

REPUBLIC FIRST BANCORP INC
Form 10-Q
August 06, 2015

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 June 30, 2015.

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ____ to ____.

Commission File Number: 000-17007

Republic First Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of incorporation or
organization)

23-2486815
(I.R.S. Employer Identification No.)

50 South 16th Street, Philadelphia, Pennsylvania
(Address of principal executive offices)

19102
(Zip code)

215-735-4422
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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
(Do not check if a 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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common Stock, par value \$0.01 per share	37,816,003
Title of Class	Number of Shares Outstanding as of August 5, 2015

REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARIES
TABLE OF CONTENTS

Part I: Financial Information	Page
Item 1.	Financial Statements Consolidated balance sheets as of June 30, 2015 and December 31, 2014 (unaudited) <u>1</u> Consolidated statements of income for the three and six <u>2</u> months ended June 30, 2015 and 2014 (unaudited) Consolidated statements of comprehensive income (loss) for <u>3</u> the three and six months ended June 30, 2015 and 2014 (unaudited) Consolidated statements of cash flows for the six months <u>4</u> ended June 30, 2015 and 2014 (unaudited) Consolidated statements of changes in shareholders' equity <u>5</u> for the six months ended June 30, 2015 and 2014 (unaudited) Notes to consolidated financial statements (unaudited) <u>6</u>
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations <u>33</u>
Item 3.	Quantitative and Qualitative Disclosures about Market Risk <u>53</u>
Item 4.	Controls and Procedures <u>53</u>
Part II: Other Information	
Item 1.	Legal Proceedings <u>54</u>
Item 1A.	Risk Factors <u>54</u>
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds <u>54</u>
Item 3.	Defaults Upon Senior Securities <u>55</u>
Item 4.	Mine Safety Disclosures <u>55</u>
Item 5.	Other Information <u>55</u>
Item 6.	Exhibits <u>56</u>
Signatures	<u>57</u>

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
June 30, 2015 and December 31, 2014
(Dollars in thousands, except per share data)
(unaudited)

	June 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$16,377	\$14,822
Interest bearing deposits with banks	64,793	114,004
Cash and cash equivalents	81,170	128,826
Investment securities available for sale, at fair value	176,142	185,379
Investment securities held to maturity, at amortized cost (fair value of \$119,269 and \$68,253, respectively)	119,338	67,866
Restricted stock, at cost	1,179	1,157
Loans held for sale	3,464	1,676
Loans receivable (net of allowance for loan losses of \$8,398 and \$11,536, respectively)	814,477	770,404
Premises and equipment, net	40,961	35,030
Other real estate owned, net	13,162	3,715
Accrued interest receivable	3,559	3,226
Other assets	18,966	17,319
Total Assets	\$1,272,418	\$1,214,598
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand – non-interest bearing	\$241,550	\$224,245
Demand – interest bearing	327,342	283,768
Money market and savings	488,873	488,848
Time deposits	72,032	75,369
Total Deposits	1,129,797	1,072,230
Accrued interest payable	235	265
Other liabilities	6,471	6,816
Subordinated debt	22,476	22,476
Total Liabilities	1,158,979	1,101,787
Shareholders' Equity		
Preferred stock, par value \$0.01 per share: 10,000,000 shares authorized; no shares issued	-	-
Common stock, par value \$0.01 per share: 50,000,000 shares authorized; shares issued 38,344,348	383	383
Additional paid in capital	152,513	152,234
Accumulated deficit	(34,205)	(35,266)
Treasury stock at cost (503,408 shares)	(3,725)	(3,725)
Stock held by deferred compensation plan (25,437 shares)	(183)	(183)
Accumulated other comprehensive loss	(1,344)	(632)

Edgar Filing: REPUBLIC FIRST BANCORP INC - Form 10-Q

Total Shareholders' Equity	113,439	112,811
Total Liabilities and Shareholders' Equity	\$1,272,418	\$1,214,598

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries

Consolidated Statements of Income
For the Three and Six Months Ended June 30, 2015 and 2014
(Dollars in thousands, except per share data)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Interest income:				
Interest and fees on taxable loans	\$9,142	\$8,226	\$18,093	\$16,467
Interest and fees on tax-exempt loans	128	84	254	166
Interest and dividends on taxable investment securities	1,405	1,188	2,887	2,429
Interest and dividends on tax-exempt investment securities	138	83	263	162
Interest on federal funds sold and other interest-earning assets	86	50	163	62
Total interest income	10,899	9,631	21,660	19,286
Interest expense:				
Demand- interest bearing	341	225	631	416
Money market and savings	501	467	1,054	883
Time deposits	170	178	345	351
Other borrowings	278	277	554	553
Total interest expense	1,290	1,147	2,584	2,203
Net interest income	9,609	8,484	19,076	17,083
Provision for loan losses	-	300	-	300
Net interest income after provision for loan losses	9,609	8,184	19,076	16,783
Non-interest income:				
Loan advisory and servicing fees	325	466	924	903
Gain on sales of SBA loans	1,222	1,046	1,800	2,200
Service fees on deposit accounts	398	287	761	580
Gain on sale of investment securities	9	458	9	458
Other-than-temporary impairment	-	21	(13	) 21
Portion recognized in other comprehensive income (before taxes)	-	(28	) 10	(28
Net impairment loss on investment securities	-	(7	) (3	) (7
Other non-interest income	68	39	108	85
Total non-interest income	2,022	2,289	3,599	4,219
Non-interest expenses:				
Salaries and employee benefits	5,715	4,828	10,937	9,868
Occupancy	1,219	1,027	2,384	2,065
Depreciation and amortization	732	571	1,455	1,069
Legal	340	444	579	699
Other real estate owned	371	340	748	686
Advertising	91	214	242	362
Data processing	373	354	725	654
Insurance	190	122	370	279
Professional fees	350	428	675	830
Regulatory assessments and costs	301	196	593	533
Taxes, other	204	234	425	449

Edgar Filing: REPUBLIC FIRST BANCORP INC - Form 10-Q

Other operating expenses	1,217	1,199	2,488	2,278
Total non-interest expense	11,103	9,957	21,621	19,772
Income before benefit for income taxes	528	516	1,054	1,230
Benefit for income taxes	(5)	(21)	(7)	(62)
Net income	\$533	\$537	\$1,061	\$1,292
Net income per share:				
Basic	\$0.01	\$0.02	\$0.03	\$0.04
Diluted	\$0.01	\$0.02	\$0.03	\$0.04

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
For the Three and Six Months Ended June 30, 2015 and 2014
(Dollars in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	\$ 533	\$ 537	\$ 1,061	\$ 1,292
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on securities (pre-tax \$(1,838), \$1,610, \$(1,208), and \$3,666, respectively)	(1,178)	1,032	(774)	2,350
Reclassification adjustment for securities gains (pre-tax \$(9), \$(458), \$(9), and \$(458), respectively)	(6)	(293)	(6)	(293)
Reclassification adjustment for impairment charge (pre-tax \$-, \$7, \$3, and \$7, respectively)				
Net unrealized holding losses on securities transferred from available-for-sale to held-to-maturity:	-	4	2	4
Amortization of net unrealized holding losses to income during the period (pre-tax \$45, \$-, \$103, and \$- respectively)	29	-	66	-
Total other comprehensive income (loss)	(1,155)	743	(712)	2,061
Total comprehensive income (loss)	\$ (622)	\$ 1,280	\$ 349	\$ 3,353

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2015 and 2014
(Dollars in thousands)
(unaudited)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities		
Net income	\$1,061	\$1,292
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses	-	300
Write down of other real estate owned	298	552
Depreciation and amortization	1,455	1,069
Stock based compensation	279	198
Gain on sale and call of investment securities	(9	) (458
Impairment charges on investment securities	3	7
Amortization of premiums on investment securities	313	293
Proceeds from sales of SBA loans originated for sale	18,383	23,370
SBA loans originated for sale	(18,371	) (16,730
Gains on sales of SBA loans originated for sale	(1,800	) (2,200
Increase in accrued interest receivable and other assets	(1,581	) (1,295
Decrease in accrued interest payable and other liabilities	(375	) (205
Net cash (used in) provided by operating activities	(344	) 6,193
Cash flows from investing activities		
Purchase of investment securities available for sale	(9,678	) (31,364
Purchase of investment securities held to maturity	(56,741) -
Proceeds from the sale of securities available for sale	4,081	5,700
Proceeds from the maturity or call of securities available for sale	13,459	14,293
Proceeds from the maturity or call of securities held to maturity	5,226	-
Net purchase of restricted stock	(22	) (155
Net increase in loans	(54,286	) (40,251
Net proceeds from sale of other real estate owned	468	63
Premises and equipment expenditures	(7,386	) (7,362
Net cash used in investing activities	(104,879	) (59,076
Cash flows from financing activities		
Net proceeds from stock offering	-	44,973
Net increase in demand, money market and savings deposits	60,904	53,177
Net (decrease) increase in time deposits	(3,337	) 1,973
Net cash provided by financing activities	57,567	100,123
Net (decrease) increase in cash and cash equivalents	(47,656	) 47,240
Cash and cash equivalents, beginning of year	128,826	35,880
Cash and cash equivalents, end of period	\$81,170	\$83,120

Supplemental disclosures:

Interest paid	\$2,614	\$2,148
Income taxes paid	\$-	\$70
Non-cash transfers from loans to other real estate owned	\$10,213	\$193

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Six Months Ended June 30, 2015 and 2014
(Dollars in thousands)
(unaudited)

	Common Stock	Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance January 1, 2015	\$ 383	\$ 152,234	\$ (35,266)	\$ (3,725)	\$ (183)	\$ (632)	\$ 112,811
Net income			1,061				1,061
Other comprehensive loss, net of tax						(712)	(712)
Stock based compensation		279					279
Balance June 30, 2015	\$ 383	\$ 152,513	\$ (34,205)	\$ (3,725)	\$ (183)	\$ (1,344)	\$ 113,439
Balance January 1, 2014	\$ 265	\$ 107,078	\$ (37,708)	\$ (3,099)	\$ (809)	\$ (2,828)	\$ 62,899
Net income			1,292				1,292
Other comprehensive income, net of tax						2,061	2,061
Proceeds from shares issued under common stock offering (11,842,106 shares) net of offering costs (pre-tax \$27)	118	44,855					44,973
Stock based compensation		198					198
Balance June 30, 2014	\$ 383	\$ 152,131	\$ (36,416)	\$ (3,099)	\$ (809)	\$ (767)	\$ 111,423

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

Note 1: Basis of Presentation

Republic First Bancorp, Inc. (the “Company”) is a corporation established under the laws of the Commonwealth of Pennsylvania and a registered bank holding company. The Company offers a variety of retail and commercial banking services to individuals and businesses throughout the Greater Philadelphia and Southern New Jersey area through its wholly-owned subsidiary, Republic First Bank (“Republic” or the “Bank”) which does business under the name Republic Bank. The Company also has three unconsolidated subsidiaries, which are statutory trusts established by the Company in connection with its sponsorship of three separate issuances of trust preferred securities.

The Company and Republic encounter vigorous competition for market share in the geographic areas they serve from bank holding companies, national, regional and other community banks, thrift institutions, credit unions and other non-bank financial organizations, such as mutual fund companies, insurance companies and brokerage companies.

The Company and Republic are subject to regulations of certain state and federal agencies. These regulatory agencies periodically examine the Company and Republic for adherence to laws and regulations. As a consequence, the cost of doing business may be affected.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Republic. The Company follows accounting standards set by the Financial Accounting Standards Board (“FASB”). The FASB sets accounting principles generally accepted in the United States of America (“U.S. GAAP”) that are followed to ensure consistent reporting of financial condition, results of operations, and cash flows.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to United States Securities and Exchange Commission (“SEC”) Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for financial statements for a complete fiscal year. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements. The Company has evaluated subsequent events through the date of issuance of the financial data included herein.

Note 2: Summary of Significant Accounting Policies

Risks and Uncertainties

The earnings of the Company depend primarily on the earnings of Republic. The earnings of Republic are dependent primarily upon the level of net interest income, which is the difference between interest earned on its interest-earning assets, such as loans and investments, and the interest paid on its interest-bearing liabilities, such as deposits and borrowings. Accordingly, the Company’s results of operations are subject to risks and uncertainties surrounding Republic’s exposure to changes in the interest rate environment.

Prepayments on residential real estate mortgage and other fixed rate loans and mortgage-backed securities vary significantly and may cause significant fluctuations in interest margins.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates are made by management in determining the allowance for loan losses, carrying values of other real estate owned, assessment of other than temporary impairment (“OTTI”) of investment securities, fair value of financial instruments and the realization of deferred income tax assets. Consideration is given to a variety of factors in establishing these estimates.

In estimating the allowance for loan losses, management considers current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers’ perceived financial and managerial strengths, the adequacy of underlying collateral, if collateral dependent, or present value of future cash flows, and other relevant factors. An estimate for the carrying value of other real estate owned is normally determined through appraisals which are updated on a regular basis or through agreements of sale that have been negotiated. Because the allowance for loan losses and carrying value of other real estate owned are dependent, to a great extent, on the general economy and other conditions that may be beyond the Company’s and Republic’s control, the estimates of the allowance for loan losses and the carrying values of other real estate owned could differ materially in the near term.

In estimating OTTI of investment securities, securities are evaluated on at least a quarterly basis and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other than temporary. To determine whether a loss in value is other than temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline, the intent to hold the security and the likelihood of the Company not being required to sell the security prior to an anticipated recovery in the fair value. The term “other than temporary” is not intended to indicate that the decline is permanent, but indicates that the prospect for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of 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.

In evaluating the Company’s ability to recover deferred tax assets, management considers all available positive and negative evidence. Management also makes assumptions on the amount of future taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require management to make judgments that are consistent with the plans and estimates used to manage the Company’s business. As a result of cumulative losses in recent years and the slow pace of recovery in the current economic environment, the Company has decided to currently exclude future taxable income from its analysis of the ability to recover deferred tax assets and has recorded a valuation allowance against its deferred tax assets. An increase or decrease in the valuation allowance would result in an adjustment to income tax expense in the period and could have a significant impact on the Company’s future earnings.

Stock-Based Compensation

The Company has a Stock Option and Restricted Stock Plan (“the 2005 Plan”), under which the Company may grant options, restricted stock or stock appreciation rights to the Company’s employees, directors, and certain consultants. The 2005 Plan became effective on November 14, 1995, and was amended and approved at the Company’s 2005 annual meeting of shareholders. Under the terms of the 2005 Plan, 1.5 million shares of common stock, plus an annual increase equal to the number of shares needed to restore the maximum number of shares that

may be available for grant under the 2005 Plan to 1.5 million shares, are available for such grants. As of June 30, 2015, the only grants under the 2005 Plan have been option grants. The 2005 Plan provides that the exercise price of each option granted equals the market price of the Company's stock on the date of the grant. Options granted pursuant to the 2005 Plan vest within one to four years and have a maximum term of 10 years. The 2005 Plan terminates pursuant to its term on November 14, 2015.

On April 29, 2014 the Company's shareholders approved the 2014 Republic First Bancorp, Inc. Equity Incentive Plan (the "2014 Plan"), under which the Company may grant options, restricted stock, stock units, or stock appreciation rights to the Company's employees, directors, independent contractors, and consultants. Under the terms of the 2014 Plan, 2.6 million shares of common stock, plus an annual adjustment to be no less than 10% of the outstanding shares or such lower number as the Board of Directors may determine, are available for such grants.

During the six months ended June 30, 2015, 15,000 options were granted under the 2005 Plan with a weighted average grant date fair value of \$20,826. During the six months ended June 30, 2015, 490,200 options were granted under the 2014 Plan with a weighted average grant date fair value of \$747,152.

The Company utilizes the Black-Scholes option pricing model to calculate the estimated fair value of each stock option granted on the date of the grant. A summary of the assumptions used in the Black-Scholes option pricing model for 2015 and 2014 are as follows:

	2015	2014
Dividend yield(1)	0.0%	0.0%
	53.78%	55.79%
Expected volatility(2)	to 56.00%	to 57.99%
Risk-free interest rate(3)	1.49% to 2.00%	1.51% to 2.13%
Expected life(4)	5.5 to 7.0 years	5.5 to 7.0 years

(1) A dividend yield of 0.0% is utilized because cash dividends have never been paid.

(2) Expected volatility is based on Bloomberg's five and one-half to seven year volatility calculation for "FRBK" stock.

(3) The risk-free interest rate is based on the five to seven year Treasury bond.

(4) The expected life reflects a 1 to 4 year vesting period, the maximum ten year term and review of historical behavior.

During the six months ended June 30, 2015 and 2014, 323,062 options and 198,825 options vested, respectively. Expense is recognized ratably over the period required to vest. At June 30, 2015, the intrinsic value of the 1,991,105 options outstanding was \$770,895, while the intrinsic value of the 772,454 exercisable (vested) options was \$252,796. During the six months ended June 30, 2015, 8,494 options were forfeited with a weighted average grant date fair value of \$6,870.

Information regarding stock based compensation for the six months ended June 30, 2015 and 2014 is set forth below:

	2015	2014
Stock based compensation expense recognized	\$279,000	\$198,000
Number of unvested stock options	1,218,651	1,055,013
Fair value of unvested stock options	\$1,927,048	\$1,545,988
Amount remaining to be recognized as expense	\$1,194,289	\$910,590

The remaining amount of \$1,194,289 will be recognized as expense through May 2019.

Earnings per Share

Earnings per share (“EPS”) consist of two separate components: basic EPS and diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income by the weighted average number of common shares outstanding plus dilutive common stock equivalents (“CSEs”). CSEs consist of shares of common stock underlying dilutive stock options granted pursuant to the Company’s 2005 Plan and 2014 Plan and convertible securities related to the trust preferred securities issued in 2008. In the diluted EPS computation, the after tax interest expense on the trust preferred securities issuance is added back to the net income. For the three and six months ended June 30, 2015 and 2014, the effect of CSEs (shares of common stock underlying convertible securities related to the trust preferred securities only) and the related add back of after tax interest expense was considered anti-dilutive and therefore was not included in the EPS calculation.

The calculation of EPS for the three and six months ended June 30, 2015 and 2014 is as follows (in thousands, except per share amounts):

	Three Months Ended June		Six Months Ended June	
	30, 2015	2014	30, 2015	2014
Net income (basic and diluted)	\$533	\$537	\$1,061	\$1,292
Weighted average shares outstanding	37,816	35,157	37,816	30,590
Net income per share – basic	\$0.01	\$0.02	\$0.03	\$0.04
Weighted average shares outstanding (including dilutive CSEs)	38,049	35,609	38,048	30,932
Net income per share – diluted	\$0.01	\$0.02	\$0.03	\$0.04

Recent Accounting Pronouncements

ASU 2014-04

In January 2014, the FASB issued ASU 2014-04, “Receivables – Troubled Debt Restructuring by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure – a consensus of the FASB Emerging Issues Task Force.” The guidance clarifies when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate property recognized. For public business entities, the ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the ASU is effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. The adoption of ASU 2014-04 did not have a material effect on the Company’s consolidated financial statements.

ASU 2014-09

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 660): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs – Contracts with Customers (Subtopic 340-40).” The purpose of this guidance is to clarify the principles for recognizing revenue. The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, early adoption of the update will be effective for interim and annual periods beginning after December 15,

2016. For public companies that elect to defer the update, adoption will be effective for interim and annual periods beginning after December 15, 2017. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect a material impact.

ASU 2014-14

In August 2014, the FASB issued ASU 2014-14, "Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure - a consensus of the FASB Emerging Issues Task Force." The amendments in this Update address a practice issue related to the classification of certain foreclosed residential and nonresidential mortgage loans that are either fully or partially guaranteed under government programs. Specifically, creditors should reclassify loans that meet certain conditions to "other receivables" upon foreclosure, rather than reclassifying them to other real estate owned (OREO). The separate other receivable recorded upon foreclosure is to be measured based on the amount of the loan balance (principal and interest) the creditor expects to recover from the guarantor. The ASU is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For all other entities, the amendments are effective for annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015. The Company adopted ASU 2014-14 effective January 1, 2015. The adoption of ASU 2014-14 did not have a material effect on the Company's consolidated financial statements.

Note 3: Legal Proceedings

The Company and Republic are from time to time parties (plaintiff or defendant) to lawsuits in the normal course of business. While any litigation involves an element of uncertainty, management is of the opinion that the liability of the Company and Republic, if any, resulting from such actions will not have a material effect on the financial condition or results of operations of the Company and Republic.

Note 4: Segment Reporting

The Company has one reportable segment: community banking. The community bank segment primarily encompasses the commercial loan and deposit activities of Republic, as well as consumer loan products in the area surrounding its stores.

Note 5: Investment Securities

A summary of the amortized cost and market value of securities available for sale and securities held to maturity at June 30, 2015 and December 31, 2014 is as follows:

(dollars in thousands)	At June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	\$92,324	\$768	\$(918)	\$92,174
Mortgage-backed securities	11,476	457	(74)	11,859
Municipal securities	20,345	249	(237)	20,357
Corporate bonds	31,336	359	(333)	31,362
Asset-backed securities	18,005	259	-	18,264
Trust preferred securities	3,626	-	(1,620)	2,006
Other securities	115	5	-	120
Total securities available for sale	\$177,227	\$2,097	\$(3,182)	\$176,142
U.S. Government agencies	\$7,299	\$-	\$(46)	\$7,253
Collateralized mortgage obligations	103,851	445	(444)	103,852
Mortgage-backed securities	8,168	1	(25)	8,144
Other securities	20	-	-	20
Total securities held to maturity	\$119,338	\$446	\$(515)	\$119,269
(dollars in thousands)	At December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	\$98,626	\$692	\$(96)	\$99,222
Mortgage-backed securities	13,271	564	(33)	13,802
Municipal securities	15,784	363	(40)	16,107
Corporate bonds	33,840	621	(34)	34,427
Asset-backed securities	18,353	152	-	18,505
Trust preferred securities	5,261	-	(2,068)	3,193
Other securities	115	8	-	123
Total securities available for sale	\$185,250	\$2,400	\$(2,271)	\$185,379
U.S. Government agencies	\$1	\$-	\$-	\$1
Collateralized mortgage obligations	67,845	531	(144)	68,232
Other securities	20	-	-	20
Total securities held to maturity	\$67,866	\$531	\$(144)	\$68,253

The maturity distribution of the amortized cost and estimated market value of investment securities by contractual maturity at June 30, 2015 is as follows:

(dollars in thousands)	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 1 year or less	\$21,008	\$21,325	\$-	\$-
After 1 year to 5 years	60,626	60,142	67,529	67,460
After 5 years to 10 years	81,196	80,585	51,809	51,809
After 10 years	14,397	14,090	-	-
Total	\$177,227	\$176,142	\$119,338	\$119,269

Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without prepayment penalties.

The Company's investment securities portfolio consists primarily of debt securities issued by U.S. government agencies, U.S. government-sponsored agencies, state governments, local municipalities and certain corporate entities. There were no private label mortgage-backed securities ("MBS") or collateralized mortgage obligations ("CMO") held in the investment securities portfolio as of June 30, 2015 and December 31, 2014. There were also no MBS or CMO securities that were rated "Alt-A" or "sub-prime" as of those dates.

The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. Net unrealized gains and losses in the available for sale portfolio are included in shareholders' equity as a component of accumulated other comprehensive income or loss, net of tax. Securities classified as held to maturity are carried at amortized cost. An unrealized loss exists when the current fair value of an individual security is less than the amortized cost basis. The Company regularly evaluates investment securities that are in an unrealized loss position in order to determine if the decline in fair value is other than temporary. Factors considered in the evaluation include the current economic climate, the length of time and the extent to which the fair value has been below cost, the current interest rate environment and the rating of each security.

For those securities in an unrealized loss position an assessment is made to determine whether other-than-temporary impairment (OTTI) exists. An OTTI loss must be recognized for a debt security in an unrealized loss position if the Company intends to sell the security or it is more likely than not that it will be required to sell the security prior to recovery of the amortized cost basis. The amount of OTTI loss recognized is equal to the difference between the fair value and the amortized cost basis of the security. Accounting standards require the evaluation of the expected cash flows to be received to determine if a credit loss has occurred. In the event of a credit loss, that amount must be recognized against income in the current period. The portion of the unrealized loss related to other factors, such as liquidity conditions in the market or the current interest rate environment, is recorded in accumulated other comprehensive income (loss).

Impairment charges (credit losses) on trust preferred securities for the six month period ended June 30, 2015 amounted to \$3,000. There were no impairment charges on trust preferred securities during the three month period ended June 30, 2015. The impairment charges on trust preferred securities for the three and six months ended June 30, 2014 amounted to \$7,000.

The following table presents a roll-forward of the balance of credit-related impairment losses on securities held at June 30, 2015 and 2014 for which a portion of OTTI was recognized in other comprehensive income:

(dollars in thousands)	2015	2014
Beginning Balance, January 1st	\$3,966	\$3,959
Additional credit-related impairment loss on securities for which an other-than-temporary impairment was previously recognized	3	7
Reductions for securities paid off during the period	-	-
Reductions for securities sold during the period	(2,569)	
Reductions for securities for which the amount previously recognized in other comprehensive income was recognized in earnings because the Company intends to sell the security	-	-
Ending Balance, June 30th	\$1,400	\$3,966

The following tables show the fair value and gross unrealized losses associated with the investment portfolio, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position in the available for sale and held to maturity section:

(dollars in thousands)	At June 30, 2015					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized mortgage obligations	\$39,623	\$918	\$-	\$-	\$39,623	\$918
Mortgage-backed securities	6,113	43	1,022	31	7,135	74
Municipal securities	8,175	193	1,381	44	9,556	237
Corporate Bonds	9,545	333	-	-	9,545	333
Trust preferred securities	-	-	2,006	1,620	2,006	1,620
Total Available for Sale	\$63,456	\$1,487	\$4,409	\$1,695	\$67,865	\$3,182

(dollars in thousands)	At June 30, 2015					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	\$4,236	\$46	\$-	\$-	\$4,236	\$46
Collateralized mortgage obligations	28,989	444	-	-	28,989	444
Mortgage-backed securities	2,897	25	-	-	2,897	25
Total Held to Maturity	\$36,122	\$515	\$-	\$-	\$36,122	\$515

(dollars in thousands)	At December 31, 2014					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized mortgage obligations	\$17,331	\$96	\$-	\$-	\$17,331	\$96
Mortgage-backed securities	3,997	2	1,069	31	5,066	33
Municipal Securities	1,298	10	1,395	30	2,693	40
Corporate Bonds	4,880	34	-	-	4,880	34
Trust preferred securities	-	-	3,193	2,068	3,193	2,068
Total Available for Sale	\$27,506	\$142	\$5,657	\$2,129	\$33,163	\$2,271

(dollars in thousands)	At December 31, 2014					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized mortgage obligations	\$19,766	\$92	\$9,232	\$52	\$28,998	\$144
Total Held to Maturity	\$19,766	\$92	\$9,232	\$52	\$28,998	\$144

Unrealized losses on securities in the investment portfolio amounted to \$3.7 million with a total fair value of \$104.0 million as of June 30, 2015 compared to unrealized losses of \$2.4 million with a total fair value of \$62.2 million as of December 31, 2014. The Company believes the unrealized losses presented in the tables above are temporary in nature and primarily related to market interest rates or limited trading activity in particular type of security rather than the underlying credit quality of the issuers. The Company does not believe that these losses are other than temporary and does not currently intend to sell or believe it will be required to sell securities in an unrealized loss position prior to maturity or recovery of the amortized cost bases.

The Company held fifteen collateralized mortgage obligations and five mortgage-backed securities that were in an unrealized loss position at June 30, 2015. Principal and interest payments of the underlying collateral for each of these securities are backed by U.S. Government sponsored agencies and carry minimal credit risk. Management found no evidence of OTTI on any of these securities and believes the unrealized losses are due to fluctuations in fair values resulting from changes in market interest rates and are considered temporary as of June 30, 2015.

All municipal securities held in the investment portfolio are reviewed on least a quarterly basis for impairment. Each bond carries an investment grade rating by either Moody's or Standard & Poor's. In addition the Company periodically conducts its own independent review on each issuer to ensure the financial stability of the municipal entity. The largest geographic concentration was in Pennsylvania and New Jersey and consisted of either general obligation or revenue bonds backed by the taxing power of the issuing municipality. At June 30, 2015, the investment portfolio included fourteen municipal securities that were in an unrealized loss position. Management believes the unrealized losses were the result of movements in long-term interest rates and are not reflective of any credit deterioration.

The unrealized losses on the trust preferred securities are primarily the result of the secondary market for such securities becoming inactive and are also considered temporary at this time. The following table provides additional detail on the trust preferred securities held in the portfolio as of June 30, 2015.

(dollars in thousands)	Class / Tranche	Amortized Cost	Fair Value	Unrealized Losses	Lowest Credit Rating Assigned	Number of Banks Currently Performing	Deferrals / Defaults as % of Current Balance	Conditional Rates for 2015 and beyond	Cumulative OTTI Life to Date
TPREF Funding II	Class B Notes	\$ 732	\$ 401	\$ (331)	C	20	36	0.39 %	\$ 267
TPREF Funding III	Class B2 Notes	1,518	799	(719)	C	15	36	0.33	483
Trapeza CDO I, LLC	Class C1 Notes	556	342	(214)	C	7	50	0.35	470
ALESCO Preferred Funding V	Class C1 Notes	820	464	(356)	C	40	15	0.35	180
Total		\$ 3,626	\$ 2,006	\$ (1,620)		82	32 %		\$ 1,400

The Company sold one trust preferred security and one corporate bond and realized gross gains on the sale of securities of \$155,000 during the three and six months ended June 30, 2015. The Company sold two other trust

preferred securities and realized gross losses on the sale of securities of \$146,000 during the three and six months ended June 30, 2015. The related sale proceeds amounted to \$4.1 million. The tax provision applicable to these net gains in 2015 amounted to approximately \$3,000. The Company realized gross gains on the sale of securities of \$458,000 during the three and six months ended June 30, 2014. The related sale proceeds amounted to \$5.7 million. The tax provision applicable to these gross gains in 2014 amounted to approximately \$165,000.

In July 2014, thirteen CMOs with a fair value of \$70.1 million that were previously classified as available-for-sale were transferred to the held-to-maturity category. These securities were transferred at fair value. Unrealized losses of \$1.2 million associated with the transferred securities will remain in other comprehensive income and be amortized as an adjustment to yield over the remaining life of those securities. At June 30, 2015, there is a remaining \$1.0 million unrealized loss to be amortized.

Note 6: Loans Receivable and Allowance for Loan Losses

The following table sets forth the Company's gross loans by major categories as of June 30, 2015, and December 31, 2014:

(dollars in thousands)	June 30, 2015	December 31, 2014
Commercial real estate	\$371,051	\$379,259
Construction and land development	34,947	29,861
Commercial and industrial	166,912	145,113
Owner occupied real estate	202,467	188,025
Consumer and other	47,475	39,713
Residential mortgage	401	408
Total loans receivable	823,253	782,379
Deferred costs (fees)	(378)	(439)
Allowance for loan losses	(8,398)	(11,536)
Net loans receivable	\$814,477	\$770,404

A loan is considered impaired, when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans, but also include internally classified accruing loans.

The following table summarizes information with regard to impaired loans by loan portfolio class as of June 30, 2015 and December 31, 2014:

(dollars in thousands)	June 30, 2015			December 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial real estate	\$ 14,214	\$ 14,262	\$ -	\$ 11,964	\$ 11,969	\$ -
Construction and land development	320	417	-	61	158	-
Commercial and industrial	4,062	5,322	-	3,764	7,275	-
Owner occupied real estate	1,084	1,288	-	524	528	-
Consumer and other	818	1,091	-	429	708	-
Total	\$ 20,498	\$ 22,380	\$ -	\$ 16,742	\$ 20,638	\$ -
With an allowance recorded:						
Commercial real estate	\$ 766	\$ 837	\$ 194	\$ 13,118	\$ 13,245	\$ 3,858
Construction and land development	94	3,740	60	316	3,741	217
Commercial and industrial	2,372	5,039	1,149	1,457	2,057	211
Owner occupied real estate	3,907	3,909	994	4,011	4,162	844
Consumer and other	-	-	-	-	-	-
Total	\$ 7,139	\$ 13,525	\$ 2,397	\$ 18,902	\$ 23,205	\$ 5,130
Total:						
Commercial real estate	\$ 14,980	\$ 15,099	\$ 194	\$ 25,082	\$ 25,214	\$ 3,858
Construction and land development	414	4,157	60	377	3,899	217
Commercial and industrial	6,434	10,361	1,149	5,221	9,332	211
Owner occupied real estate	4,991	5,197	994	4,535	4,690	844
Consumer and other	818	1,091	-	429	708	-
Total	\$ 27,637	\$ 35,905	\$ 2,397	\$ 35,644	\$ 43,843	\$ 5,130

The following table presents additional information regarding the Company's impaired loans for the three months ended June 30, 2015 and June 30, 2014:

(dollars in thousands)	Three Months Ended June 30,			
	2015		2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate	\$ 13,432	\$ (21)	\$ 6,696	\$ 106
Construction and land development	248	1	661	-
Commercial and industrial	3,992	27	2,859	-
Owner occupied real estate	957	3	802	(3)
Consumer and other	713	3	480	-
Total	\$ 19,342	\$ 13	\$ 11,498	\$ 103
With an allowance recorded:				
Commercial real estate	\$ 4,864	\$ 3	\$ 13,325	\$ (130)
Construction and land development	116	-	659	-
Commercial and industrial	2,084	-	3,914	(1)
Owner occupied real estate	4,009	30	3,315	35
Consumer and other	-	-	35	-
Total	\$ 11,073	\$ 33	\$ 21,248	\$ (96)
Total:				
Commercial real estate	\$ 18,296	\$ (18)	\$ 20,021	\$ (24)
Construction and land development	364	1	1,320	-
Commercial and industrial	6,076	27	6,773	(1)
Owner occupied real estate	4,966	33	4,117	32
Consumer and other	713	3	515	-
Total	\$ 30,415	\$ 46	\$ 32,746	\$ 7

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately \$218,000 and \$399,000 for the three months ended June 30, 2015 and 2014, respectively.

The following table presents additional information regarding the Company's impaired loans for the six months ended June 30, 2015 and June 30, 2014:

(dollars in thousands)	Six Months Ended June 30,			
	2015		2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate	\$ 12,648	\$ 141	\$ 6,734	\$ 212
Construction and land development	178	1	730	-
Commercial and industrial	3,923	48	2,699	1
Owner occupied real estate	829	4	740	2
Consumer and other	607	4	514	1
Total	\$ 18,185	\$ 198	\$ 11,417	\$ 216
With an allowance recorded:				
Commercial real estate	\$ 8,965	\$ 3	\$ 13,249	\$ 8
Construction and land development	137	-	650	-
Commercial and industrial	1,796	-	4,111	-
Owner occupied real estate	4,109	63	3,113	70
Consumer and other	-	-	68	-
Total	\$ 15,007	\$ 66	\$ 21,191	\$ 78
Total:				
Commercial real estate	\$ 21,613	\$ 144	\$ 19,983	\$ 220
Construction and land development	315	1	1,380	-
Commercial and industrial	5,719	48	6,810	1
Owner occupied real estate	4,938	67	3,853	72
Consumer and other	607	4	582	1
Total	\$ 33,192	\$ 264	\$ 32,608	\$ 294

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately \$463,000 and \$542,000 for the six months ended June 30, 2015 and 2014, respectively.

The following tables provide the activity in and ending balances of the allowance for loan losses by loan portfolio class at and for the three and six months ended June 30, 2015 and 2014:

(dollars in thousands)	Owner							Total
	Commercial	Construction Real and Land EstateDevelopment	Commercial and Industrial	Occupied Real Estate	Consumer and Residential Other Mortgage	Unallocated		
Three months ended June 30, 2015								
Allowance for loan losses:								
Beginning balance:	\$ 6,263	\$ 255	\$ 1,924	\$ 1,578	\$ 230	\$ 2	\$ 692	\$ 10,944
Charge-offs	(2,524)	-	(24)	-	-	-	-	(2,548)
Recoveries	-	-	1	-	1	-	-	2
Provisions (credits)	(1,032)	56	922	209	20	-	(175)	-
Ending balance	\$ 2,707	\$ 311	\$ 2,823	\$ 1,787	\$ 251	\$ 2	\$ 517	\$ 8,398

Three months ended June 30, 2014

Allowance for loan losses:

Beginning balance:	\$ 6,274	\$ 861	\$ 2,640	\$ 1,128	\$ 197	\$ 13	\$ 837	\$ 11,950
Charge-offs	(188)	-	-	-	-	-	-	(188)
Recoveries	-	-	1	-	-	-	-	1
Provisions (credits)	690	163	150	1	23	-	(727)	300
Ending balance	\$ 6,776	\$ 1,024	\$ 2,791	\$ 1,129	\$ 220	\$ 13	\$ 110	\$ 12,063

(dollars in thousands)	Owner							Total
	Commercial	Construction Real and Land EstateDevelopment	Commercial and Industrial	Occupied Real Estate	Consumer and Residential Other Mortgage	Unallocated		
Six months ended June 30, 2015								
Allowance for loan losses:								
Beginning balance:	\$ 6,828	\$ 917	\$ 1,579	\$ 1,638	\$ 234	\$ 2	\$ 338	\$ 11,536
Charge-offs	(2,623)	(222)	(325)	(55)	-	-	-	(3,225)
Recoveries	4	5	46	-	32	-	-	87
Provisions (credits)	(1,502)	(389)	1,523	204	(15)	-	179	-
Ending balance	\$ 2,707	\$ 311	\$ 2,823	\$ 1,787	\$ 251	\$ 2	\$ 517	\$ 8,398

Six months ended June 30,
2014
Allowance for loan
losses:

Beginning									
Balance:	\$	6,454	\$ 1,948	\$ 2,309	\$985	\$225	\$14	\$ 328	\$12,263
Charge-offs		(188)	(20)	(283)	-	(10)	-	-	(501)
Recoveries		-	-	1	-	-	-	-	1
Provisions									
(credits)		510	(904)	764	144	5	(1)	(218)	300
Ending balance	\$	6,776	\$ 1,024	\$ 2,791	\$1,129	\$220	\$13	\$ 110	\$12,063

Edgar Filing: REPUBLIC FIRST BANCORP INC - Form 10-Q

The following tables provide a summary of the allowance for loan losses and balance of loans receivable by loan class and by impairment method as of June 30, 2015 and December 31, 2014:

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Residential Other Mortgage	Unallocated	Total
June 30, 2015							
Allowance for loan losses:							
Individually evaluated for impairment	\$ 194	\$ 60	\$ 1,149	\$ 994	\$ -	\$ -	\$ 2,397
Collectively evaluated for impairment	2,513	251	1,674	793	251	2	517
Total allowance for loan losses	\$ 2,707	\$ 311	\$ 2,823	\$ 1,787	\$ 251	\$ 2	\$ 517

Loans receivable:

Loans evaluated individually	\$ 14,980	\$ 414	\$ 6,434	\$ 4,991	\$ 818	\$ -	\$ -	\$ 27,637
Loans evaluated collectively	356,071	34,533	160,478	197,476	46,657	401	-	795,616
Total loans receivable	\$ 371,051	\$ 34,947	\$ 166,912	\$ 202,467	\$ 47,475	\$ 401	\$ -	\$ 823,253

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Residential Other Mortgage	Unallocated	Total
------------------------	------------------------	-----------------------------------	---------------------------	----------------------------	---	-------------	-------

December 31, 2014

Allowance for loan losses:

Individually evaluated for impairment	\$ 3,858	\$ 217	\$ 211	\$ 844	\$ -	\$ -	\$ -	\$ 5,130
Collectively evaluated for impairment	2,970	700	1,368	794	234	2	338	6,406

Edgar Filing: REPUBLIC FIRST BANCORP INC - Form 10-Q

Total allowance for loan losses	\$ 6,828	\$ 917	\$ 1,579	\$ 1,638	\$ 234	\$ 2	\$ 338	\$ 11,536
Loans receivable:								
Loans evaluated individually	\$ 25,082	\$ 377	\$ 5,221	\$ 4,535	\$ 429	\$ -	\$ -	\$ 35,644
Loans evaluated collectively	354,177	29,484	139,892	183,490	39,284	408	-	746,735
Total loans receivable	\$ 379,259	\$ 29,861	\$ 145,113	\$ 188,025	\$ 39,713	\$ 408	\$ -	\$ 782,379

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of June 30, 2015 and December 31, 2014:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
At June 30, 2015							
Commercial real estate	\$-	\$7,238	\$8,430	\$15,668	\$355,383	\$371,051	\$-
Construction and land development	-	-	670	670	34,277	34,947	256
Commercial and industrial	-	831	4,049	4,880	162,032	166,912	-
Owner occupied real estate	-	2,313	2,666	4,979	197,488	202,467	-
Consumer and other	-	131	418	549	46,926	47,475	-
Residential mortgage	-	-	-	-	401	401	-
Total	\$-	\$10,513	\$16,233	\$26,746	\$796,507	\$823,253	\$256

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
At December 31, 2014							
Commercial real estate	\$713	\$11,034	\$13,979	\$25,726	\$353,533	\$379,259	\$-
Construction and land development	-	-	377	377	29,484	29,861	-
Commercial and industrial	193	2,186	4,349	6,728	138,385	145,113	-
Owner occupied real estate	626	812	2,306	3,744	184,281	188,025	-
Consumer and other	149	30	429	608	39,105	39,713	-
Residential mortgage	-	-	-	-	408	408	-
Total	\$1,681	\$14,062	\$21,440	\$37,183	\$745,196	\$782,379	\$-

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of June 30, 2015 and December 31, 2014:

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
At June 30, 2015:					
Commercial real estate	\$347,990	\$8,081	\$14,980	\$-	\$371,051
Construction and land development	34,533	-	414	-	34,947
Commercial and industrial	160,245	233	5,005	1,429	166,912
Owner occupied real estate	197,001	475	4,991	-	202,467
Consumer and other	46,582	75	818	-	47,475
Residential mortgage	401	-	-	-	401
Total	\$786,752	\$8,864	\$26,208	\$1,429	\$823,253

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
At December 31, 2014:					
Commercial real estate	\$345,444	\$8,199	\$25,616	\$-	\$379,259
Construction and land development	29,484	-	377	-	29,861
Commercial and industrial	139,062	702	3,920	1,429	145,113
Owner occupied real estate	181,940	1,550	4,535	-	188,025
Consumer and other	38,951	75	687	-	39,713
Residential mortgage	408	-	-	-	408
Total	\$735,289	\$10,526	\$35,135	\$1,429	\$782,379

The following table shows non-accrual loans by class as of June 30, 2015 and December 31, 2014:

(dollars in thousands)	June 30, 2015	December 31, 2014
Commercial real estate	\$8,430	\$13,979
Construction and land development	414	377
Commercial and industrial	4,049	4,349
Owner occupied real estate	2,666	2,306
Consumer and other	418	429
Residential mortgage	-	-
Total	\$15,977	\$21,440

Troubled Debt Restructurings

A modification to the contractual terms of a loan which results in a concession to a borrower that is experiencing financial difficulty is classified as a troubled debt restructuring (“TDR”). The concessions made in a TDR are those that would not otherwise be considered for a borrower or collateral with similar risk characteristics. A TDR is typically the result of efforts to minimize potential losses that may be incurred during loan workouts, foreclosure, or repossession of collateral at a time when collateral values are declining. Concessions include a reduction in interest rate below current market rates, a material extension of time to the loan term or amortization period, partial forgiveness of the outstanding principal balance, acceptance of interest only payments for a period of time, or a combination of any of these conditions.

The following table summarizes the balance of outstanding TDRs June 30, 2015 and December 31, 2014:

(dollars in thousands)	Number of Loans	Accrual Status	Non- Accrual Status	Total TDRs
June 30, 2015				
Commercial real estate	1	\$6,027	\$-	\$6,027
Construction and land development	-	-	-	-
Commercial and industrial	2	-	1,819	1,819
Owner occupied real estate	1	1,838	-	1,838
Consumer and other	-	-	-	-
Residential mortgage	-	-	-	-
Total	4	\$7,865	\$1,819	\$9,684
December 31, 2014				
Commercial real estate	1	\$6,069	\$-	\$6,069
Construction and land development	-	-	-	-
Commercial and industrial	1	-	1,673	1,673
Owner occupied real estate	1	1,852	-	1,852
Consumer and other	-	-	-	-
Residential mortgage	-	-	-	-
Total	3	\$7,921	\$1,673	\$9,594

All TDRs are considered impaired and are therefore individually evaluated for impairment in the calculation of the allowance for loan losses. Some TDRs may not ultimately result in the full collection of principal and interest as restructured and could lead to potential incremental losses. These potential incremental losses would be factored into our estimate of the allowance for loan losses. The level of any subsequent defaults will likely be affected by future economic conditions.

The Company modified one commercial and industrial loan during the three and six months ended June 30, 2015. In accordance with the modified terms of the commercial and industrial loan, the Company modified the amortization timeframe and reduced the effective interest rate when compared to the interest rate of the original loan. The company also extended the maturity date of the loan. The loan is unsecured and the Company has elected to carry the loan as a non-accrual loan until a satisfactory performance history is established at which time the loan may be returned to performing status. The borrower has remained current since the modification. The pre-modification balance was \$1.2 million and the post modification balance was \$1.2 million. There were no loan modifications made during the three and six months ended June 30, 2014 that met the criteria of a TDR.

After a loan is determined to be a TDR, we continue to track its performance under the most recent restructured terms. One loan classified as a TDR subsequently paid off during the three months ended March 31, 2014. There were no TDRs that subsequently defaulted during the three and six months ended June 30, 2015 and 2014. Partial writedowns were recorded during the year ended December 31, 2014 and the three months ended March 31, 2015, related to a TDR that subsequently defaulted in 2013. A portion of the balance was transferred to other real estate owned during the three months ended March 31, 2015.

Note 7: Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's financial instruments, however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sale transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective period-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end.

The Company follows the guidance issued under ASC 820, Fair Value Measurement, which defines fair value, establishes a framework for measuring fair value under GAAP, and identifies required disclosures on fair value measurements.

ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2015 and December 31, 2014 were as follows:

(dollars in thousands)	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
June 30, 2015				
Collateralized mortgage obligations	\$ 92,174	\$ -	\$ 92,174	\$ -
Mortgage-backed securities	11,859	-	11,859	-
Municipal securities	20,357	-	20,357	-
Corporate bonds	31,362	-	28,678	2,684
Asset-backed securities	18,264	-	18,264	-
Trust Preferred Securities	2,006	-	-	2,006
Other securities	120	-	120	-
Securities Available for Sale	\$ 176,142	\$ -	\$ 171,452	\$ 4,690
December 31, 2014				
Collateralized mortgage obligations	\$ 99,222	\$ -	\$ 99,222	\$ -
Mortgage-backed securities	13,802	-	13,802	-
Municipal securities	16,107	-	16,107	-
Corporate bonds	34,427	-	31,422	3,005
Asset-backed securities	18,505	-	18,505	-
Trust Preferred Securities	3,193	-	-	3,193
Other securities	123	-	123	-
Securities Available for Sale	\$ 185,379	\$ -	\$ 179,181	\$ 6,198

The following table presents a reconciliation of the securities available for sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30, 2015		Three Months Ended June 30, 2014	
	Trust		Trust	
	Preferred Securities	Corporate Bonds	Preferred Securities	Corporate Bonds
Level 3 Investments Only (dollars in thousands)				
Balance, April 1st	\$3,042	\$3,006	\$2,807	\$3,006
Unrealized gains (losses)	578	(322)	177	-
Paydowns	-	-	-	-
Proceeds from sales	(1,538)			
Realized losses	(76)			
Impairment charges on Level 3	-	-	(7)	-
Balance, June 30th	\$2,006	\$2,684	\$2,977	\$3,006

	Six Months Ended June 30, 2015		Six Months Ended June 30, 2014	
	Trust		Trust	
	Preferred Securities	Corporate Bonds	Preferred Securities	Corporate Bonds
Level 3 Investments Only (dollars in thousands)				
Balance, January 1st	\$3,193	\$3,005	\$2,850	\$3,006
Unrealized gains (losses)	449	(321)	134	-
Paydowns	(19)	-	-	-
Proceeds from sales	(1,538)			
Realized losses	(76)			
Impairment charges on Level 3	(3)	-	(7)	-
Balance, June 30th	\$2,006	\$2,684	\$2,977	\$3,006

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2015 and December 31, 2014 were as follows:

(dollars in thousands)	Total	(Level 1)	(Level 2)	(Level 3)
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
June 30, 2015:				
Impaired loans	\$5,896	\$-	\$-	\$ 5,896
Other real estate owned	11,312	-	-	11,312
SBA servicing assets	4,319	-	-	4,319
December 31, 2014:				
Impaired loans	\$15,838	\$-	\$-	\$ 15,838
Other real estate owned	2,135	-	-	2,135

SBA servicing assets	4,099	-	-	4,099
----------------------	-------	---	---	-------

The table below presents additional quantitative information about level 3 assets measured at fair value on a nonrecurring basis (dollars in thousands):

Asset Description	Fair Value	Quantitative Information about Level 3 Fair Value Measurements		
		Valuation Technique	Unobservable Input	Range Weighted Average
June 30, 2015:				
Impaired loans	\$ 5,896	Fair Value of Collateral (1)	Appraised Value (2)	13% - 86% (32%) (4)
Other real estate owned	\$ 11,312	Fair Value of Collateral (1)	Appraised Value (2) Sales Price	7% - 44% (11%)(4)
SBA Servicing Assets	\$ 4,319	Fair Value	Individual Loan Valuation (3)	(3)
December 31, 2014:				
Impaired loans	\$ 15,838	Fair Value of Collateral (1)	Appraised Value (2)	0% - 89% (30%) (4)
Other real estate owned	\$ 2,135	Fair Value of Collateral (1)	Appraised Value (2) Sales Price	7% - 39% (22%) (4)
SBA Servicing Assets	\$ 4,099	Fair Value	Individual Loan Valuation (3)	(3)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which include Level 3 inputs that are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.

(3) There is a lack of transactional data in this market place for the non-guaranteed portion of SBA loans.

(4) The range and weighted average of qualitative factors such as economic conditions and estimated liquidation expenses are presented as a percent of the appraised value.

The significant unobservable inputs for impaired loans and other real estate owned are the appraised value or an agreed upon sales price. These values are adjusted for estimated costs to sell which are incremental direct costs to transact a sale such as broker commissions, legal fees, closing costs and title transfer fees. The costs must be considered essential to the sale and would not have been incurred if the decision to sell had not been made. The costs to sell are based on costs associated with the Company's actual sales of other real estate owned which are assessed annually.

The following table presents an analysis of the activity in the SBA servicing assets for the three and six months ended June 30, 2015 and 2014:

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Beginning balance	\$4,267	\$3,805	\$4,099	\$3,477
Additions	310	271	445	575
Fair value adjustments	(258)	(9)	(225)	15

Ending balance	\$4,319	\$4,067	\$4,319	\$4,067
----------------	---------	---------	---------	---------

Fair Value Assumptions

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at June 30, 2015 and December 31, 2014.

Cash and Cash Equivalents (Carried at Cost)

The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values.

Investment Securities

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities, which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments, are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) were used to support fair values of certain Level 3 investments.

The types of instruments valued based on matrix pricing in active markets include all of the Company's U.S. government and agency securities, corporate bonds, asset backed securities, and municipal obligations. Such instruments are generally classified within Level 2 of the fair value hierarchy. As required by ASC 820-10, the Company does not adjust the matrix pricing for such instruments.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, and may be adjusted to reflect illiquidity and/or non-transferability, with such adjustment generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Subsequent to inception, management only changes Level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows. The Level 3 investment securities classified as available for sale are comprised of various issues of trust preferred securities and a single corporate bond.

The trust preferred securities are pools of similar securities that are grouped into an asset structure commonly referred to as collateralized debt obligations ("CDOs") which consist of the debt instruments of various banks, diversified by the number of participants in the security as well as geographically. The secondary market for these securities has become inactive, and therefore these securities are classified as Level 3 securities. The fair value analysis does not reflect or represent the actual terms or prices at which any party could purchase the securities. There is currently a limited secondary market for the securities and there can be no assurance that any secondary market for the securities will expand.

An independent, third party pricing service is used to estimate the current fair market value of each CDO held in the investment securities portfolio. The calculations used to determine fair value are based on the attributes of the trust preferred securities, the financial condition of the issuers of the trust preferred securities, and market based assumptions. The INTEX CDO Deal Model Library was utilized to obtain information regarding the attributes of each security and its specific collateral as of June 30, 2015 and December 31, 2014. Financial information on the issuers was also obtained from Bloomberg, the FDIC, and SNL Financial. Both published and unpublished industry sources were utilized in estimating fair value. Such information includes loan prepayment speed assumptions, discount rates, default rates, and loss severity percentages. Due to the current state of the global capital and financial markets, the fair market valuation is subject to greater uncertainty than would otherwise exist.

The fair market valuation for each CDO was determined based on discounted cash flow analyses. The cash flows are primarily dependent on the estimated speeds at which the trust preferred securities are expected to prepay, the estimated rates at which the trust preferred securities are expected to defer payments, the estimated rates at which the trust preferred securities are expected to default, and the severity of the losses on securities that do default.

Increases (decreases) in actual or expected issuer defaults tend to decrease (increase) the fair value of the Company's senior and mezzanine tranches of CDOs. The values of the Company's mezzanine tranches of CDOs are also affected by expected future interest rates. However, due to the structure of each security, timing of cash flows, and secondary effects on the financial performance of the underlying issuers, the effects of changes in future interest rates on the fair value of the Company's holdings are not quantifiably estimable.

Also included in Level 3 investment securities classified as available for sale is a single-issuer corporate bond since the bond is not actively traded. Impairment would depend on the repayment ability of the underlying issuer, which is assessed through a detailed quarterly review of the issuer's financial statements. The issuer is a "well capitalized" financial institution as defined by federal banking regulations and has demonstrated the ability to raise additional capital, when necessary, through the public capital markets. The fair value of this corporate bond is estimated by obtaining a price of a comparable floating rate debt instrument through Bloomberg.

Loans Held For Sale (Carried at Lower of Cost or Fair Value)

The fair values of loans held for sale is determined, when possible, using quoted secondary-market prices. If no such quoted prices exist, the fair value of a loan is determined using quoted prices for a similar loan or loans, adjusted for the specific attributes of that loan. The Company did not write down any loans held for sale during the six months ended June 30, 2015 and the year ended December 31, 2014.

Loans Receivable (Carried at Cost)

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Due to the significant judgment involved in evaluating credit quality, loans are classified within Level 3 of the fair value hierarchy.

Impaired Loans (Carried at Lower of Cost or Fair Value)

Impaired loans are those that the Company has measured impairment based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balances less any valuation allowance. The valuation allowance amount is calculated as the difference between the recorded investment in a loan and the present value of expected future cash flows or it is calculated based on discounted collateral values if the loans are collateral dependent.

Other Real Estate Owned (Carried at Lower of Cost or Fair Value)

These assets are carried at the lower of cost or fair value. At June 30, 2015 and December 31, 2014 these assets are carried at current fair value.

SBA Servicing Asset (Carried at Fair Value)

The SBA servicing asset is initially recorded when loans are sold and the servicing rights are retained and recorded on the balance sheet. Updated fair values are obtained on a quarterly basis and adjustments are presented as loan advisory and servicing fees on the consolidated statement of income. The valuation begins with the projection of future cash flows for each asset based on their unique characteristics, our market-based assumptions for prepayment speeds and estimated losses and recoveries. The present value of the future cash flows are then calculated utilizing our market-based discount ratio assumptions. In all cases, we model expected payments for every loan for each quarterly period in order to create the most detailed cash flow stream possible.

The Company uses assumptions and estimates in determining the impairment of the SBA servicing asset. These assumptions include prepayment speeds and discount rates commensurate with the risks involved and comparable to assumptions used by participants to value and bid serving rights available for sale in the market. At June 30, 2015 and December 31, 2014, the sensitivity of the current fair value of the SBA loan servicing rights to immediate 10% and 20% adverse changes in key assumptions are included in the accompanying table.

(dollars in thousands)	June 30, 2015		December 31, 2014	
SBA Servicing Asset				
Fair Value of SBA Servicing Asset	\$4,319		\$4,099	
Composition of SBA Loans Serviced for Others				
Fixed-rate SBA loans	0	%	0	%
Adjustable-rate SBA loans	100	%	100	%
Total	100	%	100	%
Weighted Average Remaining Term			21.1 years	21.2 years
Prepayment Speed	7.86	%	7.45	%
Effect on fair value of a 10% increase	\$(132	)	\$(116)

Edgar Filing: REPUBLIC FIRST BANCORP INC - Form 10-Q

Effect on fair value of a 20% increase	(257	)	(226)
Weighted Average Discount Rate	11.59	%	12.48	%
Effect on fair value of a 10% increase	\$(211	)	\$(195)
Effect on fair value of a 20% increase	(408	)	(378)

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. As indicated, changes in value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in value may not be linear. Also in this table, the effect of an adverse variation in a particular assumption on the value of the SBA servicing rights is calculated without changing any other assumption. While in reality, changes in one factor may magnify or counteract the effect of the change.

Restricted Stock (Carried at Cost)

The carrying amount of restricted stock approximates fair value, and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amount of accrued interest receivable and accrued interest payable approximates fair value.

Deposit Liabilities (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Subordinated Debt (Carried at Cost)

Fair values of subordinated debt are estimated using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit risk characteristics, terms and remaining maturity. Due to the significant judgment involved in developing the spreads used to value the subordinated debt, it is classified within level 3 of the fair value hierarchy.

Off-Balance Sheet Financial Instruments (Disclosed at notional amounts)

Fair values for the Company's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

The estimated fair values of the Company's financial instruments were as follows at June 30, 2015 and December 31, 2014:

Fair Value Measurements at June 30, 2015					
(dollars in thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Balance Sheet Data					
Financial assets:					
Cash and cash equivalents	\$ 81,170	\$ 81,170	\$ 81,170	\$ -	\$ -
Investment securities available for sale	176,142	176,142	-	171,452	4,690
Investment securities held to maturity	119,338	119,269	-	119,269	-
Restricted stock	1,179	1,179	-	1,179	-
Loans held for sale	3,464	3,768	-	-	3,768
Loans receivable, net	814,477	805,426	-	-	805,426
SBA servicing assets	4,319	4,319	-	-	4,319
Accrued interest receivable	3,559	3,559	-	3,559	-
Financial liabilities:					
Deposits					
Demand, savings and money market	\$ 1,057,765	\$ 1,057,765	\$ -	\$ 1,057,765	\$ -
Time	72,032	72,151	-	72,151	-
Subordinated debt	22,476	18,044	-	-	18,044
Accrued interest payable	235	235	-	235	-
Off-Balance Sheet Data					
Commitments to extend credit	-	-	-	-	-
Standby letters-of-credit	-	-	-	-	-

Fair Value Measurements at December 31, 2014					
(dollars in thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Balance Sheet Data					
Financial assets:					
Cash and cash equivalents	\$ 128,826	\$ 128,826	\$ 128,826	\$ -	\$ -
Investment securities available for sale	185,379	185,379	-	179,181	6,198

Edgar Filing: REPUBLIC FIRST BANCORP INC - Form 10-Q

Investment securities held to maturity	67,866	68,253	-	68,253	-
Restricted stock	1,157	1,157	-	1,157	-
Loans held for sale	1,676	1,699	-	-	1,699
Loans receivable, net	770,404	760,163	-	-	760,163
SBA servicing assets	4,099	4,099	-	-	4,099
Accrued interest receivable	3,226	3,226	-	3,226	-
Financial liabilities:					
Deposits					
Demand, savings and money market	\$996,861	\$996,861	\$-	\$996,861	\$ -
Time	75,369	75,592	-	75,592	-
Subordinated debt	22,476	18,221	-	-	18,221
Accrued interest payable	265	265	-	265	-
Off-Balance Sheet Data					
Commitments to extend credit	-	-	-	-	-
Standby letters-of-credit	-	-	-	-	-

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of the Company's financial condition, changes in financial condition, and results of operations in the accompanying consolidated financial statements. This discussion should be read in conjunction with the accompanying notes to the consolidated financial statements.

Certain statements in this report may be considered to be "forward-looking statements" as that term is defined in the U.S. Private Securities Litigation Reform Act of 1995, such as statements that include the words "would be," "could be," "should be," "probability," "risk," "target," "objective," "may," "will," "estimate," "project," "believe," "intend," "anticipate," and similar expressions or variations on such expressions. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. For example, risks and uncertainties can arise with changes in: general economic conditions, including turmoil in the financial markets and related efforts of government agencies to stabilize the financial system; business conditions in the financial services industry, including competitive pressure among financial services companies, new service and product offerings by competitors, price pressures and similar items. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof, except as may be required by applicable laws or regulations. Readers should carefully review the risk factors described in the Form 10-K for the year ended December 31, 2014 and other documents the Company files from time to time with the SEC, such as Quarterly Reports on Form 10-Q, and any Current Reports on Form 8-K, as well as other filings.

Regulatory Reform and Legislation

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") has and will continue to have a broad impact on the financial services industry, including significant regulatory and compliance changes including, among other things, (i) enhanced resolution authority of troubled and failing banks and their holding companies; (ii) increased capital and liquidity requirements; (iii) increased regulatory examination fees; (iv) changes to assessments to be paid to the FDIC for federal deposit insurance; and (v) numerous other provisions designed to improve supervision and oversight of, and strengthening safety and soundness for, the financial services sector. Additionally, the Dodd-Frank Act establishes a new framework for systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Consumer Financial Protection Bureau, the Federal Reserve, the Office of the Comptroller of the Currency, and the FDIC. A summary of certain provisions of the Dodd-Frank Act is set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Many of the requirements called for in the Dodd-Frank Act have been implemented over time, and most are subject to implementing regulations that have or will become effective over time. Given the complexity associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies through regulations, the full extent of the impact such requirements will have on financial institutions' operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of the Company's business activities, require changes to certain of the Company's business practices, impose upon the Company more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect the Company's business. These changes may also require the Company to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements.

Financial Condition

Assets

Total assets increased by \$57.8 million, or 4.8%, to \$1.3 billion at June 30, 2015, compared to \$1.2 billion at December 31, 2014, mainly due to increases in investment securities held to maturity and loan receivables partially offset by a decrease in cash and cash equivalents during the first six months of 2015.

Cash and Cash Equivalents

Cash and due from banks and interest bearing deposits comprise this category, which consists of our most liquid assets. The aggregate amount in these two categories decreased by \$47.7 million to \$81.2 million at June 30, 2015, compared to \$128.8 million at December 31, 2014, primarily as a result of investment purchases and loan growth during the first six months for 2015.

Loans Held for Sale

Loans held for sale are comprised of loans guaranteed by the U.S. Small Business Administration (“SBA”) which the Company usually originates with the intention of selling in the future. Total SBA loans held for sale were \$3.5 million at June 30, 2015 as compared to \$1.7 million at December 31, 2014. This increase was driven by the timing of settlement on the sale of three loans which closed shortly after June 30, 2015. Loans held for sale, as a percentage of total Company assets, were less than 0.3% at June 30, 2015.

Loans Receivable

The loan portfolio represents our largest asset category and is our most significant source of interest income. Our lending strategy is focused on small and medium size businesses and professionals that seek highly personalized banking services. The loan portfolio consists of secured and unsecured commercial loans including commercial real estate, construction loans, residential mortgages, automobile loans, home improvement loans, home equity loans and lines of credit, overdraft lines of credit and others. Commercial loans typically range between \$250,000 and \$5,000,000 but customers may borrow significantly larger amounts up to our legal lending limit to a customer, which was approximately \$19.9 million at June 30, 2015. Loans made to one individual customer, even if secured by different collateral, are aggregated for purposes of the lending limit.

Loans increased \$40.9 million, or 5.2%, to \$822.9 million at June 30, 2015, compared to \$781.9 million at December 31, 2014. This growth was the result of an increase in loan demand in the commercial and industrial and owner occupied real estate categories over the first six months of 2015 driven by the successful execution of the Company’s relationship banking strategy which focuses on customer service.

Investment Securities

Investment securities considered available-for-sale are investments which may be sold in response to changing market and interest rate conditions, and for liquidity and other purposes. Our investment securities classified as available-for-sale consist primarily of U.S. Government agency collateralized mortgage obligations (CMO), agency mortgage-backed securities (MBS), municipal securities, corporate bonds, asset-backed securities (ABS), and pooled trust preferred securities (CDO). Available-for-sale securities totaled \$176.1 million at June 30, 2015, compared to \$185.4 million at December 31, 2014. The decrease of \$9.2 million was primarily due to the proceeds from sales, calls, and pay downs of securities totaling \$17.5 million partially offset by the purchase of securities totaling \$9.7

million during the first six months of 2015. At June 30, 2015, the portfolio had a net unrealized loss of \$1.1 million compared to a net unrealized gain of \$129,000 at December 31, 2014.

Investment securities held-to-maturity are investments for which there is the intent and ability to hold the investment to maturity. These investments are carried at amortized cost. The held-to-maturity portfolio consists primarily of U.S. Government agency Small Business Investment Company bonds (SBIC), CMOs, and MBSs. The market value of securities held-to-maturity totaled \$119.3 million and \$68.3 million at June 30, 2015 and December 31, 2014, respectively. The increase was primarily due to the purchase of securities totaling \$56.7 million partially offset by the pay downs of securities totaling \$5.2 million. At June 30, 2015, the portfolio had a net unrealized loss of \$69,000 compared to a net unrealized gain of \$387,000 at December 31, 2014.

The change in value of the available-for-sale and held-to-maturity investment portfolio was driven by an increase in market interest rates which drove a decrease in value of the bonds held in the Company's portfolio during the first six months of 2015.

Restricted Stock

Restricted stock, which represents required investment in the capital stock of correspondent banks related to available credit facilities, is carried at cost as of June 30, 2015 and December 31, 2014. As of those dates, restricted stock consisted of investments in the capital stock of the Federal Home Loan Bank of Pittsburgh ("FHLB") and Atlantic Community Bankers Bank ("ACBB").

At both June 30, 2015 and December 31, 2014, the investment in FHLB of Pittsburgh capital stock totaled \$1.0 million. At both June 30, 2015 and December 31, 2014, ACBB capital stock totaled \$143,000. Both the FHLB and ACBB issued dividend payments during the first six months of 2015.

Other Real Estate Owned

The balance of other real estate owned increased to \$13.2 million at June 30, 2015 from \$3.7 million at December 31, 2014, primarily due to the transfer of two foreclosed properties from loans receivable partially offset by dispositions and writedowns on foreclosed properties during the first six months of 2015. The balance of other real estate owned at March 31, 2015 was \$3.8 million.

Deposits

Deposits, which include non-interest and interest-bearing demand deposits, money market, savings and time deposits, are Republic's major source of funding. Deposits are generally solicited from the Company's market area through the offering of a variety of products to attract and retain customers, with a primary focus on multi-product relationships.

Total deposits increased by \$57.6 million, or 5.4%, to \$1.1 billion at June 30, 2015 from \$1.1 billion at December 31, 2014. The increase was primarily the result of increases in interest-bearing and noninterest-bearing demand deposit balances. Republic has continued to focus on its efforts to gather low-cost, core deposits by successfully executing its relationship banking model which is based upon high levels of customer service and convenience. The Company is also in the midst of an aggressive growth and expansion plan which it refers to as "The Power of Red is Back". This plan includes the addition of several new stores throughout its footprint of Southeastern Pennsylvania and Southern New Jersey. This strategy has also allowed Republic to eliminate the need to rely on the more volatile sources of funding in brokered and public fund certificates of deposit.

Shareholders' Equity

Total shareholders' equity increased \$628,000 to \$113.4 million at June 30, 2015, compared to \$112.8 million at December 31, 2014 primarily due to the net income recognized during the first six months of 2015 partially offset by an increase in accumulated other comprehensive losses driven by a decrease in the market value of the investment securities portfolio. The shift in market value of the securities portfolio resulted in accumulated other comprehensive losses of \$1.3 million at June 30, 2015 compared to accumulated other comprehensive losses of \$632,000 at December 31, 2014 which was primarily caused by an increase in market interest rates which resulted in a decrease in value of the securities held in the Company's investment portfolio.

Results of Operations

Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014

The Company reported net income of \$533,000, or \$0.01 per share, for the three months ended June 30, 2015, compared to net income of \$537,000, or \$0.02 per share, for the three months ended June 30, 2014.

Net interest income for the three month period ended June 30, 2015 was \$9.6 million compared to \$8.5 million for the three months ended June 30, 2014. Interest income increased \$1.3 million, or 13.2%, to \$10.9 million for the three months ended June 30, 2015 compared to \$9.6 million for the three months ended June 30, 2014. This increase was primarily due to a \$105.5 million increase in average loan balances and a \$57.7 million increase in average investment securities balances partially offset by a 13 basis point decrease in loan yields. Interest expense increased \$143,000, or 12.5%, to \$1.3 million for the three months ended June 30, 2015 compared to \$1.1 million for the three months ended June 30, 2014. This increase was primarily due to a \$211.8 million increase in average deposits outstanding.

The Company did not require a loan loss provision for the three months ended June 30, 2015 compared to a provision of \$300,000 during the three months ended June 30, 2014. The lower provision recorded for the three months ended June 30, 2015 was driven by a decrease in the required allowance for loans individually evaluated for impairment.

Non-interest income decreased by \$267,000 to \$2.0 million during the three months ended June 30, 2015 compared to \$2.3 million during the three months ended June 30, 2014. The decrease during the three months ended June 30, 2015 was primarily due to a decrease of \$449,000 in gains on the sale of investment securities and a decrease of \$141,000 in loan advisory and servicing fees which were partially offset by an increase of \$176,000 in gains on the sale of SBA loans and an increase of \$111,000 in service fees on deposit accounts.

Non-interest expenses increased \$1.1 million to \$11.1 million during the three months ended June 30, 2015 compared to \$10.0 million during the three months ended June 30, 2014. This increase was primarily driven by higher salaries, employee benefits, occupancy and equipment expenses associated with the addition of new stores related to the Company's expansion strategy over the last twelve months.

Return on average assets and average equity was 0.17% and 1.88%, respectively, during the three months ended June 30, 2015 compared to 0.21% and 2.14%, respectively, for the three months ended June 30, 2014.

Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014

The Company reported net income of \$1.1 million, or \$0.03 per share, for the six months ended June 30, 2015 compared to net income of \$1.3 million, or \$0.04 per share, for the six months ended June 30, 2014. The decrease in

net income was primarily driven by an increase in non-interest expenses and a decrease in non-interest income which was partially offset by an increase net interest income.

Net interest income for the six months ended June 30, 2015 increased \$2.0 million to \$19.1 million as compared to \$17.1 million for the six months ended June 30, 2014. Interest income increased \$2.4 million, or 12.3%, due to increases in average loan balances and average investment securities balances. Interest expense increased \$381,000, or 17.3%, primarily due to an increase in average deposits outstanding.

The Company did not require a loan loss provision for the six months ended June 30, 2015 compared to a provision of \$300,000 during the six months ended June 30, 2014. The lower provision recorded for the six months ended June 30, 2015 was driven by a decrease in the allowance for loans collectively evaluated for impairment due to a reduction in the factor used in the calculation related to historical charge-offs which has declined as a result of lower charge-offs in recent years.

Non-interest income decreased \$620,000 to \$3.6 million during the six months ended June 30, 2015 as compared to \$4.2 million during the six months ended June 30, 2014. The decrease is primarily due to decreases in gains on the sale of investment securities and gains recognized on the sale of SBA loans.

Non-interest expenses increased \$1.8 million to \$21.6 million during the six months ended June 30, 2015 as compared to \$19.8 million during the six months ended June 30, 2014. This increase was primarily driven by higher salaries, employee benefits, occupancy and equipment expenses associated with the addition of new stores related to the Company's expansion strategy.

Return on average assets and average equity from continuing operations were 0.17% and 1.89%, respectively, during the six months ended June 30, 2015 compared to 0.26% and 3.16%, respectively, for the six months ended June 30, 2014.

Analysis of Net Interest Income

Historically, the Company's earnings have depended primarily upon Republic's net interest income, which is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is affected by changes in the mix of the volume and rates of interest-earning assets and interest-bearing liabilities. The following table provides an analysis of net interest income, setting forth for the periods' (i) average assets, liabilities, and shareholders' equity, (ii) interest income earned on interest-earning assets and interest expense on interest-bearing liabilities, (iii) annualized average yields earned on interest-earning assets and average rates on interest-bearing liabilities, and (iv) Republic's annualized net interest margin (net interest income as a percentage of average total interest-earning assets). Averages are computed based on daily balances. Non-accrual loans are included in average loans receivable. All yields are adjusted for tax equivalency.

Average Balances and Net Interest Income

(dollars in thousands)	For the three months ended June 30, 2015			For the three months ended June 30, 2014		
	Average Balance	Interest	Yield/ Rate(1)	Average Balance	Interest	Yield/ Rate(1)
Interest-earning assets:						
Federal funds sold and other interest-earning assets	\$ 125,839	\$ 86	0.27 %	\$ 82,915	\$ 50	0.24 %
Investment securities and restricted stock	265,268	1,617	2.44 %	207,545	1,315	2.53 %
Loans receivable	812,155	9,339	4.61 %	706,632	8,356	4.74 %
Total interest-earning assets	1,203,262	11,042	3.68 %	997,092	9,721	3.91 %
Other assets	67,724			48,652		
Total assets	\$ 1,270,986			\$ 1,045,744		
Interest-earning liabilities:						
Demand – non-interest bearing	\$ 229,468			\$ 177,363		
Demand – interest bearing	333,075	341	0.41 %	232,682	225	0.39 %
Money market & savings	491,644	501	0.41 %	427,589	467	0.44 %
Time deposits	73,497	170	0.93 %	78,259	178	0.91 %
Total deposits	1,127,684	1,012	0.36 %	915,893	870	0.38 %
Total interest-bearing deposits	898,216	1,012	0.45 %	738,530	870	0.47 %
Other borrowings	22,476	278	4.96 %	22,476	277	4.94 %
Total interest-bearing liabilities	920,692	1,290	0.56 %	761,006	1,147	0.60 %
Total deposits and other borrowings	1,150,160 7,123	1,290	0.45 %	938,369 6,741	1,147	0.49 %

Non interest-bearing other liabilities					
Shareholders' equity	113,703		100,634		
Total liabilities and shareholders' equity	\$ 1,270,986		\$ 1,045,744		
Net interest income (2)		\$ 9,752		\$ 8,574	
Net interest spread			3.12 %		3.31 %
Net interest margin (2)			3.25 %		3.45 %

(1) Yields on investments are calculated based on amortized cost.

(2) Net interest income and net interest margin are presented on a tax equivalent basis. Net interest income has been increased over the financial statement amount by \$143 and \$90 for the three months ended June 30, 2015 and 2014, respectively, to adjust for tax equivalency. The tax equivalent net interest margin is calculated by dividing tax equivalent net interest income by average total interest earning assets.

Average Balances and Net Interest Income

(dollars in thousands)	For the six months ended June 30, 2015			For the six months ended June 30, 2014				
	Average Balance	Interest	Yield/ Rate(1)	Average Balance	Interest	Yield/ Rate(1)		
Interest-earning assets:								
Federal funds sold and other interest-earning assets	\$ 128,116	\$ 163	0.26	%	\$ 50,552	\$ 62	0.25	%
Investment securities and restricted stock	260,034	3,291	2.53	%	207,793	2,678	2.58	%
Loans receivable	797,846	18,484	4.67	%	696,805	16,723	4.84	%
Total interest-earning assets	1,185,996	21,938	3.73	%	955,150	19,463	4.11	%
Other assets	64,865				45,818			
Total assets	\$ 1,250,861				\$ 1,000,968			
Interest-earning liabilities:								
Demand – non-interest bearing	\$ 228,096				\$ 173,552			
Demand – interest bearing	314,455	631	0.40	%	223,383	416	0.38	%
Money market & savings	490,717	1,054	0.43	%	414,308	883	0.43	%
Time deposits	74,486	345	0.93	%	77,865	351	0.91	%
Total deposits	1,107,754	2,030	0.37	%	889,108	1,650	0.37	%
Total interest-bearing deposits	879,658	2,030	0.47	%	715,556	1,650	0.47	%
Other borrowings	22,496	554	4.97	%	22,476	553	4.96	%
Total interest-bearing liabilities	902,154	2,584	0.58	%	738,032	2,203	0.60	%
Total deposits and other borrowings	1,130,250	2,584	0.46	%	911,584	2,203	0.49	%
Non interest-bearing other liabilities	7,184				6,838			
Shareholders' equity	113,427				82,546			
Total liabilities and shareholders' equity	\$ 1,250,861				\$ 1,000,968			
Net interest income (2)		\$ 19,354				\$ 17,260		
Net interest spread			3.15	%			3.51	%
Net interest margin (2)			3.29	%			3.64	%

(1) Yields on investments are calculated based on amortized cost.

(2) Net interest income and net interest margin are presented on a tax equivalent basis. Net interest income has been increased over the financial statement amount by \$278 and \$177 for the six months ended June 30, 2015 and 2014, respectively, to adjust for tax equivalency. The tax equivalent net interest margin is calculated by dividing tax equivalent net interest income by average total interest earning assets.

Rate/Volume Analysis of Changes in Net Interest Income

Net interest income may also be analyzed by segregating the volume and rate components of interest income and interest expense. The following table sets forth an analysis of volume and rate changes in net interest income for the three and six months ended June 30, 2015, as compared to the three and six months ended June 30, 2014. For purposes of this table, changes in interest income and expense are allocated to volume and rate categories based upon the respective changes in average balances and average rates.

(dollars in thousands)	For the three months ended June 30, 2015 vs. 2014			For the six months ended June 30, 2015 vs. 2014		
	Changes due to:		Total Change	Changes due to:		Total Change
Average Volume	Average Rate	Average Volume		Average Rate		
Interest earned:						
Federal funds sold and other interest-earning assets	\$ 33	\$ 3	\$ 36	\$ 99	\$ 2	\$ 101
Securities	354	(52)	302	661	(48)	613
Loans	1,204	(221)	983	2,317	(556)	1,761
Total interest-earning assets	1,591	(270)	1,321	3,077	(602)	2,475
Interest expense:						
Deposits						
Interest-bearing demand deposits	103	13	116	183	32	215
Money market and savings	62	(28)	34	162	9	171
Time deposits	(10)	2	(8)	(15)	9	(6)
Total deposit interest expense	155	(13)	142	330	50	380
Other borrowings	-	1	1	-	1	1
Total interest expense	155	(12)	143	330	51	381
Net interest income	\$ 1,436	\$ (258)	\$ 1,178	\$ 2,747	\$ (653)	\$ 2,094

Net Interest Income and Net Interest Margin

Net interest income, on a fully tax-equivalent basis, for the second quarter of 2015 increased \$1.2 million, or 13.7%, over the same period in 2014. Interest income, on a fully tax equivalent basis, on interest-earning assets totaled \$11.0 million and \$9.7 million for the second quarters of 2015 and 2014, respectively. The increase in interest income was the result of a \$105.5 million increase in average loans receivable and a \$57.7 million increase in average investment securities partially offset by a 13 basis point decrease in loan yields for the three months ended June 30, 2015 as compared to June 30, 2014. Total interest expense for the second quarter of 2015 increased by \$143,000, or 12.5%, to \$1.3 million from \$1.1 million over the same period in 2014. Interest expense on deposits for the second quarter of 2015 increased by \$142,000, or 16.3%, over the same period in 2014.

Net interest income, on a fully tax-equivalent basis, for the first six months of 2015 increased \$2.1 million, or 12.1%, over the same period in 2014. Interest income, on a fully tax equivalent basis, on interest-earning assets totaled \$21.9

million and \$19.5 million for the first six months of 2015 and 2014, respectively. The increase in interest income was the result of a \$101.0 million increase in average loans receivable and a \$52.2 million increase in average investment securities partially offset by a 17 basis point decrease in loan yields for the first six months ended June 30, 2015 as compared to June 30, 2014. Total interest expense for the first six months of 2015 increased by \$381,000, or 17.3%, to \$2.6 million from \$2.2 million over the same period in 2014. Interest expense on deposits for the first six months of 2015 increased by \$380,000, or 23.0%, over the same period in 2014.

Changes in net interest income are frequently measured by two statistics: net interest rate spread and net interest margin. Net interest rate spread is the difference between the average rate earned on interest-earning assets and the average rate incurred on interest-bearing liabilities. Our net interest rate spread on a fully tax-equivalent basis was 3.12% during the second quarter of 2015 compared to 3.31% during the same period in 2014 and was 3.15% during the first six months of 2015 compared to 3.51% during the same period in 2014. Net interest margin represents the difference between interest income, including net loan fees earned, and interest expense, reflected as a percentage of average interest-earning assets. The fully tax-equivalent net interest margin decreased from 3.45% for the second quarter of 2014 to 3.25% for the second quarter of 2015. For the first six months of 2015 and 2014, the fully tax-equivalent net interest margin was 3.29% and 3.64%, respectively. The net interest margin for the both the 3 and 6 month periods ending June 30, 2015 decreased primarily as a result of an increase in the average balance related to federal funds sold and other interest earning assets and a decrease in the yield on loans receivable.

Provision for Loan Losses

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that management believes is adequate to absorb inherent losses in the loan portfolio. The Company did not record a provision for loan losses for the three and six month periods ended June 30, 2015 compared to a \$300,000 provision for the three and six month periods ended June 30, 2014. Lower provisions required for loans individually evaluated for impairment drove a reduction in the provision for loan losses during the three month period ended June 30, 2015. During the six month period ended June 30, 2015, a decrease in the allowance required for loans collectively evaluated for impairment was driven by a reduction in the factor used in the calculation related to historical charge-offs which has declined as a result of lower charge-offs in recent years.

Nonperforming assets at June 30, 2015 totaled \$29.4 million, or 2.31%, of total assets, up \$4.2 million, or 16.9%, from \$25.2 million, or 2.07%, of total assets at December 31, 2014 and down \$1.2 million, or 3.8%, from \$30.6 million, or 2.87%, of total assets at June 30, 2014.

Non-Interest Income

Total non-interest income decreased \$267,000, or 11.7%, to \$2.0 million for the three months ended June 30, 2015, compared to \$2.3 million for the three months ended June 30, 2014. The Company recognized gains of \$9,000 on sales of investment securities during the three months ended June 30, 2015 compared to gains of \$458,000 on sales of investment securities in the same period of 2014. Gains on the sale of SBA loans were \$1.2 million during the three months ended June 30, 2015 compared to \$1.0 million in the same period of 2014. The increase of \$176,000 in gains on the sale of SBA loans was driven by an increase in the number of SBA loans originated and sold during the second quarter of 2015. Service charges, fees and other operating income, comprised primarily of servicing fees on SBA loans and deposit and loan service charges, totaled \$791,000 for the second quarter of 2015.

Total non-interest income decreased \$620,000, or 14.7%, to \$3.6 million for the six months ended June 30, 2015, compared to \$4.2 million for the six months ended June 30, 2014. Gains on the sale of SBA loans were \$1.8 million during the first six months of 2015 compared to \$2.2 million in the same period of 2014. Service charges, fees and other operating income totaled \$1.8 million, increasing \$225,000, from the first six months of 2014. The Company recognized gains of \$9,000 on sales of investment securities during the first six months of 2015 compared to gains of \$458,000 on sales of investment securities in the first six months of 2014. There was an OTTI loss of \$3,000 during the first six months of 2015 compared to \$7,000 in the first six months of 2014.

Non-Interest Expenses

Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014

Noninterest expenses increased by \$1.1 million, or 11.5%, for the second quarter of 2015 compared to the same period in 2014. A detailed comparison of noninterest expenses for certain categories for the three months ended June 30, 2015 and June 30, 2014 is presented in the following paragraphs.

Salary and employee benefits expenses, which represent the largest component of noninterest expenses, increased by \$887,000, or 18.4%, for the second quarter of 2015 compared to the second quarter of 2014 driven primarily by annual merit increases along with increased staffing levels related to the Company's growth strategy of adding and relocating stores.

Occupancy expenses increased by \$192,000, or 18.7%, and depreciation and amortization expense increased by \$161,000, or 28.2%, for the second quarter of 2015 compared to the second quarter of 2014 also as a result of the Company's continuing growth and relocation strategy.

Other real estate owned expenses totaled \$371,000 during the second quarter of 2015, an increase of \$31,000, or 9.1%, from the same quarter in 2014. This increase was a result of higher costs to carry foreclosed properties in the current period.

Other operating expenses totaled \$1.2 million during the second quarter of 2015, an increase of \$18,000, or 1.5%, from the same quarter in 2014.

Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014

For the first six months of 2015, noninterest expenses increased by \$1.8 million or 9.4%, compared to the first six months of 2014. A detail of noninterest expenses for certain categories is presented in the following paragraphs.

Salary expenses and employee benefits for the first six months of 2015 were \$10.9 million, an increase of \$1.1 million, or 10.8%, compared to the first six months of 2014 primarily driven by annual merit increases along with increased staffing levels related to the Company's growth strategy of adding and relocating stores.

Occupancy expenses increased by \$319,000, or 15.4%, and depreciation and amortization expense increased by \$386,000, or 36.1%, for the first six months of 2015 compared to the first six months of 2014 also as a result of the Company's continuing growth and relocation strategy.

Other real estate owned expenses totaled \$748,000 for the first six months of 2015, an increase of \$62,000, or 9.0%, from the first six months of 2014 primarily as a result of higher costs to carry foreclosed properties in the current period.

Other operating expenses totaled \$2.5 million during the first six months of 2015, an increase of \$210,000, or 9.2%, from the first six months of 2014. This increase was mainly attributable to telephone expense, transactions fees, loan expense, and other expenses resulting from our growth strategy.

One key measure that management utilizes to monitor progress in controlling overhead expenses is the ratio of annualized net noninterest expenses to average assets. For purposes of this calculation, net noninterest expenses equal noninterest expenses less noninterest income and nonrecurring expense. For the second quarters of 2015 and 2014 this

ratio equaled 2.87% and 2.94%. For the six month period ended June 30, 2015, the ratio equaled 2.91% compared to 3.13% for the six month period ended June 30, 2014, respectively, reflecting higher average balances related to the Company's growth strategy of adding and relocating stores.

Another productivity measure utilized by management is the operating efficiency ratio. This ratio expresses the relationship of noninterest expenses to net interest income plus noninterest income. For the quarter ended June 30, 2015, the operating efficiency ratio was 95.5%, compared to 92.4% for the same period in 2014. The increase in the operating efficiency ratio relates to an 11.5% increase in total noninterest expense. The efficiency ratio was 95.4% for the first six months of 2015, compared to 92.8% for the first six months of 2014. The increase for the six months ended June 30, 2015 versus June 30, 2014 was due to a 9.4% increase in noninterest expenses.

Provision (Benefit) for Income Taxes

The Company recorded a benefit for income taxes of \$5,000 for the three months ended June 30, 2015, compared to a \$21,000 benefit for the three months ended June 30, 2014. For the six months ended June 30, 2015, the Company recorded a benefit for income taxes of \$7,000 compared to a benefit of \$62,000 for the six months ended June 30, 2014. The \$7,000 benefit recorded during the first six months of 2015 was the net result of a tax provision in the amount of \$207,000 calculated on the net profit generated during the period using the Company's normal estimated tax rate, offset by an adjustment to the deferred tax asset valuation allowance in the amount of \$214,000. The effective tax rates for the three-month periods ended June 30, 2014 and 2013 were 19% and 25%, respectively, and for the six month periods ended June 30, 2014 and 2013 were 20% and 27%, respectively, excluding an adjustment to the deferred tax asset valuation allowance.

The Company evaluates the carrying amount of its deferred tax assets on a quarterly basis or more frequently, if necessary, in accordance with the guidance provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 740 (ASC 740), in particular, applying the criteria set forth therein to determine whether it is more likely than not (i.e. a likelihood of more than 50%) that some portion, or all, of the deferred tax asset will not be realized within its life cycle, based on the weight of available evidence. If management makes a determination based on the available evidence that it is more likely than not that some portion or all of the deferred tax assets will not be realized in future periods, a valuation allowance is calculated and recorded. These determinations are inherently subjective and dependent upon estimates and judgments concerning management's evaluation of both positive and negative evidence.

In conducting the deferred tax asset analysis, the Company believes it is important to consider the unique characteristics of an industry or business. In particular, characteristics such as business model, level of capital and reserves held by financial institutions and their ability to absorb potential losses are important distinctions to be considered for bank holding companies like the Company. In addition, it is also important to consider that NOLs for federal income tax purposes can generally be carried back two years and carried forward for a period of twenty years. In order to realize our deferred tax assets, we must generate sufficient taxable income in such future years.

In assessing the need for a valuation allowance, the Company carefully weighed both positive and negative evidence currently available. Judgment is required when considering the relative impact of such evidence. The weight given to the potential effect of positive and negative evidence must be commensurate with the extent to which it can be objectively verified. A cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome. Based on the analysis of available positive and negative evidence, the Company determined that a valuation allowance should be recorded as of June 30, 2015 and December 31, 2014.

When calculating an estimate for a valuation allowance, the Company assessed the possible sources of taxable income available under tax law to realize a tax benefit for deductible temporary differences and carry forwards as defined in ASC 740. As a result of cumulative losses in recent years and the uncertain nature of the current economic environment, the Company did not use projections of future taxable income, exclusive of reversing temporary timing differences and carryforwards, as a factor. The Company will exclude future taxable income as a factor until it can

show consistent and sustainable profitability.

43

The Company did assess tax planning strategies as defined under ASC 740 to determine the amount of a valuation allowance. Strategies reviewed included the sale of investment securities and loans with fair values greater than book values, redeployment of cash and cash equivalents into higher yielding investment options, a switch from tax-exempt to taxable investments and loans, and the election of a decelerated depreciation method for tax purposes on future fixed asset purchases. The Company believes that these tax planning strategies are (a) prudent and feasible, (b) steps that the Company would not ordinarily take, but would take to prevent an operating loss or tax credit carryforward from expiring unused, and (c) would result in the realization of existing deferred tax assets. These tax planning strategies, if implemented, would result in taxable income in the first full reporting period after deployment and accelerate the recovery of deferred tax asset balances if faced with the inability to recover those assets or the risk of potential expiration. The Company believes that these are viable tax planning strategies and appropriately considered in the analysis at this time, but may not align with the strategic direction of the organization today and therefore, has no present intention to implement such strategies.

The net deferred tax asset balance before consideration of a valuation allowance was \$19.9 million as of June 30, 2015 and \$19.6 million as of December 31, 2014. After assessment of all available tax planning strategies, the Company determined that a partial valuation allowance in the amount of \$14.4 million as of June 30, 2015 and \$14.7 million as of December 31, 2014 should be recorded.

The deferred tax asset will continue to be analyzed on a quarterly basis for changes affecting realizability. When the determination is made to include projections of future taxable income as a factor in recovering the deferred tax asset, the valuation allowance will be reduced accordingly resulting in a corresponding increase in net income.

Net Income and Net Income per Common Share

Net income for the second quarter of 2015 was \$533,000, a decrease of \$4,000, compared to \$537,000 recorded for the second quarter of 2014.

Net income for the first six months of 2015 was \$1.1 million, a decrease of \$231,000, compared to \$1.3 million recorded in the first six months of 2014. The lower net income in 2015 was due to a \$1.8 million increase in noninterest expenses, a decrease of \$620,000 in noninterest income and a decrease in benefit for income taxes of \$55,000, partially offset by a \$2.0 million increase in net interest income and a decrease of \$300,000 in the provision for loan losses.

Basic and fully-diluted net income per common share was \$0.01 for the second quarter of 2015 compared to \$0.02 for the second quarter of 2014. For the six months ended June 30, 2015, basic and fully-diluted net income per common share was \$0.03 compared to basic and fully-diluted net loss per common share of \$0.04 for the six months ended June 30, 2014.

Return on Average Assets and Average Equity

Return on average assets (ROA) measures our net income in relation to our total average assets. Our annualized ROA for the second quarter of 2015 was 0.17%, compared to 0.21% for the second quarter of 2014. The ROA for the first six months in 2015 and 2014 was 0.17% and 0.26%, respectively. Return on average equity (ROE) indicates how effectively we can generate net income on the capital invested by our stockholders. ROE is calculated by dividing annualized net income by average stockholders' equity. The ROE was 1.88% for the second quarter of 2015, compared to 2.14% for the second quarter of 2014. The ROE for the first six months of 2015 was 1.89%, compared to 3.16% for the first six months of 2014.

Commitments, Contingencies and Concentrations

Financial instruments, whose contract amounts represent potential credit risk, were commitments to extend credit of approximately \$149.5 million and \$138.4 million, and standby letters of credit of approximately \$4.4 million and \$3.8 million, at June 30, 2015 and December 31, 2014, respectively. These financial instruments constitute off-balance sheet arrangements. Commitments often expire without being drawn upon. Substantially all of the \$149.5 million of commitments to extend credit at June 30, 2015 were committed as variable rate credit facilities.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. The Company's commitments generally have fixed expiration dates or other termination clauses and many require the payment of fees. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. In issuing commitments, the Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral required in connection with any commitment is based on management's credit evaluation of the customer. The type of required collateral varies, but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable.

Standby letters of credit are conditional commitments that guarantee the performance of a customer to a third party. The credit risk and collateral policy involved in issuing letters of credit is essentially the same as that involved in issuing loan commitments. The amount of collateral which may be pledged to secure a letter of credit is based on management's credit evaluation of the customer. The type of collateral which may be held varies, but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable.

Regulatory Matters

In July 2013, the federal bank regulatory agencies adopted revisions to the agencies' capital adequacy guidelines and prompt corrective action rules, which were designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. The final rules generally implement higher minimum capital requirements, add a new common equity tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity tier 1 capital, additional tier 1 capital or tier 2 capital. Effective as of January 1, 2015, the new minimum capital to risk-adjusted assets requirements are a common equity tier 1 capital ratio of 4.5% (6.5% to be considered "well capitalized") and a tier 1 capital ratio of 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% to be considered "well capitalized"); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered "well capitalized"). Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity tier 1 capital above its minimum risk-based capital requirements, which amount must be greater than 2.5% of total risk-weighted assets at January 1, 2019. The capital contribution buffer requirements phase in over a three-year period beginning January 1, 2016. Management has reviewed the new standards and evaluated all options and strategies to ensure compliance with the new standards. Both Republic and the Company met the "well capitalized" standards applicable to them as of June 30, 2015.

The following table presents the capital regulatory ratios for both Republic and the Company as of June 30, 2015, and December 31, 2014 (dollars in thousands):

	Actual		For Capital Adequacy Purposes				To be well capitalized under regulatory capital guidelines	
	Amount	Ratio	Amount	Ratio	Amount	Ratio		
At June 30, 2015:								
Total risk based capital								
Republic	\$ 130,165	12.66	% \$ 82,258	8.00	% \$ 102,822	10.00	%	
Company	143,253	13.88	% 82,592	8.00	% -	-	%	
Tier one risk based capital								
Republic	121,767	11.84	% 61,693	6.00	% 82,258	8.00	%	
Company	134,855	13.06	% 61,944	6.00	% -	-	%	
CET 1 risk based capital								
Republic	121,767	11.84	% 46,270	4.50	% 66,835	6.50	%	
Company	113,055	10.95	% 46,458	4.50	% -	-	%	
Tier one leveraged capital								
Republic	121,767	9.63	% 50,580	4.00	% 63,225	5.00	%	
Company	134,855	10.62	% 50,770	4.00	% -	-	%	
At December 31, 2014:								
Total risk based capital								
Republic	\$ 132,460	14.04	% \$ 75,491	8.00	% \$ 94,364	10.00	%	
Company	142,556	15.10	% 75,543	8.00	% -	-	%	
Tier one leveraged capital								
Republic	120,924	12.81	% 37,746	4.00	% 56,618	6.00	%	
Company	131,020	13.88	% 37,771	4.00	% -	-	%	
Tier one leveraged capital								
Republic	120,924	10.37	% 46,630	4.00	% 58,288	5.00	%	
Company	131,020	11.23	% 46,680	4.00	% -	-	%	

Dividend Policy

The Company has not paid any cash dividends on its common stock. The Company has no plans to pay cash dividends in 2015. The Company's ability to pay dividends depends primarily on receipt of dividends from the Company's subsidiary, Republic. Dividend payments from Republic are subject to legal and regulatory limitations. The ability of Republic to pay dividends is also subject to profitability, financial condition, capital expenditures and other cash flow requirements.

Liquidity

Financial institutions must maintain liquidity to meet day-to-day requirements of depositors and borrowers, time investment purchases to market conditions and provide a cushion against unforeseen needs. Liquidity needs can be met by either reducing assets or increasing liabilities. The most liquid assets consist of cash and amounts due from banks.

Regulatory authorities require the Company to maintain certain liquidity ratios in order for funds to be available to satisfy commitments to borrowers and the demands of depositors. In response to these requirements, the Company has formed an asset/liability committee (ALCO), comprised of certain members of Republic's board of directors and senior management to monitor such ratios. The ALCO committee is responsible for managing the liquidity position and interest sensitivity. That committee's primary objective is to maximize net interest income while configuring Republic's interest-sensitive assets and liabilities to manage interest rate risk and provide adequate liquidity for projected needs. The ALCO committee meets on a quarterly basis or more frequently if deemed necessary.

The Company's target and actual liquidity levels are determined by comparisons of the estimated repayment and marketability of interest-earning assets with projected future outflows of deposits and other liabilities. The Company's most liquid assets, comprised of cash and cash equivalents on the balance sheet, totaled \$81.2 million at June 30, 2015, compared to \$128.8 million at December 31, 2014. Loan maturities and repayments are another source of asset liquidity. At June 30, 2015, Republic estimated that more than \$40.0 million of loans would mature or repay in the six-month period ending December 31, 2015. Additionally, the majority of its investment securities are available to satisfy liquidity requirements if necessary. At June 30, 2015, the Company had outstanding commitments (including unused lines of credit and letters of credit) of \$153.9 million. Certificates of deposit scheduled to mature in one year totaled \$56.0 million at June 30, 2015. The Company anticipates that it will have sufficient funds available to meet its current commitments.

Daily funding requirements have historically been satisfied by generating core deposits and certificates of deposit with competitive rates, buying federal funds or utilizing the credit facilities of the Federal Home Loan Bank System ("FHLB"). The Company has established a line of credit with the FHLB of Pittsburgh with total borrowing capacity in the amount of \$418.5 million as of June 30, 2015. As of June 30, 2015 and December 31, 2014, the Company had no outstanding term borrowings with the FHLB. The Company had no short-term borrowings at both June 30, 2015 and December 31, 2014. As of June 30, 2015, FHLB had issued letters of credit, on Republic's behalf, totaling \$75.1 million against our available credit line. The Company has also established a contingency line of credit of \$10.0 million with Atlantic Community Bankers Bank ("ACBB") to assist in managing its liquidity position. The Company had no amounts outstanding against the ACBB line of credit at both June 30, 2015 and December 31, 2014.

On April 22, 2014, the Company issued 11,842,106 shares of its common stock for an aggregate purchase price of \$45.0 million. The registration statement covering the resale of these shares by such investors was declared effective May 22, 2014 by the SEC.

Investment Securities Portfolio

At June 30, 2015, the Company identified certain investment securities that were being held for indefinite periods of time, including securities that will be used as part of the Company's asset/liability management strategy and that may be sold in response to changes in interest rates, prepayments and similar factors. These securities are classified as available for sale and are intended to increase the flexibility of the Company's asset/liability management. Available for sale securities consist primarily of U.S Government Agency mortgage-backed securities (MBS), agency collateralized mortgage obligations (CMO), municipal securities, corporate bonds, asset-backed securities and pooled trust preferred securities (CDO). Available-for-sale securities totaled \$176.1 million and \$185.4 million as of June 30, 2015 and December 31, 2014, respectively. At June 30, 2015, the portfolio had a net unrealized loss of \$1.1 million and a net unrealized gain of \$129,000 at December 31, 2014.

Loan Portfolio

The Company's loan portfolio consists of secured and unsecured commercial loans including commercial real estate, construction loans, residential mortgages, automobile loans, home improvement loans, home equity loans and lines of credit, overdraft lines of credit and others. Commercial loans are primarily secured term loans made to small to medium-sized businesses and professionals for working capital, asset acquisition and other purposes. Commercial loans are originated as either fixed or variable rate loans with typical terms of 1 to 5 years. Republic's commercial loans typically range between \$250,000 and \$5,000,000 million but customers may borrow significantly larger amounts up to Republic's combined legal lending limit, which was approximately \$19.9 million at June 30, 2015. Individual customers may have several loans often secured by different collateral.

Credit Quality

Republic's written lending policies require specified underwriting, loan documentation and credit analysis standards to be met prior to funding, with independent credit department approval for the majority of new loan balances. A committee consisting of senior management and certain members of the Board of Directors oversees the loan approval process to monitor that proper standards are maintained, while approving the majority of commercial loans.

Loans, including impaired loans, are generally classified as non-accrual if they are past due as to maturity or payment of interest or principal for a period of more than 90 days, unless such loans are well-secured and in the process of collection. Loans that are on a current payment status or past due less than 90 days may also be classified as non-accrual if repayment in full of principal and/or interest is in doubt. Loans may be returned to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance by the borrower, in accordance with the contractual terms.

While a loan is classified as non-accrual or as an impaired loan and the future collectability of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to principal outstanding. When the future collectability of the recorded loan balance is expected, interest income may be recognized on a cash basis. For non-accrual loans, which have been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Cash interest receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

The following table shows information concerning loan delinquency and non-performing assets as of the dates indicated (dollars in thousands):

	June 30, 2015	December 31, 2014		
Loans accruing, but past due 90 days or more	\$256	\$-		
Non-accrual loans	15,977	21,440		
Total non-performing loans	16,233	21,440		
Other real estate owned	13,162	3,715		
Total non-performing assets	\$29,395	\$25,155		
Non-performing loans as a percentage of total loans, net of unearned income(1)	1.97	%	2.74	%
Non-performing assets as a percentage of total assets	2.31	%	2.07	%

(1) Non-performing loans are comprised of (i) loans that are on non-accrual basis and (ii) accruing loans that are 90 days or more past due. Non-performing assets are composed of non-performing loans and other real estate owned.

Non-performing assets increased by \$4.2 million to \$29.4 million as of June 30, 2015, from \$25.2 million at December 31, 2014. Non-accrual loans decreased by \$5.5 million to \$16.0 million as of June 30, 2015, from \$21.4 million at December 31, 2014. The increase in non-performing assets was primarily driven by one loan in the amount of \$5.7 million that became more than ninety days delinquent and was transferred to non-accrual status in the current year. In addition, non-accrual loans in the amount of \$10.2 million were transferred to other real estate owned in the current year. Loans accruing, but past due 90 days or more were \$256,000 as of June 30, 2015, compared to \$0 at December 31, 2014 which was driven by one loan which had reached maturity and was being extended as of June 30, 2015. In addition to non-accrual loans, impaired loans also include loans that are currently performing but potential credit concerns with the borrowers' financial condition have caused management to have doubts as to the ability of such borrowers to continue to comply with present repayment terms. At June 30, 2015 and December 31, 2014, all identified impaired loans are internally classified and individually evaluated for impairment in accordance with the guidance under ASC 310.

The following table presents the Company's 30 to 89 days past due loans at June 30, 2015 and December 31, 2014.

(dollars in thousands)	June 30, 2015	December 31, 2014
30 to 59 days past due	\$ -	\$ 1,681
60 to 89 days past due	10,513	14,062
Total loans 30 to 89 days past due	\$ 10,513	\$ 15,743

Other Real Estate Owned

The balance of other real estate owned increased by \$9.5 million to \$13.2 million at June 30, 2015 from \$3.7 million at December 31, 2014. This increase was primarily driven by the transfer of one asset from the loan portfolio during the second quarter of 2015. The Company recorded a significant provision related to a single loan relationship during the fourth quarter of 2013 which it determined to be impaired in that period. This loan was placed on non-accrual status during the second quarter of 2014 as a result of the delinquency in loan payments. The Company reached settlement agreements with the borrowers in this relationship during the second quarter of 2015 at which time full ownership interest in the real estate which served as collateral for the loan was assigned to the Company.

The following table presents a reconciliation of other real estate owned for the six months ended June 30, 2015 and the year ended December 31, 2014:

(dollars in thousands)	June 30, 2015	December 31, 2014
Beginning Balance, January 1st	\$3,715	\$4,059
Additions	10,213	1,000
Valuation adjustments	(298)	(1,147)
Dispositions	(468)	(197)
Ending Balance	\$13,162	\$3,715

At June 30, 2015, the Company had no credit exposure to "highly leveraged transactions" as defined by the FDIC.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable losses inherent in the loan portfolio. The Company evaluates the need to establish an allowance against loan losses on a quarterly basis. When an increase in this allowance is necessary, a provision for loan losses is charged to earnings. The allowance for loan losses consists of three components. The first component is allocated to individually evaluated loans found to be impaired and is calculated in accordance with ASC 310. The second component is allocated to all other loans that are not individually identified as impaired pursuant to ASC 310 (“non-impaired loans”). This component is calculated for all non-impaired loans on a collective basis in accordance with ASC 450. The third component is an unallocated allowance to account for a level of imprecision in management’s estimation process.

The Company evaluates loans for impairment and potential charge-off on a quarterly basis. Management regularly monitors the condition of borrowers and assesses both internal and external factors in determining whether any loan relationships have deteriorated. Any loan rated as substandard or lower will have an individual collateral evaluation analysis prepared to determine if a deficiency exists. We first evaluate the primary repayment source. If the primary repayment source is seriously inadequate and unlikely to repay the debt, we then look to the other available repayment sources. Secondary sources are conservatively reviewed for liquidation values. Updated appraisals and financial data are obtained to substantiate current values. If the reviewed sources are deemed to be inadequate to cover the outstanding principal and any costs associated with the resolution of the troubled loan, an estimate of the deficient amount will be calculated and a specific allocation of loan loss reserve is recorded.

Factors considered in the calculation of the allowance for non-impaired loans include several qualitative and quantitative factors such as historical loss experience, trends in delinquency and nonperforming loan balances, changes in risk composition and underwriting standards, experience and ability of management, and general economic conditions along with other external factors. Historical loss experience is analyzed by reviewing charge-offs over a three year period to determine loss rates consistent with the loan categories depicted in the allowance for loan loss table below.

The factors supporting the allowance for loan losses do not diminish the fact that the entire allowance for loan losses is available to absorb losses in the loan portfolio and related commitment portfolio, respectively. The Company’s principal focus, therefore, is on the adequacy of the total allowance for loan losses. The allowance for loan losses is subject to review by banking regulators. The Company’s primary bank regulators regularly conduct examinations of the allowance for loan losses and make assessments regarding the adequacy and the methodology employed in their determination.

An analysis of the allowance for loan losses for the six months ended June 30, 2015 and 2014, and the twelve months ended December 31, 2014 is as follows:

(dollars in thousands)	For the six months ended June 30, 2015	For the twelve months ended December 31, 2014	For the six months ended June 30, 2014		
Balance at beginning of period	\$ 11,536	\$ 12,263	\$ 12,263		
Charge-offs:					
Commercial real estate	2,623	364	188		
Construction and land development	222	303	20		
Commercial and industrial	325	1,185	283		
Owner occupied real estate	55	150	-		
Consumer and other	-	10	10		
Total charge-offs	3,225	2,012	501		
Recoveries:					
Commercial real estate	4	5	-		
Construction and land development	5	214	-		
Commercial and industrial	46	166	1		
Owner occupied real estate	-	-	-		
Consumer and other	32	-	-		
Total recoveries	87	385	1		
Net charge-offs	3,138	1,627	500		
Provision for loan losses	-	900	300		
Balance at end of period	\$ 8,398	\$ 11,536	\$ 12,063		
Average loans outstanding(1)	\$ 797,846	\$ 724,231	\$ 696,805		
As a percent of average loans:(1)					
Net charge-offs (annualized)	0.79	%	0.22	%	0.14
Provision for loan losses (annualized)	-	%	0.12	%	0.09
Allowance for loan losses	1.05	%	1.59	%	1.73
Allowance for loan losses to:					
Total loans, net of unearned income	1.02	%	1.48	%	1.68
Total non-performing loans	51.73	%	53.81	%	44.81

(1) Includes non-accruing loans.

The Company did not record a provision for loan losses for the three and six months ended June 30, 2015 compared to a \$300,000 provision for the three and six months ended June 30, 2014. During the six months ended June 30, 2015, there were decreases in the allowance required for loans collectively evaluated for impairment. The decreases associated with loans collectively evaluated for impairment were driven by a reduction in the factor used in the calculation related to historical charge-offs which has declined as a result of lower charge-offs in recent years.

The allowance for loan losses as a percentage of non-performing loans (coverage ratio) was 51.73% at June 30, 2015, compared to 53.81% at December 31, 2014 and 44.81% at June 30, 2014. Total non-performing loans were \$16.2

million, \$21.4 million and \$26.9 million at June 30, 2015, December 31, 2014 and June 30, 2014, respectively. The decrease in non-performing loans was primarily driven by one loan in the amount of \$9.6 million that was transferred from non-performing loans to other real estate owned during the current period.

Our credit monitoring process assesses the ultimate collectability of an outstanding loan balance from all potential sources. When a loan is determined to be uncollectible it is charged-off against the allowance for loan losses. Unsecured commercial loans and all consumer loans are charged-off immediately upon reaching the 90-day delinquency mark unless they are well secured and in the process of collection. The timing on charge-offs of all other loan types is subjective and will be recognized when management determines that full repayment, either from the cash flow of the borrower, collateral sources, and/or guarantors, will not be sufficient and that repayment is unlikely. A full or partial charge-off is recognized equal to the amount of the estimated deficiency calculation.

Serious delinquency is often the first indicator of a potential charge-off. Reductions in appraised collateral values and deteriorating financial condition of borrowers and guarantors are factors considered when evaluating potential charge-offs. The likelihood of possible recoveries or improvements in a borrower's financial condition are also assessed when considering a charge-off. The Company recorded net charge-offs of \$3.1 million during the six month period ended June 30, 2015, compared to \$500,000 during the six month period ended June 30, 2014. The increase in charge-offs was primarily the result of a single loan relationship which transferred to other real estate owned during the second quarter of 2015. The provision for loan losses associated with this loan was recorded in a prior period.

Partial charge-offs of non-performing and impaired loans can significantly reduce the coverage ratio and other credit loss statistics due to the fact that the balance of the allowance for loan losses will be reduced while still carrying the remainder of a non-performing loan balance in the impaired loan category. The amount of non-performing loans for which partial charge-offs have been recorded amounted to \$6.8 million at June 30, 2015 compared to \$17.8 million at December 31, 2014.

The following table provides additional analysis of partially charged-off loans.

(dollars in thousands)	June 30, 2015	December 31, 2014		
Total nonperforming loans	\$16,233	\$21,440		
Nonperforming and impaired loans with partial charge-offs	6,775	17,787		
Ratio of nonperforming loans with partial charge-offs to total loans	0.82	%	2.27	%
Ratio of nonperforming loans with partial charge-offs to total nonperforming loans	41.74	%	82.96	%
Coverage ratio net of nonperforming loans with partial charge-offs	123.96	%	64.86	%

The Company's charge-off policy is reviewed on an annual basis and updated as necessary. During the six month period ended June 30, 2015, there were no changes made to this policy.

Recent Accounting Pronouncements

ASU 2014-04

In January 2014, the FASB issued ASU 2014-04, "Receivables – Troubled Debt Restructuring by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure – a consensus of the FASB Emerging Issues Task Force." The guidance clarifies when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate property recognized. For public business entities, the ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the ASU is effective for annual periods beginning after December 15,

2014, and interim periods within annual periods beginning after December 15, 2015. The adoption of ASU 2014-04 did not have a material effect on the Company's consolidated financial statements.

ASU 2014-09

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 660): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs – Contracts with Customers (Subtopic 340-40)." The purpose of this guidance is to clarify the principles for recognizing revenue. The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, early adoption of the update will be effective for interim and annual periods beginning after December 15, 2016. For public companies that elect to defer the update, adoption will be effective for interim and annual periods beginning after December 15, 2017. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect a material impact.

ASU 2014-14

In August 2014, the FASB issued ASU 2014-14, "Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure - a consensus of the FASB Emerging Issues Task Force." The amendments in this Update address a practice issue related to the classification of certain foreclosed residential and nonresidential mortgage loans that are either fully or partially guaranteed under government programs. Specifically, creditors should reclassify loans that meet certain conditions to "other receivables" upon foreclosure, rather than reclassifying them to other real estate owned (OREO). The separate other receivable recorded upon foreclosure is to be measured based on the amount of the loan balance (principal and interest) the creditor expects to recover from the guarantor. The ASU is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For all other entities, the amendments are effective for annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015. The Company adopted ASU 2014-14 effective January 1, 2015. The adoption of ASU 2014-14 did not have a material effect on the Company's consolidated financial statements.

Effects of Inflation

The majority of assets and liabilities of a financial institution are monetary in nature. Therefore, a financial institution differs greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. Management believes that the most significant impact of inflation on its financial results is through the Company's need and ability to react to changes in interest rates. Management attempts to maintain an essentially balanced position between rate sensitive assets and liabilities over a one-year time horizon in order to protect net interest income from being affected by wide interest rate fluctuations.

ITEM 3: QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISK

There has been no material change in the Company's assessment of its sensitivity to market risk since its presentation in the Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the SEC on March 13, 2015.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and

reported within the time periods specified in the Securities and Exchange Commission's rules and forms and accumulated and communicated to the Company's management, including the Company's principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The Company's management, with the participation of the principal executive officer and the principal financial officer, conducted an evaluation, as of the end of the period covered by this report, of the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Exchange Act Rule 13a-15(e). Based on this evaluation, the principal executive officer and the principal financial officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures, as defined in Rule 13a-15(e), were effective at the reasonable assurance level.

Changes in Internal Controls

The principal executive officer and principal financial officer also conducted an evaluation of the Company's internal control over financial reporting ("Internal Control") to determine whether any changes in Internal Control occurred during the quarter ended June 30, 2015 that have materially affected or which are reasonably likely to materially affect Internal Control. Based on that evaluation, there has been no such change during the quarter ended June 30, 2015.

Limitations on the Effectiveness of Controls

Control systems, no matter how well designed and operated, can provide only reasonable, not an absolute, level of assurance that the objectives of the control system are met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company and Republic are from time to time parties (plaintiff or defendant) to lawsuits in the normal course of business. While any litigation involves an element of uncertainty, management is of the opinion that the liability of the Company and Republic, if any, resulting from such actions will not have a material effect on the financial condition or results of operations of the Company and Republic.

ITEM 1A. RISK FACTORS

Significant risk factors could adversely affect the Company's business, financial condition and results of operation. Risk factors discussing these risks can be found in Part I, "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 and Form 10-Q for the quarter ended March 31, 2015. The risk factors in the Company's Annual Report on Form 10-K have not materially changed. You should carefully consider these risk factors. The risks described in the Company's Form 10-K and Form 10-Q are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

54

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

55

ITEM 6. EXHIBITS

The following Exhibits are filed as part of this report. (Exhibit numbers correspond to the exhibits required by Item 601 of Regulation S-K for quarterly reports on Form 10-Q).

Exhibit Number	Description	Location
3.1	Amended and Restated Articles of Incorporation of Republic First Bancorp, Inc.	Incorporated by reference to Form 8-K filed May 13, 2010
3.2	Amended and Restated By-Laws of Republic First Bancorp, Inc.	Incorporated by reference to Form S-1 filed April 23, 2010 (333-166286)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer of Republic First Bancorp, Inc.	<u>Filed herewith</u>
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Republic First Bancorp, Inc.	<u>Filed herewith</u>
32.1	Section 1350 Certification of Harry D. Madonna	<u>Furnished herewith</u>
32.2	Section 1350 Certification of Frank A. Cavallaro	<u>Furnished herewith</u>
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014, (ii) Consolidated Statements of Income for the three and six months ended June 30, 2015 and 2014, (iii) Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2015 and 2014, (iv) Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014, (v) Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2015 and 2014, and (vi) Notes to Consolidated Financial Statements.	

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

REPUBLIC FIRST BANCORP, INC.

Date: August 6, 2015 By: /s/ Harry D. Madonna
Harry D. Madonna
Chairman, President and Chief Executive Officer
(principal executive officer)

Date: August 6, 2015 By: /s/ Frank A. Cavallaro
Frank A. Cavallaro
Executive Vice President and Chief Financial
Officer
(principal financial and accounting officer)