

REPUBLIC FIRST BANCORP INC  
Form 10-Q  
August 06, 2014

---

---

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2014.

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 (Sec.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was

required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common Stock, par value	37,815,003
\$0.01 per share	
Title of Class	Number of Shares Outstanding as of August 5, 2014

REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARIES  
TABLE OF CONTENTS

Part I: Financial Information	Page
Item 1.	Financial Statements
	Consolidated balance sheets as of June 30, 2014 and December 31, 2013 (unaudited) 1
	Consolidated statements of income for the three and six months ended June 30, 2014 and 2013 (unaudited) 2
	Consolidated statements of comprehensive income (loss) for the three and six months ended June 30, 2014 and 2013 (unaudited) 3
	Consolidated statements of cash flows for the six months ended June 30, 2014 and 2013 (unaudited) 4
	Consolidated statements of changes in shareholders' equity for the six months ended June 30, 2014 and 2013 (unaudited) 5
	Notes to consolidated financial statements (unaudited) 6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations 30
Item 3.	Quantitative and Qualitative Disclosures about Market Risk 47
Item 4.	Controls and Procedures 47
Part II: Other Information	
Item 1.	Legal Proceedings 48
Item 1A.	Risk Factors 48
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds 49
Item 3.	Defaults Upon Senior Securities 49
Item 4.	Mine Safety Disclosures 49
Item 5.	Other Information 49
Item 6.	Exhibits 50
Signatures	51



Republic First Bancorp, Inc. and Subsidiaries  
Consolidated Balance Sheets  
June 30, 2014 and December 31, 2013  
(Dollars in thousands, except per share data)  
(unaudited)

	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
Cash and due from banks	\$ 17,070	\$ 12,525
Interest bearing deposits with banks	66,050	23,355
Cash and cash equivalents	83,120	35,880
Investment securities available for sale, at fair value	219,634	204,891
Investment securities held to maturity, at amortized cost (fair value of \$21 and \$21, respectively)	21	21
Restricted stock, at cost	1,725	1,570
Loans held for sale	491	4,931
Loans receivable (net of allowance for loan losses of \$12,063 and \$12,263, respectively)	706,806	667,048
Premises and equipment, net	29,041	22,748
Other real estate owned, net	3,637	4,059
Accrued interest receivable	3,104	3,049
Other assets	17,555	17,468
<b>Total Assets</b>	<b>\$ 1,065,134</b>	<b>\$ 961,665</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
<b>Deposits</b>		
Demand – non-interest bearing	\$ 199,553	\$ 157,806
Demand – interest bearing	212,710	230,221
Money market and savings	431,612	402,671
Time deposits	80,809	78,836
<b>Total Deposits</b>	<b>924,684</b>	<b>869,534</b>
Accrued interest payable	292	237
Other liabilities	6,259	6,519
Subordinated debt	22,476	22,476
<b>Total Liabilities</b>	<b>953,711</b>	<b>898,766</b>
<b>Shareholders' Equity</b>		
Preferred stock, par value \$0.01 per share: 10,000,000 shares authorized; no shares issued	-	-
Common stock, par value \$0.01 per share: 50,000,000 shares authorized; shares issued 38,343,848 as of June 30, 2014 and 26,501,742 as of December 31, 2013	383	265
Additional paid in capital	152,131	107,078
Accumulated deficit	(36,416)	(37,708)
Treasury stock at cost (416,303 shares)	(3,099)	(3,099)
Stock held by deferred compensation plan (112,542 shares)	(809)	(809)

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

Accumulated other comprehensive loss	(767)	(2,828)
Total Shareholders' Equity	111,423	62,899
Total Liabilities and Shareholders' Equity	\$ 1,065,134	\$ 961,665

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries  
Consolidated Statements of Income  
For the Three and Six Months Ended June 30, 2014 and 2013  
(Dollars in thousands, except per share data)  
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income:				
Interest and fees on taxable loans	\$ 8,226	\$ 7,991	\$ 16,467	\$ 15,828
Interest and fees on tax-exempt loans	84	89	166	180
Interest and dividends on taxable investment securities	1,188	1,043	2,429	2,090
Interest and dividends on tax-exempt investment securities	83	48	162	121
Interest on federal funds sold and other interest-earning assets	50	44	62	103
Total interest income	9,631	9,215	19,286	18,322
Interest expense:				
Demand- interest bearing	225	207	416	402
Money market and savings	467	428	883	930
Time deposits	178	204	351	483
Other borrowings	277	278	553	556
Total interest expense	1,147	1,117	2,203	2,371
Net interest income	8,484	8,098	17,083	15,951
Provision for loan losses	300	925	300	925
Net interest income after provision for loan losses	8,184	7,173	16,783	15,026
Non-interest income:				
Loan advisory and servicing fees	466	436	903	774
Gain on sales of SBA loans	1,046	2,107	2,200	2,757
Service fees on deposit accounts	287	265	580	499
Legal settlements	-	-	-	238
Gain on sale of investment securities	458	-	458	703
Other-than-temporary impairment	21	-	21	-
Portion recognized in other comprehensive income (before taxes)	(28 )	-	(28 )	-
Net impairment loss on investment securities	(7 )	-	(7 )	-
Bank owned life insurance income	-	-	-	13
Other non-interest income	39	62	85	129
Total non-interest income	2,289	2,870	4,219	5,113
Non-interest expenses:				
Salaries and employee benefits	4,828	4,503	9,868	8,790
Occupancy	1,027	876	2,065	1,720
Depreciation and amortization	571	472	1,069	955
Legal	444	503	699	867
Other real estate owned	340	109	686	1,026
Advertising	214	117	362	218

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

Data processing	354	307	654	415
Insurance	122	153	279	311
Professional fees	428	359	830	682
Regulatory assessments and costs	196	241	533	585
Taxes, other	234	253	449	503
Other operating expenses	1,199	1,163	2,278	2,114
Total non-interest expense	9,957	9,056	19,772	18,186
Income before benefit for income taxes	516	987	1,230	1,953
Benefit for income taxes	(21 )	(24 )	(62 )	(50 )
Net income	\$ 537	\$ 1,011	\$ 1,292	\$ 2,003
Net income per share:				
Basic	\$ 0.02	\$ 0.04	\$ 0.04	\$ 0.08
Diluted	\$ 0.02	\$ 0.04	\$ 0.04	\$ 0.08

(See notes to consolidated financial statements)



Republic First Bancorp, Inc. and Subsidiaries  
Consolidated Statements of Comprehensive Income (Loss)  
For the Three and Six Months Ended June 30, 2014 and 2013  
(Dollars in thousands)  
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	\$ 537	\$ 1,011	\$ 1,292	\$ 2,003
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on securities (pre-tax \$1,610, \$(3,504), \$3,666, and \$(3,498), respectively)	1,032	(2,246 )	2,350	(2,242 )
Reclassification adjustment for securities gains (pre-tax \$458, \$-, \$458, and \$703, respectively)	(293 )	-	(293 )	(450 )
Reclassification adjustment for impairment charge (pre-tax \$7, \$-, \$7, and \$-, respectively)	4	-	4	-
Total other comprehensive income (loss)	743	(2,246 )	2,061	(2,692 )
Total comprehensive income (loss)	\$ 1,280	\$ (1,235 )	\$ 3,353	\$ (689 )

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
For the Six Months Ended June 30, 2014 and 2013  
(Dollars in thousands)  
(unaudited)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities		
Net income	\$1,292	\$2,003
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	300	925
Gain on sale of other real estate owned	-	(229 )
Write down of other real estate owned	552	809
Depreciation and amortization	1,069	955
Stock based compensation	198	155
Gain on sale and call of investment securities	(458 )	(703 )
Impairment charges on investment securities	7	-
Amortization of premiums on investment securities	293	380
Proceeds from sales of SBA loans originated for sale	23,370	27,410
SBA loans originated for sale	(16,730 )	(24,853 )
Gains on sales of SBA loans originated for sale	(2,200 )	(2,757 )
Increase in value of bank owned life insurance	-	(13 )
Increase in accrued interest receivable and other assets	(1,295 )	(416 )
Decrease in accrued interest payable and other liabilities	(205 )	(109 )
Net cash provided by operating activities	6,193	3,557
Cash flows from investing activities		
Purchase of investment securities available for sale	(31,364 )	(25,289 )
Proceeds from the sale of securities available for sale	5,700	7,946
Proceeds from the maturity or call of securities available for sale	14,293	18,352
Net (purchase) redemption of restricted stock	(155 )	1,490
Net increase in loans	(40,251 )	(21,213 )
Net proceeds from sale of other real estate owned	63	1,994
Surrender proceeds on bank owned life insurance	-	10,503
Premises and equipment expenditures	(7,362 )	(211 )
Net cash used in investing activities	(59,076 )	(6,428 )
Cash flows from financing activities		
Net proceeds from stock offering	44,973	-
Net increase (decrease) in demand, money market and savings deposits	53,177	(33,325 )
Net increase (decrease) in time deposits	1,973	(35,024 )
Net cash provided by (used in) financing activities	100,123	(68,349 )
Net increase (decrease) in cash and cash equivalents	47,240	(71,220 )
Cash and cash equivalents, beginning of year	35,880	128,004
Cash and cash equivalents, end of period	\$83,120	\$56,784

Supplemental disclosures:

Interest paid	\$2,148	\$2,150
Income taxes paid	\$70	\$175
Non-cash transfers from loans to other real estate owned	\$193	\$246

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries  
Consolidated Statements of Changes in Shareholders' Equity  
For the Six Months Ended June 30, 2014 and 2013  
(Dollars in thousands)  
(unaudited)

	Common Stock	Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance							
January 1, 2014	\$265	\$107,078	\$(37,708)	\$(3,099)	\$(809)	\$(2,828)	\$62,899
Net income			1,292				1,292
Other comprehensive income, net of tax						2,061	2,061
Proceeds from shares issued under common stock offering (11,842,106 shares) net of offering costs (pre-tax \$27)	118	44,855					44,973
Stock based compensation		198					198
Balance June 30, 2014	\$383	\$152,131	\$(36,416)	\$(3,099)	\$(809)	\$(767)	\$111,423
Balance							
January 1, 2013	\$265	\$106,753	\$(34,228)	\$(3,099)	\$(809)	\$1,020	\$69,902
Net income			2,003				2,003
Other comprehensive loss, net of tax						(2,692)	(2,692)
Stock based compensation		155					155
	\$265	\$106,908	\$(32,225)	\$(3,099)	\$(809)	\$(1,672)	\$69,368

Balance June  
30, 2013

(See notes to consolidated financial statements)

5

---

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

Note 1: Basis of Presentation

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

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

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to United States Securities and Exchange Commission (“SEC”) Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for financial statements for a complete fiscal year. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements. The Company has evaluated subsequent events through the date of issuance of the financial data included herein.

Note 2: Summary of Significant Accounting Policies

Risks and Uncertainties

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

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



## Use of Estimates

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

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

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

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

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

## Stock-Based Compensation

The Company has a Stock Option and Restricted Stock Plan (“Plan”), under which the Company may grant options, restricted stock or stock appreciation rights to the Company’s employees, directors, and certain consultants. The 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 Plan, 1.5 million shares of common stock, plus an annual increase equal to the number of shares needed to restore the maximum number of shares that may be available for grant under the Plan to



1.5 million shares, are available for such grants. As of June 30, 2014, the only grants under the Plan have been option grants. The Plan provides that the exercise price of each option granted equals the market price of the Company's stock on the date of the grant. Options granted pursuant to the Plan vest within one to four years and have a maximum term of 10 years.

On April 29, 2014 the Company's shareholders approved the 2014 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.

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 2014 and 2013 are as follows:

	2014	2013
Dividend yield(1)	0.0%	0.0%
Expected volatility(2)	55.79% to 57.99%	54.88% to 55.08%
Risk-free interest rate(3)	1.51% to 2.13%	1.28% to 2.02%
Expected life(4)	5.5 to 7.0 years	7.0 years

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

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

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

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

During the six months ended June 30, 2014 and 2013, 198,825 options and 109,787 options vested, respectively. Expense is recognized ratably over the period required to vest. At June 30, 2014, the intrinsic value of the 1,501,149 options outstanding was \$2,635,473, while the intrinsic value of the 446,136 exercisable (vested) options was \$408,949. During the six months ended June 30, 2014, 68,781 options were forfeited with a weighted average grant date fair value of \$21,091.

Information regarding stock based compensation for the six months ended June 30, 2014 and 2013 is set forth below:

	2014	2013
Stock based compensation expense recognized	\$ 198,000	\$ 155,000
Number of unvested stock options	1,055,013	911,563
Fair value of unvested stock options	\$ 1,545,988	\$ 1,245,470
Amount remaining to be recognized as expense	\$ 910,590	\$ 687,636

The remaining amount of \$910,590 will be recognized as expense through February 2018.

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 Plan and 2014 Plan and convertible securities related to the trust preferred securities issued in 2008. In the diluted EPS computation, the after tax interest expense on the trust preferred securities issuance is added back to the net income. For the three and six months ended June 30, 2014 and 2013, 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 calculation.

The calculation of EPS for the three and six months ended June 30, 2014 and 2013 is as follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (basic and diluted)	\$537	\$ 1,011	\$1,292	\$ 2,003
Weighted average shares outstanding	35,157	25,973	30,590	25,973
Net income per share – basic	\$0.02	\$ 0.04	\$0.04	\$ 0.08
Weighted average shares outstanding (including dilutive CSEs)	35,609	26,103	30,932	26,062
Net income per share – diluted	\$0.02	\$ 0.04	\$0.04	\$ 0.08

#### Recent Accounting Pronouncements

##### ASU 2014-04

In January 2014, the FASB issued ASU 2014-04, “Receivables – Troubled Debt Restructuring by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure – a consensus of the FASB Emerging Issues Task Force.” The guidance clarifies when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate property recognized. For public business entities, the ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the ASU is effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. The Company does not believe the adoption of the amendment to this guidance will have a material impact on the 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 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, this update will be effective for interim and annual periods beginning after December 15, 2016. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance to have a material impact on the Company’s consolidated financial statements.

#### Note 3: Legal Proceedings

The Company and Republic are from time to time parties (plaintiff or defendant) to lawsuits in the normal course of business. While any litigation involves an element of uncertainty, management is of the opinion that the liability of

the Company and Republic, if any, resulting from such actions will not have a material effect on the financial condition or results of operations of the Company and Republic.

## Note 4: Segment Reporting

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

## Note 5: Investment Securities

A summary of the amortized cost and market value of securities available for sale and securities held to maturity at June 30, 2014 and December 31, 2013 is as follows:

(dollars in thousands)	At June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	\$144,452	\$1,106	\$(1,835)	\$143,723
Mortgage-backed securities	13,608	631	(39)	14,200
Municipal securities	11,754	241	(51)	11,944
Corporate bonds	26,905	713	-	27,618
Asset-backed securities	18,727	320	-	19,047
Trust preferred securities	5,270	-	(2,293)	2,977
Other securities	115	10	-	125
Total securities available for sale	\$220,831	\$3,021	\$(4,218)	\$219,634
U.S. Government agencies	\$1	\$-	\$-	\$1
Other securities	20	-	-	20
Total securities held to maturity	\$21	\$-	\$-	\$21

(dollars in thousands)	At December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	\$127,242	\$665	\$(4,467)	\$123,440
Mortgage-backed securities	15,669	623	(111)	16,181
Municipal securities	9,737	68	(162)	9,643
Corporate bonds	32,174	1,079	-	33,253
Asset-backed securities	19,089	318	-	19,407
Trust preferred securities	5,277	-	(2,427)	2,850
Other securities	115	2	-	117
Total securities available for sale	\$209,303	\$2,755	\$(7,167)	\$204,891
U.S. Government agencies	\$1	\$-	\$-	\$1
Other securities	20	-	-	20
Total securities held to maturity	\$21	\$-	\$-	\$21



The maturity distribution of the amortized cost and estimated market value of investment securities by contractual maturity at June 30, 2014 is as follows:

(dollars in thousands)	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 1 year or less	\$6,216	\$6,304	\$-	\$-
After 1 year to 5 years	99,871	99,886	21	21
After 5 years to 10 years	104,453	102,885	-	-
After 10 years	10,291	10,559	-	-
Total	\$220,831	\$219,634	\$21	\$21

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

As of June 30, 2014 and December 31, 2013, the collateralized mortgage obligations and mortgage backed securities included in the investment securities portfolio consist solely of securities issued by U.S. government sponsored agencies. There were no private label mortgage securities held in the investment securities portfolio as of those dates. The Company did not hold any mortgage-backed securities that were rated "Alt-A" or "Subprime" as of June 30, 2014 and December 31, 2013. In addition, the Company did not hold any private issued CMO's as of June 30, 2014 and December 31, 2013. As of June 30, 2014 and December 31, 2013, the asset-backed securities consisted solely of Sallie Mae bonds collateralized by student loans which are guaranteed by the U.S. Department of Education.

In instances when a determination is made that an other-than-temporary impairment exists with respect to a debt security but the investor does not intend to sell the debt security and it is more likely than not that the investor will not be required to sell the debt security prior to its anticipated recovery, accounting standards require the other-than-temporary impairment to be separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income. Impairment charges (credit losses) on trust preferred securities for both the three and six month periods ended June 30, 2014 amounted to \$7,000. There were no impairment charges (credit losses) on trust preferred securities for the three and six months ended June 30, 2013.

The following table presents a roll-forward of the balance of credit-related impairment losses on securities held at June 30, 2014 and 2013 for which a portion of OTTI was recognized in other comprehensive income:

(dollars in thousands)	2014	2013
Beginning Balance, January 1st	\$3,959	\$3,959
Additional credit-related impairment loss on securities for which an other-than-temporary impairment was previously recognized	7	-
Reductions for securities paid off during the period	-	-
Reductions for securities for which the amount previously recognized in other comprehensive income was recognized in earnings because the Company intends to sell the security	-	-
Ending Balance, June 30th	\$3,966	\$3,959





The Company realized gross gains on the sale of securities of \$458,000 during the three and six months ended June 30, 2014. The related sale proceeds amounted to \$5.7 million. The tax provision applicable to these gross gains in 2014 amounted to approximately \$165,000. The Company realized gross gains on the sale of securities of \$703,000 during the six months ended June 30, 2013. The related sale proceeds amounted to \$7.9 million. The tax provision applicable to these gross gains in 2013 amounted to approximately \$253,000.

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:

(dollars in thousands)	At June 30, 2014					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized mortgage obligations	\$16,811	\$71	\$50,670	\$1,764	\$67,481	\$1,835
Mortgage-backed securities	-	-	1,106	39	1,106	39
Municipal securities	-	-	1,374	51	1,374	51
Trust preferred securities	-	-	2,977	2,293	2,977	2,293
Total	\$16,811	\$71	\$56,127	\$4,147	\$72,938	\$4,218

(dollars in thousands)	At December 31, 2013					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized mortgage obligations	\$73,137	\$3,923	\$8,697	\$544	\$81,834	\$4,467
Mortgage-backed securities	1,450	41	1,123	70	2,573	111
Municipal Securities	5,108	162	-	-	5,108	162
Trust preferred securities	-	-	2,850	2,427	2,850	2,427
Total	\$79,695	\$4,126	\$12,670	\$3,041	\$92,365	\$7,167

The impairment of the investment portfolio amounted to \$4.2 million on securities with a total fair value of \$72.9 million at June 30, 2014. The most significant components of this impairment are related to the collateralized mortgage obligations and the trust preferred securities held in the portfolio. The unrealized losses on the CMO's are primarily related to the recent movement in market interest rates rather than the underlying credit quality of the issuers. The Company does not currently intend to sell these securities prior to their maturity or the recovery of their cost bases and does not believe it will be forced to sell these securities prior to maturity or recovering the cost bases.

At June 30, 2014, the investment portfolio included thirty collateralized mortgage obligations with a total market value of \$143.7 million. Fifteen of these securities carried an unrealized loss at June 30, 2014. At June 30, 2014, the investment portfolio included forty-two mortgage-backed securities with a total market value of \$14.2 million. Two of these securities carried an unrealized loss at June 30, 2014. Management found no evidence of OTTI on any of these securities and the unrealized losses are due to changes in fair value resulting from changes in market interest rates and are considered temporary as of June 30, 2014.

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 trust preferred securities held in the portfolio as of June 30, 2014.

(dollars in thousands)	Class / Tranche	Amortized Cost	Fair Value	Unrealized Losses	Lowest Credit Rating Assigned	Number of Banks Currently Performing	Deferrals / Defaults as % of Current Balance	Conditional Default Rates for 2014 and beyond	Cumulative OTTI Life to Date
Preferred Term Securities IV	Mezzanine Notes	\$ 49	\$ 40	\$ (9 )	B1	6	18 %	0.34 %	\$ -
Preferred Term Securities VII	Mezzanine Notes	989	768	(221 )	D	11	54	0.37	2,173
TPREF Funding II	Class B Notes	732	350	(382 )	C	17	41	0.39	267
TPREF Funding III	Class B2 Notes	1,520	710	(810 )	C	16	34	0.29	480
Trapeza CDO I, LLC	Class C1 Notes	556	308	(248 )	C	9	49	0.31	470
ALESCO Preferred Funding IV	Class B1 Notes	604	387	(217 )	C	40	8	0.36	396
ALESCO Preferred Funding V	Class C1 Notes	820	414	(406 )	C	41	15	0.33	180
<b>Total</b>		<b>\$ 5,270</b>	<b>2,977</b>	<b>\$ (2,293 )</b>		<b>140</b>	<b>30 %</b>		<b>\$ 3,966</b>

At June 30, 2014, the investment portfolio included twenty-one municipal securities with a total market value of \$11.9 million. Two of these securities carried an unrealized loss at June 30, 2014. Each of the municipal securities is reviewed quarterly for impairment. Research on each issuer is completed to ensure the financial stability of the municipal entity. The largest geographic concentration was in Pennsylvania where ten municipal securities had a market value of \$5.9 million. As of June 30, 2014, management found no evidence of OTTI on any of the municipal securities held in the investment securities portfolio.

Subsequent to the period ended June 30, 2014, investment securities with a fair value of \$70.1 million that were previously classified as available-for-sale were transferred to the held-to-maturity category. Unrealized losses of \$1.2 million associated with the transferred securities will remain in other comprehensive income and be amortized as an adjustment to yield over the remaining life of those securities.

Note 6: Loans Receivable and Allowance for Loan Losses

The following table sets forth the Company's gross loans by major categories as of June 30, 2014, and December 31, 2013:

	June 30, 2014	December 31, 2013
(dollars in thousands)		
Commercial real estate	\$353,458	\$342,794
Construction and land development	31,224	23,977
Commercial and industrial	127,818	118,209
Owner occupied real estate	167,130	160,229
Consumer and other	37,255	31,981
Residential mortgage	2,330	2,359
Total loans receivable	719,215	679,549
Deferred costs (fees)	(346 )	(238 )
Allowance for loan losses	(12,063 )	(12,263 )
Net loans receivable	\$706,806	\$667,048

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

The following table summarizes information with regard to impaired loans by loan portfolio class as of June 30, 2014 and December 31, 2013:

(dollars in thousands)	June 30, 2014			December 31, 2013		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial real estate	\$6,658	\$6,662	\$-	\$6,850	\$6,971	\$-
Construction and land development	593	3,700	-	902	4,076	-
Commercial and industrial	3,018	6,247	-	2,043	2,882	-
Owner occupied real estate	864	1,183	-	542	862	-
Consumer and other	446	714	-	453	711	-
Total	\$11,579	\$18,506	\$-	\$10,790	\$15,502	\$-
With an allowance recorded:						
Commercial real estate	\$13,401	\$13,643	\$4,045	\$13,044	\$13,044	\$3,679
Construction and land development	669	3,908	294	716	3,867	237
Commercial and industrial	3,719	4,350	1,618	4,889	7,634	1,254
Owner occupied real estate	3,518	3,520	424	2,891	2,891	430
Consumer and other	-	-	-	203	210	10
Total	\$21,307	\$25,421	\$6,381	\$21,743	\$27,646	\$5,610
Total:						
Commercial real estate	\$ 20,059	\$ 20,305	\$ 4,045	\$ 19,894	\$ 20,015	\$ 3,679
Construction and land development	1,262	7,608	294	1,618	7,943	237
Commercial and industrial	6,737	10,597	1,618	6,932	10,516	1,254
Owner occupied real estate	4,382	4,703	424	3,433	3,753	430
Consumer and other	446	714	-	656	921	10
Total	\$ 32,886	\$ 43,927	\$ 6,381	\$ 32,533	\$ 43,148	\$ 5,610

The following table presents additional information regarding the Company's impaired loans for the three months ended June 30, 2014 and June 30, 2013:

	Three Months Ended June 30,				
	2014		2013		
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	
With no related allowance recorded:					
Commercial real estate	\$ 6,696	\$ 106	\$ 15,343	\$ 202	
Construction and land development	661	-	1,822	8	
Commercial and industrial	2,859	-	2,953	5	
Owner occupied real estate	802	(3 )	180	-	
Consumer and other	480	-	725	-	
Total	\$ 11,498	\$ 103	\$ 21,023	\$ 215	
With an allowance recorded:					
Commercial real estate		\$13,325	\$(130 )	\$7,056	\$25
Construction and land development		659	-	494	-
Commercial and industrial		3,914	(1 )	3,504	14
Owner occupied real estate		3,315	35	3,149	37
Consumer and other		35	-	25	-
Total		\$21,248	\$(96 )	\$14,228	\$76
Total:					
Commercial real estate		\$20,021	\$(24 )	\$22,399	\$227
Construction and land development		1,320	-	2,316	8
Commercial and industrial		6,773	(1 )	6,457	19
Owner occupied real estate		4,117	32	3,329	37
Consumer and other		515	-	750	-
Total		\$32,746	\$7	\$35,251	\$291

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately \$399,000 and \$130,000 for the three months ended June 30, 2014 and 2013, respectively.

The following table presents additional information regarding the Company's impaired loans for the six months ended June 30, 2014 and June 30, 2013:

	Six Months Ended June 30,			
	2014		2013	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate	\$6,734	\$ 212	\$17,766	\$ 421
Construction and land development	730	-	2,615	29
Commercial and industrial	2,699	1	2,935	11
Owner occupied real estate	740	2	216	-
Consumer and other	514	1	781	1
Total	\$11,417	\$ 216	\$24,313	\$ 462
With an allowance recorded:				
Commercial real estate	\$13,249	\$ 8	\$5,885	\$ 61
Construction and land development	650	-	395	-
Commercial and industrial	4,111	-	3,746	28
Owner occupied real estate	3,113	70	3,295	73
Consumer and other	68	-	49	-
Total	\$21,191	\$ 78	\$13,370	\$162
Total:				
Commercial real estate	\$19,983	\$ 220	\$23,651	\$ 482
Construction and land development	1,380	-	3,010	29
Commercial and industrial	6,810	1	6,681	39
Owner occupied real estate	3,853	72	3,511	73
Consumer and other	582	1	830	1
Total	\$32,608	\$ 294	\$37,683	\$ 624

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately \$542,000 and \$339,000 for the six months ended June 30, 2014 and 2013, respectively.



The following tables provide the activity in and ending balances of the allowance for loan losses by loan portfolio class at and for the three and six months ended June 30, 2014 and 2013:

(dollars in thousands)	Commercial		Construction	Commercial	Owner	Consumer		Unallocated	Total
	Real Estate	and Land Development	and Land Development	and Industrial	Occupied Real Estate	and Residential Other	Mortgage		
Three months ended June 30, 2014									
Allowance for loan losses:									
Beginning balance:	\$ 6,274	\$ 861	\$ 2,640	\$ 1,128	\$ 197	\$ 13	\$ 837	\$ 11,950	
Charge-offs	(188 )	-	-	-	-	-	-	(188 )	
Recoveries	-	-	1	-	-	-	-	1	
Provisions (credits)	690	163	150	1	23	-	(727 )	300	
Ending balance	\$ 6,776	\$ 1,024	\$ 2,791	\$ 1,129	\$ 220	\$ 13	\$ 110	\$ 12,063	

Three months ended June 30, 2013  
Allowance for loan losses:

Beginning balance:	\$3,257	\$1,835	\$2,336	\$1,297	\$170	\$14	\$444	\$9,353
Charge-offs	(349 )	-	(361 )	(319 )	-	-	-	(1,029 )
Recoveries	54	-	4	-	25	-	-	83
Provisions (credits)	619	667	18	8	(4 )	-	(383 )	925
Ending balance	\$3,581	\$2,502	\$1,997	\$986	\$191	\$14	\$61	\$9,332

(dollars in thousands)	Commercial		Construction	Commercial	Owner	Consumer		Unallocated	Total
	Real Estate	and Land Development	and Land Development	and Industrial	Occupied Real Estate	and Residential Other	Mortgage		
Six months ended June 30, 2014									
Allowance for loan losses:									
Beginning balance:	\$ 6,454	\$ 1,948	\$ 2,309	\$ 985	\$ 225	\$ 14	\$ 328	\$ 12,263	
Charge-offs	(188 )	(20 )	(283 )	-	(10 )	-	-	(501 )	
Recoveries	-	-	1	-	-	-	-	1	
Provisions (credits)	510	(904 )	764	144	5	(1 )	(218 )	300	
Ending balance	\$ 6,776	\$ 1,024	\$ 2,791	\$ 1,129	\$ 220	\$ 13	\$ 110	\$ 12,063	

Six months ended  
June 30, 2013  
Allowance for loan  
losses:

Beginning Balance:	\$3,979	\$1,273	\$1,880	\$1,967	\$234	\$17	\$192	\$9,542
Charge-offs	(409 )	(55 )	(361 )	(319 )	(75 )	-	-	(1,219 )
Recoveries	54	-	5	-	25	-	-	84
Provisions (credits)	(43 )	1,284	473	(662 )	7	(3 )	(131 )	925
Ending balance	\$3,581	\$2,502	\$1,997	\$986	\$191	\$14	\$61	\$9,332

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

The following tables provide a summary of the allowance for loan losses and balance of loans receivable by loan class and by impairment method as of June 30, 2014 and December 31, 2013:

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
June 30, 2014								
Allowance for loan losses:								
Individually evaluated for impairment	\$ 4,045	\$ 294	\$ 1,618	\$ 424	\$ -	\$ -	\$ -	\$6,381
Collectively evaluated for impairment	2,731	730	1,173	705	220	13	110	5,682
Total allowance for loan losses	\$ 6,776	\$ 1,024	\$ 2,791	\$ 1,129	\$ 220	\$ 13	\$ 110	\$12,063
Loans receivable:								
Loans evaluated individually	\$ 20,059	\$ 1,262	\$ 6,737	\$ 4,382	\$ 446	\$ -	\$ -	\$32,886
Loans evaluated collectively	333,399	29,962	121,081	162,748	36,809	2,330	-	686,329
Total loans receivable	\$ 353,458	\$ 31,224	\$ 127,818	\$ 167,130	\$ 37,255	\$ 2,330	\$ -	\$719,215

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
December 31, 2013								
Allowance for loan losses:								
Individually evaluated for impairment	\$ 3,679	\$ 237	\$ 1,254	\$ 430	\$ 10	\$ -	\$ -	\$5,610
Collectively evaluated for impairment	2,775	1,711	1,055	555	215	14	328	6,653

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

Total allowance for loan losses	\$ 6,454	\$ 1,948	\$ 2,309	\$ 985	\$ 225	\$ 14	\$ 328	\$12,263
Loans receivable:								
Loans evaluated individually	\$ 19,894	\$ 1,618	\$ 6,932	\$ 3,433	\$ 656	\$ -	\$ -	\$32,533
Loans evaluated collectively	322,900	22,359	111,277	156,796	31,325	2,359	-	647,016
Total loans receivable	\$ 342,794	\$ 23,977	\$ 118,209	\$ 160,229	\$ 31,981	\$ 2,359	\$ -	\$679,549

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of June 30, 2014 and December 31, 2013:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
At June 30, 2014							
Commercial real estate	\$ -	\$ 13,865	\$ 14,741	\$ 28,606	\$ 324,852	\$ 353,458	\$ 524
Construction and land development	-	-	1,262	1,262	29,962	31,224	-
Commercial and industrial	-	422	7,679	8,101	119,717	127,818	942
Owner occupied real estate	-	-	2,790	2,790	164,340	167,130	1,256
Consumer and other Residential mortgage	184	-	446	630	36,625	37,255	-
	-	-	-	-	2,330	2,330	-
Total	\$ 184	\$ 14,287	\$ 26,918	\$ 41,389	\$ 677,826	\$ 719,215	\$ 2,722
At December 31, 2013							
Commercial real estate	\$ 19,707	\$ 5,635	\$ 1,104	\$ 26,446	\$ 316,348	\$ 342,794	\$ -
Construction and land development	-	-	1,618	1,618	22,359	23,977	-
Commercial and industrial	951	71	6,837	7,859	110,350	118,209	-
Owner occupied real estate	808	1,281	205	2,294	157,935	160,229	-
Consumer and other Residential mortgage	38	-	656	694	31,287	31,981	-
	-	-	-	-	2,359	2,359	-
Total	\$ 21,504	\$ 6,987	\$ 10,420	\$ 38,911	\$ 640,638	\$ 679,549	\$ -

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of June 30, 2014 and December 31, 2013:

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
At June 30, 2014:					
Commercial real estate	\$ 315,868	\$ 16,989	\$ 20,601	\$ -	\$ 353,458

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

Construction and land development	29,962	-	1,262	-	31,224
Commercial and industrial	119,227	782	7,809	-	127,818
Owner occupied real estate	161,051	1,697	4,382	-	167,130
Consumer and other	36,476	75	704	-	37,255
Residential mortgage	2,330	-	-	-	2,330
Total	\$664,914	\$19,543	\$34,758	\$-	\$719,215

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
At December 31, 2013:					
Commercial real estate	\$305,974	\$16,372	\$20,448	\$-	\$342,794
Construction and land development	22,359	-	1,618	-	23,977
Commercial and industrial	110,629	611	6,969	-	118,209
Owner occupied real estate	155,648	1,485	3,096	-	160,229
Consumer and other	30,993	75	913	-	31,981
Residential mortgage	2,359	-	-	-	2,359
Total	\$627,962	\$18,543	\$33,044	\$-	\$679,549

The following table shows non-accrual loans by class as of June 30, 2014 and December 31, 2013:

(dollars in thousands)	June 30, 2014	December 31, 2013
Commercial real estate	\$ 14,217	\$ 1,104
Construction and land development	1,262	1,618
Commercial and industrial	6,737	6,837
Owner occupied real estate	1,534	205
Consumer and other	446	656
Residential mortgage	-	-
Total	\$ 24,196	\$ 10,420

### Troubled Debt Restructurings

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

The following table summarizes the balance of outstanding TDRs June 30, 2014 and December 31, 2013:

(dollars in thousands)	Number of Loans	Accrual Status	Non-Accrual Status	Total TDRs
June 30, 2014				
Commercial real estate	-	\$-	\$-	\$-
Construction and land development	-	-	-	-
Commercial and industrial	1	-	2,188	2,188
Owner occupied real estate	1	1,877	-	1,877
Consumer and other	-	-	-	-
Residential mortgage	-	-	-	-
Total	2	\$1,877	\$2,188	\$4,065
December 31, 2013				
Commercial real estate	1	\$103	\$-	\$103
Construction and land development	-	-	-	-
Commercial and industrial	1	-	2,188	2,188
Owner occupied real estate	1	1,894	-	1,894
Consumer and other	-	-	-	-
Residential mortgage	-	-	-	-
Total	3	\$1,997	\$2,188	\$4,185

All TDRs are considered impaired and are therefore individually evaluated for impairment in the calculation of the allowance for loan losses. Some TDRs may not ultimately result in the full collection of principal and interest as restructured and could lead to potential incremental losses. These potential incremental losses would be factored into our estimate of the allowance for loan losses. The level of any subsequent defaults will likely be affected by future economic conditions. There were no loan modifications that were considered TDRs during the three and six months ended June 30, 2014 and 2013.



After a loan is determined to be a TDR, we continue to track its performance under the most recent restructured terms. One loan classified as a TDR subsequently paid off during the three months ended March 31, 2014. One loan classified as a TDR subsequently defaulted during the year ended December 31, 2013. There were no troubled debt restructurings that subsequently defaulted during the three and six months ended June 30, 2014 and 2013.

#### 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.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2014 and December 31, 2013 were as follows:

(dollars in thousands)	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
June 30, 2014				
Collateralized mortgage obligations	\$ 143,723	\$-	\$ 143,723	\$ -
Mortgage-backed securities	14,200	-	14,200	-
Municipal securities	11,944	-	11,944	-
Corporate bonds	27,618	-	24,612	3,006
Asset-backed securities	19,047	-	19,047	-
Trust Preferred Securities	2,977	-	-	2,977
Other securities	125	-	125	-
Securities Available for Sale	\$ 219,634	\$-	\$ 213,651	\$ 5,983
December 31, 2013				
Collateralized mortgage obligations	\$ 123,440	\$-	\$ 123,440	\$-
Mortgage-backed securities	16,181	-	16,181	-
Municipal securities	9,643	-	9,643	-
Corporate bonds	33,253	-	30,247	3,006
Asset-backed securities	19,407	-	19,407	-
Trust Preferred Securities	2,850	-	-	2,850
Other securities	117	-	117	-
Securities Available for Sale	\$ 204,891	\$-	\$ 199,035	\$ 5,856

The following table presents a reconciliation of the securities available for sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30, 2014		Three Months Ended June 30, 2013	
	Trust		Trust	
	Preferred Securities	Corporate Bonds	Preferred Securities	Corporate Bonds
Level 3 Investments Only (dollars in thousands)				
Balance, April 1st	\$2,807	\$3,006	\$3,238	\$3,007
Unrealized gains (losses)	177	-	(65 )	(1 )
Paydowns	-	-	(11 )	-
Impairment charges on Level 3	(7 )	-	-	-
Balance, June 30th	\$2,977	\$3,006	\$3,162	\$3,006

	Six Months Ended June 30, 2014		Six Months Ended June 30, 2013	
	Trust		Trust	
	Preferred Securities	Corporate Bonds	Preferred Securities	Corporate Bonds
Level 3 Investments Only (dollars in thousands)				
Balance, January 1st	\$2,850	\$3,006	\$3,187	\$3,007
Unrealized gains (losses)	134	-	(7 )	(1 )
Paydowns	-	-	(18 )	-
Impairment charges on Level 3	(7 )	-	-	-
Balance, June 30th	\$2,977	\$3,006	\$3,162	\$3,006

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2014 and December 31, 2013 were as follows:

(dollars in thousands)	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets		(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
June 30, 2014:					
Impaired loans	\$16,355	\$-	\$-		\$ 16,355
Other real estate owned	1,059	-	-		1,059
SBA servicing assets	4,067	-	-		4,067
December 31, 2013:					
Impaired loans	\$17,474	\$-	\$-		\$ 17,474
Other real estate owned	3,921	-	-		3,921
SBA servicing assets	3,477	-	-		3,477



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

## Quantitative Information about Level 3 Fair Value Measurements

Asset Description	Fair Value	Valuation Technique	Unobservable Input	Range Weighted Average
June 30, 2014:				
Impaired loans	\$ 16,355	Fair Value of Collateral (1)	Appraised Value (2)	0% - 78% (29%) (4)
Other real estate owned	\$ 1,059	Fair Value of Collateral (1)	Appraised Value (2) Sales Price Individual Loan	8% - 38% (33%)(4)
SBA Servicing Assets	\$ 4,067	Fair Value	Valuation (3)	(3)
December 31, 2013:				
Impaired loans	\$ 17,474	Fair Value of Collateral (1)	Appraised Value (2)	0% - 40% (23%) (4)
Other real estate owned	\$ 3,921	Fair Value of Collateral (1)	Appraised Value (2) Sales Price Individual Loan	4% - 77% (17%) (4)
SBA Servicing Assets	\$ 3,477	Fair Value	Valuation (3)	(3)

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

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

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

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

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

The following table presents an analysis of the activity in the SBA servicing assets for the three and six months ended June 30, 2014 and 2013:

(dollars in thousands)	Three Months Ended June 30,	Six Months Ended June 30,
------------------------	-----------------------------	---------------------------

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

	2014	2013	2014	2013
Beginning balance	\$3,805	\$2,491	\$3,477	\$2,340
Additions	271	482	575	628
Fair value adjustments	(9 )	(69 )	15	(64 )
Ending balance	\$4,067	\$2,904	\$4,067	\$2,904

## Fair Value Assumptions

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at June 30, 2014 and December 31, 2013.

### Cash and Cash Equivalents (Carried at Cost)

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

### Investment Securities

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

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

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

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





An independent, third party pricing service is used to estimate the current fair market value of each CDO held in the investment securities portfolio. The calculations used to determine fair value are based on the attributes of the trust preferred securities, the financial condition of the issuers of the trust preferred securities, and market based assumptions. The INTEX CDO Deal Model Library was utilized to obtain information regarding the attributes of each security and its specific collateral as of June 30, 2014 and December 31, 2013. Financial information on the issuers was also obtained from Bloomberg, the FDIC, the Office of Thrift Supervision and SNL Financial. Both published and unpublished industry sources were utilized in estimating fair value. Such information includes loan prepayment speed assumptions, discount rates, default rates, and loss severity percentages. Due to the current state of the global capital and financial markets, the fair market valuation is subject to greater uncertainty than would otherwise exist.

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

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

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

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

The fair values of loans held for sale is determined, when possible, using quoted secondary-market prices. If no such quoted prices exist, the fair value of a loan is determined using quoted prices for a similar loan or loans, adjusted for the specific attributes of that loan. The Company did not write down any loans held for sale during the six months ended June 30, 2014 and the year ended December 31, 2013.

#### Loans Receivable (Carried at Cost)

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

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

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

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

These assets are carried at the lower of cost or fair value. At June 30, 2014 and December 31, 2013 these assets are carried at current fair value.

## SBA Servicing Asset (Carried at Fair Value)

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

The Company uses assumptions and estimates in determining the impairment of the SBA servicing asset. These assumptions include prepayment speeds and discount rates commensurate with the risks involved and comparable to assumptions used by participants to value and bid serving rights available for sale in the market. At June 30, 2014 and December 31, 2013, the sensitivity of the current fair value of the SBA loan servicing rights to immediate 10% and 20% adverse changes in key assumptions are included in the accompanying table.

(dollars in thousands)	June 30, 2014		December 31, 2013	
SBA Servicing Asset				
Fair Value of SBA Servicing Asset	\$4,067		\$3,477	
Composition of SBA Loans Serviced for Others				
Fixed-rate SBA loans	0	%	0	%
Adjustable-rate SBA loans	100	%	100	%
Total	100	%	100	%
Weighted Average Remaining Term			21.1 years	21.4 years
Prepayment Speed	6.99	%	6.72	%
Effect on fair value of a 10% increase	\$(111)	)	\$(83)	)
Effect on fair value of a 20% increase	(218)	)	(163)	)
Weighted Average Discount Rate	11.59	%	13.59	%
Effect on fair value of a 10% increase	\$(203)	)	\$(162)	)
Effect on fair value of a 20% increase	(391)	)	(316)	)

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.

27

---

Restricted Stock (Carried at Cost)

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

Accrued Interest Receivable and Payable (Carried at Cost)

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

Deposit Liabilities (Carried at Cost)

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

Subordinated Debt (Carried at Cost)

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

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

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

The estimated fair values of the Company's financial instruments were as follows at June 30, 2014 and December 31, 2013:

Fair Value Measurements at June 30, 2014					
(dollars in thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Balance Sheet Data</b>					
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 83,120	\$ 83,120	\$ 83,120	\$ -	\$ -
Investment securities available for sale	219,634	219,634	-	213,651	5,983
Investment securities held to maturity	21	21	-	21	-
Restricted stock	1,725	1,725	-	1,725	-
Loans held for sale	491	491	-	-	491
Loans receivable, net	706,806	699,188	-	-	699,188
SBA servicing assets	4,067	4,067	-	-	4,067
Accrued interest receivable	3,104	3,104	-	3,104	-
<b>Financial liabilities:</b>					
<b>Deposits</b>					
Demand, savings and money market	\$ 843,875	\$ 843,875	\$ -	\$ 843,875	\$ -
Time	80,809	81,235	-	81,235	-
Subordinated debt	22,476	18,224	-	-	18,224
Accrued interest payable	292	292	-	292	-
<b>Off-Balance Sheet Data</b>					
Commitments to extend credit	-	-	-	-	-
Standby letters-of-credit	-	-	-	-	-

Fair Value Measurements at December 31, 2013					
(dollars in thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Balance Sheet Data</b>					
<b>Financial assets:</b>					

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

Cash and cash equivalents	\$35,880	\$35,880	\$35,880	\$-	\$ -
Investment securities available for sale	204,891	204,891	-	199,035	5,856
Investment securities held to maturity	21	21	-	21	-
Restricted stock	1,570	1,570	-	1,570	-
Loans held for sale	4,931	5,225	-	-	5,225
Loans receivable, net	667,048	660,237	-	-	660,237
SBA servicing assets	3,477	3,477	-	-	3,477
Accrued interest receivable	3,049	3,049	-	3,049	-
Financial liabilities:					
Deposits					
Demand, savings and money market	\$790,698	\$790,698	\$-	\$790,698	\$ -
Time	78,836	79,323	-	79,323	-
Subordinated debt	22,476	17,835	-	-	17,835
Accrued interest payable	237	237	-	237	-
Off-Balance Sheet Data					
Commitments to extend credit	-	-	-	-	-
Standby letters-of-credit	-	-	-	-	-

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

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

Certain statements in this report may be considered to be "forward-looking statements" as that term is defined in the U.S. Private Securities Litigation Reform Act of 1995, such as statements that include the words "would be," "could be," "should be," "probability," "risk," "target," "objective," "may," "will," "estimate," "project," "believe," "intend," "anticipate," and similar expressions or variations on such expressions. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. For example, risks and uncertainties can arise with changes in: general economic conditions, including turmoil in the financial markets and related efforts of government agencies to stabilize the financial system; business conditions in the financial services industry, including competitive pressure among financial services companies, new service and product offerings by competitors, price pressures and similar items. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof, except as may be required by applicable laws or regulations. Readers should carefully review the risk factors described in the Form 10-K for the year ended December 31, 2013 and other documents the Company files from time to time with the SEC, such as Quarterly Reports on Form 10-Q, and any Current Reports on Form 8-K, as well as other filings.

### Regulatory Reform and Legislation

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") has and will continue to have a broad impact on the financial services industry, including significant regulatory and compliance changes including, among other things, (i) enhanced resolution authority of troubled and failing banks and their holding companies; (ii) increased capital and liquidity requirements; (iii) increased regulatory examination fees; (iv) changes to assessments to be paid to the FDIC for federal deposit insurance; and (v) numerous other provisions designed to improve supervision and oversight of, and strengthening safety and soundness for, the financial services sector. Additionally, the Dodd-Frank Act establishes a new framework for systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Consumer Financial Protection Bureau, the Federal Reserve, the Office of the Comptroller of the Currency, and the FDIC. A summary of certain provisions of the Dodd-Frank Act is set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

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





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

The Company and the Bank will continue to analyze these new rules and their effects on the business, operations and capital levels of the Company and the Bank. The Company and the Bank expect to be considered "well capitalized" immediately following effectiveness of these regulations.

## Financial Condition

### Assets

Total assets increased by \$103.5 million, or 10.8%, to \$1.1 billion at June 30, 2014, compared to \$961.7 million at December 31, 2013, mainly due to increases in loan, deposit, and shareholders' equity balances during the first six months of 2014.

### Cash and Cash Equivalents

Cash and due from banks and interest bearing deposits comprise this category, which consists of our most liquid assets. The aggregate amount in these two categories increased by \$47.2 million, to \$83.1 million at June 30, 2014, from \$35.9 million at December 31, 2013.

### Loans Held for Sale

Loans held for sale are comprised of loans guaranteed by the U.S. Small Business Administration ("SBA") which the Company usually originates with the intention of selling in the future. Total SBA loans held for sale were \$491,000 at June 30, 2014 as compared to \$4.9 million at December 31, 2013. This decrease was driven by the timing of settlement on two loans which closed shortly after December 31, 2013. Loans held for sale, as a percentage of total Company assets, were less than 0.1% at June 30, 2014.

### Loans Receivable

The loan portfolio represents our largest asset category and is our most significant source of interest income. Our lending strategy is focused on small and medium size businesses and professionals that seek highly personalized banking services. The loan portfolio consists of secured and unsecured commercial loans including commercial real estate, construction loans, residential mortgages, automobile loans, home improvement loans, home equity loans and

lines of credit, overdraft lines of credit and others. Commercial loans typically range between \$250,000 and \$5,000,000 but customers may borrow significantly larger amounts up to our legal lending limit to a customer, which was approximately \$18.2 million at June 30, 2014. Loans made to one individual customer, even if secured by different collateral, are aggregated for purposes of the lending limit.

Loans increased \$39.6 million, or 5.8%, to \$718.9 million at June 30, 2014, compared to \$679.3 million at December 31, 2013. This growth was driven by an increase in quality loan demand across all categories over the first six months of 2014 along with the successful execution of the Company's relationship banking strategy which focuses on customer service.

#### Investment Securities

Investment securities considered available-for-sale are investments which may be sold in response to changing market and interest rate conditions, and for liquidity and other purposes. Our investment securities classified as available-for-sale consist primarily of U.S. Government agency collateralized mortgage obligations (CMO), agency mortgage-backed securities (MBS), municipal securities, corporate bonds, asset-backed securities (ABS), and pooled trust preferred securities (CDO). Available-for-sale securities totaled \$219.6 million at June 30, 2014, compared to \$204.9 million at December 31, 2013. The increase was primarily due to the purchase of securities totaling \$31.4 million, partially offset by the proceeds from sales and pay downs of securities totaling \$20.0 million during the first six months of 2014. At June 30, 2014, the portfolio had a net unrealized loss of \$1.2 million compared to a net unrealized loss of \$4.4 million at December 31, 2013. The change in value of the investment portfolio was driven by a decrease in market interest rates which drove an increase in value of the bonds held in the Company's portfolio during the first six months of 2014.

Investment securities held-to-maturity are investments for which there is the intent and ability to hold the investment to maturity. These investments are carried at amortized cost. The held-to-maturity portfolio consists primarily of debt securities. At June 30, 2014 and December 31, 2013, securities held to maturity totaled \$21,000. At both dates, respective carrying values approximated market values.

#### Restricted Stock

Restricted stock, which represents required investment in the capital stock of correspondent banks related to available credit facilities, is carried at cost as of June 30, 2014 and December 31, 2013. As of those dates, restricted stock consisted of investments in the capital stock of the Federal Home Loan Bank of Pittsburgh ("FHLB") and Atlantic Central Bankers Bank ("ACBB").

At June 30, 2014, the investment in FHLB of Pittsburgh capital stock totaled \$1.6 million, compared to \$1.4 million at December 31, 2013. At both June 30, 2014 and December 31, 2013, ACBB capital stock totaled \$143,000. Both the FHLB and ACBB issued dividend payments during 2014.

#### Other Real Estate Owned

The balance of other real estate owned decreased to \$3.6 million at June 30, 2014 from \$4.1 million at December 31, 2013, primarily due to writedowns on one foreclosed property during the first six months of 2014.

#### Deposits

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

Total deposits increased by \$55.2 million, or 6.3%, to \$924.7 million at June 30, 2014 from \$869.5 million at December 31, 2013. The increase was primarily the result of increases in noninterest-bearing demand deposit

balances and money market and savings balances partially offset by a reduction in interest-bearing demand deposit balances. Republic has continued to focus on its efforts to gather low-cost, core deposits by successfully executing its relationship banking model which is based upon high levels of customer service. In addition, the Company has begun to implement its relocation and expansion strategy through the opening of additional stores. This strategy has also allowed Republic to reduce its dependence on the more volatile sources of funding in brokered and public fund certificates of deposit.

## Shareholders' Equity

Total shareholders' equity increased \$48.5 million to \$111.4 million at June 30, 2014, compared to \$62.9 million at December 31, 2013, primarily due to \$45.0 million in proceeds received from the sale of common stock in a private placement offering. In addition, there was also a reduction in accumulated other comprehensive losses associated with unrealized losses in the investment securities portfolio and net income recognized during the first six months of 2014. The shift in market value of the securities portfolio resulted in accumulated other comprehensive losses of \$767,000 at June 30, 2014 compared to accumulated other comprehensive losses of \$2.8 million at December 31, 2013 which was primarily driven by a decrease in market interest rates which drove an increase in value of the bonds held in the Company's portfolio.

## Results of Operations

### Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

The Company reported net income of \$537,000, or \$0.02 per share, for the three months ended June 30, 2014, compared to net income of \$1.0 million, or \$0.04 per share, for the three months ended June 30, 2013. The decrease in net income was primarily driven by a decrease in gains recognized on the sale of SBA loans during the current period.

Net interest income for the three month period ended June 30, 2014 was \$8.5 million compared to \$8.1 million for the three months ended June 30, 2013. Interest income increased \$416,000, or 4.5%, to \$9.6 million for the three months ended June 30, 2014 compared to \$9.2 million for the three months ended June 30, 2013. This increase was primarily due to a \$73.1 million increase in average loan balances and a \$25.5 million increase in average investment securities balances. Interest expense increased \$30,000, or 2.3%, to \$1.1 million for the three months ended June 30, 2014 compared to \$1.1 million for the three months ended June 30, 2013. This increase was primarily due to an increase in average deposits outstanding.

The Company recorded a loan loss provision in the amount of \$300,000 for the three months ended June 30, 2014 compared to a provision of \$925,000 during the three months ended June 30, 2013. The lower provision recorded for the three months ended June 30, 2014 was driven by a reduction in the allowance for loan losses related to non-impaired loans evaluated collectively for impairment when compared to June 30, 2013.

Non-interest income decreased by \$581,000 to \$2.3 million during the three months ended June 30, 2014 compared to \$2.9 million during the three months ended June 30, 2013. The Company recognized \$1.0 million in gains on the sale of SBA loans for the three months ended June 30, 2014 compared to \$2.1 million for the three months ended June 30, 2013 as a result of fewer SBA loan originations during the current period. These were partially offset by gains on the sale of investment securities totaling \$458,000 recognized during the three months ended June 30, 2014.

Non-interest expenses increased \$901,000 to \$10.0 million during the three months ended June 30, 2014 compared to \$9.1 million during the three months ended June 30, 2013 mainly due to increased salary and benefit costs along with higher occupancy expenses related to the Company's growth strategy of adding and relocating stores.

Return on average assets and average equity was 0.21% and 2.14%, respectively, during the three months ended June 30, 2014 compared to 0.44% and 5.77%, respectively, for the three months ended June 30, 2013.



### Six Months Ended June 30, 2014 compared to June 30, 2013

The Company reported net income of \$1.3 million, or \$0.04 per share, for the six months ended June 30, 2014 compared to net income of \$2.0 million, or \$0.08 per share, for the six months ended June 30, 2013. The decrease in net income was primarily driven by a decrease in gains recognized on the sale of SBA loans during the current period.

Net interest income for the six months ended June 30, 2014 increased \$1.1 million to \$17.1 million as compared to \$16.0 million for the six months ended June 30, 2013. Interest income increased \$964,000, or 5.3%, due to increases in average loan balances and average investment securities balances. Interest expense decreased \$168,000, or 7.1%, primarily due to a 7 basis point decrease in the rate on average deposits outstanding.

The Company recorded a loan loss provision in the amount of \$300,000 for the six months ended June 30, 2014 compared to a provision of \$925,000 during the six months ended June 30, 2013. The lower provision recorded for the six months ended June 30, 2014 was driven by a reduction in the allowance for loan losses related to non-impaired loans evaluated collectively for impairment when compared to June 30, 2013.

Non-interest income decreased \$894,000 to \$4.2 million during the six months ended June 30, 2014 as compared to \$5.1 million during the six months ended June 30, 2013 primarily due to a decrease in gains recognized on the sale of SBA loans during the six months ended June 30, 2014 as a result of fewer SBA loan originations during the current period.

Non-interest expenses increased \$1.6 million to \$19.8 million during the six months ended June 30, 2014 as compared to \$18.2 million during the six months ended June 30, 2013. An increase in salaries and benefits of \$1.1 million was driven primarily by annual merit increases along with increased staffing levels related to the Company's growth strategy of adding and relocating stores. Occupancy related expenses also increased by \$459,000 as a result of the growth and relocation strategy.

Return on average assets and average equity from continuing operations were 0.26% and 3.16%, respectively, during the six months ended June 30, 2014 compared to 0.43% and 5.77%, respectively, for the six months ended June 30, 2013.

### Analysis of Net Interest Income

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





## Average Balances and Net Interest Income

(dollars in thousands)	For the three months ended June 30, 2014			For the three months ended June 30, 2013				
	Average Balance	Interest	Yield/ Rate(1)	Average Balance	Interest	Yield/ Rate(1)		
Interest-earning assets:								
Federal funds sold and other interest-earning assets	\$ 82,915	\$ 50	0.24 %	\$ 62,419	\$ 44	0.28 %		
Investment securities and restricted stock	207,545	1,315	2.53 %	182,025	1,117	2.45 %		
Loans receivable	706,632	8,356	4.74 %	633,547	8,128	5.15 %		
Total interest-earning assets	997,092	9,721	3.91 %	877,991	9,289	4.24 %		
Other assets	48,652			50,912				
Total assets	\$ 1,045,744			\$ 928,903				
Interest-earning liabilities:								
Demand – non-interest bearing	\$ 177,363			\$ 141,390				
Demand – interest bearing	232,682	225	0.39 %	180,824	207	0.46 %		
Money market & savings	427,589	467	0.44 %	417,567	428	0.41 %		
Time deposits	78,259	178	0.91 %	88,994	204	0.92 %		
Total deposits	915,893	870	0.38 %	828,775	839	0.41 %		
Total interest-bearing deposits	738,530	870	0.47 %	687,385	839	0.49 %		
Other borrowings	22,476	277	4.94 %	22,476	278	4.96 %		
Total interest-bearing liabilities	761,006	1,147	0.60 %	709,861	1,117	0.63 %		
Total deposits and other borrowings	938,369	1,147	0.49 %	851,251	1,117	0.53 %		
Non interest-bearing other liabilities	6,741			7,379				
Shareholders' equity	100,634			70,273				
Total liabilities and shareholders' equity	\$ 1,045,744			\$ 928,903				
Net interest income (2)		\$ 8,574			\$ 8,172			
Net interest spread			3.31 %			3.61 %		
Net interest margin (2)			3.45 %			3.73 %		

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

(2) Net interest income and net interest margin are presented on a tax equivalent basis. Net interest income has been increased over the financial statement amount by \$90 and \$74 for the three months ended June 30, 2014 and 2013, respectively, to adjust for tax equivalency. The tax equivalent net interest margin is calculated by dividing tax equivalent net interest income by average total interest earning assets.

## Average Balances and Net Interest Income

(dollars in thousands)	For the six months ended June 30, 2014			For the six months ended June 30, 2013		
	Average Balance	Interest	Yield/ Rate(1)	Average Balance	Interest	Yield/ Rate(1)
Interest-earning assets:						
Federal funds sold and other interest-earning assets	\$ 50,552	\$ 62	0.25 %	\$ 74,485	\$ 103	0.28 %
Investment securities and restricted stock	207,793	2,678	2.58 %	182,702	2,276	2.49 %
Loans receivable	696,805	16,723	4.84 %	627,628	16,105	5.17 %
Total interest-earning assets	955,150	19,463	4.11 %	884,815	18,484	4.21 %
Other assets	45,818			55,299		
Total assets	\$ 1,000,968			\$ 940,114		
Interest-earning liabilities:						
Demand – non-interest bearing	\$ 173,552			\$ 142,710		
Demand – interest bearing	223,383	416	0.38 %	175,873	402	0.46 %
Money market & savings	414,308	883	0.43 %	420,152	930	0.45 %
Time deposits	77,865	351	0.91 %	101,455	483	0.96 %
Total deposits	889,108	1,650	0.37 %	840,190	1,815	0.44 %
Total interest-bearing deposits	715,556	1,650	0.47 %	697,480	1,815	0.52 %
Other borrowings	22,476	553	4.96 %	22,476	556	4.99 %
Total interest-bearing liabilities	738,032	2,203	0.60 %	719,956	2,371	0.66 %
Total deposits and other borrowings	911,584	2,203	0.49 %	862,666	2,371	0.55 %
Non interest-bearing other liabilities	6,838			7,424		
Shareholders' equity	82,546			70,024		
Total liabilities and shareholders' equity	\$ 1,000,968			\$ 940,114		
Net interest income (2)		\$ 17,260			\$ 16,113	
Net interest spread			3.51 %			3.55 %
Net interest margin (2)			3.64 %			3.67 %

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

(2) Net interest income and net interest margin are presented on a tax equivalent basis. Net interest income has been increased over the financial statement amount by \$177 and \$162 for the six months ended June 30, 2014 and 2013,

respectively, to adjust for tax equivalency. The tax equivalent net interest margin is calculated by dividing tax equivalent net interest income by average total interest earning assets.

## Rate/Volume Analysis of Changes in Net Interest Income

Net interest income may also be analyzed by segregating the volume and rate components of interest income and interest expense. The following table sets forth an analysis of volume and rate changes in net interest income for the three and six months ended June 30, 2014, as compared to the three and six months ended June 30, 2013. For purposes of this table, changes in interest income and expense are allocated to volume and rate categories based upon the respective changes in average balances and average rates.

(dollars in thousands)	For the three months ended June 30, 2014 vs. 2013			For the six months ended June 30, 2014 vs. 2013		
	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	\$ 15	\$ (9 )	\$ 6	\$ (29 )	\$ (12 )	\$ (41 )
Securities	161	37	198	323	79	402
Loans	844	(616 )	228	1,617	(999 )	618
Total interest-earning assets	1,020	(588 )	432	1,911	(932 )	979