REPUBLIC FIRST BANCORP INC
Form 10-K
March 14, 2019

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

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

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

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months. YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

The aggregate market value of the voting and non-voting common equity held by non-affiliates was $411,031,864 based on the last sale price on Nasdaq Global Market on June 30, 2018.

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

Common Stock, par value $0.01 per share	58,825,278
Title of Class	Number of Shares Outstanding as of March 13, 2019

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for its 2019 Annual Meeting of Shareholders, which Definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended December 31, 2018, are incorporated by reference into Part III of this Form 10-K; provided, however, that the Compensation Committee Report, the Audit Committee Report and any other information in such proxy statement that is not required to be included in this Annual Report on Form 10-K, shall not be deemed to be incorporated herein by reference or filed as a part of this Annual Report on Form 10-K.

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PART I

Item 1: Business

Throughout this Annual Report on Form 10-K, the registrant, Republic First Bancorp, Inc., is referred to as the “Company” or as “we,” “our” or “us”. The Company’s website address is www.myrepublicbank.com. The information on this website is not and should not be considered part of this Form 10-K and is not incorporated by reference in this Form 10-K. This website is, and is only intended to be, for reference purposes only. The Company makes available free of charge on or through its website its Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission (the “SEC”).

Forward Looking Statements

This document contains “forward-looking statements,” as that term is defined in the U.S. Private Securities Litigation Reform Act of 1995. These statements can be identified by reference to a future period or periods or by the use of words such as “would be,” “could be,” “should be,” “probability,” “risk,” “target,” “objective,” “may,” “will,” “estimate,” “pro “intend,” “anticipate,” “plan,” “seek,” “expect” and similar expressions or variations on such expressions. These forward-looking statements include, among others: statements of goals, intentions and expectations, statements regarding the impact of accounting pronouncements, statements regarding prospects and business strategy, statements regarding allowance for loan losses, asset quality and market risk and estimates of future costs, benefits and results.

Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. For example, and in addition to the “Risk Factors” discussed elsewhere in this Form 10-K, risks and uncertainties can arise with changes in or related to:

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

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

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

General

Republic First Bancorp, Inc. was organized and incorporated under the laws of the Commonwealth of Pennsylvania in 1987 and is the holding company for Republic First Bank, which does business under the name Republic Bank, and we may refer to as Republic or the Bank throughout this document. Republic offers a variety of credit and depository banking services. Such services are offered to individuals and businesses primarily in the Greater Philadelphia and Southern New Jersey area through their offices and branches in Philadelphia, Bucks, Delaware, and Montgomery Counties in Pennsylvania and Atlantic, Burlington, Camden, and Gloucester Counties in New Jersey.

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

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

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

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

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

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

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

To strengthen our capital position and prepare for the next stage of growth and expansion, we completed a capital raise in the amount of $100 million through a registered direct offering of our common stock in December 2016. At the same time, Vernon W. Hill, II became a member of the Board of Directors and was appointed Chairman of Republic First Bancorp, Inc. He has been a major investor and consultant to Republic since 2008. Mr. Hill is often credited with reinventing the concept of Retail Banking. He was the Founder and Chairman of Commerce Bancorp, a $50 billion Retail Bank headquartered in metro Philadelphia, which grew to 450 locations along the east coast before its sale in 2007. He is also the Founder and Chairman of Metro Bank (UK), which is the first new Retail high street bank opened in Britain since 1840 and in just eight years has grown to more than $28 billion in assets and 65 locations.

The aggressive expansion plan has produced strong results and continues to build momentum. Over the last five years, we have opened sixteen new stores using our signature glass building. During 2018, we expanded our store network in the Southern New Jersey area by opening three new locations in Gloucester Township, Evesboro, and Somers Point and expanded in the Greater Philadelphia area with a new store in Fairless Hills. There are several other locations in various stages of approval and development for future openings. We will also be expanding into the New York market with two to four new stores planned in Manhattan in the coming year.

As of December 31, 2018, we had total assets of approximately $2.8 billion, total shareholders' equity of approximately $245.2 million, total deposits of approximately $2.4 billion, net loans receivable of approximately $1.4 billion, and net income of $8.6 million. We have one reportable segment: community banking. The community bank segment primarily encompasses the commercial loan and deposit activities of Republic, as well as residential mortgage and other consumer loan products in the area surrounding its stores. We provide banking services through the Bank, and do not presently engage in any activities other than traditional banking activities.

Republic Bank

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

Service Area / Market Overview

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

Competition

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

Our legal lending limit to one borrower was approximately $34.4 million at December 31, 2018. Loans above this amount may be made if the excess over the lending limit is participated to other institutions. We are subject to potential intensified competition from new branches of established banks in the area as well as new banks that could open in our market area. There are banks and other financial institutions, which serve surrounding areas, and additional out-of-state financial institutions, which currently, or in the future, may compete in our market. We compete to attract deposits and loan applications both from customers of existing institutions and from customers new to our market and we anticipate a continued increase in competition in our service area.

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

Products and Services

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

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

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

Our lending activities generally are focused on small and medium sized businesses within the communities that we serve. Commercial real estate loans represent the largest category within our loan portfolio, amounting to approximately 36% of total loans outstanding at December 31, 2018. Repayment of these loans is, in part, dependent on general economic conditions affecting our customers and various businesses within the community. As a commercial lender, we are subject to credit risk. Economic and financial conditions could have an adverse effect on the ability of our borrowers to repay their loans. To manage the challenges that the economic environment may present we have adopted a conservative loan classification system, continually review and enhance our allowance for loan loss methodology, and perform a comprehensive review of our loan portfolio on a regular basis.

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

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

Store Expansion Plans and Growth Strategy

We will carefully evaluate growth opportunities throughout 2019 and beyond. The Bank opened three new stores located in Gloucester Township, Evesboro, and Somers Point in New Jersey and a fourth store located in Fairless Hills in Pennsylvania utilizing our distinctive glass prototype building in 2018. The Bank anticipates the continuation of its expansion strategy in the Metro Philadelphia market and has also announced plans to expand into New York City with the opening of two to four stores in 2019. Relocation of other existing store locations may also occur in the future as we continue to enhance our brand and focus on constantly improving the customer experience. The opening and relocation of these stores is subject to regulatory approval.

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

Securities Portfolio

We maintain an investment securities portfolio. We purchase investment securities that are in compliance with our investment policies, which are approved annually by our Board of Directors. The investment policies address such issues as permissible investment categories, credit quality, maturities and concentrations. At December 31, 2018 and 2017, approximately 92% and 90%, respectively, of the aggregate dollar amount of the investment securities consisted of either U.S. government debt securities or U.S. government agency issued mortgage-backed securities. Credit risk associated with these U.S. government debt securities and the U.S. government agency securities is minimal, with risk-based capital weighting factors of 0% and 20%, respectively. The remainder of the securities portfolio consists of municipal securities, corporate bonds, asset-backed securities, and Federal Home Loan Bank (FHLB) capital stock.

Supervision and Regulation

General

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

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

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

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

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

• Increased Capital Standards and Enhanced Supervision. The federal banking agencies established minimum leverage and risk-based capital requirements for banks and bank holding companies. These new standards are summarized under "Capital Adequacy" below. The Dodd-Frank Act also requires capital requirements to be countercyclical such that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction consistent with safety and soundness.

• The Consumer Financial Protection Bureau ("CFPB"). The Dodd-Frank Act created the CFPB within the Federal Reserve. The CFPB is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The CFPB has broad rulemaking, supervisory and enforcement powers for a wide range of consumer protection laws applicable to banks with greater than $10 billion or more in assets. Smaller institutions will be subject to rules promulgated by the CFPB, but will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are more stringent than those regulations promulgated by the CFPB and state attorneys general are permitted to enforce consumer protection rules adopted by the CFPB against state-chartered institutions.

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

• Transactions with Affiliates. Under federal law, we are subject to restrictions that limit certain types of transactions between Republic and its non-bank affiliates. In general, we are subject to quantitative and qualitative limits on extensions of credit, purchases of assets and certain other transactions involving us and our non-bank affiliates. Transactions between Republic and its non-bank affiliates are required to be on arms length terms. The Dodd-Frank Act enhanced the requirements for certain transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including expanding the definition of "covered transactions" and "affiliates," as well as increasing the amount of time for which collateral requirements regarding covered transactions must be maintained.

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• Transactions with Insiders. Under the Dodd-Frank Act, insider transaction limitations are expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivative transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions have also been placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, if representing more than 10% of capital, approved by the institution's board of directors.

• Holding Company Capital Levels. The Dodd-Frank Act requires bank regulators to establish minimum capital levels for holding companies that are at least as stringent as those applicable to depository institutions. All trust preferred securities, or TRUPs, issued prior to May 19, 2010 by bank holding companies with less than $15 billion in assets are permanently grandfathered in Tier 1 capital, subject to a limitation of 25% of Tier 1 capital.

Although many of the provisions of the Dodd-Frank Act are currently effective, there remain some regulations yet to be implemented. It is therefore difficult to predict at this time what impact the Dodd-Frank Act and implementing regulations will have on us. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements.

Gramm-Leach-Bliley Act

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

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

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

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

Sarbanes-Oxley Act of 2002

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

Regulatory Restrictions on Dividends

Dividend payments by Republic to the holding company are subject to the Pennsylvania Banking Code of 1965 ("Banking Code") and the Federal Deposit Insurance Act ("FDIA"). Under the Banking Code, no dividends may be paid except from "accumulated net earnings" (generally, undivided profits). Under the FDIA, an insured bank may pay no dividends if the bank is in arrears in the payment of any insurance assessment due to the FDIC. Under the Banking Code, Republic would be limited to $48.5 million of dividends payable plus an additional amount equal to its net profit for 2019, up to the date of any such dividend declaration. However, dividends would be further limited in order to maintain capital ratios as discussed in "Capital Adequacy".

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

Dividend Policy

We have not paid any cash dividends on our common stock, and have no plans to pay any cash dividends in 2019 or in the foreseeable future. See Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities of this Form 10-K for more information.

Deposit Insurance and Assessments

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

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

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

The Dodd-Frank Act also requires the FDIC to take such steps as are necessary to increase the reserve ratio of the DIF from 1.15% to 1.35% of insured deposits by 2020. The reserve ratio is the DIF balance divided by estimated insured deposits. The reserve ratio reached 1.36% on September 30, 2018. Because the reserve ratio has reached 1.35%, two deposit insurance assessment changes occurred under FDIC regulations: (1) surcharges on insured depository institutions with total consolidated assets of $10 billion or more (large institutions) will cease; and (2) banks with assets of less than $10 billion, such as us, will receive assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from between 1.15% and 1.35%, to be applied when the reserve ratio is at or above 1.38%, with credits starting with the March 31, 2019 assessment invoiced in June 2019.

In addition to paying basic deposit insurance assessments, the FDIC collects Financing Corporation ("FICO") assessments to pay interest on FICO bonds. FICO bonds were issued in the late 1980's to recapitalize the (former) Federal Savings & Loan Insurance Corporation. The last of the remaining FICO bonds will mature in September 2019. It is projected that the last FICO assessment will be collected on March 29, 2019.

Capital Adequacy

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

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

Under the capital rules, risk-based capital ratios are calculated by dividing common equity Tier 1, Tier 1, and total risk-based capital, respectively, by risk-weighted assets. Assets and off-balance sheet credit equivalents are assigned to one of several categories of risk-weights, based primarily on relative risk. Under the Federal Reserve's rules, Republic is required to maintain a minimum common equity Tier 1 capital ratio requirement of 4.5%, a minimum Tier 1 capital ratio requirement of 6%, a minimum total capital requirement of 8% and a minimum leverage ratio requirement of 4%. Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The capital conservation buffer, which is composed of common equity tier 1 capital, began on January 1, 2016 at the 0.625% level and has been phased in over a three year period (increasing by that amount on each January 1, until it reached 2.5% on January 1, 2019). Implementation of the deductions and other adjustments to common equity tier 1 capital began on January 1, 2015 and has been phased-in over a three-year period (beginning at 40% on January 1, 2015, 60% on January 1, 2016 and an additional 20% per year thereafter).

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

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

Republic is considered "well capitalized" under the FDIC's prompt corrective action rules. The risk-based capital standards are required to take adequate account of interest rate risk, concentration of credit risk and the risks of non-traditional activities.

Legislative and Regulatory Changes

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

Future Legislative and Regulatory Developments

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

The Trump Administration has indicated its intent to bring changes to the U.S. financial services industry that we cannot now predict. Public comments by President Donald J. Trump, as well as his appointees at various federal agencies, may suggest the Administration's intent to change policies and regulations that implement current federal law, including those implementing the Dodd-Frank Act. At this point we are unable to determine what impact the Trump Administration's policy changes might have on us.

Profitability, Monetary Policy and Economic Conditions

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

Employees

As of December 31, 2018, we had a total of 531 employees, including 473 full-time employees.

Item 1A: Risk Factors

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

We are subject to credit risk in connection with our lending activities, and our financial condition and results of operations may be negatively impacted by economic conditions and other factors that adversely affect our borrowers.

Our financial condition and results of operations are affected by the ability of our borrowers to repay their loans, and in a timely manner. Lending money is a significant part of the banking business. Borrowers, however, do not always repay their loans. The risk of non-payment is assessed through our underwriting and loan review procedures based on several factors including credit risks of a particular borrower, changes in economic conditions, the duration of the loan, and in the case of a collateralized loan, uncertainties as to the future value of the collateral and other factors. Despite our efforts, we do and will experience loan losses, and our financial condition and results of operations will be adversely affected. Our non-performing assets were approximately $16.6 million at December 31, 2018. Our allowance for loan losses was approximately $8.6 million at December 31, 2018. Our loans between thirty and eighty-nine days delinquent totaled $2.7 million at December 31, 2018.

Our concentration of commercial real estate loans could result in increased loan losses and costs of compliance.

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

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

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

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

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

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

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, require our management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of income and expense during the reporting periods. Critical estimates are made by management in determining, among other things, the allowance for loan losses, carrying values of other real estate owned, assessment of other than temporary impairment ("OTTI") of investment securities, fair value of financial instruments, and the realization of deferred income taxes. If our underlying estimates and assumptions prove to be incorrect, our financial condition and results of operations may be materially adversely affected.

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

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

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

Our net income depends on the net income of Republic, and Republic is dependent primarily upon its net interest income, which is the difference between the interest earned on its interest-earning assets, such as loans and investments, and the interest paid on its interest-bearing liabilities, such as deposits and borrowings.

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

Potential concerns for the longer term economic outlook include the continued flattening of the yield curve and an increasingly inverted yield curve (which may or may not signal a future recession), the risk of economic overheating in the near future, and concerns surrounding the long term fiscal position of the United States. In addition to affecting interest income and expense, changes in interest rates also can affect the value of our interest-earning assets, comprising fixed and adjustable-rate instruments, as well as the ability to realize gains from the sale of such assets. Generally, the value of fixed-rate instruments fluctuates inversely with changes in interest rates, and changes in interest rates may therefore have a material adverse effect on our results of operations.

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

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

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

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

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

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

- increased regulation of our industry and increased compliance costs;
- hampering our ability to assess the creditworthiness of customers and to estimate the losses inherent in our credit exposure, as such assessments are made more complex by these difficult market and economic conditions;
- increasing our credit risk, by increasing the likelihood that our major customers become insolvent and unable to satisfy their obligations to us;
- impairing our ability to originate loans, by making our customers and prospective customers less willing to borrow, and making loans that meet our underwriting criteria difficult to find; and
- limiting our interest income, by depressing the yields we are able to earn on our investment portfolio.

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

As of December 31, 2018, we had approximately $16.9 million of U.S. Federal net operating loss carryforwards, referred to as "NOLs," available to reduce taxable income in future years.

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

In addition, the ability to use NOLs will be dependent on our ability to generate taxable income. The NOLs may expire before we generate sufficient taxable income. There were no NOLs that expired in the fiscal years ended December 31, 2018 and December 31, 2017. There are no NOLs that could expire if not utilized for the year ending December 31, 2019.

Our assets as of December 31, 2018 included a deferred tax asset and we may not be able to realize the full amount of such asset.

We recognize deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of assets and liabilities. At December 31, 2018, the net deferred tax asset was $12.3 million, compared to a balance of $12.7 million at December 31, 2017.

We regularly review our deferred tax assets for recoverability to determine whether it is more likely than not (i.e. likelihood of more than 50%) that some portion, or all, of the deferred tax asset will not be realized within its life cycle, based on the weight of available evidence. If management makes a determination based on the available evidence that it is more likely than not that some portion or all of the deferred tax assets will not be realized in future periods, a valuation allowance is calculated and recorded. These determinations are inherently subjective and dependent upon estimates and judgments concerning management's evaluation of both positive and negative evidence.

Based on the analysis of the available positive and negative evidence, we determined that a valuation allowance should not be recorded as of December 31, 2018. We used projections of future taxable income, exclusive of reversing temporary timing differences and carryforwards, as a factor to project recoverability of the deferred tax asset balance. There can be no assurance as to when we will be in a position to fully recapture the benefits of our deferred tax asset. Further discussion on the analysis of our deferred tax asset can be found in the "Provision (Benefit) for Income Taxes" section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

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

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

In 2018, we originated $367 million and sold $311 million of residential mortgage loans to investors. The residential mortgage business is highly competitive, and highly susceptible to changes in market interest rates, consumer confidence levels, employment statistics, the capacity and willingness of secondary market purchasers to acquire and hold or securitize loans, and other factors beyond our control.

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

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

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

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

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Potential acquisitions may disrupt our business and dilute shareholder value.

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

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

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions;

- using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or its assets;

- the time and expense required to integrate the operations and personnel of the combined businesses;

- creating an adverse short-term effect on our results of operations; and

- losing key employees and customers as a result of an acquisition that is poorly conceived.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Federal banking regulators require us, and Republic, to maintain capital to support our operations. Regulatory capital ratios are defined and required ratios are established by laws and regulations promulgated by banking regulatory agencies. At December 31, 2018, our regulatory capital ratios were above “well capitalized” levels under current bank regulatory guidelines. To be “well capitalized,” banking companies generally must maintain a Tier 1 leverage ratio of at least 5%, a Common Equity Tier 1 ratio of at least 6.5%, a Tier 1 risk-based capital ratio of at least 8%, and a total risk-based capital ratio of at least 10%. Regulators, however, may require us, or Republic, to maintain higher regulatory capital ratios.

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

We may be exposed to environmental liabilities with respect to real estate that we have or had title to in the past.

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

Our common stock is not insured by any governmental entity and, therefore, an investment in our common stock involves risk.

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

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

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

Additionally, the sale of substantial amounts of our common stock or securities convertible into or exchangeable or exercisable for our common stock, whether directly by us or by existing common shareholders in the secondary market, the perception that such sales could occur or the availability for future sale of shares of our common stock or securities convertible into or exchangeable or exercisable for our common stock could, in turn, materially and adversely affect the market price of our common stock and our ability to raise capital through future offerings of equity or equity-related securities. The convertible trust preferred securities of Republic First Bancorp Capital Trust IV were converted into 1.7 million shares of our common stock in the years 2017 and 2018.

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

Our common stock is currently traded on the Nasdaq Global Market. During 2018, the average daily trading volume for our common stock was approximately 158,900 shares. Sales of our common stock may place significant downward pressure on the market price of our common stock. Furthermore, it may be difficult for holders to resell their shares at prices they find attractive, or at all.

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

Shares of our common stock are common equity interests in us and, as such, will rank junior to all of our existing and future indebtedness and other liabilities. Additionally, holders of our common stock may become subject to the prior dividend and liquidation rights of holders of any classes or series of preferred stock that our Board of Directors may designate and issue without any action on the part of the holders of our common stock. Furthermore, our right to participate in a distribution of assets upon any of our subsidiaries' liquidation or reorganization is subject to the prior claims of that subsidiary's creditors and preferred shareholders. As of December 31, 2018, we had $11.3 million of outstanding debt related to trust preferred securities.

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

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

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

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

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, referred to as Section 404, we are required to include in our Annual Reports on Form 10-K, our management's report on internal control over financial reporting. While we have reported no material weaknesses in the Form 10-K for the fiscal year ended December 31, 2018, we cannot guarantee that we will not have any material weaknesses in the future.

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

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

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

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

Uncertainty about the future of LIBOR may adversely affect our business.

LIBOR and certain other interest rate "benchmarks" are the subject of recent national, international, and other regulatory guidance and proposals for reform. These reforms may cause such benchmarks to perform differently than in the past or have other consequences which cannot be predicted. On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, publicly announced that it intends to stop persuading or compelling banks to submit information to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis cannot be guaranteed after 2021. While there is no consensus on what rate or rates may become accepted alternatives to LIBOR, a group of market participants convened by the Federal Reserve, the Alternative Reference Rate Committee, has selected the Secured Overnight Finance Rate as its recommended alternative to LIBOR. The Federal Reserve Bank of New York started to publish the Secured Overnight Financing Rate in April 2018. The Secured Overnight Financing Rate is a broad measure of the cost of overnight borrowings collateralized by Treasury securities that was selected by the Alternative Reference Rate Committee due to the depth and robustness of the U.S. Treasury repurchase market. At this time, it is impossible to predict whether the Secured Overnight Financing Rate will become an accepted alternative to LIBOR.

The market transition away from LIBOR to an alternative reference rate, such as the Secured Overnight Financing Rate, is complex and could have a range of adverse effects on our business, financial condition and results of operations. In particular, any such transition could:

- adversely affect the interest rates paid or received on, the revenue and expenses associated with or the value of our LIBOR-based assets and liabilities, which include certain variable rate loans and subordinated debt;

- adversely affect the interest rates paid or received on, the revenue and expenses associated with or the value of other securities or financial arrangements, given LIBOR's role in determining market interest rates globally;

- prompt inquiries or other actions from regulators in respect of our preparation and readiness for the replacement of LIBOR with an alternative reference rate; and

- result in disputes, litigation or other actions with counterparties regarding the interpretation and enforceability of certain fallback language in LIBOR-based contracts and securities.

The transition away from LIBOR to an alternative reference rate will require the transition to or development of appropriate systems and analytics to effectively transition our risk management and other processes from LIBOR-based products to those based on the applicable alternative reference rate, such as the Secured Overnight Financing Rate. There can be no guarantee that these efforts will successfully mitigate the operational risks associated with the transition away from LIBOR to an alternative reference rate.

The manner and impact of the transition from LIBOR to an alternative reference rate, as well as the effect of these developments on our funding costs, loan and investment and trading securities portfolios, asset-liability management, and business, is uncertain.

Our financial results may be adversely affected by changes in U.S. and non-U.S. tax and other laws and regulations.

On December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act, was signed into law. The Tax Act includes many provisions that effected our income tax expenses, including reducing its corporate federal tax rate from 35% to 21% effective January 1, 2018. As a result of the rate reduction, we were required to re-measure, through income tax expense in the period of enactment, our deferred tax assets and liabilities using the enacted rate at which we expected them to be recovered or settled. The re-measurement of the net deferred tax asset resulted in additional income tax expense of $7.7 million recorded in fourth quarter 2017.

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

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

Also on December 22, 2017, the SEC released SAB 118 to address any uncertainty or diversity of views in practice in accounting for the income tax effects of the Act in situations where a registrant does not have the necessary information available, prepared or analyzed in reasonable detail to complete this accounting in the reporting period that includes the enactment date. SAB 118 allowed for a measurement period not to extend beyond one year from the Act's enactment date to complete the necessary accounting.

We recorded provisional amounts of deferred income taxes using reasonable estimates in three areas where information necessary to complete the accounting was not available, prepared or analyzed as follows: (i) the deferred tax liability for temporary differences between the tax and financial reporting bases of fixed assets principally due to the accelerated depreciation under the Act which allowed for full expensing of qualified property purchased and placed in service after September 27, 2017; (ii) the deferred tax asset for temporary differences associated with accrued compensation was awaiting final determinations of amounts that were paid and deducted on the 2017 income tax returns and (iii) the deferred tax liability for temporary differences associated with equity investments in partnerships were awaiting receipt of Schedules K-1 from outside preparers, which was necessary to determine the 2017 tax impact from these investments.

In a fourth area, we made no adjustments to deferred tax assets representing future deductions for accrued compensation that were subject to new limitations under Internal Revenue Code Section 162(m) which, generally, limits the annual deduction for certain compensation paid to certain team members to $1 million. There was uncertainty in applying the newly enacted rules to existing contracts, and we were seeking further clarifications before completing its analysis. We completed the calculations for the provisional items with the completion of the 2017 tax returns and completed the analysis of the Section 162(m) rules after further guidance was issued. The impact of the completed calculations to the re-measurement of the deferred taxes resulted in an immaterial change and the analysis of the 162(m) rules resulted in no adjustment.

Item 1B: Unresolved Staff Comments

None.

Item 2: Description of Properties

We currently have twenty-three lease agreements that expire on various dates in the future. Eight of the leased locations are utilized as back-office support locations, operations centers, loan production offices, training and storage facilities and our corporate headquarters. The other fifteen leased properties are for store locations, all of which are open and operating today. The spaces covered by these leases range in square footage from approximately 800 square feet to 40,000 square feet. Please see Note 11 “Commitments and Contingencies” to the Consolidated Financial Statements for further information regarding the leases. In addition, we own seventeen properties utilized for store locations. Eleven of the stores are open and operating today, two are under construction and four are scheduled to begin construction during 2019. Management believes these facilities are adequate to meet our present and immediately foreseeable needs from a real estate perspective.

Item 3: Legal Proceedings

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

Item 4: Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

Shares of the Company's class of common stock are listed on the Nasdaq Global Market under the symbol "FRBK." As of March 11, 2019, there were approximately 100 record holders.

Dividend Policy

The Company has not paid any cash dividends on its common stock and has no plans to pay cash dividends during 2019. The Company's ability to pay dividends depends primarily on receipt of dividends from the Company's subsidiary, Republic. Dividend payments from Republic are subject to legal and regulatory limitations. The ability of Republic to pay dividends is also subject to profitability, financial condition, capital expenditures and other cash flow requirements.

Item 6: Selected Financial Data

(dollars in thousands, except per share data)	As of or for the Years Ended December 31, 2018	2017	2016	2015	2014
INCOME STATEMENT DATA					
Total interest income	$92,074	$70,849	$54,227	$45,436	$40,473
Total interest expense	16,170	8,784	6,863	5,381	4,644
Net interest income	75,904	62,065	47,364	40,055	35,829
Provision for loan losses	2,300	900	1,557	500	900
Non-interest income	20,322	20,097	15,312	9,943	8,017
Non-interest expenses	83,721	75,276	56,293	47,091	40,550
Income before provision (benefit) for income taxes	10,205	5,986	4,826	2,407	2,396
Provision (benefit) for income taxes	1,578	(2,919)	(119)	(26)	(46)
Net income	$8,627	$8,905	$4,945	$2,433	$2,442
PER SHARE DATA					
Basic earnings per share	$0.15	$0.16	$0.13	$0.06	$0.07
Diluted earnings per share	$0.15	$0.15	$0.12	$0.06	$0.07
Book value per share	$4.17	$3.97	$3.79	$3.00	$2.98
Tangible book value per share (1)	$4.09	$3.89	$3.70	$3.00	$2.98
BALANCE SHEET DATA					
Total assets	$2,753,297	$2,322,347	$1,923,931	$1,438,824	$1,214,598
Total loans, net	1,427,983	1,153,679	955,817	866,066	770,404
Total investment securities	1,088,331	938,561	803,604	460,131	254,402
Total deposits	2,392,867	2,063,295	1,677,670	1,249,298	1,072,230
Short-term borrowings	91,422	-	-	47,000	-
Subordinated debt	11,259	21,681	21,881	21,857	22,476
Total shareholders' equity	245,189	226,460	215,053	113,375	112,811
PERFORMANCE RATIOS					
Return on average assets	0.34%	0.43%	0.30%	0.19%	0.23%
Return on average shareholders' equity	3.69%	4.02%	3.97%	2.14%	2.51%
Net interest margin	3.16%	3.23%	3.14%	3.29%	3.56%
Total non-interest expenses as a percentage of average assets	3.28%	3.64%	3.45%	3.59%	3.80%
ASSET QUALITY RATIOS					
Allowance for loan losses as a percentage of loans	0.60%	0.74%	0.95%	0.99%	1.48%
Allowance for loan losses as a percentage of non-performing loans	83.31%	57.93%	48.45%	68.95%	53.81%
Non-performing loans as a percentage of total loans	0.72%	1.28%	1.96%	1.44%	2.74%
Non-performing assets as a percentage of total assets	0.60%	0.94%	1.51%	1.66%	2.07%
Net charge-offs as a percentage of average loans, net	0.17%	0.13%	0.12%	0.41%	0.22%

LIQUIDITY AND CAPITAL RATIOS										
Average equity to average assets	9.16	%	10.72	%	7.63	%	8.67	%	9.12	%
Leverage ratio	9.35	%	10.64	%	12.74	%	9.65	%	11.23	%
CET 1 capital to risk-weighted assets	13.90	%	14.75	%	16.59	%	10.42	%	-	
Tier 1 capital to risk-weighted assets	14.53	%	16.13	%	18.28	%	12.40	%	13.88	%
Total capital to risk-weighted assets	15.03	%	16.70	%	18.99	%	13.19	%	15.10	%

(1) A Non-GAAP Disclosure

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

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

Executive Summary

"The Power of Red is Back" growth campaign continued to deliver exceptional results in 2018. Four new stores were opened during 2018 using our distinctive glass prototype building increasing our total store count to twenty five locations. Despite the significant investments required to execute our growth and expansion strategy, we were able to demonstrate significant improvement in profitability as net income before taxes increased by 70% year over year. Loans grew 24% and deposits increased by 16%. Customer accounts grew by 29% as we continue to welcome new Fans every day.

The momentum of our expansion strategy continues to build and demonstrate positive results throughout the Metro Philadelphia market. We've also announced plans to begin expanding into the Metro New York market with the opening of two to four stores in Manhattan during 2019. We are excited for the opportunity to bring the "Power of Red is Back" growth campaign to the many Fans waiting for us in New York City.

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

Additional highlights for the year ended December 31, 2018 include the following accomplishments:

- We have twenty-five convenient store locations open today. During 2018, we began our expansion into Bucks County, PA with the opening of our store in Fairless Hills. We also opened stores in Gloucester Township, Evesboro and Somers Point in New Jersey. Construction is underway on sites in Lumberton, NJ and Feasterville, PA and is expected to be completed in the early part of 2019.

- Expansion into New York City is scheduled to begin in 2019. We expect to open two to four new stores in Manhattan in the coming year. Leases have been signed for the first two locations with construction about to begin.

- New stores opened since the beginning of the "Power of Red is Back" expansion campaign in 2014 are currently growing deposits at an average rate of $27 million per year, while the average deposit growth for all stores over the last twelve months was approximately $14 million per year.

- Demand deposits represent the fastest growing segment of our deposit base. These deposits grew by $315 million to $1.6 billion over the last 12 months, including growth of 18% in non-interest bearing demand deposit balances.

- Net income before tax grew by 70% to $10.2 million for the twelve months ended December 31, 2018 compared to $6.0 million for the twelve months ended December 31, 2017. During 2018, we continued to open new stores and improve profitability despite the additional costs associated with the growth and expansion strategy.
- Total assets increased by $431 million, or 19%, to $2.8 billion as of December 31, 2018 compared to $2.3 billion as of December 31, 2017.
- Outstanding loans increased by $274 million, or 24%, to $1.4 billion as of December 31, 2018 compared to $1.2 billion as of December 31, 2017.
- Asset quality continues to improve. The ratio of non-performing assets to total assets declined to 0.60% as of December 31, 2018 compared to 0.94% as of December 31, 2017.
- We converted $10.6 million of outstanding trust preferred securities to 1.6 million shares of common stock during the first quarter of 2018. This conversion will result in a reduction of interest expense of approximately $0.9 million on an annual basis going forward.
- Our residential mortgage division, Oak Mortgage, is serving the home financing needs of customers throughout our footprint. Oak originated more than $360 million in loans during the twelve month period ended December 31, 2018.
- Meeting the needs of small business customers continued to be an important part of our lending strategy. Nearly $43 million in new SBA loans were originated during the year ended December 31, 2018. Republic Bank is currently ranked as the #1 SBA lender in New Jersey based on the dollar volume of loan originations.
- Capital levels remain strong. Our Total Risk-Based Capital ratio was 15.03% and Tier I Leverage Ratio was 9.35% at December 31, 2018.
- Book value per common share increased to $4.17 as of December 31, 2018 compared to $3.97 as of December 31, 2017.

Non-GAAP Based Financial Measures

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

The following table provides a reconciliation of tangible book value per common share as of December 31, 2018 and December 31, 2017.

(dollars in thousands)	December 31, 2018	December 31, 2017
Total shareholders' equity	$ 245,189	$ 226,460
Reconciling items:		
Goodwill	(5,011)	(5,011)
Tangible common equity	$ 240,178	$ 221,449
Common shares outstanding	58,789,228	56,989,764
Tangible book value per common share	$ 4.09	$ 3.89

Critical Accounting Policies, Judgments and Estimates

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

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

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

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

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

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

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

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

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

Other-Than-Temporary Impairment of Securities - Securities are evaluated on at least a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline and our intent and ability to retain its investment in the security for a period of time sufficient to allow for an anticipated recovery in the fair value. The term "other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

Mortgage Banking Activities and Mortgage Loans Held for Sale – Mortgage loans held for sale are originated and held until sold to permanent investors. 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 - 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 24 Derivatives and Risk Management Activities for further detail on IRLCs.

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

Goodwill - Goodwill represents the excess of cost over the identifiable net assets of businesses acquired. Goodwill is recognized as an asset and is to be reviewed for impairment annually. We completed an annual impairment test for goodwill as of July 31, 2018 and 2017. Future impairment testing will be conducted as of July 31 on an annual basis, unless a triggering event occurs in the interim that would suggest impairment, in which case it would be tested as of the date of the triggering event. During the twelve months ended December 31, 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. There was $5.0 million of goodwill at December 31, 2018 and 2017.

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

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

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

Results of Operations

For the year ended December 31, 2018 as compared to the year ended December 31, 2017

We reported net income of $8.6 million, or $0.15 per diluted share, for the twelve months ended December 31, 2018 compared to net income of $8.9 million, or $0.15 per diluted share, for the twelve months ended December 31, 2017. The decrease in net income of $278,000 was related to an increase in total non-interest expense and the provision for income taxes partially offset by an increase in net interest income and non-interest income. Net income before tax grew by 70%, or $4.2 million to $10.2 million for the twelve months December 31, 2018 compared to net income before tax of $6.0 million for the twelve months ended December 31, 2017.

Net interest income for the twelve months ended December 31, 2018 increased $13.8 million to $75.9 million as compared to $62.1 million for the twelve months ended December 31, 2017. Interest income increased $21.2 million, or 30.0%, due primarily to an increase in average loans receivable and investment securities balances. Interest expense increased $7.4 million, or 84.1%, primarily due to an increase in the cost of average interest-bearing liabilities and the balance of average interest-bearing liabilities. The increase in interest rates associated with the cost of interest-bearing liabilities was mainly driven by the increases in the Fed Funds rate during 2018.

We recorded a loan loss provision in the amount of $2.3 million, an increase of $1.4 million for the twelve months ended December 31, 2018 compared to a provision of $900,000 during the twelve months ended December 31, 2017. The higher provision recorded for the twelve months ended December 31, 2018 is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that management believes is adequate to absorb inherent losses in the loan portfolio. The increase was primarily a result of an increase in the allowance required for loans collectively evaluated for impairment due to growth in outstanding loans during 2018.

Non-interest income increased $225,000 to $20.3 million during the twelve months ended December 31, 2018 as compared to $20.1 million during the twelve months ended December 31, 2017. The increase was primarily driven by service fees on deposit accounts, partially offset by a decrease in mortgage banking income, gains on the sale of SBA loans, and loan and servicing fees recorded during the twelve months ended December 31, 2017.

Non-interest expenses increased $8.4 million to $83.7 million during the twelve months ended December 31, 2018 as compared to $75.3 million during the twelve months ended December 31, 2017. The increase was primarily driven by higher salaries, employee benefits, occupancy and equipment expenses associated with the addition of new stores related to our expansion strategy which we refer to as “The Power of Red is Back”.

Return on average assets and average equity were 0.34% and 3.69%, respectively, during the twelve months ended December 31, 2018 compared to 0.43% and 4.02%, respectively, for the twelve months ended December 31, 2017.

Average Balances and Net Interest Income

Historically, our earnings have depended primarily upon Republic's net interest income, which is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is affected by changes in the mix of the volume and rates of interest-earning assets and interest-bearing liabilities. The following table provides an analysis of net interest income on an annualized basis, setting forth for the periods average assets, liabilities, and shareholders' equity, interest income earned on interest-earning assets and interest expense on interest-bearing liabilities, average yields earned on interest-earning assets and average rates on interest-bearing liabilities, and Republic's net interest margin (net interest income as a percentage of average total interest-earning assets). Averages are computed based on daily balances. Non-accrual loans are included in average loans receivable. Yields are adjusted for tax equivalency, a non-GAAP measure, using a rate of 21% in 2018 and 35% in 2017 and 2016.

Average Balances and Net Interest Income

	For the Year Ended December 31, 2018			For the Year Ended December 31, 2017			For the Year Ended December 31, 2016		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate(1)	Average Balance	Interest Income/ Expense	Yield/ Rate(1)	Average Balance	Interest Income/ Expense	Yield/ Rate(1)
Interest-earning assets:									
Federal funds sold and other interest earning assets	$40,931	$847	2.07%	$48,148	$577	1.20%	$92,452	$473	0.51%
Investment securities and restricted stock	1,037,810	27,316	2.63%	811,269	20,466	2.52%	506,545	12,346	2.44%
Loans receivable	1,340,117	64,455	4.81%	1,090,851	50,687	4.65%	936,492	42,304	4.52%
Total interest-earning assets	2,418,858	92,618	3.83%	1,950,268	71,730	3.68%	1,535,489	55,123	3.59%
Other assets	131,369			115,770			96,902		
Total assets	$2,550,227			$2,066,038			$1,632,391		
Interest bearing liabilities:									
Demand – non-interest bearing	$488,995			$372,171			$284,326		
Demand – interest bearing	918,508	7,946	0.87%	687,586	3,020	0.44%	510,745	2,088	0.41%
Money market & savings	697,135	4,898	0.70%	629,464	3,160	0.50%	586,750	2,639	0.45%
Time deposits	128,892	1,588	1.23%	110,952	1,238	1.12%	89,713	942	1.05%
Total deposits	2,233,530	14,432	0.65%	1,800,173	7,418	0.41%	1,471,534	5,669	0.39%
Total interest bearing deposits	1,744,535	14,432	0.83%	1,428,002	7,418	0.52%	1,187,208	5,669	0.48%
Other borrowings	73,573	1,738	2.36%	35,429	1,366	3.86%	27,471	1,194	4.35%
Total interest-bearing liabilities	1,818,108	16,170	0.89%	1,463,431	8,784	0.60%	1,214,679	6,863	0.57%
Total deposits and other borrowings	2,307,103	16,170	0.70%	1,835,602	8,784	0.48%	1,499,005	6,863	0.46%

Non-interest bearing other liabilities	9,431		8,942		8,867	
Shareholders' equity	233,693		221,494		124,519	
Total liabilities and shareholders' equity	$2,550,227		$2,066,038		$1,632,391	
Net interest income[2]	$76,448		$62,946		$48,260	
Net interest spread		2.94%		3.08%		3.02%
Net interest margin[2]		3.16%		3.23%		3.14%

[1] Yields on investments are calculated based on amortized cost.
[2] Net interest income and net interest margin are presented on a tax equivalent basis, a Non-GAAP measure. Net interest income has been increased over the financial statement amount by $544, $881, and $896 in 2018, 2017, and 2016, respectively, to adjust for tax equivalency. The tax equivalent net interest margin is calculated by dividing tax equivalent net interest income by average total interest earning assets.

Rate/Volume Analysis of Changes in Net Interest Income

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

	Year ended December 31, 2018 vs. 2017 Changes due to:			Year ended December 31, 2017 vs. 2016 Changes due to:		
(dollars in thousands)	Average Volume	Average Rate	Total Change	Average Volume	Average Rate	Total Change
Interest earned:						
Federal funds sold and other interest-earning assets	$(149)	$419	$270	$(531)	$635	$104
Securities	5,963	887	6,850	7,687	433	8,120
Loans	11,596	2,172	13,768	6,976	1,407	8,383
Total interest-earning assets	17,410	3,478	20,888	14,132	2,475	16,607
Interest expense:						
Deposits						
Interest-bearing demand deposits	$1,998	$2,928	$4,926	$777	$155	$932
Money market and savings	516	1,222	1,738	193	328	521
Time deposits	221	129	350	237	59	296
Total deposit interest expense	2,735	4,279	7,014	1,207	542	1,749
Other borrowings	742	(370)	372	37	135	172
Total interest expense	3,477	3,909	7,386	1,244	677	1,921
Net interest income	$13,933	$(431)	$13,502	$12,888	$1,798	$14,686

Net Interest Income and Net Interest Margin

Net interest income, on a fully tax-equivalent basis, a non-GAAP measure, for the twelve months ended December 31, 2018 increased by $13.5 million, or 21.5%, over twelve months ended December 31, 2017. Interest income on interest-earning assets totaled $92.6 million for the twelve months ended December 31, 2018, an increase of $20.9 million, compared to $71.7 million for the twelve months ended December 31, 2017. The increase in interest income earned was primarily the result of an increase in the average balances of loans receivable and investment securities. Total interest expense for the twelve months ended December 31, 2018 increased $7.4 million, or 84.1%, to $16.2 million from $8.8 million for the twelve months ended December 31, 2017. Interest expense on deposits increased by $7.0 million, or 94.6%, for the twelve months ended December 31, 2018 versus the twelve months ended December 31, 2017 due to increases in average deposit balances and higher rates. Interest expense on other borrowings increased by $372,000 for the twelve months ended December 31, 2018 compared to the twelve months ended December 31, 2017 due primarily to a $46.1 million increase in average overnight borrowings balances.

Changes in net interest income are frequently measured by two statistics: net interest rate spread and net interest margin. Net interest rate spread is the difference between the average rate earned on interest-earning assets and the average rate incurred on interest-bearing liabilities. Our net interest rate spread on a fully tax-equivalent basis was 2.94% during the twelve months ended December 31, 2018 versus 3.08% during the twelve months ended December 31, 2017. Net interest margin represents the difference between interest income, including net loan fees earned, and interest expense, reflected as a percentage of average interest-earning assets. For the twelve months ended December 31, 2018 and 2017, the fully tax-equivalent net interest margin was 3.16% and 3.23%, respectively. The net interest margin for the twelve months ended December 31, 2018 decreased primarily as a result of the cost of funds associated with interest-bearing liabilities rising at a faster rate than the yield earned on interest-earning assets.

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Provision for Loan Losses

We recorded a provision for loan losses in the amount of $2.3 million, an increase of $1.4 million, for the twelve months ended December 31, 2018 compared to a $900,000 provision for the twelve months ended December 31, 2017. The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that management believes is adequate to absorb inherent losses in the loan portfolio. The provision recorded for the twelve months ended December 31, 2018 as compared to the twelve months ended December 31, 2017 increased primarily as a result of an increase in the allowance required for loans collectively evaluated for impairment driven by an increase in loans receivable.

Non-Interest Income

Total non-interest income for the twelve months ended December 31, 2018 increased by $225,000, or 1.1%, compared to the twelve months ended December 31, 2017. Service fees on deposit accounts totaled $5.5 million for the twelve months ended December 31, 2018 which represents an increase of $1.6 million compared to the twelve months ended December 31, 2017. This increase was driven by growth in customer deposit accounts and transaction volume. We recognized losses of $67,000 on the sale of securities during the twelve months ended December 31, 2018, a decrease of $79,000, compared to losses of $146,000 on the sales of securities for the twelve months ended December 31, 2017. Mortgage banking income totaled $10.2 million and $11.2 million for the twelve months ended December 31, 2018 and 2017. The decrease of $937,000 is primarily driven by fair adjustments on loans held for sale and IRLCs. Gains on the sale of SBA loans totaled $3.1 million for the twelve months ended December 31, 2018, a decrease of $273,000, versus $3.4 million for the twelve months ended December 31, 2017.

Non-Interest Expenses

Non-interest expenses increased by $8.4 million, or 11.2%, for the twelve months ended December 31, 2018, compared to the twelve months ended December 31, 2017. An explanation of changes of non-interest expenses for certain categories is presented in the following paragraphs.

Salary expenses and employee benefits for the twelve months ended December 31, 2018 increased by $6.1 million, or 16.1%, compared to the twelve months ended December 31, 2017. The increase was primarily driven by annual merit increases along with increased staffing levels related to our growth strategy of adding and relocating stores, which we refer to as “The Power of Red is Back”. There were twenty-five stores open as of December 31, 2018 compared to twenty-two stores open at December 31, 2017.

Occupancy expense, including depreciation and amortization expense, increased by $1.7 million, or 14.6%, for the twelve months ended December 31, 2018 compared to the twelve months ended December 31, 2017, also as a result of our continuing growth and expansion strategy.

Other real estate owned expenses totaled $1.6 million during the twelve months ended December 31, 2018, a decrease of $2.5 million, when compared to the twelve months ended December 31, 2017. This decrease was primarily due to the writedown of a single OREO property in the amount of $2.7 million during 2017. This writedown was driven by our decision to aggressively pursue a resolution for our largest non-performing asset.

All other non-interest expenses for the twelve months ended December 31, 2018 increased $3.1 million compared to the twelve months ended December 31, 2017. Increases in expenses related to data processing, automated teller machine expenses, professional fees, and regulatory assessments which were mainly associated with our growth strategy.

One key measure that management utilizes to monitor progress in controlling overhead expenses is the ratio of annualized net non-interest expenses to average assets, a non-GAAP measure. For purposes of this calculation, net non-interest expenses equal non-interest expenses less non-interest income. For the twelve months ended December 31, 2018, the ratio equaled 2.49% compared to 2.67% for the twelve months ended December 31, 2017, respectively. The decrease in this ratio was mainly due to our growth in average assets.

Another productivity measure utilized by management is the operating efficiency ratio, another non-GAAP measure. This ratio expresses the relationship of non-interest expenses to net interest income plus non-interest income. The efficiency ratio equaled 87.0% for the twelve months ended December 31, 2018, compared to 91.6% for the twelve months ended December 31, 2017. The decrease for the twelve months ended December 31, 2018 versus the twelve months ended December 31, 2017 was due to net interest income increasing at a faster rate than non-interest expenses.

Provision (Benefit) for Income Taxes

We recorded a provision for income taxes of $1.6 million for the twelve months ended December 31, 2018, an increase of $4.2 million, compared to a benefit of $2.9 million for the twelve months ended December 31, 2017. We began recognizing an increased provision for federal and state income taxes during the first quarter of 2018 after reversing our deferred tax asset valuation allowance during the fourth quarter of 2017. We initially recorded a deferred tax asset valuation allowance in 2011 and continued to carry this allowance after determining that some portion of the deferred tax asset balance may not be realized within its life cycle based on the weight of available evidence. Adjustments to the valuation allowance resulted in the recognition of a minimal provision for income taxes in each period until its reversal in 2017. The effective tax rates for the twelve month periods ended December 31, 2018 and 2017 were 15% and 27%, respectively. The effective tax rate for December 31, 2017 excluded the adjustment to the deferred tax asset valuation allowance and offsets for the impact of the new tax legislation.

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

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

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

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

- the annual improvement in pre-tax earnings during the four year period ended December 31, 2018;

- strong growth in interest-earning assets is expected to continue and is supported by the capital raise completed during the fourth quarter of 2016;

- deposit growth in the stores opened since the inception of the "Power of Red is Back" growth and expansion strategy in 2014 has met or exceeded expectations;

- loan growth during 2018 was greater than 20%;

- the acquisition of a residential mortgage lending team (Oak Mortgage Company) completed in July 2016 continues to supplement earnings growth;

- the ratio of non-performing assets to total assets along with other credit quality metrics continue to improve; and

- a cumulative loss has not been recorded in recent years.

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

- profitability metrics including return on average assets and return on average equity remain below industry standards;

- the Bank's net interest margin declined during 2018 as a result of the challenging interest rate environment; and

- past earnings have been heavily dependent upon the success of the SBA Lending Team which has recently experienced reduced loan volumes and the recently acquired Mortgage Division which can be significantly impacted by a changing interest rate environment and other various economic factors.

The ongoing success of our growth and expansion strategy, along with the successful integration of the mortgage company and the limited exposure remaining with current asset quality issues put us in a position to rely on projections of future taxable income when evaluating the need for a valuation allowance against our deferred tax assets. Based on the guidance provided in ASC 740, we believed that the positive evidence considered at December 31, 2018 and 2017 outweighed the negative evidence and that it was more likely than not that all of our deferred tax assets would be realized within their life cycle. Therefore, a valuation allowance was not required at December 31, 2018 and December 31, 2017.

Our net deferred tax asset balance was $12.3 million at December 31, 2018 compared to $12.7 million at December 31, 2017. The deferred tax asset will continue to be analyzed on a quarterly basis for changes affecting realizability.

Net Income and Net Income per Common Share

Net income for the twelve months ended December 31, 2018 was $8.6 million, a decrease of $278,000, compared to $8.9 million for the twelve months ended December 31, 2017. For the twelve months ended December 31, 2018, basic and fully-diluted net income per common share was $0.15, compared to basic and fully-diluted net income per common share of $0.16 and $0.15, respectively for the twelve months ended December 31, 2017.

Return on Average Assets and Average Equity

Return on average assets (ROA) measures our net income in relation to our total average assets. The ROA for the twelve months ended December 31, 2018 and 2017 was 0.34% and 0.43%, respectively. Return on average equity (ROE) indicates how effectively we can generate net income on the capital invested by our stockholders. ROE is calculated by dividing annualized net income by average stockholders' equity. The ROE for the twelve months ended December 31, 2018 was 3.69%, compared to 4.02% for the twelve months ended December 31, 2017.

Results of Operations

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

We reported net income of $8.9 million, or $0.15 per diluted share, for the twelve months ended December 31, 2017 compared to net income of $4.9 million, or $0.12 per diluted share, for the twelve months ended December 31, 2016. The $4.0 million increase in net income was primarily driven by growth in interest-earning assets along with a complete year of earnings of the residential mortgage lending team which was acquired during the third quarter of 2016, as well as, the reversal of our deferred tax asset valuation allowance.

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

We recorded a loan loss provision in the amount of $900,000 for the twelve months ended December 31, 2017 compared to a provision of $1.6 million during the twelve months ended December 31, 2016. The $700,000 decrease in the provision recorded for the twelve months ended December 31, 2017 was driven by a decrease in the allowance required for loans individually evaluated for impairment in 2017 as a result of improvement in asset quality.

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

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

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

Net Interest Income and Net Interest Margin

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

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

Provision for Loan Losses

We recorded a provision for loan losses in the amount of $900,000 for the twelve months ended December 31, 2017, a decrease of $700,000, compared to a $1.6 million provision for the twelve months ended December 31, 2016. The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that management believes is adequate to absorb inherent losses in the loan portfolio. The provision recorded for the twelve months ended December 31, 2017 as compared to the twelve months ended December 31, 2016 decreased primarily as a result of a decrease in the allowance required for loans individually evaluated for impairment driven by a reduction in impaired loans.

Non-Interest Income

Total non-interest income for the twelve months ended December 31, 2017 increased by $4.8 million, or 31.2%, compared to the twelve months ended December 31, 2016. Mortgage banking income totaled $11.2 million and $5.1 for the twelve months ended December 31, 2017 and 2016 primarily due to gains on the sale of residential mortgage loans originated through Oak Mortgage. Oak Mortgage was acquired during the third quarter of 2016. The $6.1 million increase was a result of a complete year of recognized income during 2017. Gains on the sale of SBA loans totaled $3.4 million, a decrease of $1.6 million, for the twelve months ended December 31, 2017 versus $5.0 million for the twelve months ended December 31, 2016. We recognized losses of $146,000 on the sale of securities during the twelve months ended December 31, 2017, a decrease of $802,000, compared to gains of $656,000 on sales of securities for the twelve months ended December 31, 2016. Service charges, fees, and other operating income totaled $5.7 million for the twelve months ended December 31, 2017 which represents an increase of $1.1 million compared to the twelve months ended December 31, 2016. This increase was driven by growth in customer deposit accounts and transaction volume.

Non-Interest Expenses

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

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

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

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

All other non-interest expenses for the twelve months ended December 31, 2017 increased $5.6 million compared to the twelve months ended December 31, 2016. Increases in expenses related to residential mortgage operations, data processing, advertising, transactions fees, and professional fees resulting from our growth strategy contributed to the growth in these operating expenses.

One key measure that management utilizes to monitor progress in controlling overhead expenses is the ratio of annualized net non-interest expenses to average assets. For purposes of this calculation, net non-interest expenses equal non-interest expenses less non-interest income. For the twelve months ended December 31, 2017, the ratio equaled 2.67% compared to 2.51% for the twelve months ended December 31, 2016, respectively. The increase in this ratio was mainly due to our growth strategy of adding and relocating stores and the addition of a residential mortgage lending team.

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

Provision (Benefit) for Income Taxes

We recorded a benefit for income taxes of $2.9 million for the twelve months ended December 31, 2017, an increase of $2.8 million, compared to a benefit of $119,000 for the twelve months ended December 31, 2016. We reversed our deferred tax asset valuation allowance during the fourth quarter of 2017 resulting in the $2.9 million benefit for income taxes during the period. The benefit for income taxes also takes into consideration the impact of the new corporate tax rate under the Tax Cuts and Jobs Act signed into law on December 22, 2017.

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

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

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

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

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

- the annual improvement in earnings during the three year period ended December 31, 2017;
- strong growth in interest-earning assets is expected to continue and is supported by the capital raise completed during the fourth quarter of 2016;
- deposit growth in each of the stores opened since the inception of the "Power of Red is Back" growth and expansion strategy in 2014 has met or exceeded expectations;
- loan growth during 2017 was greater than 20%;
- the acquisition of a residential mortgage lending team (Oak Mortgage Company) completed in July 2016 continues to supplement earnings growth;

- two of our largest non-performing assets have been resolved in 2017; and

- a cumulative loss has not been recorded in recent years.

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

- profitability metrics including return on average assets and return on average equity remain below industry standards; and

- past earnings have been heavily dependent upon the success of the SBA Lending Team which has recently experienced reduced loan volumes and the recently acquired Mortgage Division which can be significantly impacted by a changing interest rate environment and other various economic factors.

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

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

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

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

Net Income and Net Income per Common Share

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

Return on Average Assets and Average Equity

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

Financial Condition

December 31, 2018 compared to December 31, 2017

Total assets increased by $431.0 million to $2.8 billion at December 31, 2017, compared to $2.3 billion at December 31, 2017.

Cash and Cash Equivalents

Cash and due from banks and interest bearing deposits comprise this category, which consists of our most liquid assets. The aggregate amount in these three categories increased by $10.5 million to $72.5 million at December 31, 2018, from $61.9 million at December 31, 2017.

Loans Held for Sale

Loans held for sale are comprised of loans guaranteed by the U.S. Small Business Administration ("SBA") which we usually originate with the intention of selling in the future and residential mortgage loans, which we also intend to sell in the future. Total SBA loans held for sale were $5.4 million at December 31, 2018, an increase of $3.1 million, compared to $2.3 million at December 31, 2017. Residential mortgage loans held for sale totaled $20.9 million at December 31, 2018, a decrease of $22.5 million, versus $43.4 million at December 31, 2017. Loans held for sale, as a percentage of our total assets, were less than 1.0% at December 31, 2018.

Loans Receivable

The loan portfolio represents our largest asset category and is our most significant source of interest income. Our lending strategy is focused on small and medium sized businesses and professionals that seek highly personalized banking services. The loan portfolio consists of secured and unsecured commercial loans including commercial real estate, construction loans, residential mortgages, home improvement loans, home equity loans and lines of credit, overdraft lines of credit, and others. Commercial loans typically range between $250,000 and $5,000,000 but customers may borrow significantly larger amounts up to our legal lending limit to a customer, which was approximately $34.4 million at December 31, 2018. Loans made to one individual customer, even if secured by different collateral, are aggregated for purposes of the lending limit. There were no loans in excess of the legal lending limit at December 31, 2017. A $22.9 million threshold, which amounts to approximately 10% of total regulatory capital, reflects an additional internal monitoring guideline. Relationships in excess of $22.9 million at December 31, 2018 amounted to $52.0 million.

Loans increased $274.3 million, or 24%, to $1.4 billion at December 31, 2018, versus $1.2 billion at December 31, 2017. This growth was the result of an increase in loan demand in all loan categories driven by the successful execution of our relationship banking strategy which focuses on customer service.

Investment Securities

Investment securities considered available-for-sale are investments that may be sold in response to changing market and interest rate conditions, and for liquidity and other purposes. Our investment securities classified as available-for-sale consist primarily of U.S. Government agency collateralized mortgage obligations (CMO), agency mortgage-backed securities (MBS), municipal securities, corporate bonds, and asset-backed securities (ABS). Available-for-sale securities totaled $321.0 million at December 31, 2018 as compared to $464.4 million at December 31, 2017. The $143.4 million decrease was primarily due to the transfer of $230.1 million of available-for-sale securities to held-to-maturity and sales and paydowns of securities totaling $55.2 million partially offset by the purchase of securities totaling $149.2 million during 2018. At December 31, 2018, the portfolio had a net unrealized loss of $5.7 million compared to a net unrealized loss of $11.2 million at December 31, 2017. The $5.5 million decrease in the unrealized loss of the investment portfolio was driven by a decrease in market interest rates which drove an increase in value of the securities held in our portfolio during 2018.

Investment securities held-to-maturity are investments for which there is the intent and ability to hold the investment to maturity. These investments are carried at amortized cost. The held-to-maturity portfolio consists primarily of U.S. Government agency Small Business Investment Company bonds (SBIC) and Small Business Administration (SBA) bonds, CMO's and MBS's. The fair value of securities held-to-maturity totaled $747.3 million and $463.8 million at December 31, 2018 and December 31, 2017, respectively. The $283.5 million increase was primarily due to the transfer of $230.1 million of available-for-sale securities to held-to-maturity and the purchase of securities totaling $123.3 million partially offset by pay downs of securities held in the portfolio totaling $63.6 million by during the year ended December 31, 2018.

ASC 320 "Investments – Debt Securities" requires an entity to determine how to classify a security at the time of acquisition. The appropriateness of the original classification should be reassessed at each reporting period. The transfer of investment securities from available-for-sale to held-to maturity category during the quarter ended December 31, 2018 was completed after an extensive analysis of the characteristics of all securities held in the portfolio, in addition to a review of our liquidity position under multiple scenarios including varying interest rate environments. Twenty-three of the twenty-five securities transferred from available-to-sale to held-to-maturity were collateralized mortgage obligations. Thirteen securities transferred were GNMA collateralized mortgage obligations which are backed by the full faith and credit of the U.S. government. The remaining ten collateralized mortgage obligations were issued by FNMA or FHLMC. Bonds issued by GNMA receive favorable risk rating when calculating regulatory risk-based capital ratios. In addition, GNMA, FNMA, AND FHLMC securities are often pledged as collateral as required to hold certain government deposits and are accepted as collateral as a result of the high quality and low-risk nature of these bonds. The other two securities transferred from available-for sale to held-to-maturity were FNMA agency mortgage backed securities.

After completion of these analyses and consideration of the factors mentioned above, management determined that it had the intent and ability to hold specific securities until maturity and it was appropriate to transfer them to the held-to-maturity category during the fourth quarter of 2018.

The fair value of the securities transferred to the held-to-maturity category was $230.1 million. The book value of the securities on the date of transfer was $239.5 million. The unrealized holding gain or loss on each individual security calculated at the time of transfer was reported as a component of shareholders' equity in the accumulated other comprehensive income account and will be amortized as an adjustment to yield over the remaining life of each security.

Restricted Stock

Restricted stock, which represents a required investment in the capital stock of correspondent banks related to available credit facilities, is carried at cost as of December 31, 2018 and December 31, 2017. As of those dates, restricted stock consisted of investments in the capital stock of the Federal Home Loan Bank of Pittsburgh ("FHLB") and Atlantic Community Bankers Bank ("ACBB").

At December 31, 2018 and December 31, 2017, the investment in FHLB stock totaled $5.6 million and $1.8 million, respectively. The $3.8 million increase was due to a higher required investment in FHLB stock during 2018. At both December 31, 2018 and December 31, 2017, ACBB stock totaled $143,000.

Other Real Estate Owned

The balance of other real estate owned decreased to $6.2 million at December 31, 2018 from $7.0 million at December 31, 2017. The decrease was primarily due to the writedowns and sales totaling $1.1 million offset by additions in the amount of $315,000.

Goodwill

Goodwill amounted to $5.0 million at both December 31, 2018 and December 31, 2017. We completed an annual impairment test for goodwill as of July 31, 2018 and 2017. Future impairment testing will be conducted as of July 31 on an annual basis, unless a triggering event occurs in the interim that would suggest impairment, in which case it would be tested as of the date of the triggering event. During the year ended December 31, 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.

Premises and Equipment

The balance of premises and equipment increased to $87.7 million at December 31, 2018 from $74.9 million at December 31, 2017. The $12.7 million increase was primarily due to premises and equipment expenditures of $18.2 million less depreciation and amortization expenses of $5.4 million. New stores were opened in Gloucester Township, Evesboro, and Somers Point in New Jersey and Fairless Hills in Pennsylvania during 2018. The Bala Cynwyd store was closed in 2018 bringing the total store count to twenty-five. We ended the year with stores under construction in Lumberton in NJ and Feasterville in PA which are scheduled to be completed in early 2019.

Deposits

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

Total deposits increased by $329.6 million to $2.4 billion at December 31, 2018, from $2.1 billion at December 31, 2017. The increase was the result of significant growth in demand deposit balances and time deposits. We constantly focus our efforts on the growth of deposit balances through the successful execution of our relationship banking model which is based upon a high level of customer service and satisfaction. This strategy has also allowed us to build a stable core-deposit base and nearly eliminate our dependence upon the more volatile sources of funding found in brokered and public fund certificates of deposit.

We are also in the midst of an aggressive expansion plan which we refer to as “The Power of Red is Back”. During 2018, we opened new stores in Gloucester Township, Evesboro, and Somers Point in NJ and Fairless Hills in PA and have several more in various stages of construction and development for 2019 including expansion into the New York market with two to four stores expected in Manhattan.

Shareholders’ Equity

Total shareholders’ equity increased $18.7 million to $245.2 million at December 31, 2018 compared to $226.5 million at December 31, 2017. The increase was primarily due to the conversion of outstanding trust preferred securities in the first quarter of 2018. $10.1 million of trust preferred securities were converted into 1.6 million shares of common stock. The change in shareholders’ equity was also driven by net income of $8.6 million recognized during 2018 and stock option exercises of $670,000, partially offset by a $2.8 million increase in accumulated other comprehensive losses associated with a decrease in the market value of the investment securities portfolio during the year ended December 31, 2018.

Investment Securities Portfolio

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

A summary of investment securities available-for-sale and investment securities held-to-maturity at December 31, 2018, 2017, and 2016 is as follows:

	At December 31,		
(dollars in thousands)	2018	2017	2016
Available for sale			
Collateralized mortgage obligations	$197,812	$327,972	$230,252
Agency mortgage-backed securities	39,105	55,664	37,973
Municipal securities	20,807	15,142	26,825
Corporate bonds	62,583	62,670	66,718
Asset-backed securities	6,433	13,414	15,565
Trust preferred securities	-	725	3,063
Total amortized cost of securities	$326,740	$475,587	$380,396
Total fair value of investment securities	$321,014	$464,430	$369,739
Held to maturity			
U.S. Government agencies	$107,390	$112,605	$98,538
Collateralized mortgage obligations	500,690	215,567	202,990
Agency mortgage-backed securities	153,483	143,041	129,951
Other securities	-	1,000	1,020
Total amortized cost of securities	$761,563	$472,213	$432,499
Total fair value of investment securities	$747,323	$463,799	$425,183

The total amortized cost of the investment securities portfolio has grown to $1.1 billion at December 31, 2018 compared to $947.8 million at December 31, 2017 and $812.9 million at December 31, 2016. Investment securities represented 39% of total assets at December 31, 2018 and 40% of total assets at December 31, 2017. We evaluate our investment securities portfolio on a continual basis in light of the interest rate environment and changing market conditions and when appropriate, take necessary actions to improve and enhance our overall positioning. We consider the portfolio to be well structured and of high quality. At December 31, 2018, 93% of the portfolio consisted of U.S. government agency securities which were rated Aaa /AA+ by the major credit rating agencies.

The investment securities portfolio includes securities classified as both available for sale and held to maturity. During 2018 and 2017, we designated a portion of our securities portfolio as held to maturity based our intent and ability to hold those securities until they mature.

The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. The fair value of investment securities generally decreases when interest rates rise and increases when interest rates fall. In addition, the fair value generally decreases when credit spreads widen and increases when credit spreads tighten. Net unrealized losses in the total investment securities portfolio increased to $20.0 million at December 31, 2018 compared to net unrealized losses of $19.6 million at December 31, 2017 as a result of a rise in interest rates in 2018. The comparable amounts for the securities classified as available for sale were unrealized losses of $5.7 million at December 31, 2018 and unrealized losses of $11.2 million at December 31, 2017. The decrease in unrealized losses is related to the transfer of twenty-three CMOs and two MBSs with a fair value of $230.1 million that were previously classified as available-for-sale to the held-to-maturity category. The securities were transferred at fair value. Unrealized losses of $9.4 million associated with the transferred securities will remain in other comprehensive income and be amortized as an adjustment to yield over the remaining life of the securities.

No single issuer of securities (excluding government agencies) in the portfolio exceeded more than 10% of shareholders’ equity at December 31, 2018 and December 31, 2017.

At December 31, 2018, the investment portfolio included twenty-eight municipal securities with a total market value of $20.6 million. These securities are reviewed quarterly for impairment. Each bond carries an investment grade rating by either Moody’s or Standard & Poor’s. In addition, we periodically conduct our own independent review on each issuer to ensure the financial stability of the municipal entity. The largest geographic concentration was in Pennsylvania and New Jersey where twenty-six municipal securities had a market value of $19.9 million. As of December 31, 2018, management found no evidence of other than temporary impairment (“OTTI”) on any of the municipal securities held in the investment securities portfolio.

At December 31, 2018, the portfolio included one asset-backed security with a total market value of $6.3 million. The asset-backed security consist solely of Sallie Mae bonds, collateralized by student loans which are guaranteed by the U.S. Department of Education.

Proceeds associated with the sale of securities available for sale in 2018 were $6.4 million. Gross losses of $67,000 were realized on these sales. The tax benefit applicable to the net losses for the year ended December 31, 2018 amounted to $18,000. Included in the 2018 sales activity was the sale of one CDO security. Proceeds from the sale of the CDO security totaled $660,000. Gross losses of $66,000 were realized on these sales. The tax benefit applicable to the net losses for the twelve months ended December 31, 2018 amounted to $17,000. Management had previously stated that it did not intend to sell CDO securities prior to their maturity or the recovery of their cost bases, nor would it be forced to sell these securities prior to maturity or recovery of the cost bases. This statement was made over a period of several years where there was limited trading activity in the pooled trust preferred CDO market resulting in fair market value estimates well below the book values. During 2018, management received several inquiries regarding the availability of the remaining CDO security and noted an increased level of trading in this type of security. As a result of the increased activity and the level of bids received, management elected to sell the remaining CDO security resulting in a net loss of $66,000 during 2018.

Proceeds associated with the sale of securities available for sale in 2017 were $31.2 million. Gross gains of $652,000 and gross losses of $798,000 were realized on these sales. The tax benefit applicable to the net losses for the year ended December 31, 2017 amounted to $52,000. Included in the 2017 sales activity were the sales of two CDO securities. Proceeds from the sale of the CDO securities totaled $1.5 million. Gross losses of $798,000 were realized on these sales. The tax benefit applicable to the net losses for the twelve months ended December 31, 2017 amounted to $287,000. As a result of the increased activity and the level of bids received, management elected to sell two CDOs resulting in a net loss of $798,000 during 2017 which was offset by gains on sales of agency mortgage-backed securities, collateralized mortgage obligations and corporate bonds.

We had proceeds from the sale of securities available for sale in 2016 of $78.6 million. Gross gains of $680,000 and gross losses of $24,000 were realized on these sales. The tax provision applicable to these gross gains in 2016 amounted to approximately $236,000.

The following table presents the maturity distribution and weighted average yield by holding type and year of maturity of our investment securities portfolio at December 31, 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 and, therefore, these securities are classified separately with no specific maturity date.

	December 31, 2018										
	Within One Year		One to Five Years		Five to Ten Years		Past Ten Years		Total		
(dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Fair value	Amortized Cost	Yield
Available for Sale											
Collateralized mortgage obligations	$-	-	$-	-	$-	-	$-	-	$196,259	$197,812	3.02%
Agency mortgage-backed securities	-	-	-	-	-	-	-	-	38,499	39,105	2.84%
Municipal securities	791	4.13%	3,892	2.45%	13,786	2.80%	2,170	2.66%	20,639	20,807	2.77%
Corporate bonds	1,584	2.80%	3,016	3.53%	51,605	3.28%	3,069	4.21%	59,274	62,583	3.32%
Asset-backed securities	-	-	-	-	6,343	4.19%	-	--	6,343	6,433	4.19%
Total AFS securities	$2,375	3.24%	$6,908	2.92%	$71,734	3.26%	$5,239	3.57%	$321,014	$326,740	3.06%
Held to Maturity											
U.S. Government Agencies	$-	-	$13,937	2.54%	$89,681	2.42%	$-	-	$103,618	$107,390	2.44%
Collateralized mortgage obligations	-	-	-	-	-	-	-	-	495,467	500,690	2.65%
Agency mortgage-backed securities	-	-	-	-	-	-	-	-	148,238	153,483	2.59%
Total HTM securities	$-	-	$13,937	2.54%	$89,681	2.42%	$-	-	$747,323	$761,563	2.61%

Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of our 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 we could have realized in a sale 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.

We follow 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's 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.

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 our 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, we do 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. There was one Level 3 investment security classified as available-for-sale at December 31, 2018. This security is a 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 had become inactive, and therefore the security was classified as a Level 3 security. The fair value analysis did not reflect or represent the actual terms or prices at which any party could purchase the security. The trust preferred security was sold in 2018.

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 year ended December 31, 2018, 2017, and 2016:

	Year Ended December 31, 2018		Year Ended December 31, 2017		Year Ended December 31, 2016	
Level 3 Investments Only (dollars in thousands)	Trust Preferred Securities	Corporate Bonds	Trust Preferred Securities	Corporate Bonds	Trust Preferred Securities	Corporate Bonds
Balance, January 1,	$ 489	$ 3,086	$ 1,820	$ 2,971	$ 1,883	$ 2,834
Unrealized gains (losses)	237	(17)	1,006	115	(56)	137
Paydowns	-	-	-	-	-	-
Proceeds from sales	(660)	-	(1,539)	-	-	-
Realized losses	(66)	-	(798)	-	-	-
Impairment charges on Level 3	-	-	-	-	(7)	-
Balance, December 31,	$ -	$ 3,069	$ 489	$ 3,086	$ 1,820	$ 2,971

An independent, third party pricing service was used to estimate the current fair market value of the CDO previously held in the investment securities portfolio. The calculations used to determine fair value were 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 December 31, 2017 and December 31, 2016. Financial information on the issuers was also obtained from Bloomberg, the FDIC, and SNL Financial. Both published and unpublished industry sources were utilized in estimating fair value. Such information includes loan prepayment speed assumptions, discount rates, default rates, and loss severity percentages.

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

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

The remaining Level 3 investment security 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.

Loan Portfolio

Our loan portfolio consists of secured and unsecured commercial loans including commercial real estate loans, construction and land development loans, commercial and industrial loans, owner occupied real estate loans, consumer and other loans, and residential mortgages. Commercial loans are primarily secured term loans made to small to medium-sized businesses and professionals for working capital, asset acquisition and other purposes. Commercial loans are originated as either fixed or variable rate loans with typical terms of 1 to 5 years. Republic's commercial loans typically range between $250,000 and $5.0 million, but customers may borrow significantly larger amounts up to Republic's legal lending limit of approximately $34.4 million at December 31, 2018. Management has established an internal monitoring guideline for loan relationships in the amount of $22.9 million which approximates 10% of capital and reserves. Individual customers may have several loans often secured by different collateral. The aggregate total of relationships in excess of $22.9 million at December 31, 2018 amounted to $52.0 million. There were no loans in excess of the legal lending limit at December 31, 2018.

The majority of loans outstanding are with borrowers in our marketplace, Philadelphia and the surrounding suburbs, including southern New Jersey. In addition, we have loans to customers whose assets and businesses are concentrated in real estate. Repayment of our loans is in part dependent upon general economic conditions affecting our market place and specific industries in which our customers operate. We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral varies but primarily includes residential, commercial and income-producing properties.

At December 31, 2018, we had loan concentrations exceeding 10% of total loans for credits extended to lessors of nonresidential real estate in the aggregate amount of $311.0 million, which represented 21.6% of gross loans receivable, private households in the aggregate amount of $243.8 million which represented 17.0% of gross loans receivable, and lessors of residential real estate in the aggregate amount of $158.7 million, which represented 11.0% of gross loans receivable. Loan concentrations are considered to exist when amounts are loaned to multiple numbers of borrowers engaged in similar activities that management believes would cause them to be similarly impacted by economic or other conditions. At December 31, 2018, we had no foreign loans outstanding.

The following table sets forth gross loans by major categories for the periods indicated:

	At December 31,				
(dollars in thousands)	2018	2017	2016	2015	2014
Commercial real estate	$515,738	$433,304	$378,519	$349,726	$379,259
Construction and land development	121,042	104,617	61,453	46,547	29,861
Commercial and industrial	200,423	173,343	174,744	181,850	145,113
Owner occupied real estate	367,895	309,838	276,986	246,398	188,025
Consumer and other	91,152	76,183	63,660	48,126	39,713
Residential mortgage	140,364	64,764	9,682	2,380	408
Total loans	$1,436,614	$1,162,049	$965,044	$875,027	$782,379
Deferred loan costs (fees)	(16)	229	(72)	(258)	(439)
Total loans, net of deferred loan fees	$1,436,598	$1,162,278	$964,972	$874,769	$781,940

Total loans, net of deferred loan fees, increased $274.3 million, or 24%, to $1.4 billion at December 31, 2018, versus $1.2 billion at December 31, 2017. This growth was the result of an increase in loan demand across all loan categories driven by the successful execution of our relationship banking strategy which focuses on customer service.

Loan Maturity and Interest Rate Sensitivity

The amount of loans outstanding by category as of the dates indicated, which are due in: (i) one year or less, (ii) more than one year through five years, and (iii) over five years, is shown in the following table. Loan balances are also categorized according to their sensitivity to changes in interest rates.

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Total
Fixed rate:							
1 year or less	$ 29,186	$ 6,821	$ 18,835	$16,452	$ 288	$ -	$71,582
1-5 years	328,568	19,079	53,350	160,487	1,294	-	562,778
After 5 years	134,039	10,353	62,562	113,484	15,957	138,160	474,555
Total fixed rate	491,793	36,253	134,747	290,423	17,539	138,160	1,108,915
Adjustable rate:							
1 year or less	$ 6,429	$ 20,216	$ 49,940	$12,866	$ 575	$ -	$90,026
1-5 years	16,863	51,003	9,256	813	5,490	-	83,425
After 5 years	653	13,570	6,480	63,793	67,548	2,204	154,248
Total adjustable rate	23,945	84,789	65,676	77,472	73,613	2,204	327,699
Total	$ 515,738	$ 121,042	$ 200,423	$367,895	$ 91,152	$ 140,364	$1,436,614

In the ordinary course of business, loans maturing within one year may be renewed, in whole or in part, as to principal amount, and at interest rates prevailing at the date of renewal. At December 31, 2018, 77.2% of total loans were fixed rate compared to 73.6% at December 31, 2017.

Credit Quality

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

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

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

The following summary shows information concerning loan delinquency and non-performing assets at the dates indicated:

(dollars in thousands)	At December 31, 2018	2017	2016	2015	2014
Loans accruing, but past due 90 days or more	$-	$-	$302	$-	$-
Non-accrual loans:					
Commercial real estate	4,631	8,963	13,089	5,913	13,979
Construction and land development	-	-	-	117	377
Commercial and industrial	3,661	2,895	3,151	3,156	4,349
Owner occupied real estate	1,188	2,136	1,546	2,894	2,306
Consumer and other	861	851	808	542	429
Residential mortgage	-	-	-	-	-
Total non-accrual loans	10,341	14,845	18,594	12,622	21,440
Total non-performing loans(1)	10,341	14,845	18,896	12,622	21,440
Other real estate owned	6,223	6,966	10,174	11,313	3,715
Total non-performing assets(1)	$16,564	$21,811	$29,070	$23,935	$25,155
Non-performing loans as a percentage of total loans, net of unearned income(1)	0.72%	1.28%	1.96%	1.44%	2.74%
Non-performing assets as a percentage of total assets	0.60%	0.94%	1.51%	1.66%	2.07%

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

Problem loans can consist of loans that are performing, but for which potential credit problems of the borrowers have caused management to have serious doubts as to the ability of such borrowers to continue to comply with present repayment terms. At December 31, 2018, all identified problem loans included in the preceding table are internally classified and have been evaluated for a specific reserve allocation in the allowance for loan losses (see discussion on "Allowance for Loan Losses").

Non-performing assets decreased by $5.2 million, or 24%, to $16.6 million at December 31, 2018, compared to $21.8 million at December 31, 2017. The decrease in non-performing loans was primarily driven by payments of $3.7 million and charge-offs of $2.4 million partially offset by $1.9 million in additions to non-performing loans. The reduction in other real estate owned was the result of various write-downs, charge-offs, OREO sales, and transfers during the year.

The following summary shows the impact on interest income of non-accrual loans, subsequent to being placed on non-accrual for the periods indicated:

(dollars in thousands)	For the Year Ended December 31, 2018	2017	2016	2015	2014
Interest income that would have been recorded had the loans been in accordance with their original terms	$498	$590	$1,024	$765	$980
Interest income included in net income	$-	$-	$-	$-	$-

Allowance for Loan Losses

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

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

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

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

A detailed analysis of our allowance for loan losses for the years ended December 31, 2018, 2017, 2016, 2015, and 2014 is as follows:

	For the Year Ended December 31,				
(dollars in thousands)	2018	2017	2016	2015	2014
Balance at beginning of period	$8,599	$9,155	$8,703	$11,536	$12,263
Charge-offs:					
Commercial real estate	1,603	-	-	2,624	364
Construction and land development	-	-	60	260	303
Commercial and industrial	151	1,366	143	408	1,185
Owner occupied real estate	465	157	1,052	133	150
Consumer and other	219	53	11	-	10
Residential mortgage	-	-	10	-	-
Total charge-offs	2,438	1,576	1,276	3,425	2,012
Recoveries:					
Commercial real estate	50	54	6	4	5
Construction and land development	-	-	-	5	214
Commercial and industrial	81	64	163	49	166
Owner occupied real estate	20	-	-	-	-
Consumer and other	3	2	2	34	-
Residential mortgage	-	-	-	-	-
Total recoveries	154	120	171	92	385
Net charge-offs	2,284	1,456	1,105	3,333	1,627
Provision for loan losses	2,300	900	1,557	500	900
Balance at end of period	$8,615	$8,599	$9,155	$8,703	$11,536
Average loans outstanding(1)	$1,340,117	$1,090,851	$936,492	$820,820	$724,231
As a percent of average loans:(1)					
Net charge-offs	0.17%	0.13%	0.12%	0.41%	0.22%
Provision for loan losses	0.17%	0.08%	0.17%	0.06%	0.12%
Allowance for loan losses	0.64%	0.79%	0.98%	1.06%	1.59%
Allowance for loan losses to:					
Total loans, net of unearned income	0.60%	0.74%	0.95%	0.99%	1.48%
Total non-performing loans	83.31%	57.93%	48.45%	68.95%	53.81%

(1) Includes non-accruing loans.

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that management believes is adequate to absorb inherent losses in the loan portfolio. We recorded a loan loss provision in the amount of $2.3 million in 2018 compared to a $900,000 provision in 2017. The increase in the provision during 2018 was driven by growth in outstanding loan balances resulting in an increased allowance for loans collectively evaluated for impairment. Non-performing loans decreased by $4.5 million, or 30%, to $10.3 million at December 31, 2018, compared to $14.8 million at December 31, 2017. Impaired loans also decreased to $18.0 million at December 31, 2018 from $24.7 million at December 31, 2017. A decrease in the allowance required for loans individually evaluated for impairment driven by a reduction in impaired loans was more than offset by an increase driven by growth in the loan portfolio during 2018.

The allowance for loan losses as a percentage of non-performing loans (coverage ratio) was 83.3% at December 31, 2018 as compared to 57.9% at December 31, 2017 and 48.4% at December 31, 2016. The increase in the coverage ratio during 2018 was mainly driven by the decrease in non-performing loans during the year. All loans individually evaluated for impairment are adequately secured with collateral and/or specific reserves. Coverage is considered adequate by management as of December 31, 2018.

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

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

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

Partial charge-offs of non-performing and impaired loans can significantly reduce the coverage ratio and other credit loss statistics due to the fact that the balance of the allowance for loan losses will be reduced while still carrying the remainder of a non-performing loan balance in the impaired loan category. The amount of non-performing loans for which there were partial charge-offs during the year amounted to $3.3 million at December 31, 2018 compared to $1.4 million at December 31, 2017. This increase was primarily driven by charge-offs related to a single loan relationship in 2018.

Our charge-off policy is reviewed on an annual basis and updated as necessary. During the twelve months ended December 31, 2018, there have been no changes made to this policy.

We have an existing loan review program, which monitors the loan portfolio on an ongoing basis. A loan review officer who reviews both the loan portfolio and overall adequacy of the allowance for loan losses conducts this loan review on a quarterly basis and reports directly to the Board of Directors.

Estimating the appropriate level of the allowance for loan losses at any given date is difficult, particularly in a continually changing economy. In management’s opinion, the allowance for loan losses was appropriate at December 31, 2018. However, there can be no assurance that, if asset quality deteriorates in future periods, additions to the allowance for loan losses will not be required.

Management is unable to determine in which loan category future charge-offs and recoveries may occur. The following schedule sets forth the allocation of the allowance for loan losses among various categories. The allocation is based on management’s evaluation of historical charge-off experience and adjusted for several qualitative factors.

The entire allowance for loan losses is available to absorb loan losses in any loan category.

The allocation of the allowance for loan losses for the past five years is as follows:

	At December 31,									
	2018		2017		2016		2015		2014	
(dollars in thousands)	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans
Commercial real estate	$2,462	35.9%	$3,774	37.3%	$3,254	39.2%	$2,393	40.0%	$6,828	48.5%
Construction and land development	777	8.4%	725	9.0%	557	6.4%	338	5.3%	917	3.8%
Commercial and industrial	1,754	14.0%	1,317	14.9%	2,884	18.1%	2,932	20.8%	1,579	18.5%
Owner occupied real estate	2,033	25.6%	1,737	26.7%	1,382	28.7%	2,030	28.1%	1,638	24.0%
Consumer and other	577	6.3%	573	6.5%	588	6.6%	295	5.5%	234	5.1%
Residential mortgage	894	9.8%	392	5.6%	58	1.0%	14	0.3%	2	0.1%
Unallocated	118	-	81	-	432	-	701	-	338	-
Total allowance for loan losses	$8,615	100%	$8,599	100%	$9,155	100%	$8,703	100%	$11,536	100%

The allowance for loan losses is an amount that represents management's estimate of known and inherent losses related to the loan portfolio and unfunded loan commitments. Because the allowance for loan losses is dependent, to a great extent, on the general economy and other conditions that may be beyond our control, the estimate of the allowance for loan losses could differ materially in the near term.

The allowance consists of specific, general and unallocated components. The specific component relates to impaired loans. For such loans, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers the remainder of the portfolio and is based on historical loss experience adjusted for several qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. All identified losses are immediately charged off and therefore no portion of the allowance for loan losses is restricted to any individual loan or group of loans, and the entire allowance is available to absorb any and all loan losses.

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. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices.
2. National, regional and local economic and business conditions as well as the condition of various segments.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability and depth of lending management and staff.
5. Volume and severity of past due, classified and nonaccrual loans as well as other loan modifications.
6. Quality of our loan review system, and the degree of oversight by our Board of Directors.
7. Existence and effect of any concentration of credit and changes in the level of such concentrations.
8. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

We also provide specific reserves for impaired loans to the extent the estimated realizable value of the underlying collateral is less than the loan balance, when the collateral is the only source of repayment. Also, we estimate and recognize reserve allocations on loans identified as "internally classified accruing loans" based upon any factor that might impact loss estimates. Those factors include but are not limited to the impact of economic conditions on the borrower and management's potential alternative strategies for loan or collateral disposition. An unallocated allowance is established for losses that have not been identified through the formulaic and other specific components of the allowance as described above. Management has identified several factors that impact credit losses that are not considered in either the formula or the specific allowance segments. These factors consist of macro and micro economic conditions, industry and geographic loan concentrations, changes in the composition of the loan portfolio, changes in underwriting processes and trends in problem loan and loss recovery rates. The impact of the above is considered in light of management's conclusions as to the overall adequacy of underlying collateral and other factors.

The majority of our loan portfolio represents loans made for commercial purposes, while significant amounts of residential property may serve as collateral for such loans. We attempt to evaluate larger loans individually, on the basis of our loan review process, which scrutinizes loans on a selective basis and other available information. Even if all commercial purpose loans could be reviewed, information on potential problems might not be available. Our portfolio of loans made for purposes of financing residential mortgages and consumer loans are evaluated in groups.

A loan is considered impaired, in accordance with ASC 310, when based on current information and events, it is probable that we 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. As of December 31, 2018, management identified a total of five troubled debt restructurings in the loan portfolio in the amount of $7.8 million. Five troubled debt restructurings in the amount of $8.2 million were identified as of December 31, 2017.

The following table presents our impaired loans at December 31, 2018, 2017, and 2016:

(dollars in thousands)	December 31,		
	2018	2017	2016
Impaired loans without a valuation allowance	$10,602	$15,270	$15,740
Impaired loans with a valuation allowance	7,428	9,446	12,430
Total impaired loans	$18,030	$24,716	$28,170
Valuation allowance related to impaired loans	$1,473	$2,790	$3,468
Total nonaccrual loans	10,341	14,845	18,594
Total loans past-due ninety days or more and still accruing	-	-	302

For the years ended December 31, 2018, 2017, and 2016, the average recorded investment in impaired loans was approximately $22.8 million, $25.4 million, and $25.7 million, respectively. Republic earned $451,000, $607,000, and $502,000 of interest income on impaired loans (internally classified accruing loans) in 2018, 2017, and 2016, respectively. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

Total impaired loans decreased by $6.7 million, or 27%, during the year ended December 31, 2018. This decrease was primarily driven by paydowns and charge-offs in 2018. The valuation allowance related to impaired loans decreased to $1.5 million at December 31, 2018 compared to $2.8 million at December 31, 2017. At December 31, 2018 and 2017, internally classified accruing loans totaled approximately $7.7 million and $9.9 million, respectively.

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The following table presents our 30 to 89 days past due loans at December 31, 2018, 2017, and 2016:

(dollars in thousands)	December 31,		
	2018	2017	2016
30 to 59 days past due	$1,135	$1,113	$1,060
60 to 89 days past due	1,574	-	31
Total loans 30 to 89 days past due	$2,709	$1,113	$1,091

Management has engaged in active discussions with all delinquent relationships to address delinquencies and is confident that acceptable resolutions will be achieved in the near term.

Deposits

Total deposits at December 31, 2018 were $2.4 billion, an increase of $329.6 million or 16% from total deposits of $2.1 billion at December 31, 2017. Total deposits by account type at December 31, 2018, 2017, and 2016 are as follows:

(dollars in thousands)	At December 31,		
	2018	2017	2016
Demand deposits, non-interest bearing	$519,056	$438,500	$324,912
Demand deposits, interest bearing	1,042,561	807,736	605,950
Money market & savings deposits	676,993	700,322	635,644
Time deposits	154,257	116,737	111,164
Total deposits	$2,392,867	$2,063,295	$1,677,670

In general, Republic pays higher interest rates on time deposits compared to other deposit categories. Republic's various deposit liabilities may fluctuate from period-to-period, reflecting customer behavior and strategies to optimize net interest income. The increase in total deposits to $2.4 billion at December 31, 2018 from $2.1 billion at December 31, 2017 was primarily the result of a $315.4 million increase in demand deposits, which reflects the success of our strategy based on a high level of customer service and satisfaction, which drives the gathering of low-cost core deposits. This strategy has also allowed us to eliminate our dependence on the more volatile source of funding in brokered and internet based certificates of deposit.

The average balances and weighted average rates of Republic's deposits for the last three years are as follows:

	For the Years Ended December 31,					
	2018		2017		2016	
(dollars in thousands)	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate
Demand deposits:						
Non-interest bearing	$488,995		$372,171		$284,326	
Interest bearing	918,508	0.87%	687,586	0.44%	510,745	0.41%
Money market & savings deposits	697,135	0.70%	629,464	0.50%	586,750	0.45%
Time deposits	128,892	1.23%	110,952	1.12%	89,713	1.05%
Total deposits	$2,233,530	0.65%	$1,800,173	0.41%	$1,471,534	0.39%

The remaining maturity of certificates of deposit for $100,000 or more as of December 31, 2018 is as follows:

(dollars in thousands)	
Maturity:	
3 months or less	$22,220
3 to 6 months	27,180
6 to 12 months	22,924
Over 12 months	51,826
Total	$124,150

The following is a summary of the remaining maturity of time deposits, which includes certificates of deposits of $100,000 or more, as of December 31, 2018:

(dollars in thousands)	
Maturity:	
2019	$94,022
2020	57,138
2021	1,135
2022	958
2023	1,004
Thereafter	-
Total	$