REPUBLIC FIRST BANCORP INC
Form 10-Q
May 08, 2015

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

FORM 10-Q

[X]	Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended March 31, 2015.
	or
[ ]	Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from ____ to ____.

Commission File Number: 000-17007
Republic First Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	23-2486815 (I.R.S. Employer Identification No.)
50 South 16th Street, Philadelphia, Pennsylvania (Address of principal executive offices)	19102 (Zip code)

215-735-4422
(Registrant’s telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES [X] NO [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [X] NO [ ]

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

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

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

YES [ ]NO [X]

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common Stock, $0.01 per share	37,815,503
Title of Class	Number of Shares Outstanding as of May 7, 2015

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

	March 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$ 25,316	$ 14,822
Interest bearing deposits with banks	133,321	114,004
Federal funds sold	3,891	-
Cash and cash equivalents	162,528	128,826
Investment securities available for sale, at fair value	187,024	185,379
Investment securities held to maturity, at amortized cost (fair value of $67,878 and $68,253, respectively)	66,742	67,866
Restricted stock, at cost	1,157	1,157
Loans held for sale	4,955	1,676
Loans receivable (net of allowance for loan losses of $10,944 and $11,536, respectively)	777,857	770,404
Premises and equipment, net	36,573	35,030
Other real estate owned, net	3,827	3,715
Accrued interest receivable	3,401	3,226
Other assets	19,919	17,319
Total Assets	$ 1,263,983	$ 1,214,598
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand – non-interest bearing	$ 237,307	$ 224,245
Demand – interest bearing	310,595	283,768
Money market and savings	498,862	488,848
Time deposits	74,633	75,369
Total Deposits	1,121,397	1,072,230
Accrued interest payable	260	265
Other liabilities	5,950	6,816
Subordinated debt	22,476	22,476
Total Liabilities	1,150,083	1,101,787
Shareholders' Equity		
Preferred stock, par value $0.01 per share: 10,000,000 shares authorized; no shares issued	-	-
Common stock, par value $0.01 per share: 50,000,000 shares authorized; shares issued 38,344,348	383	383
Additional paid in capital	152,352	152,234
Accumulated deficit	(34,738)	(35,266)
Treasury stock at cost (503,408 shares)	(3,725)	(3,725)
Stock held by deferred compensation plan (25,437 shares)	(183)	(183)
Accumulated other comprehensive loss	(189)	(632)

Total Shareholders’ Equity		113,900		112,811
Total Liabilities and Shareholders’ Equity	$	1,263,983	$	1,214,598

(See notes to consolidated financial statements)

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Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Income
For the Three Months Ended March 31, 2015 and 2014
(Dollars in thousands, except per share data)
(unaudited)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Interest income		
Interest and fees on taxable loans	$8,951	$8,241
Interest and fees on tax-exempt loans	126	82
Interest and dividends on taxable investment securities	1,482	1,241
Interest and dividends on tax-exempt investment securities	125	79
Interest on federal funds sold and other interest-earning assets	77	12
Total interest income	10,761	9,655
Interest expense		
Demand-interest bearing	290	191
Money market and savings	553	416
Time deposits	175	173
Other borrowings	276	276
Total interest expense	1,294	1,056
Net interest income	9,467	8,599
Provision for loan losses	-	-
Net interest income after provision for loan losses	9,467	8,599
Non-interest income		
Loan advisory and servicing fees	599	437
Gain on sales of SBA loans	578	1,154
Service fees on deposit accounts	363	293
Other than temporary impairment	(13)	-
Portion recognized in other comprehensive income (before taxes)	10	-
Net impairment loss on investment securities	(3)	-
Other non-interest income	40	46
Total non-interest income	1,577	1,930
Non-interest expenses		
Salaries and employee benefits	5,222	5,040
Occupancy	1,165	1,038
Depreciation and amortization	723	498
Legal	239	255
Other real estate owned	377	346
Advertising	151	148
Data processing	352	300
Insurance	180	157
Professional fees	325	402
Regulatory assessments and costs	292	337
Taxes, other	221	215
Other operating expenses	1,271	1,079
Total non-interest expense	10,518	9,815

Income before benefit for income taxes	526	714
Benefit for income taxes	(2)	(41)
Net income	$528	$755
Net income per share		
Basic	$0.01	$0.03
Diluted	$0.01	$0.03

(See notes to consolidated financial statements)

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Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Three Months Ended March 31, 2015 and 2014
(Dollars in thousands)
(unaudited)

	Three Months Ended March 31, 2015	2014
Net income	$528	$755
Other comprehensive income, net of tax		
Unrealized gain on available for sale securities (pre-tax $630, and $2,056 respectively)	404	1,318
Reclassification adjustment for impairment charge (pre-tax $3, and $- respectively)	2	-
Net unrealized holding losses on securities transferred from available-for-sale to held-to-maturity:		
Amortization of net unrealized holding losses to income during the period (pre-tax $58, and $- respectively)	37	-
Total other comprehensive income	443	1,318
Total comprehensive income	$971	$2,073

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2015 and 2014
(Dollars in thousands)
(unaudited)

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities		
Net income	$ 528	$ 755
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Write down of other real estate owned	148	300
Depreciation and amortization	723	498
Stock based compensation	118	88
Amortization of premiums on investment securities	112	126
Proceeds from sales of SBA loans originated for sale	5,825	12,465
SBA loans originated for sale	(8,526)	(10,176)
Gains on sales of SBA loans originated for sale	(578)	(1,154)
Increase in accrued interest receivable and other assets	(3,023)	(394)
Decrease in accrued interest payable and other liabilities	(871)	(312)
Net cash (used in) provided by operating activities	(5,544)	2,196
Cash flows from investing activities		
Purchase of investment securities available for sale	(6,356)	(517)
Proceeds from the maturity or call of securities available for sale	5,273	6,077
Proceeds from the maturity or call of securities held to maturity	1,141	-
Proceeds from redemption of FHLB stock	-	3
Net increase in loans	(8,032)	(17,850)
Net proceeds from sale of other real estate owned	319	63
Premises and equipment expenditures	(2,266)	(1,890)
Net cash used in investing activities	(9,921)	(14,114)
Cash flows from financing activities		
Net increase in demand, money market and savings deposits	49,903	12,560
Net decrease in time deposits	(736)	(2,212)
Net cash provided by financing activities	49,167	10,348
Net increase (decrease) in cash and cash equivalents	33,702	(1,570)
Cash and cash equivalents, beginning of year	128,826	35,880
Cash and cash equivalents, end of period	$ 162,528	$ 34,310
Supplemental disclosures		
Interest paid	$ 1,299	$ 1,067
Income taxes paid	$ -	$ 50
Non-cash transfers from loans to other real estate owned	$ 579	$ -

(See notes to consolidated financial statements)

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Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Three Months Ended March 31, 2015 and 2014
(Dollars in thousands)
(unaudited)

	Common Stock	Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance January 1, 2015	$ 383	$ 152,234	$ (35,266)	$ (3,725)	$ (183)	$ (632)	$ 112,811
Net income			528				528
Other comprehensive income, net of tax						443	443
Stock based compensation		118					118
Balance March 31, 2015	$ 383	$ 152,352	$ (34,738)	$ (3,725)	$ (183)	$ (189)	$ 113,900
Balance January 1, 2014	$ 265	$ 107,078	$ (37,708)	$ (3,099)	$ (809)	$ (2,828)	$ 62,899
Net income			755				755
Other comprehensive income, net of tax						1,318	1,318
Stock based compensation		88					88
Balance March 31, 2014	$ 265	$ 107,166	$ (36,953)	$ (3,099)	$ (809)	$ (1,510)	$ 65,060

(See notes to consolidated financial statements)

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

Note 1: Basis of Presentation

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

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

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

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

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

Note 2: Summary of Significant Accounting Policies

Risks and Uncertainties

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

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

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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 March 31, 2015, 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. The Plan terminates pursuant to its terms on November 14, 2015.

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

During the three months ended March 31, 2015, 3,000 options were granted under the Plan with a weighted average grant date fair value of $4,819. During the three months ended March 31, 2015, 490,200 options were granted under the 2014 Plan with a weighted average grant date fair value of $747,152.

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

	2015	2014
Dividend yield(1)	0.0%	0.0%
Expected volatility(2)	53.78% to 56.00%	55.79% to 57.99%
Risk-free interest rate(3)	1.49% to 1.95%	1.51% to 2.13%
Expected life(4)	5.5 to 7.0 years	5.5 to 7.0 years

(1) A dividend yield of 0.0% is utilized because cash dividends have never been paid.
(2) Expected volatility is based on Bloomberg's five and one-half to seven year volatility calculation for "FRBK" stock.
(3) The risk-free interest rate is based on the five to seven year Treasury bond.
(4) The expected life reflects a 1 to 4 year vesting period, the maximum ten year term and review of historical behavior.

During the three months ended March 31, 2015 and 2014, 312,812 shares and 147,575 shares vested, respectively. Expense is recognized ratably over the period required to vest. At March 31, 2015, the intrinsic value of the 1,986,974 options outstanding was $942,801, while the intrinsic value of the 766,948 exercisable (vested) options was $301,700. During the three months ended March 31, 2015, 625 options were forfeited with a weighted average grant date fair value of $931.

Information regarding stock based compensation for the three months ended March 31, 2015 and 2014 is set forth below:

	2015	2014
Stock based compensation expense recognized	$ 118,000	$ 88,000
Number of unvested stock options	1,220,026	1,116,138
Fair value of unvested stock options	$ 1,911,407	$ 1,620,736
Amount remaining to be recognized as expense	$ 1,335,438	$ 1,021,120

The remaining amount of $1,335,438 will be recognized ratably as expense through February 2019.

Earnings per Share

Earnings per share ("EPS") consist of two separate components: basic EPS and diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income by the weighted average number of common shares outstanding plus dilutive common stock equivalents ("CSEs"). CSEs consist of dilutive stock options granted through the Company's Plan and 2014 Plan and convertible securities related to the trust preferred securities issued in 2008. In the diluted EPS computation, the after tax interest expense on the trust preferred securities issuance is added back to net income. For the three months ended March 31, 2015 and 2014, the effect of CSEs (convertible securities related to the trust preferred securities only) and the related add back of after tax interest expense was considered anti-dilutive and therefore was not included in the EPS calculations.

The calculation of EPS for the three months ended March 31, 2015 and 2014 is as follows (in thousands, except per share amounts):

	Three Months Ended March 31, 2015	2014
Net income - basic and diluted	$ 528	$ 755
Weighted average shares outstanding	37,816	25,973
Net income per share – basic	$ 0.01	$ 0.03
Weighted average shares outstanding (including dilutive CSEs)	38,047	26,212
Net income per share – diluted	$ 0.01	$ 0.03

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 financial statements.

ASU 2014-09

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

ASU 2014-14

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

Note 3: Legal Proceedings

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

Note 4: Segment Reporting

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

Note 5: Investment Securities

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

	At March 31, 2015			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	$99,421	$1,508	$(142)	$100,787
Mortgage-backed securities	12,474	549	(45)	12,978
Municipal securities	17,031	404	(47)	17,388
Corporate bonds	33,817	555	(51)	34,321
Asset-backed securities	18,164	222	-	18,386
Trust preferred securities	5,240	-	(2,198)	3,042
Other securities	115	7	-	122
Total securities available for sale	$186,262	$3,245	$(2,483)	$187,024
U.S. Government agencies	$1	$-	$-	$1
Collateralized mortgage obligations	66,721	1,136	-	67,857
Other securities	20	-	-	20
Total securities held to maturity	$66,742	$1,136	$-	$67,878

	At December 31, 2014			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	$98,626	$692	$(96)	$99,222
Mortgage-backed securities	13,271	564	(33)	13,802
Municipal securities	15,784	363	(40)	16,107
Corporate bonds	33,840	621	(34)	34,427
Asset-backed securities	18,353	152	-	18,505
Trust preferred securities	5,261	-	(2,068)	3,193
Other securities	115	8	-	123
Total securities available for sale	$185,250	$2,400	$(2,271)	$185,379
U.S. Government agencies	$1	$-	$-	$1
Collateralized mortgage obligations	67,845	531	(144)	68,232
Other securities	20	-	-	20
Total securities held to maturity	$67,866	$531	$(144)	$68,253

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The maturity distribution of the amortized cost and estimated market value of investment securities by contractual maturity at March 31, 2015 is as follows:

	Available for Sale		Held to Maturity	
(dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 1 year or less	$ 13,398	$ 13,498	$ -	$ -
After 1 year to 5 years	86,809	87,202	43,315	44,104
After 5 years to 10 years	75,048	75,062	23,427	23,774
After 10 years	11,007	11,262	-	-
Total	$ 186,262	$ 187,024	$ 66,742	$ 67,878

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

As of March 31, 2015 and December 31, 2014, 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 March 31, 2015 and December 31, 2014. In addition, the Company did not hold any private issued CMO’s as of March 31, 2015 and December 31, 2014. As of March 31, 2015 and December 31, 2014, the asset-backed securities consist 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 the three months ended March 31, 2015 amounted to $3,000. There were no impairment charges (credit losses) on trust preferred securities for the three months ended March 31, 2014.

The following table presents a roll-forward of the balance of credit-related impairment losses on securities held at March 31, 2015 and 2014 for which a portion of OTTI was recognized in other comprehensive income:

(dollars in thousands)	2015	2014
Beginning Balance, January 1st	$3,966	$3,959
Additional credit-related impairment loss on securities for which an other-than-temporary impairment was previously recognized	3	-
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, March 31st	$3,969	$3,959

No securities were sold during the three months ended March 31, 2015 and March 31, 2014.

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

	At March 31, 2015					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized mortgage obligations	$22,105	$142	$-	$-	$22,105	$142
Mortgage-backed securities	5,128	24	1,057	21	6,185	45
Municipal securities	2,064	26	1,405	21	3,469	47
Corporate bonds	4,951	51	-	-	4,951	51
Trust preferred securities	-	-	3,042	2,198	3,042	2,198
Total Available for Sale	$34,248	$243	$5,504	$2,240	$39,752	$2,483

	At March 31, 2015					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized mortgage obligations	$ -	-	$ -	-	$ -	-
Total Held to Maturity	$ -	$ -	$ -	$ -	$ -	$ -

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

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

Total Held to Maturity	$ 19,766	$ 92	$ 9,232	$ 52	$ 28,998	$ 144

The impairment of the investment portfolio amounted to $2.5 million on securities with a total fair value of $39.8 million at March 31, 2015. The most significant components of this impairment are related to the trust preferred securities held in the portfolio. 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 March 31, 2015, the investment portfolio included thirty-five collateralized mortgage obligations with a total market value of $168.6 million. Four of these securities carried an unrealized loss at March 31, 2015. At March 31, 2015, the investment portfolio included forty-two mortgage-backed securities with a total market value of $13.0 million. Three of these securities carried an unrealized loss at March 31, 2015. At March 31, 2015, the investment portfolio included two asset-backed securities with a total market value of $18.4 million. None of these securities carried an unrealized loss at March 31, 2015. Management found no evidence of OTTI on any of these securities and the unrealized losses are due to changes in market value resulting from changes in market interest rates and are considered temporary as of March 31, 2015.

The unrealized losses on the trust preferred securities are primarily the result of the secondary market for such securities becoming inactive and are also considered temporary at this time.

The following table provides additional detail about the trust preferred securities held in the portfolio as of March 31, 2015.

(dollars in thousands)	Class / Tranche	Amortized Cost	Fair Value	Unrealized Losses	Lowest Credit Rating Assigned	Number of Banks Currently Performing	Deferrals / Defaults as % of Current Balance	Conditional Default Rates for 2014 and beyond	Cumulative OTTI Life to Date
Preferred Term Securities IV	Mezzanine Notes	$ 49	$ 39	$ (10)	B1	6	18%	0.32%	$ -
Preferred Term Securities VII	Mezzanine Notes	961	788	(173)	D	12	50	0.45	2,173
TPREF Funding II	Class B Notes	732	371	(361)	C	18	39	0.38	267
TPREF Funding III	Class B2 Notes	1,518	739	(779)	C	15	36	0.30	483
Trapeza CDO I, LLC	Class C1 Notes	556	295	(261)	C	8	50	0.31	470
ALESCO Preferred Funding IV	Class B1 Notes	604	396	(208)	C	41	6	0.33	396
ALESCO Preferred Funding V	Class C1 Notes	820	414	(406)	C	39	17	0.34	180
Total		$ 5,240	$ 3,042	$ (2,198)		139	31%		$ 3,969

At March 31, 2015, the investment portfolio included thirty municipal securities with a total market value of $17.4 million. Four of these securities carried an unrealized loss at March 31, 2015. 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 and New Jersey where twenty-three municipal securities had a market value of $12.9 million. As of March 31, 2015, management found no evidence of OTTI on any of the municipal securities held in the investment securities portfolio.

In July 2014, thirteen CMOs with a fair value of $70.1 million that were previously classified as available-for-sale were transferred to the held-to-maturity category. These securities were transferred at fair value. Unrealized losses of $1.2 million associated with the transferred securities will remain in other comprehensive income and be amortized as an adjustment to yield over the remaining life of those securities. At March 31, 2015, the fair market value of the securities transferred to held-for-maturity is $67.9 million and the unrealized gains are $79,000.

Note 6: Loans Receivable and Allowance for Loan Losses

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

(dollars in thousands)	March 31, 2015	December 31, 2014
Commercial real estate	$ 364,397	$ 379,259
Construction and land development	35,238	29,861
Commercial and industrial	159,819	145,113
Owner occupied real estate	188,783	188,025
Consumer and other	40,468	39,713
Residential mortgage	405	408
Total loans receivable	789,110	782,379
Deferred costs (fees)	(309)	(439)
Allowance for loan losses	(10,944)	(11,536)
Net loans receivable	$ 777,857	$ 770,404

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

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

	March 31, 2015			December 31, 2014		
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial real estate	$ 11,764	$ 11,863	$ -	$ 11,964	$ 11,969	$ -
Construction and land development	155	3,899	-	61	158	-
Commercial and industrial	3,943	5,229	-	3,764	7,275	-
Owner occupied real estate	878	1,083	-	524	528	-
Consumer and other	573	840	-	429	708	-
Total	$ 17,313	$ 22,914	$ -	$ 16,742	$ 20,638	$ -
With an allowance recorded:						
Commercial real estate	$ 13,013	$ 13,140	$ 3,838	$ 13,118	$ 13,245	$ 3,858
Construction and land development	-	-	-	316	3,741	217
Commercial and industrial	1,559	4,226	308	1,457	2,057	211

Owner occupied real estate	4,409	4,410	825	4,011	4,162	844
Consumer and other	-	-	-	-	-	-
Total	$ 18,981	$ 21,776	$ 4,971	$ 18,902	$ 23,205	$ 5,130
Total:						
Commercial real estate	$ 24,777	$ 25,003	$ 3,838	$ 25,082	$ 25,214	$ 3,858
Construction and land development	155	3,899	-	377	3,899	217
Commercial and industrial	5,502	9,455	308	5,221	9,332	211
Owner occupied real estate	5,287	5,493	825	4,535	4,690	844
Consumer and other	573	840	-	429	708	-
Total	$ 36,294	$ 44,690	$ 4,971	$ 35,644	$ 43,843	$ 5,130

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The following table presents additional information regarding the Company's impaired loans for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,			
	2015		2014	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate	$ 11,864	$ 162	$ 6,772	$ 106
Construction and land development	108	-	799	-
Commercial and industrial	3,854	21	2,539	1
Owner occupied real estate	701	1	678	5
Consumer and other	501	1	548	1
Total	$ 17,028	$ 185	$ 11,336	$ 113
With an allowance recorded:				
Commercial real estate	$13,066	$-	$13,173	$138
Construction and land development	158	-	641	-
Commercial and industrial	1,508	-	4,308	1
Owner occupied real estate	4,209	33	2,911	35
Consumer and other	-	-	101	-
Total	$18,941	$33	$21,134	$174
Total:				
Commercial real estate	$24,930	$162	$19,945	$244
Construction and land development	266	-	1,440	-
Commercial and industrial	5,362	21	6,847	2
Owner occupied real estate	4,910	34	3,589	40
Consumer and other	501	1	649	1
Total	$35,969	$218	$32,470	$287

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately $245,000 and $143,000 for the three months ended March 31, 2015 and 2014, respectively.

The following tables provide the activity in and ending balances of the allowance for loan losses by loan portfolio class at and for the three months ended March 31, 2015 and 2014:

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
Three months ended March 31, 2015								
Allowance for loan losses:								
Beginning balance:	$ 6,828	$ 917	$ 1,579	$ 1,638	$ 234	$ 2	$ 338	$ 11,536
Charge-offs	(231)	(222)	(169)	(55)	-	-	-	(677)
Recoveries	4	5	45	-	31	-	-	85
Provisions (credits)	(338)	(445)	469	(5)	(35)	-	354	-
Ending balance	$ 6,263	$ 255	$ 1,924	$ 1,578	$ 230	$ 2	$ 692	$ 10,944
Three months ended March 31, 2014								
Allowance for loan losses:								
Beginning balance:	$ 6,454	$ 1,948	$ 2,309	$ 985	$ 225	$ 14	$ 328	$ 12,263
Charge-offs	-	(20)	(283)	-	(10)	-	-	(313)
Recoveries	-	-	-	-	-	-	-	-
Provisions (credits)	(180)	(1,067)	614	143	(18)	(1)	509	-
Ending balance	$ 6,274	$ 861	$ 2,640	$ 1,128	$ 197	$ 13	$ 837	$ 11,950

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 March 31, 2015 and December 31, 2014:

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
March 31, 2015								
Allowance for loan losses:								
Individually evaluated for impairment	$ 3,838	$ -	$ 294	$ 839	$ -	$ -	$ -	$ 4,971
Collectively evaluated for impairment	2,425	255	1,630	739	230	2	692	5,973
	$ 6,263	$ 255	$ 1,924	$ 1,578	$ 230	$ 2	$ 692	$ 10,944

Total allowance for loan losses								
Loans receivable:								
Loans evaluated individually	$ 24,777	$ 155	$ 5,502	$ 5,287	$ 573	$ -	$ -	$ 36,294
Loans evaluated collectively	339,620	35,083	154,317	183,496	39,895	405	-	752,816
Total loans receivable	$ 364,397	$ 35,238	$ 159,819	$ 188,783	$ 40,468	$ 405	$ -	$ 789,110

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(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, 2014								
Allowance for loan losses:								
Individually evaluated for impairment	$ 3,858	$ 217	$ 211	$ 844	$ -	$ -	$ -	$ 5,130
Collectively evaluated for impairment	2,970	700	1,368	794	234	2	338	6,406
Total allowance for loan losses	$ 6,828	$ 917	$ 1,579	$ 1,638	$ 234	$ 2	$ 338	$ 11,536
Loans receivable:								
Loans evaluated individually	$ 25,082	$ 377	$ 5,221	$ 4,535	$ 429	$ -	$ -	$ 35,644
Loans evaluated collectively	354,177	29,484	139,892	183,490	39,284	408	-	746,735
Total loans receivable	$ 379,259	$ 29,861	$ 145,113	$ 188,025	$ 39,713	$ 408	$ -	$ 782,379

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

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
At March 31, 2015							
Commercial real estate	$ 6,874	$ 27	$ 18,726	$ 25,627	$ 338,770	$ 364,397	$ 5,013
Construction and land development	275	-	155	430	34,808	35,238	-
Commercial and industrial	937	1,631	3,203	5,771	154,048	159,819	-
Owner occupied real estate	3,622	209	2,459	6,290	182,493	188,783	-
Consumer and other	147	-	426	573	39,895	40,468	-
Residential mortgage	-	-	-	-	405	405	-
Total	$ 11,855	$ 1,867	$ 24,969	$ 38,691	$ 750,419	$ 789,110	$ 5,013

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

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

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
At March 31, 2015:					
Commercial real estate	$330,950	$8,142	$25,305	$-	$364,397
Construction and land development	34,808	275	155	-	35,238
Commercial and industrial	153,511	679	4,200	1,429	159,819
Owner occupied real estate	182,649	847	5,287	-	188,783
Consumer and other	39,562	75	831	-	40,468
Residential mortgage	405	-	-	-	405
Total	$741,885	$10,018	$35,778	$1,429	$789,110

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

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

(dollars in thousands)	March 31, 2015	December 31, 2014
Commercial real estate	$ 13,713	$ 13,979
Construction and land development	155	377
Commercial and industrial	3,203	4,349
Owner occupied real estate	2,459	2,306
Consumer and other	426	429
Residential mortgage	-	-
Total	$ 19,956	$ 21,440

Troubled Debt Restructurings

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

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

(dollars in thousands)	Number of Loans	Accrual Status	Non-Accrual Status	Total TDRs
March 31, 2015				
Commercial real estate	1	$ 6,051	$ -	$ 6,051
Construction and land development	-	-	-	-
Commercial and industrial	1	-	969	969
Owner occupied real estate	1	1,849	-	1,849
Consumer and other	-	-	-	-
Residential mortgage	-	-	-	-
Total	3	$ 7,900	$ 969	$ 8,869
December 31, 2014				
Commercial real estate	1	$ 6,069	$ -	$ 6,069
Construction and land development	-	-	-	-
Commercial and industrial	1	-	1,673	1,673
Owner occupied real estate	1	1,852	-	1,852
Consumer and other	-	-	-	-
Residential mortgage	-	-	-	-
Total	3	$ 7,921	$ 1,673	$ 9,594

All TDRs are considered impaired and are therefore individually evaluated for impairment in the calculation of the allowance for loan losses. Some TDRs may not ultimately result in the full collection of principal and interest as restructured and could lead to potential incremental losses. These potential incremental losses would be factored into our estimate of the allowance for loan losses. The level of any subsequent defaults will likely be affected by future economic conditions. There were no loan modifications made during the three months ended March 31, 2015 and 2014 that met the criteria of a TDR.

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

Note 7: Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales 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 March 31, 2015 and December 31, 2014 were as follows:

(dollars in thousands)	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
March 31, 2015				
Collateralized mortgage obligations	$100,787	$-	$100,787	$ -
Mortgage-backed securities	12,978	-	12,978	-
Municipal securities	17,388	-	17,388	-
Corporate bonds	34,321	-	31,315	3,006
Asset-backed securities	18,386	-	18,386	-
Trust Preferred Securities	3,042	-	-	3,042
Other securities	122	-	122	-
Securities Available for Sale	$187,024	$-	$180,976	$ 6,048
December 31, 2014				
Collateralized mortgage obligations	$99,222	$-	$99,222	$-
Mortgage-backed securities	13,802	-	13,802	-
Municipal securities	16,107	-	16,107	-
Corporate bonds	34,427	-	31,422	3,005
Asset-backed securities	18,505	-	18,505	-
Trust Preferred Securities	3,193	-	-	3,193

Other securities	123	-	123	-
Securities Available for Sale	$185,379	$-	$179,181	$6,198

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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 months ended March 31, 2015 and 2014:

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
Level 3 Investments Only (dollars in thousands)	Trust Preferred Securities	Corporate Bonds	Trust Preferred Securities	Corporate Bonds
Balance, January 1st	$ 3,193	$ 3,005	$ 2,850	$ 3,006
Unrealized (losses) gains	(129)	1	(43)	-
Paydowns	(19)	-	-	-
Impairment charges on Level 3	(3)	-	-	-
Balance, March 31st	$ 3,042	$ 3,006	$ 2,807	$ 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 March 31, 2015 and December 31, 2014 were as follows:

(dollars in thousands)	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
March 31, 2015				
Impaired loans	$15,718	$-	$-	$ 15,718
Other real estate owned	1,141	-	-	1,141
SBA servicing assets	4,267	-	-	4,267
December 31, 2014:				
Impaired loans	$15,838	$-	$-	$ 15,838
Other real estate owned	2,135	-	-	2,135
SBA servicing assets	4,099	-	-	4,099

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

Quantitative Information about Level 3 Fair Value Measurements

Asset Description	Fair Value	Valuation Technique	Unobservable Input	Range Weighted Average
March 31, 2015:				
Impaired loans	$ 15,718	Fair Value of Collateral (1)	Appraised Value (2)	16% - 91% (31%) (4)
Other real estate owned	$ 1,141	Fair Value of Collateral (1)	Appraised Value (2) Sales Price	7% - 28% (12%) (4)
SBA Servicing Assets	$ 4,267	Fair Value	Individual Loan Valuation (3)	(3)
December 31, 2014:				
Impaired loans	$ 15,838	Fair Value of Collateral (1)	Appraised Value (2)	0% - 89% (30%) (4)
Other real estate owned	$ 2,135	Fair Value of Collateral (1)	Appraised Value (2) Sales Price	7% - 39% (22%) (4)
SBA Servicing Assets	$ 4,099	Fair Value	Individual Loan Valuation (3)	(3)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which include Level 3 inputs that are not identifiable.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.
(3) There is a lack of transactional data in this market place for the non-guaranteed portion of SBA loans.
(4) The range and weighted average of qualitative factors such as economic conditions and estimated liquidation expenses are presented as a percent of the appraised value.

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

The following table presents an analysis of the activity in the SBA servicing assets for the three months ended March 31, 2015 and 2014:

(dollars in thousands)	Three Months Ended March 31, 2015	2014
Beginning balance	$ 4,099	$ 3,477
Additions	135	304
Fair value adjustments	33	24
Ending balance	$ 4,267	$ 3,805

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 March 31, 2015 and December 31, 2014.

Cash and Cash Equivalents (Carried at Cost)

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

Investment Securities

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

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

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

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

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

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

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

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

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

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

Loans Receivable (Carried at Cost)

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

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

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

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

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

SBA Servicing Asset (Carried at Fair Value)

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

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

(dollars in thousands)		March 31, 2015			December 31, 2014	
SBA Servicing Asset						
Fair Value of SBA Servicing Asset	$	4,267		$	4,099	
Composition of SBA Loans Serviced for Others						
Fixed-rate SBA loans		0	%		0	%
Adjustable-rate SBA loans		100	%		100	%
Total		100	%		100	%
Weighted Average Remaining Term		21.1 years			21.2 years	
Prepayment Speed		7.76	%		7.45	%
Effect on fair value of a 10% increase	$	(132	)	$	(116	)
Effect on fair value of a 20% increase		(256	)		(226	)
Weighted Average Discount Rate		11.31	%		12.48	%
Effect on fair value of a 10% increase	$	(214	)	$	(195	)
Effect on fair value of a 20% increase		(413	)		(378	)

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

Restricted Stock (Carried at Cost)

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

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amount of accrued interest receivable and accrued interest payable approximates its 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 March 31, 2015 and December 31, 2014:

	Fair Value Measurements at March 31, 2015				
(dollars in thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Balance Sheet Data					
Financial assets:					
Cash and cash equivalents	$ 162,528	$ 162,528	$ 162,528	$ -	$ -
Investment securities available for sale	187,024	187,024	-	180,976	6,048
Investment securities held to maturity	66,742	67,878	-	67,878	-
Restricted stock	1,157	1,157	-	1,157	-
Loans held for sale	4,955	5,426	-	-	5,426
Loans receivable, net	777,857	767,153	-	-	767,153
SBA servicing assets	4,267	4,267	-	-	4,267
Accrued interest receivable	3,401	3,401	-	3,401	-
Financial liabilities:					
Deposits					
Demand, savings and money market	$ 1,046,764	$ 1,046,764	$ -	$ 1,046,764	$ -
Time	74,633	74,837	-	74,837	-
Subordinated debt	22,476	18,570	-	-	18,570
Accrued interest payable	260	260	-	260	-
Off-Balance Sheet Data					
Commitments to extend credit	-	-			
Standby letters-of-credit	-	-			

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

Investment securities available for sale	185,379	185,379	-	179,181	6,198
Investment securities held to maturity	67,866	68,253	-	68,253	-
Restricted stock	1,157	1,157	-	1,157	-
Loans held for sale	1,676	1,699	-	-	1,699
Loans receivable, net	770,404	760,163	-	-	760,163
SBA servicing assets	4,099	4,099	-	-	4,099
Accrued interest receivable	3,226	3,226	-	3,226	-
Financial liabilities:					
Deposits					
Demand, savings and money market	$ 996,861	$ 996,861	$ -	$ 996,861	$ -
Time	75,369	75,592	-	75,592	-
Subordinated debt	22,476	18,221	-	-	18,221
Accrued interest payable	265	265	-	265	-
Off-Balance Sheet Data					
Commitments to extend credit	-	-			
Standby letters-of-credit	-	-			

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

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

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

Regulatory Reform and Legislation

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

Many of the requirements called for in the Dodd-Frank Act will be implemented over time, and most are subject to implementing regulations that have or will be 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. Effective as of January 1, 2015, the new minimum capital to risk-adjusted assets requirements are a common equity tier 1 capital ratio of 4.5% (6.5% to be considered "well capitalized") and a tier 1 capital ratio of 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% to be considered "well capitalized"); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered "well capitalized"). Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity tier 1 capital above its minimum risk-based capital requirements, which amount must be greater than 2.5% of total risk-weighted assets at January 1, 2019. The capital contribution buffer requirements phase in over a three-year period beginning January 1, 2016.

Financial Condition

Assets

Total assets increased by $49.4 million, or 4.1%, to $1.3 billion at March 31, 2015, compared to $1.2 billion at December 31, 2014, mainly due to increases in cash and cash equivalents, loans receivable, and loans held for sale during the first three months of 2015.

Cash and Cash Equivalents

Cash and due from banks and interest bearing deposits comprise this category, which consists of our most liquid assets. The aggregate amount of these two categories increased by $33.7 million, to $162.5 million at March 31, 2015, from $128.8 million at December 31, 2014, primarily as a result of deposit growth during the first quarter of 2015.

Loans Held for Sale

Loans held for sale are comprised of loans guaranteed by the U.S. Small Business Administration ("SBA") which the Company usually originates with the intention of selling in the future. Total SBA loans held for sale were $5.0 million at March 31, 2015 as compared to $1.7 million at December 31, 2014. The increase of $3.3 million was primarily driven by the timing of settlement on the sale of two loans which closed shortly after March 31, 2015. Loans held for sale, as a percentage of total Company assets, were less than 1% at March 31, 2015.

Loans Receivable

The loan portfolio represents our largest asset category and is our most significant source of interest income. Our lending strategy is focused on small and medium size businesses and professionals that seek highly personalized banking services. The loan portfolio consists of secured and unsecured commercial loans including commercial real estate, construction loans, residential mortgages, automobile loans, home improvement loans, home equity loans and lines of credit, overdraft lines of credit and others. Commercial loans typically range between $250,000 and $5,000,000 but customers may borrow significantly larger amounts up to our legal lending limit to a customer, which was approximately $19.9 million at March 31, 2015. Loans made to one individual customer, even if secured by different collateral, are aggregated for purposes of the lending limit.

Loans increased $6.9 million, or 0.9%, to $788.8 million at March 31, 2015, compared to $781.9 million at December 31, 2014. This growth was the result of an increase in loan demand in the commercial and industrial and construction and land development categories over the first three months of 2015 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 $187.0 million at March 31, 2015, compared to $185.4 million at December 31, 2014. The increase of $1.6 million was primarily due to the purchase of securities totaling $6.4 million partially offset by proceeds from paydowns of securities totaling $5.3 million during the first three months of 2015. At March 31, 2015, the portfolio had a net unrealized gain of $762,000 compared to a net unrealized gain of $129,000 at December 31, 2014.

Investment securities held-to-maturity are investments for which there is the intent and ability to hold the investment to maturity. These investments are carried at amortized cost. The held-to-maturity portfolio consists primarily of CMOs. The market value of securities held-to-maturity totaled $67.9 million and $68.3 million at March 31, 2015 and December 31, 2014, respectively. The decrease was primarily due to pay downs of securities totaling $1.1 million. At March 31, 2015, the portfolio had a net unrealized gain of $1.1 million compared to a net unrealized gain of $387,000 at December 31, 2014.

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 quarter of 2015.

Restricted Stock

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

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

Other Real Estate Owned

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

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 $49.2 million, or 4.6%, to $1.1 billion at March 31, 2015 from $1.1 billion at December 31, 2014. The increase was primarily the result of increases in noninterest-bearing demand deposit balances, interest-bearing demand deposit balances, and money market and savings balances partially offset by a reduction in certificate of deposit balances. Republic has continued to focus on its effort 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 Bank has begun to implement its relocation and expansion strategy through the opening of additional stores. This strategy has also allowed Republic to nearly eliminate its dependence on the more volatile sources of funding in brokered and public fund certificates of deposit.

Shareholders' Equity

Total shareholders' equity increased $1.1 million to $113.9 million at March 31, 2015, compared to $112.8 million at December 31, 2014, primarily due to the net income recognized during the first three months of 2015 and a reduction in accumulated other comprehensive losses associated with an increase in the market value of the investment securities portfolio. The shift in market value of the securities portfolio resulting in accumulated other comprehensive losses of $189,000 at March 31, 2015 compared to accumulated other comprehensive losses of $632,000 at December 31, 2014 was primarily driven by a decrease in market interest rates which drove an increase in value of the securities held in the Company's portfolio.

Results of Operations

Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014

The Company reported net income of $528,000 or $0.01 per share, for the three months ended March 31, 2015, compared to net income of $755,000, or $0.03 per share, for the three months ended March 31, 2014. The decrease in net income was primarily driven by an increase in non-interest expenses and a decrease in non-interest income which were partially offset by an increase in net interest income.

Net interest income was $9.5 million for the three month period ended March 31, 2015 compared to $8.6 million for the three months ended March 31, 2014. Interest income increased $1.1 million, or 11.5%, to $10.8 million for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. This increase was primarily due to a $96.5 million increase in average loan balances and a $46.7 million increase in average investment securities. Interest expense increased $238,000, or 22.5%, to $1.3 million for the three months ended March 31, 2015 compared to $1.1 million for the three months ended March 31, 2014. This increase was primarily due to an increase in average deposits outstanding.

The Company did not require a provision for loan losses for the three months ended March 31, 2015 and 2014. During both periods, decreases in the allowance required for loans collectively evaluated for impairment were driven by a reduction in the factor used in the calculation related to historical charge-offs which has declined as a result of lower charge-offs in recent years.

Non-interest income decreased by $353,000 to $1.6 million during the three months ended March 31, 2015 compared to $1.9 million during the three months ended March 31, 2014. The decrease during the three months ended March 31, 2015 was primarily due to a decrease in gains on the sale of SBA loans partially offset by increases in loan advisory and servicing fees and service fees on deposit accounts. The decrease in gains on the sale of SBA loans was a result of lower originations during the first quarter of 2015.

Non-interest expenses increased $703,000 to $10.5 million during the three months ended March 31, 2015 compared to $9.8 million during the three months ended March 31, 2014. This increase was primarily driven by higher salaries, employee benefits, occupancy and equipment expenses associated with the addition of new stores related to the Company's expansion strategy over the last twelve months.

Return on average assets and average equity from continuing operations was 0.17% and 1.89%, respectively, during the three months ended March 31, 2015 compared to 0.32% and 4.76%, respectively, for the three months ended March 31, 2014.

Analysis of Net Interest Income

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

Average Balances and Net Interest Income

	For the three months ended March 31, 2015			For the three months ended March 31, 2014		
(dollars in thousands)	Average Balance	Interest	Yield/ Rate(1)	Average Balance	Interest	Yield/ Rate(1)
Interest-earning assets:						
Federal funds sold and other interest-earning assets	$130,418	$77	0.24 %	$17,829	$12	0.27 %
Investment securities and restricted stock	254,741	1,674	2.63 %	208,046	1,363	2.62 %
Loans receivable	783,379	9,145	4.73 %	686,869	8,367	4.94 %
Total interest-earning assets	1,168,538	10,896	3.78 %	912,744	9,742	4.33 %
Other assets	61,974			42,951		
Total assets	$1,230,512			$955,695		
Interest-earning liabilities:						
Demand – non-interest bearing	$226,708			$169,699		
Demand – interest bearing	295,630	290	0.40 %	213,980	191	0.36 %
Money market & savings	489,779	553	0.46 %	400,880	416	0.42 %
Time deposits	75,485	175	0.94 %	77,468	173	0.91 %
Total deposits	1,087,602	1,018	0.38 %	862,027	780	0.37 %
Total interest-bearing deposits	860,894	1,018	0.48 %	692,328	780	0.46 %
Other borrowings	22,516	276	4.97 %	22,476	276	4.98 %
Total interest-bearing liabilities	883,410	1,294	0.59 %	714,804	1,056	0.60 %
Total deposits and other borrowings	1,110,118	1,294	0.47 %	884,503	1,056	0.48 %
Non interest-bearing other liabilities	7,094			6,901		
Shareholders' equity	113,300			64,291		
Total liabilities and shareholders' equity	$1,230,512			$955,695		
Net interest income (2)		$ 9,602			$ 8,686	
Net interest spread			3.19%			3.73%

Net interest margin (2)	3.33%	3.86%

(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 $135 and $87 for the three months ended March 31, 2015 and 2014, respectively, to adjust for tax equivalency. The tax equivalent net interest margin is calculated by dividing tax equivalent net interest income by average total interest earning assets.

Rate/Volume Analysis of Changes in Net Interest Income

Net interest income may also be analyzed by segregating the volume and rate components of interest income and interest expense. The following table sets forth an analysis of volume and rate changes in net interest income for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014. For purposes of this table, changes in interest income and expense are allocated to volume and rate categories based upon the respective changes in average balances and average rates.

	For the three months ended March 31, 2015 vs. 2014		
	Changes due to:		
(dollars in thousands)	Average Volume	Average Rate	Total Change
Interest earned:			
Federal funds sold and other interest-earning assets	$66	$(1)	$65
Securities	307	4	311
Loans	1,113	(335)	778
Total interest-earning assets	1,486	(332)	1,154
Interest expense:			
Deposits			
Interest-bearing demand deposits	80	19	99
Money market and savings	100	37	137
Time deposits	(5)	7	2
Total deposit interest expense	175	63	238
Other borrowings	-	-	-
Total interest expense	175	63	238
Net interest income	$1,311	$(395)	$916

Net Interest Income and Net Interest Margin

Net interest income, on a fully tax-equivalent basis, for the first quarter of 2015 increased $916,000, or 10.5%, over the same period in 2014. Interest income, on a fully tax-equivalent basis, on interest-earning assets totaled $10.9 million and $9.7 million for the first quarter of 2015 and 2014, respectively. The increase in interest income was the result of a $96.5 million increase in average loans receivable and a $46.7 million increase in average investment securities was offset by a 21 basis point decrease in loan yields for the three months ended March 31, 2015 as compared to March 31, 2014. Total interest expense for the first quarter of 2015 increased by $238,000, or 22.5%, for the first quarter of 2015 to $1.3 million from $1.1 million for the first quarter of 2014. Interest expense on deposits increased by $238,000, or 30.5%, for the first quarter of 2015 versus the same period in 2014.

Changes in net interest income are frequently measured by two statistics: net interest rate spread and net interest margin. Net interest rate spread is the difference between the average rate earned on interest-earning assets and the average rate incurred on interest-bearing liabilities. Our net interest rate spread on a fully tax-equivalent basis was 3.19% during the first quarter of 2015 versus 3.73% during the first quarter of 2014. Net interest margin represents the difference between interest income, including net loan fees earned, and interest expense, reflected as a percentage of average interest-earning assets. For the first quarter of 2015 and 2014, the fully tax-equivalent net interest margin was 3.33% and 3.86%, respectively. The net interest margin for the first quarter ending March 31, 2015 decreased primarily as a result of an increase in low yield federal funds sold and other interest earning assets and a decrease in the yield on loans receivable.

Provision for Loan Losses

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that management believes is adequate to absorb inherent losses in the loan portfolio. The Company did not record a provision for loan losses for both three month periods ended March 31, 2015 and March 31, 2014. During both periods, decreases in the allowance required for loans collectively evaluated for impairment were driven by a reduction in the factor used in the calculation related to historical charge-offs which has declined as a result of lower charge-offs in recent years.

Nonperforming assets at March 31, 2015 totaled $28.8 million, or 2.28%, of total assets, up $3.6 million, or 14.5%, from $25.2 million, or 2.07%, of total assets at December 31, 2014 and up $14.7 million, or 104.6%, from $14.1 million, or 1.44%, of total assets at March 31, 2014. The increase of $14.7 million year over year was primarily driven by one loan relationship in the amount of $13.0 million that was transferred to non-accrual status during the second quarter of 2014.

Noninterest Income

Total noninterest income decreased by $353,000, or 18.3%, from the same period in 2014. Gains on the sale of SBA loans totaled $578,000 for the first quarter of 2015 versus $1.2 million for the same period in 2014. The decrease of $576,000 in gains on the sale of SBA loans was driven by a decrease in the number of SBA loans originated and sold during the first quarter of 2015. Service charges, fees, and other operating income, compromised primarily of servicing fees on SBA loans and deposit and loan service charges, totaled $1.0 million for the first quarter of 2015, an increase of $226,000 over the first quarter of 2014.

Noninterest Expenses

Total non-interest expenses increased $703,000, or 7.2%, for the first quarter of 2015 compared to same period in 2014. A detailed explanation of noninterest expenses for certain categories for the three months ended March 31, 2015 and March 31, 2014 is presented in the following paragraphs.

Salaries and employee benefits which represent the largest component of noninterest expenses, increased by $182,000, or 3.6%, for the first quarter of 2015 compared to the first quarter of 2014 which was primarily driven by annual merit increases along with increased staffing levels related to our growth strategy of adding and relocating stores.

Occupancy expense increased by $127,000, or 12.2%, and depreciation and amortization increased by $225,000, or 45.2%, for the first quarter of 2015 versus the same period last year also as a result of the Company's continuing growth and relocation strategy.

Other real estate expenses totaled $377,000 during the first quarter of 2015, an increase of $31,000, or 9.0%, compared to the first quarter of 2014. This increase was a result of higher costs to carry foreclosed properties in the current period.

Other operating expenses totaled $1.3 million during the first quarter of 2015, an increase of $192,000, or 17.8%, from the same quarter in 2014. This increase was mainly attributable to telephone expense, transaction fees, loan expense, and other expenses resulting from our growth strategy.

One key measure that management utilizes to monitor progress in controlling overhead expenses is the ratio of annualized net noninterest expenses to average assets. For the purposes of this calculation, net non-interest expenses equal non-interest expenses less non-interest income and non-recurring expenses. For the three month period ended March 31, 2015, the ratio equaled 2.95% compared to 3.35% for the three month period ended March 31, 2014, respectively, reflecting higher average balances related to the Company's growth strategy of adding and relocating stores.

Another productivity measure utilized by management is the operating efficiency ratio. This ratio expresses the relationship of noninterest expenses to net interest income plus noninterest income. The efficiency ratio equaled 95.2% for the first three months of 2015, compared to 93.2% for the first months of 2014. The increase for the three months ended March 31, 2015 versus March 31, 2014 was due to a 7.2% increase in noninterest expenses compared to a 4.9% increase in total revenues.

Provision (Benefit) for Federal Income Taxes

We recorded a benefit for income taxes of $2,000 for the three months ended March 31, 2015, compared to a $41,000 benefit for the three months ended March 31, 2014. The $2,000 benefit recorded during the first three months of 2015 was the net result of a tax provision in the amount of $106,000 calculated on the net profit generated during the period using the Company's normal estimated tax rate, offset by an adjustment to the deferred tax asset valuation allowance in the amount of $108,000. The effective tax rates for the three-month periods ended March 31, 2015 and 2014 were 20% and 28%, respectively, excluding an adjustment to the deferred tax asset valuation allowance.

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

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

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

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

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

The net deferred tax asset balance before consideration of a valuation allowance was $19.3 million as of March 31, 2015 and $19.6 million as of December 31, 2014. After assessment of all available tax planning strategies, the Company determined that a partial valuation allowance in the amount of $14.6 million as of March 31, 2015 and $14.7 million as of December 31, 2014 should be recorded.

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

Net Income and Net Income per Common Share

Net income for the first quarter of 2015 was $528,000, a decrease of $227,000, compared to $755,000 recorded for the first quarter of 2014. The decrease in net income in the first quarter of 2015 was due to an increase of $703,000 in noninterest expenses, a decrease of $39,000 in the benefit for federal income taxes, partially offset by an increase of $515,000 in total revenues.

For the three month period ended March 31, 2015, basic and fully-diluted net income per common share was $0.01 compared to basic and fully-diluted net income per common share of $0.03 for the three month period ended March 31, 2014.

Return on Average Assets and Average Equity

Return on average assets (ROA) measures our net income in relation to our total average assets. The ROA for the first quarter of 2015 and 2014 was 0.17% and 0.32%, respectively. Return on average equity (ROE) indicates how effectively we can generate net income on the capital invested by our stockholders. ROE is calculated by dividing annualized net income by average stockholders' equity. The ROE for the first quarter of 2015 was 1.89%, compared to 4.76% for the first quarter of 2014.

Commitments, Contingencies and Concentrations

Financial instruments, whose contract amounts represent potential credit risk, were commitments to extend credit of approximately $138.2 million and $138.4 million, and standby letters of credit of approximately $3.9 million and $3.8 million, at March 31, 2015 and December 31, 2014, respectively. These financial instruments constitute off-balance sheet arrangements. Commitments often expire without being drawn upon. Substantially all of the $138.2 million of commitments to extend credit at March 31, 2015 were committed as variable rate credit facilities.

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

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

Regulatory Matters

In July 2013, the federal bank regulatory agencies adopted revisions to the agencies' capital adequacy guidelines and prompt corrective action rules, which were designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. The final rules generally implement higher minimum capital requirements, add a new common equity tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity tier 1 capital, additional tier 1 capital or tier 2 capital. Effective as of January 1, 2015, the new minimum capital to risk-adjusted assets requirements are a common equity tier 1 capital ratio of 4.5% (6.5% to be considered "well capitalized") and a tier 1 capital ratio of 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% to be considered "well capitalized"); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered "well capitalized"). Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity tier 1 capital above its minimum risk-based capital requirements, which amount must be greater than 2.5% of total risk-weighted assets at January 1, 2019. The capital contribution buffer requirements phase in over a three-year period beginning January 1, 2016. Management has reviewed the new standards and evaluated all options and strategies to ensure compliance with the new standards. Both Republic and the Company met the "well capitalized" standards applicable to them as of March 31, 2015.

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

(dollars in thousands)	Actual		For Capital Adequacy Purposes		To be well capitalized under regulatory capital guidelines	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At March 31, 2015:						
Total risk based capital						
Republic	$ 131,924	13.33 %	$ 79,145	8.00 %	$ 98,932	10.00 %
Company	145,126	14.61 %	79,467	8.00 %	-	- %
Tier one risk based capital						
Republic	120,980	12.23 %	59,359	6.00 %	79,145	8.00 %
Company	134,182	13.51 %	59,600	6.00 %	-	- %
CET 1 risk based capital						
Republic	120,980	12.23 %	44,519	4.50 %	64,306	6.50 %
Company	112,382	11.31 %	44,700	4.50 %	-	- %
Tier one leveraged capital						
Republic	120,980	9.88 %	48,968	4.00 %	61,210	5.00 %
Company	134,182	10.92 %	49,152	4.00 %	-	- %
At December 31, 2014:						
Total risk based capital						
Republic	$ 132,460	14.04 %	$ 75,491	8.00 %	$ 94,364	10.00 %
Company	142,556	15.10 %	75,543	8.00 %	-	- %
Tier one risk based capital						
Republic	120,924	12.81 %	37,746	4.00 %	56,618	6.00 %
Company	131,020	13.88 %	37,771	4.00 %	-	- %
Tier one leveraged capital						
Republic	120,924	10.37 %	46,630	4.00 %	58,288	5.00 %
Company	131,020	11.23 %	46,680	4.00 %	-	- %

Dividend Policy

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

Liquidity

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

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

The Company's target and actual liquidity levels are determined by comparisons of the estimated repayment and marketability of interest-earning assets with projected future outflows of deposits and other liabilities. The Company's most liquid assets, comprised of cash and cash equivalents on the balance sheet, totaled $162.5 million at March 31, 2015, compared to $128.8 million at December 31, 2014. Loan maturities and repayments are another source of asset liquidity. At March 31, 2015, Republic estimated that more than $45.0 million of loans would mature or repay in the six-month period ending September 30, 2015. Additionally, a significant portion of its investment securities are available to satisfy liquidity requirements if necessary. At March 31, 2015, the Company had outstanding commitments (including unused lines of credit and letters of credit) of $142.1 million. Certificates of deposit scheduled to mature in one year totaled $57.2 million at March 31, 2015. The Company anticipates that it will have sufficient funds available to meet its current commitments.

Daily funding requirements have historically been satisfied by generating core deposits and certificates of deposit with competitive rates, buying federal funds or utilizing the credit facilities of the Federal Home Loan Bank System ("FHLB"). The Company has established a line of credit with the FHLB of Pittsburgh with total borrowing capacity in the amount of $408.5 million as of March 31, 2015. As of March 31, 2015 and December 31, 2014, the Company had no outstanding term borrowings with the FHLB. The Company had no short-term borrowings at both March 31, 2015 and December 31, 2014. As of March 31, 2015, FHLB had issued letters of credit, on Republic's behalf, totaling $75.1 million against our available credit line. The Company has also established a contingency line of credit of $10.0 million with Atlantic Central Bankers Bank ("ACBB") to assist in managing its liquidity position. The Company had no amounts outstanding against the ACBB line of credit at both March 31, 2015 and December 31, 2014.

Investment Securities Portfolio

At March 31, 2015, the Company identified certain investment securities that were being held for indefinite periods of time, including securities that will be used as part of the Company's asset/liability management strategy and that may be sold in response to changes in interest rates, prepayments and similar factors. These securities are classified as available for sale and are intended to increase the flexibility of the Company's asset/liability management. Available for sale securities consist primarily of U.S Government Agency mortgage-backed securities (MBS), agency collateralized mortgage obligations (CMO), municipal securities, corporate bonds, asset-backed securities and pooled trust preferred securities (CDO). Available-for-sale securities totaled $187.0 million and $185.4 million as of March 31, 2015 and December 31, 2014, respectively. At March 31, 2015, the portfolio had a net unrealized gain of $762,000 and a net unrealized gain of $129,000 at December 31, 2014.

Loan Portfolio

The Company's loan portfolio consists of secured and unsecured commercial loans including commercial real estate, construction loans, residential mortgages, automobile loans, home improvement loans, home equity loans and lines of credit, overdraft lines of credit and others. Commercial loans are primarily secured term loans made to small to medium-sized businesses and professionals for working capital, asset acquisition and other purposes. Commercial loans are originated as either fixed or variable rate loans with typical terms of 1 to 5 years. Republic's commercial loans typically range between $250,000 and $5,000,000 million but customers may borrow significantly larger amounts up to Republic's combined legal lending limit, which was approximately $19.9 million at March 31, 2015. Individual customers may have several loans often secured by different collateral.

Credit Quality

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

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

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

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

	March 31, 2015	December 31, 2014
Loans accruing, but past due 90 days or more	$5,013	$-
Non-accrual loans	19,956	21,440
Total non-performing loans(1)	24,969	21,440
Other real estate owned	3,827	3,715
Total non-performing assets(1)	$28,796	$25,155
Non-performing loans as a percentage of total loans, net of unearned income(1)	3.17%	2.74%
Non-performing assets as a percentage of total assets	2.28%	2.07%

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

Non-performing asset balances increased by $3.6 million to $28.8 million as of March 31, 2015 from $25.2 million at December 31, 2014. Non-accrual loans decreased $1.4 million to $20.0 million at March 31, 2015, from $21.4 million at December 31, 2014. Loans accruing but past due 90 or more increased to $5.0 million at March 31, 2015, due to one loan relationship which is well secured and in the process of collection. Management has engaged in active discussions with the borrower and believes that an acceptable resolution will be achieved in the near term. In addition to non-accrual loans, impaired loans also include loans that are currently performing but potential credit concerns with the borrowers' financial condition have caused management to have doubts as to the ability of such borrowers to continue to comply with present repayment terms. At March 31, 2015 and December 31, 2014, all identified impaired loans are internally classified and individually evaluated for impairment in accordance with the guidance under ASC 310.

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

(dollars in thousands)	March 31, 2015	December 31, 2014
30 to 59 days past due	$11,855	$ 1,681
60 to 89 days past due	1,867	14,062
Total loans 30 to 89 days past due	$13,722	$ 15,743

Other Real Estate Owned

The balance of other real estate owned increased to $3.8 million at March 31, 2015 from $3.7 million at December 31, 2014, primarily due to the transfer of a foreclosed property from loans partially offset by dispositions and writedowns on foreclosed properties during the first three months of 2015.

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

(dollars in thousands)	March 31, 2015	December 31, 2014
Beginning Balance, January 1st	$ 3,715	$ 4,059
Additions	579	1,000
Valuation adjustments	(148)	(1,147)
Dispositions	(319)	(197)
Ending Balance	$ 3,827	$ 3,715

At March 31, 2015, the Company had no credit exposure to "highly leveraged transactions" as defined by the FDIC.

Allowance for Loan Losses

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

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

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

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

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

(dollars in thousands)	For the three months ended March 31, 2015	For the twelve months ended December 31, 2014	For the three months ended March 31, 2014
Balance at beginning of period	$ 11,536	$ 12,263	$ 12,263
Charge-offs:			
Commercial real estate	231	364	-
Construction and land development	222	303	20
Commercial and industrial	169	1,185	283
Owner occupied real estate	55	150	-
Consumer and other	-	10	10
Total charge-offs	677	2,012	313
Recoveries:			
Commercial real estate	4	5	-
Construction and land development	5	214	-
Commercial and industrial	45	166	-
Owner occupied real estate	-	-	-
Consumer and other	31	-	-
Total recoveries	85	385	-
Net charge-offs	592	1,627	313
Provision for loan losses	-	900	-
Balance at end of period	$ 10,944	$ 11,536	$ 11,950
Average loans outstanding(1)	$ 783,379	$ 724,231	$ 686,869
As a percent of average loans:(1)			
Net charge-offs (annualized)	0.31%	0.22%	0.18%
Provision for loan losses (annualized)	-%	%	%
Allowance for loan losses	1.40%	%	%
Allowance for loan losses to:			
Total loans, net of unearned income	1.39%	1.48%	1.71%
Total non-performing loans	43.83%	53.81%	115.17%

(1) Includes non-accruing loans.

The Company did not record a provision for loan losses during the three month periods ended March 31, 2015 and March 31, 2014. During the first quarter of 2015 and 2014, there were decreases in the allowance required for loans collectively evaluated for impairment. The decreases associated with loans collectively evaluated for impairment was driven by a reduction in the factor used in the calculation related to historical charge-offs which has declined as a result of lower charge-offs in recent years.

The allowance for loan losses as a percentage of non-performing loans (coverage ratio) was 43.83% at March 31, 2015, compared to 53.81% at December 31, 2014 and 115.17% at March 31, 2014. Total non-performing loans were $25.0 million, $21.4 million and $10.4 million at March 31, 2015, December 31, 2014 and March 31, 2014, respectively. The decrease in the coverage ratio at March 31, 2015 compared to December 31, 2014 and March 31, 2014 was a result of an increase in non-performing assets.

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

Serious delinquency is often the first indicator of a potential charge-off. Reductions in appraised collateral values and deteriorating financial condition of borrowers and guarantors are factors considered when evaluating potential charge-offs. The likelihood of possible recoveries or improvements in a borrower's financial condition are also assessed when considering a charge-off. The Company recorded net charge-offs of $592,000 during the three month period ended March 31, 2015, compared to $313,000 during the three month period ended March 31, 2014.

Partial charge-offs of non-performing and impaired loans can significantly reduce the coverage ratio and other credit loss statistics due to the fact that the balance of the allowance for loan losses will be reduced while still carrying the remainder of a non-performing loan balance in the impaired loan category. The amount of non-performing loans for which partial charge-offs have been recorded amounted to $16.9 million at March 31, 2015 compared to $17.8 million at December 31, 2014.

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

(dollars in thousands)		March 31, 2015			December 31, 2014	
Total nonperforming loans	$	24,969		$	21,440	
Nonperforming and impaired loans with partial charge-offs		16,869			17,787	
Ratio of nonperforming loans with partial charge-offs to total loans		2.14	%		2.27	%
Ratio of nonperforming loans with partial charge-offs to total nonperforming loans		67.56	%		82.96	%
Coverage ratio net of nonperforming loans with partial charge-offs		64.88	%		64.86	%

The Company's charge-off policy is reviewed on an annual basis and updated as necessary. During the three month period ended March 31, 2015, there were no changes made to this policy.

Recent Accounting Pronouncements

ASU 2014-04

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

ASU 2014-09

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

ASU 2014-14

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

Effects of Inflation

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

ITEM 3: QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISK

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

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and accumulated and communicated to the Company's management, including the Company's principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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

Changes in Internal Controls

The principal executive officer and principal financial officer also conducted an evaluation of the Company's internal control over financial reporting ("Internal Control") to determine whether any changes in Internal Control occurred during the quarter ended March 31, 2015 that have materially affected or which are reasonably likely to materially affect Internal Control. Based on that evaluation, there has been no such change during the quarter ended March 31, 2015.

Limitations on the Effectiveness of Controls

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

Exhibit Number	Description	Location
3.1	Amended and Restated Articles of Incorporation of Republic First Bancorp, Inc.	Incorporated by reference to Form 8-K filed May 13, 2010
3.2	Amended and Restated By-Laws of Republic First Bancorp, Inc.	Incorporated by reference to Form S-1 filed April 23, 2010 (333-166286)
10.1	First Amendment to Employee Agreement, dated March 18, 2015, by and among Harry D. Madonna, Republic First Bancorp, Inc. and Republic First Bank	Incorporated by reference to Form 8-K filed March 20, 2015
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer of Republic First Bancorp, Inc.	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Republic First Bancorp, Inc.	Filed herewith
32.1	Section 1350 Certification of Harry D. Madonna	Furnished herewith
32.2	Section 1350 Certification of Frank A. Cavallaro	Furnished herewith
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014, (ii) Consolidated Statements of Income for the three months ended March 31, 2015 and 2014, (iii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2015 and 2014, (iv) Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014, (v) Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2015 and 2014, and (vi) Notes to Consolidated Financial Statements.	

SIGNATURES

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

REPUBLIC FIRST BANCORP, INC.

Date: May 08, 2015	By: /s/ Harry D. Madonna Harry D. Madonna Chairman, President and Chief Executive Officer (principal executive officer)
Date: May 08, 2015	By: /s/ Frank A. Cavallaro Frank A. Cavallaro Executive Vice President and Chief Financial Officer (principal financial and accounting officer)