Section 1: 10-Q (FORM 10-Q)

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

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2020.

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ____ to ____.

Commission File Number: 000-17007

Republic First Bancorp, Inc.
(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	FRBK	Nasdaq Global Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). **YES** ☒ **NO** ☐

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

Large accelerated filer ☐	Accelerated filer ☒
Non-Accelerated filer ☐	Smaller reporting company ☐
Emerging growth company ☐	

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

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

YES ☐ **NO** ☒

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common Stock, $0.01 per share	**58,850,778**
Title of Class	Number of Shares Outstanding as of May 8, 2020

REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARIES
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Republic First Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
March 31, 2020 and December 31, 2019
(Dollars in thousands, except per share data)

	March 31, 2020	December 31, 2019
ASSETS		
Cash and due from banks	$ 32,581	$ 41,928
Interest bearing deposits with banks	23,936	126,391
Cash and cash equivalents	56,517	168,319
Investment securities available for sale, at fair value	497,511	539,042
Investment securities held to maturity, at amortized cost (fair value of $636,861 and $653,109, respectively)	611,914	644,842
Restricted stock, at cost	2,746	2,746
Mortgage loans held for sale, at fair value	15,439	10,345
Other loans held for sale	1,381	3,004
Loans receivable (net of allowance for loan losses of $10,217 and $9,266, respectively)	1,871,820	1,738,929
Premises and equipment, net	119,893	116,956
Other real estate owned, net	1,144	1,730
Accrued interest receivable	10,475	9,934
Operating leases – right-of-use asset	65,952	64,805
Goodwill	5,011	5,011
Other assets	40,613	35,627
Total Assets	$ 3,300,416	$ 3,341,290
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand – non-interest bearing	$ 676,482	$ 661,431
Demand – interest bearing	1,276,816	1,352,360
Money market and savings	768,550	761,793
Time deposits	222,631	223,579
Total Deposits	2,944,479	2,999,163
Accrued interest payable	1,733	1,630
Other liabilities	20,588	11,208
Operating lease liability obligation	70,233	68,856
Subordinated debt	11,267	11,265
Total Liabilities	3,048,300	3,092,122
Shareholders' Equity		
Preferred stock, par value $0.01 per share: 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value $0.01 per share: 100,000,000 shares authorized; shares issued 59,379,623 as of March 31, 2020 and 59,371,623 as of December 31, 2019; shares outstanding 58,850,778 as of March 31, 2020 and 58,842,778 as of December 31, 2019	594	594
Additional paid in capital	272,639	272,039
Accumulated deficit	(12,809)	(12,216)
Treasury stock at cost (503,408 shares as of March 31, 2020 and December 31, 2019)	(3,725)	(3,725)
Stock held by deferred compensation plan (25,437 shares as of March 31, 2020 and December 31, 2019)	(183)	(183)
Accumulated other comprehensive loss	(4,400)	(7,341)
Total Shareholders' Equity	252,116	249,168
Total Liabilities and Shareholders' Equity	$ 3,300,416	$ 3,341,290

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Income
For the Three Months Ended March 31, 2020 and 2019
(Dollars in thousands, except per share data)
(unaudited)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Interest income		
Interest and fees on taxable loans	$ 19,623	$ 17,380
Interest and fees on tax-exempt loans	550	420
Interest and dividends on taxable investment securities	6,801	7,245
Interest and dividends on tax-exempt investment securities	20	138
Interest on federal funds sold and other interest-earning assets	289	336
Total interest income	27,283	25,519
Interest expense		
Demand-interest bearing	3,421	3,938
Money market and savings	1,783	1,452
Time deposits	1,221	624
Other borrowings	104	365
Total interest expense	6,529	6,379
Net interest income	20,754	19,140
Provision for loan losses	950	300
Net interest income after provision for loan losses	19,804	18,840
Non-interest income		
Loan and servicing fees	471	210
Mortgage banking income	2,458	2,220
Gain on sales of SBA loans	649	502
Service fees on deposit accounts	2,064	1,612
Gain on sale of investment securities	841	322
Other non-interest income	62	79
Total non-interest income	6,545	4,945
Non-interest expenses		
Salaries and employee benefits	13,381	12,359
Occupancy	3,422	2,594
Depreciation and amortization	1,875	1,421
Legal	296	229
Other real estate owned	282	337
Appraisal and other loan expenses	422	461
Advertising	381	315
Data processing	1,574	1,162
Insurance	276	235
Professional fees	634	478
Debit card processing	825	556
Regulatory assessments and costs	630	421
Taxes, other	203	287
Other operating expenses	3,071	2,412
Total non-interest expense	27,272	23,267
Income (loss) before provision for income taxes	(923)	518
Provision (benefit) for income taxes	(330)	92
Net income (loss)	$ (593)	$ 426
Net income (loss) per share		
Basic	$ (0.01)	$ 0.01
Diluted	$ (0.01)	$ 0.01

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Three Months Ended March 31, 2020 and 2019
(Dollars in thousands)
(unaudited)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Net income (loss)	$ (593)	$ 426
Other comprehensive income, net of tax		
Unrealized gains on securities (pre-tax $4,374, and $2,302 respectively)	3,264	1,770
Reclassification adjustment for securities gains (pre-tax ($841), and ($322) respectively	(628)	(248)
Net unrealized gains on securities	2,636	1,522
Amortization of net unrealized holding losses during the period (pre-tax $409, and $312 respectively)	305	240
Total other comprehensive income	2,941	1,762
Total comprehensive income	$ 2,348	$ 2,188

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2020 and 2019
(Dollars in thousands)
(unaudited)

	Three Months Ended March 31,	
	2020	**2019**
Cash flows from operating activities		
Net income (loss)	$ (593)	$ 426
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	950	300
Write down of other real estate owned	-	16
Depreciation and amortization	1,875	1,421
Stock based compensation	577	768
Gain on sale of investment securities	(841)	(322)
Amortization of premiums on investment securities	1,583	593
Accretion of discounts on retained SBA loans	(220)	(331)
Fair value adjustments on SBA servicing assets	41	365
Proceeds from sales of SBA loans originated for sale	10,745	9,456
SBA loans originated for sale	(8,474)	(5,566)
Gains on sales of SBA loans originated for sale	(649)	(502)
Proceeds from sales of mortgage loans originated for sale	50,258	67,000
Mortgage loans originated for sale	(55,072)	(58,555)
Fair value adjustment for mortgage loans originated for sale	556	281
Gains on mortgage loans originated for sale	(1,734)	(1,803)
Amortization of debt issuance costs	2	1
Non-cash expense related to leases	183	282
Increase in accrued interest receivable and other assets	(4,864)	(1,612)
Increase (decrease) in accrued interest payable and other liabilities	8,894	(2,613)
Net cash provided by operating activities	3,217	9,605
Cash flows from investing activities		
Purchase of investment securities available for sale	(16,906)	-
Proceeds from the sale of securities available for sale	26,869	24,757
Proceeds from the paydown, maturity, or call of securities available for sale	34,703	10,636
Proceeds from the paydown, maturity or call of securities held to maturity	32,823	19,076
Net redemption of restricted stock	-	3,657
Net increase in loans	(133,621)	(41,172)
Net proceeds from sale of other real estate owned	586	119
Premises and equipment expenditures	(4,812)	(8,150)
Net cash (used in) provided by investing activities	(60,358)	8,923
Cash flows from financing activities		
Net proceeds from exercise of stock options	23	240
Net (decrease) increase in demand, money market and savings deposits	(53,736)	79,515
Net (decrease) increase in time deposits	(948)	6,571
Repayment of short-term borrowings	-	(91,422)
Net cash used in financing activities	(54,661)	(5,096)
Net (decrease) increase in cash and cash equivalents	(111,802)	13,432
Cash and cash equivalents, beginning of year	168,319	72,473
Cash and cash equivalents, end of period	$ 56,517	$ 85,905
Supplemental disclosures		
Interest paid	$ 6,632	$ 6,649

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Three Months Ended March 31, 2020 and 2019
(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, 2020	**$ 594**	**$ 272,039**	**$ (12,216)**	**$ (3,725)**	**$ (183)**	**$ (7,341)**	**$ 249,168**
Net loss			(593)				(593)
Other comprehensive income net of tax						2,941	2,941
Stock based compensation		577					577
Options exercised (8,000 shares)		23					23
Balance March 31, 2020	$ 594	$ 272,639	$ (12,809)	$ (3,725)	$ (183)	$ (4,400)	$ 252,116
Balance January 1, 2019	**$ 593**	**$ 269,147**	**$ (8,716)**	**$ (3,725)**	**$ (183)**	**$ (11,927)**	**$ 245,189**
Net income			426				426
Other comprehensive income net of tax						1,762	1,762
Stock based compensation		768					768
Options exercised (47,550 shares)		240					240
Balance March 31, 2019	$ 593	$ 270,155	$ (8,290)	$ (3,725)	$ (183)	$ (10,165)	$ 248,385

(See notes to consolidated financial statements)

Note 1: Basis of Presentation

Republic First Bancorp, Inc. (the "Company") is a one-bank holding company organized and incorporated under the laws of the Commonwealth of Pennsylvania. It is comprised of one wholly-owned subsidiary, Republic First Bank, which does business under the name of Republic Bank ("Republic"). Republic is a Pennsylvania state chartered bank that offers a variety of banking services to individuals and businesses throughout the Greater Philadelphia, Southern New Jersey, and New York City markets through its offices and store locations in Philadelphia, Montgomery, Delaware, Bucks, Camden, Burlington, Atlantic, Gloucester, and New York Counties. On July 28, 2016, Republic acquired all of the issued and outstanding limited liability company interests of Oak Mortgage Company, LLC ("Oak Mortgage") and, as a result, Oak Mortgage became a wholly owned subsidiary of Republic on that date. On January 1, 2018, Oak Mortgage was merged into Republic and restructured as a division of Republic. The Oak Mortgage name is still utilized for marketing and branding purposes. The Company also has two unconsolidated subsidiaries, which are statutory trusts established by the Company in connection with its sponsorship of two separate issuances of trust preferred securities.

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

The Company and Republic are subject to federal and state regulations governing virtually all aspects of their activities, including but not limited to, lines of business, liquidity, investments, the payment of dividends and others. Such regulations and the cost of adherence to such regulations can have a significant impact on earnings and financial condition.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Republic. The Company follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("US GAAP") that are followed to ensure consistent reporting of financial condition, results of operations, and cash flows. All material inter-company transactions have been eliminated. Events occurring subsequent to the date of the balance sheet have been evaluated for potential recognition or disclosure in the consolidated financial statements.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to United States Securities and Exchange Commission ("SEC") Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for financial statements for a complete fiscal year. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020.

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 heavily dependent 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.

The coronavirus (COVID-19) outbreak and the public health response to contain it have resulted in unprecedented economic and financial market conditions as of the end of the first quarter of 2020 that did not exist at the beginning of the quarter. These conditions have continued to worsen as we progress into the second quarter. In response to these evolving conditions, the Board of Governors of the Federal Reserve System reduced the federal funds target range by 150 basis points to 0.00% to 0.25% in March 2020. The Federal Reserve has taken additional steps to bolster the economy by promoting liquidity in certain securities markets and providing funding sources for small and mid-sized businesses, as well as, state and local governments as they work through the cash flow stresses caused by the COVID-19 pandemic.

The recession that has begun in the U.S. as a result of the government-mandated business closures and stay-at-home orders is significantly impacting the labor market, consumer spending, business investment and profitability. As a result, the President signed into law the Coronavirus Aid, Relief and Economic Security Act (CARES Act), which is the largest economic stimulus package in the nation’s history in an effort to lessen the impact of COVID-19 on consumers and businesses. Among other measures, the CARES Act authorized funding for the Small Business Administration (SBA) Paycheck Protection Program (PPP) to provide loans to small businesses to keep employees on their payroll and to make other eligible payments to sustain their operation in the near term. The uncertain nature of the current economic environment and the potential impact of the stimulus programs initiated by the federal government may have a significant impact on the earnings, financial condition, liquidity, and capital of the Company in future periods.

Mortgage Banking Activities and Mortgage Loans Held for Sale

Mortgage loans held for sale are originated and held until sold to permanent investors. Management elected to adopt the fair value option in accordance with FASB Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements and Disclosures*, and record loans held for sale at fair value.

Mortgage loans held for sale originated on or subsequent to the election of the fair value option, are recorded on the balance sheet at fair value. The fair value is determined on a recurring basis by utilizing quoted prices from dealers in such securities. Changes in fair value are reflected in mortgage banking income in the statements of income. Direct loan origination costs are recognized when incurred and are included in non-interest expense in the statements of income.

Interest Rate Lock Commitments (“IRLCs”)

Mortgage loan commitments known as interest rate locks that relate to the origination of a mortgage that will be held for sale upon funding are considered derivative instruments under the derivatives and hedging accounting guidance FASB ASC 815, *Derivatives and Hedging*. Loan commitments that are classified as derivatives are recognized at fair value on the balance sheet as other assets and other liabilities with changes in their fair values recorded as mortgage banking income and included in non-interest income in the statements of income. Outstanding IRLCs are subject to interest rate risk and related price risk during the period from the date of issuance through the date of loan funding, cancellation or expiration. Loan commitments generally range between 30 and 90 days; however, the borrower is not obligated to obtain the loan. Republic is subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs. Republic uses best efforts commitments to substantially eliminate these risks. The valuation of the IRLCs issued by Republic includes the value of the servicing released premium. Republic sells loans where the servicing is released, and the servicing released premium is included in the market price. See Note 10 Derivatives and Risk Management Activities for further detail of IRLCs.

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, past loss experience, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews and regulatory examinations, borrowers’ perceived financial and managerial strengths, the adequacy of underlying collateral, if collateral dependent, or present value of future cash flows, and other relevant and qualitative risk factors. Subsequent to foreclosure, an estimate for the carrying value of other real estate owned is normally determined through valuations that are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less the cost to sell. Because the allowance for loan losses and carrying value of other real estate owned are dependent, to a great extent, on the general economy and other conditions that may be beyond the Company’s and Republic’s control, the estimates of the allowance for loan losses and the carrying values of other real estate owned could differ materially in the near term.

In estimating OTTI of investment securities, securities are evaluated on at least a quarterly basis and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline, the intent to hold the security and the likelihood of the Company not being required to sell the security prior to an anticipated recovery in the fair value. The term “other-than-temporary” is not intended to indicate that the decline is permanent, but indicates that the prospects 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 the investment. Once a decline in value is determined to be other-than-temporary, the portion of the decline related to credit impairment is charged to earnings.

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

Stock-Based Compensation

The Company has a Stock Option and Restricted Stock Plan (“the 2005 Plan”), under which the Company granted options, restricted stock or stock appreciation rights to the Company’s employees, directors, and certain consultants. The 2005 Plan became effective on November 14, 1995, and was amended and approved at the Company’s 2005 annual meeting of shareholders. Under the terms of the 2005 Plan, 1.5 million shares of common stock, plus an annual increase equal to the number of shares needed to restore the maximum number of shares that could be available for grant under the 2005 Plan to 1.5 million shares, were available for such grants. As of December 31, 2019, the only grants under the 2005 Plan were option grants. The 2005 Plan provided that the exercise price of each option granted equaled the market price of the Company’s stock on the date of the grant. Options granted pursuant to the 2005 Plan vest within one to four years and have a maximum term of 10 years. The 2005 Plan terminated on November 14, 2015 in accordance with the terms and conditions specified in the Plan agreement.

On April 29, 2014 the Company's shareholders approved the 2014 Republic First Bancorp, Inc. Equity Incentive Plan (the "2014 Plan"), under which the Company may grant options, restricted stock, stock units, or stock appreciation rights to the Company's employees, directors, independent contractors, and consultants. Under the terms of the 2014 Plan, 2.6 million shares of common stock, plus an annual adjustment to be no less than 10% of the outstanding shares or such lower number as the Board of Directors may determine, are available for such grants. Compensation cost for all option awards is calculated and recognized over the vesting period of the option awards. If the service conditions are not met, the Company reverses previously recorded compensation expense upon forfeiture. The Company's accounting policy election is to recognize forfeitures as they occur. At March 31, 2020, the maximum number of common shares issuable under the 2014 Plan was 6.4 million shares. During the three months ended March 31, 2020, 1,203,600 options were granted under the 2014 Plan with a fair value of $1,057,549.

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 2020 and 2019 are as follows:

	2020	**2019**
Dividend yield(1)	0.0%	0.0%
Expected volatility(2)	28.61%	28.81%
Risk-free interest rate(3)	1.22%	2.47% to 2.70%
Expected life(4) (in years)	6.25	6.25
Assumed forfeiture rate(5)	5.0%	4.0%

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

(2) The expected volatility was based on the historical volatility of the Company's common stock price as adjusted for certain historical periods of extraordinary volatility in order to estimate expected volatility.

(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.

(5) Forfeiture rate is determined through forfeited and expired options as a percentage of options granted over the current three year period.

During the three months ended March 31, 2020 and 2019, 907,790 options and 806,898 options vested, respectively. Expense is recognized ratably over the period required to vest. At March 31, 2020, the intrinsic value of the 6,067,450 options outstanding was $52,000, while the intrinsic value of the 3,456,750 exercisable (vested) options was $52,000. At March 31, 2019, the intrinsic value of the 4,977,975 options outstanding was $3.2 million, while the intrinsic value of the 2,635,335 exercisable (vested) options was $2.9 million. During the three months ended March 31, 2020, 8,000 options were exercised with cash received of $23,780 and 107,625 options were forfeited with a weighted average grant date fair value of $216,331. During the three months ended March 31, 2019, 47,550 options were exercised with cash received of $240,553 and 30,625 options were forfeited with a weighted average grant date fair value of $81,589.

Information regarding stock based compensation for the three months ended March 31, 2020 and 2019 is set forth below:

	2020	2019
Stock based compensation expense recognized	$ 577,000	$ 768,000
Number of unvested stock options	2,610,700	2,342,640
Fair value of unvested stock options	$ 4,912,774	$ 5,974,378
Amount remaining to be recognized as expense	$ 4,055,481	$ 5,203,079

The remaining unrecognized expense amount of $4,055,481 will be recognized ratably as expense through February 2024.

Earnings per Share

Earnings per share ("EPS") consists of two separate components: basic EPS and diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income by the weighted average number of common shares outstanding plus dilutive common stock equivalents ("CSEs"). CSEs consist of dilutive stock options granted through the Company's stock option plans for the three months ended March 31, 2020 and March 31, 2019.

The calculation of EPS for the three months ended March 31, 2020 and 2019 is as follows (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2020	2019
Net income (loss) - basic and diluted	$ (593)	$ 426
Weighted average shares outstanding	58,848	58,805
Net income (loss) per share – basic	$ (0.01)	$ 0.01
Weighted average shares outstanding (including dilutive CSEs)	58,848	59,587
Net income (loss) per share – diluted	$ (0.01)	$ 0.01

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

	Three Months Ended March 31,	
(in thousands)	2020	2019
Anti-dilutive securities		
Share based compensation awards	6,067	4,196
Total anti-dilutive securities	6,067	4,196

Recent Accounting Pronouncements

ASU 2016-02

In February 2016, the FASB issued ASU No. 2016-02, *Leases.* From the Company's perspective, the new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for lessees. From the landlord perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease is treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn't convey risks and rewards or control, an operating lease results. The new standard was effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

In July 2018, the FASB issued ASU 2018-11 "Leases (Topic 842): Targeted Improvements," which provided lessees the option to apply the new leasing standard to all open leases as of the adoption date. Prior to this ASU issuance, a modified retrospective transition approach was required.

In December 2018, the FASB issued ASU 2018-20 "Leases (Topic 842): Narrow-Scope Improvements for Lessors," which provided lessors a policy election to not evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs. Additionally, the update requires certain lessors to exclude from variable payments lessor costs paid by lessees directly to third parties.

The Company adopted this ASU on January 1, 2019. The Company recognized an ROU asset of $34.2 million and total operating lease liability obligations of $35.1 million at January 1, 2019. Capital ratios remained in compliance with the regulatory definition of well capitalized. There were no material changes to the recognition of operating lease expense in the consolidated statements of income. The Company adopted certain practical expedients available under the new guidance, which did not require it to (1) reassess whether any expired or existing contracts contain leases, (2) reassess the lease classification for any expired or existing leases, (3) reassess initial direct costs for any existing leases, and (4) evaluate whether certain sales taxes and other similar taxes are lessor costs. The Company elected the use-of-hindsight practical expedient. Additionally, the Company elected to apply the new lease guidance at the adoption date, rather than at the beginning of the earliest period presented.

ASU 2016-13

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The Company has evaluated the impact of this ASU, continuing its implementation efforts and reviewing the loss modeling requirements consistent with lifetime expected loss estimates. Calculations of expected losses under the new guidance were run parallel to the calculations under existing guidance to assess and evaluate the potential impact to the Company's financial statements. The new model includes different assumptions used in calculating credit losses, such as estimating losses over the estimated life of a financial asset and considers expected future changes in macroeconomic conditions. The adoption of this ASU may result in an increase to the Company's allowance for loan losses which will depend upon the nature and characteristics of the Company's loan portfolio at the adoption date, as well as the macroeconomic conditions and forecasts at that date. The Company expected an initial increase to the allowance for loan losses, in the range of 0% to 11% of the December 31, 2019 allowance for loan losses, or an incremental increase to the allowance for loan losses in the range of $0 up to approximately $1.0 million. When finalized, this one-time increase as a result of the adoption of ASU 2016-13 will be recorded, net of tax, as an adjustment to retained earnings effective January 1, 2020. This estimate is subject to change based on continuing refinement and validation of the model and methodologies. The Company has elected to defer the adoption of this ASU as permitted by Section 4014 of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") signed into law on March 27, 2020, which provides that financial institutions are not required to comply with the ASU during the period beginning on March 27, 2020 until the earlier of (i) the date on which the national emergency concerning the COVID-19 outbreak declared under the National Emergencies Relief Act terminates or (ii) December 31, 2020.

ASU 2017-08

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

ASU 2018-07

In June 2018, the FASB issued ASU 2018-07, *Compensation – Stock Compensation (Topic 718)*. The ASU simplifies the accounting for share based payments granted to non-employees for goods and services. The ASU applies to all share based payment transactions in which a grantor acquires goods or services from non-employees to be used or consumed in a grantor's own operations by issuing share based payment awards. With the amended guidance from ASU 2018-07, non-employees share based payments are measured with an estimate of the fair value of the equity of the business is obligated to issue at the grant date (the date that the business and the stock award recipient agree to the terms of the award). Compensation would be recognized in the same period and in the same manner as if the entity had paid cash for goods and services instead of stock. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company adopted this ASU on January 1, 2019. The adoption of this ASU did not have a significant impact on the Company's financial condition, results of operations, and consolidated financial statements.

Note 3: Legal Proceedings

The Company and Republic are from time to time a party (plaintiff or defendant) to lawsuits that are 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 banking segment primarily encompasses the commercial loan and deposit activities of Republic, as well as, residential mortgage and consumer loan products in the area surrounding its stores. Mortgage loans in Delaware and Florida are primarily made to local customers that have second homes (vacation) in Delaware and Florida. Republic does not have loan production offices in those states.

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, 2020 and December 31, 2019 is as follows:

	At March 31, 2020			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agencies	$ 36,923	$ -	$ (280)	$ 36,643
Collateralized mortgage obligations	276,653	4,185	(1,379)	279,459
Agency mortgage-backed securities	103,220	2,556	-	105,776
Municipal securities	2,638	16	-	2,654
Corporate bonds	76,254	85	(3,360)	72,979
Total securities available for sale	$ 495,688	$ 6,842	$ (5,019)	$ 497,511
U.S. Government agencies	$ 91,631	$ 4,467	$ -	$ 96,098
Collateralized mortgage obligations	392,007	14,837	(39)	406,805
Agency mortgage-backed securities	128,276	5,682	-	133,958
Total securities held to maturity	$ 611,914	$ 24,986	$ (39)	$ 636,861

	At December 31, 2019			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agencies	$ 38,743	$ 1	$ (439)	$ 38,305
Collateralized mortgage obligations	329,492	2,368	(422)	331,438
Agency mortgage-backed securities	98,953	82	(98)	98,937
Municipal securities	4,064	18	-	4,082
Corporate bonds	69,499	79	(3,298)	66,280
Total securities available for sale	$ 540,751	$ 2,548	$ (4,257)	$ 539,042
U.S. Government agencies	$ 94,913	$ 482	$ (294)	$ 95,101
Collateralized mortgage obligations	416,177	7,603	(793)	422,987
Agency mortgage-backed securities	133,752	1,782	(513)	135,021
Total securities held to maturity	$ 644,842	$ 9,867	$ (1,600)	$ 653,109

The following table presents investment securities by stated maturity at March 31, 2020. Collateralized mortgage obligations and agency mortgage-backed securities have expected maturities that differ from contractual maturities because borrowers have the right to call or prepay with or without prepayment penalties and, therefore, these securities are classified separately with no specific maturity date.

	Available for Sale		Held to Maturity	
(dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 1 year or less	$ 440	$ 441	$ -	$ -
After 1 year to 5 years	56,434	56,248	50,871	52,824
After 5 years to 10 years	55,941	52,938	40,760	43,274
After 10 years	3,000	2,649	-	-
Collateralized mortgage obligations	276,653	279,459	392,007	406,805
Agency mortgage-backed securities	103,220	105,776	128,276	133,958
Total	$ 495,688	$ 497,511	$ 611,914	$ 636,861

The Company's investment securities portfolio consists primarily of debt securities issued by U.S. government agencies, U.S. government-sponsored agencies, state governments, local municipalities and certain corporate entities. There were no private label mortgage-backed securities ("MBS") or collateralized mortgage obligations ("CMO") held in the investment securities portfolio as of March 31, 2020 and December 31, 2019. There were also no MBS or CMO securities that were rated "Alt-A" or "sub-prime" as of those dates.

The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. Net unrealized gains and losses in the available for sale portfolio are included in shareholders' equity as a component of accumulated other comprehensive income or loss, net of tax. Securities classified as held to maturity are carried at amortized cost. An unrealized loss exists when the current fair value of an individual security is less than the amortized cost basis.

The Company regularly evaluates investment securities that are in an unrealized loss position in order to determine if the decline in fair value is other than temporary. Factors considered in the evaluation include the current economic climate, the length of time and the extent to which the fair value has been below cost, the current interest rate environment and the rating of each security. An OTTI loss must be recognized for a debt security in an unrealized loss position if the Company intends to sell the security or it is more likely than not that it will be required to sell the security prior to recovery of the amortized cost basis. The amount of OTTI loss recognized is equal to the difference between the fair value and the amortized cost basis of the security that is attributed to credit deterioration. Accounting standards require the evaluation of the expected cash flows to be received to determine if a credit loss has occurred. In the event of a credit loss, that amount must be recognized against income in the current period. The portion of the unrealized loss related to other factors, such as liquidity conditions in the market or the current interest rate environment, is recorded in accumulated other comprehensive income (loss) for investment securities classified available for sale. There were no impairment charges (credit losses) recorded at March 31, 2020 and December 31, 2019.

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 as of March 31, 2020 and December 31, 2019:

	At March 31, 2020					
	Less than 12 months		**12 months or more**		**Total**	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	$ 36,643	$ 280	$ -	$ -	$ 36,643	$ 280
Collateralized mortgage obligations	148,767	1,355	5,776	24	154,543	1,379
Agency mortgage-backed securities	-	-	-	-	-	-
Municipal securities	-	-	-	-	-	-
Corporate bonds	2,649	351	51,991	3,009	54,640	3,360
Total Available for Sale	$ 188,059	$ 1,986	$ 57,767	$ 3,033	$ 245,826	$ 5,019

	At March 31, 2020					
	Less than 12 months		**12 months or more**		**Total**	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	$ -	$ -	$ -	$ -	$ -	$ -
Collateralized mortgage obligations	15,217	15	11,875	24	27,092	39
Agency mortgage-backed securities	-	-	-	-	-	-
Total Held to Maturity	$ 15,217	$ 15	$ 11,875	$ 24	$ 27,092	$ 39

	At December 31, 2019					
	Less than 12 months		**12 months or more**		**Total**	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	$ 28,136	$ 439	$ -	$ -	$ 28,136	$ 439
Collateralized mortgage obligations	63,384	328	6,164	94	69,548	422
Agency mortgage-backed securities	2,924	13	6,411	85	9,335	98
Municipal securities	-	-	-	-	-	-
Corporate bonds	2,820	180	51,882	3,118	54,702	3,298
Total Available for Sale	$ 97,264	$ 960	$ 64,457	$ 3,297	$ 161,721	$ 4,257

	At December 31, 2019					
	Less than 12 months		**12 months or more**		**Total**	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	$ 33,092	$ 220	$ 3,703	$ 74	$ 36,795	$ 294
Collateralized mortgage obligations	24,211	18	64,324	775	88,535	793
Agency mortgage-backed securities	14,044	33	52,132	480	66,176	513
Total Held to Maturity	$ 71,347	$ 271	$ 120,159	$ 1,329	$ 191,506	$ 1,600

Unrealized losses on securities in the investment portfolio amounted to $5.1 million with a total fair value of $272.9 million as of March 31, 2020 compared to unrealized losses of $5.9 million with a total fair value of $353.2 million as of December 31, 2019. The Company believes the unrealized losses presented in the tables above are temporary in nature and primarily related to market interest rates or limited trading activity in particular type of security rather than the underlying credit quality of the issuers. The Company does not believe that these losses are other than temporary and does not currently intend to sell or believe it will be required to sell securities in an unrealized loss position prior to maturity or recovery of the amortized cost bases.

The Company held four U.S. Government agency securities, twenty-one collateralized mortgage obligations and no agency mortgage-backed securities that were in an unrealized loss position at March 31, 2020. Principal and interest payments of the underlying collateral for each of these securities are backed by U.S. Government sponsored agencies and carry minimal credit risk. Management found no evidence of OTTI on any of these securities and believes the unrealized losses are due to fluctuations in fair values resulting from changes in market interest rates and are considered temporary as of March 31, 2020.

All municipal securities held in the investment portfolio are reviewed on least a quarterly basis for impairment. Each bond carries an investment grade rating by either Moody’s or Standard & Poor’s. In addition, the Company periodically conducts its own independent review on each issuer to ensure the financial stability of the municipal entity. The largest geographic concentration was in Pennsylvania and New Jersey and consisted of either general obligation or revenue bonds backed by the taxing power of the issuing municipality. At March 31, 2020, the investment portfolio included no municipal securities that were in an unrealized loss position.

At March 31, 2020, the investment portfolio included seven corporate bonds that were in an unrealized loss position. Management believes the unrealized losses on these securities were also driven by changes in market interest rates and not a result of credit deterioration. The seven corporate bonds are with five of the largest U.S. financial institutions. Each financial institution is well capitalized.

Proceeds associated with the sale of securities available for sale during the three months ended March 31, 2020 were $26.9 million. Gross gains of $841,000 were realized on these sales. The tax provision applicable to the net gains of $841,000 for the three months ended March 31, 2020 amounted to $213,000.

Proceeds associated with the sale of securities available for sale during the three months ended March 31, 2019 were $24.8 million. Gross gains of $389,000 and gross losses of $67,000 were realized on these sales. The tax provision applicable to the net gains of $322,000 for the three months ended March 31, 2019 amounted to $74,000.

Note 6: Loans Receivable and Allowance for Loan Losses

The following table sets forth the Company’s gross loans by major category as of March 31, 2020 and December 31, 2019:

(dollars in thousands)	**March 31, 2020**	**December 31, 2019**
Commercial real estate	$ 668,462	$ 613,631
Construction and land development	144,215	121,395
Commercial and industrial	241,754	223,906
Owner occupied real estate	436,499	424,400
Consumer and other	103,949	101,320
Residential mortgage	287,425	263,444
Total loans receivable	1,882,304	1,748,096
Deferred (fees) costs	(267)	99
Allowance for loan losses	(10,217)	(9,266)
Net loans receivable	$ 1,871,820	$ 1,738,929

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

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, 2020 and 2019:

(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, 2020								
Allowance for loan losses:								
Beginning balance:	$ 3,043	$ 688	$ 931	$ 2,292	$ 590	$ 1,705	$ 17	$ 9,266
Charge-offs	-	-	-	-	(22)	-	-	(22)
Recoveries	-	-	17	-	6	-	-	23
Provisions (credits)	359	146	494	(433)	60	207	117	950
Ending balance	$ 3,402	$ 834	$ 1,442	$ 1,859	$ 634	$ 1,912	$ 134	$ 10,217
Three months ended March 31, 2019								
Allowance for loan losses:								
Beginning balance:	$ 2,462	$ 777	$ 1,754	$ 2,033	$ 577	$ 894	$ 118	$ 8,615
Charge-offs	-	-	(929)	(75)	(13)	-	-	(1,017)
Recoveries	-	-	1	-	1	-	-	2
Provisions (credits)	210	(74)	211	(91)	(29)	91	(18)	300
Ending balance	$ 2,672	$ 703	$ 1,037	$ 1,867	$ 536	$ 985	$ 100	$ 7,900

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, 2020 and December 31, 2019:

(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, 2020								
Allowance for loan losses:								
Individually evaluated for impairment	$ 322	$ -	$ 72	$ 231	$ -	$ 1	$ -	$ 626
Collectively evaluated for impairment	3,080	834	1,370	1,628	634	1,911	134	9,591
Total allowance for loan losses	$ 3,402	$ 834	$ 1,442	$ 1,859	$ 634	$ 1,912	$ 134	$ 10,217
Loans receivable:								
Loans evaluated individually	$ 10,703	$ -	$ 3,219	$ 5,345	$ 1,347	$ 889	$ -	$ 21,503
Loans evaluated collectively	657,759	144,215	238,535	431,154	102,602	286,536	-	1,860,801
Total loans receivable	$ 668,462	$ 144,215	$ 241,754	$ 436,499	$ 103,949	$ 287,425	$ -	$ 1,882,304

(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, 2019								
Allowance for loan losses:								
Individually evaluated for impairment	$ 265	$ -	$ 23	$ 268	$ -	$ -	$ -	$ 556
Collectively evaluated for impairment	2,778	688	908	2,024	590	1,705	17	8,710
Total allowance for loan losses	$ 3,043	$ 688	$ 931	$ 2,292	$ 590	$ 1,705	$ 17	$ 9,266
Loans receivable:								
Loans evaluated individually	$ 10,331	$ -	$ 3,087	$ 3,634	$ 1,062	$ 768	$ -	$ 18,882
Loans evaluated collectively	603,300	121,395	220,819	420,766	100,258	262,676	-	1,729,214
Total loans receivable	$ 613,631	$ 121,395	$ 223,906	$ 424,400	$ 101,320	$ 263,444	$ -	$ 1,748,096

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, 2020 and December 31, 2019:

	March 31, 2020			December 31, 2019		
(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	$ 6,558	$ 6,564	$ -	$ 6,186	$ 6,192	$ -
Construction and land development	-	-	-	-	-	-
Commercial and industrial	2,735	2,908	-	2,719	2,989	-
Owner occupied real estate	3,234	3,391	-	2,127	2,275	-
Consumer and other	1,347	1,677	-	1,062	1,375	-
Residential mortgage	768	768	-	768	768	-
Total	$ 14,642	$ 15,308	$ -	$ 12,862	$ 13,599	$ -
With an allowance recorded:						
Commercial real estate	$ 4,145	$ 4,667	$ 322	$ 4,145	$ 4,667	$ 265
Construction and land development	-	-	-	-	-	-
Commercial and industrial	484	530	72	368	383	23
Owner occupied real estate	2,111	2,130	231	1,507	1,521	268
Consumer and other	-	-	-	-	-	-
Residential mortgage	121	121	1	-	-	-
Total	$ 6,861	$ 7,448	$ 626	$ 6,020	$ 6,571	$ 556
Total:						
Commercial real estate	$ 10,703	$ 11,231	$ 322	$ 10,331	$ 10,859	$ 265
Construction and land development	-	-	-	-	-	-
Commercial and industrial	3,219	3,438	72	3,087	3,372	23
Owner occupied real estate	5,345	5,521	231	3,634	3,796	268
Consumer and other	1,347	1,677	-	1,062	1,375	-
Residential mortgage	889	889	1	768	768	-
Total	$ 21,503	$ 22,756	$ 626	$ 18,882	$ 20,170	$ 556

The following table presents additional information regarding the Company's impaired loans for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31,			
	2020		2019	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate	$ 6,372	$ 70	$ 6,314	$ 70
Construction and land development	-	-	-	-
Commercial and industrial	2,727	1	1,655	-
Owner occupied real estate	2,680	2	1,891	14
Consumer and other	1,205	2	765	2
Residential mortgage	768	-	-	-
Total	$ 13,752	$ 75	$ 10,625	$ 86
With an allowance recorded:				
Commercial real estate	$ 4,145	$ -	$ 4,614	$ -
Construction and land development	-	-	-	-
Commercial and industrial	426	-	1,454	-
Owner occupied real estate	1,809	6	534	6
Consumer and other	-	-	76	-
Residential mortgage	60	-	-	-
Total	$ 6,440	$ 6	$ 6,678	$ 6
Total:				
Commercial real estate	$ 10,517	$ 70	$ 10,928	$ 70
Construction and land development	-	-	-	-
Commercial and industrial	3,153	1	3,109	-
Owner occupied real estate	4,489	8	2,425	20
Consumer and other	1,205	2	841	2
Residential mortgage	828	-	-	-
Total	$ 20,192	$ 81	$ 17,303	$ 92

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, 2020 and December 31, 2019:

(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, 2020							
Commercial real estate	$ 7,394	$ -	$ 4,470	$ 11,864	$ 656,598	$ 668,462	$ -
Construction and land development	-	-	-	-	144,215	144,215	-
Commercial and industrial	130	-	3,165	3,295	238,459	241,754	-
Owner occupied real estate	7,647	-	4,439	12,086	424,413	436,499	-
Consumer and other	662	26	1,222	1,910	102,039	103,949	-
Residential mortgage	1,209	-	889	2,098	285,327	287,425	-
Total	$ 17,042	$ 26	$ 14,185	$ 31,253	$ 1,851,051	$ 1,882,304	$ -

(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, 2019							
Commercial real estate	$ -	$ 313	$ 4,159	$ 4,472	$ 609,159	$ 613,631	$ -
Construction and land development	-	-	-	-	121,395	121,395	-
Commercial and industrial	-	50	3,087	3,137	220,769	223,906	-
Owner occupied real estate	-	1,219	3,337	4,556	419,844	424,400	-
Consumer and other	112	241	1,062	1,415	99,905	101,320	-
Residential mortgage	-	-	768	768	262,676	263,444	-
Total	$ 112	$ 1,823	$ 12,413	$ 14,348	$ 1,733,748	$ 1,748,096	$ -

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, 2020 and December 31, 2019:

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
At March 31, 2020:					
Commercial real estate	$ 663,807	$ 88	$ 4,567	$ -	$ 668,462
Construction and land development	144,215	-	-	-	144,215
Commercial and industrial	238,535	-	3,219	-	241,754
Owner occupied real estate	430,611	543	5,345	-	436,499
Consumer and other	102,602	-	1,347	-	103,949
Residential mortgage	286,536	-	889	-	287,425
Total	$ 1,866,306	$ 631	$ 15,367	$ -	$ 1,882,304

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
At December 31, 2019:					
Commercial real estate	$ 609,382	$ 90	$ 4,159	$ -	$ 613,631
Construction and land development	121,395	-	-	-	121,395
Commercial and industrial	220,819	-	3,087	-	223,906
Owner occupied real estate	418,997	1,770	3,633	-	424,400
Consumer and other	100,258	-	1,062	-	101,320
Residential mortgage	262,555	121	768	-	263,444
Total	$ 1,733,406	$ 1,981	$ 12,709	$ -	$ 1,748,096

The following table shows non-accrual loans by class as of March 31, 2020 and December 31, 2019:

(dollars in thousands)	March 31, 2020	December 31, 2019
Commercial real estate	$ 4,470	$ 4,159
Construction and land development	-	-
Commercial and industrial	3,165	3,087
Owner occupied real estate	4,439	3,337
Consumer and other	1,222	1,062
Residential mortgage	889	768
Total	$ 14,185	$ 12,413

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately $224,000 and $112,000 for the three months ended March 31, 2020 and 2019, respectively.

Troubled Debt Restructurings

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

Pursuant to the CARES Act, loan modifications made between March 1, 2020 and the earlier of i) December 30, 2020 or ii) 60 days after the President declares a termination of the COVID-19 national emergency are not classified as TDRs if the related loans were not more than 30 days past due as of December 31, 2019. As of May 5, 2020, we have received requests to defer loan payments from 415 customers with total outstanding balances of $357 million. As of March 31, 2020, none of the documentation to formally modify those loans to incorporate the deferral requests had been executed.

The following table summarizes information with regard to outstanding troubled debt restructurings at March 31, 2020 and December 31, 2019:

(dollars in thousands)	Number of Loans	Accrual Status	Non-Accrual Status	Total TDRs
March 31, 2020				
Commercial real estate	1	$ 6,136	$ -	$ 6,136
Construction and land development	-	-	-	-
Commercial and industrial	-	-	-	-
Owner occupied real estate	-	-	-	-
Consumer and other	-	-	-	-
Residential mortgage	-	-	-	-
Total	1	$ 6,136	$ -	$ 6,136
December 31, 2019				
Commercial real estate	1	$ 6,173	$ -	$ 6,173
Construction and land development	-	-	-	-
Commercial and industrial	-	-	-	-
Owner occupied real estate	-	-	-	-
Consumer and other	-	-	-	-
Residential mortgage	-	-	-	-
Total	1	$ 6,173	$ -	$ 6,173

All TDRs are considered impaired and are therefore individually evaluated for impairment in the calculation of the allowance for loan losses. Some TDRs may not ultimately result in the full collection of principal and interest as restructured and could lead to potential incremental losses. These potential incremental losses would be factored into the Company's estimate of the allowance for loan losses. The level of any subsequent defaults will likely be affected by future economic conditions.

There were no loan modifications made during the three months ended March 31, 2020 and 2019 that met the criteria of a TDR.

After a loan is determined to be a TDR, the Company continues to track its performance under the most recent restructured terms. There were no TDRs that subsequently defaulted during the three months ended March 31, 2020 and the year ended December 31, 2019.

There was one residential mortgage in the process of foreclosure as of March 31, 2020 and December 31, 2019. There was no other real estate owned relating to residential real estate at March 31, 2020 and December 31, 2019.

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, 2020 and December 31, 2019 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, 2020				
Assets:				
U.S. Government agencies	$ 36,643	$ -	$ 36,643	$ -
Collateralized mortgage obligations	279,459	-	279,459	-
Agency mortgage-backed securities	105,776	-	105,776	-
Municipal securities	2,654	-	2,654	-
Corporate bonds	72,979	-	70,330	2,649
Securities Available for Sale	$ 497,511	$ -	$ 494,862	$ 2,649
Mortgage Loans Held for Sale	$ 15,439	$ -	$ 15,439	$ -
SBA Servicing Assets	4,644	-	-	4,644
Interest Rate Lock Commitments	528	-	528	-
Best Efforts Forward Loan Sales Commitments	1,057	-	1,057	-
Mandatory Forward Loan Sales Commitments	271	-	271	-
Liabilities:				
Interest Rate Lock Commitments	718	-	718	-
Best Efforts Forward Loan Sales Commitments	58	-	58	-
Mandatory Forward Loan Sales Commitments	29	-	29	-
December 31, 2019				
Assets:				
U.S. Government agencies	$ 38,305	$ -	$ 38,305	$ -
Collateralized mortgage obligations	331,438	-	331,438	-
Agency mortgage-backed securities	98,937	-	98,937	-
Municipal securities	4,082	-	4,082	-
Corporate bonds	66,280	-	63,460	2,820
Securities Available for Sale	$ 539,042	$ -	$ 536,222	$ 2,820
Mortgage Loans Held for Sale	$ 10,345	$ -	$ 10,345	$ -
SBA Servicing Assets	4,447	-	-	4,447
Interest Rate Lock Commitments	362	-	362	-
Best Efforts Forward Loan Sales Commitments	4	-	4	-
Mandatory Forward Loan Sales Commitments	2	-	2	-
Liabilities:				
Interest Rate Lock Commitments	-	-	-	-
Best Efforts Forward Loan Sales Commitments	133	-	133	-
Mandatory Forward Loan Sales Commitments	83	-	83	-

The following table presents an analysis of the activity in the SBA servicing assets for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31,	
(dollars in thousands)	**2020**	**2019**
Beginning balance, January 1st	$ 4,447	$ 4,785
Additions	238	211
Fair value adjustments	(41)	(365)
Ending balance, March 31st	$ 4,644	$ 4,631

Fair value adjustments are recorded as loan and servicing fees on the statement of income. Servicing fee income, not including fair value adjustments, totaled $430,000 and $458,000 for the three months ended March 31, 2020 and 2019, respectively. Total loans in the amount of $208.1 million at March 31, 2020 and $201.7 million at December 31, 2019 were serviced for others.

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, 2020 and 2019:

	2020	**2019**
Level 3 Investments Only *(dollars in thousands)*	**Corporate Bonds**	**Corporate Bonds**
Balance, January 1st	$ 2,819	$ 3,069
Unrealized losses	(170)	(35)
Paydowns	-	-
Proceeds from sales	-	-
Realized gains	-	-
Impairment charges on Level 3	-	-
Balance, March 31st	$ 2,649	$ 3,034

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, 2020 and December 31, 2019 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, 2020				
Impaired loans	$ 6,235	$ -	$ -	$ 6,235
December 31, 2019				
Impaired loans	$ 5,730	$ -	$ -	$ 5,730
Other real estate owned	899	-	-	899

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, 2020					
Corporate bonds	$	2,649	Discounted Cash Flows	Discount Rate	(4.71%)
			Discounted Cash Flows	Conditional Prepayment Rate	(13.61%)
SBA servicing assets	$	4,644			
				Discount Rate	(10.00%)
Impaired loans	$	6,235	Appraised Value of Collateral (1)	Liquidation expenses (2)	9% - 27% (13%) (3)
December 31, 2019					
Corporate bonds	$	2,820	Discounted Cash Flows	Discount Rate	(6.66%)
			Discounted Cash Flows	Conditional Prepayment Rate	(13.53%)
SBA servicing assets	$	4,447			
				Discount Rate	(10.75%)
Impaired loans	$	5,730	Appraised Value of Collateral (1)	Liquidation expenses (2)	9% - 20% (12%) (3)
Other real estate owned	$	899	Appraised Value of Collateral (1)	Liquidation expenses (2)	6% - 16% (8%) (3)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which include Level 3 inputs that are not identifiable.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.
(3) The range and weighted average of qualitative factors such as economic conditions and estimated liquidation expenses are presented as a percent of the appraised value.

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

Fair Value Assumptions

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company’s assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company’s disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company’s financial instruments at March 31, 2020 and December 31, 2019.

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 held in the investment securities portfolio. 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. Republic has one Level 3 investment classified as available for sale which is a single corporate bond.

The corporate bond included in Level 3 was transferred from Level 2 in 2010 and 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.

Mortgage Loans Held for Sale (Carried at Fair Value)

The fair value of mortgage loans held for sale is determined by obtaining prices at which they could be sold in the principal market at the measurement date and are classified within Level 2 of the fair value hierarchy. Republic elected to adopt the fair value option for its mortgage loans held for sale portfolio in order to more accurately reflect their economic value. Interest income on loans held for sale, which totaled $83,000 for three months ended March 31, 2020 and $130,000 for the three months ended March 31, 2019, are included in interest and fees in the statements of operations.

The following table reflects the difference between the carrying amount of mortgage loans held for sale, measured at fair value and the aggregate unpaid principal amount that Republic is contractually entitled to receive at maturity as of March 31, 2020 and December 31, 2019 (dollars in thousands):

	Carrying Amount	Aggregate Unpaid Principal Balance	Excess Carrying Amount Over Aggregate Unpaid Principal Balance
March 31, 2020	$ 15,439	$ 15,245	$ 194
December 31, 2019	$ 10,345	$ 9,983	$ 362

Changes in the excess carrying amount over aggregate unpaid principal balance are recorded in the statement of operations in mortgage banking income. Republic did not have any mortgage loans held for sale recorded at fair value that were 90 or more days past due and on non-accrual at March 31, 2020 and December 31, 2019.

Interest Rate Lock Commitments ("IRLC")

The Company determines the value of IRLC's by comparing the market price to the price locked in with the customer, adding fees or points to be collected at closing, subtracting commissions to be paid at closing, and subtracting estimated remaining loan origination costs to the bank based on the processing status of the loan, The Company also considers pull-through as it determines the fair value of IRLC'S Factors that affect pull-through rates include the origination channel, current mortgage interest rates in the market versus the interest rate incorporated in the IRLC, the purpose of the mortgage (purchase versus financing), the stage of completion of the underlying application and underwriting process, and the time remaining until the IRLC expires. IRLCs are classified within Level 2 of the valuation hierarchy.

Best Efforts Forward Loan Sales Commitments

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

Mandatory Forward Loan Sales Commitments

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

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. Fair value is determined through valuations periodically performed by third-party appraisers, and the real estate is carried at the lower of its carrying amount or fair value less estimated costs to sell. Any declines in the fair value of the real estate properties below the initial cost basis are recorded through a valuation expense. At March 31, 2020 and December 31, 2019, these assets are carried at current fair value and classified within Level 3 of the fair value hierarchy.

SBA Servicing Asset (Carried at Fair Value)

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

The Company uses assumptions and estimates in determining the impairment of the SBA servicing asset. These assumptions include prepayment speeds and discount rates commensurate with the risks involved and comparable to assumptions used by participants to value and bid serving rights available for sale in the market. At March 31, 2020 and December 31, 2019, 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, 2020	December 31, 2019
SBA Servicing Asset		
Fair Value of SBA Servicing Asset	$ 4,644	$ 4,447
Composition of SBA Loans Serviced for Others		
Fixed-rate SBA loans	2%	2%
Adjustable-rate SBA loans	98%	98%
Total	100%	100%
Weighted Average Remaining Term (in years)	20.8	20.7
Prepayment Speed	13.61%	13.53%
Effect on fair value of a 10% increase	$ (152)	$ (175)
Effect on fair value of a 20% increase	(295)	(338)
Weighted Average Discount Rate	10.00%	10.75%
Effect on fair value of a 10% increase	$ (148)	$ (154)
Effect on fair value of a 20% increase	(288)	(298)

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.

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 at March 31, 2020 were as follows.

	Fair Value Measurements at March 31, 2020				
(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	$ 56,517	$ 56,517	$ 56,517	$ -	$ -
Investment securities available for sale	497,511	497,511	-	494,862	2,649
Investment securities held to maturity	611,914	636,861	-	636,861	-
Restricted stock	2,746	2,746	-	2,746	-
Loans held for sale	16,820	16,820	-	15,439	1,381
Loans receivable, net	1,871,820	1,860,964	-	-	1,860,964
SBA servicing assets	4,644	4,644	-	-	4,644
Accrued interest receivable	10,475	10,475	-	10,475	-
Interest rate lock commitments	528	528	-	528	-
Best efforts forward loan sales commitments	1,057	1,057	-	1,057	-
Mandatory forward loan sales commitments	271	271	-	271	-
Financial liabilities:					
Deposits					
Demand, savings and money market	$ 2,721,848	$ 2,721,848	$ -	$ 2,721,848	$ -
Time	222,631	224,321	-	224,321	-
Subordinated debt	11,267	7,963	-	-	7,963
Accrued interest payable	1,733	1,733	-	1,733	-
Interest rate lock commitments	718	718	-	718	-
Best efforts forward loan sales commitments	58	58	-	58	-
Mandatory forward loan sales commitments	29	29	-	29	-
Off-Balance Sheet Data					
Commitments to extend credit	-	-	-	-	-
Standby letters-of-credit	-	-	-	-	-

The estimated fair values of the Company's financial instruments at December 31, 2019 were as follows:

	Fair Value Measurements at December 31, 2019				
(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	$ 168,319	$ 168,319	$ 168,319	$ -	$ -
Investment securities available for sale	539,042	539,042	-	536,222	2,820
Investment securities held to maturity	644,842	653,109	-	653,109	-
Restricted stock	2,746	2,746	-	2,746	-
Loans held for sale	13,349	13,349	-	10,345	3,004
Loans receivable, net	1,738,929	1,731,876	-	-	1,731,876
SBA servicing assets	4,447	4,447	-	-	4,447
Accrued interest receivable	9,934	9,934	-	9,934	-
Interest rate lock commitments	362	362	-	362	-
Best efforts forward loan sales commitments	4	4	-	4	-
Mandatory forward loan sales commitments	2	2	-	2	-
Financial liabilities:					
Deposits					
Demand, savings and money market	$ 2,775,584	$ 2,775,584	$ -	$ 2,775,584	$ -
Time	223,579	224,095	-	224,095	-
Subordinated debt	11,265	8,540	-	-	8,540
Accrued interest payable	1,630	1,630	-	1,630	-
Interest rate lock commitments	-	-	-	-	-
Best efforts forward loan sales commitments	133	133	-	133	-
Mandatory forward loan sales commitments	83	83	-	83	-
Off-Balance Sheet Data					
Commitments to extend credit	-	-	-	-	-
Standby letters-of-credit	-	-	-	-	-

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

The following table presents the changes in accumulated other comprehensive loss by component for the three months ended March 31, 2020 and 2019, and the year ended December 31, 2019.

	Unrealized Gains (Losses) on Available-For-Sale Securities	Unrealized Holding Losses on Securities Transferred From Available-For-Sale To Held-To-Maturity	Total
(dollars in thousands)			
Balance January 1, 2020	$ (1,275)	$ (6,066)	$ (7,341)
Unrealized gain on securities	3,264	-	3,264
Amounts reclassified from accumulated other comprehensive income to net income (2)	(628)	305	(323)
Net current-period other comprehensive income	2,636	305	2,941
Total change in accumulated other comprehensive income	2,636	305	2,941
Balance March 31, 2020	$ 1,361	$ (5,761)	$ (4,400)
Balance January 1, 2019	$ (4,736)	$ (7,191)	$ (11,927)
Unrealized gain on securities	1,770	-	1,770
Amounts reclassified from accumulated other comprehensive income to net income (2)	(248)	240	(8)
Net current-period other comprehensive income	1,522	240	1,762
Total change in accumulated other comprehensive income	1,522	240	1,762
Balance March 31, 2019	$ (3,214)	$ (6,951)	$ (10,165)
Balance January 1, 2019	$ (4,736)	$ (7,191)	$ (11,927)
Unrealized gain on securities	4,284	-	4,284
Amounts reclassified from accumulated other comprehensive income to net income (2)	(823)	1,125	302
Net current-period other comprehensive income	3,461	1,125	4,586
Total change in accumulated other comprehensive income	3,461	1,125	4,586
Balance December 31, 2019	$ (1,275)	$ (6,066)	$ (7,341)

(1) All amounts are net of tax. Amounts in parentheses indicate reductions to other comprehensive income.
(2) Reclassification amounts are reported as gains on sales of investment securities, impairment losses, and amortization of net unrealized losses on the Consolidated Statement of Income.

Note 9: Goodwill and Other Intangibles

The Company completed an annual impairment test for goodwill as of July 31, 2019 and 2018. Future impairment testing will be conducted as of July 31 on an annual basis, unless a triggering event occurs in the interim that would suggest impairment, in which case it would be tested as of the date of the triggering event. In connection with the review of our financial condition in light of the COVID-19 pandemic, we evaluated our assets, including goodwill and other intangibles for potential impairment. During the first quarter of 2020, as a result of the various economic events which transpired we determined that a triggering event had occurred. Accordingly, we performed a quantitative test to assess whether or not goodwill had been impaired. Based on our analysis as of March 31, 2020, we have concluded that goodwill had not been impaired and no adjustment was required as of that date. There was also no goodwill impairment recorded during the three months ended March 31, 2019. We will continue to closely monitor key economic indicators and any factors that may impact our analysis of potential goodwill impairment. There can be no assurance that future impairment assessments or tests will not result in a charge to earnings.

In July 2016, Republic acquired all of the issued and outstanding limited liability company interests of Oak Mortgage Company, LLC ("Oak Mortgage") and, as a result, Oak Mortgage became a wholly owned subsidiary of Republic on that date. The goodwill related to the acquisition of Oak Mortgage is detailed in the table below:

	Three Months Ended March 31,	
(dollars in thousands)	**2020**	**2019**
Balance, January 1st	$ 5,011	$ 5,011
Additions/Adjustments	-	-
Amortization	-	-
Balance, March 31st	$ 5,011	$ 5,011
Amortization Period (in years)	Indefinite	Indefinite

Note 10: Derivatives and Risk Management Activities

Republic did not have any derivative instruments designated as hedging instruments, or subject to master netting and collateral agreements for the three months ended March 31, 2020 and 2019. The following table summarizes the amounts recorded in Republic's statement of financial condition for derivatives not designated as hedging instruments as of March 31, 2020 and December 31, 2019 (in thousands):

March 31, 2020	Balance Sheet Presentation	Fair Value	Notional Amount
Asset derivatives:			
IRLC's	Other Assets	$ 528	$ 38,062
Best efforts forward loan sales commitments	Other Assets	1,057	40,076
Mandatory forward loan sales commitments	Other Assets	271	8,562
Liability derivatives:			
IRLC's	Other Liabilities	$ 718	$ 10,293
Best efforts forward loan sales commitments	Other Liabilities	58	8,279
Mandatory forward loan sales commitments	Other Liabilities	29	6,532

December 31, 2019	Balance Sheet Presentation	Fair Value	Notional Amount
Asset derivatives:			
IRLC's	Other Assets	$ 362	$ 14,586
Best efforts forward loan sales commitments	Other Assets	4	875
Mandatory forward loan sales commitments	Other Assets	2	288
Liability derivatives:			
IRLC's	Other Liabilities	$ -	$ -
Best efforts forward loan sales commitments	Other Liabilities	133	13,711
Mandatory forward loan sales commitments	Other Liabilities	83	9,614

The following table summarizes the amounts recorded in Republic's statement of income for derivative instruments not designated as hedging instruments for the three months ended March 31, 2020 and 2019 (in thousands):

Three Months Ended March 31, 2020	Income Statement Presentation	Gain/(Loss)
Asset derivatives:		
IRLCs	Mortgage banking income	$ 166
Best efforts forward loan sales commitments	Mortgage banking income	1,053
Mandatory forward loan sales commitments	Mortgage banking income	269
Liability derivatives:		
IRLCs	Mortgage banking income	$ (718)
Best efforts forward loan sales commitments	Mortgage banking income	75
Mandatory forward loan sales commitments	Mortgage banking income	54

Three Months Ended March 31, 2019	Income Statement Presentation	Gain/(Loss)
Asset derivatives:		
IRLCs	Mortgage banking income	$ 363
Best efforts forward loan sales commitments	Mortgage banking income	(3)
Mandatory forward loan sales commitments	Mortgage banking income	(10)
Liability derivatives:		
IRLCs	Mortgage banking income	$ -
Best efforts forward loan sales commitments	Mortgage banking income	(154)
Mandatory forward loan sales commitments	Mortgage banking income	42

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

Note 11: Revenue Recognition

On January 1, 2018, the Company adopted ASU 2014-09 "*Revenue from Contracts with Customers*" *(Topic 606)* and all subsequent ASUs that modified Topic 606. As stated in Note 2 *Summary of Significant Accounting Policies*, the implementation of the new standard did not have a material impact on the measurement of recognition of revenue. Management determined that a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with the Company's historic accounting under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain non-interest income streams such as gains on sales of residential mortgage and SBA loans, income associated with servicing assets, and loan fees, including residential mortgage originations to be sold and prepayment and late fees charged across all loan categories are also not in scope of the new guidance. Topic 606 is applicable to non-interest revenue streams such as service charges on deposit accounts. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Non-interest revenue streams in-scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), ATM fees, NSF fees, and other deposit related fees.

The Company's performance obligation for account analysis fees and monthly services fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided, which is typically one month. Revenue is recognized at month end after the completion of the service period and payment for these service charges on deposit accounts is primarily received through a direct charge to customers' accounts.

ATM fees, NSF fees, and other deposit related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and the related revenue recognized, at a point in time. Payment for these service charges are received immediately through a direct charge to customers' accounts.

For the Company, there are no other material revenue streams within the scope of Topic 606.

The following table presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three months ended March 31, 2020 and 2019.

	Three Months Ended March 31,	
(dollars in thousands)	**2020**	**2019**
Non-interest income		
In-scope of Topic 606		
Service charges on deposit accounts	$ 2,064	$ 1,612
Other non-interest income	62	79
Non-interest income (in-scope of Topic 606)	2,126	1,691
Non-interest income (out-of-scope of Topic 606)	4,419	3,254
Total non-interest income	$ 6,545	$ 4,945

Contract Balances

A contract assets balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's non-interest revenue streams are largely based on transaction activity, or standard month-end revenue accruals. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term contracts with customers, and therefore, does not experience significant contract balances. As of March 31, 2020 and December 31, 2019, the Company did not have any significant contract balances.

Contract Acquisition Costs

In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize as an expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the assets that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Company did not capitalize any contract acquisition cost.

Note 12: Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The new standard was adopted by the Company on January 1, 2019. ASU 2016-02 provides for a modified retrospective transition approach requiring lessees to recognize and measure leases on the balance sheet at the beginning of either the earliest period presented or as of the beginning of the period of adoption. The Company elected to apply ASU 2016-02 as of the beginning of the period of adoption (January 1, 2019) and will not restate comparative periods. Adoption of ASU 2016-02 resulted in the recognition of total operating lease liability obligations totaling $35.1 million and the recognition of operating lease right-of-use assets totaling $34.2 million at the date of adoption. The initial balance sheet gross up upon adoption was related to operating leases on land and buildings for twenty-three lease agreements. The Company has no finance leases or material subleases for which it is the lessor of property. The Company has elected to apply the package of practical expedients allowed by the new standard under which the Company need not reassess whether any expired or existing contracts are leases or contain leases, the Company need not reassess the lease classification for any expired or existing lease, and the Company need not reassess initial direct costs for any existing leases.

At March 31, 2020, the Company had thirty-eight operating lease agreements, which include operating leases for eighteen branch locations, seven offices that are used for general office space, and thirteen operating leases for equipment. Two of the real property operating leases did not include one or more options to extend the lease term. Five of the operating leases for branch locations are land leases where the Company is responsible for the construction of the building on the property. The thirty-eight operating leases have maturity dates ranging from June 2020 to August 2059 most of which include options for multiple five and ten year extensions which the Company is reasonably certain to exercise. No operating leases include variable lease payments that are based on an index or rate, such as the CPI. The weighted average remaining operating lease term for these leases is 19.7 years as of March 31, 2020.

At March 31, 2019, the Company had twenty-four operating lease agreements, which include operating leases for sixteen branch locations and eight offices that are used for general office space. One of the real property operating leases did not include one or more options to extend the lease term. Five of the operating leases for branch locations are land leases where the Company is responsible for the construction of the building on the property. The twenty-four operating leases have maturity dates ranging from August 2019 to December 2058 most of which include options for multiple five and ten year extensions which the Company is reasonably certain to exercise. No operating leases include variable lease payments that are based on an index or rate, such as the CPI. The weighted average remaining operating lease term for these leases is 19.2 years as of March 31, 2019.

The discount rate used in determining the operating lease liability obligation for each individual lease was the assumed incremental borrowing rate for the Company that corresponded with the remaining lease term as of January 1, 2019 for leases that existed at adoption and as of the lease commencement date for leases subsequently entered in to. The weighted average operating lease discount rate was 3.58% and 3.61% as of March 31, 2020 and 2019, respectively.

The following table presents operating lease costs net of sublease income for the three months ended March 31, 2020 and 2019.

(dollars in thousands)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Operating lease cost	$ 1,917	$ 1,366
Sublease income	-	(81)
Total lease cost	$ 1,917	$ 1,285

The following table presents a maturity analysis of total operating lease liability obligations and reconciliation of the undiscounted cash flows to total operating lease liability obligations for the three months ended March 31, 2020 and 2019.

(dollars in thousands)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Operating lease payments due:		
Within one year	$ 6,991	$ 5,669
One to three years	11,541	10,336
Three to five years	10,173	8,641
More than five years	73,691	59,638
Total undiscounted cash flows	102,396	84,284
Discount on cash flows	(32,163)	(26,634)
Total operating lease liability obligations	$ 70,233	$ 57,650

The following table presents cash and non-cash activities for the three months ended March 31, 2020 and 2019.

(dollars in thousands)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 1,734	$ 1,003
Non-cash investing and financing activities		
Additions to Operating leases – right of use asset		
New operating lease liability obligation	$ 2,510	$ 58,385

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

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

We may from time to time make written or oral "forward-looking statements", including statements contained in this quarterly report. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. For example, risks and uncertainties can arise with changes in: general economic conditions, including turmoil in the financial markets and related efforts of government agencies to stabilize the financial system; the adequacy of our allowance for loan losses and our methodology for determining such allowance; adverse changes in our loan portfolio and credit risk-related losses and expenses; concentrations within our loan portfolio, including our exposure to commercial real estate loans, and to our primary service area; changes in interest rates; our ability to identify, negotiate, secure and develop new store locations and renew, modify, or terminate leases or dispose of properties for existing store locations effectively; business conditions in the financial services industry, including competitive pressure among financial services companies, new service and product offerings by competitors, price pressures and similar items; deposit flows; loan demand; the regulatory environment, including evolving banking industry standards, changes in legislation or regulation; our securities portfolio and the valuation of our securities; accounting principles, policies and guidelines as well as estimates and assumptions used in the preparation of our financial statements; rapidly changing technology; litigation liabilities, including costs, expenses, settlements and judgments; and other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services. You should carefully review the risk factors described in the Annual Report on Form 10-K for the year ended December 31, 2019 and other documents we file from time to time with the Securities and Exchange Commission. The words "would be," "could be," "should be," "probability," "risk," "target," "objective," "may," "will," "estimate," "project," "believe," "intend," "anticipate," "plan," "seek," "expect" and similar expressions or variations on such expressions are intended to identify forward-looking statements. All such statements are made in good faith by us pursuant to the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of us, except as may be required by applicable law or regulations.

Executive Summary

Republic First Bancorp, Inc. was organized and incorporated under the laws of the Commonwealth of Pennsylvania in 1987 and is the holding company for Republic First Bank, which does business under the name Republic Bank. We offer a variety of credit and depository banking services to individuals and businesses primarily in Greater Philadelphia, Southern New Jersey and New York City through our offices and branch locations in those markets. We commonly refer to our branch locations as stores to reflect our retail oriented approach to customer service and convenience.

As of March 31, 2020, we serve our customers through 30 store locations, in addition to 4 loan offices that specialize in commercial, small business and residential mortgage lending. Our stores are open 7 days a week, 361 days a year, with extended lobby and drive-thru hours providing customers with some of the most convenient hours compared to any bank in the markets which we operate. We offer free checking, free coin counting, and ATM/Debit cards issued on the spot. We also provide access to more than 55,000 surcharge free ATM machines worldwide through the Allpoint network to our customers. Our commitment to deliver best in class customer service not only applies to our store locations, but includes by phone, online and mobile options as well. Our business model is built on customer loyalty and engagement, understanding customer needs and offering the financial products and services to help them achieve their goals and objectives.

Current Economic Environment

The coronavirus (COVID-19) outbreak and the public health response to contain it have resulted in unprecedented economic and financial market conditions as of the end of the first quarter of 2020 that did not exist at the beginning of the quarter. These conditions have continued to worsen as we progress into the second quarter. In response to these evolving conditions, the Board of Governors of the Federal Reserve System reduced the federal funds target range by 150 basis points to 0.00% to 0.25% in March 2020. The Federal Reserve has taken additional steps to bolster the economy by promoting liquidity in certain securities markets and providing funding sources for small and mid-sized businesses, as well as, state and local governments as they work through the cash flow stresses caused by the COVID-19 pandemic.

The recession that has begun in the U.S. as a result of the government-mandated business closures and stay-at-home orders is significantly impacting the labor market, consumer spending, business investment and profitability. As a result, the President signed into law the Coronavirus Aid, Relief and Economic Security Act (CARES Act), which is the largest economic stimulus package in the nation’s history in an effort to lessen the impact of COVID-19 on consumers and businesses. Among other measures, the CARES Act authorized funding for the Small Business Administration (SBA) Paycheck Protection Program (PPP) to provide loans to small businesses to keep employees on their payroll and to make other eligible payments to sustain their operation in the near term.

COVID-19 Response Efforts

Republic is committed to providing the financial resources necessary to support the economic recovery in our market. We have taken an active role in participating in the PPP Program approved under the CARES Act. We quickly developed a process to accept PPP loan applications not only from our valued small business customers, but from non-customers throughout our community as well. As of May 5, 2020, we processed and obtained SBA approval for more than 4,000 PPP applications resulting in over $700 million in loans. We are now evaluating the guidelines of the Main Street Lending Program designed by the Federal Reserve to support small and medium-sized businesses that were unable to access the PPP Program or that require additional financial support after receiving a PPP loan.

We have also taken a number of steps to mitigate the potential spread of the coronavirus and to assist our customers, employees and other members of the community during this pandemic crisis. As of March 31, 2020 we have:

- Temporarily closed the lobbies in all of our suburban store locations. However, drive-thru lanes remain open for all transactions including new account openings.
- Encouraged customers to utilize our online, mobile and telephone banking systems. In addition, we continue to offer more than 55,000 surcharge free ATM machines to all of our customers.
- Directed our commercial lenders to contact each of their customers to discuss the impact of the current economic conditions on their business and to develop a plan for assistance if required.
- Implemented a work from home policy for all employees whose primary responsibilities can be completed in this manner.
- Initiated additional preventative measures by providing guidance and proper supplies to all employees to support appropriate hygiene and social distancing.
- Changed the Annual Shareholder Meeting held on April 29, 2020 to a virtual meeting only.

Loss Mitigation and Loan Portfolio Analysis

We have taken a proactive approach to analyze and prepare for the potential challenges to be faced as the effects of the economic shutdown begin to unfold. A detailed analysis of loan concentrations and segments that may present the areas of highest risk has been prepared. Our commercial lending team has initiated contact with a majority of our loan customers to discuss the impact that this pandemic crisis has had on their businesses to date and the expected ramifications that could be felt in the future. As of May 5, 2020, we have received requests to defer loan payments from 415 customers with total outstanding balances of $357 million, or 20% of total loans outstanding as of March 31, 2020. Approximately $221 million, or 62%, of the deferral requests were for deferment of principal balances only. The remaining deferrals include requests to defer both principal and interest payments. We have executed loan modifications and initiated payment deferrals for all customers that have an immediate need for assistance. As of March 31, 2020, none of the documentation to formally modify these loans to incorporate the deferral requests had been executed. The regulatory agencies that supervise financial institutions have issued an Interagency Statement that encourages financial institutions to actively work with borrowers that have been impacted by the effects of COVID-19. Pursuant to the CARES Act, loan modifications made between March 1, 2020 and the earlier of i) December 30, 2020 or ii) 60 days after the President declares a termination of the COVID-19 national emergency are not classified as TDRs if the related loans were not 30 days past due as of December 31, 2019.

As a result of the recent changes in economic conditions, we have increased the qualitative factors for certain components of the Bank’s allowance for loan loss calculation. We have also taken into consideration the probable impact that the various stimulus initiatives provided through the CARES Act, along with other government programs, may have to assist borrowers during this period of economic stress. We believe the combination of ongoing communication with our customers, loan to values on underlying collateral, loan payment deferrals, increased focus on risk management practices, and access to government programs such as the PPP Program should help mitigate potential future period losses. We will continue to closely monitor all key economic indicators and our internal asset quality metrics as the effects of the coronavirus pandemic begin to unfold. Based on the incurred loss methodology currently utilized by the Bank, the provision for loan losses and charge-offs may be impacted in future periods, but more time is needed to fully understand the magnitude and length of the economic downturn and the full impact on our loan portfolio.

Recent Regulatory Reform Legislation

The Economic Growth, Regulatory Relief, and Consumer Protection Act, enacted in May 2018 (the “Regulatory Relief Act”), amended certain provisions of the Dodd-Frank Act, as well as certain other statutes administered by the federal banking agencies. Some of the key provisions of the Regulatory Relief Act as it relates to community banks and bank holding companies include: (i) designating mortgages held in portfolio as “qualified mortgages” for banks with less than $10 billion in assets, subject to certain documentation and product limitations; (ii) exempting banks with less than $10 billion in assets (and total trading assets and trading liabilities of 5% or less of total assets) from Volcker Rule requirements relating to proprietary trading; (iii) simplifying capital calculations for banks with less than $10 billion in assets by requiring federal banking agencies to establish a community bank leverage ratio of tangible equity to average consolidated assets of not less than 8% or more than 10%, and provide that banks that maintain tangible equity in excess of such ratio will be deemed to be in compliance with risk-based capital and leverage requirements; (iv) assisting smaller banks with obtaining stable funding by providing an exception for reciprocal deposits from FDIC restrictions on acceptance of brokered deposits; (v) raising the eligibility for use of short-form Call Reports from $1 billion to $5 billion in assets; (vi) clarifying definitions pertaining to high volatility commercial real estate loans, which require higher capital allocations, so that only loans with increased risk are subject to higher risk weightings; and (vii) changing the eligibility for use of the small bank holding company policy statement from institutions with under $1 billion in assets to institutions with under $3 billion in assets.

In September 2019, the federal banking agencies approved the final rule to implement the provisions of Section 201 of the Regulatory Relief Act relating to the community bank leverage ratio ("CBLR"). Under the new rule, which became effective January 1, 2020, a qualifying community banking organization is defined as a depository institution or depository institution holding company with less than $10 billion in assets. A qualifying community banking organization has the option to elect the CBLR framework if its CBLR is greater than 9%, it has off-balance sheet exposures of 25% or less of consolidated assets, and trading assets and liabilities of 5% or less of total consolidated assets. The leverage ratio for purposes of the CBLR is calculated as Tier I capital divided by average total assets, consistent with the manner banking organizations calculate the leverage ratio under generally applicable capital rules. Qualifying community banking organizations that exceed the CBLR level established by the agencies, and that elect to be covered by the CBLR framework, will be considered to have met: (i) the generally applicable leverage and risk-based capital requirements under the banking agencies' capital rules; (ii) the capital ratio requirements necessary to be considered "well capitalized" under the banking agencies' prompt corrective action framework in the case of insured depository institutions; and (iii) any other applicable capital or leverage requirements. For institutions that fall below the 9% capital requirement but remain above 8%, are allowed a two-quarter grace period to either meet the qualifying criteria again or to comply with the generally applicable capital rules. We have not at this time opted to use the CBLR framework. We do not believe that the changes resulting from the Regulatory Relief Act, including whether we elect to use the CBLR framework, will materially impact our business, operations, or financial results.

Financial Condition

Assets

Total assets decreased by $40.9 million to $3.300 billion at March 31, 2020, compared to $3.341 billion at December 31, 2019.

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 decreased by $111.8 million to $56.5 million at March 31, 2020, from $168.3 million at December 31, 2019.

Loans Held for Sale

Loans held for sale are comprised of loans guaranteed by the U.S. Small Business Administration ("SBA") which we usually originate with the intention of selling in the future and residential mortgage loans originated which we also intend to sell in the future. Total SBA loans held for sale were $1.4 million at March 31, 2020 as compared to $3.0 million at December 31, 2019. Residential mortgage loans held for sale were $15.4 million at March 31, 2020 compared to $10.3 million at December 31, 2019. Loans held for sale, as a percentage of total Company assets, were less than 1% at March 31, 2020.

Loans Receivable

The loan portfolio represents our largest asset category and is our most significant source of interest income. Our lending strategy is focused on small and medium sized businesses and professionals that seek highly personalized banking services. The loan portfolio consists of secured and unsecured commercial loans including commercial real estate, construction loans, residential mortgages, home improvement loans, home equity loans and lines of credit, overdraft lines of credit, and others. Commercial loans typically range between $250,000 and $5,000,000 but customers may borrow significantly larger amounts up to our legal lending limit to a customer, which was approximately $38.2 million at March 31, 2020. Loans made to one individual customer, even if secured by different collateral, are aggregated for purposes of the lending limit.

Loans increased $132.9 million, or 8%, to $1.9 billion at March 31, 2020, versus $1.7 billion at December 31, 2019. This growth was the result of an increase in loan demand across all categories driven by the successful execution of our relationship banking strategy which focuses on delivering high levels of customer service.

Investment Securities

Investment securities considered available-for-sale are investments that may be sold in response to changing market and interest rate conditions, and for liquidity and other purposes. Our investment securities classified as available-for-sale consist primarily of U.S. Government agency Small Business Administration ("SBA") bonds, U.S. Government agency collateralized mortgage obligations ("CMO"), agency mortgage-backed securities ("MBS"), municipal securities, and corporate bonds. Available-for-sale securities totaled $497.5 million at March 31, 2020, compared to $539.0 million at December 31, 2019. The decrease was primarily due to the paydown, maturity, or call, of securities totaling $34.7 million and the sale of securities totaling $26.9 million partially offset by the purchase of securities totaling $16.9 during the first three months of 2020. At March 31, 2020, the portfolio had a net unrealized gain of $1.8 million compared to a net unrealized loss of $1.7 million at December 31, 2019. 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 securities available-for-sale in our portfolio during the first three months of 2020.

Investment securities held-to-maturity are investments for which there is the intent and ability to hold the investment to maturity. These investments are carried at amortized cost. The held-to-maturity portfolio consists primarily of U.S. Government agency Small Business Investment Company bonds ("SBIC") and Small Business Administration ("SBA") bonds, CMOs and MBSs. The fair value of securities held-to-maturity totaled $636.9 million and $653.1 million at March 31, 2020 and December 31, 2019, respectively. The decrease was primarily due to the paydown, maturity, or call of securities totaling $32.8 million partially offset by an increase of $16.7 million in the value of securities held in the portfolio during the first three months of 2020. 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 securities held-to-maturity in our portfolio during the first three months of 2020.

Restricted Stock

Restricted stock, which represents a required investment in the capital stock of correspondent banks related to available credit facilities, is carried at cost as of March 31, 2020 and December 31, 2019. As of those dates, restricted stock consisted of investments in the capital stock of the Federal Home Loan Bank of Pittsburgh ("FHLB") and Atlantic Community Bankers Bank ("ACBB").

At March 31, 2020 and December 31, 2019, the investment in FHLB of Pittsburgh capital stock totaled $2.6 million. At both March 31, 2020 and December 31, 2019, ACBB capital stock totaled $143,000. Both the FHLB and ACBB issued dividend payments during the first quarter of 2020.

Premises and Equipment

The balance of premises and equipment increased to $119.9 million at March 31, 2020 from $117.0 million at December 31, 2019. The increase was primarily due to premises and equipment expenditures of $4.8 million less depreciation and amortization expenses of $1.9 million during the first quarter of 2020. A new store was opened in Northfield, NJ in January 2020 bringing the total store count to thirty. Construction is ongoing on a site in Bensalem, PA which scheduled to be completed by mid-2020. There are also multiple sites in various stages of development for future store locations.

More expansion into New York City is planned for 2020. We intend to open one or two more new stores in Manhattan during 2020 after opening two stores in 2019.

Other Real Estate Owned

The balance of other real estate owned was $1.1 million at March 31, 2020 and $1.7 million at December 31, 2019. The decrease was due to sale of one property totaling $586,000 during the three months ended March 31, 2020.

Operating Leases – Right of Use Asset

Accounting Standards Codification Topic 842, also known as ASC 842 and ASU 2016-02, is the new lease accounting standard published by the Financial Accounting Standards Board (FASB). ASC 842 represents a significant overhaul of the accounting treatment for leases, with the most significant change being that most leases, including most operating leases, will now be capitalized on the balance sheet. Under ASC 840, FASB permitted operating leases to be reported only in the footnotes of corporate financial statements. Under ASC 842, the only leases that are exempt from the capitalization requirement are short-term leases less than or equal to twelve months in length.

The right-of-use asset is valued as the initial amount of the lease liability obligation adjusted for any initial direct costs, prepaid or accrued rent, and any lease incentives. At March 31, 2020 and December 31, 2019, the balance of operating leases – right-of-use asset was $66.0 million and $64.8 million, respectively.

Goodwill

Goodwill amounted to $5.0 million at both March 31, 2020 and December 31, 2019. We completed an annual impairment test for goodwill as of July 31, 2019 and 2018. In connection with the review of our financial condition in light of the COVID-19 pandemic, we evaluated our assets, including goodwill and other intangibles for potential impairment. During the first quarter of 2020, as a result of the various economic events which transpired we determined that a triggering event had occurred. Accordingly, we performed a quantitative test to assess whether or not goodwill had been impaired. Based on our analysis as of March 31, 2020, we have concluded that goodwill had not been impaired and no adjustment is required as of that date. During the years ended December 31, 2019 and 2018, there was also no goodwill impairment recorded. We will continue to closely monitor key economic indicators and any factors that may impact our analysis of potential goodwill impairment. There can be no assurance that future impairment assessments or tests will not result in a charge to earnings.

Impairment is a condition that exists when the carrying amount of goodwill exceeds its implied fair value. As of July 31, 2019, the fair value of the Reporting Unit exceeded its carrying value by 20%. In the current analysis as of March 31, 2020, the fair value of the Reporting Unit exceeded its carrying value by 15%. The determination of the fair value of the Reporting Unit incorporates assumptions that marketplace participants would use in their estimates of fair value of the Reporting Unit in a change of control transaction, as prescribed by ASC Topic 820.

To arrive at a conclusion of fair value, we utilize both the Income and Market Approach and then apply weighting factors to each result. Weighting factors represent our best business judgment of the weightings a market participant would utilize in arriving at a fair value for the Reporting Unit. In performing our analyses, we also made numerous assumptions with respect to industry performance, business, economic and market conditions and various other matters, many of which cannot be predicted and are beyond our control. With respect to financial projections, projections reflect the best currently available estimates and judgments as to the expected future financial performance of the Reporting Unit.

Deposits

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

Total deposits decreased by $54.7 million to $2.9 billion at March 31, 2020 from $3.0 billion at December 31, 2019. The decline in deposit balances during the first quarter of 2020 was primarily driven by a reduction in interest-bearing demand balances driven by some of our larger customer accounts, including public fund relationships. Historically we have experienced seasonal outflows associated with these type of depositors during the first half of a calendar year as tax collection cycles result in lower deposit balances during this time period.

Operating Lease Liability Obligation

Accounting Standards Codification Topic 842, also known as ASC 842 and ASU 2016-02, is the new lease accounting standard published by the Financial Accounting Standards Board (FASB). ASC 842 represents a significant overhaul of the accounting treatment for leases, with the most significant change being that most leases, including most operating leases, will now be capitalized on the balance sheet. Under ASC 840, FASB permitted operating leases to be reported only in the footnotes of corporate financial statements. Under ASC 842, the only leases that are exempt from the capitalization requirement are short-term leases less than or equal to twelve months in length.

The operating lease liability obligation is calculated as the present value of the lease payments, using the discount rate specified in the lease, or if that is not available, our incremental borrowing rate. At March 31, 2020 and December 31, 2020, the balance of the operating lease liability obligation was $70.2 million and $68.9 million, respectively.

Shareholders' Equity

Total shareholders' equity increased $2.9 million to $252.1 million at March 31, 2020 compared to $249.2 million at December 31, 2019. The increase during the first quarter of 2020 was primarily due to a $2.9 million decrease 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 was primarily driven by a decrease in market interest rates which drove an increase in the market value of the securities held in our portfolio.

Results of Operations

Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

We reported a net loss of $593,000 or ($0.01) per diluted share, for the three month period ended March 31, 2020 compared to net income of $426,000 or $0.01 per diluted share, for the three month period ended March 31, 2019. The decline in earnings year over year was primarily driven by a 17% increase in non-interest expense amounting to $4.0 million. This increase was a result of the ongoing growth and expansion initiative which included the opening of the Company's first two store locations in New York City during the second half of 2019. In addition, the net interest margin decreased to 2.76% for the three month period ended March 31, 2020 compared to 3.00% for the three month period ended March 31, 2019. This decrease was a result of the challenging nature of the interest rate environment driven by a flat and, at times, an inverted yield curve. The growth in non-interest expense outpaced the growth in revenue over the last twelve months resulting in a reduction in profitability.

Net interest income was $20.8 million for the three month period ended March 31, 2020 compared to $19.1 million for the three months ended March 31, 2019. Interest income increased $1.8 million, or 6.9%, primarily due to an increase in average loans receivable balances and investment securities partially offset by lower yields on those interest earning assets. Interest expense increased $150,000, or 2.3%, primarily due to an increase in the average deposit balances. The net interest margin decreased by 24 basis points to 2.76% during the first quarter of 2020 compared to 3.00% during the first quarter of 2019. Compression in the net interest margin was driven by a more rapid decrease in the yield on interest earning assets compared to our cost of funds.

We recorded a provision for loan losses of $950,000 for the three months ended March 31, 2020 compared to $300,000 for the three months ended March 31, 2019. This was primarily due to an increase in the allowance required for loans collectively evaluated for impairment. We have elected to defer the adoption of ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as permitted by the CARES Act for the first quarter of 2020, effective as of January 1, 2020.

Non-interest income increased by $1.6 million to $6.5 million during the three months ended March 31, 2020 compared to $4.9 million during the three months ended March 31, 2019. The increase during the three months ended March 31, 2020 was primarily due to increases in the gain on sale of investment securities, service fees on deposit accounts, loan and servicing fees, mortgage banking income, and gain on the sales of SBA loans.

Non-interest expenses increased $4.0 million to $27.3 million during the three months ended March 31, 2020 compared to $23.3 million during the three months ended March 31, 2019. This increase was primarily driven by higher salaries, employee benefits, and occupancy and equipment expenses associated with the addition of new stores related to our expansion strategy which we refer to as “The Power of Red is Back”. Annual merit increases contributed to the increase in salaries and employee benefit costs. We have also incurred costs related to our expansion into New York City as we hire a management and lending team and commence rent payments for our store locations. Our first store in New York City opened at 14th Street & 5th Avenue in Manhattan in July 2019. Construction was completed on a second store location at 51st Street & 3rd Avenue in November 2019.

A benefit for income taxes of $330,000 was recorded during the three months ended March 31, 2020, a decrease of $422,000, compared to a $92,000 provision for income taxes during the three months ended March 31, 2019.

Return on average assets and average equity from continuing operations was (0.07%) and (0.95%), respectively, during the three months ended March 31, 2020 compared to 0.06% and 0.70%, respectively, for the three months ended March 31, 2019.

Analysis of Net Interest Income

Historically, our earnings have depended primarily upon Republic's net interest income, which is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is affected by changes in the mix of the volume and rates of interest-earning assets and interest-bearing liabilities. The following table provides an analysis of net interest income on an annualized basis, setting forth for the periods average assets, liabilities, and shareholders' equity, interest income earned on interest-earning assets and interest expense on interest-bearing liabilities, average yields earned on interest-earning assets and average rates on interest-bearing liabilities, and Republic's 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. Yields are adjusted for tax equivalency, a non-GAAP measure, using a rate of 21% in 2020 and 21% in 2019.

Average Balances and Net Interest Income

	For the three months ended March 31, 2020			For the three months ended March 31, 2019		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate(1)	Average Balance	Interest Income/ Expense	Yield/ Rate(1)
Interest-earning assets:						
Federal funds sold and other interest-earning assets	$ 81,339	$ 289	1.43%	$ 55,369	$ 336	2.46%
Investment securities and restricted stock	1,156,504	6,826	2.36%	1,085,910	7,420	2.73%
Loans receivable	1,808,382	20,319	4.52%	1,468,640	17,911	4.95%
Total interest-earning assets	3,046,225	27,434	3.62%	2,609,919	25,667	3.99%
Other assets	260,829			190,855		
Total assets	$ 3,307,054			$ 2,800,774		
Interest-earning liabilities:						
Demand – non-interest bearing	$ 644,601			$ 512,172		
Demand – interest bearing	1,337,646	3,421	1.03%	1,113,758	3,938	1.43%
Money market & savings	752,510	1,783	0.95%	675,506	1,452	0.87%
Time deposits	226,185	1,221	2.17%	153,832	624	1.65%
Total deposits	2,960,942	6,425	0.87%	2,455,268	6,014	0.99%
Total interest-bearing deposits	2,316,341	6,425	1.12%	1,943,096	6,014	1.26%
Other borrowings	11,952	104	3.50%	46,969	365	3.15%
Total interest-bearing liabilities	2,328,293	6,529	1.13%	1,990,065	6,379	1.30%
Total deposits and other borrowings	2,972,894	6,529	0.88%	2,502,237	6,379	1.03%
Non-interest bearing other liabilities	84,211			52,037		
Shareholders' equity	249,949			246,500		
Total liabilities and shareholders' equity	$ 3,307,054			$ 2,800,774		
Net interest income (2)		$ 20,905			$ 19,288	
Net interest spread			2.49%			2.69%
Net interest margin (2)			2.76%			3.00%

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

(2)Net interest income and net interest margin are presented on a tax equivalent basis, a non-GAAP measure. Net interest income has been increased over the financial statement amount by $151 and $148 for the three months ended March 31, 2020 and 2019, 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 periods indicated. 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. Net interest income and net interest margin are presented on a tax equivalent basis, a Non-GAAP measure.

	For the three months ended March 31, 2020 vs. 2019		
	Changes due to:		
(dollars in thousands)	**Average Volume**	**Average Rate**	**Total Change**
Interest earned:			
Federal funds sold and other interest-earning assets	$ 92	$ (139)	$ (47)
Securities	417	(1,011)	(594)
Loans	3,633	(1,225)	2,408
Total interest-earning assets	4,142	(2,375)	1,767
Interest expense:			
Deposits			
Interest-bearing demand deposits	573	(1,090)	(517)
Money market and savings	201	130	331
Time deposits	391	206	597
Total deposit interest expense	1,165	(754)	411
Other borrowings	(169)	(92)	(261)
Total interest expense	996	(846)	150
Net interest income	$ 3,146	$ (1,529)	$ 1,617

Net Interest Income and Net Interest Margin

Net interest income, on a fully tax-equivalent basis, a non-GAAP measure, for the three months ended March 31, 2020, increased $1.6 million, or 8.4%, over the same period in 2019. Interest income on interest-earning assets totaled $27.4 million for the three months ended March 31, 2020, an increase of $1.8 million, compared to $25.7 million for the three months ended March 31, 2019. The increase in interest income earned was primarily the result of an increase in the average balances of loans receivable and investment securities partially offset by lower yields on those interest earning assets. Total interest expense for the three months ended March 31, 2020 increased by $150,000, or 2.4%, over the same period in 2019. Interest expense on deposits increased by $411,000, or 6.8%, for the three months ended March 31, 2020 versus the same period in 2019 due primarily to an increase in the average balance on deposit balances. Interest expense on other borrowings decreased by $261,000 for the three months ended March 31, 2020 as compared to March 31, 2019 due primarily to a decrease in the average balances on overnight borrowings.

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 2.49% during the first three months of 2020 compared to 2.69% during the first three months of 2019. 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 three months of 2020 and 2019, the fully tax-equivalent net interest margin was 2.76% and 3.00%, respectively. The decrease in the net interest margin was a result of the challenging nature of the interest rate environment driven by a flat and, at times, an inverted yield curve.

Provision for Loan Losses

We recorded a provision of $950,000 for the three month period ended March 31, 2020 and a $300,000 provision for loan losses for the three month period ended March 31, 2019. During the first three months of 2020, there was an increase in the allowance required for loans collectively evaluated for impairment. We have elected to defer the adoption of ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as permitted by the CARES Act for the first quarter of 2020, effective as of January 1, 2020.

As a result of the recent changes in economic conditions, we have increased the qualitative factors for certain components of the Bank's allowance for loan loss calculation. We have also taken into consideration the probable impact that the various stimulus initiatives provided through the CARES Act, along with other government programs, may have to assist borrowers during this period of economic stress. We believe the combination of ongoing communication with our customers, loan payment deferrals, increased focus on risk management practices, and access to government programs such as the PPP Program should help mitigate potential future period losses. We will continue to closely monitor all key economic indicators and our internal asset quality metrics as the effects of the coronavirus pandemic begin to unfold. Based on the incurred loss methodology currently utilized by the Bank, the provision for loan losses and charge-offs may be impacted in future periods, but more time is needed to fully understand the magnitude and length of the economic downturn and the full impact on our loan portfolio.

Non-interest Income

Total non-interest income for the three months ended March 31, 2020 increased by $1.6 million, or 32.4%, compared to the same period in 2019. Service fees on deposit accounts totaled $2.1 million for the first three months of 2020 which represents an increase of $452,000 over the same period in 2019. This increase was due to the growth in the number of customer accounts and transaction volume. There were gains on the sale of investment securities during the first three months of 2020 of $841,000 compared to $322,000 during the first three months of 2019. Mortgage banking income totaled $2.5 million during the three months ended March 31, 2020 which represents an increase of $238,000 from the same period in 2019. Gains on the sale of SBA loans totaled $649,000 for the first three months of 2020, an increase of $147,000, versus $502,000 for the same period in 2019

Non-interest Expenses

Non-interest expenses increased $4.0 million, or 17.2%, to $27.3 million for the first three months of 2020 compared to $23.3 million for the same period in 2019. An explanation of changes in non-interest expenses for certain categories is presented in the following paragraphs.

Salaries and employee benefits increased by $1.0 million, or 8.3%, for the first three months of 2020 compared to the same period in 2019 which was primarily driven by annual merit increases along with increased staffing levels related to our growth strategy of adding and relocating stores, which we refer to as "The Power of Red is Back". There were thirty stores open as of March 31, 2020 compared to twenty-six stores at March 31, 2019.

Occupancy expense, including depreciation and amortization expense, increased by $1.3 million or 31.9%, for the first three months of 2020 compared to the same period last year, also as a result of our continuing growth and relocation strategy.

Other real estate expenses totaled $282,000 during the first three months of 2020, a decrease of $55,000, or 16.3%, compared to the same period in 2019. This decrease was a result of lower costs to carry foreclosed properties in the current period.

All other non-interest expenses increased by $1.8 million, or 26.8%, for the first three months of 2020 compared to the same period last year due to increases in expenses related to data processing fees, debit card processing, regulatory assessments and costs, professional fees, and other expenses which were mainly associated with our growth strategy.

One key measure that management utilizes to monitor progress in controlling overhead expenses is the ratio of annualized net non-interest expenses to average assets, a non-GAAP measure. For the purposes of this calculation, net non-interest expenses equal non-interest expenses less non-interest income. For the three month period ended March 31, 2020, the ratio was 2.52% compared to 2.65% for the three month period ended March 31, 2019. The decrease in this ratio was mainly due to an increase in average assets year over year.

Another productivity measure utilized by management is the operating efficiency ratio, a non-GAAP measure. This ratio expresses the relationship of non-interest expenses to net interest income plus non-interest income. The efficiency ratio equaled 99.9% for the first three months of 2020, compared to 96.6% for the first three months of 2019. The increase for the three months ended March 31, 2020 versus March 31, 2019 was due to non-interest expenses increasing at a faster rate than net interest income and non-interest income.

Provision (Benefit) for Federal Income Taxes

We recorded a benefit for income taxes of $330,000 for the three months ended March 31, 2020, compared to a $92,000 provision for the three months ended March 31, 2019. The effective tax rates for the three-month periods ended March 31, 2020 and 2019 were (36%) and 18%, respectively. The effect of permanent deductions increases the effective tax benefit percentage when in a pre-tax loss position.

We evaluate the carrying amount of our 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, we believe it is important to consider the unique characteristics of an industry or business. In particular, characteristics such as business model, level of capital and reserves held by a financial institution and the ability to absorb potential losses are important distinctions to be considered for bank holding companies like us. In addition, it is also important to consider that net operating loss carryforwards (“NOLs”) calculated for federal income tax purposes can generally be carried back two years and carried forward for a period of twenty years, for NOLs created prior to January 1, 2018. Federal NOLs generated after December 31, 2017 can be carried forward indefinitely and carried back five years to the extent the losses are generated in taxable years beginning before January 1, 2021. In order to realize our deferred tax assets, we must generate sufficient taxable income in such future years.

In assessing the need for a valuation allowance, we carefully weighed both positive and negative evidence currently available. Judgment is required when considering the relative impact of such evidence. The weight given to the potential effect of positive and negative evidence must be commensurate with the extent to which it can be objectively verified.

The Company is in a 3-year cumulative profit position factoring in pre-tax GAAP income and permanent book to tax differences. Strong growth in interest-earning assets is expected to continue in future periods. A number of cost control measures have been implemented to offset the challenges faced in growing revenue as a result of compression in the net interest margin. Since the beginning of 2017, the Company has added twelve store locations. Since the inception of the "Power of Red is Back" growth and expansion strategy in 2014, almost every new store location has met or exceeded expectations. The success of the expansion into New York, combined with the stabilization of interest rates and continued loan growth are expected to improve profitability going forward.

Conversely, the Company generated a loss in 2019 and in the first quarter of 2020 when factoring in pre-tax GAAP income and permanent book to tax differences. The Bank's net interest margin declined during 2019 as a result of the challenging interest rate environment which appears to be consistent across the financial services industry. Rising interest rates and a downturn in the economy could significantly decrease the volume of mortgage loan originations.

The Company has experienced a growing balance sheet driven by the growth and expansion strategy over the last several years. Loans and deposits have consistently grown at rates far above industry standards generating a higher level of interest earning assets. Assets quality metrics have improved consistently through the period ended March 31, 2020. From 2014 to 2018, the Company demonstrated consistent and steady improvement in earnings despite the investments required to initiate the expansion plan.

In 2019, the Company began opening branches in New York City. Management was aware of the initial costs and investments required to expand into this new market. As a result of the flat and inverted yield curve experienced in 2019, the net interest margin compressed and revenue did not grow at the rate necessary to support the increased expense levels which caused a decline in earnings. Management and the Board of Directors have engaged in detailed discussions on how to improve profitability going forward. During the preparation of the 2020 budget, several cost reduction and control initiatives were identified and incorporated into the Company's financial projections. These initiatives include, but are not limited to, a reduction of store hours and slowing of the number of locations to be opened in the coming years. This has resulted in declines in non-interest expense for two consecutive quarters through the first quarter of 2020. Efforts to reduce high cost deposits and increase loan production to improve the net interest margin have also been initiated and have shown results.

The effect of the COVID-19 pandemic on the bank's future earnings is uncertain. Economic hardship created by the COVID-19 pandemic may result in the increase of reserve levels for the bank. However, the recently enacted CARES Act is expected to result in the generation of significant amounts of taxable income for the bank over the next twelve to eighteen months related to the Act's Paycheck Protection Program (PPP). The Company's updated multi-year budget plan continues to project future taxable income which will be more than sufficient to support the realization of the deferred tax assets.

Based on the guidance provided in ASC 740, we believed that the positive evidence considered at March 31, 2020 and December 31, 2019 outweighed the negative evidence and that it was more likely than not that all of our deferred tax assets would be realized within their life cycle. Therefore, a valuation allowance is not required.

The net deferred tax asset balance was $12.4 million as of March 31, 2020 and $12.6 million as of December 31, 2019. The deferred tax asset will continue to be analyzed on a quarterly basis for changes affecting realizability.

Net Income (Loss) and Net Income (Loss) per Common Share

The net loss for the first three months of 2020 was $593,000, a decrease of $1.0 million, compared to net income of $426,000 recorded for the first three months of 2019. The decline in earnings year over year was primarily driven by a 17% increase in non-interest expense amounting to $4.0 million. This increase was a result of the ongoing growth and expansion initiative which included the opening of the Company's first two store locations in New York City during the second half of 2019. In addition, the net interest margin decreased to 2.76% for the three month period ended March 31, 2020 compared to 3.00% for the three month period ended March 31, 2019. This decrease was a result of the challenging nature of the interest rate environment driven by a flat and, at times, an inverted yield curve. The growth in non-interest expense outpaced the growth in revenue over the last twelve months resulting in a reduction in profitability. For the three month period ended March 31, 2020, basic and fully-diluted net loss per common share was ($0.01) compared to basic and fully-diluted net income per common share of $0.01 for the three month period ended March 31, 2019.

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 three months of 2020 and 2019 was (0.07%) and 0.06%, 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 three months of 2020 and 2019 was (0.95%) and 0.70%, respectively.

Commitments, Contingencies and Concentrations

Financial instruments with contract amounts representing potential credit risk were commitments to extend credit of approximately $314.3 million and $329.9 million, and standby letters of credit of approximately $17.4 million and $17.2 million, at March 31, 2020 and December 31, 2019, respectively. These financial instruments constitute off-balance sheet arrangements. Commitments often expire without being drawn upon. Substantially all of the $314.3 million of commitments to extend credit at March 31, 2020 were committed as variable rate credit facilities.

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

Standby letters of credit are conditional commitments issued that guarantee the performance of a customer to a third party. The credit risk and collateral policy involved in issuing letters of credit is essentially the same as that involved in extending loan commitments. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of liability as of March 31, 2020 and December 31, 2019 for guarantees under standby letters of credit issued is not material.

Regulatory Matters

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

Under the capital rules, risk-based capital ratios are calculated by dividing common equity Tier 1, Tier 1, and total risk-based capital, respectively, by risk-weighted assets. Assets and off-balance sheet credit equivalents are assigned to one of several categories of risk-weights, based primarily on relative risk. Under applicable capital rules, Republic is required to maintain a minimum common equity Tier 1 capital ratio requirement of 4.5%, a minimum Tier 1 capital ratio requirement of 6%, a minimum total capital requirement of 8% and a minimum leverage ratio requirement of 4%. Under the rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity Tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets.

Management believes that the Company and Republic met, as of March 31, 2020 and December 31, 2019, all applicable capital adequacy requirements. In the current year, the FDIC categorized Republic as well capitalized under the regulatory framework for prompt corrective action provisions of the Federal Deposit Insurance Act. There are no calculations or events since that notification which management believes would have changed Republic’s category.

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

The following table presents our regulatory capital ratios at March 31, 2020, and December 31, 2019.

(dollars in thousands)	Actual		Minimum Capital Adequacy		Minimum Capital Adequacy with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
At March 31, 2020:								
Total risk-based capital								
Republic	$ 253,152	11.33%	$ 178,670	8.00%	$ 234,504	10.50%	$ 223,337	10.00%
Company	262,989	11,76%	178,963	8.00%	234,889	10.50%	-	-%
Tier 1 risk-based capital								
Republic	242,935	10.88%	134,002	6.00%	189,837	8.50%	178,670	8.00%
Company	252,772	11.30%	134,222	6.00%	190,148	8.50%	-	-%
CET 1 risk-based capital								
Republic	242,935	10.88%	100,502	4.50%	156,336	7.00%	145,169	6.50%
Company	241,772	10.81%	100,667	4.50%	156,593	7.00%	-	-%
Tier 1 leveraged capital								
Republic	248,191	7.38%	131,596	4.00%	131,596	4.00%	164,495	5.00%
Company	252,116	7.67%	131,751	4.00%	131,751	4.00%	-	-%
At December 31, 2019:								
Total risk-based capital								
Republic	$ 252,307	11.94%	$ 169,016	8.00%	$ 221,833	10.50%	$ 211,270	10.00%
Company	261,759	12.37%	169,251	8.00%	222,141	10.50%	-	-%
Tier 1 risk-based capital								
Republic	243,041	11.50%	126,762	6.00%	179,579	8.50%	169,016	8.00%
Company	252,493	11.93%	126,938	6.00%	179,829	8.50%	-	-%
CET 1 risk-based capital								
Republic	243,041	11.50%	95,071	4.50%	147,889	7.00%	137,325	6.50%
Company	241,493	11.41%	95,203	4.50%	148,094	7.00%	-	-%
Tier 1 leveraged capital								
Republic	245,158	7.54%	128,935	4.00%	128,935	4.00%	161,169	5.00%
Company	249,168	7.83%	129,058	4.00%	129,058	4.00%	-	-%

Dividend Policy

We have not paid any cash dividends on our common stock. We have no plans to pay cash dividends in 2020. Our ability to pay dividends depends primarily on receipt of dividends from our subsidiary, Republic. Dividend payments from Republic are subject to legal and regulatory limitations. The ability of Republic to pay dividends is also subject to profitability, financial condition, capital expenditures and other cash flow requirements.

Liquidity

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

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

Our target and actual liquidity levels are determined by comparisons of the estimated repayment and marketability of interest-earning assets with projected future outflows of deposits and other liabilities. Our most liquid assets, comprised of cash and cash equivalents on the balance sheet, totaled $56.5 million at March 31, 2020, compared to $168.3 million at December 31, 2019. Loan maturities and repayments are another source of asset liquidity. At March 31, 2020, Republic estimated that more than $95.0 million of loans would mature or repay in the six-month period ending September 30, 2020. Additionally, a significant portion of our investment securities are available to satisfy liquidity requirements through sales on the open market or by pledging as collateral to access credit facilities. At March 31, 2020, we had outstanding commitments (including unused lines of credit and letters of credit) of $314.3 million. Certificates of deposit scheduled to mature in one year totaled $177.5 million at March 31, 2020. We anticipate that we will have sufficient funds available to meet all current commitments.

Daily funding requirements have historically been satisfied by generating core deposits and certificates of deposit with competitive rates, buying federal funds or utilizing the credit facilities of the FHLB. We have established a line of credit with the FHLB of Pittsburgh. Our maximum borrowing capacity with the FHLB was $953.3 million at March 31, 2020. At March 31, 2020 and December 31, 2019, we had no outstanding term borrowings and no outstanding overnight borrowings with the FHLB. As of March 31, 2020 and December 31, 2019, FHLB had issued letters of credit, on Republic's behalf, totaling $150.0 million against our available credit line. We also established a contingency line of credit of $10.0 million with ACBB and a Fed Funds line of credit with Zions Bank in the amount of $15.0 million to assist in managing our liquidity position. We had no amounts outstanding against the ACBB line of credit or the Zions Fed Funds line at both March 31, 2020 and December 31, 2019.

Investment Securities Portfolio

At March 31, 2020, we identified certain investment securities that were being held for indefinite periods of time, including securities that will be used as part of our asset/liability management strategy and that may be sold in response to changes in interest rates, prepayments and similar factors. These securities are classified as available-for-sale and are intended to increase the flexibility of our asset/liability management. Our investment securities classified as available for sale consist primarily of SBAs, CMOs, MBSs, municipal securities, and corporate bonds. Available for sale securities totaled $497.5 million and $539.0 million as of March 31, 2020 and December 31, 2019, respectively. At March 31, 2020, securities classified as available for sale had a net unrealized gain of $1.8 million and a net unrealized loss of $1.7 million at December 31, 2019.

Loan Portfolio

Our loan portfolio consists of secured and unsecured commercial loans including commercial real estate loans, construction and land development loans, commercial and industrial loans, owner occupied real estate loans, consumer and other loans, and residential mortgages. Commercial loans are primarily secured term loans made to small to medium-sized businesses and professionals for working capital, asset acquisition and other purposes. Commercial loans are originated as either fixed or variable rate loans with typical terms of 1 to 5 years. Republic's commercial loans typically range between $250,000 and $5.0 million, but customers may borrow significantly larger amounts up to Republic's legal lending limit of approximately $38.2 million at March 31, 2020. Individual customers may have several loans often secured by different collateral.

Credit Quality

Republic's written lending policies require specific 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 of principal and/or interest in full is in doubt. Loans may be returned to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance by the borrower, in accordance with the contractual terms.

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

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

	March 31, 2020	December 31, 2019
Loans accruing, but past due 90 days or more	$ -	$ -
Non-accrual loans	14,185	12,413
Total non-performing loans	14,185	12,413
Other real estate owned	1,144	1,730
Total non-performing assets	$ 15,329	$ 14,143
Non-performing loans as a percentage of total loans, net of unearned income	0.75%	0.71%
Non-performing assets as a percentage of total assets	0.46%	0.42%

Non-performing asset balances increased by $1.2 million to $15.3 million as of March 31, 2020 from $14.1 million at December 31, 2019. Non-accrual loans increased $1.8 million to $14.2 million at March 31, 2020, from $12.4 million at December 31, 2019 due primarily to $2.0 million in transfers of loans from performing to non-performing status during the three months ended March 31, 2020. There were no loans accruing, but past due 90 days or more at both March 31, 2020 and December 31, 2019. At March 31, 2020 and December 31, 2019, all identified impaired loans are internally classified and individually evaluated for impairment in accordance with the guidance under ASC 310.

We have taken a proactive approach to analyze and prepare for the potential challenges to be faced as the effects of the economic shutdown begin to unfold. A detailed analysis of loan concentrations and segments that may present the areas of highest risk has been prepared. Our commercial lending team has initiated contact with a majority of our loan customers to discuss the impact that this pandemic crisis has had on their businesses to date and the expected ramifications that could be felt in the future. We have initiated payment deferrals for all customers that have an immediate need for assistance. Further, where appropriate we have worked with borrowers to facilitate access to PPP loans. These loans will assist in addressing liquidity needs of our borrowers, and mitigate credit issues for the terms of the loans. The regulatory agencies that supervise financial institutions have issued an Interagency Statement that not only encourages financial institutions to actively work with borrowers that have been impacted by the effects of COVID-19, but will not automatically consider loan modifications granted under these circumstances as troubled debt restructurings.

The following table presents our 30 to 89 days past due loans at March 31, 2020 and December 31, 2019.

(dollars in thousands)	March 31, 2020	December 31, 2019
30 to 59 days past due	$ 17,042	$ 112
60 to 89 days past due	26	1,823
Total loans 30 to 89 days past due	$ 17,068	$ 1,935

Loans with payments 30 to 59 days past due increased to $17.0 million at December 31, 2020. This increase was driven by a number of loan relationships that reached maturity or have requested deferment of payments as a result of the current economic conditions caused by the COVID-19 pandemic. Due to the stay-at-home orders initiated by state and local government agencies, several of the mature loans were unable to be renewed or extended prior to March 31, 2020. Many of the deferral requests are being reviewed and modifications are being processed to accommodate customers during this unprecedented crisis. Some of the delinquencies are associated with loans guaranteed by the SBA which will paid by the SBA for the next six months. Management does not currently expect the loans in the 30 to 59 days past due category to be permanent delinquency issues and expects to resolve most of them during the second quarter of 2020.

Other Real Estate Owned

The balance of other real estate owned was $1.1 million at March 31, 2020 and $1.7 million at December 31, 2019. The following table presents a reconciliation of other real estate owned for the three months ended March 31, 2020 and the year ended December 31, 2019:

(dollars in thousands)	March 31, 2020	December 31, 2019
Beginning Balance, January 1st	$ 1,730	$ 6,223
Additions	-	1,225
Valuation adjustments	-	(646)
Dispositions	(586)	(5,072)
Ending Balance	$ 1,144	$ 1,730

At March 31, 2020, we had no credit exposure to “highly leveraged transactions” as defined by the FDIC.

Allowance for Loan Losses

We have elected to defer the adoption of ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as permitted by the CARES Act for the first quarter of 2020, effective as of January 1, 2020.

The allowance for loan losses is a valuation allowance for probable losses inherent in the loan portfolio. We evaluate the need to establish an allowance against loan losses on a quarterly basis. When an increase in this allowance is necessary, a provision for loan losses is charged to earnings. The allowance for loan losses consists of three components. The first component is allocated to individually evaluated loans found to be impaired and is calculated in accordance with ASC 310 *Receivables*. The second component is allocated to all other loans that are not individually identified as impaired pursuant to ASC 310-10 (“non-impaired loans”). This component is calculated for all non-impaired loans on a collective basis in accordance with ASC 450 *Contingencies*. The third component is an unallocated allowance to account for a level of imprecision in management’s estimation process.

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

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

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

An analysis of the allowance for loan losses for the three months ended March 31, 2020 and 2019, and the twelve months ended December 31, 2019 is as follows:

(dollars in thousands)	For the three months ended March 31, 2020	For the twelve months ended December 31, 2019	For the three months ended March 31, 2019
Balance at beginning of period	$ 9,266	$ 8,615	$ 8,615
Charge-offs:			
Commercial real estate	-	-	-
Construction and land development	-	-	-
Commercial and industrial	-	1,356	929
Owner occupied real estate	-	-	75
Consumer and other	22	126	13
Residential mortgage	-	-	-
Total charge-offs	22	1,482	1,017
Recoveries:			
Commercial real estate	-	-	-
Construction and land development	-	-	-
Commercial and industrial	17	217	1
Owner occupied real estate	-	2	-
Consumer and other	6	9	1
Residential mortgage	-	-	-
Total recoveries	23	228	2
Net charge-offs/(recoveries)	(1)	1,254	1,015
Provision for loan losses	950	1,905	300
Balance at end of period	$ 10,217	$ 9,266	$ 7,900
Average loans outstanding[1]	$ 1,808,382	$ 1,544,904	$ 1,468,640
As a percent of average loans:[1]			
Net charge-offs (annualized)	(0.00%)	0.08%	0.28%
Provision for loan losses (annualized)	0.21%	0.12%	0.08%
Allowance for loan losses	0.56%	0.60%	0.54%
Allowance for loan losses to:			
Total loans, net of unearned income	0.54%	0.53%	0.53%
Total non-performing loans	72.03%	74.65%	74.00%

(1) Includes non-accruing loans

We recorded a provision for loan losses of $950,000 at March 31, 2020. During the first three months of 2020, there was an increase in the allowance required for loans collectively evaluated for impairment driven by an increase in loans receivable as well as COVID-19 considerations that were evaluated when assessing certain qualitative factors to account for potential uncertainty with losses brought on by this pandemic crisis. This increase in the overall required allowance for loan losses was partially offset by a reduction in calculated historical losses resulting from lower charge-off history in recent periods. We recorded a provision for loan losses of $300,000 at March 31, 2019. During the first three months of 2019, there was also an increase in the allowance required for loans collectively evaluated for impairment driven by an increase in loans receivable.

The allowance for loan losses as a percentage of non-performing loans (coverage ratio) was 72.0% at March 31, 2020, compared to 74.7% at December 31, 2019 and 74.0% at March 31, 2019. Total non-performing loans were $14.2 million, $12.4 million and $10.7 million at March 31, 2020, December 31, 2019, and March 31, 2019, respectively. The decrease in the coverage ratio at March 31, 2020 compared to December 31, 2019 was a result of an increase in non-performing loans during the first three months of 2020 that did not require a specific reserve.

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

We evaluate loans for impairment and potential charge-offs on a quarterly basis. Any loan rated as substandard or lower will have a collateral evaluation analysis completed in accordance with the guidance under GAAP on impaired loans to determine if a deficiency exists. Our credit monitoring process assesses the ultimate collectability of an outstanding loan balance from all potential sources. When a loan is determined to be uncollectible it is charged-off against the allowance for loan losses. Unsecured commercial loans and all consumer loans are charged-off immediately upon reaching the 90-day delinquency mark unless they are well-secured and in the process of collection. The timing on charge-offs of all other loan types is subjective and will be recognized when management determines that full repayment, either from the cash flow of the borrower, collateral sources, and/or guarantors, will not be sufficient and that repayment is unlikely. A full or partial charge-off is recognized equal to the amount of the estimated deficiency calculation.

Serious delinquency is often the first indicator of a potential charge-off. Reductions in appraised collateral values and deteriorating financial condition of borrowers and guarantors are factors considered when evaluating potential charge-offs. The likelihood of possible recoveries or improvements in a borrower's financial condition is also assessed when considering a charge-off.

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 $3.6 million at both March 31, 2020 and December 31, 2019.

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

(dollars in thousands)	**March 31, 2020**	**December 31, 2019**
Total nonperforming loans	$ 14,185	$ 12,413
Nonperforming and impaired loans with partial charge-offs	3,631	3,642
Ratio of nonperforming loans with partial charge-offs to total loans	0.19%	0.21%
Ratio of nonperforming loans with partial charge-offs to total nonperforming loans	25.60%	29.34%
Coverage ratio net of nonperforming loans with partial charge-offs	255.19%	254.42%

Our charge-off policy is reviewed on an annual basis and updated as necessary. During the three month period ended March 31, 2020, there were no changes made to this policy.

Effects of Inflation

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

ITEM 3: QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISK

There has been no material change in the Company’s assessment of its sensitivity to market risk since its presentation in the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC on March 16, 2020.

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, 2020 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, 2020.

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, 2019. The risk factor set forth below supplements the risk factor section in our Form 10-K for the year ended December 31, 2019. 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.

The continuing COVID-19 pandemic has adversely impacted our business and financial results, and the ultimate impact will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.

The COVID-19 pandemic has materially and negatively impacted the global economy, disrupted global supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets, increased unemployment levels, and decreased consumer confidence. In addition, the pandemic has resulted in temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities, including in our primary market areas of Pennsylvania, New Jersey, and New York. As a result, the demand for our products and services may be significantly impacted, which could adversely affect our revenue. Furthermore, the pandemic could continue to result in the recognition of credit losses in our loan portfolios and increases in our allowance for loan losses, particularly if businesses remain closed, the impact on the global economy worsens, or more customers draw on their lines of credit or seek additional loans to help finance their businesses. Similarly, because of changing economic and market conditions affecting issuers, we may be required to recognize impairments on the securities we hold as well as reductions in other comprehensive income. Our business operations may be further disrupted if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic.

Moreover, the pandemic has created additional operational and compliance risks, including the need to quickly implement and execute new programs and procedures for the products and services we offer our customers, provide enhanced safety measures for our employees and customers, comply with rapidly changing regulatory requirements, address any increased risk of fraudulent activity, and protect the integrity and functionality of our systems and networks as a larger number of our employees work remotely. The extent to which the COVID-19 pandemic impacts our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios and our cost of capital, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

Exhibit Number	Description	Location
3.1	Amended and Restated Articles of Incorporation of Republic First Bancorp, Inc.	Incorporated by reference to Form 10-K filed March 10, 2017
3.2	Amended and Restated By-laws of Republic First Bancorp, Inc.	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of 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, 2020, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Balance Sheets as of March 31, 2020 and December 31, 2019, (ii) Consolidated Statements of Operations for the three months ended March 31, 2020 and 2019, (iii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2020 and 2019, (iv) Consolidated Statements of Cash Flows for the three months ended March 31, 2020 and 2019, (v) Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2020 and 2019, 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 11, 2020	By:	/s/ Harry D. Madonna Harry D. Madonna President and Chief Executive Officer (principal executive officer)
Date: May 11, 2020	By:	/s/ Frank A. Cavallaro Frank A. Cavallaro Executive Vice President and Chief Financial Officer (principal financial and accounting officer)

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Section 2: EX-3.2 (EXHIBIT 3.2)

Exhibit 3.2

AMENDED AND RESTATED BY-LAWS OF
REPUBLIC FIRST BANCORP, INC.
A Pennsylvania Corporation

ARTICLE I

SHAREHOLDERS

Section 1. Annual Meetings. The annual meeting of the shareholders of the Corporation shall be held on a date fixed from time to time by the Board of Directors. An annual meeting may be held at any place in or out of the Commonwealth of Pennsylvania as may be determined by the Board of Directors and as shall be designated in the notice of the meeting and at the time specified by the Board of Directors. Notwithstanding the preceding sentence, if a meeting of the shareholders is held by means of the internet or other electronic communications technology in a fashion pursuant to which the shareholders have the opportunity to read or hear the proceedings substantially concurrently with their occurrence, vote on matters submitted to the shareholders, pose questions to the directors, make appropriate motions and comment on the business of the meeting, the meeting need not be held at a particular geographic location. Any business of the Corporation may be transacted at an annual meeting without being specifically designated in the notice unless otherwise provided by statute, the Corporation's Amended and Restated Articles of Incorporation (the "Articles of Incorporation") or these By-Laws, as they may be amended from time to time.

Section 2. Special Meetings. Special meetings of the shareholders for any purpose or purposes, unless otherwise prescribed by statute or by the Corporation's Articles of Incorporation, may be held at any place within the United States, and may be called at any time (a) by the Chairman of the Board, (b) by the Board of Directors or (c) at the request in writing of shareholders entitled to cast at least twenty (20%) percent of the votes entitled to be cast at the meeting upon payment by such shareholders to the Corporation of the reasonably estimated cost of preparing and mailing a notice of the meeting (which estimated cost shall be provided to such shareholders by the Secretary of the Corporation); provided, however, that special meetings of shareholders of the Corporation which have as their purpose a change in control of the Corporation, amendment to these By-Laws or an amendment of the Corporation's Articles of Incorporation may only be called by a majority of the Board of Directors of the Corporation. Notwithstanding the foregoing, unless requested by shareholders entitled to cast a majority of the votes entitled to be cast at the meeting, a special meeting of the shareholders need not be called at the request of shareholders to consider any matter that is substantially the same as a matter voted on at any meeting of the shareholders held during the preceding twelve (12) months. A written request shall state the purpose or purposes of the proposed meeting.

Section 3. Notice of Meetings. Written or printed notice stating the time and place of every meeting of the shareholders and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given by the Secretary of the Corporation to each shareholder of record entitled to vote at the meeting, by placing the notice in the mail at least ten (10) days, but not more than sixty (60) days, prior to the date designated for the meeting addressed to each shareholder at his address appearing on the books of the Corporation or supplied by the shareholder to the Corporation for the purpose of notice. The notice of any meeting of shareholders may be accompanied by a form of proxy approved by the Board of Directors in favor of the actions or persons as the Board of Directors may select. Notice of any meeting of shareholders shall be deemed waived by any shareholder who attends the meeting in person or by proxy, or who before or after the meeting submits a signed waiver of notice that is filed with the records of the meeting.

Section 4. Quorum. Except as otherwise provided by statute or by the Corporation's Articles of Incorporation, the presence at a meeting in person or by proxy of shareholders of the Corporation entitled to cast at least a majority of the votes entitled to be cast at such meeting shall constitute a quorum at a meeting of the shareholders. Except as otherwise provided by statute or by the Corporation's Articles of Incorporation, all questions to be decided at any meeting shall be decided by majority vote of the shares so represented in person or by proxy at the annual meeting and entitled to vote. In the absence of a quorum, the shareholders present in person or by proxy at the meeting, by majority vote and without notice other than by announcement at the meeting, may adjourn the meeting from time to time as provided in Section 5 of this Article I until a quorum shall be present in person or by proxy. The shareholders present at any duly organized meeting may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum present and voting at such meeting. The absence from a meeting of shareholders representing such number of shares making it impossible to meet any greater quorum requirement imposed by the laws of the Commonwealth of Pennsylvania or other applicable statute, the Corporation's Articles of Incorporation or these By-Laws for action upon any given matter shall not prevent action at the meeting on any other matter or matters that may properly come before the meeting, so long as there are present, in person or by proxy, holders of the number of shares of stock of the Corporation required for action upon the other matter or matters. The presence or participation, including voting and taking other action, at a meeting of shareholders or the expression of consent or dissent to corporate action by a shareholder by conference telephone or other electronic means, including, without limitation, the internet, shall constitute the presence of, or vote or action by, the shareholder for purposes of these By-Laws.

Section 5. Adjournment. Any meeting of the shareholders may be adjourned from time to time and for such period as the shareholders present and entitled to vote shall direct, without notice other than by announcement at the meeting at which the adjournment is taken. At any adjourned meeting at which a quorum shall be present, any action may be taken that could have been taken at the meeting originally called.

Section 6. Organization. At every annual meeting of the shareholders, the Chairman of the Board, or in his absence or inability to act or at the request of the Chairman, the President, or in his absence or inability to act, a Vice President, or in the absence or inability to act of the Chairman of the Board, the President and all the Vice Presidents, a chairman chosen by the shareholders, shall act as chairman of the meeting. The Secretary, or in his absence or inability to act, a person appointed by the chairman of the meeting, shall act as secretary of the meeting and keep the minutes of the meeting.

Section 7. Order of Business. The order of business at all meetings of the shareholders shall be as determined by the chairman of the meeting.

Section 8. Voting. Except as otherwise provided by statute or the Corporation's Articles of lncorporation, each holder of record of shares of stock of the Corporation having voting power shall be entitled at each meeting of the shareholders to one (1) vote for every share of stock standing in his name on the records of the Corporation as of the record date determined pursuant to Section 9 of this Article I.

Each shareholder entitled to vote at any meeting of shareholders may authorize another person or persons to act for him by a proxy signed by the shareholder or his attorney-in- fact. Such proxy shall be authorized by an instrument in writing, or by a transmission permitted by law, filed in accordance with the procedure established for the meetings. Any copy, facsimile, telecommunication or other reliable reproduction of the writing or transmission created pursuant to this paragraph may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used provided that such copy, facsimile, telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission. No proxy shall be valid after the expiration of eleven (11) months from the date thereof, unless otherwise provided in the proxy. Every proxy shall be revocable at the pleasure of the shareholder executing it, except in those cases in which the proxy states that it is irrevocable and in which an irrevocable proxy is permitted by law. A proxy shall not be revoked by the death or incapacity of the maker unless, before the authority is exercised or the vote counted, written notice of the death or incapacity is given to the secretary of the corporation. (R)

Proxies solicited on behalf of management shall be voted as directe4 by the shareholders or, in the absence of such direction, as determined by the Board of Directors.

Section 9. Fixing Record Date of Voting. The Board of Directors may set a record date for the purpose of determining shareholders entitled to vote at any meeting of the shareholders or any adjournment thereof or, (subject to the provisions of Article IV, Section 6 of these By-Laws) for any other proper purpose. Such record date in any case shall be not more than ninety (90) nor fewer than ten (10) days before the date of the particular action to be taken.

All persons who were holders of record of shares as of the record date of a meeting, and no others, shall be entitled to vote at such meeting and any adjournment thereof.

Section 10. Inspectors. The Board of Directors may, in advance of any meeting of shareholders, appoint one (1) or three (3) inspectors to act at the meeting or at any adjournment of the meeting. If the inspectors shall not be so appointed or if any of them shall fail to appear or act, the chairman of the meeting may appoint inspectors prior to the convening of the meeting. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath to execute faithfully the duties of inspector at the meeting with strict impartiality and according to the best of his ability. Unless otherwise prescribed by the Board, the inspectors shall: determine the number of shares outstanding and the voting power of each share; the Number of shares represented at the meeting; the existence of a quorum and the validity and effect of proxies; receive votes, ballots or consents; hear and determine all challenges and questions arising in connection with the right to vote; count and tabulate all votes, ballots or consents; determine the result thereof, and, do those acts as are proper to conduct the election of vote with fairness to all shareholders. Upon request of the chairman of the meeting or any shareholder entitled to vote at the meeting, the inspectors shall make a report in writing of any challenge, request or matter determined by them and shall execute a certificate of any fact found by them. Inspectors need not be shareholders of the Corporation.

Section 11. Shareholder Proposals. At all Annual Meetings of shareholders commencing after the Annual Meeting of Shareholders to be held in 1996, if any, shareholder proposals with respect to an annual meeting shall be made in compliance with the provisions of Rule 14a-8 of the Securities Exchange Act of 1934, as amended ("Rule 14a-8"). With respect to a Special Meeting of shareholders, shareholder proposals must be stated in writing and filed with the secretary of the Corporation not later than the close of business on the seventh (7th) day following the day on which notice of such Special Meeting is first given to shareholders. This provision shall not prevent the consideration and approval or disapproval at the annual meeting of reports of officers, directors and committees; but, in connection with such reports, no new business shall be acted upon at such annual meeting unless stated and filed as herein provided.

Section 12. Action By Unanimous Consent. At all Annual Meetings of shareholders commencing after the Annual Meeting of Shareholders to be held in 1996, if any, shareholders of the Corporation shall not be entitled to take action by means of a unanimous written consent.

ARTICLE II

BOARD OF DIRECTORS

Section 1. General Powers. Except as otherwise provided in the Corporation's Articles of Incorporation, the business and affairs of the Corporation shall be managed under the direction of the Board of Directors. All powers of the Corporation may be exercised by or under authority of the Board of Directors except as conferred on or reserved to the shareholders by law, by the Corporation's Articles of lncorporation or by these By-Laws.

Section 2. Number and Term. The number of directors shall be fixed from time to time by resolution of the Board of Directors adopted by a majority of the directors then in office; provided, however, that the number of directors shall in no event be fewer than five (5) nor more than twenty-five (25). The Board of Directors shall be divided into three classes as nearly equal as possible. The members of each class shall be elected for a term of three years and until their successors are elected and qualified. One class shall be elected by ballot annually. Any vacancy created by an increase in directors may be filled in accordance with Section 6 of this Article II. No reduction in the number of directors shall have the effect of moving any director from office prior to the expiration of his term unless the director is specifically removed pursuant to Section 5 of this Article II at the time of the decrease. A director need not be a citizen of the United States or a resident of the Commonwealth of Pennsylvania but must be a shareholder of the Corporation at the commencement of his term.

Section 3. Standard of Care; Justifiable Reliance. A director shall stand in a fiduciary relation to the corporation and shall perform his or her duties as a director, including duties as a member of any committee of the board upon which the director may serve, in good faith, in a manner the director reasonably believes to be in the best interests of the corporation and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances. In performing his or her duties, a director shall be entitled to rely in good faith on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by any of the following:

(a) One or more officers or employees of the corporation whom the director reasonably believes to be reliable and competent in the matters presented.

(b) Counsel, public accountants or other persons as to matters, which the director reasonably believes to be within the professional or expert competence of such person.

(c) A committee of the board upon which the directors does not serve, duly designated in accordance with law, as to matters within its designated authority, which committee the director reasonably believes to merit confidence.

A director shall not be considered to be acting in good faith if the director has knowledge concerning the matter in question that would cause his or her reliance to be unwarranted.

Section 4. Nomination by Shareholders. At all Annual Meetings of shareholders commencing after the Annual Meeting of Shareholders to be held in 1996, if any, any stockholder who desires to propose nominees to the Board of Directors must provide for the receipt of a written notice of the intention to nominate a person or persons for election as directors by the Secretary of the Corporation: (i) with respect to an election to be held at any annual meeting of shareholders in accordance with the provision of Rule 14a-8, and (ii) with respect to an election to be held at a special meeting of shareholders for the election of directors, the close of business on the seventh (7th) day following the day on which notice of such meetings is first given to shareholders.

The notice is required to contain: (i) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (ii) a representation that the shareholder is a holder of record of stock entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (iv) such other information regarding each nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had each nominee been nominated or intended to be nominated, by the Board of Directors of the Corporation; and (v) the consent of each nominee to serve as a director of the Company if so elected. The chairman of any meeting of shareholders to elect directors and the Board of Directors may refuse to recognize the nomination of any person not made in compliance with the foregoing.

Section 5. Resignation. A director of the Corporation may resign at any time by giving written notice of his resignation to the Board of Directors or the Chairman of the Board or the Secretary of the Corporation. Any resignation shall take effect at the time specified in it or, should the time when it is to become effective not be specified in it, upon its formal acceptance by the Board of Directors. Other than as provided herein, acceptance of a resignation shall not be necessary to make it effective unless the resignation states otherwise. When one or more directors resign from the board effective at a future date, the directors then in office, including those who have so resigned, shall have power by the applicable vote to fill the vacancies, the vote thereon to take effect when the resignations become effective.

Section 6. Removal of Directors. Subject to the rights of the holders of any class separately entitled to elect one or more directors, any director, or the entire Board of Directors, may be removed from office for cause by the affirmative vote of the holders of at least 75% of the combined voting power of all classes of capital stock entitled to vote in the election of directors.

The Board of Directors may declare vacant the office of a director who has been judicially declared of unsound mind or who has been convicted of an offense punishable by imprisonment for a term of more than one year or if, within sixty (60) days after notice of his or her selection, the director does not accept the office either in writing or by attending a meeting of the Board of Directors.

Section 7. Vacancies. Any vacancies in the Board of Directors, whether arising from death, resignation, removal or any other cause except an increase in the number of directors, shall be filled by a vote of the majority of the Board of Directors then in office even though that majority is less than a quorum. A majority of the entire Board may fill a vacancy that results from an increase in the number of directors. In the event that at any time a vacancy exists in any office of a director that may not be filled by the remaining directors, a special meeting of the shareholders shall be held as promptly as possible and in any event within sixty (60) days, for the purpose of filling the vacancy or vacancies. Any director elected or appointed to fill a vacancy shall hold office for the balance of the term then remaining and until a successor has been chosen and qualifies or until his earlier resignation or removal.

Section 8. Place of Meetings. Meetings of the Board may be held at any place that the Board of Directors may from time to time determine or that is specified in the notice of the meeting.

Section 9. Regular Meetings. Regular meetings of the Board of Directors may be held without notice at the time and place determined by the Board of Directors.

Section 10. Special Meetings. Special meetings of the Board of Directors may be called by a majority of the Board or by the Chairman of the Board.

Section 11. Organizational Meeting. The organizational meeting of each newly elected Board of Directors shall be held as soon as practicable after the meeting of shareholders at which the directors were elected. No notice of such annual meeting shall be necessary if held immediately after the adjournment, and at the site, of the meeting of shareholders. If not so held, notice shall be given as hereinafter provided for special meeting of the Board of Directors.

Section 12. Chairman of the Board. The Chairman of the Board shall preside at all meetings of the shareholders and of the Board of Directors, unless otherwise provided herein. Subject to the control of the Board of Directors, the Chairman of the Board shall have general charge of the business and affairs of the Corporation. In the absence or inability of the Chairman of the Board to act, a majority of the Board of Directors shall designate the person or persons to preside at meetings of Shareholders and the Board of Directors.

Section 13. Notice of Special Meetings. Notice of each special meeting of the Board of Directors shall be given by the Secretary as hereinafter provided. Each notice shall state the time and place of the meeting and shall be delivered to each director, either personally, by courier or by telephone or other standard form of telecommunication, at least twenty-four (24) hours before the time at which the meeting is to be held, or by first-class mail, postage prepaid, addressed to the director at his residence or usual place of business, and mailed at least two (2) days before the day on which the meeting is to be held.

Section 14. Waiver of Notice of Meetings. Notice of any special meeting need not be given to any director who shall, either before or after the meeting, sign a written waiver or notice that is filed with the records of the meeting or who shall attend the meeting.

Section 15. Quorum and Voting. A majority of the members or the entire Board of Directors shall be present in person at any meeting of the Board so as to constitute a quorum for the transaction of business at the meeting, and except as otherwise expressly required by statute, the Corporation's Articles of Incorporation, these By-Laws, or any applicable statute, the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board. In the absence of a quorum at any meeting of the Board, a majority of the directors present may adjourn the meeting to another time and place until a quorum shall be present. Notice of the time and place of any adjourned meeting shall be given to the directors who were not present at the time of the adjournment and, unless the time and place were announced at the meeting at which the adjournment was taken, to the other directors. At any adjourned meeting at which a quorum is present, any business may be transacted that might have been transacted at the meeting as originally called.

Section 16. Organization. The Board of Directors shall designate a Chairman of the Board, who shall preside at each meeting of the Board. In the absence or inability of the Chairman of the Board to act, or at the Chairman's request, the President, or, in his absence or inability to act, another director chosen by a majority of the directors present, shall act as chairman of the meeting and preside at the meeting. The Secretary (or, in his absence or inability to act, any person appointed by the chairman) shall act as secretary of the meeting and keep the minutes of the meeting.

Section 17. Committees. The Board of Directors may designate one (1) or more committees of the Board of Directors including, but not limited to, an Executive Committee, Audit Committee, Compensation Committee and Nominating Committee, each consisting of two (2) or more directors. To the extent provided in the resolution creating such committees, and permitted by law, the committee or committees shall have and may exercise the powers of the Board of Directors in the management and conduct of the business and affairs of the Corporation and may authorize the seal of the Corporation to be affixed to all papers that may require it. Any committee or committees shall have the name or names determined from time to time by resolution adopted by the Board of Directors. Each committee shall keep regular minutes of its meetings and provide those minutes to the Board of Directors when required. The members of a committee present at any meeting, whether or not they constitute a quorum, may appoint a director to act in the place of the absent member.

Section 18. Written Consent of Directors in Lieu of Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee of the Board may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of the Board or committee.

Section 19. Telephone Conference. Members of the Board of Directors or any committee of the Board may participate in any Board or committee meeting by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time. Participation by such means shall constitute presence in person at the meeting.

Section 20. Compensation. Each director shall be entitled to receive compensation, if any, as may from time to time be fixed by the Board of Directors, including a fee for each meeting of the Board or any committee thereof, regular or special, he attends. Directors may also be reimbursed by the Corporation for all reasonable expenses incurred in traveling to and from the place of a Board or committee meeting. Directors who are also officers of the Corporation and/or any of its subsidiaries shall not receive compensation in consideration of their services as a director.

ARTICLE III

OFFICERS, AGENTS AND EMPLOYEES

Section 1. Number and Qualifications. The officers of the Corporation shall be a Chief Executive Officer or Officers, a President, a Secretary and a Treasurer, each of whom shall be elected by the Board of Directors. The Board of Directors may elect or appoint one (1) or more Vice Presidents and may also appoint any other officers, offices, agents and employees as it deems necessary or proper. Any two (2) or more offices may be held by the same person, except the offices of President and Vice President, but, unless otherwise authorized by the Board of Directors or an executive committee thereof, no officer shall execute, acknowledge or verify any instrument in more than one (1) capacity. Officers shall be elected by the Board of Directors each year at its organizational meeting held after the annual meeting of shareholders and until his successor shall have been duly elected and shall have qualified, or until his death, or until he shall have resigned or have been removed, as provided in these By-Laws. The Board of Directors may from time to time elect, or delegate to the Chairman of the Board or the President the power to appoint, such officers (including, but not limited to, one or more Assistant Vice Presidents, one or more Assistant Treasurers and one or more Assistant Secretaries) and such agents as may be necessary or desirable for the business of the Corporation. Such other officers and agents shall have such duties and shall hold their offices for such terms as may be prescribed by the Board or by the appointing authority.

Section 2. Resignations. Any officer of the Corporation may resign at any time by giving written notice of his resignation to the Board of Directors, the Chairman of the Board, the President or the Secretary. Any resignation shall take effect at the time specified therein or, if the time when it shall become effective is not specified therein, immediately upon its formal acceptance by the Board of Directors. Other than as specifically provided herein, the acceptance of a resignation shall not be necessary to make it effective unless otherwise stated in the resignation.

Section 3. Removal of Officer, Agent or Employee. Any officer, agent or employee of the Corporation may be removed by the Board of Directors with or without cause at any time, and the Board may delegate the power of removal as to agents and employees not elected or appointed by the Board of Directors. Removal shall be without prejudice to the person's contract rights, if any, but the appointment of any person as an officer, agent or employee of the Corporation shall not of itself create contract rights.

Section 4. Vacancies. A vacancy in any office, whether arising from death, resignation, removal or any other cause, may be filled for the unexpired portion of the term of the office that shall be vacant, in the manner prescribed in these By-Laws, for the regular election or appointment to the office.

Section 5. Compensation. The compensation of the officers of the Corporation shall be fixed by the Board of Directors or a designated committee thereof, but this power may be delegated to any officer with respect to other officers under his control.

Section 6. Bonds or Other Security. If required by the Board, any officer, agent or employee of the Corporation shall give a bond or other security for the faithful performance of his duties, in an amount and with any surety or sureties as the Board may require.

Section 7. President. The President shall have the powers and perform the duties that the Board or the Chairman of the Board may from time to time prescribe.

Section 8. Vice President. Each Vice President shall have the powers and perform the duties that the Board of Directors, the Chairman of the Board or the President may from time to time prescribe.

Section 9. Treasurer. Unless otherwise designated by the Board of Directors or an executive committee thereof, the Treasurer shall be the Chief Financial Officer and Chief Accounting Officer of the Corporation. Subject to the provisions of any contract that may be entered into with any custodian pursuant to authority granted by the Board of Directors, the Treasurer shall have charge of all receipts and disbursements of the Corporation and shall have or provide for the custody of the Corporation's funds and securities; he shall have full authority to receive and give receipts for all money due and payable to the Corporation, and to endorse checks, drafts, and warrants, in its name and on its behalf and to give full discharge for the same; he shall deposit all funds of the Corporation, except those that may be required for current use, in such banks or other places of deposit as the Board of Directors may from time to time designate; and, in general, he shall perform all duties incident to the office of Treasurer and such other duties as may from time to time be assigned to him by the Board of Directors, the Chairman of the Board or the President.

Section 10. Secretary. The Secretary shall:

(a) keep or cause to be kept in one or more books provided for the purpose, the minutes of all meetings of the Board of Directors, the committees of the Board and the shareholders;

(b) see that all notices are duly given in accordance with the provisions of these By-Laws and as required by law;

(c) be custodian of the records and the seal of the corporation and affix and attest the seal to all stock certificates of the Corporation (unless the seal of the Corporation on such certificates shall be a facsimile, as hereinafter provided) and affix and attest the seal to all other documents to be executed on behalf of the Corporation under its seal;

(d) see that the books, reports, statements, certificates and other documents and records required by law to be kept and filed are properly kept and filed; and

(e) in general, perform all the duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the Board of Directors, the Chairman of the Board or the President.

Section 11. Delegation of Duties. In case of the absence of any officer of the Corporation, or for any other reason that the Board of Directors may deem sufficient, the Board of Directors may provisionally confer the powers or duties, or any of them, of such officer upon any other officer or upon any director.

ARTICLE IV

STOCK

Section 1. Stock Certificates. Each holder of stock of the Corporation shall be entitled, upon specific written request to such person as may be designated by the Corporation, to have a certificate or certificates, in a form approved by the Board, representing the number of shares of stock of the Corporation owned by him; provided, however, that certificates for fractional shares will not be delivered in any case. The certificates representing shares of stock shall be signed by or in the name of the Corporation by the Chairman of the Board, the President or a Vice President and by the Secretary, an Assistant Secretary, the Treasurer or an Assistant Treasurer and sealed with the seal of the Corporation. Any or all of the signatures or the seal on the certificate may be facsimiles. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before the certificate is issued, it may be issued by the Corporation with the same effect as if the officer, transfer agent or registrar was still in office at the date of issue.

Section 2. Books of Account and Record of Shareholders. There shall be kept at the principal executive office of the Corporation correct and complete books and records of account of all the business and transactions of the Corporation. There shall be made available, upon the request of any shareholder, in accordance with Pennsylvania law, a record containing the number of shares of stock issued during a specified period not to exceed twelve (12) months and the consideration received by the Corporation for each such share.

Section 3. Transfers of Shares. Transfers of shares of stock of the Corporation shall be made on the stock records of the Corporation only by the registered holder of the shares, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary or with a transfer agent or transfer clerk, and on surrender of the certificate or certificates, if issued, for the shares properly endorsed or accompanied by a duly executed stock transfer power and the payment of all taxes thereon. Except as otherwise provided by law, the Corporation shall be entitled to recognize the exclusive right of a person in whose name any share or shares stand on the record of shareholders as the owner of the share or shares for all purposes, including, with limitation, the rights to receive dividends or other distributions and to vote as the owner, and the Corporation shall not be bound to recognize any equitable or legal claim to or interest in any such share or shares on the part of any other person.

Section 4. Regulations. The Board of Directors may make any additional rules and regulations, not consistent with these By-Laws, as it may deem expedient concerning the issue, transfer and registration of certificates for shares of stock of the Corporation. The Board may appoint, or authorize any officer or officers to appoint, one or more transfer agents or one or more transfer clerks and one or more registrars and may require all certificates for shares of stock to bear the signature or signatures of any of them.

Section 5. Lost, Destroyed or Mutilated Certificates. The holder of any Certificate representing shares of stock of the Corporation shall immediately notify the Corporation of its loss, destruction or mutilation and the Corporation may issue a new certificate of stock in the place of any certificate issued by it that has been alleged to have been lost or destroyed or that shall have been mutilated. The Board may, in its discretion, require the owner (or his legal representative) of a lost, destroyed or mutilated certificate to give to the Corporation a bond in a sum, limited or unlimited, and in a form and with any surety or sureties, as the Board in its absolute discretion shall determine, to indemnify the Corporation against any claim that may be made against it on account of the alleged loss or destruction of any such certificate, or issuance of a new certificate. Anything herein to the contrary notwithstanding, the Board of Directors, in its absolute discretion, may refuse to issue any such new certificate, except pursuant to legal proceedings under the laws of the Commonwealth of Pennsylvania.

Section 6. Fixing of Record Date for Dividends, Distributions, etc. The Board may set, in advance, a date for the payment of any dividend or the making of any distribution or the allotment of rights to subscribe for securities of the Corporation, or for the delivery of evidences of rights or evidences of interests arising out of any change, conversion or exchange of common stock or other securities, as the record date for the determination of the shareholders entitled to receive any such dividend, distribution, allotment, rights or interests, and in such case only the shareholders of record at the time so set shall be entitled to receive such dividend, distribution, allotment, rights or interests. Such record date shall not be more than ninety (90) days or fewer than ten (10) days before the date of the particular action to be taken.

Section 7. Information to Shareholders and Others. Any shareholder of the Corporation or his agent may inspect, during the Corporation's usual business hours, the Corporation's By-Laws, minutes of the proceedings of its shareholders, annual statements of its affairs and voting trust agreements on file at its principal office.

ARTICLE V

INDEMNIFICATION AND INSURANCE

Section 1. Scope of Indemnification. The corporation shall indemnify an indemnified representative against any liability incurred in connection with any proceeding in which the indemnified representative may be involved as a party or otherwise by reason of the act that such person is or was serving in an indemnified capacity, including, without limitation, liabilities resulting from any actual or alleged breach or neglect of duty, error, misstatement or misleading statement, negligence, gross negligence or act giving rise to strict or products liability, except:

(1) where such indemnification is expressly prohibited by applicable law;

(2) where the conduct of the indemnified representative has been finally

determined pursuant to Section 6 or otherwise:

(i) to constitute willful misconduct or recklessness within the meaning of 15 Pa.C.S. 513(b) and l 746(b) or any superseding provision of law sufficient in the circumstances to bar indemnification against liabilities arising from the conduct; or

(ii) to be based upon or attributable to the receipt by the indemnified representative from the corporation of a personal benefit to which the indemnified representative is not legally entitled; or

(iii) to the extent such indemnification has been finally determined in a final adjudication pursuant to Section 6 to be otherwise unlawful.

(3) with respect to expenses or the payment of profits arising from the purchase or sale of securities of the corporation in violation of Section 16(b) of the Securities Exchange Act of 1934;

(4) expenses or liabilities of any type whatsoever (including, but not limited to, judgments, fines and amounts paid in settlement) which have been paid directly to, or for the benefit of, such person by directors' liability insurance whose premiums are paid for by the corporation or by an individual or entity other than such director or officer;

(5) amounts paid in settlement of any proceeding without the written consent of the corporation or;

The Board of Directors of the corporation is hereby authorized, at any time by resolution, to add to the above list of exceptions from the right of indemnification, but any such additional exception shall not apply with respect to any event, act or omission which has occurred prior to the date that the Board of Directors in fact adopts such resolution. Any such additional exception may, at any time after its adoption, be amended, supplemented, waived or terminated by further resolution of the Board of Directors of the corporation.

If an indemnified representative is entitled to indemnification in respect of a portion, but not all, of any liabilities to which such person may be subject, the corporation shall indemnify such indemnified representative to the maximum extent for such portion of the liabilities.

The termination of a proceeding by judgment, order, settlement or conviction or upon a plea of nolo contendere or its equivalent shall not of itself create a presumption that the indemnified representative is not entitled to indemnification.

For purposes of this Article:

(1) "indemnified capacity" means any and all past, present and future service by an indemnified representative in one or more capacities as a director, officer, employee, or agent of the corporation, or at the request of the corporation, as a director, office_r, employee, agent, fiduciary or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other entity or enterprise;

(2) "indemnified representative" means any and all directors and officers of the corporation and any other person designated as an indemnified representative by the Board of Directors of the corporation (which may, but not, include any person serving at the request of the corporation, as a director, officer, employee, agent, fiduciary or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other entity or enterprise):

(3) "liability" means any damage, judgment, amount paid in settlement, fine, penalty, punitive damages, excise tax assessed with respect to an employee benefit plan, or cost or expense, of any nature (including, without limitation, attorneys' fees and disbursements); and

(4) "proceeding" means any threatened, pending or completed action, suit, appeal or other proceeding of any nature, whether civil, criminal, administrative or investigative, whether formal or informal, and whether brought by or in the right of the corporation, a class of its security holders or otherwise.

(5) "to the fullest extent permitted by applicable law" means the maximum extent permitted by public policy, common law or statute. Any person covered by this Article may, to the fullest extent permitted by applicable law, elect to have the right to indemnification or to advancement or reimbursement of expenses, interpreted, at such person's option (i) on the basis of the applicable law on the date this Article was approved by shareholders, or (ii) on the basis of the applicable law in effect at the time of the occurrence of event or events giving rise to the proceeding, or (iii) on the basis of the applicable law in effect at the time indemnification or advancement or reimbursement of expenses is sought.

(6) The corporation shall have the right to appoint the attorney for an indemnified representative provided such appointment is not unreasonable under the circumstances.

Section 2. Proceedings Initiated By Indemnified Representatives. Notwithstanding any other provision of this Article , the corporation shall not indemnify under this Article an indemnified representative for any liability incurred in a proceeding initiated (which shall not be deemed to include counterclaims or affirmative defenses) or participated in as an intervenor or amicus curiae by the person seeking indemnification unless such initiation of or participation in the proceeding is authorized, either before or after its commencement, by the affirmative vote of a majority of the directors in office. This section does not apply to a reimbursement of expenses incurred in successfully prosecuting or defending an arbitration under Section 6 or otherwise successfully prosecuting or defending the rights of an indemnified representative granted by or pursuant to this Article.

Section 3. Advancing Expenses. The corporation shall pay the expenses (including attorneys' fees and disbursements) incurred in good faith by an indemnified representative in advance of the final disposition of a proceeding described in Section 1 or the initiation of or participation in which is authorized pursuant to Section 2 upon receipt of an undertaking by or on behalf of the indemnified representative to repay the amount if it is ultimately determined pursuant to Section 6 that such person is not entitled to be indemnified by the corporation pursuant to this Article. The financial ability of an indemnified representative to repay an advance shall not be a prerequisite to the making of such advance.

Section 4. Securing of Indemnification Obligations. To further effect, satisfy or secure the indemnification obligations provided herein or otherwise, the corporation may maintain insurance, obtain a letter of credit, act as self-insurer, create a reserve, trust, escrow, cash collateral or other fund or account, enter into indemnification agreements, pledge or grant a security interest in any assets or properties of the corporation, or use any other mechanism or arrangement whatsoever in such amounts, at such costs, and upon such other terms and conditions as the Board of Directors shall deem appropriate. Absent fraud, the determination of the Board of Directors with respect to such amounts, costs, terms and conditions shall be conclusive against all security holders, officers and directors and shall not be subject to void ability.

Section 5. Payment of Indemnification. An indemnified representative shall be entitled to indemnification within thirty (30) days after a written request for indemnification has been delivered to the Secretary of the corporation.

Section 6. Arbitration. Any dispute related to the right to indemnification, contribution or advancement of expenses as provided under this Article, except with respect to indemnification for liabilities arising under the Securities Act of 1933 that the corporation has undertaken to submit to a court for adjudication, shall be decided only by arbitration in the metropolitan area in which the principal executive offices of the corporation are located at the time, in accordance with the commercial arbitration rules then in effect of the American Arbitration Association, before a panel of three arbitrators, one of whom shall be selected by the corporation, the second of whom shall be selected by the indemnified representative and third of whom shall be selected by the other two arbitrators. In the absence of the American Arbitration Association, or if for any reason arbitration under the arbitration rules of the American Arbitration Association cannot be initiated, or if one of the parties fails or refuses to select an arbitrator or if the arbitrators selected by the corporation and the indemnified representative cannot agree on the selection of the third arbitrator with thirty (30) days after such time as the corporation and the indemnified representative have each been notified of the selection of the other's arbitrator, the necessary arbitrator or arbitrators shall be selected by the presiding judge of the court of general jurisdiction in such metropolitan area.

The party or parties challenging the right of an indemnified representative to the benefits of this Article shall have the burden of proof.

The corporation shall reimburse an indemnified representative for the expenses (including attorney's fees and disbursements) incurred unsuccessfully prosecuting or defending such arbitration.

Any award entered by the arbitrators shall be final, binding and nonappealable and judgment may be entered thereon by any party in accordance with applicable law in any court of competent jurisdiction, except that the corporation shall be entitled to interpose as a defense in any such judicial enforcement proceeding any prior final judicial determination adverse to the indemnified representative under Section 7.0l(a)(2) in a proceeding not directly involving indemnification under this Article. This arbitration provision shall be specifically enforceable.

Section 7. Contribution. If the indemnification provided for in this Article or otherwise is unavailable for any reason in respect of any liability or portion thereof, the corporation shall contribute to the liabilities to which the indemnified representative may be subject in such proportion as is appropriate to reflect the intent of this Article or otherwise.

Section 8. Mandatory Indemnification of Directors, Officers, Etc. To the extent that an authorized representative of the corporation has been successful on the merits or otherwise in defense of any action or proceeding referred to in 15 Pa.C.S. 1741 or 1742 or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees and disbursements) actually and reasonably incurred by such person in connection therewith.

Section 9. Optional Indemnification. The corporation may, to the fullest extent permitted by applicable law, indemnify and advance or reimburse expenses for, persons in all situations other than that covered by this Article.

Section 10. Contract Rights; Amendment or Repeal. All rights under this Article shall be deemed a contract between the corporation and the indemnified representative pursuant to which the corporation and each indemnified representative intend to be legally bound. Any repeal, amendment or modification hereof shall be prospective only and shall not affect any rights or obligations then existing.

Section 11. Scope of Article. The rights granted by this Article shall not be deemed exclusive of any other rights to which those seeking indemnification, contribution or advancement of expenses may be entitled under any statute, agreement, vote of shareholders or disinterested directors or otherwise both as to action in an indemnified capacity and as to action in any other capacity. The indemnification, contribution and advancement of expenses provided by or granted pursuant to this Article shall continue as to a person who has ceased to be an indemnified representative in respect of matters arising prior to such time, and shall inure to the benefit of the heirs, executors, administrators and personal representatives of such a person.

Section 12. Reliance of Provisions. Each person who shall act as an indemnified representative of the corporation shall be deemed to be doing so in reliance upon the rights provided in this Article.

Section 13. Interpretation. The provisions of this Article are intended to constitute By-Laws authorized by 15 Pa.C.S. 513 and 1746.

ARTICLE VI

SEAL

The seal of the Corporation shall be circular in form and shall bear the name of the Corporation, the year of its incorporation, the words "Corporate Seal" and "Commonwealth of Pennsylvania" and any emblem or device approved by the Board of Directors. The seal may be used by causing it or a facsimile to be impressed or affixed or in any other manner reproduced, or by placing the word "(seal)" adjacent to the signature of the authorized officer of the Corporation.

ARTICLE VII

FISCAL YEAR

Section 1. Fiscal Year. The Corporation's fiscal year shall be fixed by the Board of Directors from time to time.

ARTICLE VIII

DIVIDENDS

Dividends upon any class of shares of the capital stock of the Corporation may be declared as provided by and subject to the restrictions contained in the laws of the Commonwealth of Pennsylvania and the Articles of Incorporation of the corporation, as the same or either of them may be amended from time to time, but only as and when and of the character and to the amount that the Board of Directors of the Corporation may from time to time deem advisable and only in the manner contemplated herein.

ARTICLE IX

EMERGENCY BY-LAW

In the event of an emergency declared by the President of the United States or the person performing his functions, the officers and employees of this Corporation will continue to conduct the affairs of the Corporation under such guidance from the directors as may be available except as to matters which by statute require specific approval of the Board and subject to conformance with any governmental directives during the emergency. The Board shall have the power, in the absence of disability of any officer, or upon the refusal of any officer to act, to delegate and prescribe such office's power and duties to any other officer, or to any director, for the time being. In the event of a state of disaster of sufficient severity to prevent the conduct and management of the affairs and business of this Corporation by its directors and officers as contemplated by these By-Laws, any three or more available members of the then incumbent Executive Committee shall constitute a quorum of that committee for the full conduct and management of the affairs and business of the Corporation in accordance with this emergency By-Law. In the event of the unavailability, at such time, of a minimum of three members of the then incumbent Executive Committee, any three available directors shall constitute the management of the affairs and business of the corporation in accordance with the foregoing provisions of this section. This section shall be subject to implementation by resolutions of the Board passed from time to time for that purpose, and any provision of these By-Laws other than this section and any resolutions which are contrary to the provisions of this section or to the provisions of any such implementary resolutions shall be suspended until it shall be determined by any interim Executive Committee acting under this section that it shall be to the advantage of this Corporation to resume the conduct and management of its affairs and business under all of the other provisions of these By-Laws. During an emergency resulting in any authorized place of business of this Corporation being unable to function, the business ordinarily conducted at such location shall be relocated elsewhere in suitable quarters, in addition to or in lieu of the location heretofore mentioned, as may be designated by the Board or by the Executive Committee or by such persons as are then, in accordance with resolutions adopted from time to time by the Board dealing with the exercise of authority in the time of such emergency, conducting the affairs of this Corporation. Any temporarily relocated place of business of this Corporation shall be returned to its legally authorized location as soon as practicable and such temporary place of business shall then be discontinued.

ARTICLE X

AMENDMENTS

These By-Laws may be amended or repealed by the affirmative vote of a majority of the Board of Directors at any regular or special meeting of the Board of Directors, or by the vote of shareholders holding at least seventy-five (75%) percent of the total aggregate outstanding shares of the Corporation's capital stock, at an annual or special meeting called for such purpose.

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Section 3: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

REPUBLIC FIRST BANCORP, INC.
CERTIFICATIONS PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Harry D. Madonna, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 of Republic First Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2020 /s/ Harry D. Madonna
President and Chief Executive Officer

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Section 4: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

REPUBLIC FIRST BANCORP, INC.
CERTIFICATIONS PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Frank A. Cavallaro, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 of Republic First Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2020 /s/ Frank A. Cavallaro
Executive Vice President and Chief Financial Officer

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Section 5: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, as filed with the Securities and Exchange Commission by Republic First Bancorp, Inc. (the "Company") on the date hereof (the "Report"), I, Harry D. Madonna, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 11, 2020

/s/ Harry D. Madonna
President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.

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Section 6: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, as filed with the Securities and Exchange Commission by Republic First Bancorp, Inc. (the "Company") on the date hereof (the "Report"), I, Frank A. Cavallaro, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 11, 2020

/s/ Frank A. Cavallaro
Executive Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.

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