REPUBLIC FIRST BANCORP INC
Form 10-K
March 14, 2018

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

FORM 10-K
(Mark One)
[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2017.
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)

Registrant's telephone number, including area code 215-735-4422

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES [ ] NO [X]
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES [ ] NO [X]
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months. YES [X] NO [ ]
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]
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 [X]
Non-Accelerated filer [ ] (Do not check if a smaller reporting company)	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 [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates was $476,561,351 based on the last sale price on Nasdaq Global Market on June 30, 2017.

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

Common Stock, par value $0.01 per share	57,017,439
Title of Class	Number of Shares Outstanding as of March 9, 2018

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for its 2018 Annual Meeting of Shareholders, which Definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended December 31, 2017, are incorporated by reference into Part III of this Form 10-K; provided, however, that the Compensation Committee Report, the Audit Committee Report and any other information in such proxy statement that is not required to be included in this Annual Report on Form 10-K, shall not be deemed to be incorporated herein by reference or filed as a part of this Annual Report on Form 10-K.

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PART I

Item 1: Business

Throughout this Annual Report on Form 10-K, the registrant, Republic First Bancorp, Inc., is referred to as the "Company" or as "we," "our" or "us". The Company's website address is www.myrepublicbank.com. The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other documents filed by the Company with the United States Securities and Exchange Commission ("SEC") are available free of charge on the Company's website under the Investor Relations menu. Such documents are available on the Company's website as soon as reasonably practicable after they have been filed electronically with the SEC.

Forward Looking Statements

This document contains "forward-looking statements," as that term is defined in the U.S. Private Securities Litigation Reform Act of 1995. These statements can be identified by reference to a future period or periods or by the use of words such as "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. These forward-looking statements include, among others: statements of goals, intentions and expectations, statements regarding the impact of accounting pronouncements, statements regarding prospects and business strategy, statements regarding allowance for loan losses, asset quality and market risk and estimates of future costs, benefits and results.

Forward-looking statements 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, and in addition to the "Risk Factors" discussed elsewhere in this Form 10-K, risks and uncertainties can arise with changes in or related to:

- general economic conditions, including turmoil in the financial markets and related efforts of government agencies to stabilize the financial system;
- the adequacy of our allowance for loan losses and our methodology for determining such allowance;
- adverse changes in our loan portfolio and credit risk-related losses and expenses;
- concentrations within our loan portfolio, including our exposure to commercial real estate loans, and to our primary service area;
- changes in interest rates;
- business conditions in the financial services industry, including competitive pressure among financial services companies, new service and product offerings by competitors, price pressures and similar items;
- deposit flows;
- loan demand;

- the regulatory environment, including evolving banking industry standards and changes in legislation or regulation;
- our securities portfolio and the valuation of our securities;
- accounting principles, policies and guidelines as well as estimates and assumptions used in the preparation of our financial statements;
- rapidly changing technology;
- litigation liabilities, including costs, expenses, settlements and judgments; and
- other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's beliefs only as of the date hereof. Except as required by applicable law or regulation, we do not undertake, and specifically disclaim any obligation, to update or revise any forward-looking statements to reflect any changed assumptions, any unanticipated events or any changes in the future. Significant factors which could have an adverse effect on the operations and future prospects of the Company are detailed in the "Risk Factors" section included under Item 1A of Part I of this Annual Report on Form 10-K. Readers should carefully review the risk factors included in this Annual Report on Form 10-K and in other documents the Company files from time to time with the SEC.

General

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, and we may refer to as Republic or the Bank throughout this document. Republic offers a variety of credit and depository banking services. Such services are offered to individuals and businesses primarily in the Greater Philadelphia and Southern New Jersey area through their offices and branches in Philadelphia, Montgomery, and Delaware Counties in Pennsylvania and Camden, Burlington, and Gloucester Counties in New Jersey.

Historically, our primary objective had been to position ourselves as an alternative to the large financial institutions for commercial banking services in the Greater Philadelphia and Southern New Jersey region. However, in 2008, we made an important and strategic shift in our business approach, redirecting our efforts toward the creation of a major retail bank that would meet an important need in our existing marketplace. Focused on delivering high levels of customer service and satisfaction, driving innovation, developing a bold brand and creating shareholder value, Republic Bank sought to offer a banking experience that would turn customers into Fans. As other banks began to turn toward automation for growth, Republic Bank took a different approach and chose not only to embrace advances in technology, but to also define itself by the personal touch.

To achieve such a transformation, we recruited several key banking executives who had previously served in leadership roles at Commerce Bank, upon which this business model draws inspiration. With a strong management team in place, along with adequate capital resources to support this revitalized vision, we began to build a unique brand with the goal of establishing ourselves as a premier financial institution in the Philadelphia metropolitan area.

An important part of that strategic shift toward creating a retail and customer focused bank was the decision in 2010 to rebrand our stores from Republic First Bank to Republic Bank, which had been the name under which we had initially incorporated and operated from 1988-1996. In support of that rebrand, we also renovated and remodeled the majority of our existing branches which refer to and operate as stores. Further, we embraced critical service changes that reframed the Republic Bank brand and experience in the eyes of the consumer to include expanded hours, absolutely free checking, free coin counting, no ATM surcharges, mobile banking and much more.

On the lending side, we also shifted away from our historic approach, which was primarily focused on business banking and isolated commercial lending transactions, in particular commercial real estate loans. While restructuring our loan portfolio and deemphasizing the origination of commercial real estate loans, we also undertook a detailed review of our more significant credit relationships. This review allowed us to reduce exposure, enhance our allowance for loan loss methodology and commit to originate fewer commercial real estate loans in an effort to reduce our credit concentrations in that particular category.

In December 2011, we completed the sale of several distressed commercial real estate loans and foreclosed properties to a single investor. This transaction dramatically reduced our non-performing asset balances and significantly improved our credit quality metrics. This loan sale was a cornerstone transaction in the transformation of Republic Bank.

With these significant changes implemented, Republic Bank was then well-positioned to execute an aggressive expansion plan which was given the title, "The Power of Red is Back." To support this growth strategy, we completed the sale of $45 million of common stock through a private placement offering in April 2014 which provided the necessary capital to implement our aggressive expansion plan.

During 2016, we expanded our product offerings through the addition of a residential mortgage lending team. We acquired Oak Mortgage Company in July 2016 and Oak Mortgage became a wholly owned subsidiary of the Bank. Oak Mortgage is headquartered in Marlton, NJ and is licensed to do business in Pennsylvania, Delaware, New Jersey, and Florida providing our customers with new opportunities in the residential lending market. The Oak Mortgage team is a tremendous fit for Republic's commitment to extraordinary customer service and has proven to be a perfect complement to the Bank's network of store locations.

To strengthen our capital position and prepare for the next stage of growth and expansion, we completed a capital raise in the amount of $100 million through a registered direct offering of our common stock in December 2016. At the same time, Vernon W. Hill, II became a member of the Board of Directors and was appointed Chairman of Republic First Bancorp, Inc. He has been a major investor and consultant to Republic since 2008. Mr. Hill is often credited with reinventing the concept of Retail Banking. He was the Founder and Chairman of Commerce Bancorp, a $50 billion Retail Bank headquartered in metro Philadelphia, which grew to 450 locations along the east coast before its sale in 2007. He is also the Founder and Chairman of Metro Bank (UK), which is the first new Retail high street bank opened in Britain since 1840 and in just seven years has grown to more than $22 billion in assets and 55 locations.

The aggressive expansion plan has produced strong results and continues to build momentum. Over the last four years we have opened twelve new stores using our signature glass building. During 2017, we expanded our store network in Southern New Jersey by opening three new locations in Cherry Hill, Sicklerville, and Medford. There are several other locations in various stages of approval and development for future openings.

As of December 31, 2017, we had total assets of approximately $2.3 billion, total shareholders' equity of approximately $226.5 million, total deposits of approximately $2.1 billion, net loans receivable of approximately $1.2 billion, and net income of $8.9 million. We have one reportable segment: community banking. The community bank segment primarily encompasses the commercial loan and deposit activities of Republic, as well as residential mortgage and other consumer loan products in the area surrounding its stores. We provide banking services through the Bank, and do not presently engage in any activities other than traditional banking activities.

Republic Bank

Republic is a commercial bank chartered pursuant to the laws of the Commonwealth of Pennsylvania, and is subject to examination and comprehensive regulation by the Federal Deposit Insurance Corporation (FDIC) and the Pennsylvania Department of Banking and Securities. The deposits held by the Bank are insured, up to applicable limits, by the Deposit Insurance Fund of the FDIC.

Service Area / Market Overview

Our primary service area consists of Greater Philadelphia and Southern New Jersey. We presently conduct our principal banking activities through twenty-two branch locations which are commonly referred to as "stores" throughout this document to reflect our retail oriented approach to customer service and convenience. Eleven of these stores are located in Philadelphia and the surrounding suburbs of Plymouth Meeting, Bala Cynwyd, Wynnewood, Abington, and Media in Pennsylvania. There are also eleven stores located in the Southern New Jersey market in Haddonfield, Voorhees, Glassboro, Marlton, Berlin, Washington Township, Moorestown, Sicklerville, Medford and Cherry Hill (2). Our commercial lending activities extend beyond our primary service area, to include other counties in Pennsylvania and New Jersey, as well as parts of Delaware, Maryland, New York and other out-of-market opportunities. Our residential lending activities also extend outside of our primary service area, to include other counties in Pennsylvania and New Jersey, as well as Delaware and Florida through our subsidiary Oak Mortgage.

Competition

We face substantial competition from other financial institutions in our service area. Competitors include Wells Fargo, BB&T, Citizens, PNC, Santander, TD Bank, and Bank of America, as well as many local community banks. In addition, we compete directly with savings banks, savings and loan associations, finance companies, credit unions, mortgage brokers, insurance companies, securities brokerage firms, mutual funds, money market funds, private lenders and other institutions for deposits, commercial loans, mortgages and consumer loans, as well as other services. Competition among financial institutions is based upon a number of factors, including the quality of services rendered, interest rates offered on deposit accounts, interest rates charged on loans and other credit services, service charges, the convenience of banking facilities, locations and hours of operation and, in the case of loans to larger commercial borrowers, applicable lending limits. Many of the financial institutions with which we compete have greater financial resources than we do, and offer a wider range of deposit and lending products.

Our legal lending limit to one borrower was approximately $28.5 million at December 31, 2017. Loans above this amount may be made if the excess over the lending limit is participated to other institutions. We are subject to potential intensified competition from new branches of established banks in the area as well as new banks that could open in our market area. There are banks and other financial institutions, which serve surrounding areas, and additional out-of-state financial institutions, which currently, or in the future, may compete in our market. We compete to attract deposits and loan applications both from customers of existing institutions and from customers new to our market and we anticipate a continued increase in competition in our service area.

We believe that an attractive niche exists serving small to medium sized business customers not adequately served by our larger competitors, and we will seek opportunities to build commercial relationships to complement our retail strategy. We believe small to medium-sized businesses will continue to respond in a positive manner to the attentive and highly personalized service we provide.

Products and Services

We offer a range of competitively priced banking products and services, including consumer and commercial deposit accounts, checking accounts, interest-bearing demand accounts, money market accounts, certificates of deposit, savings accounts, sweep accounts, lockbox services and individual retirement accounts and other traditional banking services, secured and unsecured commercial loans, real estate loans, construction and land development loans, automobile loans, home improvement loans, mortgages, home equity and overdraft lines of credit, and other products. We attempt to offer a high level of personalized service to both our retail and commercial customers.

We also maintain a Small Business Lending team that specializes in the origination of loans guaranteed by the U.S. Small Business Administration ("SBA") to provide much needed credit to small businesses throughout our service area. This team has developed into one of the top lenders under the SBA program in our region. For the last several years they have been ranked as one of the top SBA lenders in the tri-state market of Pennsylvania, New Jersey and Delaware based on the dollar volume of loan originations.

We are members of the STAR™ and PLUS™ automated teller (ATM) networks, and Allpoint - America's Largest Surcharge Free ATM Network which enable us to provide our customers with free access to more than 55,000 ATMs worldwide. We currently have twenty-two proprietary ATMs located in our store network.

Our lending activities generally are focused on small and medium sized businesses within the communities that we serve. Commercial real estate loans represent the largest category within our loan portfolio, amounting to approximately 37% of total loans outstanding at December 31, 2017. Repayment of these loans is, in part, dependent on general economic conditions affecting our customers and various businesses within the community. As a commercial lender, we are subject to credit risk. Economic and financial conditions could have an adverse effect on the ability of our borrowers to repay their loans. To manage the challenges that the economic environment may present we have adopted a conservative loan classification system, continually review and enhance our allowance for loan loss methodology, and perform a comprehensive review of our loan portfolio on a regular basis.

With the addition of Oak Mortgage Company in 2016, we are now able to offer residential mortgage loan products to customers in Pennsylvania, New Jersey, Delaware, and Florida. A majority of the residential loans originated are currently sold on the secondary market shortly after closing. Oak Mortgage follows the established underwriting policies and guidelines of third party vendors with whom loans are being sold to maintain compliance, but credit risk still exists in the portfolio. Repayment of residential loans held in the portfolio is, in part, dependent on general economic conditions affecting our customers.

Although management follows established underwriting policies and closely monitors loans through Republic's loan review officer, credit risk is still inherent in the portfolio. The majority of Republic's loan portfolio is collateralized with real estate or other collateral; however, a portion of the commercial portfolio is unsecured, representing loans made to borrowers considered to be of sufficient financial strength to merit unsecured financing. Republic makes both fixed and variable rate commercial loans with terms typically ranging from one to five years. Variable rate loans are generally tied to the national prime rate of interest.

Store Expansion Plans and Growth Strategy

We will carefully evaluate growth opportunities throughout 2018 and beyond. Renovation and refurbishment of all existing store locations took place during 2009. The Bank also opened three new stores located in Cherry Hill, Medford, and Sicklerville NJ utilizing our new and distinctive prototype building in 2017. The Bank anticipates the continuation of its expansion strategy through the opening of additional new stores in 2018. Relocation of other existing store locations may also occur in the future as we continue to enhance our brand and focus on constantly improving the customer experience. The opening and relocation of these stores is subject to regulatory approval.

The addition of Oak Mortgage in July 2016 provides us with new growth opportunities in the residential lending market. Oak Mortgage is licensed to do business in Pennsylvania, New Jersey, Delaware, and Florida and gives us the ability to serve both new and existing customers throughout our store network.

Securities Portfolio

We maintain an investment securities portfolio. We purchase investment securities that are in compliance with our investment policies, which are approved annually by our Board of Directors. The investment policies address such issues as permissible investment categories, credit quality, maturities and concentrations. At December 31, 2017 and 2016, approximately 90% and 86%, respectively, of the aggregate dollar amount of the investment securities consisted of either U.S. government debt securities or U.S. government agency issued mortgage-backed securities. Credit risk associated with these U.S. government debt securities and the U.S. government agency securities is minimal, with risk-based capital weighting factors of 0% and 20%, respectively. The remainder of the securities portfolio consists of municipal securities, pooled trust preferred securities, corporate bonds, asset-backed securities, and Federal Home Loan Bank (FHLB) capital stock.

Supervision and Regulation

General

Republic, as a Pennsylvania state chartered bank, is not a member of the Federal Reserve System ("Federal Reserve") and is subject to supervision and regulation by the FDIC and the Pennsylvania Department of Banking and Securities. Our bank holding company is subject to supervision and regulation by the Board of Governors of the Federal Reserve under the Federal Bank Holding Company Act of 1956, as amended ("BHC Act"). As a bank holding company, our activities and those of Republic are limited to the business of banking and activities closely related or incidental to banking, and we may not directly or indirectly acquire the ownership or control of more than 5% of any class of voting shares or substantially all of the assets of any company, including a bank, without the prior approval of the Federal Reserve.

We are subject to extensive requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged thereon, and limitations on the types of investments that may be made and the types of services that may be offered. Various federal and state consumer laws and regulations also affect the operations of Republic. In addition to the impact of regulation, commercial banks are affected significantly by the actions of the Federal Reserve attempting to control the money supply and credit availability in order to influence market interest rates and the national economy.

The following discussion summarizes certain banking laws and regulations that affect us and Republic.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

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

- Increased Capital Standards and Enhanced Supervision. The federal banking agencies established minimum leverage and risk-based capital requirements for banks and bank holding companies. These new standards are summarized under "Capital Adequacy" below. The Dodd-Frank Act also requires capital requirements to be countercyclical such that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction consistent with safety and soundness.
- The Consumer Financial Protection Bureau ("CFPB"). The Dodd-Frank Act created the CFPB within the Federal Reserve. The CFPB is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The CFPB has broad rulemaking, supervisory and enforcement powers for a wide range of consumer protection laws applicable to banks with greater than $10 billion or more in assets. Smaller institutions will be subject to rules promulgated by the CFPB, but will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are more stringent than those regulations promulgated by the CFPB and state attorneys general are permitted to enforce consumer protection rules adopted by the CFPB against state-chartered institutions.
- Corporate Governance. The Dodd-Frank Act requires publicly traded companies to provide their shareholders with 1) a non-binding shareholder vote on executive compensation; 2) a non-binding shareholder vote on the frequency of such vote; 3) disclosure of "golden parachute" arrangements in connection with specified change in control transactions; and 4) a non-binding shareholder vote on golden parachute arrangements in connection with these change in control transactions.

- Deposit Insurance. The Dodd-Frank Act permanently increased the maximum deposit insurance amount to $250,000 for insured deposits. Amendments to the Federal Deposit Insurance Act, which were mandated by the Dodd-Frank Act, have revised the assessment base against which an insured depository institution's deposit insurance premiums paid to the Deposit Insurance Fund ("DIF") are calculated. Under the amendments, the assessment base is no longer the institution's deposit base, but rather its average consolidated total assets less its average tangible equity during the assessment period. Additionally, the Dodd-Frank Act made changes to the minimum designated reserve ratio of the DIF, by increasing the minimum from 1.15 percent to 1.35 percent of the estimated amount of total insured deposits by 2020 and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. The Dodd- Frank Act also provided that, effective July 21, 2011, depository institutions may pay interest on demand deposits. For further discussion of deposit insurance regulatory matters, see "Deposit Insurance and Assessments" below.

• Transactions with Affiliates. Under federal law, we are subject to restrictions that limit certain types of transactions between Republic and its non-bank affiliates. In general, we are subject to quantitative and qualitative limits on extensions of credit, purchases of assets and certain other transactions involving us and our non-bank affiliates. Transactions between Republic and its non-bank affiliates are required to be on arms length terms. The Dodd-Frank Act enhanced the requirements for certain transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including expanding the definition of "covered transactions" and "affiliates," as well as increasing the amount of time for which collateral requirements regarding covered transactions must be maintained.
• Transactions with Insiders. Under the Dodd-Frank Act, insider transaction limitations are expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivative transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions have also been placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, if representing more than 10% of capital, approved by the institution's board of directors.
• Holding Company Capital Levels. The Dodd-Frank Act requires bank regulators to establish minimum capital levels for holding companies that are at least as stringent as those applicable to depository institutions. All trust preferred securities, or TRUPs, issued prior to May 19, 2010 by bank holding companies with less than $15 billion in assets are permanently grandfathered in Tier 1 capital, subject to a limitation of 25% of Tier 1 capital.

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

Gramm-Leach-Bliley Act

The federal Gramm-Leach-Bliley Act (the "GLB Act"), enacted in 1999, repealed the key provisions of the Glass Steagall Act so as to permit commercial banks to affiliate with investment banks (securities firms). It also amended the BHC Act to permit qualifying bank holding companies to engage in many types of financial activities that were not permitted for banks themselves and permitted subsidiaries of banks to engage in a broad range of financial activities that were not permitted for themselves.

The result was to permit banking companies to offer a wider range of financial products and services to combine with other types of financial companies, such as securities and insurance companies. The impact of the GLB Act has, however, now been substantially limited by the Dodd-Frank Act and regulations issued by the Federal Reserve thereunder, specifically the so-called "Volcker Rule," which will limit the ability of banks and their affiliates to invest in, or to engage in, non-banking activities for their own account.

The GLB Act created a new type of bank holding company called a "financial holding company" ("FHC"). An FHC is authorized to engage in any activity that is "financial in nature or incidental to financial activities" and any activity that the Federal Reserve determines is "complementary to financial activities" and does not pose undue risks to the financial system. Among other things, "financial in nature" activities include securities underwriting and dealing, insurance underwriting and sales, and certain merchant banking activities. A bank holding company qualifies to become an FHC if each of its depository institution subsidiaries is "well capitalized," "well managed," and has a rating under the Community Reinvestment Act ("CRA") of "satisfactory" or better. A qualifying bank holding company becomes an FHC by filing with the Federal Reserve an election to become an FHC. We have not elected to become an FHC. Bank holding companies that do not qualify or elect to become FHCs will be limited in their activities to those previously permitted by law and regulation.

In addition, the GLB Act provided significant new protections for the privacy of customer information. These provisions apply to any company the business of which is engaging in activities permitted for an FHC, even if it is not itself an FHC. The GLB Act subjected a financial institution to four new requirements regarding non-public information about a customer. The financial institution must: adopt and disclose a privacy policy; give customers the right to "opt out" of disclosures to non-affiliated parties; not disclose any information to third party marketers; and follow regulatory standards to protect the security and confidentiality of customer information.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") comprehensively revised the laws affecting corporate governance, auditing and accounting, executive compensation and corporate reporting for entities, such as us, with equity or debt securities registered under the Exchange Act. Among other things, Sarbanes-Oxley and its implementing regulations have established new membership requirements and additional responsibilities for our audit committee, imposed restrictions on the relationship between us and our outside auditors (including restrictions on the types of non-audit services our auditors may provide to us), imposed additional responsibilities for our external financial statements on our chief executive officer and chief financial officer, and expanded the disclosure requirements for our corporate insiders. The requirements are intended to allow shareholders to more easily and efficiently monitor the performance of companies and directors.

Regulatory Restrictions on Dividends

Dividend payments by Republic to the holding company are subject to the Pennsylvania Banking Code of 1965 ("Banking Code") and the Federal Deposit Insurance Act ("FDIA"). Under the Banking Code, no dividends may be paid except from "accumulated net earnings" (generally, undivided profits). Under the FDIA, an insured bank may pay no dividends if the bank is in arrears in the payment of any insurance assessment due to the FDIC. Under the Banking Code, Republic would be limited to $34.5 million of dividends payable plus an additional amount equal to its net profit for 2018, up to the date of any such dividend declaration. However, dividends would be further limited in order to maintain capital ratios as discussed in "Capital Adequacy".

Federal regulatory authorities have adopted standards for the maintenance of adequate levels of regulatory capital by banks. Adherence to such standards further limits the ability of Republic to pay dividends to us.

Dividend Policy

We have not paid any cash dividends on our common stock, and have no plans to pay any cash dividends in 2018 or in the foreseeable future. See Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities of this Form 10-K for more information.

Deposit Insurance and Assessments

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The deposits of Republic are insured up to applicable limits per insured depositor by the FDIC. As noted above, pursuant to the Dodd-Frank Act, the maximum deposit insurance amount has been permanently increased to $250,000.

As an FDIC-insured bank, Republic is subject to FDIC insurance assessments. The FDIC regulations assess insurance premiums for small insured depository institutions based on a risk-based assessment system. Under this assessment system, the FDIC evaluates the risk of each financial institution based on regulatory capital ratios and other supervisory factors. The rules base assessments on an institution's average consolidated total assets less its average tangible equity, as opposed to total deposits.

The FDIC has authority to increase insurance assessments. Any future increase in insurance premiums may adversely affect our results of operations.

The Dodd-Frank Act also requires the FDIC to take such steps as are necessary to increase the reserve ratio of the DIF from 1.15% to 1.35% of insured deposits by 2020. The FDIC has issued rules regarding the method to be used to achieve a 1.35% reserve ratio by 2020 and offset the effect on institutions with assets less than $10 billion in assets.

All FDIC-insured depository institutions pay an annual assessment to provide funds for the payment of interest on bonds issued by the Financing Corporation, a federal corporation chartered under the authority of the Federal Housing Finance Board. The bonds, commonly referred to as Financing Corporation ("FICO") bonds, were issued to capitalize the Federal Savings and Loan Insurance Corporation. These assessments will continue until the FICO bonds mature in 2017 through 2019.

Capital Adequacy

The Federal Reserve has issued risk-based and leverage capital rules applicable to U.S. banking organizations such as the Company and Republic. These guidelines are intended to reflect the relationship between the banking organization's capital and the degree of risk associated with its operations based on transactions recorded on-balance sheet as well as off-balance sheet items. The Federal Reserve may from time to time require that a banking organization maintain capital above the minimum levels discussed below, due to the banking organization's financial condition or actual or anticipated growth.

The capital adequacy rules define qualifying capital instruments and specify minimum amounts of capital as a percentage of assets that banking organizations are required to maintain. Common equity Tier 1 capital generally includes common stock and related surplus, retained earnings and, in certain cases and subject to certain limitations, minority interest in consolidated subsidiaries, less goodwill, other non-qualifying intangible assets and certain other deductions. Tier 1 capital for banks and bank holding companies generally consists of the sum of common equity Tier 1 elements, non-cumulative perpetual preferred stock, and related surplus in certain cases and subject to limitations, minority interests in consolidated subsidiaries that do not qualify as common equity Tier 1 capital, less certain deductions. Tier 2 capital generally consists of hybrid capital instruments, perpetual debt and mandatory convertible debt securities, cumulative perpetual preferred stock, term subordinated debt and intermediate-term preferred stock, and, subject to limitations, allowances for loan losses. The sum of Tier 1 and Tier 2 capital less certain required deductions represents qualifying total risk-based capital. Prior to the effectiveness of certain provisions of the Dodd-Frank Act, bank holding companies were permitted to include trust preferred securities and cumulative perpetual preferred stock in Tier 1 capital, subject to limitations. However, the Federal Reserve's capital rule applicable to bank holding companies permanently grandfathers non-qualifying capital instruments, including trust preferred securities, issued before May 19, 2010 by depository institution holding companies with less than $15 billion in total assets as of December 31, 2009, subject to a limit of 25% of Tier 1 capital. In addition, under rules that became effective January 1, 2015, accumulated other comprehensive income (positive or negative) must be reflected in Tier 1 capital; however, we were permitted to make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. We have made this election.

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 the Federal Reserve's 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 new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity Tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The capital conservation buffer, which is composed of common equity Tier 1 capital, began on January 1, 2016 at the 0.625% level and will be phased in over a three year period (increasing by that amount on each January 1, until it reaches 2.5% on January 1, 2019). Implementation of the deductions and other adjustments to common equity Tier 1 capital began on January 1, 2015 and will be phased-in over a three-year period (beginning at 40% on January 1, 2015, 60% on January 1, 2016 and an additional 20% per year thereafter).

The following table shows the required capital ratios with the conservation buffer over the phase-in period.

	Basel III Community Banks Minimum Capital Ratio Requirements			
	2016	2017	2018	2019
Common equity Tier 1 capital (CET1)	5.125%	5.750%	6.375%	7.000%
Tier 1 capital (to risk weighted assets)	6.625%	7.250%	7.875%	8.500%
Total capital (to risk-weighted assets)	8.625%	9.250%	9.875%	10.500%

Republic is considered "well capitalized" under the FDIC's prompt corrective action rules and the Company is considered "well capitalized" under the Federal Reserve's rules applicable to bank holding companies.

The risk-based capital standards are required to take adequate account of interest rate risk, concentration of credit risk and the risks of non-traditional activities.

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Legislative and Regulatory Changes

We are heavily regulated by regulatory agencies at the federal and state levels. We, like most of our competitors, have faced and expect to continue to face increased regulation and regulatory and political scrutiny, which creates significant uncertainty for us as well as the financial services industry in general.

Future Legislative and Regulatory Developments

It is conceivable that compliance with current or future legislative and regulatory initiatives could require us to change certain business practices, impose significant additional costs on us, limit the products that we offer, result in a significant loss of revenue, limit our ability to pursue business opportunities in an efficient manner, require us to increase our regulatory capital, cause business disruptions, impact the value of assets that we hold or otherwise adversely affect our business, results of operations, or financial condition. The extent of changes imposed by any future regulatory initiatives could make it more difficult for us to comply in a timely manner, which could further limit our operations, increase compliance costs or divert management attention or other resources. The long-term impact of legislative and regulatory initiatives on our business practices and revenues will depend upon the successful implementation of our strategies, consumer behavior, and competitors' responses to such initiatives, all of which are difficult to predict. Additionally, we may pursue, through appropriate avenues, legislative and regulatory advocacy to provide our input on possible legislative and regulatory developments.

Profitability, Monetary Policy and Economic Conditions

In addition to being affected by general economic conditions, the earnings and growth of Republic will be affected by the policies of regulatory authorities, including the Pennsylvania Department of Banking and Securities, the FDIC, and the Federal Reserve. An important function of the Federal Reserve is to regulate the supply of money and other credit conditions in order to manage interest rates. The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon the future business, earnings and growth of Republic cannot be determined.

Employees

As of December 31, 2017, we had a total of 448 full-time equivalent employees.

Item 1A: Risk Factors

In addition to the other information included elsewhere in this report and in "Management's Discussion and Analysis of Results of Operations and Financial Condition," the following factors could significantly affect our business, financial condition, results of operations, or future prospects. Any of the following risks, either alone or taken together, could materially and adversely affect our business, financial condition, results of operations, or future prospects. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may be materially adversely affected. There may be additional risks that we do not presently know or that we currently believe are immaterial which could also materially adversely affect our business, financial condition, results of operations, or future prospects.

We are subject to credit risk in connection with our lending activities, and our financial condition and results of operations may be negatively impacted by economic conditions and other factors that adversely affect our borrowers.
Our financial condition and results of operations are affected by the ability of our borrowers to repay their loans, and in a timely manner. Lending money is a significant part of the banking business. Borrowers, however, do not always repay their loans. The risk of non-payment is assessed through our underwriting and loan review procedures based on several factors including credit risks of a particular borrower, changes in economic conditions, the duration of the loan, and in the case of a collateralized loan, uncertainties as to the future value of the collateral and other factors. Despite our efforts, we do and will experience loan losses, and our financial condition and results of operations will be adversely affected. Our non-performing assets were approximately $21.8 million at December 31, 2017. Our allowance for loan losses was approximately $8.6 million at December 31, 2017. Our loans between thirty and eighty-nine days delinquent totaled $1.1 million at December 31, 2017.

Our concentration of commercial real estate loans could result in increased loan losses and costs of compliance.
A substantial portion of our loan portfolio is comprised of commercial real estate loans. The commercial real estate market is cyclical and poses risks of loss to us because of the concentration of commercial real estate loans in our loan portfolio, and the lack of diversity in risk associated with such a concentration. Banking regulators have been giving and continue to give commercial real estate lending greater scrutiny, and banks with larger commercial real estate loan portfolios are expected by their regulators to implement improved underwriting, internal controls, risk management policies and portfolio stress-testing practices to manage risks associated with commercial real estate lending. In addition, commercial real estate lenders are making greater provisions for loan losses and accumulating higher capital levels as a result of commercial real estate lending exposures. Additional losses or regulatory requirements related to our commercial real estate loan concentration could materially adversely affect our business, financial condition and results of operations.

Our allowance for loan losses may not be adequate to absorb actual loan losses, and we may be required to make further provisions for loan losses and charge off additional loans in the future, which could materially and adversely affect our business.

We attempt to maintain an allowance for loan losses, established through a provision for loan losses accounted for as an expense, which is adequate to absorb losses inherent in our loan portfolio. If our allowance for loan losses is inadequate, it may have a material adverse effect on our financial condition and results of operations.

The determination of the allowance for loan losses inherently involves a high degree of subjectivity and judgment and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require us to increase our allowance for loan losses. Increases in nonperforming loans have a significant impact on our allowance for loan losses. Our allowance for loan losses may not be adequate to absorb actual loan losses. If trends in the real estate markets were to deteriorate, we could experience increased delinquencies and credit losses, particularly with respect to real estate construction and land acquisition and development loans and one-to-four family residential mortgage loans. As a result, we may have to make provisions for loan losses and charge off loans in the future, which could materially adversely affect our financial condition and results of operations.

In addition to our internal processes for determining loss allowances, bank regulatory agencies periodically review our allowance for loan losses and may require us to increase the provision for loan losses or recognize further loan charge-offs, based on judgments that differ from those of our management. If loan charge-offs in future periods exceed the allowance for loan losses, we will need to increase our allowance for loan losses. Furthermore, growth in our loan portfolio would generally lead to an increase in the provision for loan losses. Any increases in our allowance for loan losses will result in a decrease in net income and capital, and may have a material adverse effect on our financial condition, results of operations and cash flows.

We are required to make significant estimates and assumptions in the preparation of our financial statements, including our allowance for loan losses, and our estimates and assumptions may not be accurate.

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, require our 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 income and expense during the reporting periods. Critical estimates are made by management in determining, among other things, 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 taxes. If our underlying estimates and assumptions prove to be incorrect, our financial condition and results of operations may be materially adversely affected.

Our results of operations may be materially and adversely affected by other-than-temporary impairment charges relating to our investment portfolio.

In prior years we recorded other-than-temporary impairment charges for certain bank pooled trust preferred securities, and we may be required to record future impairment charges on our investment securities if they suffer declines in value that we determine are other-than-temporary. Numerous factors, including the lack of liquidity for re-sales of certain investment securities, the absence of reliable pricing information for investment securities, adverse changes in the business climate, adverse regulatory actions or unanticipated changes in the competitive environment, could have a negative effect on our investment portfolio in future periods. If an impairment charge is significant enough, it could affect the Bank's ability to pay dividends, which could materially adversely affect us. Significant impairment charges could also negatively impact our regulatory capital ratios and result in us not being classified as "well-capitalized" for regulatory purposes.

Our net interest income, net income and results of operations are sensitive to fluctuations in interest rates.

Our net income depends on the net income of Republic, and Republic is dependent primarily upon its net interest income, which is the difference between the 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.

Our results of operations will be affected by changes in market interest rates and other economic factors beyond our control. If our interest-earning assets have longer effective maturities than our interest-bearing liabilities, the yield on our interest-earning assets generally will adjust more slowly than the cost of our interest-bearing liabilities, and, as a result, our net interest income generally will be adversely affected by material and prolonged increases in interest rates, and positively affected by comparable declines in interest rates. Conversely, if liabilities re-price more slowly than assets, net interest income would be adversely affected by declining interest rates, and positively affected by increasing interest rates. At any time, our assets and liabilities will reflect interest rate risk of some degree.

In addition to affecting interest income and expense, changes in interest rates also can affect the value of our interest-earning assets, comprising fixed and adjustable-rate instruments, as well as the ability to realize gains from the sale of such assets. Generally, the value of fixed-rate instruments fluctuates inversely with changes in interest rates, and changes in interest rates may therefore have a material adverse effect on our results of operations.

We are a holding company dependent for liquidity on payments from our banking subsidiary, which payments are subject to restrictions.

We are a holding company and depend on dividends, distributions and other payments from Republic to fund dividend payments, if any, and to fund all payments on obligations. Republic and its subsidiaries are subject to laws that restrict dividend payments or authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to us. Restrictions or regulatory actions of that kind could impede our access to funds that we may need to make payments on our obligations or dividend payments, if any. In addition, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors.

Our business is concentrated in and dependent upon the continued growth and welfare of our primary market area.

Our primary service area consists of Greater Philadelphia and Southern New Jersey. Our success depends upon the business activity, population, income levels, deposits and real estate activity in this area. Although our customers' businesses and financial interests may extend well beyond this area, adverse economic conditions that affect our primary service area could reduce our growth rate, affect the ability of our customers to repay their loans to us, and generally adversely affect our financial condition and results of operations. Because of our geographic concentration, we are less able than other regional or national financial institutions to diversify our credit risks across multiple markets.

Unfavorable economic and financial market conditions may adversely affect our financial position and results of operations.

Economic pressure on consumers and businesses and any resulting lack of confidence in the financial markets may adversely affect our business, financial condition, results of operations and stock price. A worsening of current economic conditions would likely exacerbate the adverse effects of market conditions on us and others in the industry. In particular, we may face the following risks in connection with these events:

- increased regulation of our industry and increased compliance costs;

- hampering our ability to assess the creditworthiness of customers and to estimate the losses inherent in our credit exposure, as such assessments are made more complex by these difficult market and economic conditions;

- increasing our credit risk, by increasing the likelihood that our major customers become insolvent and unable to satisfy their obligations to us;

- impairing our ability to originate loans, by making our customers and prospective customers less willing to borrow, and making loans that meet our underwriting criteria difficult to find; and
- limiting our interest income, by depressing the yields we are able to earn on our investment portfolio.

Our ability to use net operating loss carryforwards to reduce future tax payments may be limited.

As of December 31, 2017, we had approximately $24.4 million of U.S. Federal net operating loss carryforwards, referred to as "NOLs," available to reduce taxable income in future years.

Utilization of the NOLs may be subject to a substantial annual limitation due to ownership change limitations that may have occurred or that could occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended, referred to as the "Code." These ownership changes may limit the amount of NOLs that can be utilized annually to offset future taxable income and tax, respectively. In general, an ownership change, as defined by Section 382 of the Code results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50 percentage points of the outstanding stock of a company by certain stockholders or public groups. In the event of an ownership change, Section 382 imposes an annual limitation on the amount of post-ownership change taxable income a corporation may offset with pre-ownership change NOLs. The limitation imposed by Section 382 for any post-change year would be determined by multiplying the value of our stock immediately before the ownership change (subject to certain adjustments) by the applicable long-term tax-exempt rate. Any unused annual limitation may be carried over to later years, and the limitation may under certain circumstances be increased by built-in gains which may be present with respect to assets held by us at the time of the ownership change that are recognized in the five-year period after the ownership change.

In addition, the ability to use NOLs will be dependent on our ability to generate taxable income. The NOLs may expire before we generate sufficient taxable income. There were no NOLs that expired in the fiscal years ended December 31, 2017 and December 31, 2016. There are no NOLs that could expire if not utilized for the year ending December 31, 2018.

Our assets as of December 31, 2017 included a deferred tax asset and we may not be able to realize the full amount of such asset.

We recognize deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of assets and liabilities. At December 31, 2017, the net deferred tax asset was $12.7 million, compared to a balance of $9.2 million at December 31, 2016.

We regularly review our deferred tax assets for recoverability to determine whether it is more likely than not (i.e. 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. Based on the analysis of the available positive and negative evidence, we determined that a valuation allowance should not be recorded as of December 31, 2017. We used projections of future taxable income, exclusive of reversing temporary timing differences and carryforwards, as a factor to project recoverability of the deferred tax asset balance. There can be no assurance as to when we will be in a position to fully recapture the benefits of our deferred tax asset. Further discussion on the analysis of our deferred tax asset can be found in the "Provision (Benefit) for Income Taxes" section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

We are required to adopt the FASB's accounting standard which requires measurement of certain financial assets (including loans) using the current expected credit losses (CECL) beginning in calendar year 2020.

Current GAAP requires an incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The FASB's amendment replaces the current incurred loss methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonableness and supportable information to inform credit loss estimates. We are in the process of evaluating the impact of the adoption of this guidance on our financial statements; however, it is anticipated that the allowance will increase upon the adoption of CECL and that the increased allowance level will have the effect of decreasing shareholders' equity and the Company's and Republic's regulatory capital ratios.

Our mortgage lending business may not provide us with significant noninterest income.

In 2017, we originated $378 million and sold $302 million of residential mortgage loans to investors. The residential mortgage business is highly competitive, and highly susceptible to changes in market interest rates, consumer confidence levels, employment statistics, the capacity and willingness of secondary market purchasers to acquire and hold or securitize loans, and other factors beyond our control.

Because we sell a majority of the mortgage loans we originate, the profitability of our mortgage banking business also depends in large part on our ability to aggregate a high volume of loans and sell them in the secondary market at a gain. In fact, as rates rise, we expect increasing industry-wide competitive pressures related to changing market conditions to reduce our pricing margins and mortgage revenues generally. Thus, in addition to our dependence on the interest rate environment, we are dependent upon (i) the existence of an active secondary market and (ii) our ability to profitably sell loans or securities into that market. If our level of mortgage production declines, the profitability will depend upon our ability to reduce our costs commensurate with the reduction of revenue from our mortgage operations.

Our ability to originate and sell mortgage loans readily is dependent upon the availability of an active secondary market for single-family mortgage loans, which in turn depends in part upon the continuation of programs currently offered by government-sponsored entities ("GSEs") and other institutional and non-institutional investors. These entities account for a substantial portion of the secondary market in residential mortgage loans. We are highly dependent on these purchasers continuing their mortgage purchasing programs. Additionally, because the largest participants in the secondary market are Ginnie Mae, Fannie Mae and Freddie Mac, GSEs whose activities are governed by federal law, any future changes in laws that significantly affect the activity of these GSEs could, in turn, adversely affect our operations. In September 2008, Fannie Mae and Freddie Mac were placed into conservatorship by the U.S. government. The federal government has for many years considered proposals to reform Fannie Mae and Freddie Mac, but the results of any such reform, and their impact on us, are difficult to predict. To date, no reform proposal has been enacted.

We may be required to repurchase mortgage loans or indemnify buyers against losses in some circumstances, which could harm liquidity, results of operations and financial condition.

We sell a majority of the mortgage loans held for sale that we originated. When mortgage loans are sold, whether as whole loans or pursuant to a securitization, we are required to make customary representations and warranties to purchasers, guarantors and insurers, including the GSEs, about the mortgage loans and the manner in which they were originated. Whole loan sale agreements require repurchase or substitute mortgage loans, or indemnify buyers against losses, in the event we breach these representations or warranties. In addition, we may be required to repurchase mortgage loans as a result of early payment default of the borrower on a mortgage loan, resulting in these mortgage loans being placed on our books and subjecting us to the risk of a potential default. If repurchase and indemnity demands increase and such demands are valid claims and are in excess of our provision for potential losses, our liquidity, results of operations and financial condition may be adversely affected.

Potential acquisitions may disrupt our business and dilute shareholder value.

We regularly evaluate opportunities to acquire and invest in banks and in other complementary businesses. As a result, we may engage in negotiations or discussions that, if they were to result in a transaction, could have a material effect on our operating results and financial condition, including short and long-term liquidity and capital structure. Our acquisition activities could be material to us. For example, we could issue additional shares of common stock in a purchase transaction, which could dilute current shareholders' ownership interest. These activities could require us to use a substantial amount of cash, other liquid assets, and/or incur debt. In addition, if goodwill recorded in connection with our prior or potential future acquisitions were determined to be impaired, then we would be required to recognize a charge against our earnings, which could materially and adversely affect our results of operations during the period in which the impairment was recognized. Any potential charges for impairment related to goodwill would not impact cash flow, tangible capital or liquidity but would decrease shareholders' equity.

Our acquisition activities could involve a number of additional risks, including the risks of:

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions;
- using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or its assets;
- the time and expense required to integrate the operations and personnel of the combined businesses;
- creating an adverse short-term effect on our results of operations; and
- losing key employees and customers as a result of an acquisition that is poorly conceived.

We may not be successful in overcoming these risks or any other problems encountered in connection with potential acquisitions. Our inability to overcome these risks could have an adverse effect on our ability to achieve our business strategy and maintain our market value.

We may not be able to manage our growth, which may adversely impact our financial results.

As part of our retail growth strategy, we may expand into additional communities or attempt to strengthen our position in our current markets by opening new stores and acquiring existing stores of other financial institutions. To the extent that we undertake additional stores openings and acquisitions, we are likely to experience the effects of higher operating expenses relative to operating income from the new operations, which may have an adverse effect on our levels of reported net income, return on average equity and return on average assets. Other effects of engaging in such growth strategies may include potential diversion of our management's time and attention and general disruption to our business.

As part of our retail strategy, we plan to open new stores in our primary service area, including Southern New Jersey and the Philadelphia Suburbs. We may not, however, be able to identify attractive locations on terms favorable to us, obtain regulatory approvals, or hire qualified management to operate new stores. In addition, the organizational and overhead costs may be greater than we anticipate. New stores may take longer than expected to reach profitability, or may not become profitable. The additional costs of starting new stores may adversely impact our financial results.

Our ability to manage growth successfully will depend on whether we can continue to fund our growth while maintaining cost controls, as well as on factors beyond our control, such as national and regional economic conditions and interest rate trends. If we are not able to control costs, such growth could adversely impact our earnings and financial condition.

Our retail strategy relies heavily on our management team, and the unexpected loss of key managers may adversely affect our operations.

In recent years, we have been successful in attracting new and talented employees to Republic, to add to our management team. We believe that our ability to successfully implement our retail strategy will require us to retain and attract additional management experienced in banking and financial services, and familiar with the communities in our market. Our ability to retain executive officers, the current management team, branch managers and loan officers of Republic will continue to be important to the successful implementation of our strategy. It is also critical, as we grow, to be able to attract and retain additional members of the management team and qualified loan officers with the appropriate level of experience and knowledge about our market areas to implement the community-based operating strategy. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition and results of operations.

We are subject to numerous governmental regulations and to comprehensive examination and supervision by regulators, which could have an adverse impact on our operations and could restrict the scope of our operations.

Both the Company and Republic operate in a highly regulated environment and are subject to supervision and regulation by several governmental regulatory agencies, including the Board of Governors of the Federal Reserve System, the FDIC and the Pennsylvania Department of Banking and Securities ("PDB"). We are subject to federal and state regulations governing virtually all aspects of our activities, including lines of business, capital, liquidity, investments, payment of dividends, and others. Regulations that apply to us are generally intended to provide protection for depositors and customers rather than investors.

We are subject to extensive regulation and supervision under federal and state laws and regulations. See Item 1. Business - Supervision and Regulation. The requirements and limitations imposed by such laws and regulations limit the manner in which we conduct our business, undertake new investments and activities and obtain financing. Financial institution regulation has been the subject of significant legislation in recent years and may be the subject of further significant legislation in the future, none of which is within our control. Compliance with these rules could impose additional costs on banking entities and their holding companies. Management has reviewed the new standards and will continue to evaluate all options and strategies to ensure ongoing compliance with the new standards, notwithstanding Republic's current status as well-capitalized.

New programs and proposals may subject us and other financial institutions to additional restrictions, oversight and costs that may have an adverse impact on our business, financial condition, results of operations or the price of our common stock. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied or enforced. We cannot predict the substance or impact of future legislation, regulation or the application thereof. Compliance with such current and potential regulation and scrutiny may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital and limit our ability to pursue business opportunities in an efficient manner.

We face significant competition in our market from other banks and financial institutions.

The banking and financial services industry in our market area is highly competitive. We may not be able to compete effectively in our markets, which could adversely affect our results of operations. The increasingly competitive environment is a result of changes in regulation, changes in technology and product delivery systems, and consolidation among financial service providers. Larger institutions have greater access to capital markets, with higher lending limits and a broader array of services. Competition may require increases in deposit rates and decreases in loan rates, and adversely impact our net interest margin.

We may not have the resources to effectively implement new technologies, which could adversely affect our competitive position and results of operations.

The financial services industry is constantly undergoing technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand in our market. Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, we may not be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers. If we are unable to do so, our competitive position and results of operations could be adversely affected.

Our disclosure controls and procedures and our internal control over financial reporting may not achieve their intended objectives.

We maintain disclosure controls and procedures designed to ensure that we timely report information as specified in the rules and forms of the Securities and Exchange Commission. We also maintain a system of internal control over financial reporting. These controls may not achieve their intended objectives. Control processes that involve human diligence and compliance, such as our disclosure controls and procedures and internal control over financial reporting, are subject to lapses in judgment and breakdowns resulting from human failures. Controls can also be circumvented by collusion or improper management override. Because of such limitations, there are risks that material misstatements due to error or fraud may not be prevented or detected and that information may not be reported on a timely basis. If our controls are not effective, it could have a material adverse effect on our financial condition, results of operations, and market for our common stock, and could subject us to regulatory scrutiny.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

We maintain a system of internal controls and insurance coverage to mitigate operational risks, including data processing system failures and errors, and customer or employee fraud. Should our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage, these security measures may not be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on our financial condition and results of operations.

If we want to, or are compelled to, raise additional capital in the future, that capital may not be available to us when it is needed or on terms that are favorable to us or current shareholders.

Federal banking regulators require us, and Republic, to maintain capital to support our operations. Regulatory capital ratios are defined and required ratios are established by laws and regulations promulgated by banking regulatory agencies. At December 31, 2017, our regulatory capital ratios were above "well capitalized" levels under current bank regulatory guidelines. To be "well capitalized," banking companies generally must maintain a Tier 1 leverage ratio of at least 5%, a Common Equity Tier 1 ratio of at least 6.5%, a Tier 1 risk-based capital ratio of at least 8%, and a total risk-based capital ratio of at least 10%. Regulators, however, may require us, or Republic, to maintain higher regulatory capital ratios.

Our ability to raise additional capital in the future will depend on conditions in the capital markets at that time, which are outside of our control, on our financial performance and on other factors. Accordingly, we may not be able to raise additional capital on terms and time frames acceptable to us, or at all. If we cannot raise additional capital in sufficient amounts when needed, our ability to comply with regulatory capital requirements could be materially impaired. Additionally, the inability to raise capital in sufficient amounts may adversely affect our operations, financial condition and results of operations. Our ability to borrow could also be impaired by factors that are nonspecific to us, such as disruption of the financial markets or negative news and expectations about the prospects for the financial services industry. If we raise capital through the issuance of additional shares of our common stock or other securities, we would likely dilute the ownership interests of investors, and could dilute the per share book value and earnings per share of our common stock. Furthermore, a capital raise through issuance of additional shares may have an adverse impact on our stock price.

We may be exposed to environmental liabilities with respect to real estate that we have or had title to in the past.
A significant portion of our loan portfolio is secured by real property. In the course of our business, we may foreclose, accept deeds in lieu of foreclosure, or otherwise acquire real estate in connection with our lending activities. We also acquire real estate in connection with our store expansion plans and growth strategy. As a result, we could become subject to environmental liabilities with respect to these properties. We may become responsible to a governmental agency or third parties for property damage, personal injury, investigation and clean-up costs incurred by those parties in connection with environmental contamination, or may be required to investigate or clean-up hazardous or toxic substances, or chemical releases at a property. The costs associated with environmental investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. Although we have policies and procedures to perform an environmental review before acquiring title to any real property, these may not be sufficient to detect all potential environmental hazards. If we were to become subject to significant environmental liabilities, it could materially and adversely affect us.
Our common stock is not insured by any governmental entity and, therefore, an investment in our common stock involves risk.

Our common stock is not a deposit account or other obligation of any bank, and is not insured by the FDIC or any other governmental entity, and is subject to investment risk, including possible loss.

There may be future sales of our common stock, which may materially and adversely affect the market price of our common stock.

We are not restricted from issuing additional shares of our common stock, including securities that are convertible into or exchangeable or exercisable for shares of our common stock. Our issuance of shares of common stock in the future will dilute the ownership interests of our existing shareholders.

Additionally, the sale of substantial amounts of our common stock or securities convertible into or exchangeable or exercisable for our common stock, whether directly by us or by existing common shareholders in the secondary market, the perception that such sales could occur or the availability for future sale of shares of our common stock or securities convertible into or exchangeable or exercisable for our common stock could, in turn, materially and adversely affect the market price of our common stock and our ability to raise capital through future offerings of equity or equity-related securities. We are party to a registration rights agreement with the holders of the convertible trust preferred securities of Republic First Bancorp Capital Trust IV, which requires us, under certain circumstances, to register up to 1.7 million shares of our common stock into which the trust preferred securities may be converted for resale under the Securities Act of 1933.

In addition, our Board of Directors is authorized to designate and issue preferred stock without further shareholder approval, and we may issue other equity securities that are senior to our common stock in the future for a number of reasons, including, without limitation, to support operations and growth, to maintain our capital ratios and to comply with any future changes in regulatory standards.

Our common stock is currently traded on the Nasdaq Global Market. During 2017, the average daily trading volume for our common stock was approximately 180,600 shares. Sales of our common stock may place significant downward pressure on the market price of our common stock. Furthermore, it may be difficult for holders to resell their shares at prices they find attractive, or at all.

Our common stock is subordinate to our existing and future indebtedness and any preferred stock and effectively subordinated to all indebtedness and preferred equity claims against our subsidiaries.

Shares of our common stock are common equity interests in us and, as such, will rank junior to all of our existing and future indebtedness and other liabilities. Additionally, holders of our common stock may become subject to the prior dividend and liquidation rights of holders of any classes or series of preferred stock that our Board of Directors may designate and issue without any action on the part of the holders of our common stock. Furthermore, our right to participate in a distribution of assets upon any of our subsidiaries' liquidation or reorganization is subject to the prior claims of that subsidiary's creditors and preferred shareholders. As of December 31, 2017, we had $21.7 million of outstanding debt.

Our ability to pay dividends depends upon the results of operations of our subsidiaries.

We have never declared or paid cash dividends on our common stock. Our Board of Directors intends to follow a policy of retaining earnings for the purpose of increasing our capital for the foreseeable future.

Holders of our common stock are entitled to receive dividends if, as and when declared from time to time by our Board of Directors in its sole discretion out of funds legally available for that purpose, after debt service payments and payments of dividends required to be paid on our outstanding preferred stock, if any.

While we, as a bank holding company, are not subject to certain restrictions on dividends applicable to Republic, our ability to pay dividends to the holders of our common stock will depend to a large extent upon the amount of dividends paid by Republic to us. Regulatory authorities restrict the amount of cash dividends Republic can declare and pay without prior regulatory approval. Presently, Republic cannot declare or pay dividends in any one-year in excess of retained earnings for that year subject to risk based capital requirements.

If we fail to maintain an effective system of internal control over financial reporting and disclosure controls and procedures, current and potential shareholders may lose confidence in our financial reporting and disclosures and could subject us to regulatory scrutiny.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, referred to as Section 404, we are required to include in our Annual Reports on Form 10-K, our management's report on internal control over financial reporting. While we have reported no material weaknesses in the Form 10-K for the fiscal year ended December 31, 2017, we cannot guarantee that we will not have any material weaknesses in the future.

Compliance with the requirements of Section 404 is expensive and time-consuming. If, in the future, we fail to complete this evaluation in a timely manner we could be subject to regulatory scrutiny and a loss of public confidence in our internal control over financial reporting. In addition, any failure to maintain an effective system of disclosure controls and procedures could cause our current and potential shareholders and customers to lose confidence in our financial reporting and disclosure required under the Exchange Act, which could adversely affect our business.

Our governing documents, Pennsylvania law, and current policies of our Board of Directors contain provisions, which may reduce the likelihood of a change in control transaction, which may otherwise be available and attractive to shareholders.

Our articles of incorporation and bylaws contain certain anti-takeover provisions that may make it more difficult or expensive or may discourage a tender offer, change in control or takeover attempt that is opposed by our Board of Directors. In particular, the articles of incorporation and bylaws classify our Board of Directors into three groups, so that shareholders elect only approximately one-third of the Board each year; permit shareholders to remove directors only for cause and only upon the vote of the holders of at least 75% of the voting shares; require our shareholders to give us advance notice to nominate candidates for election to the Board of Directors or to make shareholder proposals at a shareholders' meeting; require the vote of the holders of at least 60% of our voting shares for shareholder amendments to our bylaws; require the vote of the holders of at least 75% of our voting shares to approve certain business combinations; and restrict the holdings and voting rights of shareholders who would acquire more than 10% of our outstanding common stock without the approval of two-thirds of our Board of Directors. These provisions of our articles of incorporation and bylaws could discourage potential acquisition proposals and could delay or prevent a change in control, even though a majority of our shareholders may consider such proposals desirable. Such provisions could also make it more difficult for third parties to remove and replace the members of our Board of Directors. Moreover, these provisions could diminish the opportunities for shareholders to participate in certain tender offers, including tender offers at prices above the then-current market value of our common stock, and may also inhibit increases in the trading price of our common stock that could result from takeover attempts or speculation.

In addition, anti-takeover provisions in Pennsylvania law could make it more difficult for a third party to acquire control of us. These provisions could adversely affect the market price of our common stock and could reduce the amount that shareholders might receive if we are sold. For example, Pennsylvania law may restrict a third party's ability to obtain control of us and may prevent shareholders from receiving a premium for their shares of our common stock. Pennsylvania law also provides that our shareholders are not entitled by statute to propose amendments to our articles of incorporation.

Item 1B: Unresolved Staff Comments

None.

Item 2: Description of Properties

The Company currently has twenty-one lease agreements that expire on various dates in the future. Seven of the leased locations are utilized as back-office support locations, operations centers, loan production offices, training facilities and the Company's corporate headquarters. The other fourteen leased properties are for store locations, all of which are open and operating today. The spaces covered by these leases range in square footage from approximately 800 square feet to 40,000 square feet. Please see Note 11 "Commitments and Contingencies" to the Consolidated Financial Statements for further information regarding the leases. In addition, the Company owns twelve properties utilized for store locations. Eight of the stores are open and operating today, two are under construction and two are scheduled to begin construction during 2018. Management believes these facilities are adequate to meet the Company's present and immediately foreseeable needs from a real estate perspective.

Item 3: Legal Proceedings

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

Item 4: Mine Safety Disclosures

Not applicable.

PART II

Item 5: Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Shares of the Company's class of common stock are listed on the Nasdaq Global Market under the symbol "FRBK." The table below sets forth the high and low sales prices reported for the common stock on the Nasdaq Global Market for the periods indicated. As of March 7, 2018, there were approximately 100 record holders and an additional 3,000 beneficial holders of the Company's common stock. On March 9, 2018, the closing price of a share of common stock on The Nasdaq Stock Market LLC was $8.93.

Quarter	High	Low
2017:		
4th	$ 9.75	$ 8.40
3rd	$ 9.80	$ 8.12
2nd	$ 9.90	$ 7.90
1st	$ 8.55	$ 7.40
2016:		
4th	$ 9.15	$ 3.70
3rd	$ 4.52	$ 4.00
2nd	$ 4.84	$ 3.91
1st	$ 4.45	$ 3.84

Dividend Policy

The Company has not paid any cash dividends on its common stock and has no plans to pay cash dividends during 2018. The Company's ability to pay dividends depends primarily on receipt of dividends from the Company's subsidiary, Republic. Dividend payments from Republic are subject to legal and regulatory limitations. The ability of Republic to pay dividends is also subject to profitability, financial condition, capital expenditures and other cash flow requirements.

Item 6: Selected Financial Data

	As of or for the Years Ended December 31,				
(dollars in thousands, except per share data)	2017	2016	2015	2014	2013
INCOME STATEMENT DATA					
Total interest income	$70,849	$54,227	$45,436	$40,473	$37,205
Total interest expense	8,784	6,863	5,381	4,644	4,590
Net interest income	62,065	47,364	40,055	35,829	32,615
Provision for loan losses	900	1,557	500	900	4,935
Non-interest income	20,097	15,312	9,943	8,017	9,216
Non-interest expenses	75,276	56,293	47,091	40,550	40,411
Income (loss) before benefit for income taxes	5,986	4,826	2,407	2,396	(3,515)
Benefit for income taxes	(2,919)	(119)	(26)	(46)	(35)
Net income (loss)	$8,905	$4,945	$2,433	$2,442	$(3,480)
PER SHARE DATA					
Basic earnings (loss) per share	$0.16	$0.13	$0.06	$0.07	$(0.13)
Diluted earnings (loss) per share	$0.15	$0.12	$0.06	$0.07	$(0.13)
Book value per share	$3.97	$3.79	$3.00	$2.98	$2.42
Tangible book value per share	$3.89	$3.70	$3.00	$2.98	$2.42
BALANCE SHEET DATA					
Total assets	$2,322,347	$1,923,931	$1,438,824	$1,214,598	$961,665
Total loans, net	1,153,679	955,817	866,066	770,404	667,048
Total investment securities	938,561	803,604	460,131	254,402	206,482
Total deposits	2,063,295	1,677,670	1,249,298	1,072,230	869,534
Short-term borrowings	-	-	47,000	-	-
Subordinated debt	21,681	21,881	21,857	22,476	22,476
Total shareholders' equity	226,460	215,053	113,375	112,811	62,899
PERFORMANCE RATIOS					
Return on average assets	0.43%	0.30%	0.19%	0.23%	(0.37)%
Return on average shareholders' equity	4.02%	3.97%	2.14%	2.51%	(5.07)%
Net interest margin	3.23%	3.14%	3.29%	3.56%	3.66%
Total non-interest expenses as a percentage of average assets	3.64%	3.45%	3.59%	3.80%	4.25%
ASSET QUALITY RATIOS					
Allowance for loan losses as a percentage of loans	0.74%	0.95%	0.99%	1.48%	1.81%
Allowance for loan losses as a percentage of non-performing loans	57.93%	48.45%	68.95%	53.81%	117.69%
Non-performing loans as a percentage of total loans	1.28%	1.96%	1.44%	2.74%	1.53%
Non-performing assets as a percentage of total assets	0.94%	1.51%	1.66%	2.07%	1.51%
Net charge-offs as a percentage of average loans, net	0.13%	0.12%	0.41%	0.22%	0.35%

LIQUIDITY AND CAPITAL RATIOS										
Average equity to average assets	10.72	%	7.63	%	8.67	%	9.12	%	7.22	%
Leverage ratio	10.64	%	12.74	%	9.65	%	11.23	%	8.59	%
CET 1 capital to risk-weighted assets	14.75	%	16.59	%	10.42	%	-		-	
Tier 1 capital to risk-weighted assets	16.13	%	18.28	%	12.40	%	13.88	%	10.28	%
Total capital to risk-weighted assets	16.70	%	18.99	%	13.19	%	15.10	%	11.53	%

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the results of operations and financial condition should be read in conjunction with Item 6 "Selected Financial Data" and the consolidated financial statements and the notes thereto included in Item 8 of this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Certain risks, uncertainties and other factors, including but not limited to those set forth in Item 1A, entitled, "Risk Factors" and elsewhere in this report may cause actual results to differ materially from those projected in the forward-looking statements.

Executive Summary

2017 was another tremendous year for "The Power of Red is Back" growth campaign. Deposits and loans continued to grow at exceptional rates. Our store network expanded to twenty-two convenient locations and we solidified our position as one of the top residential mortgage lenders in our market through the successful integration of the Oak Mortgage team into the Bank. In addition, the reduction in the corporate tax rate included in Tax Cuts and Jobs Act of 2017 will result in a significant benefit for us in the years to come. We intend on utilizing the savings generated by this Act to invest in our growth and expansion which will result in the creation of new jobs, improvements in technology and the ability to further contribute to the communities which we serve.

The momentum of our expansion strategy continues to build as we attract new FANS throughout our footprint. Our expansion plans will not only focus on the addition of new Store locations, but also includes a commitment to deliver exceptional service and convenience though all delivery channels, including mobile and on-line banking options. As we watch our competition shutter the doors on their branch network and offer declining levels of customer service, we see endless opportunities to successfully execute our growth plan.

Additional highlights for the year ended December 31, 2017 include the following accomplishments:

- New stores were opened in Cherry Hill, Sicklerville, and Medford in NJ during 2017 bringing the total store count to twenty-two. We ended the year with stores under construction in Gloucester Township and Lumberton in NJ and Fairless Hills, PA which are scheduled to be completed in early 2018. Ground will soon be broken on sites in Somers Point, NJ as well as Feasterville, PA. There are also several additional sites in various stages of approval and development for future store locations.

  - New stores opened since the beginning of the "Power of Red is Back" expansion campaign in 2014 are currently growing deposits at an average rate of $27 million per year, while the average deposit growth for all stores over the last twelve months was approximately $20 million per store.

- Net income increased by 80% to $8.9 million, or $0.15 per diluted share, for the twelve months ended December 31, 2017 compared to $4.9 million, or $0.12 per diluted share, for the twelve months ended December 31, 2016. We continue to open new stores and increase net income despite the additional costs associated with the expansion strategy.

- We reversed our deferred tax asset valuation allowance during the fourth quarter of 2017 resulting in an increase in net income of $2.9 million, or $0.05 per share, during the period. This entry takes into account the impact of the new corporate tax rate under the Tax Cuts and Jobs Act signed into law on December 22, 2017.

- Total assets increased by $398 million, or 21%, to $2.3 billion as of December 31, 2017 compared to $1.9 billion as of December 31, 2016.

- Total deposits increased by $386 million, or 23%, to $2.1 billion as of December 31, 2017 compared to $1.7 billion as of December 31, 2016.

- The fastest growing segment of our deposit base is non-interest bearing demand deposits. These balances grew by 35% to $439 million during 2017

- Total loans grew $197 million, or 20%, to $1.2 billion as of December 31, 2017 compared to $965 million at December 31, 2016.

- Our residential mortgage division, Oak Mortgage, is serving the home financing needs of customers throughout its footprint. Oak originated over $378 million in loans during 2017.

- SBA lending continued to be an important part of our lending strategy. Meeting the needs of small business customers, more than $51 million in new SBA loans were originated during the year ended December 31, 2017.

- Asset quality continues to improve. The ratio of non-performing assets to total assets declined to 0.94% as of December 31, 2017 compared to 1.51% as of December 31, 2016.

- Our Total Risk-Based Capital ratio was 16.70% and Tier I Leverage Ratio was 10.64% at December 31, 2017.

- Book value per common share increased to $3.97 as of December 31, 2017 compared to $3.79 per share as of December 31, 2016.

Non-GAAP Based Financial Measures

Our selected financial data contains a non-GAAP financial measure calculated using non-GAAP amounts. This measure is tangible book value per common share. Tangible book value per share adjusts the numerator by the amount of Goodwill and Other Intangible Assets (as a reduction of Shareholders' Equity). Management uses non-GAAP measures to present historical periods comparable to the current period presentation. In addition, management believes the use of non-GAAP measures provides additional clarity when assessing our financial results and use of equity. Disclosures of this type should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities.

The following table provides a reconciliation of tangible book value per common share as of December 31, 2017 and December 31, 2016.

(dollars in thousands)	December 31, 2017	December 31, 2016
Total shareholders' equity	$ 226,460	$ 215,053
Reconciling items:		
Goodwill and other intangibles	(5,011)	(5,072)
Tangible common equity	$ 221,449	$ 209,981
Common shares outstanding	56,989,764	56,754,867
Tangible book value per common share	$ 3.89	$ 3.70

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Critical Accounting Policies, Judgments and Estimates

In reviewing and understanding our financial information, you are encouraged to read and understand the significant accounting policies used in preparing the consolidated financial statements. These policies are described in Note 2 – Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements. The accounting and financial reporting policies conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Management evaluates these estimates and assumptions on an ongoing basis including those related to the allowance for loan losses, carrying values of other real estate owned, other than temporary impairment of securities, fair value of financial instruments and deferred income taxes. Management bases its estimates on historical experience and various other factors and assumptions that are believed to be reasonable under the circumstances. These form the basis for making judgments on the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We have identified the policies related to the allowance for loan losses, other-than-temporary impairment of securities, loans receivable, mortgage loans held for sale, interest rate lock commitments, forward loan sale commitments, goodwill, other real estate owned, and deferred income taxes as being critical.

Allowance for Loan Losses - Management's ongoing evaluation of the adequacy of the allowance for loan losses is based on our past loan loss experience, the volume and composition of our lending, adverse situations that may affect a borrower's ability to repay, the estimated value of any underlying collateral, current economic conditions and other factors affecting the known and inherent risk in the portfolio. The allowance for loan losses is increased by charges to income through the provision for loan losses and decreased by charge-offs (net of recoveries). The allowance is maintained at a level that management, based upon its evaluation, considers adequate to absorb losses inherent in the loan portfolio. This evaluation is inherently subjective as it requires material estimates including, among others, the amount and timing of expected future cash flows on impacted loans, exposure at default, value of collateral, and estimated losses on our commercial and residential loan portfolios. All of these estimates may be susceptible to significant change.

The allowance consists of specific allowances for impaired loans, a general allowance on the remainder of the portfolio, and an unallocated component to account for a level of imprecision in management's estimation process. Although management determines the amount of each element of the allowance separately, the allowance for loan losses is available for the entire loan portfolio.

Management establishes an allowance on certain impaired loans for the amount by which the discounted cash flows, observable market price, or fair value of collateral if the loan is collateral dependent, is lower than the carrying value of the loan. A loan is considered to be impaired when, based upon current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan. A delay or shortfall in amount of payments does not necessarily result in the loan being identified as impaired.

Management also establishes a general allowance on non-impaired loans to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular loans. This general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on our historical loss experience, delinquency trends, and management's evaluation of the collectability of the loan portfolio.

Management also evaluates classified loans, which are not impaired. We segregate these loans by category and assign qualitative factors to each loan based on inherent losses associated with each type of lending and consideration that these loans, in the aggregate, represent an above-average credit risk and that more of these loans will prove to be uncollectible compared to loans in the general portfolio. Classification of a loan within this category is based on identified weaknesses that increase the credit risk of the loan.

The allowance is adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. These significant factors may include changes in lending policies and procedures, changes in existing general economic and business conditions affecting its primary lending areas, credit quality trends, collateral value, loan volumes and concentrations, seasoning of the loan portfolio, loss experience in particular segments of the portfolio, duration of the current business cycle, and bank regulatory examination results. The applied loss factors are re-evaluated each reporting period to ensure their relevance in the current economic environment.

While management uses the best information known to it in order to make loan loss allowance valuations, adjustments to the allowance may be necessary based on changes in economic and other conditions, changes in the composition of the loan portfolio, or changes in accounting guidance. In times of economic slowdown, either regional or national, the risk inherent in the loan portfolio could increase resulting in the need for additional provisions to the allowance for loan losses in future periods. An increase could also be necessitated by an increase in the size of the loan portfolio or in any of its components even though the credit quality of the overall portfolio may be improving. Historically, the estimates of the allowance for loan loss have provided adequate coverage against actual losses incurred. In addition, the Pennsylvania Department of Banking and Securities and the FDIC, as an integral part of their examination processes, periodically review the allowance for loan losses. The Pennsylvania Department of Banking and Securities or the FDIC may require the recognition of adjustment to the allowance for loan losses based on their judgment of information available to them at the time of their examinations. To the extent that actual outcomes differ from management's estimates, additional provisions to the allowance for loan losses may be required that would adversely impact earnings in future periods.

Other-Than-Temporary Impairment of 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 and our intent and ability to retain its investment in the security for a period of time sufficient to allow for 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 value of the security is reduced and a corresponding charge to earnings is recognized.

Mortgage Banking Activities and Mortgage Loans Held for Sale – Mortgage loans held for sale are originated and held until sold to permanent investors. In 2016, management elected to adopt the fair value option in accordance with FASB Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures, and record loans held for sale at fair value.

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. Gains and losses on loan sales are recorded in non-interest income and direct loan origination costs are recognized when incurred and are included in non-interest expense in the statements of income.

Interest Rate Lock Commitments - Mortgage loan commitments known as interest rate locks that relate to the origination of a mortgage that will be held for sale upon funding are considered derivative instruments under the derivatives and hedging accounting guidance FASB ASC 815, Derivatives and Hedging. Loan commitments that are classified as derivatives are recognized at fair value on the balance sheet as other assets and as other liabilities with changes in their fair values recorded as 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 servicing released, and the servicing released premium is included in the market price. See Note 24 Derivatives and Risk Management Activities for further detail on IRLCs.

Forward Loan Sale Commitments - Forward loan sale commitments are commitments to sell individual mortgage loans at a fixed price to an investor at a future date. Forward loan sale commitments are accounted for as derivatives and carried at fair value, determined as the amount that would be necessary to settle the derivative financial instrument at the balance sheet date. Gross derivative assets and liabilities are recorded as other assets and other liabilities with changes in fair value during the period recorded as mortgage banking income and included in non-interest income in the statements of income.

Goodwill - Goodwill represents the excess of cost over the identifiable net assets of businesses acquired. Goodwill is recognized as an asset and is to be reviewed for impairment annually as of July 31 and between annual tests when events and circumstances indicate that impairment may have occurred. Impairment is a condition that exists when the carrying amount of goodwill exceeds its implied fair value. During 2017, we elected to perform a Step One analysis to review goodwill for impairment. The results of the Step One analysis indicated that the carrying value of the reporting unit did not exceed its fair value and thus a Step Two analysis was not required. There was $5.0 million of goodwill at December 31, 2017 and 2016.

Other Real Estate Owned - Other real estate owned consists of assets acquired through, or in lieu of, loan foreclosure. They are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less the cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from other real estate owned.

Income Taxes - Management makes estimates and judgments to calculate various tax liabilities and determine the recoverability of various deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenues and expenses. Management also estimates a reserve for deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. These estimates and judgments are inherently subjective. Historically, management's estimates and judgments to calculate the deferred tax accounts have not required significant revision.

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

Results of Operations

For the year ended December 31, 2017 as compared to the year ended December 31, 2016

We reported net income of $8.9 million, or $0.15 per diluted share, for the twelve months ended December 31, 2017 compared to net income of $4.9 million, or $0.12 per diluted share, for the twelve months ended December 31, 2016. The increase in net income was primarily driven by growth in interest-earning assets along with a complete year of earnings of the residential mortgage lending team which was acquired during the third quarter of 2016, as well as, the reversal of our deferred tax asset valuation allowance.

Net interest income for the twelve months ended December 31, 2017 increased $14.7 million to $62.1 million as compared to $47.4 million for the twelve months ended December 31, 2016. Interest income increased $16.6 million, or 30.7%, due primarily to an increase in average loans receivable and investment securities balances. Interest expense increased $1.9 million, or 28.0%, primarily due to an increase in average deposit balances.

We recorded a loan loss provision in the amount of $900 thousand for the twelve months ended December 31, 2017 compared to a provision of $1.6 million during the twelve months ended December 31, 2016. The lower provision recorded for the twelve months ended December 31, 2017 was driven by a decrease in the allowance required for loans individually evaluated for impairment in 2017 as a result of improvement in asset quality.

Non-interest income increased $4.8 million to $20.1 million during the twelve months ended December 31, 2017 as compared to $15.3 million during the twelve months ended December 31, 2016. The increase was primarily driven by mortgage banking income and service fees on deposit accounts, partially offset by a reduction in gains on the sale of SBA loans and losses on the sale of investment securities recorded during the twelve months ended December 31, 2017.

Non-interest expenses increased $19.0 million to $75.3 million during the twelve months ended December 31, 2017 as compared to $56.3 million during the twelve months ended December 31, 2016. The increase was primarily driven by higher salaries, employee benefits, occupancy and equipment expenses associated with the addition of new stores related to our expansion strategy which we refer to as "The Power of Red is Back".

Return on average assets and average equity from continuing operations were 0.43% and 4.02%, respectively, during the twelve months ended December 31, 2017 compared to 0.30% and 3.97%, respectively, for the twelve months ended December 31, 2016.

Average Balances and 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 35% in 2017, 2016, and 2015.

Average Balances and Net Interest Income

	For the Year Ended December 31, 2017			For the Year Ended December 31, 2016			For the Year Ended December 31, 2015		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate(1)	Average Balance	Interest Income/ Expense	Yield/ Rate(1)	Average Balance	Interest Income/ Expense	Yield/ Rate(1)
Interest-earning assets:									
Federal funds sold and other interest earning assets	$48,148	$577	1.20%	$92,452	$473	0.51%	$106,876	$278	0.26%
Investment securities and restricted stock	811,269	20,466	2.52%	506,545	12,346	2.44%	309,018	7,692	2.49%
Loans receivable	1,090,851	50,687	4.65%	936,492	42,304	4.52%	820,820	38,072	4.64%
Total interest-earning assets	1,950,268	71,730	3.68%	1,535,489	55,123	3.59%	1,236,714	46,042	3.72%
Other assets	115,770			96,902			73,873		
Total assets	$2,066,038			$1,632,391			$1,310,587		
Interest bearing liabilities:									
Demand – non-interest bearing	$372,171			$284,326			$235,810		
Demand – interest bearing	687,586	3,020	0.44%	510,745	2,088	0.41%	349,055	1,401	0.40%
Money market & savings	629,464	3,160	0.50%	586,750	2,639	0.45%	508,846	2,170	0.43%
Time deposits	110,952	1,238	1.12%	89,713	942	1.05%	73,819	695	0.94%
Total deposits	1,800,173	7,418	0.41%	1,471,534	5,669	0.39%	1,167,530	4,266	0.37%
Total interest bearing deposits	1,428,002	7,418	0.52%	1,187,208	5,669	0.48%	931,720	4,266	0.46%
Other borrowings	35,429	1,366	3.86%	27,471	1,194	4.35%	22,008	1,115	5.07%

Total interest-bearing liabilities	1,463,431	8,784	0.60%	1,214,679	6,863	0.57%	953,728	5,381	0.56%
Total deposits and other borrowings	1,835,602	8,784	0.48%	1,499,005	6,863	0.46%	1,189,538	5,381	0.45%
Non-interest bearing other liabilities	8,942			8,867			7,340		
Shareholders' equity	221,494			124,519			113,709		
Total liabilities and shareholders' equity	$2,066,038			$1,632,391			$1,310,587		
Net interest income(2)		$62,946			$48,260			$40,661	
Net interest spread			3.08%			3.02%			3.16%
Net interest margin(2)			3.23%			3.14%			3.29%

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

(2) Net interest income and net interest margin are presented on a tax equivalent basis. Net interest income has been increased over the financial statement amount by $881, $896, and $606 in 2017, 2016, and 2015, 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.

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Rate/Volume Analysis of Changes in Net Interest Income

Net interest income may also be analyzed by segregating the volume and rate components of interest income and interest expense. The following table sets forth an analysis of volume and rate changes in net interest income for the periods indicated. For purposes of this table, changes in interest income and expense are allocated to volume and rate categories based upon the respective changes in average balances and average rates.

	Year ended December 31, 2017 vs. 2016			Year ended December 31, 2016 vs. 2015		
	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	$(531)	$635	$104	$(74)	$269	$195
Securities	7,687	433	8,120	4,814	(160)	4,654
Loans	6,976	1,407	8,383	5,180	(948)	4,232
Total interest-earning assets	14,132	2,475	16,607	9,920	(839)	9,081
Interest expense:						
Deposits						
Interest-bearing demand deposits	$777	$155	$932	$661	$26	$687
Money market and savings	193	328	521	348	121	469
Time deposits	237	59	296	167	80	247
Total deposit interest expense	1,207	542	1,749	1,176	227	1,403
Other borrowings	37	135	172	33	46	79
Total interest expense	1,244	677	1,921	1,209	273	1,482
Net interest income	$12,888	$1,798	$14,686	$8,711	$(1,112)	$7,599

Net Interest Income and Net Interest Margin

Net interest income, on a fully tax-equivalent basis, a non-GAAP measure, for the twelve months ended December 31, 2017 increased by $14.7 million, or 30.4%, over twelve months ended December 31, 2016. Interest income on interest-earning assets totaled $71.7 million for the twelve months ended December 31, 2017; an increase of $16.6 million, compared to the twelve months ended December 31, 2016. The increase in interest income earned was primarily the result of an increase in the average balances of investment securities and loans receivable. Total interest expense for the twelve months ended December 31, 2017 increased $1.9 million, or 28.0%, to $8.8 million from $6.9 million compared to the twelve months ended December 31, 2016 driven by a combination of higher volumes and higher rates. Interest expense on deposits increased by $1.7 million, or 30.9%, for the twelve months ended December 31, 2017 versus the twelve months ended December 31, 2016. Interest expense on other borrowings increased by $172,000 for the twelve months ended December 31, 2017 compared to the twelve months ended December 31, 2016

Changes in net interest income are frequently measured by two statistics: net interest rate spread and net interest margin. Net interest rate spread is the difference between the average rate earned on interest-earning assets and the average rate incurred on interest-bearing liabilities. Our net interest rate spread on a fully tax-equivalent basis was 3.08% during the twelve months ended December 31, 2017 versus 3.02% during the twelve months ended December 31, 2016. 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 twelve months ended December 31, 2017 and 2016, the fully tax-equivalent net interest margin was 3.23% and 3.14%, respectively. The net interest margin for the twelve months ended December 31, 2017 increased primarily as a result of an increase in the yields on loans receivable and investment securities.

Provision for Loan Losses

We recorded a provision for loan losses in the amount of $900,000 for the twelve months ended December 31, 2017 compared to a $1.6 million provision for the twelve months ended December 31, 2016. The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that management believes is adequate to absorb inherent losses in the loan portfolio.

The provision recorded for the twelve months ended December 31, 2017 as compared to the twelve months ended December 31, 2016 decreased primarily as a result of a decrease in the allowance required for loans individually evaluated for impairment driven by a reduction in impaired loans.

Non-Interest Income

Total non-interest income for the twelve months ended December 31, 2017 increased by $4.8 million, or 31.2%, compared to the twelve months ended December 31, 2016. Mortgage banking income totaled $11.2 million and $5.1 for the twelve months ended December 31, 2017 and 2016 primarily due to gains on the sale of residential mortgage loans originated through Oak Mortgage. Oak Mortgage was acquired by us during the third quarter of 2016. The increase was a result of a complete year of recognized income during 2017. Gains on the sale of SBA loans totaled $3.4 million for the twelve months ended December 31, 2017 versus $5.0 million for the twelve months ended December 31, 2016. We recognized losses of $146,000 on the sale of securities during the twelve months ended December 31, 2017 compared to gains of $656,000 on sales of securities for the twelve months ended December 31, 2016. Service charges, fees, and other operating income totaled $5.7 million for the twelve months ended December 31, 2017 which represents an increase of $1.1 million compared to the twelve months ended December 31, 2016. This increase was driven by growth in customer deposit accounts and transaction volume.

Non-Interest Expenses

Non-interest expenses increased by $19.0 million for the twelve months ended December 31, 2017, or 33.7%, compared to the twelve months ended December 31, 2016. An explanation of changes of non-interest expenses for certain categories is presented in the following paragraphs.

Salary expenses and employee benefits for the twelve months ended December 31, 2017 were $38.0 million, an increase of $9.4 million, or 32.7%, compared to the twelve months ended December 31, 2016. The increase was primarily driven by annual merit increases along with increased staffing levels related to our aggressive growth strategy of adding and relocating stores, which we refer to as "The Power of Red is Back." There were twenty-two stores open as of December 31, 2017 compared to nineteen stores open at December 31, 2016. In addition, we recorded a full year of salary expenses and employee benefits for Oak Mortgage in 2017.

Occupancy related expenses increased by $1.0 million, or 17.0%, and depreciation and amortization expense increased by $1.1 million, or 31.3%, for the twelve months ended December 31, 2017 compared to the twelve months ended December 31 2016, also as a result of our growth and relocation strategy and the addition of Oak Mortgage.

Other real estate owned expenses totaled $4.1 million during the twelve months ended December 31, 2017, an increase of $1.9 million, when compared to the twelve months ended December 31, 2016 primarily due to the writedown of a single OREO property in the amount of $2.7 million during 2017. This writedown was driven by our decision to aggressively pursue a resolution for our largest non-performing asset which resulted in the execution of an agreement of sale.

All other non-interest expenses for the twelve months ended December 31, 2017 increased $5.6 million compared to the twelve months ended December 31, 2016. Increases in expenses related to residential mortgage operations, data processing, advertising, transactions fees, and professional fees resulting from our growth strategy contributed to the growth in these 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 purposes of this calculation, net non-interest expenses equal non-interest expenses less non-interest income. For the twelve months ended December 31, 2017, the ratio equaled 2.67% compared to 2.51% for the twelve months ended December 31, 2016, respectively. The increase in this ratio was mainly due to our growth strategy of adding and relocating stores and the addition of a residential mortgage lending team.

Another productivity measure utilized by management is the operating efficiency ratio, a non-GAAP measure. This ratio expresses the relationship of non-interest expenses to net interest income plus non-interest income. The efficiency ratio equaled 91.6% for the twelve months ended December 31, 2017, compared to 89.8% for the twelve months ended December 31, 2016. The increase for the twelve months ended December 31, 2017 versus the twelve months ended December 31, 2016 was due to noninterest expenses increasing at a faster rate than both net interest income and noninterest income.

Provision (Benefit) for Income Taxes

We recorded a benefit for income taxes of $2.9 million for the twelve months ended December 31, 2017, compared to a benefit of $119,000 for the twelve months ended December 31, 2016. We reversed our deferred tax asset valuation allowance during the fourth quarter of 2017 resulting in the $2.9 million benefit for income taxes during the period. The benefit for income taxes also takes into consideration the impact of the new corporate tax rate under the Tax Cuts and Jobs Act signed into law on December 22, 2017.

The effective tax rates for the twelve month periods ended December 31, 2017 and 2016 were 27% and 25%, respectively, excluding the adjustment to the deferred tax asset valuation allowance and offsets for the impact of the new tax legislation.

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

In conducting the deferred tax asset analysis, we believe it is important to consider the unique characteristics of an industry or business. In particular, characteristics such as business model, level of capital and reserves held by a financial institution and the ability to absorb potential losses are important distinctions to be considered for bank holding companies like us. In addition, it is also important to consider that net operating loss carryforwards ("NOLs") calculated for federal income tax purposes can generally be carried back two years and carried forward for a period of twenty years. 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.

Positive evidence evaluated when considering the need for a valuation allowance included:

- the annual improvement in earnings during the three year period ended December 31, 2017;
- strong growth in interest-earning assets is expected to continue and is supported by the capital raise completed during the fourth quarter of 2016;
- deposit growth in each of the stores opened since the inception of the "Power of Red is Back" growth and expansion strategy in 2014 has met or exceeded expectations;
- loan growth during 2017 was greater than 20%;
- the acquisition of a residential mortgage lending team (Oak Mortgage Company) completed in July 2016 continues to supplement earnings growth;
- two of our largest non-performing assets have been resolved in 2017; and
- a cumulative loss has not been recorded in recent years.

Negative evidence evaluated when considering the need for a valuation allowance included:

- profitability metrics including return on average assets and return on average equity remain below industry standards; and
- past earnings have been heavily dependent upon the success of the SBA Lending Team which has recently experienced reduced loan volumes and the recently acquired Mortgage Division which can be significantly impacted by a changing interest rate environment and other various economic factors.

The ongoing success of the our growth and expansion strategy, along with the successful integration of the mortgage company and the limited exposure remaining with current asset quality issues put us in a position to rely on projections of future taxable income when evaluating the need for a valuation allowance against its deferred tax assets. Based on the guidance provided in ASC 740, we believed that the positive evidence considered at December 31, 2017 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 was not required at December 31, 2017 and a $10.6 million benefit for income taxes was recorded in the fourth quarter of 2017 to reflect the reversal of the valuation allowance.

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Our net deferred tax asset before the consideration of a valuation allowance decreased to $12.7 million at December 31, 2017 compared to $21.4 million at December 31, 2016. This decrease was primarily driven by the impact of the 2017 Tax Cuts and Jobs Act. It included a reduction in the corporate income tax rate from 35% to 21%. Our deferred tax asset balances have historically been calculated using a federal tax rate of 35%. As a result of the change in the tax rate, the value of our existing deferred tax assets permanently decreased by $7.7 million at December 31, 2017. Therefore, a charge was recorded to income tax expense in the fourth quarter of 2017 to reflect the reduction in value.

The $10.6 million tax benefit recognized when reversing the deferred tax asset valuation allowance offset the $7.7 million charge related to the change the change in the corporate tax rate resulting in a net tax benefit and increase in net income of $2.9 million during 2017.

The $12.7 million net deferred tax asset as of December 31, 2017 is comprised of $5.4 million currently recognizable through net operating loss carryforwards and $7.3 million attributable to several items associated with temporary timing differences which will reverse at some point in the future to provide a net reduction in tax liabilities. Our largest future reversal relates to its unrealized losses on securities available for sale, which totaled $2.6 million as of December 31, 2017.

The deferred tax asset will continue to be analyzed on a quarterly basis for changes affecting realizability.

Net Income and Net Income per Common Share

Net income for the twelve months ended December 31, 2017 was $8.9 million, an increase of $4.0 million compared to $4.9 million for the twelve month period ended December 31, 2016. For the twelve months ended December 31, 2017, basic and fully-diluted net income per common share were $0.16 and $0.15, respectively, compared to basic and fully-diluted net income per common share of $0.13 and $0.12, respectively for the twelve months ended December 31, 2016.

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 twelve months ended December 31, 2017 and 2016 was 0.43% and 0.30%, respectively. Return on average equity (ROE) indicates how effectively we can generate net income on the capital invested by our stockholders. ROE is calculated by dividing annualized net income by average stockholders' equity. The ROE for the twelve months ended December 31, 2017 was 4.02%, compared to 3.97% for the twelve months ended December 31, 2016.

Results of Operations

For the year ended December 31, 2016 as compared to the year ended December 31, 2015

We reported net income of $4.9 million, or $0.12 per diluted share, for the twelve months ended December 31, 2016 compared to net income of $2.4 million, or $0.06 per diluted share, for the twelve months ended December 31, 2015. The increase in net income was primarily driven by growth in interest-earning assets along with earnings of the residential mortgage lending team which was acquired during the third quarter of 2016.
Net interest income for the twelve months ended December 31, 2016 increased $7.3 million to $47.4 million as compared to $40.1 million for the twelve months ended December 31, 2015. Interest income increased $8.8 million, or 19.3%, due primarily to an increase in average loans receivable and investment securities balances. Interest expense increased $1.5 million, or 27.5%, primarily due to an increase in average deposit balances.

We recorded a loan loss provision in the amount of $1.6 million for the twelve months ended December 31, 2016 compared to a provision of $500,000 during the twelve months ended December 31, 2015. The higher provision recorded for the twelve months ended December 31, 2016 was driven by an increase in the allowance required for loans individually evaluated for impairment in 2016.

Non-interest income increased $5.4 million to $15.3 million during the twelve months ended December 31, 2016 as compared to $9.9 million during the twelve months ended December 31, 2015 primarily driven by gains on the sale of residential mortgage loans and SBA loans, partially offset by legal settlements recorded during the twelve months ended December 31, 2015.

Non-interest expenses increased $9.2 million to $56.3 million during the twelve months ended December 31, 2016 as compared to $47.1 million during the twelve months ended December 31, 2015. The increase was primarily driven by higher salaries, employee benefits, occupancy and equipment expenses associated with the addition of new stores related to our expansion strategy which we refer to as "The Power of Red is Back", as well as, the addition of Oak Mortgage in 2016.

Return on average assets and average equity from continuing operations were 0.30% and 3.97%, respectively, during the twelve months ended December 31, 2016 compared to 0.19% and 2.14%, respectively, for the twelve months ended December 31, 2015.

Net Interest Income and Net Interest Margin

Net interest income, on a fully tax-equivalent basis, for the twelve months ended December 31, 2016 increased by $7.6 million, or 18.7%, compared to the twelve months ended December 31, 2015. Interest income on interest-earning assets totaled $55.1 million for the twelve months ended December 31, 2016, an increase of $9.1 million, versus the twelve months ended December 31, 2015. The increase in interest income earned was the result of an increase in the average balance of loans receivable and investment securities that helped to offset a 12 bp decrease in the yield on loans receivable. Total interest expense for the twelve months ended December 31, 2016 increased $1.5 million, or 27.5%, to $6.9 million from $5.4 million during the twelve months ended December 31, 2015. Interest expense on deposits increased by $1.4 million, or 32.9%, for the twelve months ended December 31, 2016 versus the twelve months ended December 31, 2015. Interest expense on other borrowings increased by $79,000 for the twelve months ended December 31, 2016 compared to the twelve months ended December 31, 2015.

Changes in net interest income are frequently measured by two statistics: net interest rate spread and net interest margin. Net interest rate spread is the difference between the average rate earned on interest-earning assets and the average rate incurred on interest-bearing liabilities. Our net interest rate spread on a fully tax-equivalent basis was 3.02% during the twelve months ended December 31, 2016 versus 3.16% during the twelve months ended December 31, 2015. 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 twelve months ended December 31, 2016 and 2015, the fully tax-equivalent net interest margin was 3.14% and 3.29%, respectively. The net interest margin for twelve months ended December 31, 2016 decreased primarily as a result of a decrease in the yield on loans receivable.

Provision for Loan Losses

We recorded a provision for loan losses in the amount of $1.6 million for the twelve months ended December 31, 2016 compared to a $500,000 provision for the twelve months ended December 31, 2015. The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that management believes is adequate to absorb inherent losses in the loan portfolio.

The provision recorded for the twelve months ended December 31, 2016 as compared to the twelve months ended December 31, 2015 increased primarily as a result of a single loan relationship that moved to non-accrual status during 2016. This resulted in an increase in the allowance for loan losses individually evaluated for impairment.

Non-Interest Income

Total non-interest income for the twelve months ended December 31, 2016 increased by $5.4 million, or 54.0%, compared to the twelve months ended December 31, 2015. Mortgage banking income totaled $5.1 million during the twelve months ended December 31, 2016 primarily due to gains on the sale of residential mortgage loans of $4.7 million originated through Oak Mortgage which was acquired by us in 2016. Gains on the sale of SBA loans totaled $5.0 million during the twelve months ended December 31, 2016 compared to $3.1 million for the twelve months ended December 31, 2015. We recognized gains of $656,000 on the sale of securities during the twelve months ended December 31, 2016 versus gains of $108,000 on sales of securities for the twelve months ended December 31, 2015. Service charges, fees, and other operating income totaled $4.8 million for twelve months ended December 31, 2016 which represents an increase of $602,000 compared to the twelve months ended December 31, 2015. This increase was driven by growth in customer deposit accounts and transaction volume. In 2015, we recorded a $2.6 million insurance settlement which was related to a claim against a corporate insurance policy originally submitted in 2010.

Non-Interest Expenses

Non-interest expenses increased by $9.2 million, or 19.5%, for the twelve months ended December 31, 2016 compared to the twelve months ended December 31, 2015. An explanation of changes in noninterest expenses for certain categories is presented in the following paragraphs.

Salary expenses and employee benefits during the twelve months ended December 31, 2016 were $28.6 million, an increase of $6.1 million, or 27.2%, compared to the twelve months ended December 31, 2015 primarily driven by annual merit increases along with increased staffing levels related to our aggressive growth strategy of adding and relocating stores, which we refer to as "The Power of Red is Back." There were nineteen stores open as of December 31, 2016 compared to seventeen stores open at December 31, 2015. The addition of Oak Mortgage in July 2016 also contributed to the increase in salary and employee benefits.

Occupancy related expenses increased by $1.2 million, or 23.9%, and depreciation and amortization expense increased by $438,000, or 14.2%, for the twelve months ended December 31, 2016 versus the twelve months ended December 31, 2015, also as a result of our growth and relocation strategy.

Other real estate owned expenses totaled $2.2 million during the twelve months ended December 31, 2016, a decrease of $2.1 million, compared to the twelve months ended December 31, 2015 primarily due to a reduction in writedowns on foreclosed assets held in other real estate owned.

All other noninterest expenses for the twelve months ended December 31, 2016 increased $3.5 million versus the twelve months ended December 31, 2015. This increase was mainly attributable to the addition of expenses related to the residential mortgage loan operations of Oak Mortgage. Increases in data processing expenses, fraud losses associated with debit cards, charitable contributions, professional fees, transaction fees, insurance, regulatory assessment and advertising expense resulting from our growth 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 noninterest expenses to average assets, a non-GAAP measure. For purposes of this calculation, net noninterest expenses equal noninterest expenses less noninterest income. For the twelve months ended December 31, 2016, the ratio equaled 2.51% compared to 2.83% for the twelve months ended December 31, 2015, respectively. The decline in this ratio was mainly due to higher average assets related to our growth strategy of adding and relocating stores.

Another productivity measure utilized by management is the operating efficiency ratio, a non-GAAP measure. This ratio expresses the relationship of noninterest expenses to net interest income plus noninterest income. The efficiency ratio equaled 89.8% for the twelve months ended December 31, 2016, compared to 94.2% for the twelve months ended December 31, 2015. The decrease for the twelve months ended December 31, 2016 versus the twelve months ended December 31, 2015 was due to both net interest income and noninterest income increasing at a faster rate than noninterest expenses.

Provision (Benefit) for Income Taxes

We recorded a benefit for income taxes of $119,000 for the twelve months ended December 31, 2016, compared to a $26,000 benefit for the twelve months ended December 31, 2015. The $119,000 benefit recorded during the twelve months of 2016 was the net result of an estimated tax provision in the amount of $1.2 million calculated on the net profit generated during the period using our normal estimated tax rate, offset by an adjustment to the deferred tax asset valuation allowance in the amount of $1.3 million. The effective tax rates for the twelve month periods ended December 31, 2016 and 2015 were 25% and 38%, respectively, excluding an adjustment to the deferred tax asset valuation allowance.

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

In conducting the deferred tax asset analysis, 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 financial institutions and their 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") for federal income tax purposes can generally be carried back two years and carried forward for a period of twenty years. In order to realize our deferred tax assets, we must generate sufficient taxable income in such future years.

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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 analysis of available positive and negative evidence, we determined that a valuation allowance should be recorded as of December 31, 2016 and December 31, 2015.

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

The net deferred tax asset balance before consideration of a valuation allowance was $21.4 million as of December 31, 2016 and $20.2 million as of December 31, 2015. After assessment of all available tax planning strategies, we determined that a partial valuation allowance in the amount of $12.2 million as of December 31, 2016 and $13.7 million as of December 31, 2015 should be recorded.

The deferred tax asset will continue to be analyzed on a quarterly basis for changes affecting realizability. When the determination is made that a valuation allowance is no longer required, it will be reduced accordingly resulting in a corresponding increase in net income.

Net Income and Net Income per Common Share

Net income for the twelve months ended December 31, 2016 was $4.9 million, an increase of $2.5 million compared to $2.4 million for the twelve months ended December 31, 2015. For the twelve months ended December 31, 2016, basic and fully-diluted net income per common share were $0.13 and $0.12, respectively, compared to basic and fully-diluted net income per common share of $0.06 for the twelve months ended December 31, 2015.

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 twelve months ended December 31, 2016 and 2015 was 0.30% and 0.19%, respectively. Return on average equity (ROE) indicates how effectively we can generate net income on the capital invested by our stockholders. ROE is calculated by dividing annualized net income by average stockholders' equity. The ROE for the twelve months ended December 31, 2016 was 3.97%, compared to 2.14% for the twelve months ended December 31, 2015.

Financial Condition

December 31, 2017 compared to December 31, 2016

Total assets increased by $398.4 million to $2.3 billion at December 31, 2017, compared to $1.9 billion at December 31, 2016.

Cash and Cash Equivalents

Cash and due from banks and interest bearing deposits comprise this category, which consists of our most liquid assets. The aggregate amount in these three categories increased by $27.4 million to $61.9 million at December 31, 2017, from $34.6 million at December 31, 2016.

Loans Held for Sale

Loans held for sale are comprised of loans guaranteed by the U.S. Small Business Administration ("SBA") which we usually originate with the intention of selling in the future and residential mortgage loans, which we also intend to sell in the future. Total SBA loans held for sale were $2.3 million at December 31, 2017 compared to $4.2 million at December 31, 2016. Residential mortgage loans held for sale totaled $43.4 million at December 31, 2017 versus $23.9 million at December 31, 2016. Loans held for sale, as a percentage of our total assets, were less than 2.0% at December 31, 2017.

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 $28.5 million at December 31, 2017. Loans made to one individual customer, even if secured by different collateral, are aggregated for purposes of the lending limit. There were no loans in excess of the legal lending limit at December 31, 2017. A $19.0 million threshold, which amounts to approximately 10% of total regulatory capital, reflects an additional internal monitoring guideline. Such relationships in excess of $19.0 million on December 31, 2017 amounted to $72.9 million.

Loans increased $197.0 million, or 20%, to $1.2 billion at December 31, 2017, versus $965.0 million at December 31, 2016. This growth was the result of an increase in loan demand in the residential mortgage, commercial real estate, construction and land development, owner occupied real estate, and consumer categories driven by the successful execution of our relationship banking strategy which focuses on customer service.

Investment Securities

Investment securities considered available-for-sale are investments that may be sold in response to changing market and interest rate conditions, and for liquidity and other purposes. Our investment securities classified as available-for-sale consist primarily of U.S. Government agency collateralized mortgage obligations (CMO), agency mortgage-backed securities (MBS), municipal securities, corporate bonds, asset-backed securities (ABS), and pooled trust preferred securities (CDO). Available-for-sale securities totaled $464.4 million at December 31, 2017 as compared to $369.7 million at December 31, 2016. The increase was primarily due to the purchase of available-for-sale securities totaling $165.1 million partially offset by sales and pay downs of securities totaling $79.7 million during 2017. At December 31, 2017, the portfolio had a net unrealized loss of $11.2 million compared to a net unrealized loss of $10.7 million at December 31, 2016. The change in value of the investment portfolio was driven by an increase in market interest rates which drove a decrease in value of the securities held in our portfolio during 2017.

Investment securities held-to-maturity are investments for which there is the intent and ability to hold the investment to maturity. These investments are carried at amortized cost. The held-to-maturity portfolio consists primarily of U.S. Government agency Small Business Investment Company bonds (SBIC) and Small Business Administration (SBA) bonds, CMO's and MBS's. The fair value of securities held-to-maturity totaled $463.8 million and $425.2 million at December 31, 2017 and December 31, 2016, respectively. The increase was primarily due to the purchase of securities totaling $89.4 million partially offset by pay downs of securities held in the portfolio totaling $37.3 million by during the year ended December 31, 2017.

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 December 31, 2017 and December 31, 2016. 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 December 31, 2017 and December 31, 2016, the investment in FHLB stock totaled $1.8 million and $1.2 million, respectively. The increase was due to a higher required investment in FHLB stock during 2017. At both December 31, 2017 and December 31, 2016, ACBB stock totaled $143,000.

Other Real Estate Owned

The balance of other real estate owned decreased to $7.0 million at December 31, 2017 from $10.2 million at December 31, 2016, primarily due to the write-down of a single asset held in the OREO portfolio in the amount of $2.7 million.

Goodwill

Goodwill amounted to $5.0 million at both December 31, 2017 and December 31, 2016. All goodwill was allocated to Oak Mortgage ("the Reporting Unit") as of December 31, 2017 and 2016, respectively.

Goodwill is reviewed for impairment annually as of July 31 and between annual tests when events and circumstances indicate that impairment may have occurred. Impairment is a condition that exists when the carrying amount of goodwill exceeds its implied fair value. As of July 31, 2017, the fair value of the Reporting Unit exceeded its carrying value by 11%. The determination of the fair value of the Reporting Unit incorporates assumptions that marketplace participants would use in their estimates of fair value of the Reporting Unit in a change of control transaction, as prescribed by ASC Topic 820.

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

Premises and Equipment

The balance of premises and equipment increased to $74.9 million at December 31, 2017 from $57.0 million at December 31, 2016. The increase was primarily due to premises and equipment expenditures of $22.5 million less depreciation and amortization expenses of $4.6 million. New stores were opened in Cherry Hill, Sicklerville, and Medford in NJ during 2017 bringing the total store count to twenty-two. We ended the year with stores under construction in Gloucester Township and Lumberton in NJ and Fairless Hills, PA which are scheduled to be completed in early 2018.

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 $385.6 million to $2.1 billion at December 31, 2017, from $1.7 billion at December 31, 2016. The increase was the result of growth across all deposit categories, led by a significant rise in demand deposit balances. We constantly focus our efforts on the growth of deposit balances through the successful execution of our relationship banking model which is based upon a high level of customer service and satisfaction. We are also in the midst of an aggressive expansion and relocation plan which we refer to as "The Power of Red is Back". Over the last three years, we have opened twelve new store locations and have several more in various stages of construction and development. 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 public fund certificates of deposit.

Shareholders' Equity

Total shareholders' equity increased $11.4 million to $226.5 million at December 31, 2017 compared to $215.1 million at December 31, 2016. The increase was primarily due to net income of $8.9 million recognized during the year end December 31, 2017.

Investment Securities Portfolio

Republic's investment securities portfolio is intended to provide liquidity and contribute to earnings while diversifying credit risk. We attempt to maximize earnings while minimizing our exposure to interest rate risk. The securities portfolio consists primarily of U.S. Government agency collateralized mortgage obligations (CMO), agency mortgage-backed securities (MBS), corporate bonds, municipal securities, asset-backed securities (ABS), pooled trust preferred securities (CDO), and U.S. Government agency Small Business Investment Company bonds (SBIC) and Small Business Administration (SBA) bonds. Our ALCO committee monitors and reviews all security purchases.

A summary of investment securities available-for-sale and investment securities held-to-maturity at December 31, 2017, 2016, and 2015 is as follows:

	At December 31,		
(dollars in thousands)	2017	2016	2015
Available for sale			
Collateralized mortgage obligations	$327,972	$230,252	$180,795
Agency mortgage-backed securities	55,664	37,973	10,073
Municipal securities	15,142	26,825	22,814
Corporate bonds	62,670	66,718	54,294
Asset-backed securities	13,414	15,565	17,631
Trust preferred securities	725	3,063	3,070
Other securities	-	-	115
Total amortized cost of securities	$475,587	$380,396	$288,792
Total fair value of investment securities	$464,430	$369,739	$284,795
Held to maturity			
U.S. Government agencies	$112,605	$98,538	$17,067
Collateralized mortgage obligations	215,567	202,990	146,458
Agency mortgage-backed securities	143,041	129,951	7,732
Other securities	1,000	1,020	1,020
Total amortized cost of securities	$472,213	$432,499	$172,277
Total fair value of investment securities	$463,799	$425,183	$171,845

The strong growth in deposit balances during 2017, 2016, and 2015 has resulted in a corresponding increase in interest earning assets. A capital raise in the amount of $100 million completed in December 2016 also contributed to the growth of interest earning assets in 2016 and 2017. The total amortized cost of the investment securities portfolio has grown to $947.8 million at December 31, 2017 compared to $812.9 million at December 31, 2016 and $461.1 million at December 31, 2015. Investment securities represented 40% of total assets at December 31, 2017 and 42% of total assets at December 31, 2016. We evaluate our investment securities portfolio on a continual basis in light of the interest rate environment and changing market conditions and when appropriate, take necessary actions to improve and enhance our overall positioning. We consider the portfolio to be well structured and of high quality. At December 31, 2017, 90% of the portfolio consisted of U.S. government agency securities which were rated Aaa /AA+ by the major credit rating agencies.

The investment securities portfolio includes securities classified as both available for sale and held to maturity. During 2017 and 2016, we designated a portion of our securities portfolio as held to maturity based our intent and ability to hold those securities until they mature.

The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. The fair value of investment securities generally decreases when interest rates rise and increases when interest rates fall. In addition, the fair value generally decreases when credit spreads widen and increases when credit spreads tighten. Net unrealized losses in the total investment securities portfolio increased to $19.6 million at December 31, 2017 compared to net unrealized losses of $18.0 million at December 31, 2016 as a result of a rise in interest rates in 2017. The comparable amounts for the securities classified as available for sale were unrealized losses of $11.2 million at December 31, 2017 and unrealized gains of $10.7 million at December 31, 2016.

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No single issuer of securities (excluding government agencies) in the portfolio exceeded more than 10% of shareholders' equity at December 31, 2017 and December 31, 2016.

At December 31, 2017, the investment portfolio included twenty-three municipal securities with a total market value of $15.1 million. These securities are reviewed quarterly for impairment. Each bond carries an investment grade rating by either Moody's or Standard & Poor's. In addition, we periodically conduct our 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 where twenty-one municipal securities had a market value of $14.3 million. As of December 31, 2017, management found no evidence of other than temporary impairment ("OTTI") on any of the municipal securities held in the investment securities portfolio.

At December 31, 2017, the portfolio included two asset-backed securities with a total market value of $13.5 million. Neither security was in an unrealized loss position. The asset-backed securities consist solely of Sallie Mae bonds, collateralized by student loans which are guaranteed by the U.S. Department of Education.

At December 31, 2017, the portfolio also included one pooled trust preferred security (CDO) with a market value of $489,000. The unrealized loss for the CDO was due to the secondary market for such securities becoming inactive and is considered temporary.

During 2017, we sold two CDO securities. Proceeds from the sale of the CDO securities totaled $1.5 million. Gross losses of $798,000 were realized on these sales. The tax provision applicable to the net losses for the twelve months ended December 31, 2017 amounted to $287,000. Management had previously stated that it did not intend to sell the CDO securities prior to their maturity or the recovery of their cost bases, nor would it be forced to sell these securities prior to maturity or recovery of the cost bases. This statement was made over a period of several years where there was limited trading activity in the pooled trust preferred CDO market resulting in fair market value estimates well below the book values. During 2017, management received several inquiries regarding the availability of the CDO securities and noted an increased level of trading in this type of security. As a result of the increased activity and the level of bids received, management elected to sell the two CDOs during 2017. The Bank continues to demonstrate the ability and intent to hold the remaining CDO until maturity or recovery of the cost basis, but will evaluate future opportunities to sell the remaining CDO if they arise. During 2016, we sold no CDO securities.

During 2017, we sold thirty-three municipal bonds, two CMOs, two corporate bonds, and one agency MBS. Proceeds of sales totaled $29.7 million. Gross gains of $652,000 were realized on these sales. The tax provision applicable to the gross gains amounted to $235,000. During 2016, we sold eight CMOs, two agency mortgage-backed securities, and one corporate bond. Proceeds of sales totaled $78.6 million. Gross gains of $680,000 and gross losses of $24,000 were realized on these sales. The tax provision applicable to the gross gains amounted to $244,000.

The following table presents the maturity distribution and weighted average yield by holding type and year of maturity of our investment securities portfolio at December 31, 2017. Collateralized mortgage obligations and agency mortgage-backed securities have expected maturities that differ from contractual maturities because borrowers have the right to call or prepay and, therefore, these securities are classified separately with no specific maturity date.

	December 31, 2017										
	Within One Year		One to Five Years		Five to Ten Years		Past Ten Years		Total		
(dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Fair value	Amortized Cost	Yield
Available for Sale											
Collateralized mortgage obligations	$-	-	$-	-	$-	-	$-	-	$320,241	$327,972	2.36%
Agency mortgage-backed securities	-	-	-	-	-	-	-	-	54,866	55,664	2.36%
Municipal securities	1,156	3.56%	1,938	2.09%	10,542	2.72%	1,464	2.48%	15,100	15,142	2.68%
Corporate bonds	-	-	4,686	2.80%	52,510	3.86%	3,086	4.21%	60,282	62,670	3.74%
Asset-backed securities	-	-	-	-	13,452	2.64%	-	--	13,452	13,414	2.64%
Trust Preferred securities	-	-	-	-	489	4.14%	-	-	489	725	4.14%
Total AFS securities	$1,156	3.56%	$6,624	2.59%	$76,993	3.49%	$4,550	3.65%	$464,430	$475,587	2.57%
Held to Maturity											
U.S. Government Agencies	$-	-	$10,116	2.47%	$100,304	2.41%	$-	-	$110,420	$112,605	2.41%
Collateralized mortgage obligations	-	-	-	-	-	-	-	-	211,911	215,567	2.50%
Agency mortgage-backed securities	-	-	-	-	-	-	-	-	140,468	143,041	2.54%
Other securities	-	-	1,000	2.25%	-	-	-	-	1,000	1,000	2.25%
Total HTM securities	$-	-	$11,116	2.45%	$100,304	2.41%	$-	-			