

REPUBLIC FIRST BANCORP INC
Form 10-Q
November 03, 2017

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2017.

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 23-2486815
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

50 South 16th Street, Philadelphia, Pennsylvania 19102
(Address of principal executive offices) (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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange

Act.

Large accelerated filer Accelerated filer
Non-Accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 Registrant's classes of common stock, as of the latest practicable date.

<u>Common Stock, \$0.01 per share</u>	<u>56,989,764</u>
Title of Class	Number of Shares Outstanding as of November 2, 2017

REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARIES
TABLE OF CONTENTS

Part I: Financial Information	Page
Item 1. Financial Statements	
Consolidated balance sheets as of September 30, 2017 and December 31, 2016 (unaudited)	1
Consolidated statements of income for the three and nine months ended September 30, 2017 and 2016 (unaudited)	2
Consolidated statements of comprehensive income for the three and nine months ended September 30, 2017 and 2016 (unaudited)	3
Consolidated statements of cash flows for the nine months ended September 30, 2017 and 2016 (unaudited)	4
Consolidated statements of changes in shareholders' equity for the nine months ended September 30, 2017 and 2016 (unaudited)	5
Notes to consolidated financial statements (unaudited)	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	42
Item 3. Quantitative and Qualitative Disclosures about Market Risk	64
Item 4. Controls and Procedures	64
Part II: Other Information	
Item 1. Legal Proceedings	65
Item 1A. Risk Factors	65
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	65
Item 3. Defaults Upon Senior Securities	65
Item 4. Mine Safety Disclosures	65
Item 5. Other Information	65
Item 6. Exhibits	66
Signatures	67

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

Republic First Bancorp, Inc. and Subsidiaries
 Consolidated Balance Sheets
 September 30, 2017 and December 31, 2016
 (Dollars in thousands, except per share data)
 (unaudited)

	September 30, 2017	December 31, 2016
ASSETS		
Cash and due from banks	\$27,181	\$19,830
Interest bearing deposits with banks	71,601	14,724
Cash and cash equivalents	98,782	34,554
Investment securities available for sale, at fair value	377,757	369,739
Investment securities held to maturity, at amortized cost (fair value of \$411,257 and \$425,183, respectively)	416,987	432,499
Restricted stock, at cost	1,678	1,366
Loans held for sale	41,711	28,065
Loans receivable (net of allowance for loan losses of \$8,258 and \$9,155, respectively)	1,087,147	955,817
Premises and equipment, net	71,715	57,040
Other real estate owned, net	9,169	10,174
Accrued interest receivable	6,340	5,497
Goodwill	5,011	5,011
Intangible asset	-	61
Other assets	25,266	24,108
Total Assets	\$2,141,563	\$1,923,931
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand – non-interest bearing	\$398,794	\$324,912
Demand – interest bearing	745,878	605,950
Money market and savings	619,265	635,644
Time deposits	121,468	111,164
Total Deposits	1,885,405	1,677,670
Accrued interest payable	577	444
Other liabilities	8,716	8,883
Subordinated debt	21,663	21,881
Total Liabilities	1,916,361	1,708,878
Shareholders' Equity		
Preferred stock, par value \$0.01 per share: 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value \$0.01 per share: 100,000,000 shares authorized; shares issued 57,507,484 as of September 30, 2017 and 57,283,712 as of December 31, 2016; shares outstanding 56,978,639 as of September 30, 2017 and 56,754,867 as of December 31, 2016	575	573
Additional paid in capital	255,752	253,570
Accumulated deficit	(21,721)	(27,888)
Treasury stock at cost (503,408 shares as of September 30, 2017 and December 31, 2016)	(3,725)	(3,725)
Stock held by deferred compensation plan (25,437 shares as of September 30, 2017 and	(183)	(183)

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

December 31, 2016)

Accumulated other comprehensive loss	(5,496)	(7,294)
Total Shareholders' Equity	225,202	215,053
Total Liabilities and Shareholders' Equity	\$2,141,563	\$1,923,931

(See notes to consolidated financial statements)

1

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

Republic First Bancorp, Inc. and Subsidiaries
 Consolidated Statements of Income
 For the Three and Nine Months Ended September 30, 2017 and 2016
 (Dollars in thousands, except per share data)
 (unaudited)

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Interest income:				
Interest and fees on taxable loans	\$12,717	\$10,446	\$35,727	\$30,259
Interest and fees on tax-exempt loans	272	261	791	702
Interest and dividends on taxable investment securities	4,653	2,591	14,163	7,805
Interest and dividends on tax-exempt investment securities	99	173	447	526
Interest on federal funds sold and other interest-earning assets	181	149	312	299
Total interest income	17,922	13,620	51,440	39,591
Interest expense:				
Demand- interest bearing	772	553	2,075	1,471
Money market and savings	788	677	2,218	1,923
Time deposits	312	301	903	625
Other borrowings	338	303	1,046	898
Total interest expense	2,210	1,834	6,242	4,917
Net interest income	15,712	11,786	45,198	34,674
Provision for loan losses	-	607	500	1,557
Net interest income after provision for loan losses	15,712	11,179	44,698	33,117
Non-interest income:				
Loan and servicing fees	677	328	1,330	1,128
Mortgage banking income	3,159	2,405	8,551	2,405
Gain on sales of SBA loans	831	1,630	2,315	4,212
Service fees on deposit accounts	1,067	686	2,820	1,910
Gain (loss) on sale of investment securities	-	2	(61)	656
Net securities impairment recognized in earnings	-	(2)	-	(7)
Other non-interest income	44	93	130	281
Total non-interest income	5,778	5,142	15,085	10,585
Non-interest expenses:				
Salaries and employee benefits	9,829	7,731	27,800	20,334
Occupancy	1,772	1,535	5,239	4,387
Depreciation and amortization	1,292	1,051	3,588	2,816
Legal	156	158	535	312
Other real estate owned	746	702	1,704	1,610
Advertising	394	218	861	537
Data processing	785	669	2,335	1,711
Insurance	277	262	750	656
Professional fees	454	352	1,389	1,167
Regulatory assessments and costs	355	296	1,008	1,011
Taxes, other	242	243	716	495
Other operating expenses	2,863	1,796	7,729	5,287
Total non-interest expense	19,165	15,013	53,654	40,323

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

Income before benefit for income taxes	2,325	1,308	6,129	3,379
Provision (benefit) for income taxes	4	(32)	(38)	(69)
Net income	\$2,321	\$1,340	\$6,167	\$3,448
Net income per share:				
Basic	\$0.04	\$0.04	\$0.11	\$0.09
Diluted	\$0.04	\$0.03	\$0.11	\$0.09

(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, 2017 and 2016
 (Dollars in thousands)
 (unaudited)

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Net income	\$2,321	\$1,340	\$6,167	\$3,448
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on securities (pre-tax \$(7), \$(1,082), \$2,615, and \$3,386, respectively)	(5)	(693)	1,676	2,170
Reclassification adjustment for securities losses/(gains) (pre-tax \$-, \$(2), \$61, and \$(656), respectively)	-	(1)	39	(420)
Reclassification adjustment for impairment charge (pre-tax \$-, \$2, \$-, and \$7, respectively)	-	1	-	4
Net unrealized gains (losses) on securities	(5)	(693)	1,715	1,754
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 \$44, \$38, \$129, and \$133, respectively)	28	24	83	85
Total other comprehensive income (loss)	23	(669)	1,798	1,839
Total comprehensive income	\$2,344	\$671	\$7,965	\$5,287

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2017 and 2016
(Dollars in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities		
Net income	\$6,167	\$3,448
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses	500	1,557
Write down of other real estate owned	777	521
Depreciation and amortization	3,588	2,816
Stock based compensation	1,329	562
Loss (gain) on sale of investment securities	61	(656)
Impairment charges on investment securities	-	7
Amortization of premiums on investment securities	1,788	1,172
Accretion of discounts on retained SBA loans	(859)	(1,057)
Fair value adjustments on SBA servicing assets	711	894
Proceeds from sales of SBA loans originated for sale	28,564	48,031
SBA loans originated for sale	(22,395)	(43,016)
Gains on sales of SBA loans originated for sale	(2,315)	(4,212)
Proceeds from sales of mortgage loans originated for sale	263,689	79,029
Mortgage loans originated for sale	(274,133)	(82,240)
Gains on sales of mortgage loans originated for sale	(7,056)	(2,783)
Amortization of intangible assets	61	17
Amortization of debt issuance costs	22	22
Increase in accrued interest receivable and other assets	(3,720)	(726)
Decrease in accrued interest payable and other liabilities	(34)	(396)
Net cash (used in) provided by operating activities	(3,255)	2,990
Cash flows from investing activities		
Purchase of investment securities available for sale	(53,052)	(117,812)
Purchase of investment securities held to maturity	(21,958)	(69,792)
Proceeds from the sale of securities available for sale	21,167	78,582
Proceeds from the paydowns, maturity, or call of securities available for sale	25,665	26,295
Proceeds from the paydowns, maturity, or call of securities held to maturity	36,629	21,106
Net (purchase) redemption of restricted stock	(312)	1,693
Net increase in loans	(131,100)	(70,006)
Net proceeds from sale of other real estate owned	357	1,387
Net cash paid in acquisition	-	(5,913)
Premises and equipment expenditures	(18,263)	(12,122)
Net cash used in investing activities	(140,867)	(146,582)
Cash flows from financing activities		
Net proceeds from exercise of stock options	615	226
Net increase in demand, money market and savings deposits	197,431	291,385
Net increase in time deposits	10,304	41,549

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

Decrease in short-term borrowings	-	(66,666)
Net cash provided by financing activities	208,350	266,494
Net increase in cash and cash equivalents	64,228	122,902
Cash and cash equivalents, beginning of year	34,554	27,139
Cash and cash equivalents, end of period	\$98,782	\$150,041
Supplemental disclosures		
Interest paid	\$6,109	\$5,011
Income taxes paid	\$75	\$90
Non-cash transfers from loans to other real estate owned	\$129	\$616
Conversion of subordinated debt to common stock	\$240	-

(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, 2017 and 2016
(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, 2017	\$ 573	\$ 253,570	\$ (27,888)	\$ (3,725)	\$ (183)	\$ (7,294)	\$ 215,053
Net income			6,167				6,167
Other comprehensive income, net of tax						1,798	1,798
Stock based compensation		1,329					1,329
Conversion of subordinated debt to common stock (36,922 shares)		240					240
Options exercised (186,850 shares)	2	613					615
Balance September 30, 2017	\$ 575	\$ 255,752	\$ (21,721)	\$ (3,725)	\$ (183)	\$ (5,496)	\$ 225,202
Balance January 1, 2016	\$ 384	\$ 152,897	\$ (32,833)	\$ (3,725)	\$ (183)	\$ (3,165)	\$ 113,375
Net income			3,448				3,448
Other comprehensive income, net of tax						1,839	1,839
Stock based compensation		764					764
Options exercised (80,375 shares)		226					226
Balance September 30, 2016	\$ 384	\$ 153,887	\$ (29,385)	\$ (3,725)	\$ (183)	\$ (1,326)	\$ 119,652

(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 one-bank holding company organized and incorporated under the laws of the Commonwealth of Pennsylvania. It is comprised of one wholly-owned subsidiary, Republic First Bank, which does business under the name of Republic Bank ("Republic"). Republic is a Pennsylvania state chartered bank that offers a variety of banking services to individuals and businesses throughout the Greater Philadelphia and South Jersey area through its offices and store locations in Philadelphia, Montgomery, Delaware, Camden, Burlington, and Gloucester Counties. On July 28, 2016, Republic acquired all of the issued and outstanding limited liability company interests of Oak Mortgage Company, LLC ("Oak Mortgage") and, as a result, Oak Mortgage became a wholly owned subsidiary of Republic on that date. Oak Mortgage is headquartered in Marlton, NJ and is licensed to do business in Pennsylvania, Delaware, New Jersey, and Florida. 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 federal and state regulations governing virtually all aspects of their activities, including but not limited to, lines of business, liquidity, investments, the payment of dividends and others. Such regulations and the cost of adherence to such regulations can have a significant impact on earnings and financial condition.

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 ("US GAAP") that are followed to ensure consistent reporting of financial condition, results of operations, and cash flows. All material inter-company transactions have been eliminated. Events occurring subsequent to the date of the balance sheet have been evaluated for potential recognition or disclosure in the consolidated financial statements.

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, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

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.

6

Mortgage Banking Activities and Mortgage Loans Held for Sale

Loans held for sale are originated and held until sold to permanent investors. On July 28, 2016, management elected to adopt the fair value option in accordance with FASB Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures, and record loans held for sale at fair value.

The fair value is determined on a recurring basis by utilizing quoted prices from dealers in such securities. Gains and losses on loan sales are recorded in non-interest income and direct loan origination costs are recognized when incurred and are included in non-interest expense in the statements of income.

Interest Rate Lock Commitments ("IRLCs")

Mortgage loan commitments known as interest rate locks that relate to the origination of a mortgage that will be held for sale upon funding are considered derivative instruments under the derivatives and hedging accounting guidance FASB ASC 815, Derivatives and Hedging. Loan commitments that are derivatives are recognized at fair value on the balance sheet as other assets and other liabilities with changes in their fair values recorded as mortgage banking income in non-interest income in the statements of income. Outstanding IRLCs are subject to interest rate risk and related price risk during the period from the date of issuance through the date of loan funding, cancellation or expiration. Loan commitments generally range between 30 and 90 days; however, the borrower is not obligated to obtain the loan. Republic is subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs. Republic uses best efforts commitments to substantially eliminate these risks. The valuation of the IRLCs issued by Republic includes the value of the servicing released premium. Republic sells loans servicing released, and the servicing released premium is included in the market price. See Note 11 Derivatives and Risk Management Activities.

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, (see "Note 7" below), 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, past loss experience, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews and regulatory examinations, borrowers' perceived financial and managerial strengths, the adequacy of underlying collateral, if collateral dependent, or present value of future cash flows, and other relevant and qualitative risk factors. Subsequent to foreclosure, an estimate for the carrying value of other real estate owned is normally determined through valuations that are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less the cost to sell. 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 portion of the decline related to credit impairment is charged to earnings.

In evaluating the Company's ability to recover deferred tax assets, management considers all available positive and negative evidence, including the past operating results and forecasts of future taxable income. In determining future taxable income, management makes assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require management to make judgments about the future taxable income and are consistent with the plans and estimates used to manage the business. Any exclusion of or reduction in estimated future taxable income may require management to record a valuation allowance against the deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on future earnings.

Stock-Based Compensation

The Company has a Stock Option and Restricted Stock Plan ("the 2005 Plan"), under which the Company granted 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 could be available for grant under the 2005 Plan to 1.5 million shares, were available for such grants. As of September 30, 2017, the only grants under the 2005 Plan were option grants. The 2005 Plan provided that the exercise price of each option granted equaled 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 terminated on November 14, 2015 in accordance with the terms and conditions specified in the Plan agreement.

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. At September 30, 2017, the maximum number of common shares issuable under the 2014 Plan was 5.9 million shares. During the nine months ended September 30, 2017, 906,500 options were granted under the 2014 Plan with a fair value of \$3,188,984.

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 2017 and 2016 are as follows:

	2017	2016
Dividend yield ⁽¹⁾	0.0%	0.0%
Expected volatility ⁽²⁾	45.46% to 50.09%	46.38% to 52.54%
Risk-free interest rate ⁽³⁾	1.89% to 2.26%	1.23% to 1.82%
Expected life ⁽⁴⁾	5.5 to 7.0 years	5.5 to 7.0 years
Assumed forfeiture rate	6.0%	10.0%

(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, 2017 and 2016, 526,624 options and 487,550 options vested, respectively. Expense is recognized ratably over the period required to vest. At September 30, 2017, the intrinsic value of the 3,038,450 options outstanding was \$12,954,271, while the intrinsic value of the 1,379,848 exercisable (vested) options was \$7,764,313. During the nine months ended September 30, 2017, 186,850 options were exercised with cash received of \$615,226 and 14,100 options were forfeited with a weighted average grant date fair value of \$53,246. During the nine months ended September 30, 2016, 80,375 options were exercised with cash received of \$226,271 and 38,550 options were forfeited with a weighted average grant date fair value of \$55,920.

Information regarding stock based compensation for the nine months ended September 30, 2017 and 2016 is set forth below:

	September 30, 2017	September 30, 2016
Stock based compensation expense recognized	\$1,329,000	\$764,000
Number of unvested stock options	1,658,602	1,316,476
Fair value of unvested stock options	\$4,553,854	\$2,608,986
Amount remaining to be recognized as expense	\$2,966,049	\$1,284,071

The remaining amount of \$2,966,049 will be recognized as expense through July 2021.

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 stock option plans 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, 2017 and 2016, the effect of CSEs (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 calculations.

The calculation of EPS for the three and nine months ended September 30, 2017 and 2016 is as follows (in thousands, except per share amounts):

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Net income (basic and diluted)	\$2,321	\$1,340	\$6,167	\$3,448
Weighted average shares outstanding	56,974	37,916	56,915	37,879
Net income per share – basic	\$0.04	\$0.04	\$0.11	\$0.09
Weighted average shares outstanding (including dilutive CSEs)	58,314	38,375	58,213	38,355
Net income per share – diluted	\$0.04	\$0.03	\$0.11	\$0.09

The following is a summary of securities that could potentially dilute basic earnings per common share in future periods that were not included in the computation of diluted earnings per common share because to do so would have been anti-dilutive for the periods presented.

(in thousands)	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Anti-dilutive securities				
Share based compensation awards	1,698	2,022	1,740	2,005
Convertible securities	1,625	1,662	1,625	1,662
Total anti-dilutive securities	3,323	3,684	3,365	3,667

Recent Accounting Pronouncements

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)." ASU 2014-09 implements a common revenue standard that clarifies 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. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with The Company (Topic 606): Deferral of the Effective Date. The guidance in this ASU is now effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize

revenue when (or as) the entity satisfies a performance obligation. The Company's revenue is comprised of net interest income and noninterest income. The scope of the guidance explicitly excludes interest income as well as many other revenues for financial assets and liabilities including revenue derived from loans, investment securities, and derivatives. Accordingly, the majority of our revenues will not be affected. The Company is currently assessing our revenue contracts related to revenue streams that are within the scope of the standard including loan fees, service fees on deposit accounts, and other categories of non-interest income. We are continuing to evaluate specific contracts, but have not identified material changes to the timing or amount of revenue recognition. We are also continuing to evaluate changes in our disclosures associated with our revenues. We expect to adopt the standard using the modified retrospective approach in the first quarter of 2018.

ASU 2016-01

In January 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-01, Financial Instruments - Overall. The guidance in this ASU among other things, (1) requires equity investments with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (3) eliminates the requirement for public businesses entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (4) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (5) requires an entity to present separately in other comprehensive income the portion of the change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (6) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (7) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. The guidance in this ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company has evaluated this ASU and it is not expected to have a significant impact on its financial condition or results of operations.

ASU 2016-02

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, Leases. From the Company's perspective, the new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for lessees. From the landlord perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn't convey risks and rewards or control, an operating lease results. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. A modified retrospective transition approach is required for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. After evaluating the impact of the pending adoption of the new standard on its consolidated financial statements, the Company expects an increase of assets and liabilities on the Company's consolidated financial statements.

ASU 2016-09

In March 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-09, Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 will amend current guidance such that all excess tax benefits and tax deficiencies related to share-based payment awards will be recognized as income tax expense or benefit in the income statement during the period in which they occur. Additionally, excess tax benefits will be classified along with other income tax cash flows as an operating activity rather than a financing activity. ASU 2016-09 also provides that any entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest, which is the current requirement, or account for forfeitures when they occur. ASU 2016-09 was effective January 1, 2017. It currently does not have a material impact on the Company's consolidated financial statements, however depending upon the exercise timing of share based awards, the ASU could have a material impact on the consolidated financial statements going forward.

ASU 2016-13

In June 2016, the FASB issued ASU 2016-13, Financial Instruments–Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For the Company, this update will be effective for interim and annual periods beginning after December 15, 2019. The Company has not yet determined the impact the adoption of ASU 2016-13 will have on the consolidated financial statements.

ASU 2016-15

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230). The ASU addresses classification of certain cash receipts and cash payments in the statement of cash flows. The new guidance is effective on January 1, 2018, on a retrospective basis, with early adoption permitted. This new accounting guidance will result in some changes in classification in the Consolidated Statement of Cash Flows, which the Company does not expect will be significant, and will not have a material impact on the consolidated financial statements. Due to the current nature of the Company's operations and financial assets and liabilities in relation to the cash flow classifications impacted by the ASU, the Company has determined that the adoption of ASU 2016-15 will not have a material impact on the Company's financial statements.

ASU-2017-01

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805). The ASU clarifies the definition of a business in ASC 805. The FASB issued the ASU in response to stakeholder feedback that the definition of a business in ASC 805 is being applied too broadly. In addition, stakeholders said that analyzing transactions under the current definition is difficult and costly. Concerns about the definition of a business were among the primary issues raised in connection with the Financial Accounting Foundation's post-implementation review report on FASB Statement No. 141(R), Business Combinations (codified in ASC 805). The amendments in the ASU are intended to make application of the guidance more consistent and cost-efficient. The ASU is effective for public business entities in annual periods beginning after December 15, 2017, including interim periods therein. For all other entities, the ASU is effective in annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The ASU must be applied prospectively on or after the effective date, and no disclosures for

a change in accounting principle are required at transition. Early adoption is permitted for transactions (i.e., acquisitions or dispositions) that occurred before the issuance date or effective date of the standard if the transactions were not reported in financial statements that have been issued or made available for issuance. The Company has not yet determined the impact the adoption of ASU 2017-01 will have on the consolidated financial statements.

ASU 2017-04

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test For Goodwill Impairment. The ASU simplifies the accounting for goodwill impairments by eliminating step 2 from the goodwill impairment test. Instead, if "the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit." For public business entities that are SEC filers, the ASU is effective for annual and any interim impairment tests for periods beginning after December 15, 2019. The Company has not yet determined the impact the adoption of ASU 2017-04 will have on the consolidated financial statements.

ASU 2017-08

In March 2017, the FASB issued ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities, which amends the amortization period for certain purchased callable debt securities held at a premium, shortening such period to the earliest call date. The ASU is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Earlier application is permitted for all entities, including adoption in an interim period. If an entity early adopts the ASU in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. The Company has not yet determined the impact the adoption of ASU 2017-08 will have on the 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 September 30, 2017 and December 31, 2016 is as follows:

(dollars in thousands)	At September 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	\$244,170	\$ 73	\$ (4,239)	\$240,004
Agency mortgage-backed securities	43,906	3	(1,107)	42,802
Municipal securities	15,600	130	(71)	15,659
Corporate bonds	66,659	97	(2,427)	64,329
Asset-backed securities	13,858	1	(4)	13,855
Trust preferred securities	1,545	-	(437)	1,108
Total securities available for sale	\$385,738	\$ 304	\$ (8,285)	\$377,757
U.S. Government agencies	\$104,446	\$ 105	\$ (1,710)	\$102,841
Collateralized mortgage obligations	179,928	512	(2,413)	178,027
Agency mortgage-backed securities	131,613	22	(2,246)	129,389
Other securities	1,000	-	-	1,000
Total securities held to maturity	\$416,987	\$ 639	\$ (6,369)	\$411,257
(dollars in thousands)	At December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	\$230,252	\$ 145	\$ (5,632)	\$224,765
Agency mortgage-backed securities	37,973	32	(1,295)	36,710
Municipal securities	26,825	151	(429)	26,547
Corporate bonds	66,718	8	(1,978)	64,748
Asset-backed securities	15,565	-	(416)	15,149
Trust preferred securities	3,063	-	(1,243)	1,820
Total securities available for sale	\$380,396	\$ 336	\$ (10,993)	\$369,739
U.S. Government agencies	\$98,538	\$ 8	\$ (2,238)	\$96,308
Collateralized mortgage obligations	202,990	793	(2,553)	201,230
Agency mortgage-backed securities	129,951	1	(3,327)	126,625
Other securities	1,020	-	-	1,020
Total securities held to maturity	\$432,499	\$ 802	\$ (8,118)	\$425,183

The following table presents investment securities by stated maturity at September 30, 2017. Collateralized mortgage obligations and agency mortgage-backed securities have expected maturities that differ from contractual maturities because borrowers have the right to call or prepay and, therefore, these securities are classified separately with no specific maturity date.

(dollars in thousands)	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 1 year or less	\$1,154	\$1,160	\$1,000	\$1,000
After 1 year to 5 years	10,603	10,675	6,038	6,046
After 5 years to 10 years	60,860	59,395	98,408	96,795
After 10 years	25,045	23,721	-	-
Collateralized mortgage obligations	244,170	240,004	179,928	178,027
Agency mortgage-backed securities	43,906	42,802	131,613	129,389
Total	\$385,738	\$377,757	\$416,987	\$411,257

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, 2017 and December 31, 2016. 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) for investment securities classified available for sale.

No impairment charges (credit losses) were incurred on trust preferred securities during the three and nine month periods ended September 30, 2017. Impairment charges on trust preferred securities for the three month period ended September 30, 2016 amounted to \$2,000. Impairment charges on trust preferred securities for the nine month period ended September 30, 2016 amounted to \$7,000.

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

The following table presents a roll-forward of the balance of credit-related impairment losses on securities held at September 30, 2017 and 2016 for which a portion of OTTI was recognized in other comprehensive income:

(dollars in thousands)	2017	2016
Beginning Balance, January 1 st	\$937	\$930
Additional credit-related impairment loss on securities for which an other-than-temporary impairment was previously recognized	-	7
Reductions for securities sold during the period	(483)	-
Ending Balance, September 30 th	\$454	\$937

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 September 30, 2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized mortgage obligations	\$106,932	\$ 1,875	\$85,469	\$ 2,364	\$192,401	\$ 4,239
Agency mortgage-backed securities	37,066	994	5,064	113	42,130	1,107
Municipal securities	4,278	24	2,591	47	6,869	71
Corporate bonds	19,638	362	32,935	2,065	52,573	2,427
Asset backed securities	-	-	6,006	4	6,006	4
Trust preferred securities	-	-	1,108	437	1,108	437
Total Available for Sale	\$167,914	\$ 3,255	\$133,173	\$ 5,030	\$301,087	\$ 8,285

(dollars in thousands)	At September 30, 2017					
	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	\$76,631	\$ 1,267	\$14,157	\$ 443	\$90,788	\$ 1,710
Collateralized mortgage obligations	89,374	1,470	49,751	943	139,125	2,413
Agency mortgage-backed securities	79,935	1,691	17,499	555	97,434	2,246
Total Held to Maturity	\$245,940	\$ 4,428	\$81,407	\$ 1,941	\$327,347	\$ 6,369

(dollars in thousands)	At December 31, 2016					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized mortgage obligations	\$192,308	\$ 5,380	\$7,579	\$ 252	\$199,887	\$ 5,632
Agency mortgage-backed securities	29,916	1,260	3,199	35	33,115	1,295
Municipal securities	15,414	429	-	-	15,414	429
Corporate bonds	32,257	1,708	10,726	270	42,983	1,978
Asset backed securities	-	-	15,149	416	15,149	416
Trust preferred securities	-	-	1,820	1,243	1,820	1,243
Total Available for Sale	\$269,895	\$ 8,777	\$38,473	\$ 2,216	\$308,368	\$ 10,993

(dollars in thousands)	At December 31, 2016					
	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	\$67,725	\$ 2,198	\$3,586	\$ 40	\$71,311	\$ 2,238
Collateralized mortgage obligations	108,974	2,469	8,572	84	117,546	2,553
Agency mortgage-backed securities	97,725	3,327	-	-	97,725	3,327
Total Held to Maturity	\$274,424	\$ 7,994	\$12,158	\$ 124	\$286,582	\$ 8,118

Unrealized losses on securities in the investment portfolio amounted to \$14.7 million with a total fair value of \$628.4 million as of September 30, 2017 compared to unrealized losses of \$19.1 million with a total fair value of \$595.0 million as of December 31, 2016. 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 nine U.S. Government agency securities, fifty-seven collateralized mortgage obligations and twenty-one agency mortgage-backed securities that were in an unrealized loss position at September 30, 2017. Principal and interest payments of the underlying collateral for each of these securities 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, 2017.

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, 2017, there were ten 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 credit deterioration.

At September 30, 2017, the investment portfolio included one asset-backed security that was 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 loss on this security was driven by changes in market interest rates and not a result of credit deterioration. At September 30, 2017, the investment portfolio included six corporate bonds that were in an unrealized loss position. Management believes the unrealized losses on these securities were also driven by changes in market interest rates and not a result of 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 about the trust preferred securities held in the portfolio as of September 30, 2017.

(dollars in thousands)	Class / Tranche	Amortized Cost	Fair Value	Unrealized Losses	Rating Assigned	Deferrals / Number Defaults Conditional			Cumulative OTTI Life to Date
						Lowest Credit Rating	of Banks Currently Performing	as % of Current Balance		Default Rates for 2018 and beyond
	Class B								
TPREF Funding II	Notes	\$ 725	\$489	\$ (236)	C	19	29 %	0.42	% \$ 274
ALESCO Preferred	Class C1								
Funding V	Notes	820	619	(201)	C	39	14 %	0.49	180
Total		\$ 1,545	\$ 1,108	\$ (437)		58	21 %		\$ 454

There were no proceeds from the sale of investment securities during the three months ended September 30, 2017. Proceeds from the sale of investment securities during the nine months ended September 30, 2017 was \$21.2 million. Gross gains of \$487,000 were realized on these sales which were offset by gross losses of \$548,000. The tax provision

applicable to the net losses for the nine months ended September 30, 2017 was \$22,000.

17

There were no proceeds from the sale of investment securities during the three months ended September 30, 2016. Proceeds from the sale of investment securities during the nine months ended September 30, 2016 was \$78.6 million. Gross gains of \$680,000 and gross losses of \$24,000 were realized on these sales. The tax provision applicable to the net gains for the nine months ended September 30, 2016 was \$235,000.

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, 2017 and December 31, 2016:

(dollars in thousands)	September 30, 2017	December 31, 2016
Commercial real estate	\$415,532	\$378,519
Construction and land development	93,657	61,453
Commercial and industrial	163,085	174,744
Owner occupied real estate	297,880	276,986
Consumer and other	71,888	63,660
Residential mortgage	53,384	9,682
Total loans receivable	1,095,426	965,044
Deferred fees	(21)	(72)
Allowance for loan losses	(8,258)	(9,155)
Net loans receivable	\$1,087,147	\$955,817

The Company disaggregates its loan portfolio into groups of loans with similar risk characteristics for purposes of estimating the allowance for loan losses. The Company's loan groups include commercial real estate, construction and land development, commercial and industrial, owner occupied real estate, consumer, and residential mortgages. The loan groups are also considered classes for purposes of monitoring and assessing credit quality based on certain risk characteristics.

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

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 nine months ended September 30, 2017 and 2016:

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
Three months ended September 30, 2017								
Allowance for loan losses:								
Beginning balance:	\$ 3,171	\$ 580	\$ 2,496	\$ 1,598	\$ 544	\$ 238	\$ 827	\$9,454
Charge-offs	-	-	(1,195)	(49)	(4)	-	-	(1,248)
Recoveries	47	-	5	-	-	-	-	52
Provisions (credits)	381	69	(85)	87	11	85	(548)	-
Ending balance	\$ 3,599	\$ 649	\$ 1,221	\$ 1,636	\$ 551	\$ 323	\$ 279	\$8,258

Three months ended September 30, 2016								
Allowance for loan losses:								
Beginning balance:	\$ 3,293	\$ 365	\$ 3,136	\$ 1,366	\$ 324	\$ 11	\$ 266	\$8,761
Charge-offs	-	(3)	-	-	-	-	-	(3)
Recoveries	-	-	88	-	-	-	-	88
Provisions (credits)	9	137	(79)	251	16	31	242	607
Ending balance	\$ 3,302	\$ 499	\$ 3,145	\$ 1,617	\$ 340	\$ 42	\$ 508	\$9,453

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
Nine months ended September 30, 2017								
Allowance for loan losses:								
Beginning balance:	\$ 3,254	\$ 557	\$ 2,884	\$ 1,382	\$ 588	\$ 58	\$ 432	\$9,155
Charge-offs	-	-	(1,347)	(157)	(12)	-	-	(1,516)
Recoveries	54	-	64	-	1	-	-	119
Provisions (credits)	291	92	(380)	411	(26)	265	(153)	500
Ending balance	\$ 3,599	\$ 649	\$ 1,221	\$ 1,636	\$ 551	\$ 323	\$ 279	\$8,258

Nine months ended September 30, 2016								
Allowance for loan losses:								
Beginning Balance:	\$ 2,393	\$ 338	\$ 2,932	\$ 2,030	\$ 295	\$ 14	\$ 701	\$8,703
Charge-offs	-	(3)	(18)	(954)	-	-	-	(975)

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

Recoveries	6	-	162	-	-	-	-	168
Provisions (credits)	903	164	69	541	45	28	(193)	1,557
Ending balance	\$ 3,302	\$ 499	\$ 3,145	\$ 1,617	\$ 340	\$ 42	\$ 508	\$9,453

19

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 September 30, 2017 and December 31, 2016:

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied		Residential Mortgage	Unallocated	Total
				Real Estate	Consumer and Other			
September 30, 2017								
Allowance for loan losses:								
Individually evaluated for impairment	\$ 1,834	\$ -	\$ 337	\$ 190	\$ 218	\$ -	\$ -	\$ 2,579
Collectively evaluated for impairment	1,765	649	884	1,446	333	323	279	5,679
Total allowance for loan losses	\$ 3,599	\$ 649	\$ 1,221	\$ 1,636	\$ 551	\$ 323	\$ 279	\$ 8,258
Loans receivable:								
Loans evaluated individually	\$ 13,393	\$ -	\$ 3,852	\$ 3,490	\$ 1,267	\$ -	\$ -	\$ 22,002
Loans evaluated collectively	402,139	93,657	159,233	294,390	70,621	53,384	-	1,073,424
Total loans receivable	\$ 415,532	\$ 93,657	\$ 163,085	\$ 297,880	\$ 71,888	\$ 53,384	\$ -	\$ 1,095,426
December 31, 2016								
Allowance for loan losses:								
Individually evaluated for impairment	\$ 1,277	\$ -	\$ 1,624	\$ 274	\$ 293	\$ -	\$ -	\$ 3,468
Collectively evaluated for impairment	1,977	557	1,260	1,108	295	58	432	5,687
Total allowance for loan losses	\$ 3,254	\$ 557	\$ 2,884	\$ 1,382	\$ 588	\$ 58	\$ 432	\$ 9,155
Loans receivable:								
Loans evaluated individually	\$ 19,245	\$ -	\$ 5,180	\$ 2,325	\$ 1,290	\$ 130	\$ -	\$ 28,170
Loans evaluated collectively	359,274	61,453	169,564	274,661	62,370	9,552	-	936,874
Total loans receivable	\$ 378,519	\$ 61,453	\$ 174,744	\$ 276,986	\$ 63,660	\$ 9,682	\$ -	\$ 965,044

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, 2017 and December 31, 2016:

(dollars in thousands)	September 30, 2017			December 31, 2016		
	Recorded	Unpaid Principal	Related	Recorded	Unpaid Principal	Related
	Investmen	Balance	Allowance	Investmen	Balance	Allowance
With no related allowance recorded:						
Commercial real estate	\$7,003	\$7,007	\$ -	\$12,347	\$12,348	\$ -
Construction and land development	-	-	-	-	-	-
Commercial and industrial	2,490	6,403	-	1,955	3,111	-
Owner occupied real estate	2,471	2,633	-	621	733	-
Consumer and other	920	1,236	-	687	976	-
Residential mortgage	-	-	-	130	130	-
Total	\$12,884	\$17,279	\$ -	\$15,740	\$17,298	\$ -
With an allowance recorded:						
Commercial real estate	\$6,389	\$6,403	\$1,834	\$6,898	\$6,912	\$1,277
Construction and land development	-	-	-	-	-	-
Commercial and industrial	1,363	1,380	337	3,225	5,892	1,624
Owner occupied real estate	1,019	1,019	190	1,704	1,704	274
Consumer and other	347	377	218	603	627	293
Residential mortgage	-	-	-	-	-	-
Total	\$9,118	\$9,179	\$2,579	\$12,430	\$15,135	\$3,468
Total:						
Commercial real estate	\$13,393	\$13,410	\$1,834	\$19,245	\$19,260	\$1,277
Construction and land development	-	-	-	-	-	-
Commercial and industrial	3,852	7,783	337	5,180	9,003	1,624
Owner occupied real estate	3,490	3,652	190	2,325	2,437	274
Consumer and other	1,267	1,613	218	1,290	1,603	293
Residential mortgage	-	-	-	130	130	-
Total	\$22,002	\$26,458	\$2,579	\$28,170	\$32,433	\$3,468

The following table presents additional information regarding the Company's impaired loans for the three months ended September 30, 2017 and September 30, 2016:

(dollars in thousands)	Three Months Ended September 30,			
	2017		2016	
	Average	Interest	Average	Interest
	Recorded	Recognized	Recorded	Recognized
	Investmen	Investmen	Investmen	Investmen
With no related allowance recorded:				
Commercial real estate	\$7,024	\$ 106	\$12,188	\$ 65
Construction and land development	-	-	22	-
Commercial and industrial	2,366	8	1,611	9
Owner occupied real estate	2,313	17	665	3
Consumer and other	923	9	1,027	5
Residential mortgage	-	-	-	-
Total	\$12,626	\$ 140	\$15,513	\$ 82
With an allowance recorded:				
Commercial real estate	\$6,391	\$4	\$6,058	\$19
Construction and land development	-	-	43	-
Commercial and industrial	2,118	16	3,607	18
Owner occupied real estate	1,100	8	1,977	9
Consumer and other	346	2	278	2
Residential mortgage	-	-	-	-
Total	\$9,955	\$30	\$11,963	\$48
Total:				
Commercial real estate	\$13,415	\$110	\$18,246	\$84
Construction and land development	-	-	65	-
Commercial and industrial	4,484	24	5,218	27
Owner occupied real estate	3,413	25	2,642	12
Consumer and other	1,269	11	1,305	7
Residential mortgage	-	-	-	-
Total	\$22,581	\$170	\$27,476	\$130

The following table presents additional information regarding the Company's impaired loans for the nine months ended September 30, 2017 and September 30, 2016:

(dollars in thousands)	Nine Months Ended September 30,			
	2017		2016	
	Average	Interest	Average	Interest
	Recorded	Recorded	Recorded	Recorded
	Investmen	Recognized	Investmen	Recognized
With no related allowance recorded:				
Commercial real estate	\$9,657	\$ 271	\$11,954	\$ 197
Construction and land development	-	-	72	-
Commercial and industrial	2,149	26	1,797	30
Owner occupied real estate	1,719	46	647	6
Consumer and other	837	17	901	11
Residential mortgage	33	1	-	-
Total	\$14,395	\$ 361	\$15,371	\$ 244
With an allowance recorded:				
Commercial real estate	\$6,575	\$13	\$3,844	\$43
Construction and land development	-	-	15	-
Commercial and industrial	2,710	50	3,389	56
Owner occupied real estate	1,437	22	2,205	23
Consumer and other	438	8	252	7
Residential mortgage	-	-	-	-
Total	\$11,160	\$93	\$9,705	\$129
Total:				
Commercial real estate	\$16,232	\$284	\$15,798	\$240
Construction and land development	-	-	87	-
Commercial and industrial	4,859	76	5,186	86
Owner occupied real estate	3,156	68	2,852	29
Consumer and other	1,275	25	1,153	18
Residential mortgage	33	1	-	-
Total	\$25,555	\$454	\$25,076	\$373

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

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 September 30, 2017 and December 31, 2016:

(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 September 30, 2017							
Commercial real estate	\$129	\$-	\$8,975	\$9,104	\$406,428	\$415,532	\$ 2,538
Construction and land development	-	-	-	-	93,657	93,657	-
Commercial and industrial	767	-	2,100	2,867	160,218	163,085	-
Owner occupied real estate	451	-	1,816	2,267	295,613	297,880	192
Consumer and other	149	35	859	1,043	70,845	71,888	-
Residential mortgage	-	-	-	-	53,384	53,384	-
Total	\$1,496	\$ 35	\$13,750	\$15,281	\$1,080,145	\$1,095,426	\$ 2,730

(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, 2016							
Commercial real estate	\$-	\$ 9	\$13,089	\$13,098	\$365,421	\$ 378,519	\$ -
Construction and land development	-	-	-	-	61,453	61,453	-
Commercial and industrial	568	-	3,151	3,719	171,025	174,744	-
Owner occupied real estate	468	-	1,718	2,186	274,800	276,986	172
Consumer and other	24	22	808	854	62,806	63,660	-
Residential mortgage	-	-	130	130	9,552	9,682	130
Total	\$1,060	\$ 31	\$18,896	\$19,987	\$945,057	\$965,044	\$ 302

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 September 30, 2017 and December 31, 2016:

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
At September 30, 2017:					
Commercial real estate	\$407,787	\$ 838	\$ 6,907	\$ -	\$415,532
Construction and land development	93,657	-	-	-	93,657
Commercial and industrial	158,304	929	3,572	280	163,085
Owner occupied real estate	294,390	-	3,490	-	297,880
Consumer and other	70,621	-	1,267	-	71,888
Residential mortgage	53,257	127	-	-	53,384
Total	\$1,078,016	\$ 1,894	\$ 15,236	\$ 280	\$1,095,426

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
At December 31, 2016:					

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

Commercial real estate	\$364,066	\$ 877	\$ 13,576	\$ -	\$378,519
Construction and land development	61,453	-	-	-	61,453
Commercial and industrial	168,958	606	3,751	1,429	174,744
Owner occupied real estate	274,150	511	2,325	-	276,986
Consumer and other	62,370	-	1,290	-	63,660
Residential mortgage	9,552	-	130	-	9,682
Total	\$940,549	\$ 1,994	\$ 21,072	\$ 1,429	\$965,044

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

The following table shows non-accrual loans by class as of September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
(dollars in thousands)		
Commercial real estate	\$ 6,437	\$ 13,089
Construction and land development	-	-
Commercial and industrial	2,100	3,151
Owner occupied real estate	1,624	1,546
Consumer and other	859	808
Residential mortgage	-	-
Total	\$ 11,020	\$ 18,594

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately \$127,000 and \$372,000 for the three and nine months ended September 30, 2017, respectively, and \$271,000 and \$784,000 for the nine months ended September 30, 2016, respectively.

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 September 30, 2017 and December 31, 2016:

(dollars in thousands)	Number of Loans	Accrual Status	Non-Accrual Status	Total TDRs
September 30, 2017				
Commercial real estate	1	\$ 6,486	\$ -	\$ 6,486
Construction and land development	-	-	-	-
Commercial and industrial	2	1,184	349	1,533
Owner occupied real estate	1	243	-	243
Consumer and other	-	-	-	-
Residential mortgage	-	-	-	-
Total	4	\$ 7,913	\$ 349	\$ 8,262
December 31, 2016				
Commercial real estate	1	\$ 5,669	\$ -	\$ 5,669
Construction and land development	-	-	-	-
Commercial and industrial	2	228	349	577
Owner occupied real estate	-	-	-	-
Consumer and other	-	-	-	-
Residential mortgage	-	-	-	-
Total	3	\$ 5,897	\$ 349	\$ 6,246

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 the Company's estimate of the allowance for loan losses. The level of any subsequent defaults will likely be affected by future economic conditions.

The Company made no loan modifications during the three months ended September 30, 2017.

The Company modified one commercial and industrial loan during the nine months ended September 30, 2017. In accordance with the modified terms of the commercial and industrial loan, the principal balance of \$975,000 was converted from a line of credit to a term loan with a five year maturity. This commercial and industrial loan has been and continues to be an accruing loan.

The Company modified one owner occupied real estate loan during the nine months ended September 30, 2017. In accordance with the modified terms of the owner occupied loan of \$245,000, certain concessions have been granted, including a reduction in the interest rate and an extension of the maturity date of the loan. The owner occupied loan has been and continues to be an accruing loan.

The Company modified one commercial real estate loan in the amount of \$6.5 million during the nine months ended September 30, 2017 that met the criteria of a TDR. This loan was transferred to non-accrual status during the second quarter of 2015 as a result of delinquency caused by tenant vacancies. The Company restructured the loan based on new leases obtained by the borrower. In accordance with the modified terms of the loan, certain concessions have been granted, including an increase in the principal balance of \$421,000 and a reduction in the interest rate. Due to a performance period of six months, the loan was returned to accrual status in the third quarter of 2017.

There were no loan modifications made during the three and nine months ended September 30, 2016 that met the criteria of a TDR.

There were no residential mortgages in the process of foreclosure as of September 30, 2017 and December 31, 2016. Other real estate owned relating to residential real estate was \$42,000 and \$126,000 at September 30, 2017 and December 31, 2016.

After a loan is determined to be a TDR, the Company continues to track its performance under the most recent restructured terms. There were no TDRs that subsequently defaulted during the three and nine months ended September 30, 2017. There were no TDRs that subsequently defaulted during the year ended December 31, 2016.

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 year-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 year-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.

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

For financial assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2017 and December 31, 2016 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
September 30, 2017				
Assets:				
Collateralized mortgage obligations	\$ 240,004	\$ -	\$ 240,004	\$ -
Agency mortgage-backed securities	42,802	-	42,802	-
Municipal securities	15,659	-	15,659	-
Corporate bonds	64,329	-	61,304	3,025
Asset-backed securities	13,855	-	13,855	-
Trust Preferred Securities	1,108	-	-	1,108
Securities Available for Sale	\$ 377,757	\$ -	\$ 373,624	\$ 4,133
Mortgage Loans Held for Sale	\$ 41,411	\$ -	\$ 41,411	\$ -
SBA Servicing Assets	5,387	-	-	5,387
Interest Rate Lock Commitments	635	-	635	-
Best Efforts Forward Loan Sales Commitments	13	-	13	-
Mandatory Forward Loan Sales Commitments	51	-	51	-
Liabilities:				
Interest Rate Lock Commitments	1	-	1	-
Best Efforts Forward Loan Sales Commitments	125	-	125	-
Mandatory Forward Loan Sales Commitments	137	-	137	-
December 31, 2016				
Assets:				
Collateralized mortgage obligations	\$ 224,765	\$ -	\$ 224,765	\$ -
Agency mortgage-backed securities	36,710	-	36,710	-
Municipal securities	26,547	-	26,547	-
Corporate bonds	64,748	-	61,777	2,971
Asset-backed securities	15,149	-	15,149	-
Trust Preferred Securities	1,820	-	-	1,820
Securities Available for Sale	\$ 369,739	\$ -	\$ 364,948	\$ 4,791
Mortgage Loans Held for Sale	\$ 23,911	\$ -	\$ 23,911	\$ -
SBA Servicing Assets	5,352	-	-	5,352
Interest Rate Lock Commitments	439	-	439	-

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

Best Efforts Forward Loan Sales Commitments	103	-	103	-
Mandatory Forward Loan Sales Commitments	229	-	229	-

Liabilities:

Interest Rate Lock Commitments	55	-	55	-
Best Efforts Forward Loan Sales Commitments	125	-	125	-
Mandatory Forward Loan Sales Commitments	38	-	38	-

The following table presents an analysis of the activity in the SBA servicing assets for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2017	2016	2017	2016
Beginning balance	\$5,194	\$5,118	\$5,352	\$4,886
Additions	268	503	746	1,305
Fair value adjustments	(75)	(324)	(711)	(894)
Ending balance	\$5,387	\$5,297	\$5,387	\$5,297

Fair value adjustments are recorded as loan advisory and servicing fees on the statement of income. Servicing fee income, not including fair value adjustments, totaled \$468,000 and \$458,000 for the three months ended September 30, 2017 and 2016, respectively. Servicing fee income, not including fair value adjustments, totaled \$1.4 million and \$1.3 million for the nine months ended September 30, 2017 and 2016, respectively.

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 nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30, 2017		Three Months Ended September 30, 2016	
Level 3 Investments Only (dollars in thousands)	Preferred Securities	Corporate Bonds	Preferred Securities	Corporate Bonds
Balance, July 1 st	\$968	\$ 3,079	\$1,755	\$ 2,870
Unrealized gains (losses)	140	(54)	(62)	63
Paydowns	-	-	-	-
Proceeds from sales	-	-	-	-
Realized losses	-	-	-	-
Impairment charges on Level 3	-	-	(2)	-
Balance, September 30th	\$1,108	\$ 3,025	\$1,691	\$ 2,933

	Nine Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Level 3 Investments Only (dollars in thousands)	Preferred Securities	Corporate Bonds	Preferred Securities	Corporate Bonds
Balance, January 1st	\$1,820	\$ 2,971	\$1,883	\$ 2,834
Unrealized gains (losses)	806	54	(185)	99
Paydowns	-	-	-	-
Proceeds from sales	(970)	-	-	-
Realized losses	(548)	-	-	-
Impairment charges on Level 3	-	-	(7)	-
Balance, September 30th	\$1,108	\$ 3,025	\$1,691	\$ 2,933

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

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2017 and December 31, 2016 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
September 30, 2017:				
Impaired loans	\$7,161	\$ -	\$ -	\$ 7,161
Other real estate owned	7,468	-	-	7,468
December 31, 2016:				
Impaired loans	\$9,110	\$ -	\$ -	\$ 9,110
Other real estate owned	8,563	-	-	8,563

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

Asset Description	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
September 30, 2017				
Corporate bonds	\$3,025	Discounted Cash Flows	Discount Rate	(5.57%)
Trust preferred securities	\$1,108	Discounted Cash Flows	Discount Rate	7.62% - 7.85% (7.71%)
SBA servicing assets	\$5,387	Discounted Cash Flows	Conditional Prepayment Rate	(6.70%)
			Discount Rate	(10.25%)
Impaired loans	\$7,161	Appraised Value of Collateral (1)	Liquidation expenses (2)	10% - 28% (14%) (3)
Other real estate owned	\$7,468	Appraised Value of Collateral (1)	Liquidation expenses (2)	14% - 22% (15%) (3)
		Sales Price	Liquidation expenses (2)	7% - 13% (13%) (3)

December 31, 2016

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

Corporate bonds	\$2,971	Discounted Cash Flows	Discount Rate	(4.68%)
Trust preferred securities	\$1,820	Discounted Cash Flows	Discount Rate	8.85% - 9.35% (9.08%)
SBA servicing assets	\$5,352	Discounted Cash Flows	Conditional Prepayment Rate	(6.12%)
			Discount Rate	(10.00%)
Impaired loans	\$9,110	Appraised Value of Collateral (1)	Liquidation expenses (2)	7% - 20% (11%) (3)
		Sales Price	Liquidation expenses (2)	(7%) (3)
Other real estate owned	\$8,563	Appraised Value of Collateral (1)	Liquidation expenses (2)	5% - 76% (17%) (3)
		Sales Price	Liquidation expenses (2)	7% - 8% (7%) (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) 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.

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 certain assets and liabilities of the Company at September 30, 2017 and December 31, 2016.

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 September 30, 2017 and December 31, 2016. 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.

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 corporate bond transferred from Level 2 in 2010 that 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.

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

The fair values of SBA loans held for sale is determined, when possible, using quoted secondary-market prices and are classified within Level 3 of the fair value hierarchy. 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 three months ended September 30, 2017 and the year ended December 31, 2016.

Mortgage Loans Held for Sale (Carried at Fair Value)

The fair value of mortgage loans held for sale is determined by obtaining prices at which they could be sold in the principal market at the measurement date and are classified within Level 2 of the fair value hierarchy. In 2016, Republic elected to adopt the fair value option for its mortgage loans held for sale portfolio in order to more accurately reflect their economic value. All mortgage loans held for sale originated subsequent to the election date are carried at fair value. All loans held for sale originated prior to the election date were sold prior to December 31, 2016. Interest income on loans held for sale, totaled \$277,000 and \$577,000 for the three and nine months ended September

30, 2017 , respectively, and \$89,000 for the three and nine months ended September 30, 2016, are included in interest and fees in the statements of income.

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

The following table reflects the difference between the carrying amount of mortgage held for sale, measured at fair value and the aggregate unpaid principal amount that Republic is contractually entitled to receive at maturity as of September 30, 2017 and December 31, 2016 (dollars in thousands):

Mortgage loans held for sale	Carrying Amount	Aggregate Unpaid Principal Balance	Excess Carrying Amount Over Aggregate Unpaid Principal Balance
September 30, 2017	\$ 41,411	\$ 40,212	\$ 1,199
December 31, 2016	\$ 23,911	\$ 23,428	\$ 483

Republic did not have any mortgage loans held for sale recorded at fair value that were 90 or more days past due and on non-accrual at September 30, 2017 and December 31, 2016.

Interest Rate Lock Commitments ("IRLC")

The fair value of Republic's IRLC instruments are based upon the underlying loans measured at fair value on a recurring basis and the probability of such commitments being exercised. Due to observable market data inputs used by Republic, IRLCs are classified within Level 2 of the valuation hierarchy.

Best Efforts Forward Loan Sales Commitments

Best efforts forward loan sales commitments are classified within Level 2 of the valuation hierarchy. Best efforts forward loan sales commitments fix the forward sales price that will be realized upon the sale of mortgage loans into the secondary market. Best efforts forward loan sales commitments are entered into for loans at the time the borrower commitment is made. These best efforts forward loan sales commitments are valued using the committed price to the counterparty against the current market price of the interest rate lock commitment or mortgage loan held for sale.

Mandatory Forward Loan Sales Commitments

Fair values for mandatory forward loan sales commitments are based on fair values of the underlying mortgage loans and the probability of such commitments being exercised. Due to the observable inputs used by Republic, best efforts mandatory loan sales commitments are classified within Level 2 of the valuation hierarchy.

Loans Receivable (Carried at Cost)

The fair values of loans receivable, excluding all nonaccrual loans and accruing loans deemed impaired with specific loan allowances, 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 September 30, 2017 and December 31, 2016, these assets are carried at current fair value and classified within Level 3 of the fair value hierarchy.

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. An updated fair value is obtained from an independent third party on a quarterly basis and adjustments are presented as loan advisory and servicing fees on the statement of operations. The valuation begins with the projection of future cash flows for each asset based on their unique characteristics, the Company's market-based assumptions for prepayment speeds and estimated losses and recoveries. The present value of the future cash flows are then calculated utilizing the Company's market-based discount ratio assumptions. In all cases, the Company's models 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 September 30, 2017 and December 31, 2016, 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)	September 30, 2017	December 31, 2016
SBA Servicing Asset		
Fair Value of SBA Servicing Asset	\$5,387	\$5,352
Composition of SBA Loans Serviced for Others		
Fixed-rate SBA loans	2%	0%
Adjustable-rate SBA loans	98%	100%
Total	100%	100%
Weighted Average Remaining Term	20.6 years	21.1 years
Prepayment Speed	6.70%	6.12%
Effect on fair value of a 10% increase	\$(167)	\$(161)
Effect on fair value of a 20% increase	(327)	(316)
Weighted Average Discount Rate	10.25%	10.00%
Effect on fair value of a 10% increase	\$(225)	\$(226)
Effect on fair value of a 20% increase	(433)	(435)

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. Restricted stock is classified within Level 2 of the fair value hierarchy.

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amounts of accrued interest receivable and accrued interest payable approximates fair value and are classified within Level 2 of the fair value hierarchy.

Deposit Liabilities (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and non-interest 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. Deposit liabilities are classified within Level 2 of the fair value hierarchy.

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 September 30, 2017.

(dollars in thousands)	Fair Value Measurements at September 30, 2017				
	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	\$98,782	\$98,782	\$98,782	\$-	\$-
Investment securities available for sale	377,757	377,757	-	373,624	4,133
Investment securities held to maturity	416,987	411,257	-	411,257	-
Restricted stock	1,678	1,678	-	1,678	-
Loans held for sale	41,711	41,711	-	41,411	300
Loans receivable, net	1,087,147	1,056,761	-	-	1,056,761
SBA servicing assets	5,387	5,387	-	-	5,387
Accrued interest receivable	6,340	6,340	-	6,340	-
Interest rate lock commitments	635	635	-	635	-
Best efforts forward loan sales commitments	13	13	-	13	-
Mandatory forward loan sales commitments	51	51	-	51	-
Financial liabilities:					
Deposits					
Demand, savings and money market	\$1,763,937	\$1,763,937	\$-	\$1,763,937	\$-
Time	121,468	120,968	-	120,968	-
Subordinated debt	21,663	18,191	-	-	18,191
Accrued interest payable	577	577	-	577	-
Interest rate lock commitments	1	1	-	1	-
Best efforts forward loan sales commitments	125	125	-	125	-
Mandatory forward loan sales commitments	137	137	-	137	-
Off-Balance Sheet Data					
Commitments to extend credit	-	-	-	-	-
Standby letters-of-credit	-	-	-	-	-

The estimated fair values of the Company's financial instruments were as follows at December 31, 2016:

(dollars in thousands)	Fair Value Measurements at December 31, 2016				
	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	\$34,554	\$34,554	\$34,554	\$-	\$-
Investment securities available for sale	369,739	369,739	-	364,948	4,791
Investment securities held to maturity	432,499	425,183	-	425,183	-
Restricted stock	1,366	1,366	-	1,366	-
Loans held for sale	28,065	28,267	-	23,911	4,356
Loans receivable, net	955,817	937,944	-	-	937,944
SBA servicing assets	5,352	5,352	-	-	5,352
Accrued interest receivable	5,497	5,497	-	5,497	-
Interest rate lock commitments	439	439	-	439	-
Best efforts forward loan sales commitments	103	103	-	103	-
Mandatory forward loan sales commitments	229	229	-	229	-
Financial liabilities:					
Deposits					
Demand, savings and money market	\$1,566,506	\$1,566,506	\$-	\$1,566,506	\$-
Time	111,164	110,988	-	110,988	-
Subordinated debt	21,881	16,286	-	-	16,286
Accrued interest payable	444	444	-	444	-
Interest rate lock commitments	55	55	-	55	-
Best efforts forward loan sales commitments	125	125	-	125	-
Mandatory forward loan sales commitments	38	38	-	38	-
Off-Balance Sheet Data					
Commitments to extend credit	-	-	-	-	-
Standby letters-of-credit	-	-	-	-	-

Note 8: Changes in Accumulated Other Comprehensive Loss By Component (1)

The following table presents the changes in accumulated other comprehensive loss by component for the nine months ended September 30, 2017 and 2016, and the year ended December 31, 2016.

	Unrealized Gains (Losses) on Available-For-Sale Securities	Unrealized Holding Losses on Securities Transferred From Available-For-Sale To Held-To-Maturity	Total
(dollars in thousands)			
Balance January 1, 2017	\$ (6,831	) \$ (463	) \$(7,294)
Unrealized gain on securities	1,676	-	1,676
Amounts reclassified from accumulated other comprehensive income to net income (2)	39	83	122
Net current-period other comprehensive income	1,715	83	1,798
Balance September 30, 2017	\$ (5,116	) \$ (380	) \$(5,496)
Balance January 1, 2016	\$ (2,562	) \$ (603	) \$(3,165)
Unrealized loss on securities	2,170	-	2,170
Amounts reclassified from accumulated other comprehensive income to net income (2)	(416	) 85	(331)
Net current-period other comprehensive income (loss)	1,754	85	1,839
Balance September 30, 2016	\$ (808	) \$ (518	) \$(1,326)
Balance January 1, 2016	\$ (2,562	) \$ (603	) \$(3,165)
Unrealized loss on securities	(3,853	) -	(3,853)
Amounts reclassified from accumulated other comprehensive income to net income (2)	(416	) 140	(276)
Net current-period other comprehensive income (loss)	(4,269	) 140	(4,129)
Balance December 31, 2016	\$ (6,831	) \$ (463	) \$(7,294)

(1) All amounts are net of tax. Amounts in parentheses indicate reductions to other comprehensive income.

(2) Reclassification amounts are reported as gains on sales of investment securities, impairment losses, and amortization of net unrealized losses on the Consolidated Statement of Operations.

Note 9: Business Combination

Oak Mortgage Company, LLC

On July 28, 2016, Republic acquired all of the issued and outstanding limited liability company interests of Oak Mortgage Company, LLC ("Oak Mortgage") and, as a result, Oak Mortgage became a wholly owned subsidiary of Republic on that date. The aggregate cash purchase price paid to the Sellers for their limited liability company interests at closing was \$7.1 million, \$1.0 million of which was deposited in an escrow account to be disbursed one year from closing subject to adjustment for any covered indemnity claims under the Purchase Agreement. Escrow funds were disbursed in the third quarter of 2017. The purchase price was subject to certain post-closing adjustments.

In connection with the Oak Mortgage acquisition, the following table details the consideration paid, the initial estimated fair value of identifiable assets acquired and liabilities assumed as of the date of the acquisition, the subsequent adjustments to estimates, the final valuation of the fair value of identifiable assets acquired and liabilities assumed as of the date of the acquisition, and the resulting goodwill recorded (in thousands):

	Original Estimates	Adjustments to Estimates	Final Valuation
Consideration paid:			
Cash	\$ 7,136	\$ -	\$ 7,136
Equity instruments	202	-	202
Deferred additional purchase price	500	-	500
Value of consideration	\$ 7,838	\$ -	\$ 7,838
Assets acquired:			
Cash and cash equivalents	\$ 1,223	\$ -	\$ 1,223
Loans held for sale	20,871	-	20,871
Loans receivable	1,132	-	1,132
Premises and equipment	103	-	103
Derivative assets	1,508	-	1,508
Intangible assets – non compete agreements	104	-	104
Other assets	125	-	125
Total assets	25,066	-	25,066
Liabilities assumed:			
Warehouse lines of credit	19,666	-	19,666
Derivative liabilities	412	-	412
Other liabilities	2,042	119	2,161
Total liabilities	22,120	119	22,239
Net assets acquired	2,946	(119)	2,827
Goodwill resulting from acquisition of Oak Mortgage	\$ 4,892	\$ 119	\$ 5,011

As of December 31, 2016, the estimates of fair values of the assets acquired and liabilities assumed in the acquisition of Oak Mortgage were finalized.

The following table presents unaudited pro forma information, in thousands, as if the acquisition of Oak Mortgage by the Company had been completed on January 1, 2016. The pro forma information does not necessarily reflect the results of operations that would have occurred had Oak Mortgage been acquired by the Company at the beginning of 2016. The pro forma financial information does not include the impact of possible business model changes, nor does it consider any potential impacts of current market conditions or revenues, expense efficiencies or other factors.

(dollars in thousands)	Three	Nine
	Months	Months
	Ended	Ended

	September 30, 2016	September 30, 2016
Total revenues	\$ 15,755	\$ 52,610
Net income	\$ 1,259	\$ 4,462

Note 10: Goodwill and Other Intangibles

The Company's goodwill and intangible assets related to the acquisition of Oak Mortgage in July 2016 is detailed below:

(dollars in thousands)	Balance December 31, 2016	Additions/ Adjustments	Amortization	Balance September 30, 2017	Amortization Period (in years)
Goodwill	\$ 5,011	\$ -	\$ -	\$ 5,011	Indefinite
Non-compete agreements	61	-	(61)	-	1
Total	\$ 5,072	\$ -	\$ (61)	\$ 5,011	

Note 11: Derivatives and Risk Management Activities

Republic did not have any derivative instruments designated as hedging instruments, or subject to master netting and collateral agreements for the nine months ended September 30, 2017. The following table summarizes the amounts recorded in Republic's statement of financial condition for derivatives not designated as hedging instruments as of September 30, 2017 and December 31, 2016 (in thousands):

September 30, 2017	Balance Sheet Presentation	Fair Value	Notional Amount
Asset derivatives:			
IRLC's	Other Assets	\$ 635	\$ 32,137
Best efforts forward loan sales commitments	Other Assets	13	4,219
Mandatory forward loan sales commitments	Other Assets	51	6,791
Liability derivatives:			
IRLC's	Other Liabilities	\$ 1	\$ 308
Best efforts forward loan sales commitments	Other Liabilities	125	28,226
Mandatory forward loan sales commitments	Other Liabilities	137	31,509
December 31, 2016	Balance Sheet Presentation	Fair Value	Notional Amount
Asset derivatives:			
IRLC's	Other Assets	\$ 439	\$ 20,792
Best efforts forward loan sales commitments	Other Assets	103	8,586
Mandatory forward loan sales commitments	Other Assets	229	18,373
Liability derivatives:			
IRLC's	Other Liabilities	\$ 55	\$ 6,757
Best efforts forward loan sales commitments	Other Liabilities	125	18,963

Mandatory forward loan sales commitments Other Liabilities 38 5,024

The following tables summarizes the amounts recorded in Republic's statement of income for derivative instruments not designated as hedging instruments for the three and nine months ended September 30, 2017 (in thousands):

		Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	Income Statement Presentation	Gain/(Loss)	Gain/(Loss)
Asset derivatives:			
IRLC's	Mortgage banking income	\$ (126)	\$ 196
Best efforts forward loan sales commitments	Mortgage banking income	(8)	(90)
Mandatory forward loan sales commitments	Mortgage banking income	47	(178)
Liability derivatives:			
IRLC's	Mortgage banking income	\$ -	\$ 54
Best efforts forward loan sales commitments	Mortgage banking income	38	-
Mandatory forward loan sales commitments	Mortgage banking income	12	(99)

Three and Nine Months Ended September 30, 2016	Income Statement Presentation	Gain/(Loss)
Asset derivatives:		
IRLC's	Mortgage banking income	\$ (454)
Best efforts forward loan sales commitments	Mortgage banking income	(26)
Mandatory forward loan sales commitments	Mortgage banking income	-
Liability derivatives:		
IRLC's	Mortgage banking income	\$ 14
Best efforts forward loan sales commitments	Mortgage banking income	11
Mandatory forward loan sales commitments	Mortgage banking income	(294)

The fair value of Republic's IRLCs, best efforts forward loan sales commitments, and mandatory forward loan sales commitments are based upon the estimated value of the underlying mortgage loan (determined consistent with "Loans Held for Sale"), adjusted for (1) estimated costs to complete and originate the loan, and (2) the estimated percentage of IRLCs that will result in a closed mortgage loan. The valuation of the IRLCs issued by Republic includes the value of the servicing released premium. Republic sells loans servicing released, and the servicing released premium is included in the market price.

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

The following is management's discussion and analysis of our 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.

We may from time to time make written or oral "forward-looking statements", including statements contained in this presentation. 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; the adequacy of our allowance for loan losses and our methodology for determining such allowance; adverse changes in our loan portfolio and credit risk-related losses and expenses; concentrations within our loan portfolio, including our exposure to commercial real estate loans, and to our primary service area; changes in interest rates; our ability to identify, negotiate, secure and develop new store locations and renew, modify, or terminate leases or dispose of properties for existing store locations effectively; 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; deposit flows; loan demand; the regulatory environment, including evolving banking industry standards, changes in legislation or regulation; impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act; our securities portfolio and the valuation of our securities; accounting principles, policies and guidelines as well as estimates and assumptions used in the preparation of our financial statements; rapidly changing technology; litigation liabilities, including costs, expenses, settlements and judgments; and other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services. You should carefully review the risk factors described in the Annual Report on Form 10-K for the year ended December 31, 2016 and other documents we file from time to time with the Securities and Exchange Commission. The words "would be," "could be," "should be," "probability," "risk," "target," "objective," "may," "will," "estimate," "project," "believe," "intend," "anticipate," "plan," "seek," "expect" and similar expressions or variations on such expressions are intended to identify forward-looking statements. All such statements are made in good faith by us pursuant to the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of us, except as may be required by applicable law or regulations.

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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. For information regarding our updated capital requirements, see "Regulatory Matters" below.

Financial Condition

Assets

Total assets increased by \$217.6 million, or 11.3%, to \$2.1 billion at September 30, 2017, compared to \$1.9 billion at December 31, 2016 as a result of the continued branding success with "The Power of Red is Back" growth and expansion strategy.

Cash and Cash Equivalents

Cash and due from banks, and interest bearing deposits with banks comprise this category, which consists of our most liquid assets. The aggregate amount in these three categories increased by \$64.2 million to \$98.8 million at September 30, 2017 compared to \$34.6 million at December 31, 2016. The increase in cash was primarily driven by the increase in deposit balances during the period ended September 30, 2017.

Loans Held for Sale

Loans held for sale are comprised of loans guaranteed by the U.S. Small Business Administration ("SBA") which we usually originate with the intention of selling in the future and residential mortgage loans originated by Republic's subsidiary, Oak Mortgage Company, which we intend to sell in the future. Total SBA loans held for sale were \$300,000 at September 30, 2017 as compared to \$4.2 million at December 31, 2016. Residential mortgage loans held for sale totaled \$41.4 million at September 30, 2017 compared to \$23.9 million at December 31, 2016. The increase in the balance of residential mortgage loans held for sale was driven by an increase in the volume of loans originated along with the timing of closings which pushed a number of sales into the fourth quarter. Loans held for sale, as a percentage of total Company assets, were 1.9% at September 30, 2017.

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 sized 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, 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 \$27.0 million at September 30, 2017. Loans made to one individual customer, even if secured by different collateral, are aggregated for purposes of the lending limit.

Loans receivable increased \$130.4 million, or 13.5%, to \$1.1 billion at September 30, 2017, versus \$965.0 million at December 31, 2016. This growth was the result of an increase in loan demand in residential mortgage, commercial real estate, construction and development, owner occupied real estate, and consumer categories driven by the successful execution of our relationship banking strategy which focuses on customer service.

Investment Securities

Investment securities considered available-for-sale are investments that 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 \$377.8 million at September 30, 2017,

compared to \$369.7 million at December 31, 2016. The increase was primarily due to the purchase of securities totaling \$53.1 million partially offset by the sales and paydowns of securities held in the portfolio totaling \$46.8 million during the first nine months of 2017. At September 30, 2017, the portfolio had a net unrealized loss of \$8.0 million compared to a net unrealized loss of \$10.7 million at December 31, 2016. The change in value of the investment portfolio was driven by a decrease in market interest rates which drove an increase in the fair value of the bonds held in our portfolio during the first nine months of 2017.

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) and Small Business Administration (SBA) bonds, CMO's and MBS's. The fair value of securities held-to-maturity totaled \$411.3 million and \$425.2 million at September 30, 2017 and December 31, 2016, respectively. The decrease was primarily due to the receipt of principal payments on CMO and MBS securities held in the portfolio totaling \$36.6 million partially offset by the purchase of securities totaling \$22.0 million during the first nine months of 2017.

Restricted Stock

Restricted stock, which represents a required investment in the capital stock of correspondent banks related to available credit facilities, is carried at cost as of September 30, 2017 and December 31, 2016. 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 September 30, 2017 and December 31, 2016, the investment in FHLB of Pittsburgh capital stock totaled \$1.5 million and \$1.2 million, respectively. The increase was due to a higher required investment in FHLB stock during 2017. At both September 30, 2017 and December 31, 2016, ACBB capital stock totaled \$143,000. Both the FHLB and ACBB issued dividend payments during the nine months of 2017.

Other Real Estate Owned

The balance of other real estate owned decreased to \$9.2 million at September 30, 2017 from \$10.2 million at December 31, 2016, primarily due to writedowns in the amount of \$777,000 and sales totaling \$357,000 on existing foreclosed properties during the nine months ended September 30, 2017.

Goodwill

Goodwill resulting from the acquisition of Oak Mortgage in July 2016 amounted to \$5.0 million at September 30, 2017 and December 31, 2016.

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 our 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 \$207.7 million, or 12.4%, to \$1.9 billion at September 30, 2017 from \$1.7 billion at December 31, 2016. The increase was the result of growth in demand deposit balances and time deposit balances partially offset by decreases in money market and savings balances. We constantly focus our efforts on the growth of deposit balances through the successful execution of our relationship banking model which is based upon a high level of customer service and satisfaction. We are also in the midst of an aggressive expansion and relocation plan which we refer to as "The Power of Red is Back". Over the last three years, we have opened eleven new store locations and have several more in various stages of construction and development. This strategy has also allowed us to nearly eliminate our dependence upon the more volatile sources of funding found in brokered and public fund certificates of deposit.

Shareholders' Equity

Total shareholders' equity increased \$10.1 million to \$225.2 million at September 30, 2017 compared to \$215.1 million at December 31, 2016. The increase was primarily due to net income of \$6.2 million recognized during the first nine months of 2017, an increase of \$2.2 million related to the issuance of stock based compensation, stock option exercises and securities conversion, and the reduction in accumulated other comprehensive losses associated with an increase in the market value of the investment securities portfolio. The shift in market value of the securities portfolio resulting in accumulated other comprehensive losses of \$5.5 million at September 30, 2017 compared to accumulated other comprehensive losses of \$7.3 million at December 31, 2016 was primarily driven by a decrease in market interest rates which drove an increase in the fair value of the securities held in our portfolio.

Results of Operations

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

We reported net income of \$2.3 million, or \$0.04 per diluted share, for the three months ended September 30, 2017, compared to net income of \$1.3 million or \$0.03 per diluted share, for the three months ended September 30, 2016. The increase in net income was primarily driven by growth in interest-earning assets along with the addition of a residential mortgage lending division.

Net interest income for the three month period ended September 30, 2017 was \$15.7 million compared to \$11.8 million for the three months ended September 30, 2016. Interest income increased \$4.3 million, or 32%, to \$17.9 million for the three months ended September 30, 2017 compared to \$13.6 million for the three months ended September 30, 2016 primarily as a result of a \$288.1 million increase in average investment securities balances and a \$149.8 million increase in average loan balances. Interest expense increased \$376,000 or 21%, to \$2.2 million for the three months ended September 30, 2017 compared to \$1.8 million for the three months ended September 30, 2016. This increase was primarily due to an increase in average deposit balances.

We did not record a provision for loan losses for the three months ended September 30, 2017. We recorded a provision for loan losses in the amount of \$607,000 for the three months ended September 30, 2016 primarily due to an increase in the allowance required for loans individually evaluated for impairment.

Non-interest income increased by \$636,000 to \$5.8 million during the three months ended September 30, 2017 compared to \$5.1 million during the three months ended September 30, 2016. The increase during the three months ended September 30, 2017 was primarily due increases in mortgage banking income, service fees on deposit accounts, and loan advisory and service fees partially offset by a decrease in the gain on sale of SBA loans.

Non-interest expenses increased by \$4.2 million to \$19.2 million during the three months ended September 30, 2017 compared to \$15.0 million during the three months ended September 30, 2016. This increase was primarily driven by higher salaries, employee benefits, occupancy expenses associated with the addition of new stores related to our expansion strategy which we refer to as "The Power of Red is Back", as well as the addition of the Oak Mortgage residential mortgage lending team in the third quarter of 2016.

Return on average assets and average equity was 0.45% and 4.11%, respectively, during the three months ended September 30, 2017 compared to 0.32% and 4.49%, respectively, for the three months ended September 30, 2016.

Nine Months Ended September 30, 2017 compared to September 30, 2016

We reported net income of \$6.2 million, or \$0.11 per diluted share, for the nine months ended September 30, 2017 compared to net income of \$3.4 million, or \$0.09 per diluted share, for the nine months ended September 30, 2016. The increase in net income was primarily driven by growth in interest-earning assets along with the addition of a residential mortgage lending division.

Net interest income for the nine months ended September 30, 2017 increased \$10.5 million to \$45.2 million as compared to \$34.7 million for the nine months ended September 30, 2016. Interest income increased \$11.8 million, or 30%, due primarily to increases in average investment securities balances and average loan balances. Interest expense increased \$1.3 million or 27%, to \$6.2 million for the nine months ended September 30, 2017 compared to \$4.9 million for the nine months ended September 30, 2016. This increase was primarily due to an increase in average interest bearing deposits.

We recorded a provision for loan losses of \$500,000 for the nine months ended September 30, 2017 due to an increase in the allowance required for loans collectively evaluated for impairment driven by an increase in total loans outstanding. We recorded a provision for loan losses of \$1.6 million for the nine months ended September 30, 2016 primarily due to an increase in the allowance required for loans individually evaluated for impairment.

Non-interest income increased by \$4.5 million to \$15.1 million during the nine months ended September 30, 2017 as compared to \$10.6 million during the nine months ended September 30, 2016. The increase during the nine months ended September 30, 2017 was primarily due to increases in mortgage banking income, service fees on deposit accounts, and loan advisory and servicing fees partially offset by decreases in the gain on the sale of SBA loans and the gain (loss) on the sale of securities.

Non-interest expenses increased \$13.3 million to \$53.7 million during the nine months ended September 30, 2017 as compared to \$40.3 million during the nine months ended September 30, 2016. The increase was primarily driven by higher salaries, employee benefits, and occupancy expenses associated with the addition of new stores related to our expansion strategy which we refer to as "The Power of Red is Back", as well as, the addition of the Oak Mortgage residential mortgage lending team in the third quarter of 2016.

Return on average assets and average equity from continuing operations were 0.41% and 3.74%, respectively, during the nine months ended September 30, 2017 compared to 0.30% and 3.93%, respectively, for the nine months ended September 30, 2016.

Analysis of Net Interest Income

Historically, our 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, a non-GAAP measure.

Average Balances and Net Interest Income

(dollars in thousands)	For the three months ended September 30, 2017			For the three months ended September 30, 2016		
	Average Balance	Interest	Yield/ Rate ⁽¹⁾	Average Balance	Interest	Yield/ Rate ⁽¹⁾
Interest-earning assets:						
Federal funds sold and other interest-earning assets	\$56,316	\$181	1.28 %	\$114,260	\$149	0.52 %
Investment securities and restricted stock	765,678	4,805	2.51 %	477,601	2,858	2.39 %
Loans receivable	1,115,920	13,136	4.67 %	966,106	10,848	4.47 %
Total interest-earning assets	1,937,914	18,122	3.71 %	1,557,967	13,855	3.54 %
Other assets	122,513			103,826		
Total assets	\$2,060,427			\$1,661,793		
Interest-earning liabilities:						
Demand – non-interest bearing	\$381,380			\$282,571		
Demand – interest bearing	692,423	772	0.44 %	533,222	553	0.41 %
Money market & savings	613,506	788	0.51 %	583,256	677	0.46 %
Time deposits	109,878	312	1.13 %	104,701	301	1.14 %
Total deposits	1,797,187	1,872	0.41 %	1,503,750	1,531	0.41 %
Total interest-bearing deposits	1,415,807	1,872	0.52 %	1,221,179	1,531	0.50 %
Other borrowings	30,220	338	4.44 %	29,938	303	4.03 %
Total interest-bearing liabilities	1,446,027	2,210	0.61 %	1,251,117	1,834	0.58 %
Total deposits and other borrowings	1,827,407	2,210	0.48 %	1,533,688	1,834	0.48 %
Non-interest-bearing other liabilities	9,179			9,247		
Shareholders' equity	223,841			118,858		
Total liabilities and shareholders' equity	\$2,060,427			\$1,661,793		
Net interest income ⁽²⁾		\$15,912			\$12,021	
Net interest spread			3.10 %			2.96 %

Net interest margin ⁽²⁾	3.26 %	3.07 %
------------------------------------	--------	--------

⁽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, a non-GAAP measure. Net interest income has been increased over the financial statement amount by \$200 and \$235 for the three months ended September 30, 2017 and 2016, 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 nine months ended September 30, 2017			For the nine months ended September 30, 2016		
	Average Balance	Interest	Yield/ Rate ⁽¹⁾	Average Balance	Interest	Yield/ Rate ⁽¹⁾
Interest-earning assets:						
Federal funds sold and other interest-earning assets	\$36,431	\$312	1.15 %	\$78,094	\$299	0.51 %
Investment securities and restricted stock	785,121	14,850	2.52 %	458,496	8,615	2.51 %
Loans receivable	1,063,581	36,944	4.64 %	925,110	31,339	4.53 %
Total interest-earning assets	1,885,133	52,106	3.70 %	1,461,700	40,253	3.68 %
Other assets	112,018			95,054		
Total assets	\$1,997,151			\$1,556,754		
Interest-earning liabilities:						
Demand – non-interest bearing	\$355,432			\$270,503		
Demand – interest bearing	657,722	2,075	0.42 %	476,134	1,471	0.41 %
Money market & savings	607,822	2,218	0.49 %	572,347	1,923	0.45 %
Time deposits	107,881	903	1.12 %	82,738	625	1.01 %
Total deposits	1,728,857	5,196	0.40 %	1,401,722	4,019	0.38 %
Total interest-bearing deposits	1,373,425	5,196	0.51 %	1,131,219	4,019	0.47 %
Other borrowings	39,408	1,046	3.55 %	29,947	898	4.01 %
Total interest-bearing liabilities	1,412,833	6,242	0.59 %	1,161,166	4,917	0.57 %
Total deposits and other borrowings	1,768,265	6,242	0.47 %	1,431,669	4,917	0.46 %
Non-interest-bearing other liabilities	8,628			7,957		
Shareholders' equity	220,258			117,128		
Total liabilities and shareholders' equity	\$1,997,151			\$1,556,754		
Net interest income ⁽²⁾		\$45,864			\$35,336	
Net interest spread			3.11 %			3.11 %
Net interest margin ⁽²⁾			3.25 %			3.23 %

⁽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, a non-GAAP measure. Net interest income has been increased over the financial statement amount by \$666 and \$662 for the nine months ended September 30, 2017 and 2016, 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 nine months ended September 30, 2017, as compared to the three and nine months ended September 30, 2016. 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 September 30, 2017 vs. 2016			For the nine months ended September 30, 2017 vs. 2016		
	Changes due to:			Changes due to:		
	Average Volume	Average Rate	Total Change	Average Volume	Average Rate	Total Change
Interest earned:						
Federal funds sold and other interest-earning assets	\$(191)	\$ 223	\$ 32	\$(358)	\$ 371	\$ 13
Securities	1,804	143	1,947	6,178	57	6,235
Loans	1,652	636	2,288	4,651	954	5,605
Total interest-earning assets	3,265	1,002	4,267	10,471	1,382	11,853
Interest expense:						
Deposits						
Interest-bearing demand deposits	181	38	219	573	31	604
Money market and savings	32	79	111	115	180	295
Time deposits	16	(5)	11	211	67	278
Total deposit interest expense	229	112	341	899	278	1,177
Other borrowings	(4)	39	35	43	105	148
Total interest expense	225	151	376	942	383	1,325
Net interest income	\$3,040	\$ 851	\$ 3,891	\$9,529	\$ 999	\$ 10,528

Net Interest Income and Net Interest Margin

Net interest income, on a fully tax-equivalent basis, for the three months ended September 30, 2017 increased by \$3.9 million, or 32%, over the same period in 2016. Interest income, on a fully tax-equivalent basis, on interest-earning assets totaled \$18.1 million and \$13.9 million for the three months ended September 30, 2017 and 2016, respectively. The increase in interest income was the result of a \$288.1 million increase in average investment securities balances and a \$149.8 million increase in average loan balances for the three months ended September 30, 2017 as compared to September 30, 2016. Total interest expense for the three months ended September 30, 2017 increased \$376,000, or 21%, to \$2.2 million from \$1.8 million over the same period in 2016. Interest expense on deposits for the three months ended September 30, 2017 increased by \$341,000, or 23%, over the same period in 2016.

Net interest income, on a fully tax-equivalent basis, for the nine months ended September 30, 2017 increased by \$10.5 million, or 30%, over the same period in 2016. Interest income on a fully tax-equivalent basis, on interest-earning assets totaled \$52.1 million and \$40.3 million for the nine months ended September 30, 2017 and 2016, respectively. The increase in interest income earned was the result of a \$326.6 million increase in average investment securities balances and a \$138.5 million increase in average loan balances for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Total interest expense for the nine months ended September 30, 2017 increased \$1.3 million, or 27%, to \$6.2 million from \$4.9 million over the same

period in 2016. Interest expense on deposits for the nine months ended September 30, 2017 increased by \$1.2 million, or 29%, over the same period in 2016.

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 3.10% during the three months ended September 30, 2017 compared to 2.96% during the same period in 2016 and was 3.11% during both the nine months ended September 30, 2017 and the nine months ended September 30, 2016. 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 increased to 3.26% for the three months ended September 30, 2017 from 3.07% for the same period in 2016 primarily as a result of an increase in the yield on loans outstanding. For the nine months ended September 30, 2017, the fully tax-equivalent net interest margin increased to 3.25% from 3.23% during the same period in 2016 primarily as a result of an increase in the yield on loans outstanding.

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. We did not record a provision for loan losses for the three months ended September 30, 2017. We recorded a \$500,000 provision for the nine month period ended September 30, 2017. During the nine month period ended September 30, 2017, an increase in the allowance required for loans collectively evaluated for impairment was driven by an increase in total loans outstanding. We recorded a \$607,000 provision for the three month period ended September 30, 2016 and a \$1.6 million provision for the nine month period ended September 30, 2016. During the nine month period ended September 30, 2016, there was an increase in the allowance for loans individually evaluated for impairment primarily as a result of a single loan relationship that moved to non-accrual status during the second quarter of 2016.

Nonperforming assets at September 30, 2017 totaled \$22.9 million, or 1.07%, of total assets, down \$6.2 million, or 21%, from \$29.1 million, or 1.51%, of total assets at December 31, 2016 and down \$6.8 million, or 23%, from \$29.8 million, or 1.72%, of total assets at September 30, 2016, due primarily to one commercial real estate loan relationship in the amount of \$6.5 million which moved from non-accrual to performing status during the quarter ended September 30, 2017.

Non-Interest Income

Total non-interest income increased by \$636,000, or 12%, to \$5.8 million for the three months ended September 30, 2017, compared to \$5.1 million for the three months ended September 30, 2016. Mortgage banking income increased by \$754,000 to \$3.2 million during the three months ended September 30, 2017 from \$2.4 million primarily due to gains on the sale of residential mortgage loans originated through Oak Mortgage which was acquired in the third quarter of 2016. Service fees on deposit accounts totaled \$1.1 million for the three months ended September 30, 2017, which represents an increase of \$381,000 over the three months ended September 30, 2016. This increase was due to the growth in the number of customer accounts and transaction volume. Gains on the sale of SBA loans sold totaled \$831,000 for the three months ended September 30, 2017 compared to \$1.6 million for the three months ended September 30, 2016. The decrease of \$799,000 in gains on the sale of SBA loans was driven by a decrease in SBA loans sold during the three months ended September 30, 2017 as a result of lower origination volume. Loan advisory and servicing fees totaled \$677,000 for the three months ended September 30, 2017 which represents an increase of \$349,000 from the same period in 2016 due to higher loan volumes.

Total non-interest income increased by \$4.5 million, or 43%, to \$15.1 million for the nine months ended September 30, 2017, compared to \$10.6 million for the nine months ended September 30, 2016. Mortgage banking income increased by \$6.1 million to \$8.6 million during the nine months ended September 30, 2017 from \$2.4 million primarily due to gains on the sale of residential mortgage loans originated through Oak Mortgage which was acquired in the third quarter of 2016. Service fees on deposit accounts totaled \$2.8 million for the nine months ended September 30, 2017 which represents an increase of \$910,000 over the same period in 2016. This increase was due to

the growth in the number of customer accounts and transaction volume. Gains on the sale of SBA loans sold were \$2.3 million during the nine months ended September 30, 2017 compared to \$4.2 million in the same period of 2016 as a result of a decrease in SBA loans sold during the nine months ended September 30, 2017 as a result of lower origination volume. There were recognized losses in the amount of \$61,000 on sales of investment securities during the nine months ended September 30, 2017 as compared to gains of \$656,000 during the nine months ended September 30, 2016. Loan advisory and service fees totaled \$1.3 million for the nine months ended September 30, 2017 which represents an increase of \$202,000 from the same period in 2016.

Non-interest Expenses

Three Months Ended September 30, 2017 compared to Three Months Ended September 30, 2016

Non-interest expenses increased by \$4.2 million, or 28%, for the three months ended September 30, 2017 compared to the same period in 2016. A detailed explanation of the most significant variances in non-interest expenses for the three months ended September 30, 2017 and September 30, 2016 is presented in the following paragraphs.

Salary and employee benefits expenses, which represent the largest component of non-interest expenses, increased by \$2.1 million, or 27%, for the three months ended September 30, 2017 compared to the same period in 2016. This increase was primarily driven by annual merit increases along with increased staffing levels related to our growth and expansion strategy, which we refer to as "The Power of Red is Back". Two new stores were opened during the three month period ended September 30, 2017. Salaries and employee benefits also increased as a result of the acquisition of Oak Mortgage in the third quarter of 2016.

Occupancy expenses increased by \$237,000, or 15%, and depreciation and amortization expense increased by \$241,000, or 23%, for the three months ended September 30, 2017 compared to the same period last year also as a result of our continuing growth and relocation strategy.

Other real estate owned expenses totaled \$746,000 for the three months ended September 30, 2017, an increase of \$44,000, or 6%, compared to the same period in 2016. This increase was a result of higher writedowns on foreclosed assets held in other real estate owned in the current period.

All other non-interest expenses increased \$1.5 million, or 38%, during the three months ended September 30, 2017, compared to the same period in 2016. This increase was mainly attributable to the addition of expenses related to the residential mortgage loan operation of Oak Mortgage. Increases in advertising, data processing expense, professional fees, and other expenses resulting from our expansion strategy also contributed to the growth in other operating expenses.

Nine Months Ended September 30, 2017 compared to Nine Months Ended September 30, 2016

For the nine months ended September 30, 2017, non-interest expenses increased by \$13.3 million, or 33%, compared to the first nine months of 2016. A detailed explanation of the most significant variances in non-interest expenses is presented in the following paragraphs.

Salary expenses and employee benefits, which represent the largest component of non-interest expenses, were \$27.8 million for the nine months ended September 30, 2017, an increase of \$7.5 million, or 37%, compared to the same period in 2016. This increase was primarily driven by annual merit increases along with increased staffing levels related to our growth and expansion strategy, which we refer to as "The Power of Red is Back". There were twenty-two stores open as of September 30, 2017 compared to nineteen stores at September 30, 2016. In addition, another store was under construction as of September 30, 2017, which is expected to open in the fourth quarter of 2017. Salaries and employee benefits also increased as a result of the acquisition of Oak Mortgage in the third quarter of 2016.

Occupancy expenses increased by \$852,000, or 19%, and depreciation and amortization expense increased by \$772,000, or 27%, for the nine months ended September 30, 2017 versus the same period in 2016 also as a result of our continuing growth and relocation strategy.

Other real estate owned expenses totaled \$1.7 million for the nine months ended September 30, 2017, an increase of \$94,000, or 6%, from the same period of 2016 primarily as a result of higher writedowns on foreclosed assets held in other real estate owned in the current period.

All other non-interest expenses increased \$4.1 million, or 37%, during the nine months ended September 30, 2017, compared to the same period in 2016. This increase was mainly attributable to the addition of expenses related to the residential mortgage loan operation of Oak Mortgage. Increases in data processing expense, advertising, professional fees, legal expenses, and other expenses resulting from our expansion strategy also contributed to the growth in other operating expenses.

One key measure that management utilizes to monitor progress in controlling overhead expenses is the ratio of annualized net non-interest expenses to average assets. For purposes of this calculation, net non-interest expenses equal non-interest expenses less non-interest income and nonrecurring expense. For the three months ended September 30, 2017, this ratio equaled 2.58% compared to 2.36% for the three months ended September 30, 2016. For the nine months ended September 30, 2017, the ratio equaled 2.58% compared to 2.55% for the nine month period ended September 30, 2016, respectively, reflecting higher net non-interest expenses related to our growth strategy of adding and relocating stores.

Another productivity measure utilized by management is the operating efficiency ratio. This ratio expresses the relationship of non-interest expenses to net interest income plus non-interest income. For the three months ended September 30, 2017, the operating efficiency ratio was 89.2%, compared to 88.7% for the three months ended September 30, 2016. The efficiency ratio equaled 89.1% for both the nine months ended September 30, 2017 and the same period in 2016. The decrease for the three months ended September 30, 2017 versus September 30, 2016 was due to both net interest income and non-interest income increasing at a slower rate than non-interest expenses.

Provision (Benefit) for Federal Income Taxes

We recorded a provision for income taxes of \$4,000 for the three months ended September 30, 2017, compared to a \$32,000 benefit for the three months ended September 30, 2016. For the nine months ended September 30, 2017, we recorded a benefit for income taxes of \$38,000 compared to a \$69,000 benefit for the nine months ended September 30, 2016. The \$38,000 benefit recorded during the first nine months of 2017 was the net result of a tax provision in the amount of \$1.8 million calculated on the net profit generated during the period using our normal effective tax rate, offset by an adjustment to the deferred tax asset valuation allowance in the amount of \$1.8 million. The effective tax rates for the three-month periods ended September 30, 2017 and 2016 were 30% and 25%, respectively, and for the nine month periods ended September 30, 2017 and 2016 were 29% and 24%, respectively, excluding an adjustment to the deferred tax asset valuation allowance.

We evaluate the carrying amount of 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 a determination is made 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, we believe 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 us. In addition, it is also important to consider that net operating loss carryforwards ("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, we 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.

Positive evidence evaluated when considering the need for a valuation allowance included:

the improvement in earnings during the nine month period ended September 30, 2017 compared to September 30, 2016;

continued growth in interest-earning assets is expected and supported by the capital raise completed during the fourth quarter of 2016; and

the acquisition of a residential lending organization (Oak Mortgage Company) completed in July 2016 continues to supplement earnings growth.

Negative evidence evaluated when considering the need for a valuation allowance included:

the elevated level of non-performing asset balances primarily driven by two legacy loan relationships which may result in reduced taxable income in future periods;

the historical trend of recording significant loan loss provisions and charge-offs due to asset quality over the last several years;

the impact to profitability in recent years due to one-time or non-core items including a legal settlement and gains on the sale of investment securities;

past and projected future earnings are heavily dependent upon the success of the SBA Lending Team which has recently experienced reduced loan volumes and the recently acquired Mortgage Division which can be significantly impacted by a changing interest rate environment and other various economic factors;

limited experience with forecasting profitability and managing operations of the residential mortgage division acquired in July 2016; and

a high level of uncertainty exists over interest rate environment and economic decisions to be made by the recently elected administration of the Federal government which may result in compression of the Company's net interest margin causing a decline in future profitability.

Based on the analysis of available positive and negative evidence, we determined that a valuation allowance should be recorded as of September 30, 2017 and December 31, 2016.

We 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. We believe that these tax planning strategies are (a) prudent and feasible, (b) steps that we 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. We believe 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, have no present intention to implement such strategies.

The net deferred tax asset balance before consideration of a valuation allowance was \$18.6 million as of September 30, 2017 and \$21.4 million as of December 31, 2016. After assessment of all available tax planning strategies, we determined that a partial valuation allowance in the amount of \$10.0 million as of September 30, 2017 and \$12.2 million as of December 31, 2016 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 that a valuation allowance is no longer required, it will be reduced accordingly resulting in a corresponding increase in net income.

Net Income and Net Income per Common Share

Net income for the three months ended September 30, 2017 was \$2.3 million, an increase of \$981,000, compared to \$1.3 million recorded for the three months ended September 30, 2016.

Net income for the nine months ended September 30, 2017 was \$6.2 million, an increase of \$2.7 million, compared to \$3.4 million recorded for the nine months ended September 30, 2016. The increase in net income for the nine months ended September 30, 2017 was due to a \$10.5 million increase in net interest income, a \$4.5 million increase in non-interest income and a \$1.1 million decrease in the provision for loan losses, partially offset by a \$13.3 million increase in non-interest expenses.

For the three month period ended September 30, 2017, basic net income per common share was \$0.04 compared to \$0.04 for the three months ended September 30, 2016 and fully-diluted net income per common share was \$0.04 for the three month period ended September 30, 2017 compared to \$0.03 for the three months ended September 30, 2016. For the nine months ended September 30, 2016, basic and fully-diluted net income per common share was \$0.11 compared to \$0.09 for the nine months ended September 30, 2016.

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 three months ended September 30, 2017 was 0.45%, compared to 0.32% for the three months ended September 30, 2016. The ROA for the nine months ended September 30, 2017 and 2016 was 0.41% and 0.30%, 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 4.11% for the three months ended September 30, 2017, compared to 4.49% for the three months ended

September 30, 2016. The ROE for the nine months ended September 30, 2017 and 2016 was 3.74% and 3.93%, respectively.

Commitments, Contingencies and Concentrations

Financial instruments, whose contract amounts represent potential credit risk, were commitments to extend credit of approximately \$266.1 million and \$215.9 million, and standby letters of credit of approximately \$11.9 million and \$5.7 million, at September 30, 2017 and December 31, 2016, respectively. These financial instruments constitute off-balance sheet arrangements. Commitments often expire without being drawn upon. Substantially all of the \$266.1 million of commitments to extend credit at September 30, 2017 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 contract. Commitments generally have fixed expiration dates or other termination clauses and many require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable.

Standby letters of credit are conditional commitments issued 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 extending loan commitments. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guidelines. The current amount of liability as of September 30, 2017 and December 31, 2016 for guarantees under standby letters of credit issued is not material.

Regulatory Matters

We are required to comply with certain "risk-based" capital adequacy guidelines issued by the FRB and the FDIC. The risk-based capital guidelines assign varying risk weights to the individual assets held by a bank. The guidelines also assign weights to the "credit-equivalent" amounts of certain off-balance sheet items, such as letters of credit and interest rate and currency swap contracts.

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 implemented higher minimum capital requirements, added a new common equity tier 1 capital requirement, and established criteria that instruments must meet to be considered common equity tier 1 capital, additional tier 1 capital or tier 2 capital. Under the final capital rules that became effective on January 1, 2015, there was a requirement for a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets which is in addition to the other minimum risk-based capital standards in the rule. Institutions that do not maintain this required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management.

The following table shows the required capital ratios with the conversation buffer over the phase-in period.

	Basel III Community Banks Minimum Capital Ratio Requirements			
	2016	2017	2018	2019
Common equity tier 1 capital (CET1)	5.125%	5.750%	6.375%	7.000%
Tier 1 capital (to risk weighted assets)	6.625%	7.250%	7.875%	8.500%
Total capital (to risk-weighted assets)	8.625%	9.250%	9.875%	10.500%
Tier 1 capital (to average assets, leverage)	4.000%	4.000%	4.000%	6.500%

The risk-based capital ratios measure the adequacy of a bank's capital against the riskiness of its assets and off-balance sheet activities. Failure to maintain adequate capital is a basis for "prompt corrective action" or other regulatory enforcement action. In assessing a bank's capital adequacy, regulators also consider other factors such as interest rate risk exposure; liquidity, funding and market risks; quality and level of earnings; concentrations of credit, quality of loans and investments; risks of any nontraditional activities; effectiveness of bank policies; and management's overall ability to monitor and control risks.

Management believes that the Company and Republic met, as of September 30, 2017 and December 31, 2016, all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if all such requirements were currently in effect. In the current year, the FDIC categorized Republic as well capitalized under the regulatory framework for prompt corrective action provisions of the Federal Deposit Insurance Act. There are no calculations or events since that notification which management believes would have changed Republic's category.

The Company and Republic's ability to maintain the required levels of capital is substantially dependent upon the success of their capital and business plans, the impact of future economic events on Republic's loan customers and Republic's ability to manage its interest rate risk, growth and other operating expenses.

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

The following table presents the capital regulatory ratios for both Republic and the Company as of September 30, 2017, and December 31, 2016 (dollars in thousands):

(dollars in thousands)	Actual		Minimum Capital Adequacy		Minimum Capital Adequacy with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
At September 30, 2017:								
Total risk based capital								
Republic	\$ 184,514	13.01 %	\$ 113,449	8.00 %	\$ 131,175	9.25 %	\$ 141,811	10.00 %
Company	251,194	17.64 %	113,895	8.00 %	131,691	9.25 %	-	- %
Tier one risk based capital								
Republic	176,256	12.43 %	85,087	6.00 %	102,813	7.25 %	113,449	8.00 %
Company	242,936	17.06 %	85,421	6.00 %	103,217	7.25 %	-	- %
CET 1 risk based capital								
Republic	176,256	12.43 %	63,815	4.50 %	81,541	5.75 %	92,177	6.50 %
Company	221,376	15.55 %	64,066	4.50 %	81,862	5.75 %	-	- %
Tier one leveraged capital								
Republic	176,256	8.59 %	82,093	4.00 %	92,355	4.50 %	102,617	5.00 %
Company	242,936	11.80 %	82,394	4.00 %	92,625	4.50 %	-	- %
At December 31, 2016:								
Total risk based capital								
Republic	\$ 179,057	13.93 %	\$ 102,811	8.00 %	\$ 110,843	8.625 %	\$ 128,514	10.00 %
Company	245,043	18.99 %	103,226	8.00 %	111,290	8.625 %	-	- %
Tier one risk based capital								
Republic	169,902	13.22 %	77,108	6.00 %	85,140	6.625 %	102,811	8.00 %
Company	235,888	18.28 %	77,419	6.00 %	85,484	6.625 %	-	- %
CET 1 risk based capital								
Republic	169,902	13.22 %	57,831	4.50 %	65,863	5.125 %	83,534	6.50 %
Company	214,088	16.59 %	58,064	4.50 %	66,129	5.125 %	-	- %
Tier one leveraged capital								
Republic	169,902	9.20 %	73,843	4.00 %	73,843	4.50 %	92,304	5.00 %
Company	235,888	12.74 %	74,073	4.00 %	74,073	4.50 %	-	- %

Dividend Policy

We have not paid any cash dividends on our common stock during 2017, nor do we have any plans to pay cash dividends in 2017. Our ability to pay dividends depends primarily on receipt of dividends from our 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

A financial institution must maintain and manage liquidity to ensure it has the ability to meet its financial obligations. These obligations include the payment of deposits on demand or at their contractual maturity; the repayment of borrowings as they mature; the payment of lease obligations as they become due; the ability to fund new and existing loans and other funding commitments; and the ability to take advantage of new business opportunities. Liquidity needs can be met by either reducing assets or increasing liabilities. Our most liquid assets consist of cash and amounts due from banks.

Regulatory authorities require us 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, we have 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.

Our 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. Our most liquid assets, comprised of cash and cash equivalents on the balance sheet, totaled \$98.8 million at September 30, 2017, compared to \$34.6 million at December 31, 2016. Loan maturities and repayments are another source of asset liquidity. At September 30, 2017, Republic estimated that more than \$90.0 million of loans would mature or repay in the six-month period ending March 31, 2018. Additionally, a significant portion of our investment securities are available to satisfy liquidity requirements through sales on the open market or by pledging as collateral to access credit facilities. At September 30, 2017, we had outstanding commitments (including unused lines of credit and letters of credit) of \$278.0 million. Certificates of deposit scheduled to mature in one year totaled \$73.5 million at September 30, 2017. We anticipate that we will have sufficient funds available to meet all 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 FHLB. We have established a line of credit with the FHLB of Pittsburgh. Our maximum borrowing capacity with the FHLB was \$542.4 million at September 30, 2017. At September 30, 2017 and December 31, 2016, we had no outstanding term borrowings with the FHLB. At September 30, 2017 and December 31, 2016, we had no outstanding short-term borrowings with the FHLB. As of September 30, 2017, FHLB had issued letters of credit, on Republic's behalf, totaling \$75.0 million against our available credit line. We also established a contingency line of credit of \$10.0 million with ACBB to assist in managing our liquidity position. We had no amounts outstanding against the ACBB line of credit at both September 30, 2017 and December 31, 2016.

Investment Securities Portfolio

At September 30, 2017, we identified certain investment securities that were being held for indefinite periods of time, including securities that will be used as part of our 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 our asset/liability management. Our investment securities classified as available-for-sale consist primarily of CMOs, MBSs, municipal securities, corporate bonds, ABSs, and CDOs. Available-for-sale securities totaled \$377.8 million and \$369.7 million as of September 30, 2017 and December 31, 2016, respectively. At September 30, 2017, the portfolio had a net unrealized loss of \$8.0 million and a net unrealized loss of \$10.7 million at December 31, 2016.

Loan Portfolio

Our loan portfolio consists of secured and unsecured commercial loans including commercial real estate loans, construction and land development loans, commercial and industrial loans, owner occupied real estate loans, consumer and other loans, and residential mortgages. 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 \$5.0 million, but customers may borrow significantly larger amounts up to Republic's legal lending limit of approximately \$27.0 million at September 30, 2017. 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, any 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):

	September 30, 2017	December 31, 2016
Loans accruing, but past due 90 days or more	\$ 2,730	\$ 302
Non-accrual loans	11,020	18,594
Total non-performing loans	13,750	18,896
Other real estate owned	9,169	10,174
Total non-performing assets	\$ 22,919	\$ 29,070
Non-performing loans as a percentage of total loans, net of unearned income ⁽¹⁾	1.26%	1.96%
Non-performing assets as a percentage of total assets	1.07%	1.51%

Non-performing asset balances decreased by \$6.2 million to \$22.9 million as of September 30, 2017 from \$29.1 million at December 31, 2016. Non-accrual loans decreased \$7.6 million to \$11.0 million at September 30, 2017,

from \$18.6 million at December 31, 2016. The decrease in non-accrual loans was primarily driven by one loan relationship that was returned to accrual status during the third quarter of 2017. This loan was restructured earlier in the year as a result of a reduction in tenant vacancies in the property held as collateral. Loans accruing, but past due 90 days or more increased to \$2.7 million at September 30, 2017 from \$302,000 at December 31, 2016. At September 30, 2017 and December 31, 2016, all identified impaired loans are internally classified and individually evaluated for impairment in accordance with the guidance under ASC 310.

The following table presents our 30 to 89 days past due loans at September 30, 2017 and December 31, 2016.

	September	December
(dollars in thousands)	30, 2017	31, 2016
30 to 59 days past due	\$ 1,496	\$ 1,060
60 to 89 days past due	35	31
Total loans 30 to 89 days past due	\$ 1,531	\$ 1,091

Other Real Estate Owned

The balance of other real estate owned decreased to \$9.2 million at September 30, 2017 from \$10.2 million at December 31, 2016. The following table presents a reconciliation of other real estate owned for the three months ended September 30, 2017 and the year ended December 31, 2016:

	September	December
(dollars in thousands)	30, 2017	31, 2016
Beginning Balance, January 1 st	\$ 10,174	\$ 11,313
Additions	129	616
Valuation adjustments	(777)	(355)
Dispositions	(357)	(1,400)
Ending Balance	\$ 9,169	\$ 10,174

At September 30, 2017, we 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. We evaluate 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 Receivables. The second component is allocated to all other loans that are not individually identified as impaired. This component is calculated for all non-impaired loans on a collective basis in accordance with ASC 450 Contingencies. The third component is an unallocated allowance to account for a level of imprecision in management's estimation process.

We evaluate 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 determined to be insufficient and unlikely to repay the debt, we then look to the secondary 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. Our 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. Our 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.

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

An analysis of the allowance for loan losses for the nine months ended September 30, 2017 and 2016, and the twelve months ended December 31, 2016 is as follows:

(dollars in thousands)	For the nine months ended September 30, 2017	For the twelve months ended December 31, 2016	For the nine months ended September 30, 2016
Balance at beginning of period	\$9,155	\$8,703	\$8,703
Charge offs:			
Commercial real estate	-	-	-
Construction and land development	-	60	3
Commercial and industrial	1,347	143	18
Owner occupied real estate	157	1,052	954
Consumer and other	12	11	-
Residential mortgage	-	10	-
Total charge offs	1,516	1,276	975
Recoveries:			
Commercial real estate	54	6	6
Construction and land development	-	-	-
Commercial and industrial	64	163	162
Owner occupied real estate	-	-	-
Consumer and other	1	2	-
Residential mortgage	-	-	-
Total recoveries	119	171	168
Net charge offs	1,397	1,105	807
Provision for loan losses	500	1,557	1,557
Balance at end of period	\$8,258	\$9,155	\$9,453
Average loans outstanding ⁽¹⁾	\$1,063,581	\$936,492	\$925,110
As a percent of average loans: ⁽¹⁾			
Net charge offs (annualized)	0.18	% 0.12	% 0.12
Provision for loan losses (annualized)	0.06	% 0.17	% 0.22
Allowance for loan losses	0.78	% 0.98	% 1.02
Allowance for loan losses to:			
Total loans, net of unearned income	0.75	% 0.95	% 1.00
Total non performing loans	60.06	% 48.45	% 48.50

(1)Includes non-accruing loans.

We did not record a provision for loan losses during for the three month period ended September 30, 2017. A provision in the amount of \$500,000 was recorded for the nine month period ended September 30, 2017. We recorded a provision for loan losses of \$607,000 for the three month period ended September 30, 2016 and \$1.6 million for the nine month period ended September 30, 2016. During the first nine months of 2017, there was an increase in the allowance required for loans collectively evaluated for impairment that was driven by an increase in total loans outstanding. During the first nine months of 2016, there was an increase in the allowance required for loans individually evaluated for impairment primarily driven by a single loan relationship that transferred to non-performing

status during the second quarter of 2016. A decrease in the appraised value of the collateral supporting this loan relationship drove the need for an increase in the loan loss provision.

The allowance for loan losses as a percentage of non-performing loans (coverage ratio) was 60.06% at September 30, 2017, compared to 48.45% at December 31, 2016 and 48.50% at September 30, 2016. The increase in this ratio at September 30, 2017 was primarily driven by the reduction in non-performing loan balances during the third quarter of 2017. Total non-performing loans were \$13.8 million, \$18.9 million and \$19.5 million at September 30, 2017, December 31, 2016 and September 30, 2016, respectively.

Management makes at least a quarterly determination as to an appropriate provision from earnings to maintain an allowance for loan losses that it determines is adequate to absorb inherent losses in the loan portfolio. The Board of Directors periodically reviews the status of all non-accrual and impaired loans and loans classified by the management team. The Board of Directors also considers specific loans, pools of similar loans, historical charge-off activity, economic conditions and other relevant factors in reviewing the adequacy of the allowance for loan losses. Any additions deemed necessary to the allowance for loan losses are charged to operating expenses.

We evaluate loans for impairment and potential charge-offs on a quarterly basis. Any loan rated as substandard or lower will have a collateral evaluation analysis completed in accordance with the guidance under generally accepted accounting principles (GAAP) on impaired loans to determine if a deficiency exists. 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. We recorded net charge-offs of \$1.4 million during the nine month period ended September 30, 2017, compared to net charge-offs of \$807,000 during the nine month period ended September 30, 2016. The increase in charge-offs in 2017 was primarily due to a single loan relationship which initially defaulted in 2010 and has resulted in a significant charge-off in the third quarter of 2017. 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 \$1.4 million at September 30, 2017 and \$2.4 million at December 31, 2016.

The following table provides additional analysis of partially charged-off loans at September 30, 2017 and December 31, 2016.

(dollars in thousands)	September 30, 2017	December 31, 2016		
Total nonperforming loans	\$ 13,750	\$ 18,896		
Nonperforming and impaired loans with partial charge-offs	1,432	2,394		
Ratio of nonperforming loans with partial charge-offs to total loans	0.13	%	0.25	%
Ratio of nonperforming loans with partial charge-offs to total nonperforming loans	10.41	%	12.67	%
Coverage ratio net of nonperforming loans with partial charge-offs	576.68	%	382.41	%

Our charge-off policy is reviewed on an annual basis and updated as necessary. During the nine month period ended September 30, 2017, there were no changes made to this policy.

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 our 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, 2016 filed with the SEC on March 10, 2017.

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 September 30, 2017 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 September 30, 2017.

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, 2016 and Form 10-Q for the quarter ended June 30, 2017. 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.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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 10-K filed March 10, 2017
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 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 September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016, (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2017 and 2016, (iii) Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2017 and 2016, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016, (v) Consolidated Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2017 and 2016, 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: November 3, 2017 By: /s/ Harry D. Madonna
Harry D. Madonna
President and Chief Executive Officer
(principal executive officer)

Date: November 3, 2017 By: /s/ Frank A. Cavallaro
Frank A. Cavallaro
Executive Vice President and Chief Financial Officer
(principal financial and accounting officer)