

REPUBLIC FIRST BANCORP INC
Form 10-Q
August 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2018.

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

Commission File Number: 000-17007

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

Pennsylvania 23-2486815
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

50 South 16th Street, Philadelphia, Pennsylvania 19102
(Address of principal executive offices) (Zip code)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer Accelerated filer
Non-Accelerated filer (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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common Stock, \$0.01 per share 58,759,853

Title of Class

Number of Shares Outstanding as of August 6, 2018

REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARIES
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Republic First Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
June 30, 2018 and December 31, 2017
(Dollars in thousands, except per share data)
(unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	\$29,363	\$36,073
Interest bearing deposits with banks	29,991	25,869
Cash and cash equivalents	59,354	61,942
Investment securities available for sale, at fair value	502,021	464,430
Investment securities held to maturity, at amortized cost (fair value of \$483,994 and \$463,799, respectively)	503,742	472,213
Restricted stock, at cost	8,379	1,918
Mortgage loans held for sale, at fair value	36,090	43,375
Other loans held for sale	3,211	2,325
Loans receivable (net of allowance for loan losses of \$7,566 and \$8,599, respectively)	1,310,012	1,153,679
Premises and equipment, net	80,069	74,947
Other real estate owned, net	6,559	6,966
Accrued interest receivable	8,019	7,009
Goodwill	5,011	5,011
Other assets	30,453	28,532
Total Assets	\$2,552,920	\$2,322,347
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand – non-interest bearing	\$526,650	\$438,500
Demand – interest bearing	785,513	807,736
Money market and savings	698,182	700,322
Time deposits	123,796	116,737
Total Deposits	2,134,141	2,063,295
Short-term borrowings	161,669	-
Accrued interest payable	408	293
Other liabilities	10,112	10,618
Subordinated debt	11,256	21,681
Total Liabilities	2,317,586	2,095,887
Shareholders' Equity		
Preferred stock, par value \$0.01 per share: 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value \$0.01 per share: 100,000,000 shares authorized; shares issued 59,288,698 as of June 30, 2018 and 57,518,609 as of December 31, 2017; shares outstanding 58,759,853 as of June 30, 2018 and 56,989,764 as of December 31, 2017	593	575
Additional paid in capital	267,974	256,285
Accumulated deficit	(13,195)	(18,983)
Treasury stock at cost (503,408 shares as of June 30, 2018 and December 31, 2017)	(3,725)	(3,725)
	(183)	(183)

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Stock held by deferred compensation plan (25,437 shares as of June 30, 2018 and December 31, 2017)

Accumulated other comprehensive loss	(16,130)	(7,509)
Total Shareholders' Equity	235,334	226,460
Total Liabilities and Shareholders' Equity	\$2,552,920	\$2,322,347

(See notes to consolidated financial statements)

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Republic First Bancorp, Inc. and Subsidiaries
 Consolidated Statements of Income
 For the Three and Six Months Ended June 30, 2018 and 2017
 (Dollars in thousands, except per share data)
 (unaudited)

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2018	2017	2018	2017
Interest income:				
Interest and fees on taxable loans	\$15,082	\$12,069	\$28,989	\$23,010
Interest and fees on tax-exempt loans	375	261	737	519
Interest and dividends on taxable investment securities	6,676	4,777	13,025	9,510
Interest and dividends on tax-exempt investment securities	128	154	237	348
Interest on federal funds sold and other interest-earning assets	63	70	235	131
Total interest income	22,324	17,331	43,223	33,518
Interest expense:				
Demand- interest bearing	1,549	695	2,806	1,303
Money market and savings	1,174	732	2,146	1,430
Time deposits	366	295	735	591
Other borrowings	573	342	758	708
Total interest expense	3,662	2,064	6,445	4,032
Net interest income	18,662	15,267	36,778	29,486
Provision for loan losses	800	500	1,200	500
Net interest income after provision for loan losses	17,862	14,767	35,578	28,986
Non-interest income:				
Loan and servicing fees	372	316	519	653
Mortgage banking income	3,182	2,971	5,368	5,392
Gain on sales of SBA loans	846	796	1,838	1,484
Service fees on deposit accounts	1,326	907	2,501	1,753
Loss on sale of investment securities	(1)	(61)	(1)	(61)
Other non-interest income	43	40	78	86
Total non-interest income	5,768	4,969	10,303	9,307
Non-interest expenses:				
Salaries and employee benefits	10,883	9,389	21,528	17,971
Occupancy	1,888	1,752	4,001	3,467
Depreciation and amortization	1,465	1,121	2,822	2,296
Legal	349	127	640	379
Other real estate owned	192	612	503	958
Appraisal and other loan expenses	455	381	733	823
Advertising	297	222	626	467
Data processing	940	765	1,764	1,550
Insurance	217	200	509	473
Professional fees	510	507	978	935
Regulatory assessments and costs	395	324	862	653
Taxes, other	245	238	490	474
Other operating expenses	2,893	2,047	5,375	4,043
Total non-interest expense	20,729	17,685	40,831	34,489
Income before provision (benefit) for income taxes	2,901	2,051	5,050	3,804
Provision (benefit) for income taxes	530	(8)	902	(42)

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Net income	\$2,371	\$2,059	\$4,148	\$3,846
Net income per share:				
Basic	\$0.04	\$0.04	\$0.07	\$0.07
Diluted	\$0.04	\$0.04	\$0.07	\$0.07

(See notes to consolidated financial statements)

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Republic First Bancorp, Inc. and Subsidiaries
 Consolidated Statements of Comprehensive Income (Loss)
 For the Three and Six Months Ended June 30, 2018 and 2017
 (Dollars in thousands)
 (unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$2,371	\$2,059	\$4,148	\$3,846
Other comprehensive income (loss), net of tax				
Unrealized (losses) gains on securities (pre-tax (\$2,300) \$1,651, (\$9,008), and \$2,622, respectively)	(1,797)	1,058	(7,036)	1,681
Reclassification adjustment for securities losses (pre-tax \$1, \$61, \$1, and \$61, respectively)	1	39	1	39
Net unrealized gains (losses) on securities	(1,796)	1,097	(7,035)	1,720
Net unrealized holding losses on securities transferred from available-for-sale to held-to-maturity:				
Amortization of net unrealized holding losses to income during the period (pre-tax \$30, \$43, \$69, and \$85 respectively)	23	28	54	55
Total other comprehensive income (loss)	(1,773)	1,125	(6,981)	1,775
Total comprehensive income (loss)	\$598	\$3,184	\$(2,833)	\$5,621

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2018 and 2017
(Dollars in thousands)
(unaudited)

	Six Months Ended	
	June 30,	
	2018	2017
Cash flows from operating activities		
Net income	\$4,148	\$3,846
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,200	500
Write down of other real estate owned	-	258
Depreciation and amortization	2,822	2,296
Stock based compensation	1,052	817
Loss (gain) on sale of investment securities	1	61
Amortization of premiums on investment securities	1,497	1,191
Accretion of discounts on retained SBA loans	(678)	(646)
Fair value adjustments on SBA servicing assets	833	636
Proceeds from sales of SBA loans originated for sale	24,283	17,692
SBA loans originated for sale	(23,331)	(17,294)
Gains on sales of SBA loans originated for sale	(1,838)	(1,484)
Proceeds from sales of mortgage loans originated for sale	156,560	173,501
Mortgage loans originated for sale	(145,366)	(169,467)
Fair value adjustment for mortgage loans originated for sale	41	(302)
Gains on mortgage loans originated for sale	(4,058)	(4,128)
Amortization of intangible assets	-	52
Amortization of debt issuance costs	3	15
Increase in accrued interest receivable and other assets	(807)	(2,080)
Net (increase) decrease in accrued interest payable and other liabilities	(616)	2,752
Net cash provided by operating activities	15,746	8,216
Cash flows from investing activities		
Purchase of investment securities available for sale	(79,595)	(10,311)
Purchase of investment securities held to maturity	(61,083)	-
Proceeds from the sale of securities available for sale	5,713	21,167
Proceeds from the maturity or call of securities available for sale	26,378	15,762
Proceeds from the maturity or call of securities held to maturity	28,030	22,583
Purchase of restricted stock	(6,461)	(2,512)
Net increase in loans	(156,855)	(101,222)
Net proceeds from sale of other real estate owned	407	136
Premises and equipment expenditures	(7,944)	(10,727)
Net cash used in investing activities	(251,410)	(65,124)
Cash flows from financing activities		
Net proceeds from exercise of stock options	561	590
Net increase in demand, money market and savings deposits	63,787	59,124
Net increase (decrease) in time deposits	7,059	(4,363)
Increase in short-term borrowings	161,669	55,000

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Net cash provided by financing activities	233,076	110,351
Net (decrease) increase in cash and cash equivalents	(2,588)	53,443
Cash and cash equivalents, beginning of year	61,942	34,554
Cash and cash equivalents, end of period	\$59,354	\$87,997
Supplemental disclosures		
Interest paid	\$6,330	\$4,159
Income taxes paid	\$-	\$75
Non-cash transfers from loans to other real estate owned	\$-	\$129
Conversion of subordinated debt to common stock	\$10,094	\$240

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Six Months Ended June 30, 2018 and 2017
(Dollars in thousands)
(unaudited)

	Common Stock	Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance January 1, 2018	\$ 575	\$ 256,285	\$ (18,983)	\$ (3,725)	\$ (183)	\$ (7,509)	\$ 226,460
Reclassification due to the adoption of ASU 2018-02			1,640			(1,640)	-
Net income			4,148				4,148
Other comprehensive loss, net of tax						(6,981)	(6,981)
Stock based compensation		1,052					1,052
Conversion of subordinated debt to common stock (1,624,614 shares)	16	10,078					10,094
Options exercised (145,475 shares)	2	559					561
Balance June 30, 2018	\$ 593	\$ 267,974	\$ (13,195)	\$ (3,725)	\$ (183)	\$ (16,130)	\$ 235,334
Balance January 1, 2017	\$ 573	\$ 253,570	\$ (27,888)	\$ (3,725)	\$ (183)	\$ (7,294)	\$ 215,053
Net income			3,846				3,846
Other comprehensive income, net of tax						1,775	1,775
Stock based compensation		817					817
Conversion of subordinated debt to common stock (36,922 shares)		240					240
Options exercised (179,475 shares)	2	588					590
Balance June 30, 2017	\$ 575	\$ 255,215	\$ (24,042)	\$ (3,725)	\$ (183)	\$ (5,519)	\$ 222,321

(See notes to consolidated financial statements)

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

Note 1: Basis of Presentation

Republic First Bancorp, Inc. (the "Company") is a bank holding company organized and incorporated under the laws of the Commonwealth of Pennsylvania. It is comprised of one wholly-owned subsidiary, Republic First Bank, which does business under the name of Republic Bank ("Republic"). Republic is a Pennsylvania state chartered bank that offers a variety of banking services to individuals and businesses through its offices and store locations in Greater Philadelphia and Southern New Jersey. In July 2016, Republic acquired Oak Mortgage Company, LLC ("Oak Mortgage"), a residential mortgage lending organization. Oak Mortgage is headquartered in Marlton, NJ and is licensed to do business in Pennsylvania, Delaware, New Jersey, and Florida. The Company also has two unconsolidated subsidiaries, which are statutory trusts established by the Company in connection with its sponsorship of two separate issuances of trust preferred securities.

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

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

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Republic. The Company follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("US GAAP") that are followed to ensure consistent reporting of financial condition, results of operations, and cash flows. All material inter-company transactions have been eliminated. Events occurring subsequent to the date of the balance sheet have been evaluated for potential recognition or disclosure in the consolidated financial statements. The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to United States Securities and Exchange Commission ("SEC") Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for financial statements for a complete fiscal year. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

Note 2: Summary of Significant Accounting Policies

Risks and Uncertainties

The earnings of the Company depend primarily on the earnings of Republic. The earnings of Republic are heavily dependent upon the level of net interest income, which is the difference between interest earned on its interest-earning assets, such as loans and investments, and the interest paid on its interest-bearing liabilities, such as deposits and borrowings. Accordingly, the Company's results of operations are subject to risks and uncertainties surrounding Republic's exposure to changes in the interest rate environment. Prepayments on residential real estate mortgage and other fixed rate loans and mortgage-backed securities vary significantly and may cause significant fluctuations in interest margins.

Mortgage Banking Activities and Mortgage Loans Held for Sale

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

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

Interest Rate Lock Commitments ("IRLCs")

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

Use of Estimates

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

Significant estimates are made by management in determining the allowance for loan losses, carrying values of other real estate owned, assessment of other than temporary impairment ("OTTI") of investment securities, fair value of financial instruments, (see "Note 7" below), and the realization of deferred income tax assets. Consideration is given to a variety of factors in establishing these estimates.

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

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

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

Stock-Based Compensation

The Company has a Stock Option and Restricted Stock Plan ("the 2005 Plan"), under which the Company granted options, restricted stock or stock appreciation rights to the Company's employees, directors, and certain consultants. The 2005 Plan became effective on November 14, 1995, and was amended and approved at the Company's 2005 annual meeting of shareholders. Under the terms of the 2005 Plan, 1.5 million shares of common stock, plus an annual increase equal to the number of shares needed to restore the maximum number of shares that could be available for grant under the 2005 Plan to 1.5 million shares, were available for such grants. As of June 30, 2018, the only grants under the 2005 Plan were option grants. The 2005 Plan provided that the exercise price of each option granted equaled the market price of the Company's stock on the date of the grant. Options granted pursuant to the 2005 Plan vest within one to four years and have a maximum term of 10 years. The 2005 Plan terminated on November 14, 2015 in accordance with the terms and conditions specified in the Plan agreement.

On April 29, 2014 the Company's shareholders approved the 2014 Republic First Bancorp, Inc. Equity Incentive Plan (the "2014 Plan"), under which the Company may grant options, restricted stock, stock units, or stock appreciation rights to the Company's employees, directors, independent contractors, and consultants. Under the terms of the 2014 Plan, 2.6 million shares of common stock, plus an annual adjustment to be no less than 10% of the outstanding shares or such lower number as the Board of Directors may determine, are available for such grants. At June 30, 2018, the maximum number of common shares issuable under the 2014 Plan was 6.0 million shares. During the six months ended June 30, 2018, 1,069,800 options were granted under the 2014 Plan with a fair value of \$2,953,673.

The Company utilizes the Black-Scholes option pricing model to calculate the estimated fair value of each stock option granted on the date of the grant. A summary of the assumptions used in the Black-Scholes option pricing model for 2018 and 2017 are as follows:

	2018	2017
Dividend yield ⁽¹⁾	0.0%	0.0%
Expected volatility	28.22%	(2) 45.50% to 50.09% (3)
Risk-free interest rate ⁽⁴⁾	2.35% to 2.91%	1.89% to 2.26%
Expected life ⁽⁵⁾	6.25 years	5.5 to 7.0 years
Assumed forfeiture rate ⁽⁶⁾	4.0%	6.0%

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

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

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

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

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

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

During the six months ended June 30, 2018 and 2017, 717,364 shares and 492,624 shares vested, respectively. Expense is recognized ratably over the period required to vest. At June 30, 2018, the intrinsic value of the 3,886,775 options outstanding was \$8.1 million, while the intrinsic value of the 1,918,112 exercisable (vested) options was \$6.7 million. At June 30, 2017, the intrinsic value of the 3,044,325 options outstanding was \$13.0 million, while the intrinsic value of the 1,353,223 exercisable (vested) options was \$7.6 million. During the six months ended June 30, 2018, 145,475 options were exercised resulting in cash receipts of \$561,082 and 43,375 options were forfeited with a weighted average grant date fair value of \$124,944. During the six months ended June 30, 2017, 179,475 options were exercised resulting in cash receipts of \$590,521 and 9,600 options were forfeited with a weighted average grant date fair value of \$43,581.

Information regarding stock based compensation for the six months ended June 30, 2018 and 2017 is set forth below:

	2018	2017
Stock based compensation expense recognized	\$1,052,000	\$817,000
Number of unvested stock options	1,968,663	1,691,102
Fair value of unvested stock options	\$5,555,672	\$4,596,379
Amount remaining to be recognized as expense	\$4,387,864	\$3,453,675

The remaining unrecognized expense amount of \$4,387,864 will be recognized ratably as expense through June 2022.

Earnings per Share

Earnings per share ("EPS") consists of two separate components: basic EPS and diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income by the weighted average number of common shares outstanding plus dilutive common stock equivalents ("CSEs"). CSEs consist of dilutive stock options granted through the Company's stock option plans for the three and six months ended June 30, 2018. CSEs consisted of dilutive stock options granted through the Company's stock option plans and convertible securities related to trust preferred securities issued in 2008

for the three and six months ended June 30, 2017. The convertible securities related to trust preferred securities issued in 2008 fully converted to common stock in 2018. There was no interest expense in 2018 related to the trust preferred securities issuance. In the diluted EPS computation, the after tax interest expense on the trust preferred securities issuance would normally be added back to the net income for the three and six months ended June 30, 2017. However, the effect of CSEs (convertible securities related to the trust preferred securities only) and the related add back of after tax interest expense was considered anti-dilutive and therefore was not included in the EPS calculations.

The calculation of EPS for the three and six months ended June 30, 2018 and 2017 is as follows (in thousands, except per share amounts):

	Three Months		Six Months Ended	
	Ended June 30, 2018	2017	June 30, 2018	2017
Net income (basic and diluted)	\$2,371	\$2,059	\$4,148	\$3,846
Weighted average shares outstanding	58,746	56,945	57,927	56,885
Net income per share – basic	\$0.04	\$0.04	\$0.07	\$0.07
Weighted average shares outstanding (including dilutive CSEs)	59,911	58,301	59,147	58,165
Net income per share – diluted	\$0.04	\$0.04	\$0.07	\$0.07

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

(in thousands)	Three Months		Six Months	
	Ended June 30, 2018	2017	June 30, 2018	2017
Anti-dilutive securities				
Share based compensation awards	2,721	1,688	2,666	1,764
Convertible securities	-	1,625	-	1,625
Total anti-dilutive securities	2,721	3,313	2,666	3,389

Recent Accounting Pronouncements

ASU 2014-09

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 660): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs – Contracts with Customers (Subtopic 340-40)." ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with The Company (Topic 606): Deferral of the Effective Date. The guidance in this ASU is now effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company's revenue

is comprised of net interest income and noninterest income. The scope of the guidance explicitly excludes interest income as well as many other revenues for financial assets and liabilities including revenue derived from loans, investment securities, and derivatives. This ASU was effective for the Company on January 1, 2018. The Company adopted this ASU on a modified retrospective approach. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary. The adoption of this ASU did not have a material impact to its financial condition, results of operations, and consolidated financial statements. Refer to Note 11: Revenue Recognition for further disclosure as to the impact of Topic 606.

ASU 2016-01

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall. The guidance in this ASU among other things, (1) requires equity investments with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (3) eliminates the requirement for public businesses entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (4) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (5) requires an entity to present separately in other comprehensive income the portion of the change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (6) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (7) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. The guidance in this ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The guidance was effective for the Company on January 1, 2018 and was adopted using a modified retrospective approach. The adoption of ASU No. 2016-01 on January 1, 2018 did not have a material impact on the Company's Consolidated Financial Statements. In accordance with (4) above, the Company measured the fair value of its loan portfolio as of June 30, 2018 using an exit price notion (see Note 7 Fair Value of Financial Instruments).

ASU 2016-02

In February 2016, the FASB issued ASU No. 2016-02, Leases. From the Company's perspective, the new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for lessees. From the landlord perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn't convey risks and rewards or control, an operating lease results. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. A modified retrospective transition approach is required for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of the ASU on its financial condition and results of operations and expects to recognize right-of-use assets and lease liabilities for substantially all of its operating lease commitments based on the present value of unpaid lease payments as of the date of adoption. The Company does not intend to early adopt this ASU.

ASU 2016-09

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 will amend current guidance such that all excess tax benefits and tax deficiencies related to share-based payment awards will be recognized as income tax expense or benefit in the income statement during the period in which they occur. Additionally, excess tax benefits will be classified along with other income tax cash flows as an operating activity rather than a financing activity. ASU 2016-09 also provides that any entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest, which is the current requirement, or account for forfeitures when they occur. ASU 2016-09 was effective January 1, 2017. There was no material impact on the consolidated financial statements upon adoption.

ASU 2016-13

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The Company is currently evaluating the impact of this ASU, continuing its implementation efforts and reviewing the loss modeling requirements consistent with lifetime expected loss estimates. The Company expects that the new model will include different assumptions used in calculating credit losses, such as estimating losses over the estimated life of a financial asset and will consider expected future changes in macroeconomic conditions. The adoption of this ASU may result in an increase to the Company's allowance for loan losses which will depend upon the nature and characteristics of the Company's loan portfolio at the adoption date, as well as the macroeconomic conditions and forecasts at that date. For the Company, this update will be effective for interim and annual periods beginning after December 15, 2019. The Company currently does not intend to early adopt this new guidance.

ASU 2016-15

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230). The ASU addresses classification of certain cash receipts and cash payments in the statement of cash flows. The new guidance was adopted on January 1, 2018, on a retrospective basis. The adoption of 2016-15 did not result any changes in classifications in the Consolidated Statement of Cash Flows.

ASU-2017-01

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805). The ASU clarifies the definition of a business in ASC 805. The FASB issued the ASU in response to stakeholder feedback that the definition of a business in ASC 805 is being applied too broadly. In addition, stakeholders said that analyzing transactions under the current definition is difficult and costly. Concerns about the definition of a business were among the primary issues raised in connection with the Financial Accounting Foundation's post-implementation review report on FASB Statement No. 141(R), Business Combinations (codified in ASC 805). The amendments in the ASU are intended to make application of the guidance more consistent and cost-efficient. The ASU is effective for public business entities in annual periods beginning after December 15, 2017, including interim periods therein. For all other entities, the ASU is effective in annual periods beginning after December 15, 2018, and interim periods within annual periods beginning

after December 15, 2019. The ASU must be applied prospectively on or after the effective date, and no disclosures for a change in accounting principle are required at transition. Early adoption is permitted for transactions (i.e., acquisitions or dispositions) that occurred before the issuance date or effective date of the standard if the transactions were not reported in financial statements that have been issued or made available for issuance. Unless the Company enters into a business combination, the impact of the ASU will not have a material impact on the consolidated financial statements.

ASU 2017-04

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test For Goodwill Impairment. The ASU simplifies the accounting for goodwill impairments by eliminating step 2 from the goodwill impairment test. Instead, if "the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit." For public business entities that are SEC filers, the ASU is effective for annual and any interim impairment tests for periods beginning after December 15, 2019. The Company has not yet determined the impact the adoption of ASU 2017-04 will have on the consolidated financial statements.

ASU 2017-08

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

ASU 2018-02

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows for reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the 2017 Tax Cuts and Jobs Act described in the "Income Taxes" section below. The amount of the reclassification should include the effect of the change in the federal corporate income tax rate related to items remaining in accumulated other comprehensive income (loss). The ASU would require an entity to disclose whether it elects to reclassify stranded tax effects from accumulated other comprehensive income (loss) to retained earnings in the period of adoption and, more generally, a description of the accounting policy for releasing income tax effects from accumulated other comprehensive income (loss). The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption of the amendments in this update is permitted for periods for which financial statements have not yet been issued or made available for issuance, including in the period the Act was enacted. The Company adopted this ASU on January 1, 2018, by recording the reclassification adjustment to its beginning retained earnings in the amount of \$1.6 million. The Company utilized the portfolio approach when releasing tax effects from AOCI for its investment securities.

ASU 2018-03

In February of 2018, the FASB Issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10). The ASU was issued to clarify certain aspects of ASU 2016-01 such as treatment for discontinuations and adjustments for equity securities without a readily determinable market value, forward contracts and purchased options, presentation requirements for certain fair value option liabilities, fair value option liabilities denominated in a foreign currency, and transition guidance for equity securities without a readily determinable fair value. The Company adopted this ASU on January 1, 2018. The adoption of this ASU did not have a significant impact on the Company's financial condition, results of operations and consolidated financial statements.

Note 3: Legal Proceedings

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

Note 4: Segment Reporting

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

Note 5: Investment Securities

A summary of the amortized cost and market value of securities available for sale and securities held to maturity at June 30, 2018 and December 31, 2017 is as follows:

(dollars in thousands)	At June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	\$361,142	\$ -	\$ (14,200)	\$346,942
Agency mortgage-backed securities	71,668	1	(2,287)	69,382
Municipal securities	19,042	6	(470)	18,578
Corporate bonds	62,626	94	(3,106)	59,614
Asset-backed securities	6,982	-	(24)	6,958
Trust preferred securities	725	-	(178)	547
Total securities available for sale	\$522,185	\$ 101	\$ (20,265)	\$502,021
U.S. Government agencies	\$114,259	\$ -	\$ (5,513)	\$108,746
Collateralized mortgage obligations	254,746	31	(7,775)	247,002
Agency mortgage-backed securities	134,737	-	(6,491)	128,246
Total securities held to maturity	\$503,742	\$ 31	\$ (19,779)	\$483,994
	At December 31, 2017			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	\$327,972	\$ -	\$ (7,731)	\$320,241
Agency mortgage-backed securities	55,664	2	(800)	54,866
Municipal securities	15,142	20	(62)	15,100
Corporate bonds	62,670	103	(2,491)	60,282
Asset-backed securities	13,414	38	-	13,452
Trust preferred securities	725	-	(236)	489
Total securities available for sale	\$475,587	\$ 163	\$ (11,320)	\$464,430
U.S. Government agencies	\$112,605	\$ 50	\$ (2,235)	\$110,420
Collateralized mortgage obligations	215,567	314	(3,970)	211,911
Agency mortgage-backed securities	143,041	47	(2,620)	140,468
Other securities	1,000	-	-	1,000
Total securities held to maturity	\$472,213	\$ 411	\$ (8,825)	\$463,799

The following table presents investment securities by stated maturity at June 30, 2018. Collateralized mortgage obligations and agency mortgage-backed securities have expected maturities that differ from contractual maturities because borrowers have the right to call or prepay with or without prepayment penalties and, therefore, these securities are classified separately with no specific maturity date.

(dollars in thousands)	Available for Sale		Held to Maturity	
	Amortized Fair		Amortized Fair	
	Cost	Value	Cost	Value
Due in 1 year or less	\$2,920	\$2,920	\$-	\$-
After 1 year to 5 years	6,902	6,880	15,774	15,400
After 5 years to 10 years	74,320	70,685	98,485	93,346
After 10 years	5,233	5,212	-	-
Collateralized mortgage obligations	361,142	346,942	254,746	247,002
Agency mortgage-backed securities	71,668	69,382	134,737	128,246
Total	\$522,185	\$502,021	\$503,742	\$483,994

The Company's investment securities portfolio consists primarily of debt securities issued by U.S. government agencies, U.S. government-sponsored agencies, state governments, local municipalities and certain corporate entities. There were no private label mortgage-backed securities ("MBS") or collateralized mortgage obligations ("CMO") held in the investment securities portfolio as of June 30, 2018 and December 31, 2017. There were also no MBS or CMO securities that were rated "Alt-A" or "sub-prime" as of those dates.

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

The Company regularly evaluates investment securities that are in an unrealized loss position in order to determine if the decline in fair value is other than temporary. Factors considered in the evaluation include the current economic climate, the length of time and the extent to which the fair value has been below cost, the current interest rate environment and the rating of each security. An OTTI loss must be recognized for a debt security in an unrealized loss position if the Company intends to sell the security or it is more likely than not that it will be required to sell the security prior to recovery of the amortized cost basis. The amount of OTTI loss recognized is equal to the difference between the fair value and the amortized cost basis of the security that is attributed to credit deterioration. Accounting standards require the evaluation of the expected cash flows to be received to determine if a credit loss has occurred. In the event of a credit loss, that amount must be recognized against income in the current period. The portion of the unrealized loss related to other factors, such as liquidity conditions in the market or the current interest rate environment, is recorded in accumulated other comprehensive income (loss) for investment securities classified available for sale.

There were no impairment charges (credit losses) on any security held in the investment portfolio for the three and six month periods ended June 30, 2018 and 2017.

The following table presents a roll-forward of the balance of credit-related impairment losses on securities held at June 30, 2018 and 2017 for which a portion of OTTI was recognized in other comprehensive income:

(dollars in thousands)	2018	2017
Beginning Balance, January 1 st	\$274	\$937

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Additional credit-related impairment loss on securities for which an other-than-temporary impairment was previously recognized	-	-
Reductions for securities sold during the period	-	(483)
Ending Balance, June 30 th	\$274	\$454

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

(dollars in thousands)	At June 30, 2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized mortgage obligations	\$ 185,402	\$ 5,287	\$ 161,540	\$ 8,913	\$ 346,942	\$ 14,200
Agency mortgage-backed securities	44,035	1,134	21,087	1,153	65,122	2,287
Municipal securities	13,384	319	2,540	151	15,924	470
Corporate bonds	1,627	2	51,896	3,104	53,523	3,106
Asset backed securities	6,958	24	-	-	6,958	24
Trust preferred securities	-	-	547	178	547	178
Total Available for Sale	\$ 251,406	\$ 6,766	\$ 237,610	\$ 13,499	\$ 489,016	\$ 20,265

(dollars in thousands)	At June 30, 2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	\$ 53,366	\$ 1,772	\$ 55,380	\$ 3,741	\$ 108,746	\$ 5,513
Collateralized mortgage obligations	127,961	2,607	114,305	5,168	242,266	7,775
Agency mortgage-backed securities	52,667	1,975	75,579	4,516	128,246	6,491
Total Held to Maturity	\$ 233,994	\$ 6,354	\$ 245,264	\$ 13,425	\$ 479,258	\$ 19,779

(dollars in thousands)	At December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized mortgage obligations	\$ 150,075	\$ 1,565	\$ 170,166	\$ 6,166	\$ 320,241	\$ 7,731
Agency mortgage-backed securities	29,967	226	21,045	574	51,012	800
Municipal securities	5,742	27	2,656	35	8,398	62
Corporate bonds	-	-	52,509	2,491	52,509	2,491
Asset backed securities	-	-	-	-	-	-
Trust preferred securities	-	-	489	236	489	236
Total Available for Sale	\$ 185,784	\$ 1,818	\$ 246,865	\$ 9,502	\$ 432,649	\$ 11,320

(dollars in thousands)	At December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	\$ 42,045	\$ 213	\$ 59,594	\$ 2,022	\$ 101,639	\$ 2,235
Collateralized mortgage obligations	56,955	767	107,986	3,203	164,941	3,970
Agency mortgage-backed securities	55,170	221	82,479	2,399	137,649	2,620

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Total Held to Maturity	\$154,170	\$ 1,201	\$250,059	\$ 7,624	\$404,229	\$ 8,825
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Unrealized losses on securities in the investment portfolio amounted to \$40.0 million with a total fair value of \$968.3 million as of June 30, 2018 compared to unrealized losses of \$20.1 million with a total fair value of \$836.9 million as of December 31, 2017. The Company believes the unrealized losses presented in the tables above are temporary in nature and primarily related to market interest rates or limited trading activity in particular type of security rather than the underlying credit quality of the issuers. The Company does not believe that these losses are other than temporary and does not currently intend to sell or believe it will be required to sell securities in an unrealized loss position prior to maturity or recovery of the amortized cost bases.

The Company held fourteen U.S. Government agency securities, eight-nine collateralized mortgage obligations and twenty-nine agency mortgage-backed securities that were in an unrealized loss position at June 30, 2018. Principal and interest payments of the underlying collateral for each of these securities carry minimal credit risk. Management found no evidence of OTTI on any of these securities and believes the unrealized losses are due to fluctuations in fair values resulting from changes in market interest rates and are considered temporary as of June 30, 2018.

All municipal securities held in the investment portfolio are reviewed on least a quarterly basis for impairment. Each bond carries an investment grade rating by either Moody's or Standard & Poor's. In addition, the Company periodically conducts its own independent review on each issuer to ensure the financial stability of the municipal entity. The largest geographic concentration was in Pennsylvania and New Jersey and consisted of either general obligation or revenue bonds backed by the taxing power of the issuing municipality. At June 30, 2018, the investment portfolio included twenty-two municipal securities that were in an unrealized loss position. Management believes the unrealized losses were the result of movements in long-term interest rates and are not reflective of credit deterioration.

At June 30, 2018, the investment portfolio included one asset-backed security that was in an unrealized loss position. The asset-backed security held in the investment securities portfolio is a Sallie Mae bond, collateralized by student loans which are guaranteed by the U.S. Department of Education. Management believes the unrealized loss on this security was driven by changes in market interest rates and not a result of credit deterioration. At June 30, 2018, the investment portfolio also included seven corporate bonds that were in an unrealized loss position. Management believes the unrealized losses on these securities were also driven by changes in market interest rates and not a result of credit deterioration.

The unrealized loss on the trust preferred security is primarily the result of the secondary market becoming inactive for this type of security and is also considered temporary at this time. The following table provides additional detail about the trust preferred security held in the portfolio as of June 30, 2018.

(dollars in thousands)	Class / Tranche	Amortized Cost	Fair Value	Unrealized Losses	Lowest Credit Rating Assigned	Number of Banks Currently Performing	Deferrals / Defaults as % of Current Balance	Conditional Default Rates for 2018 and beyond	Cumulative OTTI Life to Date
TPREF Funding II	Class B Notes	\$ 725	\$ 547	\$ (178)	C	19	26%	0.33%	\$ 274

During the three months and six months ended June 30, 2018, the proceeds from the sale of investment securities were \$5.7 million. A gross loss of \$1,000 was realized on the sale of investment securities for the three and six months ended June 30, 2018.

During the three and six months ended June 30, 2017, the proceeds from the sale of investment securities were \$21.2 million. Gross gains of \$487,000 were realized on these sales which were offset by gross losses of \$548,000. The tax benefit applicable to the net losses for the three and six months ended June 30, 2017 was \$22,000. Included in the 2017 sales activity was the sale of one CDO security. Proceeds from the sale of the CDO security totaled \$970,000. A gross loss of \$548,000 was recognized on this sale. Management had previously stated that it did not intend to sell the CDO security prior to its maturity or the recovery of its cost basis, nor would it be forced to sell this security prior to maturity or recovery of the cost basis. 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 its remaining 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 one CDO resulting in a net loss of \$548,000 during the three and six months ended June 30, 2017 which was partially offset by gains on sales of twenty-eight municipal securities, one agency mortgage-backed security and one collateralized mortgage obligation. 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.

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Note 6: Loans Receivable and Allowance for Loan Losses

The following table sets forth the Company's gross loans by major categories as of June 30, 2018 and December 31, 2017:

(dollars in thousands)	June 30, 2018	December 31, 2017
Commercial real estate	\$489,574	\$433,304
Construction and land development	120,165	104,617
Commercial and industrial	188,254	173,343
Owner occupied real estate	335,871	309,838
Consumer and other	83,467	76,183
Residential mortgage	100,108	64,764
Total loans receivable	1,317,439	1,162,049
Deferred costs (fees)	139	229
Allowance for loan losses	(7,566)	(8,599)
Net loans receivable	\$1,310,012	\$1,153,679

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

The following tables provide the activity in and ending balances of the allowance for loan losses by loan portfolio class at and for the three months ended June 30, 2018 and 2017:

(dollars in thousands)	Owner							Total
	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	
Three months ended June 30, 2018								
Allowance for loan losses:								
Beginning balance:	\$ 1,903	\$ 751	\$ 1,261	\$ 1,692	\$ 460	\$ 508	\$ 75	\$6,650
Charge-offs	-	-	-	-	(14)	-	-	(14)
Recoveries	33	-	76	20	1	-	-	130
Provisions (credits)	103	21	112	144	62	130	228	800
Ending balance	\$ 2,039	\$ 772	\$ 1,449	\$ 1,856	\$ 509	\$ 638	\$ 303	\$7,566
Three months ended June 30, 2017								
Allowance for loan losses:								
Beginning balance:	\$ 2,962	\$ 546	\$ 2,770	\$ 1,627	\$ 575	\$ 130	\$ 571	\$9,181
Charge-offs	-	-	(152)	(100)	(6)	-	-	(258)
Recoveries	-	-	30	-	1	-	-	31
Provisions (credits)	209	34	(152)	71	(26)	108	256	500

Ending balance	\$ 3,171	\$ 580	\$ 2,496	\$ 1,598	\$ 544	\$ 238	\$ 827	\$9,454
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The following tables provide the activity in and ending balances of the allowance for loan losses by loan portfolio class at and for the six months ended June 30, 2018 and 2017:

(dollars in thousands)	Owner							Total
	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	
Six months ended June 30, 2018 Allowance for loan losses:								
Beginning balance:	\$ 3,774	\$ 725	\$ 1,317	\$ 1,737	\$ 573	\$ 392	\$ 81	\$8,599
Charge-offs	(1,535)	-	(151)	(465)	(212)	-	-	(2,363)
Recoveries	33	-	76	20	1	-	-	130
Provisions (credits)	(233)	47	207	564	147	246	222	1,200
Ending balance	\$ 2,039	\$ 772	\$ 1,449	\$ 1,856	\$ 509	\$ 638	\$ 303	\$7,566
Six months ended June 30, 2017 Allowance for loan losses:								
Beginning balance:	\$ 3,254	\$ 557	\$ 2,884	\$ 1,382	\$ 588	\$ 58	\$ 432	\$9,155
Charge-offs	-	-	(152)	(108)	(8)	-	-	(268)
Recoveries	7	-	59	-	1	-	-	67
Provisions (credits)	(90)	23	(295)	324	(37)	180	395	500
Ending balance	\$ 3,171	\$ 580	\$ 2,496	\$ 1,598	\$ 544	\$ 238	\$ 827	\$9,454

The following tables provide a summary of the allowance for loan losses and balance of loans receivable by loan class and by impairment method as of June 30, 2018 and December 31, 2017:

(dollars in thousands)	Owner							Total
	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	
June 30, 2018 Allowance for loan losses:								
Individually evaluated for impairment	\$ -	\$ -	\$ 622	\$ 201	\$ 68	\$ -	\$ -	\$891
Collectively evaluated for impairment	2,039	772	827	1,655	441	638	303	6,675
Total allowance for loan losses	\$ 2,039	\$ 772	\$ 1,449	\$ 1,856	\$ 509	\$ 638	\$ 303	\$7,566
Loans receivable:								

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Loans evaluated individually	\$ 13,811	\$ -	\$ 6,783	\$ 3,400	\$ 790	\$ -	\$ -	\$ 24,784
Loans evaluated collectively	475,763	120,165	181,471	332,471	82,677	100,108	-	1,292,655
Total loans receivable	\$ 489,574	\$ 120,165	\$ 188,254	\$ 335,871	\$ 83,467	\$ 100,108	\$ -	\$ 1,317,439

(dollars in thousands)	Owner						Unallocated	Total
	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Occupied Real Estate	Consumer and Other	Residential Mortgage		
December 31, 2017								
Allowance for loan losses:								
Individually evaluated for impairment	\$ 1,964	\$ -	\$ 374	\$ 235	\$ 217	\$ -	\$ -	\$ 2,790
Collectively evaluated for impairment	1,810	725	943	1,502	356	392	81	5,809
Total allowance for loan losses	\$ 3,774	\$ 725	\$ 1,317	\$ 1,737	\$ 573	\$ 392	\$ 81	\$ 8,599
Loans receivable:								
Loans evaluated individually	\$ 15,415	\$ -	\$ 4,501	\$ 3,798	\$ 1,002	\$ -	\$ -	\$ 24,716
Loans evaluated collectively	417,889	104,617	168,842	306,040	75,181	64,764	-	1,137,333
Total loans receivable	\$ 433,304	\$ 104,617	\$ 173,343	\$ 309,838	\$ 76,183	\$ 64,764	\$ -	\$ 1,162,049

A loan is considered impaired, when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans, but also include internally classified accruing loans. The following table summarizes information with regard to impaired loans by loan portfolio class as of June 30, 2018 and December 31, 2017:

(dollars in thousands)	June 30, 2018			December 31, 2017		
	Recorded	Unpaid Principal	Related	Recorded	Unpaid Principal	Related
	Investmen	Balance	Allowance	Investmen	Balance	Allowance
With no related allowance recorded:						
Commercial real estate	\$13,811	\$14,699	\$ -	\$9,264	\$9,268	\$ -
Construction and land development	-	-	-	-	-	-
Commercial and industrial	4,818	8,618	-	2,756	6,674	-
Owner occupied real estate	2,093	2,241	-	2,595	2,743	-
Consumer and other	638	986	-	655	981	-
Residential mortgage	-	-	-	-	-	-
Total	\$21,360	\$26,544	\$ -	\$15,270	\$19,666	\$ -
With an allowance recorded:						
Commercial real estate	\$-	\$-	\$-	\$6,151	\$6,165	\$1,964
Construction and land development	-	-	-	-	-	-
Commercial and industrial	1,965	2,107	622	1,745	1,752	374
Owner occupied real estate	1,307	1,314	201	1,203	1,206	235
Consumer and other	152	153	68	347	379	217
Residential mortgage	-	-	-	-	-	-
Total	\$3,424	\$3,574	\$891	\$9,446	\$9,502	\$2,790
Total:						
Commercial real estate	\$13,811	\$14,699	\$-	\$15,415	\$15,433	\$1,964
Construction and land development	-	-	-	-	-	-
Commercial and industrial	6,783	10,725	622	4,501	8,426	374
Owner occupied real estate	3,400	3,555	201	3,798	3,949	235
Consumer and other	790	1,139	68	1,002	1,360	217
Residential mortgage	-	-	-	-	-	-
Total	\$24,784	\$30,118	\$891	\$24,716	\$29,168	\$2,790

The following table presents additional information regarding the Company's impaired loans for the three months ended June 30, 2018 and June 30, 2017:

(dollars in thousands)	Three Months Ended June 30,			
	2018		2017	
	Average	Interest	Average	Interest
	Recorded	Recorded	Recorded	Recorded
	Investmen	Investmen	Investmen	Investmen
	Recognized	Recognized	Recognized	Recognized
With no related allowance recorded:				
Commercial real estate	\$13,828	\$ 72	\$8,794	\$ 95
Construction and land development	-	-	-	-
Commercial and industrial	5,162	28	2,139	10
Owner occupied real estate	2,338	14	1,812	17
Consumer and other	639	1	868	5
Residential mortgage	-	-	21	-
Total	\$21,967	\$ 115	\$13,634	\$ 127
With an allowance recorded:				
Commercial real estate	\$-	\$-	\$6,515	\$4
Construction and land development	-	-	-	-
Commercial and industrial	1,774	-	3,015	17
Owner occupied real estate	1,075	6	1,380	8
Consumer and other	152	-	407	2
Residential mortgage	-	-	-	-
Total	\$3,001	\$6	\$11,317	\$31
Total:				
Commercial real estate	\$13,828	\$72	\$15,309	\$99
Construction and land development	-	-	-	-
Commercial and industrial	6,936	28	5,154	27
Owner occupied real estate	3,413	20	3,192	25
Consumer and other	791	1	1,275	7
Residential mortgage	-	-	21	-
Total	\$24,968	\$121	\$24,951	\$158

The following table presents additional information regarding the Company's impaired loans for the six months ended June 30, 2018 and June 30, 2017:

	Six Months Ended June 30,			
	2018		2017	
	Average	Interest	Average	Interest
	Recorded	Recorded	Recorded	Recorded
(dollars in thousands)	Investmen	Recognized	Investmen	Recognized
With no related allowance recorded:				
Commercial real estate	\$12,307	\$ 144	\$10,542	\$ 165
Construction and land development	-	-	-	-
Commercial and industrial	4,360	33	2,035	18
Owner occupied real estate	2,423	28	1,469	29
Consumer and other	644	2	810	8
Residential mortgage	-	-	43	1
Total	\$19,734	\$ 207	\$14,899	\$ 221
With an allowance recorded:				
Commercial real estate	\$2,050	\$-	\$6,637	\$9
Construction and land development	-	-	-	-
Commercial and industrial	1,765	3	3,159	34
Owner occupied real estate	1,118	12	1,577	14
Consumer and other	217	1	468	6
Residential mortgage	-	-	-	-
Total	\$5,150	\$16	\$11,841	\$63
Total:				
Commercial real estate	\$14,357	\$144	\$17,179	\$174
Construction and land development	-	-	-	-
Commercial and industrial	6,125	36	5,194	52
Owner occupied real estate	3,541	40	3,046	43
Consumer and other	861	3	1,278	14
Residential mortgage	-	-	43	1
Total	\$24,884	\$223	\$26,740	\$284

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The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of June 30, 2018 and December 31, 2017:

(dollars in thousands)	30-59	60-89	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
	Days Past Due	Days Past Due					\$
At June 30, 2018							
Commercial real estate	\$815	\$129	\$7,426	\$8,370	\$481,204	\$489,574	\$ -
Construction and land development	-	-	-	-	120,165	120,165	-
Commercial and industrial	-	-	3,885	3,885	184,369	188,254	-
Owner occupied real estate	-	-	2,004	2,004	333,867	335,871	-
Consumer and other	12	-	791	803	82,664	83,467	-
Residential mortgage	-	-	-	-	100,108	100,108	-
Total	\$827	\$129	\$14,106	\$15,062	\$1,302,377	\$1,317,439	\$ -
At December 31, 2017							
Commercial real estate	\$-	\$-	\$8,963	\$8,963	\$424,341	\$433,304	\$ -
Construction and land development	-	-	-	-	104,617	104,617	-
Commercial and industrial	969	-	2,895	3,864	169,479	173,343	-
Owner occupied real estate	-	-	2,136	2,136	307,702	309,838	-
Consumer and other	144	-	851	995	75,188	76,183	-
Residential mortgage	-	-	-	-	64,764	64,764	-
Total	\$1,113	\$-	\$14,845	\$15,958	\$1,146,091	\$1,162,049	\$ -

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of June 30, 2018 and December 31, 2017:

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
At June 30, 2018:					
Commercial real estate	\$481,204	\$944	\$7,426	\$ -	\$489,574
Construction and land development	120,165	-	-	-	120,165
Commercial and industrial	181,452	19	6,503	280	188,254
Owner occupied real estate	331,121	1,350	3,400	-	335,871
Consumer and other	82,677	-	790	-	83,467
Residential mortgage	99,983	125	-	-	100,108

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Total	\$1,296,602	\$ 2,438	\$ 18,119	\$ 280	\$1,317,439
		Special			
(dollars in thousands)	Pass	Mention	Substandard	Doubtful	Total
At December 31, 2017:					
Commercial real estate	\$423,382	\$ 959	\$ 8,963	\$ -	\$433,304
Construction and land development	104,617	-	-	-	104,617
Commercial and industrial	168,702	140	4,221	280	173,343
Owner occupied real estate	306,040	-	3,798	-	309,838
Consumer and other	75,181	-	1,002	-	76,183
Residential mortgage	64,637	127	-	-	64,764
Total	\$1,142,559	\$ 1,226	\$ 17,984	\$ 280	\$1,162,049

The following table shows non-accrual loans by class as of June 30, 2018 and December 31, 2017:

(dollars in thousands)	June 30, 2018	December 31, 2017
Commercial real estate	\$7,426	\$ 8,963
Construction and land development	-	-
Commercial and industrial	3,885	2,895
Owner occupied real estate	2,004	2,136
Consumer and other	791	851
Residential mortgage	-	-
Total	\$14,106	\$ 14,845

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately \$184,000 and \$363,000 for the three and six months ended June 30, 2018, respectively, and \$210,000 and \$486,000 for the three and six months ended June 30, 2017, respectively.

Troubled Debt Restructurings

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

The following table summarizes information with regard to outstanding troubled debt restructurings at June 30, 2018 and December 31, 2017:

(dollars in thousands)	Number of Loans	Accrual Status	Non- Accrual Status	Total TDRs
June 30, 2018				
Commercial real estate	1	\$6,384	\$-	\$6,384
Construction and land development	-	-	-	-
Commercial and industrial	3	-	1,524	1,524
Owner occupied real estate	1	-	242	242
Consumer and other	-	-	-	-
Residential mortgage	-	-	-	-
Total	5	\$6,384	\$ 1,766	\$8,150
December 31, 2017				
Commercial real estate	1	\$6,452	\$-	\$6,452
Construction and land development	-	-	-	-
Commercial and industrial	3	1,175	349	1,524
Owner occupied real estate	1	242	-	242

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Consumer and other	-	-	-	-
Residential mortgage	-	-	-	-
Total	5	\$7,869	\$349	\$8,218

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

There were no loan modifications made during the three and six months ended June 30, 2018 that met the criteria of a TDR.

The Company modified one commercial and industrial loan during the twelve month period ended December 31, 2017. In accordance with the modified terms of the commercial and industrial loan, the principal balance of \$975,000 was converted from a line of credit to a term loan with a five year maturity.

The Company modified one owner occupied real estate loan during the twelve month period ended December 31, 2017. In accordance with the modified terms of the owner occupied loan of \$245,000, certain concessions have been granted, including a reduction in the interest rate and an extension of the maturity date of the loan.

The Company modified one commercial real estate loan in the amount of \$6.5 million during the twelve month period ended December 31, 2017 that met the criteria of a TDR. This loan was transferred to non-accrual status during the second quarter of 2015 as a result of delinquency caused by tenant vacancies. The Company restructured the loan based on new leases obtained by the borrower. In accordance with the modified terms of the loan, certain concessions have been granted, including a reduction in the interest rate. In addition, the principal was increased by \$421,000. As a result of current payments for six consecutive months, the loan was returned to accrual status in the third quarter of 2017.

After a loan is determined to be a TDR, the Company continues to track its performance under the most recent restructured terms. There were no TDRs that subsequently defaulted during the three months ended June 30, 2018 and during the year ended December 31, 2017. There were three TDRs that subsequently defaulted during the six months ended June 30, 2018.

There were no residential mortgages in the process of foreclosure as of June 30, 2018 and December 31, 2017. Other real estate owned relating to residential real estate was \$42,000 at June 30, 2018 and December 31, 2017.

Note 7: Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

The Company follows the guidance issued under ASC 820, Fair Value Measurement, which defines fair value, establishes a framework for measuring fair value under GAAP, and identifies required disclosures on fair value measurements.

ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2018 and December 31, 2017 were as follows:

(dollars in thousands)	Total	(Level 1)		
		Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
June 30, 2018				
Assets:				
Collateralized mortgage obligations	\$ 346,942	\$ -	\$ 346,942	\$ -
Agency mortgage-backed securities	69,382	-	69,382	-
Municipal securities	18,578	-	18,578	-
Corporate bonds	59,614	-	56,531	3,083
Asset-backed securities	6,958	-	6,958	-
Trust Preferred Securities	547	-	-	547
Securities Available for Sale	\$ 502,021	\$ -	\$ 498,391	\$ 3,630
Mortgage Loans Held for Sale	\$ 36,090	\$ -	\$ 36,090	\$ -
SBA Servicing Assets	4,977	-	-	4,977
Interest Rate Lock Commitments	714	-	714	-
Best Efforts Forward Loan Sales Commitments	1	-	1	-
Mandatory Forward Loan Sales Commitments	6	-	6	-
Liabilities:				
Interest Rate Lock Commitments	3	-	3	-
Best Efforts Forward Loan Sales Commitments	210	-	210	-
Mandatory Forward Loan Sales Commitments	301	-	301	-
December 31, 2017				
Assets:				
Collateralized mortgage obligations	\$ 320,241	\$ -	\$ 320,241	\$ -
Agency mortgage-backed securities	54,866	-	54,866	-
Municipal securities	15,100	-	15,100	-
Corporate bonds	60,282	-	57,196	3,086
Asset-backed securities	13,452	-	13,452	-
Trust Preferred Securities	489	-	-	489
Securities Available for Sale	\$ 464,430	\$ -	\$ 460,855	\$ 3,575
Mortgage Loans Held for Sale	\$ 43,375	\$ -	\$ 43,375	\$ -
SBA Servicing Assets	5,243	-	-	5,243
Interest Rate Lock Commitments	363	-	363	-
Best Efforts Forward Loan Sales Commitments	5	-	5	-

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Mandatory Forward Loan Sales Commitments	19	-	19	-
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Liabilities:

Interest Rate Lock Commitments	1	-	1	-
Best Efforts Forward Loan Sales Commitments	93	-	93	-
Mandatory Forward Loan Sales Commitments	195	-	195	-

The following tables present an analysis of the activity in the SBA servicing assets for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,	
(dollars in thousands)	2018	2017
Beginning balance, April 1st	\$5,059	\$5,298
Additions	247	267
Fair value adjustments	(329)	(371)
Ending balance, June 30th	\$4,977	\$5,194

	Six Months Ended June 30,	
(dollars in thousands)	2018	2017
Beginning balance, January 1st	\$5,243	\$5,352
Additions	567	478
Fair value adjustments	(833)	(636)
Ending balance, June 30th	\$4,977	\$5,194

Fair value adjustments are recorded as loan and servicing fees on the statement of income. Servicing fee income, not including fair value adjustments, totaled \$493,000 and \$485,000 for the three months ended June 30, 2018 and 2017, respectively. Servicing fee income, not including fair value adjustments, totaled \$986,000 and \$918,000 for the six months ended June 30, 2018 and 2017, respectively. Total loans in the amount of \$207.3 million at June 30, 2018 and \$204.9 million at December 31, 2017 were serviced for others.

The following table presents a reconciliation of the securities available for sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30, 2018		Three Months Ended June 30, 2017	
	Trust	Corporate	Trust	Corporate
Level 3 Investments Only (dollars in thousands)	Preferred Securities	Corporate Bonds	Preferred Securities	Corporate Bonds
Balance, April 1 st	\$561	\$ 3,090	\$1,961	\$ 3,024
Unrealized gains (losses)	(14)	(7)	525	55
Proceeds from sales	-	-	(970)	-
Realized losses	-	-	(548)	-
Balance, June 30 th	\$547	\$ 3,083	\$968	\$ 3,079

	Six Months Ended June 30, 2018		Six Months Ended June 30, 2017	
	Trust	Corporate	Trust	Corporate
Level 3 Investments Only (dollars in thousands)	Preferred Securities	Corporate Bonds	Preferred Securities	Corporate Bonds

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Balance, January 1 st	\$489	\$ 3,086	\$1,820	\$ 2,971
Unrealized gains (losses)	58	(3)	666	108
Proceeds from sales	-	-	(970)	-
Realized losses	-	-	(548)	-
Balance, June 30 th	\$547	\$ 3,083	\$968	\$ 3,079

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For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2018 and December 31, 2017 were as follows:

(dollars in thousands)	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets			(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		Assets	Inputs	Inputs	Inputs	
June 30, 2018						
Impaired loans	\$7,149	\$ -	\$ -	\$ -	\$ 7,149	
Other real estate owned	-	-	-	-	-	
December 31, 2017						
Impaired loans	\$7,322	\$ -	\$ -	\$ -	\$ 7,322	
Other real estate owned	5,727	-	-	-	5,727	

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

Asset Description	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
June 30, 2018				
Corporate bonds	\$3,083	Discounted Cash Flows	Discount Rate	(7.32%)
Trust preferred securities	\$ 547	Discounted Cash Flows	Discount Rate	(8.06%)
SBA servicing assets	\$4,977	Discounted Cash Flows	Conditional Prepayment Rate	(9.88%)
			Discount Rate	(11.00%)
Impaired loans	\$7,149	Appraised Value of Collateral (1)	Liquidation expenses (2)	10% - 30% (13%) (3)
December 31, 2017				
Corporate bonds	\$3,086	Discounted Cash Flows	Discount Rate	(5.99%)
Trust preferred securities	\$ 489	Discounted Cash Flows	Discount Rate	(8.33%)
SBA servicing assets	\$5,243	Discounted Cash Flows	Conditional Prepayment Rate	(7.85%)
			Discount Rate	(10.50%)

Impaired loans	\$7,322	Appraised Value of Collateral (1)	Liquidation expenses (2)	10% - 21% (14%) (3)
		Appraised Value of Collateral (1)	Liquidation expenses (2)	(22%) (3)
Other real estate owned	\$5,727	Sales Price	Liquidation expenses (2)	4% - 7% (7%) (3)

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

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

Fair Value Assumptions

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at June 30, 2018 and December 31, 2017.

Cash and Cash Equivalents (Carried at Cost)

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

Investment Securities

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

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

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

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

An independent, third party pricing service is used to estimate the current fair market value of the CDO held in the investment securities portfolio. The calculations used to determine fair value are based on the attributes of the trust preferred security, the financial condition of the issuers of the trust preferred security, and market based assumptions. The INTEX CDO Deal Model Library was utilized to obtain information regarding the attributes of the security and its specific collateral as of June 30, 2018 and December 31, 2017. Financial information on the issuers was also obtained from Bloomberg, the FDIC, and SNL Financial. Both published and unpublished industry sources were utilized in estimating fair value. Such information includes prepayment speed assumptions, discount rates, default rates, and loss severity percentages.

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

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

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

Mortgage Loans Held for Sale (Carried at Fair Value)

The fair value of mortgage loans held for sale is determined by obtaining prices at which they could be sold in the principal market at the measurement date and are classified within Level 2 of the fair value hierarchy. Republic elected to adopt the fair value option for its mortgage loans held for sale portfolio in order to more accurately reflect their economic value. Interest income on loans held for sale, which totaled \$231,000 and \$525,000 for three and six months ended June 30, 2018, respectively, and \$171,000 and \$300,000 for the three and six months ended June 30, 2017, respectively, are included in interest and fees in the statements of income.

The following table reflects the difference between the carrying amount of mortgage loans held for sale, measured at fair value and the aggregate unpaid principal amount that Republic is contractually entitled to receive at maturity as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	Carrying Amount	Aggregate Unpaid Principal Balance	Excess Carrying Amount Over Aggregate Unpaid Principal Balance
June 30, 2018	\$ 36,090	\$ 34,802	\$ 1,288

December 31, 2017 \$43,375 \$ 42,046 \$ 1,329

Changes in the excess carrying amount over aggregate unpaid principal balance are recorded in the statement of income in mortgage banking income. Republic did not have any mortgage loans held for sale recorded at fair value that were 90 or more days past due and on non-accrual at June 30, 2018 and December 31, 2017.

Interest Rate Lock Commitments ("IRLC")

The fair value of Republic's IRLC instruments are based upon the underlying loans measured at fair value on a recurring basis and the probability of such commitments being exercised. Due to observable market data inputs used by Republic, IRLCs are classified within Level 2 of the valuation hierarchy.

Best Efforts Forward Loan Sales Commitments

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

Mandatory Forward Loan Sales Commitments

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

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

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

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

These assets are carried at the lower of cost or fair value. At June 30, 2018 and December 31, 2017, these assets are carried at current fair value and classified within Level 3 of the fair value hierarchy.

SBA Servicing Asset (Carried at Fair Value)

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

The Company uses assumptions and estimates in determining the impairment of the SBA servicing asset. These assumptions include prepayment speeds and discount rates commensurate with the risks involved and comparable to assumptions used by participants to value and bid serving rights available for sale in the market. At June 30, 2018 and December 31, 2017, the sensitivity of the current fair value of the SBA loan servicing rights to immediate 10% and 20% adverse changes in key assumptions are included in the accompanying table.

	June 30, 2018	December 31, 2017
(dollars in thousands)		
SBA Servicing Asset		
Fair Value of SBA Servicing Asset	\$4,977	\$5,243
Composition of SBA Loans Serviced for Others		
Fixed-rate SBA loans	2	2
Adjustable-rate SBA loans	98	98
Total	100	100
	%	%
Weighted Average Remaining Term	20.4 years	20.5 years
Prepayment Speed	9.88	7.85
Effect on fair value of a 10% increase	\$(174)	\$(171)
Effect on fair value of a 20% increase	(338)	(333)
	%	%
Weighted Average Discount Rate	11.00	10.50
Effect on fair value of a 10% increase	\$(191)	\$(211)
Effect on fair value of a 20% increase	(369)	(407)

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

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

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

The estimated fair values of the Company's financial instruments were as follows at June 30, 2018:

Fair Value Measurements at June 30, 2018

(dollars in thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Balance Sheet Data					
Financial assets:					
Cash and cash equivalents	\$59,354	\$59,354	\$59,354	\$-	\$ -
Investment securities available for sale	502,021	502,021	-	498,391	3,630
Investment securities held to maturity	503,742	483,994	-	483,994	-
Restricted stock	8,379	8,379	-	8,379	-
Loans held for sale	39,301	39,301	-	36,090	3,211
Loans receivable, net	1,310,012	1,283,864	-	-	1,283,864
SBA servicing assets	4,977	4,977	-	-	4,977
Accrued interest receivable	8,019	8,019	-	8,019	-
Interest rate lock commitments	714	714	-	714	-
Best efforts forward loan sales commitments	1	1	-	1	-
Mandatory forward loan sales commitments	6	6	-	6	-
Financial liabilities:					
Deposits					
Demand, savings and money market	\$2,010,345	\$2,010,345	\$-	\$2,010,345	\$ -
Time	123,796	122,287	-	122,287	-
Short-term borrowings	161,669	161,669	-	161,669	-
Subordinated debt	11,256	8,501	-	-	8,501
Accrued interest payable	408	408	-	408	-
Interest rate lock commitments	3	3	-	3	-
Best efforts forward loan sales commitments	210	210	-	210	-
Mandatory forward loan sales commitments	301	301	-	301	-
Off-Balance Sheet Data					
Commitments to extend credit	-	-	-	-	-
Standby letters-of-credit	-	-	-	-	-

The estimated fair values of the Company's financial instruments were as follows at December 31, 2017.

Fair Value Measurements at December 31, 2017

(dollars in thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets		
			Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Balance Sheet Data					
Financial assets:					
Cash and cash equivalents	\$61,942	\$61,942	\$61,942	\$-	\$-
Investment securities available for sale	464,430	464,430	-	460,855	3,575
Investment securities held to maturity	472,213	463,799	-	463,799	-
Restricted stock	1,918	1,918	-	1,918	-
Loans held for sale	45,700	45,714	-	43,375	2,339
Loans receivable, net	1,153,679	1,120,305	-	-	1,120,305
SBA servicing assets	5,243	5,243	-	-	5,243
Accrued interest receivable	7,009	7,009	-	7,009	-
Interest rate lock commitments	363	363	-	363	-
Best efforts forward loan sales commitments	5	5	-	5	-
Mandatory forward loan sales commitments	19	19	-	19	-
Financial liabilities:					
Deposits					
Demand, savings and money market	\$1,946,558	\$1,946,558	\$-	\$1,946,558	\$-
Time	116,737	115,673	-	115,673	-
Subordinated debt	21,681	18,458	-	-	18,458
Accrued interest payable	293	293	-	293	-
Interest rate lock commitments	1	1	-	1	-
Best efforts forward loan sales commitments	93	93	-	93	-
Mandatory forward loan sales commitments	195	195	-	195	-
Off-Balance Sheet Data					
Commitments to extend credit	-	-	-	-	-
Standby letters-of-credit	-	-	-	-	-

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

The following table presents the changes in accumulated other comprehensive loss by component for the six months ended June 30, 2018 and 2017, and the year ended December 31, 2017.

	Unrealized Gains (Losses) on Available-For-Sale Securities	Unrealized Holding Losses on Securities Transferred From Available-For-Sale To Held-To-Maturity	Total
(dollars in thousands)			
Balance January 1, 2018	\$ (7,150	) \$ (359	) \$(7,509)
Reclassification due to the adoption of ASU 2018-02	(1,562	) (78	) (1,640)
Unrealized loss on securities	(7,036	) -	(7,036)
Amounts reclassified from accumulated other comprehensive income to net income (2)	1	54	55
Net current-period other comprehensive income (loss)	(7,035	) 54	(6,981)
Balance June 30, 2018	\$ (15,747	) \$ (383	) \$(16,130)
Balance January 1, 2017	\$ (6,831	) \$ (463	) \$(7,294)
Unrealized gain on securities	1,681	-	1,681
Amounts reclassified from accumulated other comprehensive income to net income (2)	39	55	94
Net current-period other comprehensive income	1,720	55	1,775
Balance June 30, 2017	\$ (5,111	) \$ (408	) \$(5,519)
Balance January 1, 2017	\$ (6,831	) \$ (463	) \$(7,294)
Unrealized loss on securities	(413	) -	(413)
Amounts reclassified from accumulated other comprehensive income to net income (2)	94	104	198
Net current-period other comprehensive income (loss)	(319	) 104	(215)
Balance December 31, 2017	\$ (7,150	) \$ (359	) \$(7,509)

(1) All amounts are net of tax. Amounts in parentheses indicate reductions to other comprehensive income.

(2) Reclassification amounts are reported as gains on sales of investment securities, impairment losses, and amortization of net unrealized losses on the Consolidated Statement of Operations.

Note 9: Goodwill and Other Intangibles

The Company completed an annual impairment test for goodwill as of July 31, 2017. Future impairment testing will be conducted each July 31, unless a triggering event occurs in the interim that would suggest impairment, in which case it would be tested as of the date of the triggering event. During the six months ended June 30, 2018 and 2017, there was no goodwill impairment recorded. There can be no assurance that future impairment assessments or tests will not result in a charge to earnings.

The Company's goodwill and intangible assets related to the acquisition of Oak Mortgage in July 2016 is detailed below:

(dollars in thousands)	Balance December 31, 2017	Additions/ Adjustments	Amortization	Balance June 30, 2018	Amortization Period (in years)
Goodwill	\$ 5,011	\$ -	\$ -	\$ 5,011	Indefinite

(dollars in thousands)	Balance December 31, 2016	Additions/ Adjustments	Amortization	Balance June 30, 2017	Amortization Period (in years)
Goodwill	\$ 5,011	\$ -	\$ -	\$ 5,011	Indefinite
Non-compete agreements	61	-	(52)	9	1
Total	\$ 5,072	\$ -	\$ (52)	\$ 5,020	

Note 10: Derivatives and Risk Management Activities

Republic did not have any derivative instruments designated as hedging instruments, or subject to master netting and collateral agreements for the six months ended June 30, 2018 and the six months ended June 30, 2017. The following table summarizes the amounts recorded in Republic's statement of financial condition for derivatives not designated as hedging instruments as of June 30, 2018 and December 31, 2017 (in thousands):

June 30, 2018	Balance Sheet Presentation	Fair Value	Notional Amount
Asset derivatives:			
IRLC's	Other Assets	\$ 714	\$ 32,937
Best efforts forward loan sales commitments	Other Assets	1	363
Mandatory forward loan sales commitments	Other Assets	6	1,091
Liability derivatives:			
IRLC's	Other Liabilities	\$ 3	\$ 687
Best efforts forward loan sales commitments	Other Liabilities	210	33,261
Mandatory forward loan sales commitments	Other Liabilities	301	33,168
December 31, 2017	Balance Sheet Presentation	Fair Value	Notional Amount
Asset derivatives:			
IRLCs	Other Assets	\$ 363	\$ 16,366
Best efforts forward loan sales commitments	Other Assets	5	1,807

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Mandatory forward loan sales commitments	Other Assets	19	4,566
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Liability derivatives:

IRLCs	Other Liabilities	\$ 1	\$ 424
Best efforts forward loan sales commitments	Other Liabilities	93	14,983
Mandatory forward loan sales commitments	Other Liabilities	195	36,223

The following tables summarize the amounts recorded in Republic's statement of income for derivative instruments not designated as hedging instruments for the three and six months ended June 30, 2018 and 2017 (in thousands):

		Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
	Income Statement Presentation	Gain/(Loss)	Gain/(Loss)
Asset derivatives:			
IRLC's	Mortgage banking income	\$ 80	\$ 351
Best efforts forward loan sales commitments	Mortgage banking income	(5)	(5)
Mandatory forward loan sales commitments	Mortgage banking income	3	(13)