REPUBLIC FIRST BANCORP INC
Form 10-Q
November 07, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2016.
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 [X] NO [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [X] NO [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [X]
Non-Accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES [ ] NO [X]
APPLICABLE ONLY TO CORPORATE ISSUERS
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value $0.01 per share	37,917,378
Title of Class	Number of Shares Outstanding as of November 4, 2016

REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARIES
TABLE OF CONTENTS

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
September 30, 2016 and December 31, 2015
(Dollars in thousands, except per share data)
(unaudited)

	September 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$23,061	$13,777
Interest bearing deposits with banks	126,980	13,362
Cash and cash equivalents	150,041	27,139
Investment securities available for sale, at fair value	299,385	284,795
Investment securities held to maturity, at amortized cost (fair value of $223,247 and $171,845, respectively)	220,470	172,277
Restricted stock, at cost	1,366	3,059
Loans held for sale	29,715	3,653
Loans receivable (net of allowance for loan losses of $9,453 and $8,703, respectively)	936,088	866,066
Premises and equipment, net	55,573	46,164
Other real estate owned, net	10,271	11,313
Accrued interest receivable	4,588	4,216
Goodwill	4,892	-
Intangible asset	87	-
Other assets	21,986	20,761
Total Assets	$1,734,462	$1,439,443
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand – non-interest bearing	$302,372	$243,695
Demand – interest bearing	587,197	381,499
Money market and savings	583,536	556,526
Time deposits	109,127	67,578
Total Deposits	1,582,232	1,249,298
Short-term borrowings	-	47,000
Accrued interest payable	339	245
Other liabilities	9,763	7,049
Subordinated debt	22,476	22,476
Total Liabilities	1,614,810	1,326,068
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 38,446,223 as of September 30, 2016 and 38,365,848 as of December 31, 2015; shares outstanding 37,917,378 as of September 30, 2016 and 37,837,003 as of December 31, 2015	384	384
Additional paid in capital	153,887	152,897
Accumulated deficit	(29,385)	(32,833)
Treasury stock at cost (503,408 shares as of September 30, 2016 and December 31, 2015)	(3,725)	(3,725)
Stock held by deferred compensation plan (25,437 shares as of September 30, 2016 and	(183)	(183)

December 31, 2015)		
Accumulated other comprehensive loss	(1,326)	(3,165)
Total Shareholders' Equity	119,652	113,375
Total Liabilities and Shareholders' Equity	$1,734,462	$1,439,443

(See notes to consolidated financial statements)

- 1 -

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Income
For the Three and Nine Months Ended September 30, 2016 and 2015
(Dollars in thousands, except per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest income:				
Interest and fees on taxable loans	$10,446	$9,518	$30,259	$27,611
Interest and fees on tax-exempt loans	261	130	702	384
Interest and dividends on taxable investment securities	2,591	1,509	7,805	4,396
Interest and dividends on tax-exempt investment securities	173	153	526	416
Interest on federal funds sold and other interest-earning assets	149	60	299	223
Total interest income	13,620	11,370	39,591	33,030
Interest expense:				
Demand- interest bearing	553	378	1,471	1,009
Money market and savings	677	538	1,923	1,592
Time deposits	301	183	625	528
Other borrowings	303	279	898	833
Total interest expense	1,834	1,378	4,917	3,962
Net interest income	11,786	9,992	34,674	29,068
Provision for loan losses	607	-	1,557	-
Net interest income after provision for loan losses	11,179	9,992	33,117	29,068
Non-interest income:				
Loan advisory and servicing fees	218	163	1,018	1,087
Gain on sales of loans	4,413	884	6,995	2,684
Service fees on deposit accounts	686	452	1,910	1,213
Gain on sale of investment securities	2	64	656	73
Other-than-temporary impairment	(12)	-	(39)	(13)
Portion recognized in other comprehensive income (before taxes)	10	-	32	10
Net impairment loss on investment securities	(2)	-	(7)	(3)
Other non-interest income	94	41	282	149
Total non-interest income	5,411	1,604	10,854	5,203
Non-interest expenses:				
Salaries and employee benefits	7,731	5,730	20,334	16,667
Occupancy	1,535	1,240	4,387	3,624
Depreciation and amortization	1,051	671	2,816	2,126
Legal	158	52	312	631
Other real estate owned	702	425	1,610	1,173
Advertising	218	233	537	475
Data processing	669	408	1,711	1,133
Insurance	262	162	656	532
Professional fees	352	293	1,167	968
Regulatory assessments and costs	296	318	1,011	911
Taxes, other	243	169	495	594
Other operating expenses	2,065	1,323	5,556	3,811
Total non-interest expense	15,282	11,024	40,592	32,645

Income before benefit for income taxes	1,308	572	3,379	1,626
Benefit for income taxes	(32)	(10)	(69)	(17)
Net income	$1,340	$582	$3,448	$1,643
Net income per share:				
Basic	$0.04	$0.02	$0.09	$0.04
Diluted	$0.03	$0.02	$0.09	$0.04

(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, 2016 and 2015
(Dollars in thousands)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$1,340	$582	$3,448	$1,643
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on securities (pre-tax $(1,082), $490, $3,386, and $(718), respectively)	(693)	314	2,170	(460)
Reclassification adjustment for securities gains (pre-tax $(2), $(64), $(656), and $(73), respectively)	(1)	(41)	(420)	(47)
Reclassification adjustment for impairment charge (pre-tax $2, $-, $7, and $3, respectively)	1	-	4	2
Net unrealized gains (losses) on securities	(693)	273	1,754	(505)
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 $38, $25, $133, and $128, respectively)	24	16	85	82
Total other comprehensive income (loss)	(669)	289	1,839	(423)
Total comprehensive income	$671	$871	$5,287	$1,220

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2016 and 2015
(Dollars in thousands)
(unaudited)

	Nine Months Ended September 30, 2016	2015
Cash flows from operating activities		
Net income	$3,448	$1,643
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,557	-
Write down of other real estate owned	521	298
Depreciation and amortization	2,816	2,126
Stock based compensation	562	441
Gain on sale of investment securities	(656)	(73)
Impairment charges on investment securities	7	3
Amortization of premiums on investment securities	1,172	635
Accretion of discounts on retained SBA loans	(1,057)	(754)
Fair value adjustments on SBA servicing assets	894	597
Proceeds from sales of SBA loans originated for sale	48,031	27,999
SBA loans originated for sale	(43,016)	(24,128)
Gains on sales of SBA loans originated for sale	(4,212)	(2,684)
Proceeds from sales of mortgage loans originated for sale	79,029	-
Mortgage loans originated for sale	(82,240)	-
Gains on sales of mortgage loans originated for sale	(2,783)	-
Amortization of intangible assets	17	-
Increase in accrued interest receivable and other assets	(704)	(3,302)
Decrease in accrued interest payable and other liabilities	(396)	(712)
Net cash provided by operating activities	2,990	2,089
Cash flows from investing activities		
Purchase of investment securities available for sale	(117,812)	(57,807)
Purchase of investment securities held to maturity	(69,792)	(85,246)
Proceeds from the sale of securities available for sale	78,582	6,672
Proceeds from the paydowns, maturity, or call of securities available for sale	26,295	26,397
Proceeds from the paydowns, maturity, or call of securities held to maturity	21,106	12,768
Redemption (purchase) of restricted stock	1,693	(22)
Net increase in loans	(70,006)	(77,027)
Net proceeds from sale of other real estate owned	1,387	792
Net cash paid in acquisition	(5,913)	-
Premises and equipment expenditures	(12,122)	(12,190)
Net cash used in investing activities	(146,582)	(185,663)
Cash flows from financing activities		
Net proceeds from exercise of stock options	226	1
Net increase in demand, money market and savings deposits	291,385	165,565
Net increase (decrease) in time deposits	41,549	(299)
Decrease in short-term borrowings	(66,666)	-
Net cash provided by financing activities	266,494	165,267

Net increase (decrease) in cash and cash equivalents	122,902	(18,307)
Cash and cash equivalents, beginning of year	27,139	128,826
Cash and cash equivalents, end of period	$150,041	$110,519
Supplemental disclosures		
Interest paid	$5,011	$3,944
Income taxes paid	$90	$-
Non-cash transfers from loans to other real estate owned	$616	$11,148

(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, 2016 and 2015
(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, 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
Balance January 1, 2015	$ 383	$ 152,234	$ (35,266)	$ (3,725)	$ (183)	$ (632)	$ 112,811
Net income			1,643				1,643
Other comprehensive loss, net of tax						(423)	(423)
Stock based compensation		441					441
Options exercised (500 shares)		1					1
Balance September 30, 2015	$ 383	$ 152,676	$ (33,623)	$ (3,725)	$ (183)	$ (1,055)	$ 114,473

(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 26, 2016, Republic entered into a purchase agreement with the owners of Oak Mortgage Company LLC ("Oak Mortgage"), pursuant to which the owners agreed to sell to Republic all of the issued and outstanding limited liability company interests of Oak Mortgage. The transaction closed on July 28, 2016, 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, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.
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.

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.

Loans held for sale originated on or subsequent to the election of the fair value option, are recorded on the balance sheet 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

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 as other liabilities with changes in their fair values recorded as a gain or loss in hedging instruments in non-interest income and non-interest expense 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. 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), the value of assets acquired and liabilities assumed in business combinations, 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.

- 7 -

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 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, 2016, 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, 2016, the maximum number of shares of common shares issuable under the 2014 Plan was 4.0 million. During the nine months ended September 30, 2016, 653,250 options were granted under the 2014 Plan with a weighted average grant date fair value of $1,174,320.

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 2016 and 2015 are as follows:

	2016	2015
Dividend yield[(1)]	0.0%	0.0%
Expected volatility[(2)]	46.38% to 52.54%	53.78% to 56.00%
Risk-free interest rate[(3)]	1.23% to 1.82%	1.49% to 2.00%
Expected life[(4)]	5.5 to 7.0 years	5.5 to 7.0 years
Assumed forfeiture rate	10.0%	19.0%

(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, 2016 and 2015, 487,550 options and 349,062 options vested, respectively. Expense is recognized ratably over the period required to vest. At September 30, 2016, the intrinsic value of the 2,480,550 options outstanding was $1,652,149, while the intrinsic value of the 1,164,074 exercisable (vested) options was $1,081,116. 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. During the nine months ended September 30, 2015, 500 options were exercised with cash received of $1,345 and 16,369 options were forfeited with a weighted average grant date fair value of $21,331.

Information regarding stock based compensation for the nine months ended September 30, 2016 and 2015 is set forth below:

	September 30, 2016	September 30, 2015
Stock based compensation expense recognized	$764,000	$441,000
Number of unvested stock options	1,316,476	1,185,151
Fair value of unvested stock options	$2,608,986	$1,908,205
Amount remaining to be recognized as expense	$1,284,071	$1,034,337

The remaining amount of $1,284,071 will be recognized as expense through February 2020.

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, 2016 and 2015, 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.

- 9 -

The calculation of EPS for the three and nine months ended September 30, 2016 and 2015 is as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (basic and diluted)	$1,340	$582	$3,448	$1,643
Weighted average shares outstanding	37,916	37,816	37,879	37,816
Net income per share – basic	$0.04	$0.02	$0.09	$0.04
Weighted average shares outstanding (including dilutive CSEs)	38,375	38,064	38,355	38,052
Net income per share – diluted	$0.03	$0.02	$0.09	$0.04

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,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Anti-dilutive securities				
Share based compensation awards	2,022	1,735	2,005	1,747
Convertible securities	1,662	1,662	1,662	1,662
Total anti-dilutive securities	3,684	3,397	3,667	3,409

Recent Accounting Pronouncements

ASU 2014-04

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

ASU 2014-09

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

ASU 2014-14

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

ASU 2015-14

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: 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 Company does not expect this ASU to have a significant impact on its financial condition or results of operations.

ASU 2015-16

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the guidance in this ASU eliminates the requirement to retrospectively account for those adjustments and requires an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The guidance in this ASU was effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years and should be applied prospectively to adjustment to provisional amounts that occur after the effective date of this ASU. The adoption of this ASU did not have an impact on the Company's financial condition or results of operations.

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 does not expect the adoption of this ASU 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 lessee'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 lessor's 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. The Company is currently evaluating the impact of the pending adoption of the new standard on its 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 will be effective January 1, 2017 and is not expected to have a significant impact on our financial statements.

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 any impact 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 residential mortgage and other 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, 2016 and December 31, 2015 is as follows:

	At September 30, 2016			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	$199,622	$ 1,414	$ (640)	$200,396
Agency mortgage-backed securities	11,632	73	(19)	11,686
Municipal securities	23,383	1,067	(8)	24,442
Corporate bonds	46,737	32	(1,341)	45,428
Asset-backed securities	16,183	-	(466)	15,717
Trust preferred securities	3,063	-	(1,372)	1,691
Other securities	25	-	-	25
Total securities available for sale	$300,645	$ 2,586	$ (3,846)	$299,385
U.S. Government agencies	$28,468	$ 310	$ (58)	$28,720
Collateralized mortgage obligations	155,098	2,396	(219)	157,275
Agency mortgage-backed securities	35,884	348	-	36,232
Other securities	1,020	-	-	1,020
Total securities held to maturity	$220,470	$ 3,054	$ (277)	$223,247

	At December 31, 2015			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	$180,795	$ 523	$ (3,173)	$178,145
Agency mortgage-backed securities	10,073	176	(78)	10,171
Municipal securities	22,814	562	(32)	23,344
Corporate bonds	54,294	135	(300)	54,129
Asset-backed securities	17,631	-	(626)	17,005
Trust preferred securities	3,070	-	(1,187)	1,883
Other securities	115	3	-	118
Total securities available for sale	$288,792	$ 1,399	$ (5,396)	$284,795
U.S. Government agencies	$17,067	$ 39	$ (72)	$17,034
Collateralized mortgage obligations	146,458	402	(780)	146,080
Agency mortgage-backed securities	7,732	-	(21)	7,711
Other securities	1,020	-	-	1,020
Total securities held to maturity	$172,277	$ 441	$ (873)	$171,845

The following table presents investment securities by stated maturity at September 30, 2016. 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.

	Available for Sale		Held to Maturity	
	Amortized	Fair	Amortized	Fair
(dollars in thousands)	Cost	Value	Cost	Value
Due in 1 year or less	$675	$677	$-	$-
After 1 year to 5 years	12,096	12,260	4,651	4,640
After 5 years to 10 years	53,126	51,671	24,837	25,100
After 10 years	23,494	22,695	-	-
Collateralized mortgage obligations	199,622	200,396	155,098	157,275
Agency mortgage-backed securities	11,632	11,686	35,884	36,232
Total	$300,645	$299,385	$220,470	$223,247

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, 2016 and December 31, 2015. 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.

Impairment charges (credit losses) on trust preferred securities for the three month period ended September 30, 2016 amounted to $2,000. No impairment charges were incurred on trust preferred securities during the three month period September 30, 2015. Impairment charges on trust preferred securities for the nine month period ended September 30, 2016 and 2015 amounted to $7,000 and $3,000, respectively.

The following table presents a roll-forward of the balance of credit-related impairment losses on securities held for the three and nine months ended September 30, 2016 and 2015 for which a portion of OTTI was recognized in other comprehensive income:

(dollars in thousands)	Three Months Ended September 30, 2016	2015
Beginning Balance, July 1st	$935	$1,400
Additional credit-related impairment loss on securities for which an other-than-temporary impairment was previously recognized	2	-
Reductions for securities paid off during the period	-	-
Reductions for securities sold during the period	-	(470)
Reductions for securities for which the amount previously recognized in other comprehensive income was recognized in earnings because the Company intends to sell the security	-	-
Ending Balance, September 30th	$937	$930

Nine
Months
Ended
September
30,