Bank's Warehouse clients, with substantially all loans purchased at a premium. Loans acquired through the Correspondent Lending channel generally reflect borrowers outside of the Bank's market footprint, with 73% of such loans as of September 30, 2016 secured by collateral in the state of California.

In addition to mortgage loans acquired through its Correspondent Lending channel, the Bank has acquired in the past unsecured consumer installment loans for investment from a third-party originator. Such consumer loans were purchased at par and were selected by the Bank based on certain underwriting specifications.

The following table reflects the purchased activity of single family, first lien mortgage loans and unsecured consumer loans, by class, during the three and nine months ended September 30, 2016 and 2015.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2016	2015	2016	2015
Residential real estate:				
Owner occupied - correspondent*	$ 9,631	$ 22,003	$ 44,454	$ 84,804
Consumer:				
Purchased whole loans*	—	2,453	4,422	2,815
Total purchased loans	$ 9,631	$ 24,456	$ 48,876	$ 87,619

* Represents origination amount, inclusive of applicable purchase premiums.

Loans Acquired in Cornerstone Acquisition

The following table summarizes loans acquired in the Company's May 17, 2016 Cornerstone acquisition, recasted as of September 30, 2016:

May 17, 2016

(in thousands)	Contractual Receivable	Non-accretable Amount	Accretable Amount	Acquisition-Day Fair Value
Residential real estate:				
Owner occupied	17,901	—	143	18,044
Non owner occupied	11,196	—	(108)	11,088
Commercial real estate	106,089	—	(1,541)	104,548
Construction & land development	18,277	—	(505)	17,772
Commercial & industrial	11,462	—	(226)	11,236
Home equity	20,652	—	(373)	20,279
Consumer and other	2,347	—	(234)	2,113
Total loans - ASC 310-20	187,924	—	(2,844)	185,080
Residential real estate:				
Owner occupied	549	(198)	(7)	344
Non owner occupied	1,721	(285)	(167)	1,269
Commercial real estate	4,315	(1,626)	(197)	2,492
Construction & land development	175	—	—	175
Commercial & industrial	66	(98)	1	(31)
Home equity	382	(78)	(11)	293
Consumer and other	4	(2)	—	2
Total loans - ASC 310-30 - purchased-credit-impaired loans	7,212	(2,287)	(381)	4,544
Total loans	$ 195,136	$ (2,287)	$ (3,225)	$ 189,624

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Purchased-Credit-Impaired ("PCI") Loans

The Bank acquired PCI loans on May 17, 2016 in its Cornerstone acquisition and during the year ended December 31, 2012 in two FDIC-assisted transactions. PCI loans are accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality.

Management utilized the following criteria in determining which loans were classified as PCI loans for its May 17, 2016 Cornerstone acquisition:

· Loans for which the Bank assigned a non-accretable discount
· Loans classified as nonaccrual when acquired
· Loans past due 90+ days when acquired

The following table reconciles the contractually required and carrying amounts of all PCI loans at September 30, 2016 and December 31, 2015:

(in thousands)	September 30, 2016	December 31, 2015
Contractually-required principal	$ 19,612	$ 18,250
Non-accretable amount	(1,853)	(1,582)
Accretable amount	(3,860)	(4,125)
Carrying value of loans	$ 13,899	$ 12,543

The following table presents a rollforward of the accretable amount on all PCI loans for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2016	2015	2016	2015
Balance, beginning of period	$ (4,087)	$ (4,323)	$ (4,125)	$ (2,297)
Transfers between non-accretable and accretable	179	(573)	(299)	(3,927)
Net accretion into interest income on loans, including loan fees	48	684	945	2,012
Generated from acquisition of Cornerstone Bancorp, Inc. (recasted)	—	—	(381)	—

Balance, end of period	$ (3,860)	$ (4,212)	$ (3,860)	$ (4,212)

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Credit Quality Indicators

Based on the Bank's internal analyses performed as of September 30, 2016 and December 31, 2015, 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, 2015:

September 30, 2016 (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	$ —	$ 22,952	$ 14,708	$ —	$ 2,509	$ —	$ 40,169
Owner occupied - correspondent	—	—	—	—	—	—	—
Non owner occupied	—	398	1,104	—	793	—	2,295
Commercial real estate	979,008	5,656	4,816	—	10,372	—	999,852
Commercial real estate - purchased whole loans	36,085	—	—	—	—	—	36,085
Construction & land development	93,397	92	800	—	—	—	94,289
Commercial & industrial	249,035	853	176	—	30	—	250,094
Lease financing receivables	12,186			—	—	—	12,186
Warehouse lines of credit	661,186	—	—	—	—	—	661,186
Home equity	—	109	1,941	—	194	—	2,244
Consumer:							
RPG loans	—	—	82	—	—	—	82
Credit cards	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—
Purchased whole loans	—	—	107	—	—	—	107
Other consumer	—	24	58	—	1	—	83
Total rated loans	$ 2,030,897	$ 30,084	$ 23,792	$ —	$ 13,899	$ —	$ 2,098,672

December 31, 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	$ —	$ 24,301	$ 14,577	$ —	$ 560	$ —	$ 39,438
Owner occupied - correspondent	—	—	—	—	—	—	—
Non owner occupied	—	860	1,557	—	785	—	3,202
Commercial real estate	803,369	5,070	6,530	—	9,918	—	824,887
Commercial real estate - Purchased whole loans	35,674	—	—	—	—	—	35,674
Construction & land development	63,750	96	2,621	—	33	—	66,500
Commercial & industrial	227,344	936	194	—	1,247	—	229,721
Lease financing receivables	8,905	—	—	—	—	—	8,905
Warehouse lines of credit	386,729	—	—	—	—	—	386,729
Home equity	—	21	2,296	—	—	—	2,317
Consumer:							
RPG loans	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—
Purchased whole loans	—	—	—	—	—	—	—
Other consumer	—	28	58	—	—	—	86
Total rated loans	$ 1,525,771	$ 31,312	$ 27,833	$ —	$ 12,543	$ —	$ 1,597,459

*At September 30, 2016 and December 31, 2015, Special Mention included $176,000 and $180,000 and Substandard included $1 million and $1 million that were removed from PCI accounting in accordance with ASC 310-30-35-13 due to a post-acquisition troubled debt restructuring.

** The above tables exclude all non-classified residential real estate, home equity and consumer loans. The Bank does not formally risk rate certain consumer loans, but for the table above, considers such loans to be substandard if nonaccrual or 90-days-or-more past due.

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Allowance for Loan and Lease Losses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2016	2015	2016	2015
Allowance, beginning of period	$ 29,308	$ 25,248	$ 27,491	$ 24,410
Charge-offs - Core Banking	(723)	(676)	(2,139)	(1,853)
Charge-offs - RPG	(1,352)	(182)	(6,546)	(208)
Total charge-offs	(2,075)	(858)	(8,685)	(2,061)
Recoveries - Core Banking	480	312	1,185	1,027
Recoveries - RPG	234	24	956	261
Total recoveries	714	336	2,141	1,288
Net (charge-offs) recoveries - Core Banking	(243)	(364)	(954)	(826)
Net (charge-offs) recoveries - RPG	(1,118)	(158)	(5,590)	53
Net (charge-offs) recoveries	(1,361)	(522)	(6,544)	(773)
Provision - Core Banking	477	1,100	2,253	2,192
Provision - RPG	2,012	1,133	7,236	1,130
Total provision	2,489	2,233	9,489	3,322
Allowance, end of period	$ 30,436	$ 26,959	$ 30,436	$ 26,959

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The following tables present the activity in the Allowance by portfolio class for the three months ended September 30, 2016 and 2015:

	Residential Real Estate				Commercial			
		Owner			Real Estate -			Lease
Three Months Ended September 30, 2016 (in thousands)	Owner Occupied	Occupied Correspondent	Non Owner Occupied	Commercial Real Estate	Purchased Whole Loans	Construction & Land Development	Commercial & Industrial	Financing Receivables
Beginning balance	$ 7,893	$ 592	$ 1,052	$ 7,769	$ 36	$ 1,332	$ 1,441	$ 115
Provision	(562)	(200)	113	192	—	66	(182)	13
Charge-offs	(56)	—	—	—	—	—	—	—
Recoveries	142	—	—	34	—	10	121	—
Ending balance	$ 7,417	$ 392	$ 1,165	$ 7,995	$ 36	$ 1,408	$ 1,380	$ 128

(continued)	Warehouse Lines of Credit	Home Equity	Consumer RPG Loans	Credit Cards	Overdrafts	Purchased Whole Loans	Other Consumer	Total
Beginning balance	$ 1,465	$ 3,016	$ 2,451	$ 456	$ 824	$ 535	$ 331	$ 29,308
Provision	188	633	2,012	105	(34)	38	107	2,489
Charge-offs	—	(145)	(1,352)	(91)	(239)	(93)	(99)	(2,075)
Recoveries	—	31	234	17	55	9	61	714
Ending balance	$ 1,653	$ 3,535	$ 3,345	$ 487	$ 606	$ 489	$ 400	$ 30,436

	Residential Real Estate				Commercial			
		Owner			Real Estate -			Lease
Three Months Ended	Owner Occupied	Occupied Correspondent	Non Owner Occupied	Commercial Real Estate	Purchased Whole Loans	Construction & Land Development	Commercial & Industrial	Financing Receivables

September 30, 2015
(in thousands)

Beginning balance	$ 8,202	$ 608	$ 904	$ 7,840	$ 35	$ 1,100	$ 1,191	$ 76
Provision	330	7	83	200	—	31	235	7
Charge-offs	(153)	—	(97)	(27)	—	—	—	—
Recoveries	76	—	—	—	—	—	18	—
Ending balance	$ 8,455	$ 615	$ 890	$ 8,013	$ 35	$ 1,131	$ 1,444	$ 83

(continued)	Warehouse Lines of Credit	Home Equity	Consumer RPG Loans	Credit Cards	Overdrafts	Purchased Whole Loans	Other Consumer	Total
Beginning balance	$ 1,222	$ 2,765	$ 252	$ 399	$ 286	$ 207	$ 161	$ 25,248
Provision	(238)	124	1,133	40	138	154	(11)	2,233
Charge-offs	—	(110)	(182)	(30)	(152)	(25)	(82)	(858)
Recoveries	—	54	24	6	63	1	94	336
Ending balance	$ 984	$ 2,833	$ 1,227	$ 415	$ 335	$ 337	$ 162	$ 26,959

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The following tables present the activity in the Allowance by portfolio class for the nine months ended September 30, 2016 and 2015:

	Residential Real Estate				Commercial			
Nine Months Ended September 30, 2016 (in thousands)	Owner Occupied	Owner Occupied Correspondent	Non Owner Occupied	Commercial Real Estate	Real Estate - Purchased Whole Loans	Construction & Land Development	Commercial & Industrial	Lease Financing Receivables
Beginning balance	$ 8,301	$ 623	$ 1,052	$ 7,636	$ 36	$ 1,303	$ 1,455	$ 89
Provision	(860)	(231)	105	260	—	119	130	39
Charge-offs	(317)	—	—	(41)	—	(44)	(330)	—
Recoveries	293	—	8	140	—	30	125	—
Ending balance	$ 7,417	$ 392	$ 1,165	$ 7,995	$ 36	$ 1,408	$ 1,380	$ 128

(continued)	Warehouse Lines of Credit	Home Equity	Consumer RPG Loans	Credit Cards	Overdrafts	Purchased Whole Loans	Other Consumer	Total
Beginning balance	$ 967	$ 2,996	$ 1,699	$ 448	$ 351	$ 392	$ 143	$ 27,491
Provision	686	633	7,236	163	639	298	272	9,489
Charge-offs	—	(229)	(6,546)	(153)	(571)	(216)	(238)	(8,685)
Recoveries	—	135	956	29	187	15	223	2,141
Ending balance	$ 1,653	$ 3,535	$ 3,345	$ 487	$ 606	$ 489	$ 400	$ 30,436

	Residential Real Estate				Commercial			
Nine Months Ended September 30, 2015 (in thousands)	Owner Occupied	Owner Occupied Correspondent	Non Owner Occupied	Commercial Real Estate	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	157	48	173	364	1	205	277	58
Charge-offs	(467)	—	(126)	(181)	—	—	(56)	—
Recoveries	200	—	6	90	—	—	56	—
Ending balance	$ 8,455	$ 615	$ 890	$ 8,013	$ 35	$ 1,131	$ 1,444	$ 83

(continued)	Warehouse Lines of Credit	Home Equity	Consumer RPG Loans	Credit Cards	Overdrafts	Purchased Whole Loans	Other Consumer	Total
Beginning balance	$ 799	$ 2,730	$ 44	$ 285	$ 382	$ 185	$ 124	$ 24,410
Provision	185	172	1,130	184	116	248	4	3,322
Charge-offs	—	(182)	(208)	(101)	(401)	(97)	(242)	(2,061)
Recoveries	—	113	261	47	238	1	276	1,288
Ending balance	$ 984	$ 2,833	$ 1,227	$ 415	$ 335	$ 337	$ 162	$ 26,959

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Nonperforming Loans and Nonperforming Assets

Detail of nonperforming loans and nonperforming assets follows:

(dollars in thousands)	September 30, 2016		December 31, 2015	
Loans on nonaccrual status*	$ 17,769		$ 21,712	
Loans past due 90-days-or-more and still on accrual**	223		224	
Total nonperforming loans	17,992		21,936	
Other real estate owned	2,435		1,220	
Total nonperforming assets	$ 20,427		$ 23,156	
Credit Quality Ratios:				
Nonperforming loans to total loans	0.47	%	0.66	%
Nonperforming assets to total loans (including OREO)	0.53		0.70	
Nonperforming assets to total assets	0.42		0.55	

*Loans on nonaccrual status include impaired loans.

**Loans past due 90-days-or-more and still accruing consist of PCI loans or smaller balance consumer loans.

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

(in thousands)	Nonaccrual September 30, 2016	Nonaccrual December 31, 2015	Past Due 90-Days-or-More and Still Accruing Interest* September 30, 2016	Past Due 90-Days-or-More and Still Accruing Interest* December 31, 2015
Residential real estate:				
Owner occupied	$ 11,947	$ 13,197	$ 34	$ —
Owner occupied - correspondent	—	—	—	—
Non owner occupied	837	935	—	—
Commercial real estate	3,305	3,941	—	224
Commercial real estate - purchased whole loans	—	—	—	—
Construction & land development	80	1,589	—	—
Commercial & industrial	176	194	—	—

Lease financing receivables	—	—	—	—
Warehouse lines of credit	—	—	—	—
Home equity	1,365	1,793	—	—
Consumer:				
RPG loans	—	—	82	—
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Purchased whole loans	—	—	107	—
Other consumer	59	63	—	—
Total	$ 17,769	$ 21,712	$ 223	$ 224

* Loans past due 90-days-or-more and still accruing consist of PCI loans or smaller balance consumer loans.

Nonaccrual 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. Nonaccrual 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 nonaccrual 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:

September 30, 2016 (dollars in thousands)	30 - 59 Days Delinquent	60 - 89 Days Delinquent	90 or More Days Delinquent*	Total Delinquent**	Total Current	Total
Residential real estate:						
Owner occupied	$ 2,168	$ 1,029	$ 1,848	$ 5,045	$ 1,023,426	$ 1,028,471
Owner occupied - correspondent	—	—	—	—	159,955	159,955
Non owner occupied	287	—	9	296	149,314	149,610
Commercial real estate	17	—	419	436	999,416	999,852
Commercial real estate - purchased whole loans	—	—	—	—	36,085	36,085
Construction & land development	41	—	—	41	94,248	94,289
Commercial & industrial	—	—	—	—	250,094	250,094
Lease financing receivables	—	—	—	—	12,186	12,186
Warehouse lines of credit	—	—	—	—	661,186	661,186
Home equity	912	426	357	1,695	333,421	335,116
Consumer:						
RPG loans	561	21	82	664	15,789	16,453
Credit cards	23	5	—	28	12,553	12,581
Overdrafts	185	—	—	185	610	795
Purchased whole loans	127	50	107	284	6,611	6,895
Other consumer	33	7	—	40	59,423	59,463
Total	$ 4,354	$ 1,538	$ 2,822	$ 8,714	$ 3,814,317	$ 3,823,031
Delinquency ratio***	0.11 %	0.04 %	0.07 %	0.23 %		

December 31, 2015 (dollars in thousands)	30 - 59 Days Delinquent	60 - 89 Days Delinquent	90 or More Days Delinquent*	Total Delinquent**	Total Current	Total
Residential real estate:						
Owner occupied	$ 1,960	$ 1,044	$ 3,878	$ 6,882	$ 1,075,052	$ 1,081,934

Owner occupied - correspondent	—	—	—	—	249,344	249,344
Non owner occupied	14	—	39	53	116,241	116,294
Commercial real estate	178	—	933	1,111	823,776	824,887
Commercial real estate - purchased whole loans	—	—	—	—	35,674	35,674
Construction & land development	—	—	1,500	1,500	65,000	66,500
Commercial & industrial	299	—	—	299	229,422	229,721
Lease financing receivables	—	—	—	—	8,905	8,905
Warehouse lines of credit	—	—	—	—	386,729	386,729
Home equity	206	1	1,186	1,393	287,801	289,194
Consumer:						
RPG loans	246	—	—	246	6,958	7,204
Credit cards	10	2	—	12	11,056	11,068
Overdrafts	133	—	—	133	552	685
Purchased whole loans	5	42	—	47	5,845	5,892
Other consumer	37	18	—	55	12,524	12,579
Total	$ 3,088	$ 1,107	$ 7,536	$ 11,731	$ 3,314,879	$ 3,326,610
Delinquency ratio***	0.09 %	0.03 %	0.23 %	0.35 %		

*All loans past due 90-days-or-more, excluding PCI loans and small balance consumer loans, were on nonaccrual status.

**Delinquent status may be determined by either the number of days past due or number of payments past due.

***Represents total loans 30-days-or-more past due by aging category divided by total loans.

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Impaired Loans

Information regarding the Bank's impaired loans follows:

(in thousands)	September 30, 2016	December 31, 2015
Loans with no allocated Allowance	$ 22,292	$ 26,143
Loans with allocated Allowance	32,789	39,980
Total impaired loans	$ 55,081	$ 66,123
Amount of the Allowance	$ 5,009	$ 5,427

Approximately $4 million and $7 million of impaired loans at September 30, 2016 and December 31, 2015 were PCI loans. Approximately $1 million and $1 million of impaired loans at September 30, 2016 and December 31, 2015 were formerly PCI loans that 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 September 30, 2016 and December 31, 2015:

ptember 30, 2016 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 Receivabl
lowance:								
ding Allowance ance:								
lividually aluated for pairment, cluding PCI ans	$ 3,397	$ —	$ 103	$ 358	$ —	$ 122	$ 176	$ —
llectively aluated for pairment	4,006	392	1,003	7,257	36	1,286	1,204	128
CI loans with post quisition pairment	14	—	59	380	—	—	—	—
CI loans without st acquisition pairment	—	—	—	—	—	—	—	—
tal ending lowance:	$ 7,417	$ 392	$ 1,165	$ 7,995	$ 36	$ 1,408	$ 1,380	$ 128
ans:								
paired loans lividually aluated, cluding PCI ans	$ 35,109	$ —	$ 1,331	$ 11,035	$ —	$ 891	$ 254	$ —
ans collectively aluated for pairment	990,853	159,955	147,486	978,445	36,085	93,398	249,810	12,18
CI loans with post quisition pairment	454	—	535	3,428	—	—	—	—
CI loans without st acquisition pairment	2,055	—	258	6,944	—	—	30	—

tal ending loan ance	$ 1,028,471	$ 159,955	$ 149,610	$ 999,852	$ 36,085	$ 94,289	$ 250,094	$ 12,18

(continued)	Warehouse Lines of Credit	Home Equity	Consumer RPG Loans	Credit Cards	Overdrafts	Purchased Whole Loans	Other Consumer	Total
Allowance:								
Ending Allowance balance:								
Individually evaluated for impairment, excluding PCI loans	$ —	$ 386	$ —	$ —	$ —	$ —	$ 14	$ 4,556
Collectively evaluated for impairment	1,653	3,149	3,345	487	606	489	386	25,427
PCI loans with post acquisition impairment	—	—	—	—	—	—	—	453
PCI loans without post acquisition impairment	—	—	—	—	—	—	—	—
Total ending Allowance:	$ 1,653	$ 3,535	$ 3,345	$ 487	$ 606	$ 489	$ 400	$ 30,436
Loans:								
Impaired loans individually evaluated, excluding PCI loans	$ —	$ 1,961	$ —	$ —	$ —	$ —	$ 83	$ 50,664
Loans collectively evaluated for impairment	661,186	332,961	16,453	12,581	795	6,895	59,379	3,758,468
	—	—	—	—	—	—	—	4,417

PCI loans with post acquisition impairment								
PCI loans without post acquisition impairment	—	194	—	—	—	—	1	9,482
Total ending loan balance	$ 661,186	$ 335,116	$ 16,453	$ 12,581	$ 795	$ 6,895	$ 59,463	$ 3,823,031

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ecember 31, 2015 n 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 Receiva
llowance:								
nding Allowance alance:								
ndividually valuated for npairment, xcluding PCI oans	$ 3,820	$ —	$ 78	$ 339	$ —	$ 159	$ 196	$ —
ollectively valuated for npairment	4,471	623	878	6,806	36	1,144	1,137	89
CI loans with ost acquisition npairment	10	—	96	491	—	—	122	—
CI loans without ost acquisition npairment	—	—	—	—	—	—	—	—
otal ending llowance:	$ 8,301	$ 623	$ 1,052	$ 7,636	$ 36	$ 1,303	$ 1,455	$ 89
oans:								
npaired loans ndividually valuated, xcluding PCI oans	$ 39,041	$ —	$ 2,351	$ 12,441	$ —	$ 2,717	$ 322	$ —
oans collectively valuated for npairment	1,042,334	249,344	113,158	802,528	35,674	63,750	228,151	8,905
CI loans with ost acquisition npairment	65	—	785	4,806	—	—	1,193	—
CI loans without ost acquisition npairment	494	—	—	5,112	—	33	55	—
otal ending loan alance	$ 1,081,934	$ 249,344	$ 116,294	$ 824,887	$ 35,674	$ 66,500	$ 229,721	$ 8,905

(continued)	Warehouse Lines of Credit	Home Equity	Consumer RPG Loans	Credit Cards	Overdrafts	Purchased Whole Loans	Other Consumer	Total
Allowance:								
Ending Allowance balance:								
Individually evaluated for impairment, excluding PCI loans	$ —	$ 100	$ —	$ —	$ —	$ —	$ 16	$ 4,708
Collectively evaluated for impairment	967	2,896	1,699	448	351	392	127	22,064
PCI loans with post acquisition impairment	—	—	—	—	—	—	—	719
PCI loans without post acquisition impairment	—	—	—	—	—	—	—	—
Total ending Allowance:	$ 967	$ 2,996	$ 1,699	$ 448	$ 351	$ 392	$ 143	$ 27,491
Loans:								
Impaired loans individually evaluated, excluding PCI loans	$ —	$ 2,316	$ —	$ —	$ —	$ —	$ 86	$ 59,274
Loans collectively evaluated for impairment	386,729	286,878	7,204	11,068	685	5,892	12,493	3,254,793
PCI loans with post acquisition impairment	—	—	—	—	—	—	—	6,849

PCI loans without post acquisition impairment	—	—	—	—	—	—	—	5,694
Total ending loan balance	$ 386,729	$ 289,194	$ 7,204	$ 11,068	$ 685	$ 5,892	$ 12,579	$ 3,326,610

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The following tables present loans individually evaluated for impairment by class of loans as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015. The difference between the "Unpaid Principal Balance" and "Recorded Investment" columns represents life-to-date partial write downs/charge offs taken on individual impaired credits.

	As of September 30, 2016			Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
(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	$ 13,628	$ 13,285	$ —	$ 13,702	$ 37	$ —	$ 13,376	$ 104	$ —
Owner occupied - correspondent	—	—	—	—	—	—	—	—	—
Non owner occupied	867	845	—	891	—	—	1,431	—	—
Commercial real estate	6,001	6,000	—	6,349	32	—	6,764	109	—
Commercial real estate - purchased whole loans	—	—	—	—	—	—	—	—	—
Construction & land development	476	476	—	476	5	—	874	15	—
Commercial & industrial	78	78	—	192	2	—	103	5	—
Lease financing receivables	—	—	—	—	—	—	—	—	—
Warehouse lines of credit	—	—	—	—	—	—	—	—	—
Home equity	1,722	1,563	—	1,610	3	—	1,874	14	—
Consumer:									
RPG loans	—	—	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—	—

Purchased whole loans	—	—	—	—	—	—	—	—	—
Other consumer	55	45	—	47	—	—	69	—	—
Impaired loans with an allowance recorded:									
Residential real estate:									
Owner occupied	22,298	22,278	3,411	22,803	204	—	23,936	600	—
Owner occupied - correspondent	—	—	—	—	—	—	—	—	—
Non owner occupied	1,021	1,021	162	832	11	—	977	31	—
Commercial real estate	8,466	8,463	738	9,191	93	—	9,369	280	—
Commercial real estate - purchased whole loans	—	—	—	—	—	—	—	—	—
Construction & land development	415	415	122	421	5	—	482	15	—
Commercial & industrial	176	176	176	179	—	—	841	—	—
Lease financing receivables	—	—	—	—	—	—	—	—	—
Warehouse lines of credit	—	—	—	—	—	—	—	—	—
Home equity	410	398	386	236	5	—	203	11	—
Consumer:									
RPG loans	—	—	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—	—
Purchased whole loans	—	—	—	—	—	—	—	—	—
Other consumer	60	38	14	39	—	—	42	1	—
Total impaired loans	$ 55,673	$ 55,081	$ 5,009	$ 56,968	$ 397	$ —	$ 60,341	$ 1,185	$ —

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	As of December 31, 2015			Three Months Ended September 30, 2015			Nine Months Ended September 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 I Interes Incom Recog
Impaired loans with no related allowance recorded:									
Residential real estate:									
Owner occupied	$ 14,287	$ 13,256	$ —	$ 12,404	$ 12	$ —	$ 9,142	$ 46	$ —
Owner occupied - correspondent	—	—	—	—	—	—	—	—	—
Non owner occupied	1,978	1,928	—	2,210	8	—	2,306	25	—
Commercial real estate	7,406	6,743	—	8,939	78	—	12,029	228	—
Commercial real estate - purchased whole loans	—	—	—	—	—	—	—	—	—
Construction & land development	2,067	2,067	—	2,096	1	—	2,115	4	—
Commercial & industrial	18	18	—	1,546	24	—	2,663	74	—
Lease financing receivables	—	—	—	—	—	—	—	—	—
Warehouse lines of credit	—	—	—	2,374	—	—	—	—	—
Home equity	2,263	2,087	—	—	6	—	2,154	17	—
Consumer:									
RPG loans	—	—	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—	—
Purchased whole loans	—	—	—	—	—	—	—	—	—
Other consumer	44	44	—	42	—	—	32	—	—

Impaired loans with an allowance recorded:									
Residential real estate:									
Owner occupied	25,896	25,850	3,830	26,984	219	—	31,403	657	—
Owner occupied - correspondent	—	—	—	—	—	—	—	—	—
Non owner occupied	1,231	1,208	174	1,947	24	—	2,384	72	—
Commercial real estate	10,546	10,504	830	11,706	96	—	11,906	288	—
Commercial real estate - purchased whole loans	—	—	—	—	—	—	—	—	—
Construction & land development	650	650	159	663	9	—	622	27	—
Commercial & industrial	1,497	1,497	318	3,278	47	—	2,360	142	—
Lease financing receivables	—	—	—	—	—	—	—	—	—
Warehouse lines of credit	—	—	—	—	—	—	—	—	—
Home equity	258	229	100	151	1	—	336	2	—
Consumer:									
RPG loans	—	—	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—	—
Purchased whole loans	—	—	—	—	—	—	—	—	—
Other consumer	42	42	16	56	—	—	55	—	—
Total impaired loans	$ 68,183	$ 66,123	$ 5,427	$ 74,396	$ 525	$ —	$ 79,507	$ 1,582	$ —

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Troubled Debt Restructurings

A TDR is a 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 their debt in the foreseeable future without the modification. This evaluation is performed in accordance with 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 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.

Nonaccrual loans modified as TDRs typically remain on nonaccrual status and continue to be reported as nonperforming loans for a minimum of nine months. Accruing loans modified as TDRs are evaluated for nonaccrual status based on a current evaluation of the borrower's financial condition and ability and willingness to service the modified debt. At September 30, 2016 and December 31, 2015, $11 million and $12 million of TDRs were on nonaccrual status.

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

September 30, 2016 (dollars in thousands)	Troubled Debt Restructurings on Nonaccrual Status		Troubled Debt Restructurings on Accrual Status		Total Troubled Debt Restructurings	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential real estate	79	$ 7,467	205	$ 23,271	284	$ 30,738
Commercial real estate	7	3,017	16	7,532	23	10,549
Construction & land development	1	80	4	811	5	891
Commercial & industrial	1	176	2	78	3	254
Total troubled debt restructurings	88	$ 10,740	227	$ 31,692	315	$ 42,432

December 31, 2015 (dollars in thousands)	Troubled Debt Restructurings on Nonaccrual Status Number of Loans	Recorded Investment	Troubled Debt Restructurings on Accrual Status Number of Loans	Recorded Investment	Total Troubled Debt Restructurings Number of Loans	Recorded Investment
Residential real estate	74	$ 7,365	233	$ 27,844	307	$ 35,209
Commercial real estate	9	3,324	17	8,008	26	11,332
Construction & land development	2	1,589	6	1,128	8	2,717
Commercial & industrial	1	194	5	128	6	322
Total troubled debt restructurings	86	$ 12,472	261	$ 37,108	347	$ 49,580

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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 September 30, 2016 and December 31, 2015 follows:

	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
September 30, 2016 (dollars in thousands)	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	$ 10	1	$ 502	2	$ 512
Rate reduction	159	20,229	55	6,616	214	26,845
Principal deferral	8	651	7	293	15	944
Legal modification	22	988	31	1,449	53	2,437
Total residential TDRs	190	21,878	94	8,860	284	30,738
Commercial related and construction/land development loans:						
Interest only payments	3	974	1	430	4	1,404
Rate reduction	11	2,606	5	2,133	16	4,739
Principal deferral	8	4,841	3	710	11	5,551
Total commercial TDRs	22	8,421	9	3,273	31	11,694
Total troubled debt restructurings	212	$ 30,299	103	$ 12,133	315	$ 42,432

	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
December 31, 2015 (dollars in thousands)	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	$ 631	—	$ —	2	$ 631
Rate reduction	183	24,734	46	5,650	229	30,384

Principal deferral	9	789	7	771	16	1,560
Legal modification	30	1,226	30	1,408	60	2,634
Total residential TDRs	224	27,380	83	7,829	307	35,209
Commercial related and construction/land development loans:						
Interest only payments	6	1,517	1	481	7	1,998
Rate reduction	10	5,021	3	727	13	5,748
Principal deferral	12	2,726	8	3,899	20	6,625
Total commercial TDRs	28	9,264	12	5,107	40	14,371
Total troubled debt restructurings	252	$ 36,644	95	$ 12,936	347	$ 49,580

As of September 30, 2016 and December 31, 2015, 71% and 74% of the Bank's TDRs were performing according to their modified terms. The Bank had provided $4 million and $5 million of specific reserve allocations to clients whose loan terms have been modified in TDRs as of September 30, 2016 and December 31, 2015. The Bank had no commitments to lend any additional material amounts to its existing TDR relationships at September 30, 2016 or December 31, 2015.

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A summary of the categories of TDR loan modifications by respective performance as of September 30, 2016 and 2015 that were modified during the three months ended September 30, 2016 and 2015 follows:

September 30, 2016 (dollars in thousands)	Troubled Debt Restructurings Performing to Modified Terms Number of Loans	Recorded Investment	Troubled Debt Restructurings Not Performing to Modified Terms Number of Loans	Recorded Investment	Total Troubled Debt Restructurings Number of Loans	Recorded Investment
Residential real estate loans (including home equity loans):						
Interest only payments	—	$ —	—	$ —	—	$ —
Rate reduction	1	262	—	—	1	262
Principal deferral	—	—	—	—	—	—
Legal modification	3	263	1	135	4	398
Total residential TDRs	4	525	1	135	5	660
Commercial related and construction/land development loans:						
Interest only payments	—	—	—	—	—	—
Rate reduction	1	88	1	137	2	225
Principal deferral	—	—	1	1,504	1	1,504
Total commercial TDRs	1	88	2	1,641	3	1,729
Total troubled debt restructurings	5	$ 613	3	$ 1,776	8	$ 2,389

September 30, 2015 (dollars in thousands)	Troubled Debt Restructurings Performing to Modified Terms Number of Loans	Recorded Investment	Troubled Debt Restructurings Not Performing to Modified Terms Number of Loans	Recorded Investment	Total Troubled Debt Restructurings Number of Loans	Recorded Investment
Residential real estate loans (including home equity loans):						
Interest only payments	—	$ —	—	$ —	—	$ —
Rate reduction	2	195	—	—	2	195
Principal deferral	—	—	—	—	—	—
Legal modification	2	130	1	63	3	193

Total residential TDRs	4		325	1		63	5		388
Commercial related and construction/land development loans:									
Interest only payments	—		—	—		—	—		—
Rate reduction	—		—	—		—	—		—
Principal deferral	—		—	1		1,621	1		1,621
Total commercial TDRs	—		—	1		1,621	1		1,621
Total troubled debt restructurings	4	$	325	2	$	1,684	6	$	2,009

The tables above are inclusive of loans that were TDRs at the end of previous periods and were re-modified, e.g., a maturity date extension during the current period.

As of September 30, 2016 and 2015, 26% and 16% of the Bank's TDRs that occurred during the third quarters of 2016 and 2015 were performing according to their modified terms. The Bank provided approximately $75,000 and $9,000 in specific reserve allocations to clients whose loan terms were modified in TDRs during the third quarters of 2016 and 2015.

There was no significant change between the pre and post modification loan balances for the three months ending September 30, 2016 and 2015.

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A summary of the categories of TDR loan modifications by respective performance as of September 30, 2016 and 2015 that were modified during the nine months ended September 30, 2016 and 2015 follows:

	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
September 30, 2016 (dollars in thousands)	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	—	$ —	—	$ —	—	$ —
Rate reduction	5	494	3	151	8	645
Principal deferral	—	—	—	—	—	—
Legal modification	5	350	3	212	8	562
Total residential TDRs	10	844	6	363	16	1,207
Commercial related and construction/land development loans:						
Interest only payments	—	—	—	—	—	—
Rate reduction	1	88	1	137	2	225
Principal deferral	—	—	1	1,504	1	1,504
Total commercial TDRs	1	88	2	1,641	3	1,729
Total troubled debt restructurings	11	$ 932	8	$ 2,004	19	$ 2,936

	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
September 30, 2015 (dollars in thousands)	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	$ 621	—	$ —	1	$ 621
Rate reduction	6	594	5	455	11	1,049
Principal deferral	—	—	2	46	2	46
Legal modification	2	130	5	300	7	430

Total residential TDRs	9		1,345	12		801	21		2,146
Commercial related and construction/land development loans:									
Interest only payments	1		170	—		—	1		170
Rate reduction	1		825	—		—	1		825
Principal deferral	3		724	2		1,722	5		2,446
Total commercial TDRs	5		1,719	2		1,722	7		3,441
Total troubled debt restructurings	14	$	3,064	14	$	2,523	28	$	5,587

The tables above are inclusive of loans that were TDRs at the end of previous periods and were re-modified, e.g., a maturity date extension during the current period.

As of September 30, 2016 and 2015, 32% and 55% of the Bank's TDRs that occurred during the first nine months of 2016 and 2015 were performing according to their modified terms. The Bank provided approximately $109,000 and $75,000 in specific reserve allocations to clients whose loan terms were modified in TDRs during the first nine months of 2016 and 2015.

There was no significant change between the pre and post modification loan balances for the nine months ending September 30, 2016 and 2015.

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The following table presents loans by class modified as troubled debt restructurings within the previous 12 months of September 30, 2016 and 2015 and for which there was a payment default during the three and/or nine months ended September 30, 2016 and 2015.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
(dollars in thousands)	Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential real estate:								
Owner occupied	3	$ 150	2	$ 513	4	$ 359	13	$ 1,252
Owner occupied - correspondent	—	—	—	—	—	—	—	—
Non owner occupied	—	—	—	—	—	—	—	—
Commercial real estate	—	—	4	2,306	1	88	4	2,306
Commercial real estate - purchased whole loans	—	—	—	—	—	—	—	—
Construction & land development	—	—	—	—	—	—	—	—
Commercial & industrial	—	—	—	—	—	—	—	—
Lease financing receivables	—	—	—	—	—	—	—	—
Warehouse lines of credit	—	—	—	—	—	—	—	—
Home equity	1	135	—	—	1	135	—	—
Consumer:								
RPG loans	—	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—
Purchased whole loans	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—

Other consumer								
Total	4	$ 285	6	$ 2,819	6	$ 582	17	$ 3,558

Foreclosures

The following table presents the carrying amount of foreclosed properties held at September 30, 2016 and December 31, 2015 as a result of the Bank obtaining physical possession of such properties:

(in thousands)	September 30, 2016	December 31, 2015
Residential real estate	$ 2,230	$ 478
Commercial real estate	—	442
Construction & land development	205	300
Total other real estate owned	$ 2,435	$ 1,220

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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 September 30, 2016 and December 31, 2015:

(in thousands)	September 30, 2016	December 31, 2015
Recorded investment in consumer residential real estate mortgage loans in the process of foreclosure	$ 1,287	$ 4,602

Easy Advances

The Company's RPG segment offered its new EA product through the TRS division during the first quarter of 2016. TRS originated $123 million in EAs during the first quarter of 2016. The provision for loss on EAs equated to 2.54% of total EA originations for the nine months ended September 30, 2016. The Company based its provision for loss on EAs on prior year IRS funding patterns with adjustments based on current year IRS funding patterns. At September 30, 2016, all EAs originated had been either charged-off or collected.

Information regarding EAs follows:

(dollars in thousands)	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Easy Advances originated	$ —	$ 123,230
Provision for Easy Advances	—	3,127
Easy Advances net charged-offs	—	3,127
Easy Advances net charge-offs to total Easy Advances originated	NA	2.54 %

NA - Not applicable

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6. DEPOSITS

Ending deposit balances at September 30, 2016 and December 31, 2015 were as follows:

(in thousands)	September 30, 2016	December 31, 2015
Demand	$ 868,081	$ 783,054
Money market accounts	544,225	501,059
Brokered money market accounts	357,776	200,126
Savings	159,946	117,408
Individual retirement accounts*	42,342	36,016
Time deposits, $250 and over*	45,311	42,775
Other certificates of deposit*	140,700	127,878
Brokered certificates of deposit*	29,910	44,298
Total interest-bearing deposits	2,188,291	1,852,614
Total noninterest-bearing deposits	947,602	634,863
Total deposits	$ 3,135,893	$ 2,487,477

*Represents a time deposit.

The following table summarizes deposits acquired in the Company's May 17, 2016 Cornerstone acquisition:

(in thousands)	May 17, 2016 Contractual Principal	Fair Value Adjustment	Acquisition-Day Fair Value
Demand	$ 59,507	$ —	$ 59,507
Money market accounts	53,773	—	53,773
Savings	12,352	—	12,352
Individual retirement accounts*	3,897	13	3,910
Time deposits, $250 and over*	3,385	12	3,397
Other certificates of deposit*	19,343	67	19,410
Total interest-bearing deposits	152,257	92	152,349
Total noninterest-bearing deposits	52,908	—	52,908
Total deposits	$ 205,165	$ 92	$ 205,257

*Represents a time deposit.

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7. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND OTHER SHORT-TERM BORROWINGS

Securities sold under agreements to repurchase consist of short-term excess funds from correspondent banks, repurchase agreements and overnight liabilities to deposit clients arising from the Bank's treasury management program. While comparable to deposits in their transactional nature, these overnight liabilities to clients are in the form of repurchase agreements. Repurchase agreements collateralized by securities are treated as financings; accordingly, the securities involved with the agreements are recorded as assets and are held by a safekeeping agent and the obligations to repurchase the securities are reflected as liabilities. Should the fair value of currently pledged securities fall below the associated repurchase agreements, the Bank would be required to pledge additional securities. To mitigate the risk of under collateralization, the Bank typically pledges at least two percent more in securities than the associated repurchase agreements. All such securities are under the Bank's control.

At September 30, 2016 and December 31, 2015, all securities sold under agreements to repurchase had overnight maturities. Information regarding securities sold under agreements to repurchase follows:

(dollars in thousands)	September 30, 2016	December 31, 2015
Outstanding balance at end of period	$ 152,458	$ 395,433
Weighted average interest rate at end of period	0.02 %	0.02 %
Fair value of securities pledged:		
U.S. Treasury securities and U.S. Government agencies	$ 76,312	$ 244,707
Mortgage backed securities - residential	52,513	82,666
Collateralized mortgage obligations	46,170	130,821
Total securities pledged	$ 174,995	$ 458,194

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2016	2015	2016	2015
Average outstanding balance during the period	$ 215,343	$ 363,905	$ 296,574	$ 363,518
Average interest rate during the period	0.02 %	0.02 %	0.03 %	0.03 %
Maximum outstanding at any month end during the period	$ 169,691	$ 369,606	$ 367,373	$ 408,955

8. FEDERAL HOME LOAN BANK ADVANCES

At September 30, 2016 and December 31, 2015, FHLB advances were as follows:

(in thousands)	September 30, 2016	December 31, 2015
Overnight advances	$ 430,000	$ 150,000
Variable interest rate advance indexed to 3-Month LIBOR plus 0.14% due on December 20, 2016	10,000	10,000
Fixed interest rate advances with a weighted average interest rate of 1.64% due through 2023	372,500	439,500
Putable fixed interest rate advances with a weighted average interest rate of 4.39% due through 2017*	50,000	100,000
Total FHLB advances	$ 862,500	$ 699,500

*On a quarterly basis, the FHLB has the right to require payoff of these advances by the Bank at no penalty.

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Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. The Company incurred an $846,000 prepayment penalty on payoff of $50 million in FHLB advances for the three and nine months ended September 30, 2016, with no similar penalty incurred in the prior periods.

FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At September 30, 2016 and December 31, 2015, Republic had available borrowing capacity of $312 million and $567 million, respectively, from the FHLB. In addition to its borrowing capacity with the FHLB, Republic also had unsecured lines of credit totaling $170 million available through various other financial institutions as of September 30, 2016 and December 31, 2015.

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	
2016 (Overnight)	$ 430,000	0.40	%
2016	25,000	1.09	
2017	95,000	2.95	
2018	117,500	1.53	
2019	100,000	1.80	
2020	65,000	1.78	
2021	20,000	1.86	
Thereafter	10,000	2.14	
Total	$ 862,500	1.18	

Due to their nature, the Bank considers average balance information more meaningful than period-end balances for its overnight borrowings from the FHLB. Information regarding short-term overnight FHLB advances follows:

(dollars in thousands)	September 30, 2016		December 31, 2015	
Outstanding balance at end of period	$ 430,000		$ 150,000	
Weighted average interest rate at end of period	0.40	%	0.35	%

	Three Months Ended	Nine Months Ended

(dollars in thousands)	September 30, 2016	2015	September 30, 2016	2015
Average outstanding balance during the period	$ 99,946	$ 87,009	$ 78,960	$ 78,240
Average interest rate during the period	0.44 %	0.17 %	0.42 %	0.16 %
Maximum outstanding at any month end during the period	$ 430,000	$ 182,000	$ 495,000	$ 387,000

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

(in thousands)	September 30, 2016	December 31, 2015
First lien, single family residential real estate	$ 1,213,275	$ 1,346,663
Home equity lines of credit	301,159	272,863
Multi-family commercial real estate	9,692	10,227

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9. OFF BALANCE SHEET RISKS, COMMITMENTS AND CONTINGENT LIABILITIES

The Company, in the normal course of business, is party to financial instruments with off balance sheet risk. These financial instruments primarily include commitments to extend credit and standby letters of credit. The contract or notional amounts of these instruments reflect the potential future obligations of the Company pursuant to those financial instruments. Creditworthiness for all instruments is evaluated on a case-by-case basis in accordance with the Company's credit policies. Collateral from the client may be required based on the Company's credit evaluation of the client and may include business assets of commercial clients, as well as personal property and real estate of individual clients or guarantors.

The Company also extends binding commitments to clients and prospective clients. Such commitments assure a borrower of financing for a specified period of time at a specified rate. Additionally, the Company makes binding purchase commitments to third-party loan correspondent originators. These commitments assure that the Company will purchase a loan from such correspondent originators at a specific price for a specific period of time. The risk to the Company under such loan commitments is limited by the terms of the contracts. For example, the Company may not be obligated to advance funds if the client's financial condition deteriorates or if the client fails to meet specific covenants.

An approved but unfunded loan commitment represents a potential credit risk and a liquidity risk, since the Company's client(s) may demand immediate cash that would require funding. In addition, unfunded loan commitments represent interest rate risk as market interest rates may rise above the rate committed to the Company's client. Since a portion of these loan commitments normally expire unused, the total amount of outstanding commitments at any point in time may not require future funding.

The following table presents the Company's commitments, exclusive of Mortgage Banking loan commitments, for each period ended:

(in thousands)	September 30, 2016	December 31, 2015
Unused warehouse lines of credit	$ 259,761	$ 304,379
Unused home equity lines of credit	329,576	282,007
Unused loan commitments - other	521,663	329,232
Commitments to purchase loans*	3,795	22,590
Standby letters of credit	15,743	12,740
Total commitments	$ 1,130,538	$ 950,948

*Commitments made through the Bank's Correspondent Lending channel.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a client to a third party. The terms and risk of loss involved in issuing standby letters of credit are similar to those involved in issuing loan commitments and extending credit. In addition to credit risk, the Company also has liquidity risk associated with standby letters of credit because funding for these obligations could be required immediately. The Company does not deem this risk to be material.

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10. 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 fair value:

Securities available for sale: Quoted market prices in an active market are available for the Bank's Community Reinvestment Act ("CRA") mutual fund investment and fall within Level 1 of the fair value hierarchy.

Except for the Bank's CRA mutual fund investment, its private label mortgage backed security and its TRUP investment, 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 3 “Investment Securities” for additional discussion regarding the Bank’s private label mortgage backed security.

The Company acquired its TRUP investment in November 2015 and considered the most recent bid price for the same instrument to approximate market value at September 30, 2016. The Company’s TRUP investment is considered highly illiquid and also valued using Level 3 inputs, as the most recent bid price for this instrument is not always considered generally observable.

Mortgage loans held for sale, at fair value: 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.

Consumer loans held for sale, at fair value: During 2016, RCS initiated a short-term installment loan program and elected to carry all loans originated through this program at fair value. Such loans are generally sold within 21 days of origination, with their fair value based on contractual terms, Level 3 inputs.

Mortgage Banking derivatives: 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 a third-party valuation service and classifies such valuations as Level 2. Valuations of these interest rate swaps are also received from the relevant counterparty and validated against the Company’s 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.

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 or broker price opinions (“BPOs”). These appraisals or BPOs may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the process by the independent experts 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 and Equipment carried at fair value: Premises and equipment are accounted for at the lower of cost less accumulated depreciation or fair value less estimated costs to sell. The fair value of Bank premises are 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 or BPOs. These appraisals or BPOs may utilize a single approach or a combination of approaches, including comparable sales and the income approach. Adjustments are routinely made in the process by the independent experts 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 collateral-dependent impaired loans, impaired premises and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Bank. Once the appraisal is received, a member of the Bank’s Credit Administration Department reviews the assumptions and approaches utilized in the appraisal, as well as the overall resulting fair value in comparison with independent data sources, such as recent market data or industry-wide statistics. On 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 tranche exceeds fair value, impairment is recorded and the respective individual tranche is carried at fair value. If the carrying amount of an individual tranche 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 can generally be validated against available market data (Level 2). There were no MSR tranches carried at fair value at September 30, 2016 and December 31, 2015.

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Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Bank has elected the fair value option, are summarized below:

(in thousands)	Fair Value Measurements at September 30, 2016 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial assets:				
Securities available for sale:				
U.S. Treasury securities and U.S. Government agencies	$ —	$ 287,645	$ —	$ 287,645
Private label mortgage backed security	—	—	4,868	4,868
Mortgage backed securities - residential	—	80,832	—	80,832
Collateralized mortgage obligations	—	95,595	—	95,595
Freddie Mac preferred stock	—	193	—	193
Community Reinvestment Act mutual fund	2,544	—	—	2,544
Corporate bonds	—	15,128	—	15,128
Trust preferred security	—	—	3,100	3,100
Total securities available for sale	$ 2,544	$ 479,393	$ 7,968	$ 489,905
Mortgage loans held for sale	$ —	$ 8,442	$ —	$ 8,442
Consumer loans held for sale	—	—	1,691	1,691
Rate lock commitments	—	910	—	910
Interest rate swap agreements	—	1,736	—	1,736
Financial liabilities:				
Mandatory forward contracts	$ —	$ 130	$ —	$ 130
Interest rate swap agreements	—	2,772	—	2,772

(in thousands)	Fair Value Measurements at December 31, 2015 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial assets:				
Securities available for sale:				
U.S. Treasury securities and U.S. Government agencies	$ —	$ 286,479	$ —	$ 286,479
Private label mortgage backed security	—	—	5,132	5,132

Mortgage backed securities - residential	—	92,268	—	92,268
Collateralized mortgage obligations	—	113,668	—	113,668
Freddie Mac preferred stock	—	173	—	173
Community Reinvestment Act mutual fund	1,011	—	—	1,011
Corporate bonds	—	14,922	—	14,922
Trust preferred security	—	—	3,405	3,405
Total securities available for sale	$ 1,011	$ 507,510	$ 8,537	$ 517,058
Mortgage loans held for sale	$ —	$ 4,083	$ —	$ 4,083
Rate lock commitments	—	306	—	306
Interest rate swap agreements	—	400	—	400
Financial liabilities:				
Mandatory forward contracts	$ —	$ 25	$ —	$ 25
Interest rate swap agreements	—	1,000	—	1,000

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All transfers between levels are generally recognized at the end of each quarter. There were no transfers into or out of Level 1, 2 or 3 assets during the three and nine months ended September 30, 2016 and 2015.

Private Label Mortgage Backed Security

The following table presents a reconciliation of the Bank's private label mortgage backed security measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2016	2015	2016	2015
Balance, beginning of period	$ 4,946	$ 5,231	$ 5,132	$ 5,250
Total gains or losses included in earnings:				
Net change in unrealized gain	57	(58)	(91)	(84)
Recovery of actual losses previously recorded	—	—	—	35
Principal paydowns	(135)	—	(173)	(28)
Balance, end of period	$ 4,868	$ 5,173	$ 4,868	$ 5,173

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 tables present quantitative information about recurring Level 3 fair value measurement inputs for the Bank's single private label mortgage backed security at September 30, 2016 and December 31, 2015:

September 30, 2016 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range
Private label mortgage backed security	$ 4,868	Discounted cash flow	(1) Constant prepayment rate	0.0% - 6.5%
			(2) Probability of default	3.0% - 9.0%
			(3) Loss severity	60% - 90%

December 31, 2015 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range
Private label mortgage backed security	$ 5,132	Discounted cash flow	(1) Constant prepayment rate	0.0% - 6.5%
			(2) Probability of default	3.0% - 9.0%
			(3) Loss severity	60% - 90%

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Trust Preferred Security

The Company invested in its TRUP in November 2015. The following table presents a reconciliation of the Company's TRUP measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2016:

(in thousands)	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Balance, beginning of period	$ 3,150	$ 3,405
Total gains or losses included in earnings:		
Net change in unrealized loss	(50)	(305)
Balance, end of period	$ 3,100	$ 3,100

The fair value of the Company's TRUP investment is based on the most recent bid price for this instrument, as provided by a third-party broker.

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 loans and in accordance with Bank policy for such instruments. None of these loans were past due 90-days-or-more or on nonaccrual as of September 30, 2016 and December 31, 2015.

As of September 30, 2016 and December 31, 2015, the aggregate fair value, contractual balance, and unrealized gain was as follows:

(in thousands)	September 30, 2016	December 31, 2015
Aggregate fair value	$ 8,442	$ 4,083
Contractual balance	8,197	3,993
Unrealized gain	245	90

The total amount of gains and losses from changes in fair value included in earnings for the three and nine months ended September 30, 2016 and 2015 for mortgage loans held for sale are presented in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2016	2015	2016	2015
Interest income	$ 76	$ 67	$ 148	$ 180
Change in fair value	57	10	155	107
Total included in earnings	$ 133	$ 77	$ 303	$ 287

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Consumer Loans Held for Sale

During 2016, RCS initiated a short-term installment loan program and elected to carry all loans originated through this program at fair value. Such loans are generally sold within 21 days of origination, with their fair value based on contractual terms. 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 or on nonaccrual as of September 30, 2016.

A reconciliation of the Company's consumer loans held for sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2016 is included in Footnote 4 of this section of the filing.

The significant unobservable inputs in the fair value measurement of the Bank's short-term installment loans are the net contractual premiums and level of loans sold at a discount price. 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 measurement inputs for short-term installment loans as of September 30, 2016:

September 30, 2016 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range
Consumer loans held for sale	$ 1,691	Contractual Terms	(1) Net Premium	0.9%
			(2) Discounted Sales	5.0%

As of September 30, 2016, the aggregate fair value, contractual balance, and unrealized gain on consumer loans held for sale, at fair value, was as follows:

(in thousands)	September 30, 2016
Aggregate fair value	$ 1,691
Contractual balance	1,608
Unrealized gain	83

The total amount of net gains from changes in fair value included in earnings for the three and nine months ended September 30, 2016 for consumer loans held for sale, at fair value, are presented in the following table:

(in thousands)	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
Interest income	$	378	$	537
Change in fair value		(279)		83
Total included in earnings	$	99	$	620

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Assets measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at September 30, 2016 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	$ —	$ —	$ 3,555	$ 3,555
Non owner occupied	—	—	9	9
Commercial real estate	—	—	3,217	3,217
Home equity	—	—	383	383
Total impaired loans*	$ —	$ —	$ 7,164	$ 7,164

Other real estate owned: