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 September 30, 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	58,859,778
Title of Class	Number of Shares Outstanding as of November 6, 2020

REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARIES
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Republic First Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
September 30, 2020 and December 31, 2019
(Dollars in thousands, except per share data)

	September 30, 2020 (unaudited)	December 31, 2019
ASSETS		
Cash and due from banks	$ 43,689	$ 41,928
Interest bearing deposits with banks	874,472	126,391
Cash and cash equivalents	918,161	168,319
Investment securities available for sale, at fair value	440,655	539,042
Investment securities held to maturity, at amortized cost (fair value of $712,369 and $653,109, respectively)	688,939	644,842
Restricted stock, at cost	3,789	2,746
Mortgage loans held for sale, at fair value	41,683	10,345
Other loans held for sale	866	3,004
Loans receivable (net of allowance for loan losses of $11,851 and $9,266, respectively)	2,617,547	1,738,929
Premises and equipment, net	124,034	116,956
Other real estate owned, net	1,113	1,730
Accrued interest receivable	15,021	9,934
Operating leases – right-of-use asset	68,423	64,805
Goodwill	-	5,011
Other assets	38,525	35,627
Total Assets	$ 4,958,756	$ 3,341,290
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand – non-interest bearing	$ 1,049,169	$ 661,431
Demand – interest bearing	1,618,342	1,352,360
Money market and savings	1,034,799	761,793
Time deposits	203,296	223,579
Total Deposits	3,905,606	2,999,163

Short-term borrowings	646,267	-
Accrued interest payable	1,277	1,630
Other liabilities	18,429	11,208
Operating lease liability obligation	72,969	68,856
Subordinated debt	11,270	11,265
Total Liabilities	4,655,818	3,092,122
Shareholders' Equity		
Preferred stock, par value $0.01 per share; liquidation preference $25.00 per share; 10,000,000 shares authorized; share issued 2,000,000 as of September 30, 2020 and no shares as of December 31,2019; shares outstanding 2,000,000 as of September 30, 2020 and no shares as of December 31, 2019	20	-
Common stock, par value $0.01 per share: 100,000,000 shares authorized; shares issued 59,384,623 as of September 30, 2020 and 59,371,623 as of December 31, 2019; shares outstanding 58,855,778 as of September 30, 2020 and 58,842,778 as of December 31, 2019	594	594
Additional paid in capital	321,915	272,039
Accumulated deficit	(11,263)	(12,216)
Treasury stock at cost (503,408 shares as of September 30, 2020 and December 31, 2019)	(3,725)	(3,725)
Stock held by deferred compensation plan (25,437 shares as of September 30, 2020 and December 31, 2019)	(183)	(183)
Accumulated other comprehensive loss	(4,420)	(7,341)
Total Shareholders' Equity	302,938	249,168
Total Liabilities and Shareholders' Equity	$ 4,958,756	$ 3,341,290

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Operations
For the Three and Nine Months Ended September 30, 2020 and 2019
(Dollars in thousands, except per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Interest income:				
Interest and fees on taxable loans	$ 24,135	$ 18,298	$ 65,941	$ 53,827
Interest and fees on tax-exempt loans	548	409	1,652	1,249
Interest and dividends on taxable investment securities	3,758	6,652	15,612	21,134
Interest and dividends on tax-exempt investment securities	20	72	59	131
Interest on federal funds sold and other interest-earning assets	99	777	438	1,631
Total interest income	28,560	26,208	83,702	77,972
Interest expense:				
Demand- interest bearing	3,056	3,753	9,333	11,897
Money market and savings	1,613	1,813	4,827	4,893
Time deposits	884	1,123	3,138	2,608
Other borrowings	77	137	293	681
Total interest expense	5,630	6,826	17,591	20,079
Net interest income	22,930	19,382	66,111	57,893
Provision for loan losses	850	450	2,800	750
Net interest income after provision for loan losses	22,080	18,932	63,311	57,143
Non-interest income:				
Loan and servicing fees	917	257	2,152	1,156
Mortgage banking income	4,962	2,797	10,809	8,048
Gain on sales of SBA loans	649	944	1,567	2,593
Service fees on deposit accounts	2,134	1,990	6,166	5,450
Gain on sale of investment securities	279	520	2,760	1,103
Other non-interest income	1,090	46	1,546	175
Total non-interest income	10,031	6,554	25,000	18,525
Non-interest expenses:				
Salaries and employee benefits	14,596	14,314	41,154	40,378
Occupancy	3,560	2,994	10,294	8,270
Depreciation and amortization	1,964	1,740	6,081	4,700
Legal	261	462	810	1,024
Other real estate owned	80	799	437	1,653
Appraisal and other loan expenses	619	476	1,580	1,327
Advertising	386	698	1,055	1,467
Data processing	1,606	1,434	4,747	3,780
Insurance	279	301	836	752
Professional fees	679	661	2,069	1,864
Debit card processing	915	526	2,639	1,689
Regulatory assessments and costs	625	62	1,930	904
Taxes, other	303	288	789	782
Goodwill impairment	5,011	-	5,011	-
Other operating expenses	2,696	3,069	8,084	8,412
Total non-interest expense	33,580	27,824	87,516	77,002
Income (loss) before benefit for income taxes	(1,469)	(2,338)	795	(1,334)
Benefit for income taxes	(503)	(516)	(158)	(319)
Net income (loss)	$ (966)	$ (1,822)	$ 953	$ (1,015)

Basic	$	(0.02)	$	(0.03)	$	0.02	$	(0.02)
Diluted	$	(0.02)	$	(0.03)	$	0.02	$	(0.02)

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
For the Three and Nine Months Ended September 30, 2020 and 2019
(Dollars in thousands)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Net income (loss)	$ (966)	$ (1,822)	$ 953	$ (1,015)
Other comprehensive income (loss), net of tax				
Unrealized gains (losses) on securities (pre-tax ($795), $720, $4,668, and $5,495, respectively)	(593)	583	3,483	4,456
Reclassification adjustment for securities (gains) (pre-tax ($279), ($520), ($2,760), and ($1,103), respectively)	(208)	(217)	(2,060)	(894)
Net unrealized gains (losses) on securities	(801)	366	1,423	3,562
Net unrealized holding losses on securities transferred from available-for-sale to held-to-maturity:				
Amortization of net unrealized holding losses to income during the period (pre-tax $952, $393, $2,006, and $1,037 respectively)	710	318	1,498	841
Total other comprehensive income (loss)	(91)	684	2,921	4,403
Total comprehensive income (loss)	$ (1,057)	$ (1,138)	$ 3,874	$ 3,388

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2020 and 2019
(Dollars in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2020	**2019**
Cash flows from operating activities		
Net income (loss)	$ 953	$ (1,015)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Goodwill impairment	5,011	-
Provision for loan losses	2,800	750
Write down of other real estate owned	31	240
Depreciation and amortization	6,081	4,700
Stock based compensation	1,538	2,005
Net gain on sale of investment securities	(2,760)	(1,103)
Amortization of premiums on investment securities	5,573	2,257
Accretion of discounts on retained SBA loans	(655)	(1,083)
Fair value adjustments on SBA servicing assets	301	1,106
Proceeds from sales of SBA loans originated for sale	22,999	37,916
SBA loans originated for sale	(19,294)	(32,395)
Gains on sales of SBA loans originated for sale	(1,567)	(2,593)
Proceeds from sales of mortgage loans originated for sale	289,521	246,816
Mortgage loans originated for sale	(312,150)	(239,045)
Fair value adjustment for mortgage loans originated for sale	(1,338)	285
Gains on sales of mortgage loans originated for sale	(7,590)	(6,215)
Amortization of debt issuance costs	5	4
Non-cash expense related to leases	448	924
Increase in accrued interest receivable and other assets	(8,149)	(4,524)
Increase in accrued interest payable and other liabilities	6,004	2,996
Net cash (used in) provided by operating activities	(12,238)	12,026
Cash flows from investing activities		
Purchase of investment securities available for sale	(166,622)	(150,734)
Purchase of investment securities held to maturity	(208,230)	-
Proceeds from the sale of securities available for sale	125,222	54,742
Proceeds from the paydown, maturity, or call of securities available for sale	144,057	41,571

Proceeds from the paydown, maturity, or call of securities held to maturity	160,964	73,890
Net (purchase) redemption of restricted stock	(1,043)	3,383
Net increase in loans	(880,763)	(133,667)
Net proceeds from sale of other real estate owned	586	401
Premises and equipment expenditures	(13,159)	(28,612)
Net cash used in investing activities	(838,988)	(139,026)
Cash flows from financing activities		
Net proceeds from issuance of preferred stock	48,325	-
Net proceeds from exercise of stock options	33	261
Net increase in demand, money market and savings deposits	926,726	284,219
Net (decrease) increase in time deposits	(20,283)	62,946
Net increase (repayment) of short-term borrowings	646,267	(91,422)
Net cash provided by financing activities	1,601,068	256,004
Net increase in cash and cash equivalents	749,842	129,004
Cash and cash equivalents, beginning of year	168,319	72,473
Cash and cash equivalents, end of period	$ 918,161	$ 201,477
Supplemental disclosures		
Interest paid	$ 17,238	$ 18,982
Non-cash transfers from loans to other real estate owned	$ -	$ 1,071

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Three and Nine Months Ended September 30, 2020 and 2019
(Dollars in thousands)
(unaudited)

	Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance July 1, 2020	**$ -**	**$ 594**	**$ 273,118**	**$ (10,297)**	**$ (3,725)**	**$ (183)**	**$ (4,329)**	**$ 255,178**
Net loss				(966)				(966)
Other comprehensive loss, net of tax							(91)	(91)
Proceeds from shares issued under preferred stock offering (2,000,000 shares) net of offering costs of $1,675	20		48,305					48,325
Stock based compensation			482					482
Options exercised (5,000 shares)			10					10
Balance September 30, 2020	$ 20	$ 594	$ 321,915	$ (11,263)	$ (3,725)	$ (183)	$ (4,420)	$ 302,938
Balance January 1, 2020	**$ -**	**$ 594**	**$ 272,039**	**$ (12,216)**	**$ (3,725)**	**$ (183)**	**$ (7,341)**	**$ 249,168**
Net income				953				953
Other comprehensive income, net of tax							2,921	2,921
Proceeds from shares issued under preferred stock offering (2,000,000 shares) net of offering costs of $1,675	20		48,305					48,325
Stock based compensation			1,538					1,538
Options exercised (13,000 shares)			33					33
Balance September 30, 2020	$ 20	$ 594	$ 321,915	$ (11,263)	$ (3,725)	$ (183)	$ (4,420)	$ 302,938
Balance July 1, 2019	**$ -**	**$ 594**	**$ 270,789**	**$ (7,909)**	**$ (3,725)**	**$ (183)**	**$ (8,208)**	**$ 251,358**
Net loss				(1,822)				(1,822)
Other comprehensive income, net of tax							684	684
Stock based compensation			623					623
Balance September 30, 2019	$ -	$ 594	$ 271,412	$ (9,731)	$ (3,725)	$ (183)	$ (7,524)	$ 250,843
Balance January 1, 2019	$ -	**$ 593**	**$ 269,147**	**$ (8,716)**	**$ (3,725)**	**$ (183)**	**$ (11,927)**	**$ 245,189**
Net loss				(1,015)				(1,015)
Other comprehensive income, net of tax							4,403	4,403
Stock based compensation			2,005					2,005

Options exercised (53,550 shares)		1	260					261
Balance September 30, 2019	$ -	$ 594	$ 271,412	$ (9,731)	$ (3,725)	$ (183)	$ (7,524)	$ 250,843

(See notes to consolidated financial statements)

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

Note *1:* Basis of Presentation

Republic First Bancorp, Inc. (the "Company") is a *one*-bank holding company organized and incorporated under the laws of the Commonwealth of Pennsylvania. It is comprised of one wholly-owned subsidiary, Republic First Bank, which does business under the name of Republic Bank ("Republic"). Republic is a Pennsylvania state chartered bank that offers a variety of banking services to individuals and businesses throughout the Greater Philadelphia, 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 US 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 *nine* month period ended *September 30, 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 during the *nine* months ended *September 30, 2020* that did *not* exist at *December 31, 2019*. In response to these evolving conditions, the Board of Governors of the Federal Reserve System ("Federal Reserve") 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 economic downturn that began 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's ("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. We obtained approval from the SBA for more than 5,100 loan applications which has resulted in $683 million in outstanding PPP loans at *September 30, 2020*. Almost all of these loans have a *two* year term, an interest rate of *1.00%* and included an origination fee paid by the SBA between *1%* and *5%* of the loan balance. Gross origination fees of approximately *$23* million were earned by Republic which will be amortized and reported as interest income over the life of the loans. After deduction of deferred costs and fees related to the PPP program, $15 million of net revenue has been deferred and will be recognized as income 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 *12* Derivatives and Risk Management Activities for further detail of IRLCs.

Use of Estimates

The preparation of financial statements in conformity with US 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 *September 30, 2020,* 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 *September 30, 2020,* the maximum number of common shares issuable under the *2014* Plan was 6.4 million shares. During the *nine* months ended *September 30, 2020,* 1,248,100 options were granted under the *2014* Plan with a fair value of $1,084,888.

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)	0.36% *to* 1.22%	1.42% *to* 2.78%
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 an 8 month 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 *nine* months ended *September 30, 2020* and *2019,* 907,790 shares and 842,898 shares vested, respectively. Expense is recognized ratably over the period required to vest. At *September 30, 2020,* the intrinsic value of the 5,993,700 options outstanding was $11,000, while the intrinsic value of the 3,384,500 exercisable (vested) options was $11,000. At *September 30, 2019,* the intrinsic value of the 5,007,725 options outstanding was $780,000, while the intrinsic value of the 2,645,960 exercisable (vested) options was $753,000. During the *nine* months ended *September 30, 2020,* 13,000 options were exercised resulting in cash receipts of $33,000 and 220,875 options were forfeited with a weighted average grant date fair value of $419,999. During the *nine* months ended *September 30, 2019,* 53,550 options were exercised resulting in cash receipts of $261,000 and 142,875 options were forfeited with a weighted average grant date fair value of $381,811.

Information regarding stock based compensation for the *nine* months ended *September 30, 2020* and *2019* is set forth below:

	2020	2019
Stock based compensation expense recognized	$ 1,538,000	$ 2,005,000
Number of unvested stock options	2,609,200	2,361,765
Fair value of unvested stock options	$ 4,915,841	$ 6,095,468
Amount remaining to be recognized as expense	$ 3,121,499	$ 4,183,148

The remaining unrecognized expense amount of $3,121,499 will be recognized ratably as expense through *September 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 and convertible preferred stock for the *nine* months ended *September 30, 2020.* CSEs consist of dilutive stock options granted through the Company's stock option plans for the *nine* months *September 30, 2019.*

The calculation of EPS for the *three* and *nine* months ended *September 30, 2020* and *2019* is as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Net income (loss) - basic and diluted	$ (966)	$ (1,822)	$ 953	$ (1,015)
Weighted average shares outstanding	58,853	58,843	58,851	58,830
Net income per share – basic	$ (0.02)	$ (0.03)	$ 0.02	$ (0.02)
Weighted average shares outstanding (including dilutive CSEs)	58,853	58,843	60,751	58,830
Net income per share – diluted	$ (0.02)	$ (0.03)	$ 0.02	$ (0.02)

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

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Anti-dilutive securities				
Share based compensation awards	5,994	5,008	5,945	5,008

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 Company expects an initial increase to the allowance for loan losses above the amount recorded on the balance sheet as of *December 31, 2019.* This *one*-time increase will be recorded, net of tax, as an adjustment to retained earnings effective *January 1, 2020.* This increase is expected to be an immaterial amount. When adopted 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 has elected to defer the adoption of this ASU as permitted by Section *4014* of the CARES Act, 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.*

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 *September 30, 2020* and *December 31, 2019* is as follows:

	At September 30, 2020			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agencies	$ 33,848	$ -	$ (476)	$ 33,372
Collateralized mortgage obligations	200,590	3,275	(63)	203,802
Agency mortgage-backed securities	130,372	837	(6)	131,203
Municipal securities	2,635	27	-	2,662
Corporate bonds	73,011	99	(3,494)	69,616
Total securities available for sale	$ 440,456	$ 4,238	$ (4,039)	$ 440,655
U.S. Government agencies	$ 84,689	$ 4,486	$ -	$ 89,175
Collateralized mortgage obligations	320,408	14,300	(54)	334,654
Agency mortgage-backed securities	283,842	4,725	(27)	288,540
Total securities held to maturity	$ 688,939	$ 23,511	$ (81)	$ 712,369

	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 *September 30, 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	$ 757	$ 766
After 1 year to 5 years	50,361	49,908	61,794	64,794
After 5 years to 10 years	55,693	52,670	22,138	23,615
After 10 years	3,000	2,631	-	-
Collateralized mortgage obligations	200,590	203,802	320,408	334,654
Agency mortgage-backed securities	130,372	131,203	283,842	288,540
Total	$ 440,456	$ 440,655	$ 688,939	$ 712,369

The Company's investment securities portfolio consists primarily of debt securities issued by U.S. government agencies, U.S. government-sponsored agencies, state governments, local municipalities and certain corporate entities. There were no private label mortgage-backed securities ("MBS") or collateralized mortgage obligations ("CMO") held in the investment securities portfolio as of *September 30, 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 *September 30, 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 in the available for sale and held to maturity section:

	At September 30, 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	$ 8,254	$ 89	$ 25,118	$ 387	$ 33,372	$ 476
Collateralized mortgage obligations	44,918	60	15,929	3	60,847	63
Agency mortgage-backed securities	1,787	6	-	-	1,787	6
Municipal securities	-	-	-	-	-	-
Corporate bonds	-	-	54,506	3,494	54,506	3,494
Total Available for Sale	$ 54,959	$ 155	$ 95,553	$ 3,884	$ 150,512	$ 4,039

	At September 30, 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	13,625	51	494	3	14,119	54
Agency mortgage-backed securities	4,942	27	-	-	4,942	27
Total Held to Maturity	$ 18,567	$ 78	$ 494	$ 3	$ 19,061	$ 81

	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 $4.1 million with a total fair value of $169.6 million as of *September 30, 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, fourteen collateralized mortgage obligations and two agency mortgage-backed securities that were in an unrealized loss position at *September 30, 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 *September 30, 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 *September 30, 2020,* the investment portfolio included *no* municipal securities that were in an unrealized loss position.

At *September 30, 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 *September 30, 2020* were $32.4 million. The tax provision applicable to the net gains of $279,000 for the *three* months ended *September 30, 2020* amounted to $71,000. Proceeds associated with the sale of securities available for sale during the *nine* months ended *September 30, 2020* were $125.2 million. The tax provision applicable to the net gains of $2.8 million for the *nine* months ended *September 30, 2020* amounted to $700,000.

Proceeds associated with the sale of securities during the *three* months ended *September 30, 2019* were $11.5 million. The tax provision applicable to the net gains of $520,000 for the *three* months ended *September 30, 2019* amounted to $132,000. Proceeds associated with the sale of securities during the *nine* months ended *September 30, 2019* were $54.7 million. Gross gains of $1.2 million and gross losses of $67,000 were realized on these sales. The tax provision applicable to the net gains of $1.1 million for the *nine* months ended *September 30, 2019* amounted to $280,000.

Note *6:* Loans Receivable and Allowance for Loan Losses

The following table sets forth the Company's gross loans by major category as of *September 30, 2020* and *December 31, 2019:*

(dollars in thousands)	**September 30, 2020**	**December 31, 2019**
Commercial real estate	$ 676,460	$ 613,631
Construction and land development	164,671	121,395
Commercial and industrial	228,145	223,906
Owner occupied real estate	427,026	424,400
Consumer and other	100,035	101,320
Residential mortgage	365,279	263,444
Paycheck protection program	683,398	-
Total loans receivable	2,645,014	1,748,096
Deferred (fees) costs	(15,616)	99
Allowance for loan losses	(11,851)	(9,266)
Net loans receivable	$ 2,617,547	$ 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, residential mortgages, and PPP loans. PPP loans are fully guaranteed by the U.S. Government and as such have *no* allowance associated with them. 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 *September 30, 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	Paycheck Protection Program	Unallocated	Total
Three months ended September 30, 2020									
Allowance for loan losses:									
Beginning balance:	$ 3,732	$ 952	$ 1,431	$ 1,995	$ 675	$ 2,255	$ -	$ -	$ 11,040
Charge-offs	-	-	(33)	-	(2)	(17)	-	-	(52)
Recoveries	-	-	11	-	2	-	-	-	13
Provisions (credits)	235	112	74	(8)	6	429	-	2	850
Ending balance	$ 3,967	$ 1,064	$ 1,483	$ 1,987	$ 681	$ 2,667	$ -	$ 2	$ 11,851
Three months ended September 30, 2019									
Allowance for loan losses:									
Beginning balance:	$ 2,673	$ 631	$ 875	$ 2,158	$ 562	$ 1,124	$ -	$ 33	$ 8,056
Charge-offs	-	-	(72)	-	(29)	-	-	-	(101)
Recoveries	-	-	59	1	2	-	-	-	62
Provisions (credits)	198	(10)	(79)	31	36	205	-	69	450
Ending balance	$ 2,871	$ 621	$ 783	$ 2,190	$ 571	$ 1,329	$ -	$ 102	$ 8,467

The following tables provide the activity in and ending balances of the allowance for loan losses by loan portfolio class at and for the *nine* months ended *September 30, 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	Paycheck Protection Program	Unallocated	Total
Nine months ended September 30, 2020									
Allowance for loan losses:									
Beginning balance:	$ 3,043	$ 688	$ 931	$ 2,292	$ 590	$ 1,705	$ -	$ 17	$ 9,266
Charge-offs	-	-	(84)	(48)	(67)	(67)	-	-	(266)
Recoveries	-	2	38	1	10	-	-	-	51
Provisions (credits)	924	374	598	(258)	148	1,029	-	(15)	2,800
Ending balance	$ 3,967	$ 1,064	$ 1,483	$ 1,987	$ 681	$ 2,667	$ -	$ 2	$ 11,851
Nine months ended September 30, 2019									
Allowance for loan losses:									
Beginning balance:	$ 2,462	$ 777	$ 1,754	$ 2,033	$ 577	$ 894	$ -	$ 118	$ 8,615
Charge-offs	-	-	(1,002)	-	(117)	-	-	-	(1,119)
Recoveries	-	-	213	1	7	-	-	-	221
Provisions (credits)	409	(156)	(182)	156	104	435	-	(16)	750
Ending balance	$ 2,871	$ 621	$ 783	$ 2,190	$ 571	$ 1,329	$ -	$ 102	$ 8,467

The following tables provide a summary of the allowance for loan losses and balance of loans receivable by loan class and by impairment method as of *September 30, 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	Paycheck Protection Program	Unallocated	Total
September 30, 2020									
Allowance for loan losses:									
Individually evaluated for impairment	$ 426	$ -	$ 51	$ 122	$ -	$ -	$ -	$ -	$ 599
Collectively evaluated for impairment	3,541	1,064	1,432	1,865	681	2,667	-	2	11,252
Total allowance for loan losses	$ 3,967	$ 1,064	$ 1,483	$ 1,987	$ 681	$ 2,667	$ -	$ 2	$ 11,851
Loans receivable:									
Loans evaluated Individually	$ 10,737	$ -	$ 2,972	$ 4,305	$ 1,095	$ 701	$ -	$ -	$ 19,810
Loans evaluated Collectively	665,723	164,671	225,173	422,721	98,940	364,578	683,398	-	2,625,204
Total loans receivable	$ 676,460	$ 164,671	$ 228,145	$ 427,026	$ 100,035	$ 365,279	$ 683,398	$ -	$ 2,645,014

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Paycheck Protection Program	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 *September 30, 2020* and *December 31, 2019:*

	September 30, 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	$ 6,561	$ 6,569	$ -	$ 6,186	$ 6,192	$ -
Construction and land development	-	-	-	-	-	-
Commercial and industrial	2,617	2,803	-	2,719	2,989	-
Owner occupied real estate	3,712	3,920	-	2,127	2,275	-
Consumer and other	1,095	1,297	-	1,062	1,375	-
Residential mortgage	701	768	-	768	768	-
Paycheck protection program	-	-	-	-	-	-
Total	$ 14,686	$ 15,357	$ -	$ 12,862	$ 13,599	$ -
With an allowance recorded:						
Commercial real estate	4,176	$ 4,697	$ 426	$ 4,145	$ 4,667	$ 265
Construction and land development	-	-	-	-	-	-
Commercial and industrial	355	371	51	368	383	23
Owner occupied real estate	593	612	122	1,507	1,521	268
Consumer and other	-	-	-	-	-	-
Residential mortgage	-	-	-	-	-	-
Paycheck protection program	-	-	-	-	-	-
Total	5,124	$ 5,680	$ 599	$ 6,020	$ 6,571	$ 556
Total:						
Commercial real estate	$ 10,737	$ 11,266	$ 426	$ 10,331	$ 10,859	$ 265
Construction and land development	-	-	-	-	-	-
Commercial and industrial	2,972	3,174	51	3,087	3,372	23
Owner occupied real estate	4,305	4,532	122	3,634	3,796	268
Consumer and other	1,095	1,297	-	1,062	1,375	-
Residential mortgage	701	768	-	768	768	-
Paycheck protection program	-	-	-	-	-	-
Total	$ 19,810	$ 21,037	$ 599	$ 18,882	$ 20,170	$ 556

The following table presents additional information regarding the Company's impaired loans for the *three* months ended *September 30, 2020* and *September 30, 2019:*

	Three Months Ended September 30,			
	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	$ 6,534	$ 69	$ 7,004	$ 80
Construction and land development	-	-	-	-
Commercial and industrial	2,615	-	2,821	19
Owner occupied real estate	3,491	13	1,801	12
Consumer and other	1,114	6	931	4
Residential mortgage	724	-	640	1
Paycheck protection program	-	-	-	-
Total	$ 14,478	$ 88	$ 13,197	$ 116
With an allowance recorded:				
Commercial real estate	$ 4,167	$ -	$ 4,114	$ -
Construction and land development	-	-	-	-
Commercial and industrial	37	-	572	-
Owner occupied real estate	819	1	1,492	12
Consumer and other	10	-	12	-
Residential mortgage	-	-	-	-
Paycheck protection program	-	-	-	-
Total	$ 5,033	$ 1	$ 6,190	$ 12
Total:				
Commercial real estate	$ 10,701	$ 69	$ 11,118	$ 80
Construction and land development	-	-	-	-
Commercial and industrial	2,652	-	3,393	19
Owner occupied real estate	4,310	14	3,293	24
Consumer and other	1,124	6	943	4
Residential mortgage	724	-	640	1
Paycheck protection program	-	-	-	-
Total	$ 19,511	$ 89	$ 19,387	$ 128

The following table presents additional information regarding the Company's impaired loans for the *nine* months ended *September 30, 2020* and *September 30, 2019:*

	Nine Months Ended September 30,			
	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	$ 6,484	$ 207	$ 6,532	$ 220
Construction and land development	-	-	-	-
Commercial and industrial	2,607	1	2,001	19
Owner occupied real estate	3,051	21	1,853	40
Consumer and other	1,156	13	871	12
Residential mortgage	768	1	384	2
Paycheck protection program	-	-	-	-
Total	$ 14,066	$ 243	$ 11,641	$ 293
With an allowance recorded:				
Commercial real estate	$ 4,153	$ -	$ 4,314	$ -
Construction and land development	-	-	-	-
Commercial and industrial	479	-	956	-
Owner occupied real estate	1,273	17	962	24
Consumer and other	-	-	38	-
Residential mortgage	30	1	-	-
Paycheck protection program	-	-	-	-
Total	$ 5,935	$ 18	$ 6,270	$ 24
Total:				
Commercial real estate	$ 10,637	$ 207	$ 10,846	$ 220
Construction and land development	-	-	-	-
Commercial and industrial	3,086	1	2,957	19
Owner occupied real estate	4,324	38	2,815	64
Consumer and other	1,156	13	909	12
Residential mortgage	798	2	384	2
Paycheck protection program	-	-	-	-
Total	$ 20,001	$ 261	$ 17,911	$ 317

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of *September 30, 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 September 30, 2020							
Commercial real estate	$ -	$ 6	$ 4,578	$ 4,584	$ 671,876	$ 676,460	$ -
Construction and land development	-	-	-	-	164,671	164,671	-
Commercial and industrial	-	-	2,972	2,972	225,173	228,145	-
Owner occupied real estate	-	611	3,103	3,714	423,312	427,026	-
Consumer and other	468	241	1,095	1,804	98,231	100,035	-
Residential mortgage	557	-	701	1,258	364,021	365,279	-
Paycheck protection program	-	-	-	-	683,398	683,398	-
Total	$ 1,025	$ 858	$ 12,449	$ 14,332	$ 2,630,682	$ 2,645,014	$ -

(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 *September 30, 2020* and *December 31, 2019:*

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
At September 30, 2020:					
Commercial real estate	$ 671,702	$ 83	$ 4,675	$ -	$ 676,460
Construction and land development	164,671	-	-	-	164,671
Commercial and industrial	225,173	-	2,972	-	228,145
Owner occupied real estate	422,194	527	4,305	-	427,026
Consumer and other	98,940	-	1,095	-	100,035
Residential mortgage	364,578	-	701	-	365,279
Paycheck protection program	683,398	-	-	-	683,398
Total	$ 2,630,656	$ 610	$ 13,748	$ -	$ 2,645,014

(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 *September 30, 2020* and *December 31, 2019:*

(dollars in thousands)	September 30, 2020	December 31, 2019
Commercial real estate	$ 4,578	$ 4,159
Construction and land development	-	-
Commercial and industrial	2,972	3,087
Owner occupied real estate	3,103	3,337
Consumer and other	1,095	1,062
Residential mortgage	701	768
Paycheck protection program	-	-
Total	$ 12,449	$ 12,413

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately $190,000 and $587,000 for the *three* and *nine* months ended *September 30, 2020,* respectively, and $145,000 and $378,000 for the *three* and *nine* months ended *September 30, 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 *June 30, 2020,* we had granted payment deferrals to 491 customers with outstanding balances of $444 million, or *24%* of total loans outstanding. As of *September 30, 2020,* deferrals declined to 95 customers with outstanding balances of $115 million, or 6% of total loans outstanding. Approximately $65 million of the deferral requests, or 3% of total loans, were for deferment of principal balances only. The remaining deferrals include requests to defer both principal and interest payments. Deferrals as of *September 30, 2020* were comprised of the following categories: *90* day deferrals amounted to *43* customers with outstanding balances of $45 million and *second* deferrals amounted to 52 customers with outstanding balances of $70 million.

The following table summarizes information with regard to outstanding troubled debt restructurings at *September 30, 2020* and *December 31, 2019:*

(dollars in thousands)	Number of Loans	Accrual Status	Non-Accrual Status	Total TDRs
September 30, 2020				
Commercial real estate	1	$ 6,062	$ -	$ 6,062
Construction and land development	-	-	-	-
Commercial and industrial	-	-	-	-
Owner occupied real estate	-	-	-	-
Consumer and other	-	-	-	-
Residential mortgage	-	-	-	-
Total	1	$ 6,062	$ -	$ 6,062
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 our estimate of the allowance for loan losses. The level of any subsequent defaults will likely be affected by future economic conditions.

There were *no* loan modifications made during the *three* and *nine* months ended *September 30, 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* and *nine* months ended *September 30, 2020.* There were no TDRs that subsequently defaulted during the year ended *December 31, 2019.*

There was one residential mortgage in the process of foreclosure as of *September 30, 2020* and *December 31, 2019.* There was no other real estate owned relating to residential real estate at *September 30, 2020* and *December 31, 2019.*

Note *7:* Short-Term Borrowings

The following is a summary of short-term borrowings by type.

	September 30, 2020		December 31, 2019	
(dollars in thousands)	Balance at End of Period	Weighted Average Interest Rate at End of Period	Balance at End of Period	Weighted Average Interest Rate at End of Period
Short-term borrowings				
Paycheck Protection Program				
Liquidity Facility borrowings	$ 646,267	0.35%	$ -	-%

As part of the CARES Act, the Federal Reserve Bank of Philadelphia offered secured discounted borrowings to banks that originated PPP loans through the Paycheck Protection Program Liquidity Facility or PPPLF program. At *September 30, 2020,* the Company pledged $646.3 million of PPP loans to the Federal Reserve Bank of Philadelphia to borrow $646.3 million of funds at a rate of *0.35%*.

Note *8*: 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 *September 30, 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
September 30, 2020				
Assets:				
U.S. Government agencies	$ 33,372	$ -	$ 33,372	$ -
Collateralized mortgage obligations	203,802	-	203,802	-
Agency mortgage-backed securities	131,203	-	131,203	-
Municipal securities	2,662	-	2,662	-
Corporate bonds	69,616	-	66,985	2,631
Securities Available for Sale	$ 440,655	$ -	$ 438,024	$ 2,631
Mortgage Loans Held for Sale	$ 41,683	$ -	$ 41,683	$ -
SBA Servicing Assets	4,634	-	-	4,634
Interest Rate Lock Commitments	1,451	-	1,451	-
Best Efforts Forward Loan Sales Commitments	-	-	-	-
Mandatory Forward Loan Sales Commitments	-	-	-	-
Liabilities:				
Interest Rate Lock Commitments	1	-	1	-
Best Efforts Forward Loan Sales Commitments	554	-	554	-
Mandatory Forward Loan Sales Commitments	525	-	525	-
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 tables present an analysis of the activity in the SBA servicing assets for the *three* and *nine* months ended *September 30, 2020* and *2019:*

(dollars in thousands)	Three Months Ended September 30, 2020	2019
Beginning balance, July 1st	$ 4,604	$ 4,593
Additions	173	272
Fair value adjustments	(143)	(361)
Ending balance, September 30th	$ 4,634	$ 4,504

(dollars in thousands)	Nine Months Ended September 30, 2020	2019
Beginning balance, January 1st	$ 4,447	$ 4,785
Additions	488	825
Fair value adjustments	(301)	(1,106)
Ending balance, September 30th	$ 4,634	$ 4,504

Fair value adjustments are recorded as loan and servicing fees on the statement of income. Servicing fee income, *not* including fair value adjustments, totaled $510,000 and $498,000 for the *three* months ended *September 30, 2020* and *2019,* respectively. Servicing fee income, *not* including fair value adjustments, totaled $1.4 million and $1.4 million for the *nine* months ended *September 30, 2020* and *2019,* respectively. Total loans in the amount of $211.0 million at *September 30, 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* and *nine* months ended *September 30, 2020* and *2019:*

Level 3 Investments Only *(dollars in thousands)*	**Three Months Ended September 30, 2020** **Corporate Bonds**	**Three Months Ended September 30, 2019** **Corporate Bonds**
Balance, July 1st	$ 2,665	$ 2,999
Unrealized gains (losses)	(34)	(108)
Proceeds from sales	-	-
Realized losses	-	-
Balance, September 30th	$ 2,631	$ 2,891

Level 3 Investments Only *(dollars in thousands)*	**Nine Months Ended September 30, 2020** **Corporate Bonds**	**Nine Months Ended September 30, 2019** **Corporate Bonds**
Balance, January 1st	$ 2,819	$ *3,069*
Unrealized gains (losses)	(188)	*(178*)
Proceeds from sales	-	-
Realized losses	-	-
Balance, September 30th	$ 2,631	$ 2,891

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at *September 30, 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
September 30, 2020				
Impaired loans	$ 5,506	$ -	$ -	$ 5,506
Other real estate owned	130	-	-	130
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)**
September 30, 2020				
Corporate bonds	$ 2,631	*Discounted Cash Flows*	*Discount Rate*	*(3.49%)*
SBA servicing assets	$ 4,634	*Discounted Cash Flows*	*Conditional Prepayment Rate*	*(13.60%)*
			Discount Rate	*(10.00%)*
Impaired loans	$ 5,506	*Appraised Value of Collateral (1)*	*Liquidation expenses (2)*	0% - 23% (15%) *(3)*
Other real estate owned	$ 130	*Appraised Value of Collateral (1)*	*Liquidation expenses (2)*	*(7%)* *(3)*
December 31, 2019				
Corporate bonds	$ 2,820	*Discounted Cash Flows*	*Discount Rate*	*(6.66%)*
SBA servicing assets	$ 4,447	*Discounted Cash Flows*	*Conditional Prepayment Rate*	*(13.53%)*
			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 *September 30, 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 $248,000 and $497,000 for *three* and *nine* months ended *September 30, 2020,* respectively, and $142,000 and $398,000 for the *three* and *nine* months ended *September 30, 2019,* respectively, are included in interest and fees in the statements of income.

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 *September 30, 2020* and *December 31, 2019.*

	Carrying Amount	Aggregate Unpaid Principal Balance	Excess Carrying Amount Over Aggregate Unpaid Principal Balance
September 30, 2020	$ 41,683	$ 39,983	$ 1,700
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 income 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 *September 30, 2020* and *December 31, 2019.*

Interest Rate Lock Commitments ("IRLC")

The Company determines the value of IRLCs 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 IRLCs 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.

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 *September 30, 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)	September 30, 2020	December 31, 2019
SBA Servicing Asset		
Fair Value of SBA Servicing Asset	$ 4,634	$ 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)	20.3	20.7
Prepayment Speed	13.60%	13.53%
Effect on fair value of a 10% increase	$ (167)	$ (175)
Effect on fair value of a 20% increase	(323)	(338)
Weighted Average Discount Rate	10.00%	10.75%
Effect on fair value of a 10% increase	$ (151)	$ (154)
Effect on fair value of a 20% increase	(293)	(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 *September 30, 2020* were as follows.

	Fair Value Measurements at September 30, 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	$ 918,161	$ 918,161	$ 918,161	$ -	$ -
Investment securities available for sale	440,655	440,655	-	438,024	2,631
Investment securities held to maturity	688,939	712,369	-	712,369	-
Restricted stock	3,789	3,789	-	3,789	-
Loans held for sale	42,549	42,588	-	41,683	905
Loans receivable, net	2,617,547	2,606,683	-	-	2,606,683
SBA servicing assets	4,634	4,634	-	-	4,634
Accrued interest receivable	15,021	15,021	-	15,021	-
Interest rate lock commitments	1,451	1,451	-	1,451	-
Best efforts forward loan sales commitments	-	-	-	-	-
Mandatory forward loan sales commitments	-	-	-	-	-
Financial liabilities:					
Deposits					
Demand, savings and money market	$ 3,702,310	$ 3,702,310	$ -	$ 3,702,310	$ -
Time	203,296	204,384	-	204,384	-
Short-term borrowings	646,267	646,267	-	646,267	-
Subordinated debt	11,270	8,008	-	-	8,008
Accrued interest payable	1,277	1,277	-	1,277	-
Interest rate lock commitments	1	1	-	1	-
Best efforts forward loan sales commitments	554	554	-	554	-
Mandatory forward loan sales commitments	525	525	-	525	-
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 *9* – Shareholders' Equity

On *August 26, 2020*, the Company completed its offering of an aggregate of 2,000,000 shares of 7.00% Non-Cumulative Perpetual Preferred Stock, Series A, par value $0.01 per share (the "Series A Preferred Stock"), at a price of $25.00 per share. The Company will pay dividends on the Series A Preferred Stock when and if declared by its board of directors or an authorized committee thereof. If declared, dividends will be due and payable at a rate of *7.00%* per annum, payable quarterly in arrears on *March 1, June 1, September 1,* and *December 1* of each year, beginning with the *first* dividend payment on *December 1, 2020.* The Company received net proceeds of $48.3 million from the offering, after deducting offering costs.

Holders of shares of Series A Preferred Stock *may* convert such shares at any time and from time to time into shares of the Company's common stock at a conversion price of $3.00 per share of our common stock, subject to adjustment upon certain events. At any time after *August 26, 2025,* the Company *may* cause the outstanding shares of Series A Preferred Stock to convert into shares of common stock if the price of the common stock exceeds *125%* of the Conversion Price then applicable to the Series A Preferred Stock for at least *20* trading days in a period of *30* consecutive trading days.

Note *10:* 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 *nine* months ended *September 30, 2020* and *2019,* and the year ended *December 31, 2019.*

(dollars in thousands)	Unrealized Gains (Losses) on Available-For-Sale Securities	Unrealized Holding Losses on Securities Transferred From Available-For-Sale To Held-To-Maturity	Total
Balance January 1, 2020	$ (1,275)	$ (6,066)	$ (7,341)
Unrealized gain on securities	3,483	-	3,483
Amounts reclassified from accumulated other comprehensive income to net income (2)	(2,060)	1,498	(562)
Net current-period other comprehensive income	1,423	1,498	2,921
Total change in accumulated other comprehensive income	1,423	1,498	2,921
Balance September 30, 2020	$ 148	$ (4,568)	$ (4,420)
Balance January 1, 2019	$ (4,736)	$ (7,191)	$ (11,927)
Unrealized loss on securities	4,456	-	4,456
Amounts reclassified from accumulated other comprehensive income to net income (2)	(894)	841	(53)
Net current-period other comprehensive income (loss)	3,562	841	4,403
Total change in accumulated other comprehensive income (loss)	3,562	841	4,403
Balance September 30, 2019	$ (1,174)	$ (6,350)	$ (7,524)
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 (loss)	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 Operations.

Note *11*: Goodwill and Other Intangibles

In *July 2016,* Republic acquired all of the issued and outstanding limited liability company interests of Oak Mortgage Company, LLC 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:

(dollars in thousands)	Three Months Ended September 30, 2020	2019
Balance, July 1st	$ 5,011	$ 5,011
Additions/Adjustments	-	-
Amortization	-	-
Impairment	(5,011)	
Balance, September 30th	$ -	$ 5,011
Amortization Period (in years)		*Indefinite*

(dollars in thousands)	Nine Months Ended September 30, 2020	2019
Balance, January 1st	$ 5,011	$ 5,011
Additions/Adjustments	-	-
Amortization	-	-
Impairment	(5,011)	

Balance, September 30th	$ -	$ 5,011
Amortization Period (in years)		*Indefinite*

The Company completed an annual impairment test for goodwill as of *July 31, 2019*. Future impairment testing was scheduled to continue to be conducted as of *July 31* on an annual basis, unless a triggering event occurred in the interim that would suggest impairment, in which case it would be tested as of the date of the triggering event. Triggering events occurred at *March 31, 2020, June 30, 2020,* and *September 30, 2020.*

The Company performed a qualitative and quantitative analysis of goodwill at *March 31, 2020* and *June 30, 2020* based on the triggering event. The qualitative and quantitative analysis at both triggering dates determined that it was more likely than *not* that goodwill was *not* impaired.

At *September 30, 2020,* the Company performed another quantitative analysis. The quantitative analysis determined that goodwill was impaired based on the impact of the COVID-*19* pandemic on the economy and the sustained decline in the Company's stock price. The Company concluded that all of its goodwill was impaired and recorded a non-cash charge for the amount of the impairment against earnings based on the quantitative analysis. The charge had *no* impact on tangible capital and a minimal impact on regulatory capital.

Note *12*: Derivatives and Risk Management Activities

Republic did *not* have any derivative instruments designated as hedging instruments, or subject to master netting and collateral agreements for the *nine* months ended *September 30, 2020* and *September 30, 2019.* The following table summarizes the amounts recorded in Republic's statement of financial condition for derivatives not designated as hedging instruments as of *September 30, 2020* and *December 31, 2019 (*in thousands):

September 30, 2020	**Balance Sheet Presentation**	**Fair Value**	**Notional Amount**
Asset derivatives:			
IRLCs	*Other Assets*	$ 1,451	$ 50,090
Best efforts forward loan sales commitments	*Other Assets*	-	-
Mandatory forward loan sales commitments	*Other Assets*	-	-
Liability derivatives:			
IRLCs	*Other Liabilities*	$ 1	$ 377
Best efforts forward loan sales commitments	*Other Liabilities*	554	47,773
Mandatory forward loan sales commitments	*Other Liabilities*	525	36,606

December 31, 2019	**Balance Sheet Presentation**	**Fair Value**	**Notional Amount**
Asset derivatives:			
IRLCs	*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:			
IRLCs	*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 tables summarize the amounts recorded in Republic's statement of operations for derivative instruments *not* designated as hedging instruments for the *three* and *nine* months ended *September 30, 2020* and *2019* (in thousands):

	Statement of Operations Presentation	Three Months Ended September 30, 2020 Gain/(Loss)	Nine Months Ended September 30, 2020 Gain/(Loss)
Asset derivatives:			
IRLCs	*Mortgage banking income*	$ (191)	$ 1,089
Best efforts forward loan sales commitments	*Mortgage banking income*	(8)	(4)
Mandatory forward loan sales commitments	*Mortgage banking income*	-	(2)
Liability derivatives:			
IRLCs	*Mortgage banking income*	$ (1)	$ (1)
Best efforts forward loan sales commitments	*Mortgage banking income*	100	(421)
Mandatory forward loan sales commitments	*Mortgage banking income*	(199)	(442)

	Statement of Operations Presentation	Three Months Ended September 30, 2019 Gain/(Loss)	Nine Months Ended September 30, 2019 Gain/(Loss)
Asset derivatives:			
IRLCs	*Mortgage banking income*	$ (201)	$ 96
Best efforts forward loan sales commitments	*Mortgage banking income*	26	38
Mandatory forward loan sales commitments	*Mortgage banking income*	27	17
Liability derivatives:			
IRLCs	*Mortgage banking income*	$ (2)	$ (2)
Best efforts forward loan sales commitments	*Mortgage banking income*	81	12
Mandatory forward loan sales commitments	*Mortgage banking income*	148	151

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 *13*: 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 our historic accounting under Topic *605.*

Topic *606* does *not* apply to revenue associated with financial instruments, including revenue from loans and investments. 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, interchange 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, interchange 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 tables present non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic *606,* for the *three* and *nine* months ended *September 30, 2020* and *2019.*

(dollars in thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
Non-interest income		
In-scope of Topic 606		
Service charges on deposit accounts	$ 2,134	$ 1,990
Other non-interest income	1,090	46
Non-interest income (in-scope of Topic 606)	3,224	2,036
Non-interest income (out-of-scope of Topic 606)	6,807	4,518
Total non-interest income	$ 10,031	$ 6,554

(dollars in thousands)	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Non-interest income		
In-scope of Topic 606		
Service charges on deposit accounts	$ 6,166	$ 5,450
Other non-interest income	1,546	175
Non-interest income (in-scope of Topic 606)	7,712	5,625
Non-interest income (out-of-scope of Topic 606)	17,288	12,900
Total non-interest income	$ 25,000	$ 18,525

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 *September 30, 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 *14*: 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 or equipment. 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 *September 30, 2020,* the Company had forty-one operating lease agreements, which include operating leases for nineteen branch locations, seven offices that are used for general office space, and fifteen operating leases for equipment. One of the real property operating leases did *not* include *one* or more options to extend the lease term. Six 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 *forty-one* operating leases have maturity dates ranging from *December 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 20.24 years as of *September 30, 2020*

At *September 30, 2019,* the Company had thirty-seven operating lease agreements, which include operating leases for seventeen branch stores, eight offices that are used for general office space, and twelve operating leases for equipment. All of the real property operating leases did include *one* of 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-nine* operating leases have maturity dates ranging from *December 2019* to *December 2058* which includes options for multiple five and ten year extensions which the Company is reasonably certain to exercise. The weighted average remaining operating lease term for these leases is 19.1 years as of *September 30, 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 3.53% and 3.58% as of *September 30, 2020* and *2019*, respectively.

The following table presents operating lease costs net of sublease income for the *three* and *nine* months ended *September 30, 2020* and *2019*.

(dollars in thousands)	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
Operating lease cost	$ 2,086	$ 5,920
Sublease income	-	-
Total lease cost	$ 2,086	$ 5,920

(dollars in thousands)	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost	$ 1,890	$ 4,920
Sublease income	(80)	(241)
Total lease cost	$ 1,810	$ 4,679

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 at *September 30, 2020* and *2019*.

(dollars in thousands)	September 30, 2020	September 30, 2019
Operating lease payments due:		
Within one year	$ 6,521	$ 6,962
One to three years	11,804	11,806
Three to five years	10,529	10,106
More than five years	77,596	72,030
Total undiscounted cash flows	106,450	100,904
Discount on cash flows	(33,481)	(31,258)
Total operating lease liability obligations	$ 72,969	$ 69,646

The following table presents cash and non-cash activities for the *three* and *nine* months ended *September 30 2020* and *2019*.

(dollars in thousands)		Three Months Ended September 30, 2020		Three Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash flows from operating leases	$	1,893	$	1,706
Non-cash investing and financing activities				
Additions to Operating leases – right of use asset				
New operating lease liability obligation	$	5,121	$	101

(dollars in thousands)		Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash flows from operating leases	$	5,432	$	3,755
Non-cash investing and financing activities				
Additions to Operating leases – right of use asset				
New operating lease liability obligation	$	5,310	$	72,457

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 as a result of the negative impacts and disruptions of the COVID-19 pandemic and measures taken to contain its spread on our employees, customers, business operations, credit quality, financial position, liquidity and results of operations; the length and extent of the economic contraction as a result of the COVID-19 pandemic; continued deterioration in general economic conditions; changes in customer behavior; changes in 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; changes in 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; changes in deposit flows and loan demand; the regulatory environment, including evolving banking industry standards, changes in legislation or regulation; our securities portfolio and the valuation of our securities; changes in accounting principles, policies and guidelines as well as estimates and assumptions used in the preparation of our financial statements; operational risks including, but not limited to, cybersecurity incidents, fraud, natural disasters and future pandemics; 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, our Quarterly Reports for the quarters ended March 31, 2020 and June 30, 2020, 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.

We serve our customers through 31 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 in 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 – Regulatory Developments

The COVID-19 pandemic is a highly unusual, unprecedented and evolving public health and economic crisis that may have a significant adverse impact on the economy, the banking industry and the Company in future fiscal periods, all subject to a high degree of uncertainty.

The CARES Act. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted to address the economic effects of the COVID-19 pandemic. Among other things, the CARES Act provides for the following:

- *Paycheck Protection Program ("PPP")*. The CARES Act appropriated $349 billion for "paycheck protection loans" through the PPP. The amount appropriated was subsequently increased to $659 billion. Loans under the PPP that meet U.S. Small Business Administration ("SBA") requirements may be forgiven in certain circumstances, and are 100% guaranteed by the SBA. In conjunction with the PPP, the Board of Governors of the Federal Reserve System (the "Federal Reserve") has created a lending facility for qualified financial institutions. The Paycheck Protection Program Liquidity Facility ("PPPLF") will extend credit to depository institutions with a term equal to the term of the pledged loans at an interest rate of 0.35%. Only loans issued under the PPP can be pledged as collateral to access the facility. The Company participated in both the PPP loan program and the PPPLF in 2020.

- *Troubled Debt Restructuring Relief*. From March 1, 2020 through the earlier of December 31, 2020 or 60 days after the termination date of the national emergency declared by the President on March 13, 2020 concerning the COVID–19 outbreak (the "national emergency"), a financial institution may elect to suspend the requirements under accounting principles generally accepted in the U.S. for loan modifications related to the COVID–19 pandemic that would otherwise be categorized as a troubled debt restructured ("TDR"), including impairment accounting. This TDR relief is applicable for the term of the loan modification that occurs during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019. Financial institutions are required to maintain records of the volume of loans involved in modifications to which TDR relief is applicable. The Company elected to exclude modifications meeting these requirements from TDR classification.

- *CECL Delay*. Banks, savings associations, credit unions, bank holding companies and their affiliates are not required to comply with the Financial Accounting Standards Board Accounting Standards Update No. 2016–13 ("Measurement of Credit Losses on Financial Instruments"), including the current expected credit losses methodology for estimating allowances for credit losses ("CECL"), from the date of the law's enactment until the earlier of the end of the national emergency or December 31, 2020. On March 27, 2020, the Federal Reserve, the Federal Deposit Insurance Corporation (the "FDIC"), and the Office of the Comptroller of the Currency issued an interim final rule that allows banking organizations that are required to adopt CECL this year to mitigate the estimated cumulative regulatory capital effects for up to two years. The relief afforded by the CARES Act and interim final rule is in addition to the three-year transition period already in place. The Company has elected to delay the adoption of CECL.

- *Forbearance*. The CARES Act codified in part guidance from state and federal regulators and government-sponsored enterprises, including the 60-day suspension of foreclosures on federally-backed mortgages and requirements that servicers grant forbearance to borrowers affected by COVID-19.

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. 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 September 30, 2020, we processed and obtained SBA approval for more than 5,100 PPP loan applications resulting in approximately $683 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 or that require additional financial support after receiving a PPP loan. Through the date of issuance, we have not received any applications for Main Street Lending Program loans.

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 September 30, 2020 we have:

- Put procedures and supplies in place at all of our store locations such as plastic shields, notices, hand sanitizer, etc., in accordance with CDC guidelines. Our store lobbies have been re-opened 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 temporary 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.

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. We have executed loan modifications and initiated payment deferrals for all customers that had an immediate need for assistance.

The balance of loan deferrals has declined quarter to quarter. As of June 30, 2020, we had granted payment deferrals to 491 customers with total outstanding balances of $444 million, or 24% of total loans outstanding. As of September 30, 2020, 95 customers were deferring loan payments with total outstanding balances of $115 million, or 6% of total loans outstanding. Deferrals as of September 30, 2020 were comprised of the following categories: 90 day deferrals amounted to 43 customers with outstanding balances of $45 million and second deferrals amounted to 52 customers with outstanding balances of $70 million. Approximately $65 million, or 3%, of the deferral requests were for deferment of principal balances only. The remaining deferrals include requests to defer both principal and interest payments. 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 the COVID-19 pandemic.

As a result of the recent changes in economic conditions, we have increased the qualitative factors for certain components of Republic'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 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 Republic, 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.

Financial Condition

Assets

Total assets increased by $1.6 billion to $5.0 billion at September 30, 2020, compared to $3.3 billion at December 31, 2019. A portion of this increase was temporary in nature driven by short-term borrowings related to the PPP loan program. The Company borrowed $646 million through the Paycheck Protection Program Liquidity Facility ("PPPLF") as of September 30, 2020 provided by the Federal Reserve Bank. This borrowing was repaid shortly after the quarter ended. The remaining increase was a result of the Company's continuing growth and expansion strategy which includes the opening of new store locations. During 2020, this expansion effort has been supported by the Company's participation in the PPP loan program which has resulted in significant growth in relationships with small business customers.

Cash and Cash Equivalents

Cash and due from banks and interest bearing deposits comprise this category, which consists of our most liquid assets. The aggregate amount of these two categories increased by $749.8 million to $918.2 million at September 30, 2020, from $168.3 million at December 31, 2019. The increase is primarily driven by short-term borrowings provided by the PPPLF to fund PPP loans. In addition, a portion of the deposit balances related to funding of PPP loans remain in customer accounts as of September 30, 2020.

Loans Held for Sale

Loans held for sale are comprised of loans guaranteed by the 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 $866,000 at September 30, 2020 as compared to $3.0 million at December 31, 2019. Residential mortgage loans held for sale were $41.7 million at September 30, 2020 compared to $10.3 million at December 31, 2019. The increase in residential mortgage loans held for sale is a result of the higher level of mortgage loan originations in 2020. Loans held for sale, as a percentage of total Company assets, were less than 1% at September 30, 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 September 30, 2020. Loans made to one individual customer, even if secured by different collateral, are aggregated for purposes of the lending limit.

Loans increased $878.6 million, or 51%, to $2.6 billion at September 30, 2020, versus $1.7 billion at December 31, 2019. This growth was primarily the result of $683.4 million in PPP loans that were funded by Republic during the second quarter of 2020. Most of these loans are expected to be repaid or forgiven by the SBA in the coming quarters. The remaining increase was a result of 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 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 $440.7 million at September 30, 2020, compared to $539.0 million at December 31, 2019. The decrease was primarily due to the paydown, maturity, or call, of securities totaling $144.1 million and the sale of securities totaling $125.2 million partially offset by the purchase of securities totaling $166.6 million during the first nine months of 2020. At September 30, 2020, the portfolio had a net unrealized gain of $199,000 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 the value of the securities available-for-sale in our portfolio during the first nine 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 SBA bonds, CMOs and MBSs. The fair value of securities held-to-maturity totaled $712.4 million and $653.1 million at September 30, 2020 and December 31, 2019, respectively. The increase was primarily due to the purchase of investment securities totaling $208.2 million and an increase of $15.2 million in the value of securities held in the portfolio partially offset by a paydown, maturity, or call of securities totaling $161.0 million during the first nine 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 nine 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 September 30, 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 September 30, 2020 and December 31, 2019, the investment in FHLB capital stock totaled $3.6 million and $2.6 million, respectively. At both September 30, 2020 and December 31, 2019, ACBB capital stock totaled $143,000. Both the FHLB and ACBB issued dividend payments during the third quarter of 2020.

Premises and Equipment

The balance of premises and equipment increased to $124.0 million at September 30, 2020 from $117.0 million at December 31, 2019. The increase was primarily due to premises and equipment expenditures of $13.2 million less depreciation and amortization expenses of $6.1 million during the first nine months of 2020. New stores were opened in Northfield, NJ in January 2020 and Bensalem, PA in September 2020 bringing the total store count to thirty-one. There are also multiple sites in various stages of development for future store locations.

Other Real Estate Owned

The balance of other real estate owned was $1.1 million at September 30, 2020 and $1.7 million at December 31, 2019. The decrease was primarily due to sale of one property totaling $586,000 during the nine months ended September 30, 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 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 September 30, 2020 and December 31, 2019, the balance of operating leases – right-of-use asset was $68.4 million and $64.8 million, respectively.

Goodwill

Goodwill amounted to $0 at September 30, 2020 and $5.0 million at December 31, 2019. Goodwill was initially recorded in July 2016 upon the acquisition of Oak Mortgage Company and has been evaluated on an annual basis for impairment. Impairment is a condition that exists when the carrying amount of goodwill exceeds its implied fair value. There was no goodwill impairment recorded during the year ended December 31, 2019.

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 as of September 30, 2020. As a result of the continuing impact of the COVID-19 pandemic, the uncertainty surrounding future economic conditions, and the sustained decrease in the market value of the Company's common stock, management determined that a triggering event had occurred with respect to goodwill and potential impairment and performed an Interim Period Quantitative Goodwill Impairment Tests as of September 30, 2020. This analysis resulted in an impairment charge of $5.0 million which was recorded during the third quarter of 2020. This charge resulted in a complete write-off of all goodwill currently on the balance sheet. The estimated fair value of the Company was determined based on a combination of methods including discounted cash flows of future earnings and an estimated sales price based on observable market transactions of similar financial institutions. The impairment charge represents a non-cash accounting transaction which had no impact on tangible capital and minimal effect on regulatory capital as of September 30, 2020.

Deposits

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

Total deposits increased by $906.4 million to $3.9 billion at September 30, 2020 from $3.0 billion at December 31, 2019. This increase was partially attributed to the successful execution of our relationship banking model which is based upon a high level of customer service and satisfaction. This strategy has also allowed us to build a stable core-deposit base and nearly eliminate our dependence upon the more volatile sources of funding found in brokered and wholesale deposits. The increase in demand deposits is also a result of our participation in the PPP loan program. When the PPP loans were closed the funds were deposited in Republic checking accounts. These deposits are expected to decline as the borrowers spend the funds on qualified expenses under the program.

Short-Term Borrowings

At September 30, 2020, we had short-term borrowings totaling $646.3 million compared to $0 at December 31, 2019. The source of the $646.3 million in short-term borrowings at September 30, 2020 was the PPPLF for the purpose of funding PPP loans currently held on the balance sheet.

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 FASB. ASC 842 represents a significant modification to the accounting treatment for leases, with the most significant change being that most leases, including operating leases, will now be capitalized on the balance sheet. Under the previous guidance (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 September 30, 2020 and December 31, 2019, the balance of the operating lease liability obligation was $73.0 million and $68.9 million, respectively.

Shareholders' Equity

Total shareholders' equity increased $53.8 million to $302.9 million at September 30, 2020 compared to $249.2 million at December 31, 2019. The increase during the first nine months of 2020 was primarily due to the net proceeds of a preferred stock offering of $48.3 million, a $2.9 million decrease in accumulated other comprehensive losses associated with an increase in the market value of the investment securities portfolio, stock based compensation of $1.5 million, and net income of $953,000. 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 September 30, 2020 Compared to Three Months Ended September 30, 2019

We reported a net loss of $966,000, or ($0.02) per diluted share, for the three months ended September 30, 2020 and compared to a net loss of $1.8 million, or ($0.03) per diluted share for the three months ended September 30, 2019. Excluding a $5.0 million goodwill impairment charge, core earnings of $2.8 million, or $.04 per diluted share, were recognized. The increase in core earnings year over year was primarily driven by participation in the PPP loan program in addition to cost control measures implemented by management. We have recognized origination fees associated with the PPP loan program as interest income during the third quarter of 2020. The net interest margin decreased to 2.35% for the three month period ended September 30, 2020 compared to 2.82% for the three month period ended September 30, 2019. The interest rate on the loans originated under the PPP loan program is fixed at 1.00% which caused a decline in the yield on interest earning assets in the third quarter of 2020. In addition, the rate cuts enacted by the Federal Reserve during the first quarter of 2020 has created a lower interest rate environment resulting in margin compression.

Net interest income was $22.9 million for the three month period ended September 30, 2020 compared to $19.4 million for the three months ended September 30, 2019. Interest income increased $2.4 million, or 9%, primarily due to an increase in average loans receivable balances driven by our growth strategy along with participation in the PPP loan program. Interest expense decreased $1.2 million, or 18%, primarily due to a decrease in the average rate paid on deposit balances. The net interest margin decreased by 47 basis points to 2.35% during the third quarter of 2020 compared to 2.82% during the third quarter of 2019.

We recorded a provision for loan losses in the amount of $850,000 for the three months ended September 30, 2020 and a provision for loan losses in the amount of $450,000 for the three months ended September 30, 2019. A higher provision was primarily due to an increase in the allowance required for loans collectively evaluated for impairment which includes increasing qualitative factors for considerations related to COVID-19, specifically those factors that account for the state of the economic environment that Republic is doing business in, as well as the nature of and concentration in certain credit types within the loan portfolio. 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 three months ended September 30, 2020.

Non-interest income increased by $3.5 million to $10.0 million during the three months ended September 30, 2020 compared to $6.6 million during the three months ended September 30, 2019. The increase during the three months ended September 30, 2020 was primarily due to mortgage banking income driven by mortgage loan originations, loan and servicing fees, and higher service fees on deposit accounts which is driven by growth in deposit balances and an increase in the number of accounts, partially offset by a decrease in gains on sale of SBA loans and a decrease in the gains on the sale of investment securities.

Non-interest expenses increased $5.8 million to $33.6 million during the three months ended September 30, 2020 compared to $27.8 million during the three months ended September 30, 2019. This increase was primarily driven by a non-recurring goodwill impairment charge totaling $5.0 million during the third quarter of 2020. We have incurred costs related to our expansion into New York City as we hired a management and lending team and commenced 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. The full year impact of the New York expansion has resulted in non-interest expense during 2020. Cost control measures implemented by management have had a positive effect in limiting expense growth in other areas of operation.

We recorded a benefit for income taxes in the amount of $503,000 during the three months ended September 30, 2020 compared to a $516,000 benefit for income taxes during the three months ended September 30, 2019.

Return on average assets and average equity from continuing operations was (0.09%) and (1.40%), respectively, during the three months ended September 30, 2020 compared to (0.24%) and (2.88%), respectively, for the three months ended September 30, 2019.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

We reported net income of $953,000, or $0.02 per diluted share, for the nine months ended September 30, 2020 compared to a net loss of $1.0 million, or ($0.02) per diluted share, for the nine months ended September 30, 2019. Excluding a $5.0 million goodwill impairment charge, core earnings of $4.7 million, or $.08 per diluted share, were recognized. The increase in core earnings year over year was primarily driven by participation in the PPP loan program in addition to cost control measures implemented by management. We have recognized the origination fees associated with the PPP loan program as interest income during the nine months ended September 30, 2020. The net interest margin decreased by 39 basis points to 2.53% during nine months ended September 30, 2020 compared to 2.92% during the nine months ended September 30, 2019. The interest rate on the loans originated under the PPP loan program is fixed at 1.00% which caused a decline in the yield on interest earning assets. In addition, the rate cuts enacted by the Federal Reserve during the first quarter of 2020 has created a lower interest rate environment resulting in margin compression.

Net interest income for the nine months ended September 30, 2020 was $66.1 million as compared to $57.9 million for the nine months ended September 30, 2019. Interest income increased $5.7 million, or 7%, primarily due to an increase in average loans receivable balances driven by our growth strategy along with participation in the PPP loan program. Interest expense decreased $2.5 million, or 12%, primarily due to a decrease in the average rate paid on deposit balances. The net interest margin decreased to 2.53% during nine months ended September 30, 2020 compared to 2.92% during the nine months ended September 30, 2019.

We recorded a provision for loan losses of $2.8 million for the nine months ended September 30, 2020 compared to a provision for loan losses of $750,000 for the nine months ended September 30, 2019. A higher provision in 2020 was primarily due to an increase in the allowance required for loans collectively evaluated for impairment which includes increasing qualitative factors for considerations related to COVID-19, specifically those factors that account for the state of the economic environment that Republic is doing business in, as well as the nature of and concentration in certain credit types within the loan portfolio. 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 nine months ended September 30, 2020.

Non-interest income increased $6.5 million to $25.0 million during the nine months ended September 30, 2020 compared to $18.5 million during the nine months ended September 30, 2019. The increase during the nine months ended September 30, 2020 was primarily due to increases in mortgage banking income, gains on the sale of investment securities, loan and servicing fees, and service fees and deposit accounts, partially offset by a decrease in gains on the sale of SBA loans.

Non-interest expenses increased $10.5 million to $87.5 million during the nine months ended September 30, 2020 as compared to $77.0 million during the nine months ended September 30, 2019. This increase was primarily driven by a non-recurring goodwill impairment charge totaling $5.0 million during 2020. We have incurred costs related to our expansion into New York City as we hired a management and lending team and commenced 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. The full year impact of the New York expansion has also driven the increase in non-interest expense during 2020. Cost control measures implemented by management have had a positive effect in limiting expense growth in other areas of operation.

We recorded a benefit for income taxes in the amount of $158,000 during the nine months ended September 30, 2020 compared to a $319,000 benefit for income taxes during the nine months ended September 30, 2019.

Return on average assets and average equity from continuing operations were 0.03% and 0.49%, respectively, during the nine months ended September 30, 2020 compared to (0.05%) and (0.55%), respectively, for the nine months ended September 30, 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 September 30, 2020			For the three months ended September 30, 2019		
(dollars in thousands)	**Average Balance**	**Interest**	**Yield/ Rate(1)**	**Average Balance**	**Interest**	**Yield/ Rate(1)**
Interest-earning assets:						
Federal funds sold and other interest-earning assets	$ 383,632	$ 99	0.10%	$ 146,446	$ 777	2.10%
Investment securities and restricted stock (2)	908,166	3,784	1.67%	1,055,154	6,743	2.56%
Loans receivable (2)	2,617,981	24,829	3.77%	1,540,834	18,816	4.84%
Total interest-earning assets	3,909,779	28,712	2.92%	2,742,434	26,336	3.81%
Other assets	269,111			247,682		
Total assets	$ 4,178,890			$ 2,990,116		
Interest-earning liabilities:						
Demand – non-interest bearing	$ 1,043,116			$ 563,691		
Demand – interest bearing	1,541,837	3,056	0.79%	1,168,404	3,752	1.27%
Money market & savings	980,979	1,613	0.65%	702,547	1,814	1.02%
Time deposits	217,554	884	1.62%	208,624	1,123	2.14%
Total deposits	3,783,486	5,553	0.58%	2,643,266	6,689	1.00%
Total interest-bearing deposits	2,740,370	5,553	0.81%	2,079,575	6,689	1.28%
Other borrowings	32,343	77	0.95%	14,037	137	3.87%
Total interest-bearing liabilities	2,772,713	5,630	0.81%	2,093,612	6,826	1.29%
Total deposits and other borrowings	3,815,829	5,630	0.59%	2,657,303	6,826	1.02%
Non-interest bearing other liabilities	87,878			81,872		
Shareholders' equity	275,183			250,941		
Total liabilities and shareholders' equity	$ 4,178,890			$ 2,990,116		
Net interest income (2)		$ 23,082			$ 19,510	
Net interest spread			2.11%			2.52%
Net interest margin (2)			2.35%			2.82%

(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 $152 and $128 for the three months ended September 30, 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.

Average Balances and Net Interest Income

	For the nine months ended September 30, 2020			For the nine months ended September 30, 2019		
(dollars in thousands)	**Average Balance**	**Interest**	**Yield/ Rate(1)**	**Average Balance**	**Interest**	**Yield/ Rate(1)**
Interest-earning assets:						
Federal funds sold and other interest-earning assets	$ 221,698	$ 438	0.26%	$ 96,245	$ 1,631	2.27%
Investment securities and restricted stock (2)	1,032,289	15,687	2.03%	1,069,304	21,347	2.66%
Loans receivable (2)	2,255,283	68,032	4.03%	1,506,482	55,408	4.92%
Total interest-earning assets	3,509,270	84,157	3.20%	2,672,031	78,386	3.92%
Other assets	265,498			218,947		
Total assets	$ 3,774,768			$ 2,890,978		
Interest-earning liabilities:						
Demand – non-interest bearing	$ 891,385			$ 533,922		
Demand – interest bearing	1,426,181	9,333	0.87%	1,142,515	11,896	1.39%
Money market & savings	864,517	4,827	0.75%	691,876	4,894	0.95%
Time deposits	217,526	3,138	1.93%	179,936	2,608	1.94%
Total deposits	3,399,609	17,298	0.68%	2,548,249	19,398	1.02%
Total interest-bearing deposits	2,508,224	17,298	0.92%	2,014,327	19,398	1.29%
Other borrowings	29,932	293	1.31%	26,836	681	3.39%
Total interest-bearing liabilities	2,538,156	17,591	0.93%	2,041,163	20,079	1.32%
Total deposits and other borrowings	3,429,541	17,591	0.69%	2,575,085	20,079	1.04%
Non-interest bearing other liabilities	85,481			67,182		
Shareholders' equity	259,746			248,711		
Total liabilities and shareholders' equity	$ 3,774,768			$ 2,890,978		
Net interest income (2)		$ 66,566			$ 58,307	
Net interest spread			2.27%			2.60%
Net interest margin (2)			2.53%			2.92%

(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 $455 and $414 for the nine months ended September 30, 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 three and nine months ended September 30, 2020, as compared to the three and nine months ended September 30, 2019. For purposes of this table, changes in interest income and expense are allocated to volume and rate categories based upon the respective changes in average balances and average rates.

	For the three months ended September 30, 2020 vs. 2019			For the nine months ended September 30, 2020 vs. 2019		
	Changes due to:			Changes due to:		
(dollars in thousands)	Average Volume	Average Rate	Total Change	Average Volume	Average Rate	Total Change
Interest earned:						
Federal funds sold and other interest-earning assets	$ 80	$ (758)	$ (678)	$ 248	$ (1,441)	$ (1,193)
Securities	(763)	(2,196)	(2,959)	(562)	(5,098)	(5,660)
Loans	10,503	(4,490)	6,013	22,447	(9,823)	12,624
Total interest-earning assets	9,820	(7,444)	2,376	22,133	(16,362)	5,771
Interest expense:						
Deposits						
Interest-bearing demand deposits	772	(1,468)	(696)	1,854	(4,417)	(2,563)
Money market and savings	498	(699)	(201)	995	(1,062)	(67)
Time deposits	7	(246)	(239)	542	(12)	530
Total deposit interest expense	1,277	(2,413)	(1,136)	3,391	(5,491)	(2,100)
Other borrowings	16	(76)	(60)	8	(396)	(388)
Total interest expense	1,293	(2,489)	(1,196)	3,399	(5,887)	(2,488)
Net interest income	$ 8,527	$ (4,955)	$ 3,572	$ 18,734	$ (10,475)	$ 8,259

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 September 30, 2020 increased $3.6 million, or 18%, over the same period in 2019. Interest income on interest-earning assets totaled $28.7 million and $26.3 million for the three months ended September 30, 2020 and 2019, respectively. The increase in interest income earned was primarily the result of an increase in the average balances of loans receivable related to our growth and expansion strategy along with our participation in the PPP loan program. The increase in interest income on loans was partially offset by a decline in interest income related to the securities portfolio. The decline has been driven by an increase in prepayment speeds on mortgage-backed securities held in the investment portfolio resulting in an acceleration of premiums. Total interest expense for the three months ended September 30, 2020 decreased by $1.2 million, or 18%, to $5.6 million from $6.8 million for the same period in 2019. Interest expense on deposits decreased by $1.1 million, or 17%, for the three months ended September 30, 2020 versus the same period in 2019 due primarily to a decrease in the average rate on deposit balances. Interest expense on other borrowings decreased by $60,000 for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019 due to a decrease in the average rate on overnight borrowings.

Net interest income, on a fully tax-equivalent basis, a non-GAAP measure, for the nine months ended September 30, 2020 increased $8.3 million, or 14%, over the same period in 2019. Interest income on interest-earning assets totaled $84.2 million and $78.4 million for the nine months ended September 30, 2020 and 2019, respectively. The increase in interest income earned was primarily the result of an increase in the average balances of loans receivable related to our growth and expansion strategy along with our participation in the PPP loan program. The increase in interest income on loans was partially offset by a decline in interest income related to the securities portfolio. This decline has been driven by an increase in prepayment speeds on mortgage-backed securities held in the investment portfolio resulting in an acceleration of premiums. Total interest expense for the nine months ended September 30, 2020 decreased by $2.5 million, or 12%, to $17.6 million from $20.1 million for the same period in 2019. Interest expense on deposits decreased by $2.1 million, or 11%, for the nine months ended September 30, 2020 versus the same period in 2019 due primarily to a decrease in the average rate on deposit balances. Interest expense on other borrowings decreased by $388,000 for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019 due to a decrease in the average rate 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 2.11% during the three months ended September 30, 2020 compared to 2.52% during the three months ended September 30, 2019 and was 2.27% during the nine months ended September 30, 2020 compared to 2.60% during nine months ended September 30, 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 three months ended September 30, 2020 and September 30, 2019, the fully tax-equivalent net interest margin was 2.35% and 2.82%, respectively. The decrease in the net interest margin for the three months ended September 30, 2020 was a result of the challenging nature of the interest rate environment driven by a flat yield curve, actions taken by the Federal Reserve in the first quarter of 2020, and fixed rate 1.00% loans generated through PPP lending. For the nine months ended September 30, 2020 and September 30, 2019, the fully tax-equivalent net interest margin was 2.53% and 2.92%, respectively. The net interest margin for the nine months ended September 30, 2020 decreased primarily due to the challenging nature of the interest rate environment driven by a flat yield curve, actions taken by the Federal Reserve in the first quarter of 2020, and fixed rate 1.00% loans generated through PPP lending.

Provision for Loan Losses

We recorded an $850,000 provision for loan losses for the three months ended September 30, 2020 as compared to $450,000 provision for the three months ended September 30, 2019. We recorded a $2.8 million provision for loan losses for the nine months ended September 30, 2020 as compared to $750,000 for the nine months ended September 30, 2019. During the three and nine months ended September 30, 2020, there was an increase in the allowance required for loans collectively evaluated for impairment which has been adjusted for certain qualitative factors related to COVID-19, specifically those factors that account for the state of the economic environment that Republic is doing business in, as well as the nature of and concentration in certain credit types within the loan portfolio. 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 three and nine months ended September 30, 2020.

As a result of the recent changes in economic conditions, we have increased the qualitative factors for certain components of Republic'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 Republic, 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 September 30, 2020 increased $3.5 million, or 53%, compared to the three months ended September 30, 2019. Mortgage banking income totaled $5.0 million during the three months ended September 30, 2020 which represents an increase of $2.2 million from the same period in 2019. The increase in mortgage banking income has been driven by an increase in residential mortgage loan volumes. Lower interest rates have resulted in a significant increase in customer applications for refinancing and new home purchases. Loan and servicing fees totaled $917,000 for the three months ended September 30, 2020 which represents an increase of $660,000 from the same period in 2019. Service fees on deposit accounts totaled $2.1 million for the three months ended September 30, 2020 which represents an increase of $144,000 over the same period in 2019. This increase was due to the growth in the number of customer accounts and transaction volume. Gains of $279,000 were recognized on the sale of investment securities during the three months ended September 30, 2020 compared to gains of $520,000 on the sale of investment securities during the three months ended September 30, 2019. Gains on the sale of SBA loans totaled $649,000 for the three months ended September 30, 2020, a decrease of $295,000, compared to $944,000 for the same period in 2019.

Total non-interest income for the nine months ended September 30, 2020 increased $6.5 million, or 35%, compared to the nine months ended September 30, 2019. Mortgage banking income totaled $10.8 million for the nine months ended September 30, 2020, an increase of $2.8 million, compared to $8.0 million during the nine months ended September 30, 2019. The increase in mortgage banking income has been driven by an increase in residential mortgage loan volumes. Lower interest rates have resulted in a significant increase in customer applications for refinancing and new home purchases. Gains of $2.8 million were recognized on the sale of investment securities during the nine months ended September 30, 2020 compared to gains of $1.1 million on the sale of investment securities during the nine months ended September 30, 2019. Loan and servicing fees totaled $2.2 million for the nine months ended September 30, 2020 which represents an increase of $996,000 from the same period in 2019. Service fees on deposit accounts totaled $6.2 million for the nine months ended September 30, 2020 which represents an increase of $716,000 over the same period in 2019. This increase was due to the growth in the number of customer accounts and transaction volume. Gains on the sale of SBA loans totaled $1.6 million for the nine months ended September 30, 2020, a decrease of $1.0 million, compared to $2.6 million for the same period in 2019.

Non-Interest Expenses

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019

Non-interest expenses increased $5.8 million, or 21%, for the three months ended September 30, 2020 compared to 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 $282,000, or 2%, for the three months ended September 30, 2020 compared to the same period in 2019. Increases driven by new store openings have been offset by cost control initiatives which have had a positive effect on salary and benefit costs. There were thirty-one stores open as of September 30, 2020 compared to twenty-eight stores at September 30, 2019.

Occupancy expense, including depreciation and amortization expenses, increased by $790,000, or 17%, for the three months ended September 30, 2020 compared to the same period last year, as a result of our continuing growth and expansion strategy.

Other real estate expenses totaled $80,000 during the three months ended September 30, 2020, a decrease of $719,000, or 90%, compared to the same period in 2019. The decrease is related to lower costs on foreclosed assets as a result of a reduction in the number of OREO properties held in 2020 as compared to 2019.

All other non-interest expenses increased by $5.4 million, or 68%, for the three months ended September 30, 2020 compared to the same period last year. A goodwill impairment charge of $5.0 million was recorded in the third quarter of 2020. Other increases in regulatory assessments and costs, debit card processing, data processing, appraisal and other loan expenses, and other expenses resulting from our expansion strategy also contributed to the growth in other operating expenses.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

Non-interest expenses increased $10.5 million, or 13%, for the nine months ended September 30, 2020 compared to 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 $776,000, or 2%, for the nine months ended September 30, 2020 compared to the same period in 2019. Increases driven by new store openings have been offset by cost control initiatives which have had a positive effect on salary and benefit costs. There were thirty-one stores open as of September 30, 2020 compared to twenty-eight stores at September 30, 2019.

Occupancy expense, including depreciation and amortization expenses, increased by $3.4 million, or 26%, for the nine months ended September 30, 2020 compared to the same period last year, as a result of our continuing growth and expansion strategy.

Other real estate expenses totaled $437,000 during the nine months ended September 30, 2020, a decrease of $1.2 million, or 74%, compared to the same period in 2019. The decrease is related to lower costs on foreclosed assets as a result of a reduction in the number of OREO properties held in 2020 as compared to 2019.

All other non-interest expenses increased by $7.5 million, or 34%, for the nine months ended September 30, 2020 compared to the same period last year. A goodwill impairment charge of $5.0 million was recorded in the third quarter of 2020. Other increases in regulatory assessments and costs, debit card processing, data processing, appraisal and other loan expenses, and other expenses resulting from our expansion strategy also contributed to the growth in other operating expenses.

One key measure that management utilizes to monitor progress in controlling overhead expenses is the ratio of annualized net non-interest expenses to average assets, 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 months ended September 30, 2020, this ratio was 2.24% compared to 2.82% for the three months ended September 30, 2019. For the nine months ended September 30, 2020, the ratio was 2.21% compared to 2.70% for the nine months ended September 30, 2019, respectively. The decrease in this ratio was mainly due to the increase in average assets.

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. For the three months ended September 30, 2020, the operating efficiency ratio was 101.9% compared to 107.3% for the three months ended September 30, 2019. The efficiency ratio was 96.1% for the nine months ended September 30, 2019 compared to 100.8% for the nine months ended September 30, 2019. The decrease in this ratio for three and nine months ended September 30, 2020 was due to net interest income and non-interest income increasing at a faster rate than non-interest expenses.

Benefit for Income Taxes

We recorded a benefit for income taxes in the amount of $503,000 for the three months ended September 30, 2020, compared to a $516,000 benefit for the three months ended September 30, 2019. For the nine months ended September 30, 2020, we recorded a benefit for income taxes of $158,000 compared to a $319,000 benefit for the nine months ended September 30, 2019. The effective tax rates for the three months ended September 30, 2020 and 2019 were (34%) and (22%), respectively. For the nine months ended September 30, 2020 and 2019, the effective tax rates were (20%) and (24%), respectively. Differences in the effective tax rates are a result of the level of tax exempt interest income relative to pre-tax income (loss).

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 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.

Based on the guidance provided in ASC 740, we believed that the positive evidence considered at September 30, 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 $12.1 million as of September 30, 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 three months ended September 30, 2020 was $966,000, an increase of $856,000, compared to a net loss of $1.8 million recorded for the three months ended September 30, 2020. The net loss for the three months ended September 30, 2020 was primarily driven by goodwill impairment partially offset by participation in the PPP loan program and cost control measures implemented by management.

Net income for the nine months ended September 30, 2020 was $953,000, an increase of $2.0 million, compared to net loss of $1.0 million recorded for the nine months ended September 30, 2019. The increase in net income for the nine months ended September 30, 2020 was due to participation in the PPP loan program and cost control measures implemented by management partially offset by goodwill impairment.

For the three month period ended September 30, 2020, basic and fully-diluted net loss per common share was ($0.02) and for the three month period ended September 30, 2019, basic and fully-diluted net income per common share was ($0.03). For the nine month period ended September 30, 2020, basic and fully-diluted net income per common share was $0.02 and for the nine month period ended September 30, 2019, basic and fully-diluted net loss per common share was ($0.02).

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 three months ended September 30, 2020 was (0.09%), compared to (0.24%) for the three months ended September 30, 2019. The ROA for the nine months ended September 30, 2020 and 2019 was 0.03% and (0.05%), respectively. Return on average equity ("ROE") indicates how effectively we can generate net income on the capital invested by our shareholders. ROE is calculated by dividing annualized net income by average stockholders' equity. The ROE was (0.24%) for the three months September 30, 2020, compared to (2.88%) for the three months ended September 30, 2019. The ROE for the nine months ended September 30, 2020 and 2019 was 0.49% and (0.55%), respectively.

Commitments, Contingencies and Concentrations

Financial instruments with contract amounts representing potential credit risk were commitments to extend credit of approximately $388.7 million and $329.9 million, and standby letters of credit of approximately $18.4 million and $17.2 million, at September 30, 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 $407.1 million of commitments to extend credit at September 30, 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 September 30, 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 Federal Reserve 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 September 30, 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 September 30, 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 September 30, 2020:								
Total risk-based capital								
Republic	$ 292,585	12.72%	$ 183,998	8.00%	$ 241,497	10.50%	$ 229,997	10.00%
Company	322,285	13.98%	184,462	8.00%	242,106	10.50%	-	-%
Tier 1 risk-based capital								
Republic	280,734	12.21%	137,998	6.00%	195,498	8.50%	183,998	8.00%
Company	310,434	13.46%	138,346	6.00%	195,990	8.50%	-	-%
CET 1 risk-based capital								
Republic	280,734	12.21%	103,499	4.50%	160,998	7.00%	149,498	6.50%
Company	251,109	10.89%	103,760	4.50%	161,404	7.00%	-	-%
Tier 1 leveraged capital								
Republic	280,949	7.98%	140,749	4.00%	140,749	4.00%	175,937	5.00%
Company	302,938	8.81%	140,978	4.00%	140,978	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 on our common stock in 2020. Dividends payable on our Series A Preferred Stock are non-cumulative and will be paid, if and when declared by the Board of Directors, at the per annum rate of 7.00%, quarterly in arrears on March 1, June 1, September 1 and December 1 of each year. 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 $918.2 million at September 30, 2020, compared to $168.3 million at December 31, 2019. The increase is primarily driven by short-term borrowings provided by the PPPLF to fund the PPP loans. Loan maturities and repayments are another source of asset liquidity. At September 30, 2020, Republic estimated that more than $95.0 million of loans would mature or repay in the six-month period ending March 31, 2021. Additionally, a significant portion of our investment securities are available to satisfy liquidity requirements through sales on the open market or by pledging as collateral to access credit facilities. At September 30, 2020, we had outstanding commitments (including unused lines of credit and letters of credit) of $407.1 million. Certificates of deposit scheduled to mature in one year totaled $189.5 million at September 30, 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. Our maximum borrowing capacity with the FHLB was $1.0 billion at September 30, 2020. At September 30, 2020 and December 31, 2019, we had no outstanding term borrowings. At September 30, 2020, we had outstanding overnight borrowings of $646.3 million. The outstanding overnight borrowings of $646.3 million were repaid on October 1, 2020. We had no outstanding overnight borrowings at December 31, 2019. As of September 30, 2020, FHLB had issued letters of credit, on Republic's behalf, totaling $250.0 million against our available credit line as compared to $150.0 million as of December 31, 2019. 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 September 30, 2020 and December 31, 2019.

Investment Securities Portfolio

At September 30, 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 SBA bonds, CMOs, MBSs, municipal securities, and corporate bonds. Available for sale securities totaled $440.7 million and $539.0 million as of September 30, 2020 and December 31, 2019, respectively. At September 30, 2020, securities classified as available for sale had a net unrealized gain of $198,000 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 September 30, 2020. Individual customers may have several loans often secured by different collateral.

During the second and third quarters of 2020 we participated in the PPP loan program which had a significant effect on outstanding loan balances as of September 30, 2020. We viewed this program as an opportunity to not only assist existing small business customers throughout our footprint during this extraordinary time of need, but to provide assistance to non-customers as well. We obtained approval from the SBA for more than 5,100 loan applications which resulted in an increase in $683 million in outstanding loans at September 30, 2020. Almost all of these loans have a two year maturity, but most are expected to be forgiven by the SBA and repaid much earlier than the stated maturity date. These loans have an interest rate of 1.00% and included an origination fee paid by the SBA between 1% and 5% of the loan balance. Gross origination fees of approximately $23 million were earned by Republic which will be amortized and reported as interest income over the life of the loans. After deduction of deferred costs and fees related to the PPP program, $15 million of net revenue has been deferred and will be recognized as income in future periods. The Federal Reserve Bank has established the PPPLF program to provide funding for the PPP loans which, if utilized, results in exclusion of the PPP asset balances from the regulatory leverage ratio calculation.

Credit Quality

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

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

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

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

	September 30, 2020	December 31, 2019
Loans accruing, but past due 90 days or more	$ -	$ -
Non-accrual loans	12,449	12,413
Total non-performing loans	12,449	12,413
Other real estate owned	1,113	1,730
Total non-performing assets	$ 13,562	$ 14,143
Non-performing loans as a percentage of total loans, net of unearned income	0.47%	0.71%
Non-performing assets as a percentage of total assets	0.27%	0.42%

Non-performing asset balances decreased by $581,000 to $13.6 million as of September 30, 2020 from $14.1 million at December 31, 2019. Non-accrual loans remained relatively flat at $12.4 million at September 30, 2020 compared to December 31, 2019. There were no loans accruing, but past due 90 days or more at both September 30, 2020 and December 31, 2019. At September 30, 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 downturn 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 had 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 September 30, 2020 and December 31, 2019.

(dollars in thousands)	September 30, 2020	December 31, 2019
30 to 59 days past due	$ 1,025	$ 112
60 to 89 days past due	858	1,823
Total loans 30 to 89 days past due	$ 1,883	$ 1,935

Loans with payments 30 to 89 days past due decreased to $1.9 million at September 30, 2020. Payment deferrals were granted to customers in the third quarter of 2020 that made requests and had an immediate need for assistance. Through the date of issuance, more than 89% of the customers that were granted approval for deferral of loan payments have resumed the originally scheduled payment of their outstanding loans.

Other Real Estate Owned

The balance of other real estate owned was $1.1 million at September 30, 2020 and $1.7 million at December 31, 2019. The following table presents a reconciliation of other real estate owned for the nine months ended September 30, 2020 and the year ended December 31, 2019:

(dollars in thousands)	September 30, 2020	December 31, 2019
Beginning Balance, January 1st	$ 1,730	$ 6,223
Additions	-	1,225
Valuation adjustments	(31)	(646)
Dispositions	(586)	(5,072)
Ending Balance	$ 1,113	$ 1,730

At September 30, 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 nine months ended September 30, 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*. PPP loans are fully guaranteed by the US Government and as such have no allowance associated with them. 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 allowance for non-impaired loans includes increasing qualitative factors for considerations related to COVID-19, specifically those factors that account for the state of the economic environment that Republic is doing business in, as well as the nature of and concentration in certain credit types within the loan portfolio.

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 nine months ended September 30, 2020 and 2019, and the twelve months ended December 31, 2019 is as follows:

(dollars in thousands)	**For the nine months ended September 30, 2020**	**For the twelve months ended December 31, 2019**	**For the nine months ended September 30, 2019**
Balance at beginning of period	$ 9,266	8,615	$ 8,615
Charge-offs:			
Commercial real estate	-	-	-
Construction and land development	-	-	-
Commercial and industrial	84	1,356	1,002
Owner occupied real estate	48	-	-
Consumer and other	67	126	117
Residential mortgage	67	-	-
Paycheck protection program	-	-	-
Total charge-offs	266	1,482	1,119
Recoveries:			
Commercial real estate	-	-	-
Construction and land development	2	-	-
Commercial and industrial	38	217	213
Owner occupied real estate	1	2	1
Consumer and other	10	9	7
Residential mortgage	-	-	-
Paycheck protection program	-	-	-
Total recoveries	51	228	221
Net charge-offs/(recoveries)	215	1,254	898
Provision for loan losses	2,800	1,905	750
Balance at end of period	$ 11,851	9,266	$ 8,467
Average loans outstanding(1)	$ 2,255,283	1,544,904	$ 1,506,482
As a percent of average loans:(1)			
Net charge-offs (annualized)	0.01%	0.08%	0.08%
Provision for loan losses (annualized)	0.17%	0.12%	0.07%
Allowance for loan losses	0.53%	0.60%	0.56%
Allowance for loan losses to:			
Total loans, net of unearned income	0.45%	0.53%	0.54%
Total non-performing loans	95.20%	74.65%	70.25%

(1)Includes non-accruing loans.

We recorded a provision for loan losses of $850,000 for the three month period ended September 30, 2020 and $2.8 million for the nine months ended September 30, 2020. We recorded a provision for loan losses of $450,000 for the three month period ended September 30, 2019 and $750,000 for the nine months ended September 30, 2019. During the first nine months of 2020, there was an increase in the allowance required for loans collectively evaluated for impairment.

The allowance for loan losses as a percentage of non-performing loans (coverage ratio) was 95.2% at September 30, 2020, compared to 74.7% at December 31, 2019 and 70.3% at September 30, 2019. Total non-performing loans were $12.4 million, $12.4 million, and $12.1 million at September 30, 2020, December 31, 2019 and September 30, 2019, respectively.

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

We evaluate loans for impairment and potential charge-offs on a quarterly basis. Any loan rated as substandard or lower will have a collateral evaluation analysis completed in accordance with the guidance under 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 $4.2 million at September 30, 2020 and $3.6 million December 31, 2019.

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

(dollars in thousands)	September 30, 2020	December 31, 2019
Total nonperforming loans	$ 12,449	$ 12,413
Nonperforming and impaired loans with partial charge-offs	4,237	3,642
Ratio of nonperforming loans with partial charge-offs to total loans	0.16%	0.21%
Ratio of nonperforming loans with partial charge-offs to total nonperforming loans	34.03%	29.34%
Coverage ratio net of nonperforming loans with partial charge-offs	279.70%	254.42%

Our charge-off policy is reviewed on an annual basis and updated as necessary. During the nine month period ended September 30, 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 September 30, 2019 that have materially affected or which are reasonably likely to materially affect Internal Control. Based on that evaluation, there has been no such change during the quarter ended September 30, 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, as supplemented by the risk factors included in Part II, Item 1A. Risk Factors in the Company's Form 10-Q for the quarter ended June 30, 2020. You should carefully consider these risk factors. The risks described in the Company's Form 10-K and Form 10-Q are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

Exhibit Number	Description	Location
3.1	Amended and Restated Articles of Incorporation of Republic First Bancorp, Inc.	Incorporated by reference to Form 10-K filed March 10, 2017
3.2	Amended and Restated By-laws of Republic First Bancorp, Inc.	Incorporated by reference to Form 10-Q filed May 11, 2020
4.1	Statement with Respect to Shares regarding 7% Perpetual Non-Cumulative, Convertible Preferred Stock, Series A	Incorporated by reference to Form 8-K filed August 21, 2020
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 September 30, 2020, formatted in Inline XBRL; (i) Consolidated Balance Sheets as of September 30, 2020 and December 31, 2019, (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2020 and 2019, (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2020 and 2019, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2020 and 2019, (v) Consolidated Statements of Changes in Shareholders' Equity for the three and nine months ended September 30, 2020 and 2019, and (vi) Notes to Consolidated Financial Statements.	
104	The cover page of Republic First Bancorp, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in Inline XBRL (contained in Exhibit 101)	

SIGNATURES

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

REPUBLIC FIRST BANCORP, INC.

Date: November 9, 2020	By:	/s/ Harry D. Madonna Harry D. Madonna President and Chief Executive Officer (principal executive officer)
Date: November 9, 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-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 September 30, 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: November 9, 2020	/s/ Harry D. Madonna President and Chief Executive Officer

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Section 3: 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 September 30, 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: November 9, 2020 /s/ Frank A. Cavallaro
Executive Vice President and Chief Financial Officer

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Section 4: 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 September 30, 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: November 9, 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 5: 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 September 30, 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: November 9, 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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