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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 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 [X] 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 [X] 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 [X]
Non-Accelerated filer [ ] (Do not check if a smaller reporting company)	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 [X]

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 November 5, 2015

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

	September 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$14,212	$14,822
Interest bearing deposits with banks	96,307	114,004
Cash and cash equivalents	110,519	128,826
Investment securities available for sale, at fair value	209,119	185,379
Investment securities held to maturity, at amortized cost (fair value of $141,519 and $68,253, respectively)	140,116	67,866
Restricted stock, at cost	1,179	1,157
Loans held for sale	489	1,676
Loans receivable (net of allowance for loan losses of $8,323 and $11,536, respectively)	837,037	770,404
Premises and equipment, net	45,094	35,030
Other real estate owned, net	13,773	3,715
Accrued interest receivable	3,548	3,226
Other assets	19,940	17,319
Total Assets	$1,380,814	$1,214,598
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand – non-interest bearing	$243,836	224,245
Demand – interest bearing	391,230	283,768
Money market and savings	527,360	488,848
Time deposits	75,070	75,369
Total Deposits	1,237,496	1,072,230
Accrued interest payable	283	265
Other liabilities	6,086	6,816
Subordinated debt	22,476	22,476
Total Liabilities	1,266,341	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 38,344,848 as of September 30, 2015 and 38,344,348 as of December 31, 2014	383	383
Additional paid in capital	152,676	152,234
Accumulated deficit	(33,623)	(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	(1,055)	(632)
Total Shareholders' Equity	114,473	112,811
Total Liabilities and Shareholders' Equity	$1,380,814	$1,214,598

(See notes to consolidated financial statements)

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Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Income
For the Three and Nine Months Ended September 30, 2015 and 2014
(Dollars in thousands, except per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income:				
Interest and fees on taxable loans	$9,518	$8,914	$27,611	$25,381
Interest and fees on tax-exempt loans	130	86	384	252
Interest and dividends on taxable investment securities	1,509	1,260	4,396	3,689
Interest and dividends on tax-exempt investment securities	153	96	416	258
Interest on federal funds sold and other interest-earning assets	60	45	223	107
Total interest income	11,370	10,401	33,030	29,687
Interest expense:				
Demand- interest bearing	378	220	1,009	636
Money market and savings	538	509	1,592	1,392
Time deposits	183	189	528	540
Other borrowings	279	277	833	830
Total interest expense	1,378	1,195	3,962	3,398
Net interest income	9,992	9,206	29,068	26,289
Provision for loan losses	-	300	-	600
Net interest income after provision for loan losses	9,992	8,906	29,068	25,689
Non-interest income:				
Loan advisory and servicing fees	163	388	1,087	1,291
Gain on sales of SBA loans	884	614	2,684	2,814
Service fees on deposit accounts	452	316	1,213	896
Gain on sale of investment securities	64	-	73	458
Other-than-temporary impairment	-	-	(13)	21
Portion recognized in other comprehensive income (before taxes)	-	-	10	(28)
Net impairment loss on investment securities	-	-	(3)	(7)
Other non-interest income	41	53	149	138
Total non-interest income	1,604	1,371	5,203	5,590
Non-interest expenses:				
Salaries and employee benefits	5,730	5,074	16,667	14,942
Occupancy	1,240	1,039	3,624	3,104
Depreciation and amortization	671	710	2,126	1,779
Legal	52	283	631	982
Other real estate owned	425	376	1,173	1,062
Advertising	233	91	475	453
Data processing	408	336	1,133	990
Insurance	162	148	532	427
Professional fees	293	330	968	1,160
Regulatory assessments and costs	318	258	911	791
Taxes, other	169	171	594	620

Other operating expenses	1,323	1,170	3,811	3,448
Total non-interest expense	11,024	9,986	32,645	29,758
Income before benefit for income taxes	572	291	1,626	1,521
Benefit for income taxes	(10)	(6)	(17)	(68)
Net income	$582	$297	$1,643	$1,589
Net income per share:				
Basic	$0.02	$0.01	$0.04	$0.05
Diluted	$0.02	$0.01	$0.04	$0.05

(See notes to consolidated financial statements)

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

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net income	$582	$297	$1,643	$1,589
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on securities (pre-tax $490, $(244), $(718), and $3,422, respectively)	314	(156)	(460)	2,194
Reclassification adjustment for securities gains (pre-tax $(64), $-, $(73), and $(458), respectively)	(41)	-	(47)	(293)
Reclassification adjustment for impairment charge (pre-tax $-, $-, $3, and $7, respectively)	-	-	2	4
Net unrealized holding losses on securities transferred from available-for-sale to held-to- maturity:				
Amortization of net unrealized holding losses to income during the period (pre-tax $25, $60, $128, $60, respectively)	16	38	82	38
Total other comprehensive income (loss)	289	(118)	(423)	1,943
Total comprehensive income	$871	$179	$1,220	$3,532

(See notes to consolidated financial statements)

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

	Nine Months Ended September 30, 2015	2014
Cash flows from operating activities		
Net income	$1,643	$1,589
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	-	600
Loss on sale of other real estate owned	-	9
Write down of other real estate owned	298	667
Depreciation and amortization	2,126	1,779
Stock based compensation	441	309
Gain on sale and call of investment securities	(73)	(458)
Impairment charges on investment securities	3	7
Amortization of premiums on investment securities	635	414
Accretion of discounts on retained SBA loans	(754)	(568)
Fair value adjustments on SBA servicing assets	597	170
Proceeds from sales of SBA loans originated for sale	27,999	29,485
SBA loans originated for sale	(24,128)	(22,529)
Gains on sales of SBA loans originated for sale	(2,684)	(2,814)
Increase in accrued interest receivable and other assets	(3,302)	(1,917)
Decrease in accrued interest payable and other liabilities	(712)	(184)
Net cash provided by operating activities	2,089	6,559
Cash flows from investing activities		
Purchase of investment securities available for sale	(57,807)	(46,823)
Purchase of investment securities held to maturity	(85,246)	-
Proceeds from the sale of securities available for sale	6,672	5,700
Proceeds from the maturity or call of securities available for sale	26,397	20,114
Proceeds from the maturity or call of securities held to maturity	12,768	1,166
Net purchase of restricted stock	(22)	(155)
Net increase in loans	(77,027)	(73,284)
Net proceeds from sale of other real estate owned	792	91
Premises and equipment expenditures	(12,190)	(8,798)
Net cash used in investing activities	(185,663)	(101,989)
Cash flows from financing activities		
Net proceeds from stock offering	-	44,853
Net proceeds from exercise of stock options	1	-
Net increase in demand, money market and savings deposits	165,565	121,245
Net decrease in time deposits	(299)	(704)
Net cash provided by financing activities	165,267	165,394
Net (decrease) increase in cash and cash equivalents	(18,307)	69,964

Cash and cash equivalents, beginning of year	128,826	35,880
Cash and cash equivalents, end of period	$110,519	$105,844
Supplemental disclosures:		
Interest paid	$3,944	$3,335
Income taxes paid	$-	$70
Non-cash transfers from loans to other real estate owned	$11,148	$483
Transfer of available-for-sale securities to held-to-maturity securities	$-	$70,118

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Nine Months Ended September 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			1,643				1,643
Other comprehensive loss, net of tax						(423)	(423)
Stock based compensation		441					441
Options exercised (500 shares)		1					1
Balance September 30, 2015	$ 383	$ 152,676	$ (33,623)	$ (3,725)	$ (183)	$ (1,055)	$ 114,473
Balance January 1, 2014	$ 265	$ 107,078	$ (37,708)	$ (3,099)	$ (809)	$ (2,828)	$ 62,899
Net income			1,589				1,589
Other comprehensive income, net of tax						1,943	1,943
Proceeds from shares issued under common stock offering (11,842,106 shares) net of offering costs (pre-tax $147)	118	44,735					44,853
Stock based compensation		309					309
Transfer from deferred compensation plan to treasury stock (87,105 shares)				(626)	626		-

Balance September 30, 2014	$ 383	$ 152,122	$ (36,119)	$ (3,725)	$ (183)	$ (885)	$ 111,593

(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 incorporated 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 nine month periods ended September 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. 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 September

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 nine months ended September 30, 2015, 15,000 options were granted under the 2005 Plan with a weighted average grant date fair value of $20,826 and 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%
Expected volatility(2)	53.78% to 56.00%	55.79% to 57.99%
Risk-free interest rate(3)	1.49% to 2.00%	1.51% to 2.26%
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 nine months ended September 30, 2015 and 2014, 349,062 options and 206,825 options vested, respectively. Expense is recognized ratably over the period required to vest. At September 30, 2015, the intrinsic value of the 1,982,730 options outstanding was $1,073,953, while the intrinsic value of the 797,579 exercisable (vested) options was $400,024. During the nine months ended September 30, 2015, 500 options were exercised with cash received of $1,345 and 16,369 options were forfeited with a weighted average grant date fair value of $21,331.

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

		2015		2014
Stock based compensation expense recognized	$	441,000	$	309,000
Number of unvested stock options		1,185,151		1,050,513
Fair value of unvested stock options	$	1,908,205	$	1,552,934
Amount remaining to be recognized as expense	$	1,034,337	$	812,979

The remaining amount of $1,034,337 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 dilutive stock options granted through 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 net income. For the three and nine months ended September 30, 2015 and 2014, the effect of CSEs in the amount of 1,661,538 shares (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. For the three months ended September 30, 2015 and 2014, total anti-dilutive stock options were 660,780 and 247,624, respectively. For the nine months ended September 30, 2015 and 2014, total anti-dilutive stock options were 660,780 and 271,624, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (basic and diluted)	$582	$297	$1,643	$1,589
Weighted average shares outstanding	37,816	37,815	37,816	33,025
Net income per share – basic	$0.02	$0.01	$0.04	$0.05
Weighted average shares outstanding (including dilutive CSEs)	38,064	38,253	38,052	33,399
Net income per share – diluted	$0.02	$0.01	$0.04	$0.05

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.

During the fourth quarter of 2015, the Company reached a settlement agreement with an insurance company relating to a bond claim initially submitted in 2010. Under the terms of the agreement, the Company will receive a one-time cash payment in the amount of $2.6 million which will be recognized as "non-interest income" in the quarter ending December 31, 2015.

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 September 30, 2015 and December 31, 2014 is as follows:

	At September 30, 2015			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	$127,369	$1,371	$(353)	$128,387
Mortgage-backed securities	10,287	188	(51)	10,424
Municipal securities	21,820	374	(110)	22,084
Corporate bonds	29,313	275	(367)	29,221
Asset-backed securities	17,804	-	(590)	17,214
Trust preferred securities	3,070	-	(1,400)	1,670
Other securities	115	4	-	119
Total securities available for sale	$209,778	$2,212	$(2,871)	$209,119
U.S. Government agencies	$12,091	$1	$(39)	$12,053
Collateralized mortgage obligations	120,051	1,574	(206)	121,419
Mortgage-backed securities	7,954	73	-	8,027
Other securities	20	-	-	20
Total securities held to maturity	$140,116	$1,648	$(245)	$141,519

	At December 31, 2014			
(dollars in thousands)	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 September 30, 2015 is as follows:

	Available for Sale		Held to Maturity	
(dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 1 year or less	$23,526	$24,035	$1	$1
After 1 year to 5 years	68,022	67,445	62,243	62,778
After 5 years to 10 years	106,071	105,624	77,872	78,740
After 10 years	12,159	12,015	-	-
Total	$209,778	$209,119	$140,116	$141,519

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 September 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. An other-than-temporary impairment ("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 that is attributed to credit deterioration. 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 nine month period ended September 30, 2015 amounted to $3,000. There were no impairment charges on trust preferred securities during the three month period ended September 30, 2015 and September 30, 2014. The impairment charges on trust preferred securities for the nine months ended September 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 September 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	(3,039)	-
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, September 30th	$930	$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:

	At September 30, 2015					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized mortgage obligations	$ 23,084	$ 353	$ -	$ -	$ 23,084	$ 353
Mortgage-backed securities	5,815	29	1,010	22	6,825	51
Municipal securities	1,412	13	5,408	97	6,820	110
Corporate bonds	12,488	367	-	-	12,488	367
Asset backed securities	17,214	590	-	-	17,214	590
Trust preferred securities	-	-	1,670	1,400	1,670	1,400
Total Available for Sale	$ 60,013	$ 1,352	$ 8,088	$ 1,519	$ 68,101	$ 2,871

	At September 30, 2015					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	$ 4,018	$ 39	$ -	$ -	$ 4,018	$ 39
Collateralized mortgage obligations	9,460	206	-	-	9,460	206
Total Held to Maturity	$ 13,478	$ 245	$ -	$ -	$ 13,478	$ 245

	At December 31, 2014					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	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

	At December 31, 2014					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	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 $3.1 million with a total fair value of $81.6 million as of September 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 one U.S. Government agency security, nine collateralized mortgage obligations and four mortgage-backed securities that were in an unrealized loss position at September 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 September 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 September 30, 2015, the investment portfolio included nine 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.

At September 30, 2015, the investment portfolio included two asset-backed securities that were in an unrealized loss position. The asset-backed securities held in the investment securities portfolio consist solely of Sallie Mae bonds, collateralized by student loans which are guaranteed by the U.S. Department of Education. Management believes the unrealized losses on these securities were driven by changes in market interest rates and not a result of any credit deterioration. At September 30, 2015, the investment portfolio included four corporate bonds that were in an unrealized loss position. Management believes the unrealized losses on these securities were driven by changes in market interest rates and not a result 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 September 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 Default Rates for 2015 and beyond	Cumulative OTTI Life to Date
TPREF Funding II	Class B Notes	$ 732	$ 395	$ (337)	C	20	36 %	0.38 %	$ 267
TPREF Funding III	Class B2 Notes	1,518	815	(703)	C	16	29	0.40	483
ALESCO Preferred	Class C1 Notes	820	460	(360)	C	40	15	0.34	180

Funding V						
Total	$ 3,070	$ 1,670	$ (1,400)	76	27 %	$ 930

Proceeds of sales of securities available for sale during the three months ended September 30, 2015 were $2.6 million. Gross gains of $206,000 and gross losses of $142,000 were realized on these sales. The tax provision applicable to the net gains for the three months ended September 30, 2015 amounted to $23,000. Proceeds of sales of securities available for sale during the nine months ended September 30, 2015 were $6.7 million. Gross gains of $361,000 and gross losses of $288,000 were realized on these sales. The tax provision applicable to the net gains for the three months ended September 30, 2015 amounted to $26,000.

The Company realized gross gains on the sale of securities of $458,000 during the nine months ended September 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 September 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 September 30, 2015, and December 31, 2014:

(dollars in thousands)	September 30, 2015	December 31, 2014
Commercial real estate	$377,307	$379,259
Construction and land development	41,418	29,861
Commercial and industrial	174,631	145,113
Owner occupied real estate	203,735	188,025
Consumer and other	46,136	39,713
Residential mortgage	2,395	408
Total loans receivable	845,622	782,379
Deferred costs (fees)	(262)	(439)
Allowance for loan losses	(8,323)	(11,536)
Net loans receivable	$837,037	$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 September 30, 2015 and December 31, 2014:

	September 30, 2015			December 31, 2014		
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial real estate	$ 14,349	$ 14,483	$ -	$ 11,964	$ 11,969	$ -
Construction and land development	376	2,467	-	61	158	-
Commercial and industrial	1,972	3,229	-	3,764	7,275	-
Owner occupied real estate	509	509	-	524	528	-
Consumer and other	805	1,083	-	429	708	-
Total	$ 18,011	$ 21,771	$ -	$ 16,742	$ 20,638	$ -

With an allowance recorded: