REPUBLIC FIRST BANCORP INC
Form 10-Q
August 12, 2013

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

FORM 10-Q

[X]	Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended June 30, 2013.
	or
[ ]	Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from ____ to ____.

Commission File Number: 000-17007

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

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

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

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

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

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-Accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

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

YES [ ] NO [X]

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common Stock, par value $0.01 per share	25,972,897
Title of Class	Number of Shares Outstanding as of August 9, 2013

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Republic First Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
June 30, 2013 and December 31, 2012
(Dollars in thousands, except per share data)
(unaudited)

	June 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$ 8,934	$ 9,097
Interest bearing deposits with banks	47,850	118,907
Cash and cash equivalents	56,784	128,004
Investment securities available for sale, at fair value	184,371	189,259
Investment securities held to maturity, at amortized cost (fair value of $69 and $69, respectively)	68	67
Restricted stock, at cost	2,326	3,816
Loans held for sale	282	82
Loans receivable (net of allowance for loan losses of $9,332 and $9,542, respectively)	628,401	608,359
Premises and equipment, net	21,232	21,976
Other real estate owned, net	6,584	8,912
Accrued interest receivable	2,969	3,128
Bank owned life insurance	-	10,490
Other assets	16,649	14,565
Total Assets	$ 919,666	$ 988,658
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand – non-interest bearing	$ 143,485	$ 145,407
Demand – interest bearing	180,802	180,440
Money market and savings	408,355	440,120
Time deposits	88,210	123,234
Total Deposits	820,852	889,201
Accrued interest payable	522	301
Other liabilities	6,448	6,778
Subordinated debt	22,476	22,476
Total Liabilities	850,298	918,756
Shareholders’ Equity		
Preferred stock, par value $0.01 per share: 10,000,000 shares authorized; no shares issued	-	-
Common stock, par value $0.01 per share: 50,000,000 shares authorized; shares issued 26,501,742	265	265
Additional paid in capital	106,908	106,753
Accumulated deficit	(32,225)	(34,228)
Treasury stock at cost (416,303 shares)	(3,099)	(3,099)

Stock held by deferred compensation plan		(809)		(809)
Accumulated other comprehensive income (loss)		(1,672)		1,020
Total Shareholders' Equity		69,368		69,902
Total Liabilities and Shareholders' Equity	$	919,666	$	988,658

(See notes to consolidated financial statements)

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Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Income
For the Three and Six Months Ended June 30, 2013 and 2012
(Dollars in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Interest income:				
Interest and fees on taxable loans	$7,991	$8,114	$15,828	$16,134
Interest and fees on tax-exempt loans	89	65	180	135
Interest and dividends on taxable investment securities	1,043	1,269	2,090	2,538
Interest and dividends on tax-exempt investment securities	48	117	121	233
Interest on federal funds sold and other interest-earning assets	44	84	103	185
Total interest income	9,215	9,649	18,322	19,225
Interest expense:				
Demand- interest bearing	207	185	402	356
Money market and savings	428	722	930	1,585
Time deposits	204	433	483	1,014
Other borrowings	278	284	556	569
Total interest expense	1,117	1,624	2,371	3,524
Net interest income	8,098	8,025	15,951	15,701
Provision (credit) for loan losses	925	500	925	(250)
Net interest income after provision (credit) for loan losses	7,173	7,525	15,026	15,951
Non-interest income:				
Loan advisory and servicing fees	436	329	774	540
Gain on sales of SBA loans	2,107	1,110	2,757	2,196
Service fees on deposit accounts	265	226	499	436
Legal settlements	-	-	238	105
Gain on sale of investment securities	-	774	703	774
Other-than-temporary impairment losses	-	(16)	-	(33)
Portion recognized in other comprehensive income (before taxes)	-	2	-	2
Net impairment loss on investment securities	-	(14)	-	(31)
Bank owned life insurance income	-	16	13	35
Other non-interest income	62	58	129	90
Total non-interest income	2,870	2,499	5,113	4,145
Non-interest expenses:				
Salaries and employee benefits	4,503	3,963	8,790	8,097
Occupancy	876	872	1,720	1,716
Depreciation and amortization	472	506	955	1,024
Legal	503	898	867	1,787
Other real estate owned	109	104	1,026	202
Advertising	117	100	218	150
Data processing	307	311	415	575
Insurance	153	176	311	310

Professional fees	359	298	682	591
Regulatory assessments and costs	241	351	585	689
Taxes, other	253	277	503	537
Other operating expenses	1,163	1,154	2,114	2,168
Total non-interest expense	9,056	9,010	18,186	17,846
Income before provision (benefit) for income taxes	987	1,014	1,953	2,250
Provision (benefit) for income taxes	(24)	7	(50)	(62)
Net income	$1,011	$1,007	$2,003	$2,312
Net income per share:				
Basic	$0.04	$0.04	$0.08	$0.09
Diluted	$0.04	$0.04	$0.08	$0.09

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
For the Three and Six Months Ended June 30, 2013 and 2012
(Dollars in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$ 1,011	$ 1,007	$ 2,003	$ 2,312
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on securities (pre-tax $(3,504), $376, $(3,498), and $605, respectively)	(2,246)	241	(2,242)	388
Reclassification adjustment for securities gains (pre-tax $-, $774, $703, and $774, respectively)	-	(503)	(450)	(503)
Reclassification adjustment for impairment charge (pre-tax $-, $14, $-, and $31, respectively)	-	9	-	20
Total other comprehensive loss	(2,246)	(253)	(2,692)	(95)
Total comprehensive income (loss)	$ (1,235)	$ 754	$ (689)	$ 2,217

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2013 and 2012
(Dollars in thousands)
(unaudited)

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities		
Net income	$2,003	$2,312
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan losses	925	(250)
(Gain) loss on sale of other real estate owned	(229)	10
Write down of other real estate owned	809	-
Depreciation and amortization	955	1,024
Stock based compensation	155	192
Gain on sale and call of investment securities	(703)	(774)
Impairment charges on investment securities	-	31
Amortization of premiums on investment securities	380	160
Proceeds from sales of SBA loans originated for sale	27,410	23,066
SBA loans originated for sale	(24,853)	(20,920)
Gains on sales of SBA loans originated for sale	(2,757)	(2,196)
Increase in value of bank owned life insurance	(13)	(35)
Increase in accrued interest receivable and other assets	(416)	(823)
Decrease in accrued interest payable and other liabilities	(109)	(74)
Net cash provided by operating activities	3,557	1,723
Cash flows from investing activities		
Purchase of investment securities available for sale	(25,289)	(40,902)
Proceeds from the sale of securities available for sale	7,946	22,590
Proceeds from the maturity or call of securities available for sale	18,352	13,265
Proceeds from the maturity or call of securities held to maturity	-	74
Proceeds from redemption of FHLB stock	1,490	505
Net increase in loans	(21,213)	(17,836)
Net proceeds from sale of other real estate owned	1,994	334
Surrender proceeds on bank owned life insurance	10,503	-
Premises and equipment expenditures	(211)	(289)
Net cash used in investing activities	(6,428)	(22,259)
Cash flows from financing activities		
Net decrease in demand, money market and savings deposits	(33,325)	(40,072)
Net decrease in time deposits	(35,024)	(71,225)
Net cash used in financing activities	(68,349)	(111,297)
Net decrease in cash and cash equivalents	(71,220)	(131,833)
Cash and cash equivalents, beginning of year	128,004	230,955
Cash and cash equivalents, end of period	$56,784	$99,122

Supplemental disclosures:		
Interest paid	$2,150	$3,820
Income taxes paid	$175	$-
Non-cash transfers from loans to other real estate owned	$246	$-

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Six Months Ended June 30, 2013 and 2012
(Dollars in thousands)
(unaudited)

	Common Stock	Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance January 1, 2013	$ 265	$ 106,753	$ (34,228)	$ (3,099)	$ (809)	$ 1,020	$ 69,902
Net income			2,003				2,003
Other comprehensive loss, net of tax						(2,692)	(2,692)
Stock based compensation		155					155
Balance June 30, 2013	$ 265	$ 106,908	$ (32,225)	$ (3,099)	$ (809)	$ (1,672)	$ 69,368
Balance January 1, 2012	$ 265	$ 106,383	$ (37,842)	$ (3,099)	$ (809)	$ (47)	$ 64,851
Net income			2,312				2,312
Other comprehensive loss, net of tax						(95)	(95)
Stock based compensation		192					192
Balance June 30, 2012	$ 265	$ 106,575	$ (35,530)	$ (3,099)	$ (809)	$ (142)	$ 67,260

(See notes to consolidated financial statements)

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

Note 1: Basis of Presentation

Republic First Bancorp, Inc. (the "Company") is a corporation incorporated under the laws of the Commonwealth of Pennsylvania and a registered bank holding company. The Company offers a variety of retail and commercial banking services to individuals and businesses throughout the Greater Philadelphia and Southern New Jersey area through its wholly-owned subsidiary, Republic First Bank ("Republic" or the "Bank") which does business under the name Republic Bank. The Company also has three unconsolidated subsidiaries, which are statutory trusts established by the Company in connection with its sponsorship of three separate issuances of trust preferred securities.

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

The Company and Republic are subject to regulations of certain state and federal agencies. These regulatory agencies periodically examine the Company and Republic for adherence to laws and regulations. As a consequence, the cost of doing business may be affected.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Republic. The Company follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("U.S. GAAP") that are followed to ensure consistent reporting of financial condition, results of operations, and cash flows.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to United States Securities and Exchange Commission ("SEC") Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for financial statements for a complete fiscal year. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements. The Company has evaluated subsequent events through the date of issuance of the financial data included herein.

Note 2: Summary of Significant Accounting Policies

Risks and Uncertainties

The earnings of the Company depend primarily on the earnings of Republic. The earnings of Republic are dependent primarily upon the level of net interest income, which is the difference between interest earned on its interest-earning assets, such as loans and investments, and the interest paid on its interest-bearing liabilities, such as deposits and borrowings. Accordingly, the Company's results of operations are subject to risks and uncertainties surrounding Republic's exposure to changes in the interest rate environment.

Prepayments on residential real estate mortgage and other fixed rate loans and mortgage-backed securities vary significantly and may cause significant fluctuations in interest margins.

Use of Estimates

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

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

In estimating the allowance for loan losses, management considers current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' perceived financial and managerial strengths, the adequacy of underlying collateral, if collateral dependent, or present value of future cash flows, and other relevant factors. An estimate for the carrying value of other real estate owned is normally determined through appraisals which are updated on a regular basis or through agreements of sale that have been negotiated. Because the allowance for loan losses and carrying value of other real estate owned are dependent, to a great extent, on the general economy and other conditions that may be beyond the Company's and Republic's control, the estimates of the allowance for loan losses and the carrying values of other real estate owned could differ materially in the near term.

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

In evaluating the Company's ability to recover deferred tax assets, management considers all available positive and negative evidence. Management also makes assumptions on the amount of future taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require management to make judgments that are consistent with the plans and estimates used to manage the Company's business. As a result of cumulative losses in the years 2008 through 2011 and the uncertain nature of the current economic environment, the Company has decided to currently exclude future taxable income from its analysis on the ability to recover deferred tax assets and has recorded a valuation allowance against its deferred tax assets. An increase or decrease in the valuation allowance would result in an adjustment to income tax expense in the period and could have a significant impact on the Company's future earnings.

Stock-Based Compensation

The Company has a Stock Option and Restricted Stock Plan ("Plan"), under which the Company may grant options, restricted stock or stock appreciation rights to the Company's employees, directors, and certain consultants. Under the terms of the Plan, 1.5 million shares of common stock, plus an annual increase equal to the number of shares needed to restore the maximum number of shares that may be available for grant under the Plan to 1.5 million shares, are available for such grants. As of June 30, 2013, the only grants under the Plan have been option grants. The Plan provides that the exercise price of each option granted equals the market price of the Company’s stock on the date of the grant. Any option granted vests within one to five years and has a maximum term of ten years.

The Company utilizes the Black-Scholes option pricing model to calculate the estimated fair value of each stock option granted on the date of the grant. A summary of the assumptions used in the Black-Scholes option pricing model for 2013 and 2012 are as follows:

	2013	2012
Dividend yield(1)	0.0 %	0.0 %
Expected volatility(2)	54.88% to 55.08%	53.12% to 54.21%
Risk-free interest rate(3)	1.28% to 2.02%	1.01% to 1.61%
Expected life(4)	7.0 years	7.0 years

(1) A dividend yield of 0.0% is utilized because cash dividends have never been paid.
(2) Expected volatility is based on Bloomberg's seven year volatility calculation for "FRBK" stock.
(3) The risk-free interest rate is based on the seven year Treasury bond.
(4) The expected life reflects a 3 to 4 year vesting period, the maximum ten year term and review of historical behavior.

During the six months ended June 30, 2013 and 2012, 109,787 options and 21,000 options vested, respectively. Expense is recognized ratably over the period required to vest. At June 30, 2013, the intrinsic value of the 1,200,280 options outstanding was $344,580, while the intrinsic value of the 288,717 exercisable (vested) options was $38,036. During the six months ended June 30, 2013, 83,500 options were forfeited with a weighted average grant date fair value of $289,015.

Information regarding stock based compensation for the six months ended June 30, 2013 and 2012 is set forth below:

	2013	2012
Stock based compensation expense recognized	$ 155,000	$ 192,000
Number of unvested stock options	911,563	845,600
Fair value of unvested stock options	$ 1,245,470	$ 1,562,250
Amount remaining to be recognized as expense	$ 687,636	$ 638,125

The remaining amount of $687,636 will be recognized as expense through June 2017.

Earnings per Share

Earnings per share ("EPS") consist of two separate components: basic EPS and diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income by the weighted average number of common shares outstanding plus dilutive common stock equivalents ("CSEs"). CSEs consist of dilutive stock options granted through the Company's Plan and convertible securities related to the trust preferred securities issued in 2008. In the diluted EPS computation, the after tax interest expense on the trust preferred securities issuance is added back to the net income. For the three and six months ended June 30, 2013 and 2012, the effect of CSEs (convertible securities related to the trust preferred securities only) and the related add back of after tax interest expense was considered anti-dilutive and therefore was not included in the EPS calculation.

The calculation of EPS for the three and six months ended June, 2013 and 2012 is as follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income (basic and diluted)	$1,011	$ 1,007	$2,003	$ 2,312
Weighted average shares outstanding	25,973	25,973	25,973	25,973
Net income per share – basic	$0.04	$ 0.04	$0.08	$ 0.09
Weighted average shares outstanding (including dilutive CSEs)	26,103	25,996	26,062	25,988
Net income per share – diluted	$0.04	$ 0.04	$0.08	$ 0.09

Recent Accounting Pronouncements

ASU 2013-02

In February 2013, the FASB issued ASU 2013-02, “Reporting of Amounts Reclassified Out of Comprehensive Income.” The amendments in this ASU are intended to improve the reporting of reclassifications out of accumulated other comprehensive income by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required that provide additional detail about those amounts. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is reclassified to a balance sheet account instead of directly to income or expense in the same reporting period. The ASU was effective for public entities for reporting periods beginning after December 15, 2012 and did not have a material impact on the Company’s financial statements.

Note 3: Legal Proceedings

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

Note 4: Segment Reporting

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

Note 5: Investment Securities

A summary of the amortized cost and market value of securities available for sale and securities held to maturity at June 30, 2013 and December 31, 2012 is as follows:

	At June 30, 2013			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	$ 106,473	$ 588	$ (2,293)	$ 104,768
Mortgage-backed securities	17,647	718	(60)	18,305
Municipal securities	5,360	97	(97)	5,360
Corporate bonds	32,203	773	-	32,976
Asset-backed securities	19,416	268	-	19,684
Trust preferred securities	5,766	-	(2,604)	3,162
Other securities	115	1	-	116
Total securities available for sale	$ 186,980	$ 2,445	$ (5,054)	$ 184,371
U.S. Government agencies	$ 1	$ -	$ -	$ 1
Other securities	67	1	-	68
Total securities held to maturity	$ 68	$ 1	$ -	$ 69

	At December 31, 2012			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	$ 97,959	$ 1,830	$ (6)	$ 99,783
Mortgage-backed securities	20,626	1,014	-	21,640
Municipal securities	11,150	967	(16)	12,101
Corporate bonds	32,231	639	(185)	32,685
Asset-backed securities	19,785	135	(191)	19,729
Trust preferred securities	5,785	-	(2,598)	3,187
Other securities	131	3	-	134
Total securities available for sale	$ 187,667	$ 4,588	$ (2,996)	$ 189,259
U.S. Government agencies	$ 1	$ -	$ -	$ 1
Other securities	66	2	-	68
Total securities held to maturity	$ 67	$ 2	$ -	$ 69

The maturity distribution of the amortized cost and estimated market value of investment securities by contractual maturity at June 30, 2013 is as follows:

	Available for Sale		Held to Maturity	
(dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 1 year or less	$ 16,175	$ 16,516	$ 47	$ 48

After 1 year to 5 years		72,281		72,383		21		21
After 5 years to 10 years		91,165		87,946		-		-
After 10 years		7,359		7,526		-		-
Total	$	186,980	$	184,371	$	68	$	69

Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without prepayment penalties.

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As of June 30, 2013 and December 31, 2012, the collateralized mortgage obligations and mortgage backed securities included in the investment securities portfolio consist solely of securities issued by U.S. government sponsored agencies. There were no private label mortgage securities held in the investment securities portfolio as of those dates. The Company did not hold any mortgage-backed securities that were rated “Alt-A” or “Subprime” as of June 30, 2013 and December 31, 2012. In addition, the Company did not hold any private issued CMO’s as of June 30, 2013 and December 31, 2012. As of June 30, 2013 and December 31, 2012, the asset-backed securities consisted solely of Sallie Mae bonds collateralized by student loans which are guaranteed by the U.S. Department of Education.

In instances when a determination is made that an other-than-temporary impairment exists with respect to a debt security but the investor does not intend to sell the debt security and it is more likely than not that the investor will not be required to sell the debt security prior to its anticipated recovery, accounting standards require the other-than-temporary impairment to be separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income. There were no impairment charges (credit losses) on trust preferred securities for the three and six months ended June 30, 2013. Impairment charges (credit losses) on trust preferred securities for the three and six months ended June 30, 2012 amounted to $14,000 and $31,000, respectively.

The following table presents a roll-forward of the balance of credit-related impairment losses on securities held at June 30, 2013 and 2012 for which a portion of OTTI was recognized in other comprehensive income:

	June 30,	
(dollars in thousands)	2013	2012
Beginning Balance, January 1st	$3,959	$3,925
Additional credit-related impairment loss on securities for which an other-than-temporary impairment was previously recognized	-	31
Reductions for securities paid off during the period	-	-
Reductions for securities for which the amount previously recognized in other comprehensive income was recognized in earnings because the Company intends to sell the security	-	-
Ending Balance, June 30th	$3,959	$3,956

The Company realized gross gains on the sale of securities of $703,000 during the six months ended June 30, 2013. The related sale proceeds amounted to $7.9 million. The tax provision applicable to these gross gains in 2013 amounted to approximately $253,000. The Company realized gross gains on the sale of securities of $774,000 during the three and six months ended June 30, 2012. The related sale proceeds amounted to $22.6 million. The tax provision applicable to these gross gains in 2012 amounted to approximately $271,000.

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

	At June 30, 2013					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized mortgage obligations	$ 70,117	$ 2,293	$ -	$ -	$ 70,117	$ 2,293
Mortgage-backed securities	1,178	60	-	-	1,178	60
Municipal securities	1,328	97	-	-	1,328	97
Corporate bonds	-	-	-	-	-	-
Trust preferred securities	-	-	3,162	2,604	3,162	2,604
Total	$ 72,623	$ 2,450	$ 3,162	$ 2,604	$ 75,785	$ 5,054

	At December 31, 2012					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized mortgage obligations	$ 9,991	$ 6	$ -	$ -	$ 9,991	$ 6
Municipal securities	1,050	16	-	-	1,050	16
Corporate bonds	-	-	9,811	185	9,811	185
Asset-backed securities	9,218	191	-	-	9,218	191
Trust preferred securities	-	-	3,187	2,598	3,187	2,598
Total	$ 20,259	$ 213	$ 12,998	$ 2,783	$ 33,257	$ 2,996

The impairment of the investment portfolio totaled $5.1 million with a total fair value of $75.8 million at June 30, 2013. The most significant component of this impairment is related to the trust preferred securities held in the portfolio. Unrealized losses on the trust preferred securities amount to $2.6 million at June 30, 2013. The unrealized losses associated with the trust preferred securities are a result of the secondary market for such securities becoming inactive and are considered temporary at this time.

The following table provides additional detail about trust preferred securities as of June 30, 2013.

(dollars in thousands)	Class / Tranche	Amortized Cost	Fair Value	Unrealized Losses	Lowest Credit Rating Assigned	Number of Banks Currently Performing	Deferrals / Defaults as % of Current Balance	Conditional Default Rates for 2013 and beyond	Cumulative OTTI Life to Date
Preferred Term Securities IV	Mezzanine Notes	$ 49	$ 40	$ (9)	CCC	5	27 %	0.32 %	$ -
	Mezzanine	1,478	1,071	(407)	C	13	46	0.33	2,173

Preferred Term Securities VII	Notes								
TPREF Funding II	Class B Notes	739	336	(403)	C	16	44	0.38	260
TPREF Funding III	Class B2 Notes	1,520	724	(796)	C	17	35	0.32	480
Trapeza CDO I, LLC	Class C1 Notes	556	245	(311)	C	9	49	0.39	470
ALESCO Preferred Funding IV	Class B1 Notes	604	326	(278)	C	38	14	0.36	396
ALESCO Preferred Funding V	Class C1 Notes	820	420	(400)	C	37	24	0.35	180
Total		$ 5,766	3,162	$ (2,604)		135	33 %		$ 3,959

At June 30, 2013, the investment portfolio included eight municipal securities with a total market value of $5.4 million. One of these securities carried an unrealized loss at June 30, 2013. Each of the municipal securities is reviewed quarterly for impairment. Research on each issuer is completed to ensure the financial stability of the municipal entity. The largest geographic concentration was in Pennsylvania where one municipal security had a market value of $1.3 million. As of June 30, 2013, management found no evidence of OTTI on any of the municipal securities held in the investment securities portfolio.

At June 30, 2013, the investment portfolio included eighteen collateralized mortgage obligations with a total market value of $104.8 million. Thirteen of these securities carried an unrealized loss at June 30, 2013. At June 30, 2013, the investment portfolio included forty-two mortgage-backed securities with a total market value of $18.3 million. One of these securities carried an unrealized loss at June 30, 2013. Management found no evidence of OTTI on any of these securities and the unrealized losses are due to changes in market value resulting from changes in market interest rates and are considered temporary as of June 30, 2013.

Note 6: Loans Receivable and Allowance for Loan Losses

The following table sets forth the Company's gross loans by major categories as of June 30, 2013, and December 31, 2012:

(dollars in thousands)	June 30, 2013	December 31, 2012
Commercial real estate	$ 329,599	$ 335,561
Construction and land development	31,455	26,659
Commercial and industrial	108,951	103,768
Owner occupied real estate	137,219	126,242
Consumer and other	28,413	23,449
Residential mortgage	2,400	2,442
Total loans receivable	638,037	618,121
Deferred costs (fees)	(304)	(220)
Allowance for loan losses	(9,332)	(9,542)
Net loans receivable	$ 628,401	$ 608,359

A loan is considered impaired, when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans, but also include internally classified accruing loans.

The following table summarizes information with regard to impaired loans by loan portfolio class as of June 30, 2013 and December 31, 2012:

(dollars in thousands)	June 30, 2013 Recorded Investment	June 30, 2013 Unpaid Principal Balance	June 30, 2013 Related Allowance	December 31, 2012 Recorded Investment	December 31, 2012 Unpaid Principal Balance	December 31, 2012 Related Allowance
With no related allowance recorded:						
Commercial real estate	$12,919	$13,040	$-	$19,231	$20,000	$-
Construction and land development	1,029	4,244	-	3,153	6,312	-
Commercial and industrial	2,973	4,256	-	3,793	7,106	-
Owner occupied real estate	144	463	-	505	505	-
Consumer and other	668	917	-	912	1,146	-
Total	$17,733	$22,920	$-	$27,594	$35,069	$-
With an allowance recorded:						
Commercial real estate	$ 8,227	$ 8,889	$ 958	$ 6,085	$ 6,085	$ 1,077
Construction and land development	593	3,700	217	593	3,700	70
Commercial and industrial	3,263	5,663	992	3,147	3,255	861
Owner occupied real estate	3,002	3,002	498	3,450	3,450	860
Consumer and other	-	-	-	146	155	75
Total	$ 15,085	$ 21,254	$ 2,665	$ 13,421	$ 16,645	$ 2,943
Total:						
Commercial real estate	$21,146	$21,929	$958	$25,316	$26,085	$1,077
Construction and land development	1,622	7,944	217	3,746	10,012	70
Commercial and industrial	6,236	9,919	992	6,940	10,361	861
Owner occupied real estate	3,146	3,465	498	3,955	3,955	860
Consumer and other	668	917	-	1,058	1,301	75
Total	$32,818	$44,174	$2,665	$41,015	$51,714	$2,943

The following table presents additional information regarding the Company's impaired loans for the three months ended June 30, 2013 and June 30, 2012:

	Three Months Ended June 30,			
	2013		2012	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate	$15,343	$202	$15,879	$205
Construction and land development	1,822	8	5,227	29
Commercial and industrial	2,953	5	4,882	36
Owner occupied real estate	180	-	876	-
Consumer and other	725	-	784	2
Total	$21,023	$215	$27,648	$272
With an allowance recorded:				
Commercial real estate	$7,056	$25	$5,707	$52
Construction and land development	494	-	869	-
Commercial and industrial	3,504	14	3,350	12
Owner occupied real estate	3,149	37	2,472	36
Consumer and other	25	-	98	-
Total	$14,228	$76	$12,496	$100
Total:				
Commercial real estate	$22,399	$227	$21,586	$257
Construction and land development	2,316	8	6,096	29
Commercial and industrial	6,457	19	8,232	48
Owner occupied real estate	3,329	37	3,348	36
Consumer and other	750	-	882	2
Total	$35,251	$291	$40,144	$372

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately $130,000 and $153,000 for the three months ended June 30, 2013 and 2012, respectively.

The following table presents additional information regarding the Company's impaired loans for the six months ended June 30, 2013 and June 30, 2012:

	Six Months Ended June 30,			
	2013		2012	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate	$ 17,766	$ 421	$ 14,315	$ 370
Construction and land development	2,615	29	4,980	59
Commercial and industrial	2,935	11	4,286	78
Owner occupied real estate	216	-	1,183	27
Consumer and other	781	1	850	4
Total	$ 24,313	$ 462	$ 25,614	$ 538
With an allowance recorded:				
Commercial real estate	$5,885	$61	$6,604	$135
Construction and land development	395	-	1,496	-
Commercial and industrial	3,746	28	3,941	19
Owner occupied real estate	3,295	73	1,911	48
Consumer and other	49	-	49	-
Total	$13,370	$162	$14,001	$202
Total:				
Commercial real estate	$ 23,651	$ 482	$ 20,919	$ 505
Construction and land development	3,010	29	6,476	59
Commercial and industrial	6,681	39	8,227	97
Owner occupied real estate	3,511	73	3,094	75
Consumer and other	830	1	899	4
Total	$ 37,683	$ 624	$ 39,615	$ 740

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately $339,000 and $320,000 for the six months ended June 30, 2013 and 2012, respectively.

The following tables provide the activity in and ending balances of the allowance for loan losses by loan portfolio class at and for the three and six months ended June 30, 2013 and 2012:

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
Three months ended June 30, 2013								
Allowance for loan losses:								
Beginning balance:	$ 3,257	$ 1,835	$ 2,336	$ 1,297	$ 170	$ 14	$ 444	$ 9,353
Charge-offs	(349)	-	(361)	(319)	-	-	-	(1,029)
Recoveries	54	-	4	-	25	-	-	83
Provisions (credits)	619	667	18	8	(4)	-	(383)	925
Ending balance	$ 3,581	$ 2,502	$ 1,997	$ 986	$ 191	$ 14	$ 61	$ 9,332
Three months ended June 30, 2012								
Allowance for loan losses:								
Beginning balance:	$ 4,371	$ 2,169	$ 2,219	$ 1,455	$ 106	$ 20	$ 416	$ 10,756
Charge-offs	(274)	(921)	(708)	-	(100)	-	-	(2,003)
Recoveries	-	105	-	-	27	-	-	132
Provisions (credits)	(136)	63	305	171	101	(4)	-	500
Ending balance	$ 3,961	$ 1,416	$ 1,816	$ 1,626	$ 134	$ 16	$ 416	$ 9,385

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
Six months ended June 30, 2013								
Allowance for loan losses:								
Beginning balance:	$ 3,979	$ 1,273	$ 1,880	$ 1,967	$ 234	$ 17	$ 192	$ 9,542
Charge-offs	(409)	(55)	(361)	(319)	(75)	-	-	(1,219)
Recoveries	54	-	5	-	25	-	-	84
Provisions (credits)	(43)	1,284	473	(662)	7	(3)	(131)	925
Ending balance	$ 3,581	$ 2,502	$ 1,997	$ 986	$ 191	$ 14	$ 61	$ 9,332
Six months ended June 30, 2012								
Allowance for loan losses:								
Beginning Balance:	$ 7,372	$ 558	$ 1,928	$ 1,963	$ 113	$ 23	$ 93	$ 12,050
Charge-offs	(766)	(921)	(760)	-	(101)	-	-	(2,548)
Recoveries	-	105	-	-	28	-	-	133

Provisions (credits)	(2,645)	1,674	648	(337)	94	(7)	323	(250)
Ending balance	$ 3,961	$ 1,416	$ 1,816	$ 1,626	$ 134	$ 16	$ 416	$ 9,385

The following tables provide a summary of the allowance for loan losses and balance of loans receivable by loan class and by impairment method as of June 30, 2013 and December 31, 2012:

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
June 30, 2013								
Allowance for loan losses:								
Individually evaluated for impairment	$ 958	$ 217	$ 992	$ 498	$ -	$ -	$ -	$ 2,665
Collectively evaluated for impairment	2,623	2,285	1,005	488	191	14	61	6,667
Total allowance for loan losses	$ 3,581	$ 2,502	$ 1,997	$ 986	$ 191	$ 14	$ 61	$ 9,332
Loans receivable:								
Loans evaluated individually	$ 21,146	$ 1,622	$ 6,236	$ 3,146	$ 668	$ -	$ -	$ 32,818
Loans evaluated collectively	308,453	29,833	102,715	134,073	27,745	2,400	-	605,219
Total loans receivable	$ 329,599	$ 31,455	$ 108,951	$ 137,219	$ 28,413	$ 2,400	$ -	$ 638,037

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
December 31, 2012								
Allowance for loan losses:								
Individually evaluated for impairment	$ 1,077	$ 70	$ 861	$ 860	$ 75	$ -	$ -	$ 2,943
Collectively evaluated for impairment	2,902	1,203	1,019	1,107	159	17	192	6,599
Total allowance for loan losses	$ 3,979	$ 1,273	$ 1,880	$ 1,967	$ 234	$ 17	$ 192	$ 9,542
Loans receivable:								
	$ 25,316	$ 3,746	$ 6,940	$ 3,955	$ 1,058	$ -	$ -	$ 41,015

Loans evaluated individually								
Loans evaluated collectively	310,245	22,913	96,828	122,287	22,391	2,442	-	577,106
Total loans receivable	$ 335,561	$ 26,659	$ 103,768	$ 126,242	$ 23,449	$ 2,442	$ -	$ 618,121

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The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of June 30, 2013 and December 31, 2012:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
At June 30, 2013							
Commercial real estate	$ 4,472	$ 12,824	$ 6,816	$ 24,112	$ 305,487	$ 329,599	$ -
Construction and land development	-	-	1,622	1,622	29,833	31,455	-
Commercial and industrial	-	-	4,028	4,028	104,923	108,951	-
Owner occupied real estate	969	-	207	1,176	136,043	137,219	-
Consumer and other	42	-	667	709	27,704	28,413	-
Residential mortgage	-	-	-	-	2,400	2,400	-
Total	$ 5,483	$ 12,824	$ 13,340	$ 31,647	$ 606,390	$ 638,037	$ -

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
At December 31, 2012							
Commercial real estate	$ 772	$ 26,000	$ 7,987	$ 34,759	$ 300,802	$ 335,561	$ -
Construction and land development	-	261	1,342	1,603	25,056	26,659	-
Commercial and industrial	86	-	4,693	4,779	98,989	103,768	-
Owner occupied real estate	285	1,562	968	2,815	123,427	126,242	-
Consumer and other	-	-	1,058	1,058	22,391	23,449	