

REPUBLIC FIRST BANCORP INC
Form S-1/A
June 02, 2010

As filed with the Securities and Exchange Commission on June 2 , 2010
Registration No. 333-166286

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

PRE-EFFECTIVE
AMENDMENT NO. 4 TO
FORM S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

REPUBLIC FIRST BANCORP, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	6022 (Primary Standard Industrial Classification Code Number)	23-2486815 (I.R.S. Employer Identification No.)
--	---	---

50 South 16th Street, Suite 2400
Philadelphia, PA 19102
(215) 735-4422
(Address, including zip code and telephone number, including area code, of Registrant's principal executive offices)

Harry D. Madonna
President and Chief Executive Officer
50 South 16th Street, Suite 2400
Philadelphia, PA 19102
(215) 735-4422
(Name, address, including zip code and telephone number, including area code, of agent for service)

Copies to:

Barry M. Abelson, Esq.
Donald R. Readlinger, Esq.
Pepper Hamilton LLP
3000 Two Logan Square
Eighteenth and Arch Streets
Philadelphia, PA 19103
(215) 981-4000

Lawrence R. Wiseman, Esq.
Christin R. Cerullo, Esq.
Blank Rome LLP
One Logan Square
130 North 18th Street
Philadelphia, PA 19103-6998
(215) 569-5549

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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 " Smaller reporting company "
 (Do not check if a smaller reporting company)

Calculation Of Registration Fee

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common stock (2)			\$34,500,000	\$2,459.85

(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended (previously paid in full).

(2) Includes shares of common stock that may be purchased by the underwriters to cover over-allotments, if any.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

SUBJECT TO COMPLETION, DATED JUNE 2 , 2010

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS

\$30,000,000

Common Stock

We are offering _____ shares of our common stock, par value \$.01 per share. Our common stock is listed on the Nasdaq Global Market under the symbol "FRBK." On June 1, 2010, the last reported sale price of our common stock on the Nasdaq Global Market was \$2.83 per share.

The shares of common stock are not deposits or other obligations of any bank or savings association and are not insured or guaranteed by the Federal Deposit Insurance Corporation, the Deposit Insurance Fund or any other governmental entity.

Investing in our common stock involves significant risks. See "Risk Factors" beginning on page 6 of this prospectus.

	Per Share	Total
Public offering price	\$	\$
Underwriting discount and commissions (1)	\$	\$
Proceeds, before expenses, to Republic First Bancorp, Inc.	\$	\$

(1)The underwriting discounts and commissions will be \$ _____ per share. However, the underwriters have agreed that the underwriting discounts and commissions will be \$ _____ per share for sales to certain of our officers, directors and convertible trust preferred holders. The total underwriting discounts and commissions and the total proceeds to us, before expenses, reflect the reduced discount for sales to certain of our officers, directors and convertible trust preferred holders.

The underwriters may purchase up to an additional _____ shares of common stock within 30 days of the date of this prospectus to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on or about _____, 2010.
RBC Capital Markets

The date of this prospectus is _____, 2010.

TABLE OF CONTENTS

	Page
A b o u t T h i s	i
Prospectus	
S t a t e m e n t R e g a r d i n g F o r w a r d - L o o k i n g	ii
Statements	
P r o s p e c t u s	1
Summary	
Risk Factors	6
U s e O f	18
Proceeds	
Capitalization	19
M a r k e t f o r O u r C o m m o n S t o c k a n d D i v i d e n d	20
Policy	
S e l e c t e d C o n s o l i d a t e d F i n a n c i a l a n d O p e r a t i n g	21
Data	
Our Business	23
Management's Discussion and Analysis Of Financial Condition and Results Of Operations	33
Management	68
C e r t a i n R e l a t i o n s h i p s a n d R e l a t e d	82
Transactions	
S e c u r i t y O w n e r s h i p O f C e r t a i n B e n e f i c i a l O w n e r s a n d	83
Management	
D e s c r i p t i o n O f	85
Securities	
Underwriting	94
Legal Matters	96
Experts	97
W h e r e Y o u C a n F i n d M o r e	97
Information	
I n d e x T o C o n s o l i d a t e d F i n a n c i a l F-1	
Statements	

 ABOUT THIS PROSPECTUS

You should rely only on the information contained in this prospectus and any permitted free writing prospectuses we have authorized for use with respect to this offering. We have not, and the underwriters have not, authorized anyone to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell the securities in any jurisdiction where the offer or sale is not permitted or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. You should not assume that the information in this prospectus or any permitted free writing prospectus is accurate or complete as of any date other than the dates of the applicable documents. Our business, financial condition, liquidity, results of operations and prospects may have changed since those dates.

It is important for you to read and consider all of the information contained in this prospectus before making your investment decision to purchase shares of our common stock in this offering. See "Where You Can Find More

Information” in this prospectus for instructions on how you can access additional information.

Unless the context requires otherwise, or unless otherwise noted, all references to the “Company,” “we,” “our,” or “us” refer collectively to Republic First Bancorp, Inc. and its consolidated subsidiary, and all references to the “Bank” or “Republic” refer to our wholly-owned subsidiary, Republic First Bank.

STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements included in this prospectus and any prospectus supplement are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, which we refer to as the Securities Act. All statements other than statements of historical facts contained in this prospectus and any prospectus supplement, including statements regarding our plans, objectives, goals, strategies, future events, capital expenditures, future results, our competitive strengths, our business strategy and the trends in our industry are forward-looking statements. The words “believe,” “may,” “could,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “expect,” “likely,” “probably,” “suggest,” “goal,” “potential” and similar expressions, as they relate to us, are intended to identify forward-looking statements. All statements, other than statements of historical fact, included in this prospectus and any prospectus supplement regarding our financial position, business strategy and plans or objectives for future operations are forward-looking statements.

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 prospectus, risks and uncertainties can arise with changes in:

• general economic conditions, including current turmoil in the financial markets and the 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, 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 any forward-looking statement, which reflects management's analysis only as of the date of the statement. 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.

ii

In addition, you should refer to the “Risk Factors” section of this prospectus beginning on page 6 for a discussion of factors that may cause our actual results to differ materially from those which may be inferred from our forward-looking statements. As a result of these factors, the forward-looking statements in this prospectus and any prospectus supplement will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, if at all. Accordingly, you should not place undue reliance on these forward-looking statements. All subsequent written and oral forward-looking statements attributable to us or the persons acting on our behalf are expressly qualified in their entirety by the applicable cautionary statements.

PROSPECTUS SUMMARY

The following summary highlights selected information contained in this prospectus. Because it is a summary, it does not contain all the information you should consider before investing in our common stock. Before making any investment decision, you should read the entire prospectus carefully, including the “Risk Factors” section of this prospectus beginning on page 6, and the financial statements and notes to the financial statements beginning on page F-1.

The Company

Republic First Bancorp, Inc. is a corporation incorporated under the laws of the Commonwealth of Pennsylvania, and a registered bank holding company. We offer a variety of retail and commercial banking services to individuals and businesses throughout the Greater Philadelphia and Southern New Jersey area through our wholly-owned subsidiary, Republic First Bank. As of March 31, 2010, we had approximately \$968 million in total assets, \$679 million in loans, \$846 million in deposits and \$65 million in equity capital. We currently have eleven store locations in Philadelphia, Montgomery and Delaware Counties in Pennsylvania, and one in Camden County, New Jersey, and plan to open additional stores in 2010 and beyond.

Beginning in 2005, our primary objective had been to be an alternative to the large banks for commercial banking services in the Greater Philadelphia and Southern New Jersey area. Since the second quarter of 2008, we began to redirect our strategic efforts toward retail banking and creating a major regional retail and commercial bank with a distinct brand, by focusing on innovation, customer satisfaction, brand building and shareholder value creation. To achieve this transformation, the Bank hired a number of former senior Commerce Bank employees: Andrew Logue, President and Chief Operating Officer; Rhonda Costello, Chief Retail Officer; Jay Neilon, Chief Credit Officer and Frank Cavallaro, Chief Financial Officer. With this management team in place and additional new employees for support, we believe Republic First Bank has the foundation and commitment to become a leading financial institution in the Philadelphia metropolitan area.

Additionally, the Bank hired two experienced and former Commerce Bank regional market managers, Stephen McWilliams and Robert Worley. Messrs. McWilliams and Worley focus on our commercial lending initiatives and lead the Bank’s lending efforts in the Greater Philadelphia and Southern New Jersey area. They in turn have hired a number of experienced lenders with the same focus and the Bank is beginning to see the results of these teams in many new opportunities for loan and deposit relationships.

In November 2008, we entered into a merger agreement with Metro Bancorp, Inc., then known as Pennsylvania Commerce Bancorp, Inc., which we had hoped would accelerate our strategic plans. Because of uncertainties over regulatory approvals, however, we did not complete that merger. With the termination of the Metro agreement in March 2010, we have re-focused our strategic plans to develop our franchise as an independent institution. We believe we have a strong management team and adequate capital resources and liquidity to deal with current economic conditions and plan for the future. In connection with the change in strategy to internally grow our brand, we are in the process of rebranding our stores to begin operating under the name, “Republic Bank,” the name under which the Bank was incorporated and under which it did business from 1988 until 1996.

During 2009, we renovated, refurbished and remodeled most of our existing stores, including significant capital improvements, as part of our ongoing efforts to adopt a more retail customer focus and attract additional retail business. We have plans to expand customer services hours, relocate certain existing stores, enhance our banking systems to better serve the retail customer and expand our retail product offerings.

The success of these efforts is already being observed in the growth of our core deposits, which we define as total deposits less public and brokered certificates of deposit. Core deposits have grown by \$217 million, or 43%, for the twelve month period ended December 31, 2009 compared to the same period in 2008. This growth has allowed us to reduce Federal Home Loan Bank advances and short-term borrowings by \$77 million, or 75%, from December 31, 2008, to \$25 million at March 31, 2009, and also reduce brokered deposits by \$116.1 million, or 85%, over the same period. We believe core deposits are the best measure of the deposit gathering strength of our branch network and the success of our strategic effort to transform our banking model.

On the lending side, we historically focused efforts on business banking and commercial lending transactions, in particular commercial real estate loans. We have begun to restructure our loan portfolio and deemphasize commercial real estate loans. To further these efforts, during 2009, we undertook detailed reviews of our more significant credit relationships with an emphasis on reducing exposure, enhanced our allowance for loan loss methodology, and committed to originate fewer commercial real estate loans in order to reduce credit concentrations in that loan category. As a result of these initiatives, our commercial real estate portfolio has decreased by \$88.6 million, or 15%, during the twelve month period ended December 31, 2009. This reduction together with deposit growth has reduced the loan to deposit ratio to 77% at December 31, 2009 compared to 105% at December 31, 2008. This will afford the Bank the opportunity to initiate more commercial and industrial and consumer lending.

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

We are subject to federal and state laws and regulations governing virtually all aspects of our activities, including our lines of business, capital, liquidity, investments, payment of dividends, and others. These laws and regulations and the costs of compliance can have a significant impact on our business, financial condition, and results of operations.

Our principal executive offices are located at Two Liberty Place, 50 South 16th Street, Suite 2400, Philadelphia, PA 19102. Our telephone number is (215) 735-4422 and our website address is www.rfbkonline.com. Information included or referred to on our website is not a part of this prospectus.

Service Area/Market Overview

Our primary service area consists of Greater Philadelphia and Southern New Jersey, and we currently have eleven store locations in Philadelphia, Montgomery and Delaware Counties in Pennsylvania, and one in Camden County, New Jersey, to serve this area. 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.

We will carefully evaluate growth opportunities throughout 2010, as we believe the national and local economies will begin to recover. We have applied for regulatory approval to open one new store in 2010 in Haddonfield, New Jersey, taken substantive steps toward operating two additional stores in Cherry Hill and Turnersville, New Jersey and anticipate pursuing additional de novo branching opportunities in our primary service area in 2010 and beyond. The opening of these stores is subject to regulatory approval.

Competition

We face substantial competition from other financial institutions in our service area. Competitors include Wells Fargo, Citizens, PNC, Sovereign, TD Bank and Bank of America, as well as local commercial banks. In addition, we compete directly with savings banks, savings and loan associations, finance companies, credit unions, factors, 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.

Credit Risk and Asset Quality

As a commercial lender, we are subject to credit risk and recent economic and financial conditions have adversely effected our borrowers and our business. To manage this challenging environment, we have adopted a more conservative loan classification system, enhanced our allowance for loan loss methodology, and undertaken a comprehensive review of our loan portfolio. Although we follow established underwriting policies, and monitor loans through our loan review program, we remain subject to credit risk. Although the majority of our loan portfolio is collateralized with real estate or other collateral, a portion of the loan portfolio is unsecured.

We have been impacted by the challenging conditions in the economy and financial markets. Since mid-2008, like many other commercial lenders, we have experienced significant charge-offs, provisions for loan losses, and increased non-performing loans and other real estate owned, and continue to manage a significant amount of non-performing assets. We do, however, believe that the markets that we serve and the local economy are showing signs of stabilizing and during 2009 we instituted a vigilant credit administration process in which we reviewed over 40% of our loan portfolio and will continue to review our loan portfolio on a quarterly basis in order to closely monitor our borrowers.

Products and Services

We offer a range of competitively priced banking products and services, including consumer and commercial deposit accounts, including 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.

THE OFFERING

Issuer	Republic First Bancorp, Inc.
Securities offered in underwritten offering	_____ shares of common stock (or _____ shares if the underwriters exercise in full the over-allotment option to purchase additional shares).
Option to purchase additional shares	We have granted the underwriters a 30-day option to purchase up to an additional 15% of the offered amount, or _____ shares of common stock, to cover over-allotments, if any.
Offering price	\$ _____ per share
Common stock outstanding after the offering(1)	_____ shares (_____ shares if the underwriters exercise their over-allotment option in full).
Use of proceeds	We estimate that the net proceeds of this offering (after deducting offering expenses payable by us) will be approximately \$ _____ (or \$ _____ if the underwriters exercise their over-allotment option in full). We intend to contribute the net proceeds of this offering to our subsidiary, Republic First Bank, for its general corporate purposes.
Transfer agent and registrar	Registrar and Transfer Company
Nasdaq Global Market symbol	FRBK

(1) The number of shares of our common stock to be outstanding after this offering is based on _____ shares outstanding on _____, 2010. Unless otherwise indicated, the number of outstanding shares of common stock presented in this prospectus excludes: _____ shares of our common stock issuable pursuant to the exercise of the underwriters' over-allotment option; _____ shares of our common stock issuable upon conversion, exchange or exercise in respect of outstanding options and other securities; and _____ shares of our common stock that may be issued under our amended and restated stock option plan and restricted stock plan, referred to as our equity plan.

Risk Factors

Investing in our common stock involves risks. You should carefully consider the information under "Risk Factors" beginning on page 6 before investing in our common stock.

SUMMARY SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The following summary selected consolidated income statement data for the fiscal years ended December 31, 2009, 2008 and 2007 and the balance sheet data, asset quality ratios and liquidity and capital ratios for the fiscal years ended December 2009 and 2008 are derived from, and qualified by reference to, our audited consolidated financial statements and related notes appearing elsewhere in this prospectus. The following summary selected consolidated income statement data for the fiscal years ended December 31, 2006, 2005, the balance sheet data, asset quality ratios and liquidity and capital ratios for the fiscal years ended December 2007, 2006 and performance ratios for the fiscal years ended December 31, 2009, 2008, 2007, 2006 and 2005 are derived from our audited consolidated financial statements and related notes not appearing in this prospectus. The summary historical financial information for the three months ended March 31, 2010 and 2009 is derived from, and qualified by reference to, our unaudited consolidated financial statements and related notes appearing elsewhere in this prospectus. The unaudited financial information as of and for the three months ended March 31, 2010 and 2009 has been prepared on the same basis as our audited financial statements and includes, in the opinion of management, all adjustments, consisting of only normal recurring adjustments, necessary to fairly present the data for the three periods. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results of operations to be expected for the full year or any future period. This information should be read in conjunction with our consolidated financial statements and related notes, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this prospectus.

	As Of or For the Three Months Ended March 31,			As Of or For the Years Ended December 31,		
	2010	2009	2009	2008	2007	2006
(Dollars in thousands, except per share data)						
Balance Sheet Data						
Total assets	\$ 967,507	\$ 911,380	\$ 1,008,642	\$ 951,980	\$ 1,016,308	\$ 1,008,824
Total loans, net	665,711	741,822	680,977	774,673	813,041	784,002
Total investment securities	183,400	79,608	192,395	90,066	90,299	109,176
Total deposits	846,232	779,128	882,894	739,167	780,855	754,773
FHLB & overnight advances	25,000	25,000	25,000	102,309	133,433	159,723
Subordinated debt	22,476	22,476	22,476	22,476	11,341	6,186
Total shareholders' equity	65,182	76,487	70,264	79,327	80,467	74,734
Income Statement Data						
Total interest income	\$ 10,435	\$ 11,128	\$ 43,470	\$ 53,976	\$ 68,346	\$ 62,745
Total interest expense	3,026	4,270	16,055	25,081	38,307	28,679
Net interest income	7,409	4,270	27,415	28,895	30,039	34,066
Provision for loan loss	5,500	4,800	14,200	7,499	1,590	1,364
Non-interest income	475	652	79	1,242	3,073	3,640
Non-interest expenses	8,405	8,485	30,959	23,887	21,364	21,017

Edgar Filing: REPUBLIC FIRST BANCORP INC - Form S-1/A

Income (loss) before provision (benefit) for income taxes	(6,021)	(5,775)	(17,665)	(1,249)	10,158	15,325
Provision (benefit) for income taxes	(2,159)	(2,015)	(6,223)	(777)	3,273	5,207
Net income (loss)	(3,862)	(3,760)	(11,442)	(472)	6,885	10,118
Per Share Data						
Basic earnings per share						
Net income (loss)	\$ (.37)	\$ (.35)	\$ (1.07)	\$ (0.04)	\$ 0.66	\$ 0.97
Diluted earnings per share						
Net income (loss)	(.37)	(.35)	(1.07)	(0.04)	0.65	0.95
Book value per share	6.13	7.19	6.59	7.46	7.80	7.16
Performance Ratios						
Return on average assets on continuing operations	(1.61)%	(1.66)%	(1.22)%	(0.05)%	0.71%	1.19%
Return on average shareholders' equity on continuing operations	(22.65)%	(19.44)%	(15.32)%	(0.60)%	8.86%	14.59%
Net interest margin	3.38%	3.23%	3.13%	3.28%	3.26%	4.20%
Total non-interest expenses as a percentage of average assets	3.51%	3.75%	3.29%	2.54%	2.20%	2.48%
Asset Quality Ratios						
Allowance for loan losses as a percentage of loans	2.02%	1.13%	1.85%	1.07%	1.04%	1.02%
Allowance for loan losses as a percentage of non-performing loans	37.37%	46.22%	49.32%	48.51%	38.19%	116.51%
Non-performing loans as a percentage of total loans	5.41%	2.43%	3.75%	2.21%	2.71%	0.87%
Non-performing assets as a percentage of total assets	4.94%	3.10%	3.93%	2.72%	2.55%	0.74%
Net charge-offs as a percentage of average loans, net	2.74%	2.51%	1.33%	0.96%	0.14%	0.13%
Liquidity And Capital Ratios						
Average equity to average assets	7.11%	8.57%	7.94%	8.44%	8.01%	8.17%
Leverage ratio	8.35%	10.88%	9.36%	11.14%	9.44%	8.75%
Tier 1 capital to risk-weighted assets	10.43%	12.35%	11.89%	12.26%	10.07%	9.46%
Total capital to risk-weighted assets	11.90%	13.39%	13.14%	13.26%	11.01%	10.30%

RISK FACTORS

In addition to the other information included in this prospectus and any prospectus supplement, the following factors should be carefully considered in evaluating an investment in our common stock, our business, financial condition, results of operations, and 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. In any such case, the market price of our common stock could decline substantially and you could lose all or a part of your investment.

Risks Related to Our Business

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 \$47.8 million and \$39.6 million on March 31, 2010 and December 31, 2009, respectively. Our allowance for loan losses was approximately \$13.7 million and \$12.8 million on March 31, 2010 and December 31, 2009, respectively. Our loans which were between thirty and fifty-nine days delinquent totaled \$23.1 million and \$13.4 million on March 31, 2010 and December 31, 2009, respectively.

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

A substantial portion of our loan portfolio—71.9% as of March 31, 2010—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 current trends in the real estate markets continue, we could continue to 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. Moreover, we expect that the current recession will negatively impact economic conditions in our market areas and that we could experience significantly higher delinquencies and credit losses. As a result, we will continue to make provisions for loan losses and to charge off additional loans in the future, which could materially adversely affect our financial conditions 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 to 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 with respect to 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, and income taxes. If our underlying estimates and assumptions prove to be incorrect, our financial condition and results of operations may be materially adversely effected.

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

During 2008 and 2009, 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 pay dividends, which could materially adversely affect us and our ability to pay dividends to shareholders. 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 the Bank, and the Bank 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 effected 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 reprice more slowly than assets, net interest income would be adversely affected by declining interest rates, and positively affected by increasing interest rates. At any time, our assets and liabilities will reflect interest rate risk of some degree.

In addition to affecting interest income and expense, changes in interest rates also can affect the value of our interest-earning assets, comprising fixed- and adjustable-rate instruments, as well as the ability to realize gains from the sale of such assets. Generally, the value of fixed-rate instruments fluctuates inversely with changes in interest rates, and changes in interest rates may therefore have a material adverse affect 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 the Bank to fund dividend payments, if any, and to fund all payments on obligations. The Bank 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.

Increases in FDIC insurance premiums may have a material adverse effect on our results of operations.

During 2008 and 2009, higher levels of bank failures have dramatically increased resolution costs of the Federal Deposit Insurance Corporation, or the FDIC, and depleted the deposit insurance fund. In addition, the FDIC and the U.S. Congress have taken action to increase federal deposit insurance coverage, placing additional stress on the deposit insurance fund.

In order to maintain a strong funding position and restore reserve ratios of the deposit insurance fund, the FDIC increased assessment rates of insured institutions uniformly by seven cents for every \$100 of deposits beginning with the first quarter of 2009, with additional changes beginning April 1, 2009, which require riskier institutions to pay a larger share of premiums by factoring in rate adjustments based on secured liabilities and unsecured debt levels.

To further support the rebuilding of the deposit insurance fund, the FDIC imposed a special assessment on each insured institution, equal to five basis points of the institution's total assets minus Tier 1 capital as of September 30, 2009. For us, this represents an aggregate charge of approximately \$0.4 million, which was recorded as a pre-tax charge during the second quarter of 2009. The FDIC has indicated that future special assessments are possible, although it has not determined the magnitude or timing of any future assessments.

In November 2009, the FDIC also imposed a 13-quarter prepayment of FDIC premiums. The prepayment will be used to offset future FDIC premiums beginning with the March 31, 2010 payment.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay even higher FDIC premiums. Our expenses for the year ended December 31, 2009 have been significantly and adversely affected by these increased premiums and the special assessment. These increases and assessment and any future increases in insurance premiums or additional special assessments may materially adversely affect our results of operations.

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.

8

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

Economic and financial market conditions in the United States and around the world may remain depressed for the foreseeable future. Conditions such as slow or negative growth and the sub-prime debt devaluation crisis have resulted in a low level of liquidity in many financial markets and extreme volatility in credit, equity and fixed income markets. These economic developments could have various effects on our business, including:

- increasing our credit risk, by increasing the likelihood that major customers of ours 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.

These potential effects are difficult to forecast and mitigate. Distress in the credit markets and issues relating to liquidity among financial institutions have resulted in the failure of some financial institutions and others have been forced to seek acquisition partners. The United States and other governments have taken unprecedented steps in an effort to stabilize the financial system, including investing in financial institutions. These efforts, however, may not succeed. Our business and our financial condition and results of operations could be adversely affected by continued or accelerated disruption and volatility in financial markets, continued capital and liquidity concerns regarding financial institutions, limitations resulting from further governmental action in an effort to stabilize or provide additional regulation of the financial system, and recessionary conditions that are deeper or longer lasting than currently anticipated.

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

As of March 31, 2010, we had approximately \$3.9 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. The issuance of securities in connection with this offering may have resulted in an ownership change, or could result in an ownership change in the future upon subsequent dispositions of our stock. 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. Our use of NOLs arising after the date of an ownership change would not be affected.

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, 2009 and December 31, 2008. There are no NOLs that could expire if not utilized for the year ending

December 31, 2010.

9

Our assets as of March 31, 2010 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 March 31, 2010, the net deferred tax asset was approximately \$9.7 million, up from a balance of approximately \$6.3 million at March 31, 2009. The increase in net deferred tax asset resulted mainly from the allowance for loan losses recorded for financial reporting purposes, which are not currently deductible for federal income tax reporting purposes. The net deferred tax asset balance at March 31, 2010 attributable to the allowance for loan losses was \$4.9 million.

We regularly review our deferred tax assets for recoverability based on history of earnings, expectations for future earnings and expected timing of reversals of temporary differences. Realization of deferred tax assets ultimately depends on the existence of sufficient taxable income, including taxable income in prior carryback years, as well as future taxable income. We believe the recorded net deferred tax asset at March 31, 2010 is fully realizable; however, if we determine that we will be unable to realize all or part of the net deferred tax asset, we would adjust this deferred tax asset, which would negatively impact our earnings or increase our net loss.

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. 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.

We are planning to rebrand Republic First Bank as "Republic Bank" and the rebranding may be more costly than anticipated or may fail to achieve its intended result.

In connection with our change in strategy to internally grow our brand, we are planning to rebrand our stores and begin operating under the name, "Republic Bank," the name under which the Bank was incorporated and under which it did business from 1988 until 1996. The rebranding is expected to occur during the next several months. Several companies in the United States, including companies in the banking and financial services industries, use variations of the word "Republic," as well as a stylized "R," as part of a trademark or trade name. As such, we face potential objections to our use of these marks. If there are any objections, we may incur additional costs to defend our use, and may be required to further rebrand our banking business. Our rebranding efforts may not achieve their intended results, which include enhancing our brand and increasing our retail business.

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

Since June 2008, we have been successful in attracting new, talented management to the Bank, to add to our management team. Many of these new people joined us when we were planning to merge with Metro Bancorp, Inc. 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 teams, branch managers and loan officers of the Bank 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 qualified additional management and loan officers with the appropriate level of experience and knowledge about our market areas to implement our 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.

We and the Bank 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 Federal Deposit Insurance Company, or FDIC, and the Pennsylvania Department of Banking. 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 for investors.

We are also subject to comprehensive examination and supervision by banking and other regulatory bodies. Examination reports and ratings (which often are not publicly available) and other aspects of this supervisory framework can materially impact the conduct, growth, and profitability of our businesses. In response to our May 2009 examination, the Bank and its board entered into an informal agreement with the FDIC and the Pennsylvania Department of Banking to enhance a variety of the Bank's policies, procedures and processes regarding asset quality, earnings and loan concentrations. Similarly, following our March 2008 compliance examination, the Bank and its board entered into an informal agreement with the FDIC. The Bank was required to improve its policies, procedures and processes relating to its compliance monitoring functions. We have implemented a number of changes to the Bank's policies, procedures and processes, which we believe address most of the issues raised in these informal agreements. A failure to have adequate procedures to comply with regulatory requirements could expose us to damages, fines and regulatory penalties, which could be significant, and could also injure our reputation with customers and others with whom we do business.

We are subject to extensive regulation and supervision under federal and state laws and regulations. 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. 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, although we have not always so reported. 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 the Bank 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 March 31, 2010, 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 Tier 1 risk-based capital ratio of at least 6%, and a total risk-based capital ratio of at least 10%. Regulators, however, may require us or the Bank to maintain higher regulatory capital ratios. For example, regulators recently have required some banks to attain a Tier 1 leverage ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 10%, and a total risk-based capital ratio of at least 12%.

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 are 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, and in doing so 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 effect us.

A substantial decline in the value of our Federal Home Loan Bank of Pittsburgh common stock may adversely affect our financial condition.

We own common stock of the Federal Home Loan Bank of Pittsburgh, or the FHLB, in order to qualify for membership in the Federal Home Loan Bank system, which enables us to borrow funds under the Federal Home Loan Bank advance program. The carrying value and fair market value of our FHLB common stock was \$6.7 million as of March 31, 2010.

Published reports indicate that certain member banks of the Federal Home Loan Bank system may be subject to asset quality risks that could result in materially lower regulatory capital levels. In December 2008, the FHLB had notified its member banks that it had suspended dividend payments and the repurchase of capital stock until further notice is provided. In an extreme situation, it is possible that the capitalization of a Federal Home Loan Bank, including the

FHLB, could be substantially diminished or reduced to zero. Consequently, given that there is no market for our FHLB common stock, we believe that there is a risk that our investment could be deemed other-than-temporarily impaired at some time in the future. If this occurs, it may adversely affect our results of operations and financial condition. If the FHLB were to cease operations, or if we were required to write-off our investment in the FHLB, our business, financial condition, liquidity, capital and results of operations may be materially adversely affected.

Risks Related to this Offering and Our Shares

Our share price may fluctuate and this may make it difficult for you to resell shares of our common stock owned by you at times or at prices you find attractive.

The market price of our common stock could be subject to significant fluctuations in response to many factors, including, but not limited to:

- actual or anticipated variations in our results of operations, liquidity or financial condition;
 - changes in analysts' estimates of our earnings;
- publication of research reports about us or the banking industry generally;
 - changes in market valuations of similar companies;
- the effects of, and changes in, trade, monetary and fiscal policies, including interest rate policies of the Board of Governors of the Federal Reserve System and the Federal Open Market Committee;
- general economic or business conditions, either nationally, regionally or in the communities in which we do business, may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and loan performance or a reduced demand for credit;
 - continued levels of asset quality and loan origination volume;
 - the adequacy of our allowance for loan losses;
- the impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities and insurance);
- the willingness of customers to substitute competitors' products and services for our products and services and vice versa, based on price, quality, relationship or otherwise;
 - unanticipated regulatory or judicial proceedings, and related liabilities and costs;
 - interest rate, market and monetary fluctuations;
- the timely development of competitive new products and services by us and the acceptance of such products and services by customers;
 - changes in consumer spending and saving habits relative to the financial services we provide;
 - the loss of certain key officers or other employees;
 - continued relationships with major customers;
- our ability to continue to grow our business internally and through acquisition and successful integration of new or acquired entities while controlling costs;
 - compliance with laws and regulatory requirements of federal, state and local agencies;

- the ability to hedge certain risks economically;
 - effect of terrorist attacks and threats of actual war;
 - deposit generation and flows;
 - changes in accounting principles, policies and guidelines;
 - rapidly changing technology;
- other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services;
 - other news, announcements or disclosures (whether by us or others) related to us or Republic; and
 - our success at managing the risks involved in the foregoing.

Stock markets, in general, have experienced over the past year, and continue to experience, significant price and volume volatility, and the market price of our common stock may continue to be subject to similar market fluctuations that may be unrelated to our operating performance or prospects. Increased market volatility could result in a substantial decline in the market price of our common stock.

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.

Except as described under the section titled, "Underwriting," beginning at page 94 of this prospectus, 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 in this offering or future offerings or by existing common shareholders in the secondary market, the perception that such sales could occur or the availability for future sale of shares of our common stock or securities convertible into or exchangeable or exercisable for our common stock could, in turn, materially and adversely affect the market price of our common stock and our ability to raise capital through future offerings of equity or equity-related securities. We are party to a registration rights agreement with the holders of the convertible trust preferred securities of Republic First Bancorp Capital Trust IV, which requires us, under certain circumstances, to register up to 1.7 million shares of our common stock into which the trust preferred securities may be converted for resale under the Securities Act.

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 the twelve months ended March 31, 2010, the average daily trading volume for our common stock was approximately 32,696 shares. As a result, 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 March 31, 2010, we had \$47.5 million of outstanding debt.

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

Neither the Company nor the Bank has declared or paid cash dividends on its common stock since the Bank began operations. 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 the Bank, 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 the Bank to us. Regulatory authorities restrict the amount of cash dividends the Bank can declare and pay without prior regulatory approval. Presently, the Bank cannot declare or pay dividends in any one year in excess of retained earnings for that year subject to risk based capital requirements.

This offering is expected to be dilutive.

Giving effect to the issuance of common stock in this offering, we expect that this offering will have a dilutive effect on our expected earnings per common share. The actual amount of dilution cannot be determined at this time and will be based on numerous factors.

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, 2009, or in our Form 10-Q for the quarter ended March 31, 2010, we cannot guarantee that we will not have any material weaknesses reported by our independent registered public accounting firm 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, or if our independent registered public accounting firm cannot timely attest to our evaluation, 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 that 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 the Company's voting shares for shareholder amendments to our bylaws; require the vote of the holders of at least 75% of the Company's 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 the Company 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.

Our executive officers, directors and principal shareholders own a significant percentage of our common stock, may purchase additional shares in this offering, and can significantly influence matters requiring approval by our shareholders.

As of May 26, 2010, our executive officers and directors, in the aggregate, beneficially owned approximately 23.1% of our common stock, and had the right to vote approximately 19.5% of our outstanding common stock, and other principal shareholders, those beneficially owning five percent or more of our common stock, beneficially owned approximately 8.3% of our common stock, owned and had the right to vote approximately 0% of our outstanding common stock. These shareholders, acting together, would be able to influence matters requiring approval by our shareholders, including the election of directors. This concentration of ownership might also have the effect of delaying or preventing a change in control of the company.

At our request, the underwriters have reserved for sale up to 30% of the shares of our common stock to be sold in this offering, to certain of our directors, officers and convertible trust preferred holders. Harry D. Madonna, our chairman, president and chief executive officer, and Vernon W. Hill, II, our consultant and principal beneficial stockholder and convertible trust preferred holder, have expressed an interest in maintaining their pro rata interests in our common stock through this offering. None of our directors, officers or convertible trust preferred holders has any obligation or made any commitment to purchase any shares in this offering, and there can be no assurance as to the number of shares in this offering they may purchase, if any.

USE OF PROCEEDS

We estimate that, after deducting the underwriting discounts and commissions and other expenses of this offering payable by us, our net proceeds from this offering will be approximately \$ (or approximately \$ if the underwriters exercise their over-allotment option in full). We intend to contribute the net proceeds from the sale of our common stock to the Bank, and intend for the Bank to use the contributed proceeds for its general corporate purposes, which may include implementing our retail and rebranding strategies, improving our branches and adding branch locations, and funding loans. The amount of the proceeds to be used for each of the intended purposes will be determined by marketing, branching, and lending opportunities, other sources of funds, and other factors.

CAPITALIZATION

The following table sets forth our consolidated capitalization as of March 31, 2010, on an actual basis and on an adjusted basis as if the offering had been completed as of March 31, 2010 and assuming:

the sale of ___ shares of common stock at a price of \$___ per share;

the underwriters' overallotment option is not exercised; and

the net proceeds to us in the offering, after deducting underwriting discounts and commissions and offering expenses payable to us in the offering of \$___, are \$___.

The following data is qualified in its entirety by, and should be read in conjunction with our consolidated financial statements and notes thereto included in this prospectus.

	As of March 31, 2010	
	Actual	As Adjusted(1)
	(Dollars in thousands)	
Long-Term Subordinated Debt	\$ 22,476	\$
Shareholders' Equity:		
Preferred stock(2)	-	
Common stock(3)	111	
Additional paid in capital	77,128	
Retained earnings (accumulated deficit)	(6,312)	
Treasury stock at cost(4)	(3,099)	
Stock held by deferred compensation plan(5)	(709)	
Accumulated other comprehensive loss	(1,937)	
Total Shareholders' Equity	\$ 65,182	\$
Total Long-term subordinated debt and shareholders' equity	\$ 87,658	\$
Selected Ratios:		
Leverage ratio	8.35%	
Tier 1 risk-based capital ratio	10.43%	
Total risk-based capital ratio	11.90%	
Book value per share	\$ 6.18	
Tangible book value per share	\$ 6.18	

-
- (1) Consolidated capitalization giving effect to the sale of _____ shares of common stock in this offering at a public offering price of \$ _____ per share, for total net proceeds of approximately \$ _____ million (after deducting the underwriting discount and estimated offering expenses payable by us).
- (2) At March 31, 2010, we had 10,000,000 shares of preferred stock, par value \$0.01 per share, authorized and no shares of preferred stock issued.
- (3) At March 31, 2010, we had 20,000,000 shares of common stock, par value \$0.01 per share, authorized and 11,081,938 shares of common stock issued.
- (4) At March 31, 2010, we had 416,303 shares of common stock held as treasury stock.
- (5) At March 31, 2010, we had 88,053 shares of common stock held by deferred compensation plan.

MARKET FOR OUR COMMON STOCK AND DIVIDEND POLICY

Market Information

Our common stock is listed on the Global Market of The NASDAQ Stock Market, LLC, or Nasdaq, under the symbol “FRBK.” As of May 26, 2010, we had 10,533,093 shares of common stock issued and outstanding, held by approximately 300 record holders. The last reported sales price per share of our common stock on June 1, 2010, was \$2.83. The following table sets forth the high and low sales price for our common stock on the Nasdaq Global Market during the periods indicated.

	Price Range	
	High	Low
2010:		
Second Quarter (through June 1, 2010)	\$ 4.49	\$ 2.80
First Quarter	\$ 5.30	\$ 2.98
2009:		
Fourth Quarter	\$ 5.05	\$ 3.81
Third Quarter	\$ 8.10	\$ 4.26
Second Quarter	\$ 8.69	\$ 6.74
First Quarter	\$ 9.00	\$ 4.02
2008:		
Fourth Quarter	\$ 9.19	\$ 7.26
Third Quarter	\$ 10.73	\$ 5.71
Second Quarter	\$ 7.75	\$ 4.20
First Quarter	\$ 8.59	\$ 4.31

Dividend Policy

We have not paid any cash dividends on our common stock and have no plans to pay cash dividends during 2010. Our ability to pay dividends depends primarily on receipt of dividends from our subsidiary, Republic First Bank. Dividend payments from the Bank are subject to legal and regulatory limitations. The ability of the Bank to pay dividends is also subject to profitability, financial condition, capital expenditures and other cash flow requirements. For certain limitations on our ability to pay cash dividends, and the Bank’s ability to pay cash dividends to us, see “Our Business-Supervision and Regulation” below.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The following selected consolidated income statement data for the fiscal years ended December 31, 2009, 2008 and 2007 and the balance sheet data, asset quality ratios and liquidity and capital ratios for the fiscal years ended December 2009 and 2008 are derived from, and qualified by reference to, our audited consolidated financial statements and related notes appearing elsewhere in this prospectus. The following selected consolidated income statement data for the fiscal years ended December 31, 2006 and 2005, the balance sheet data, asset quality ratios and liquidity and capital ratios for the fiscal years ended December 2007, 2006 and 2005 and performance ratios for the fiscal years ended December 31, 2009, 2008, 2007, 2006 and 2005 are derived from our audited consolidated financial statements and related notes not appearing in this prospectus. The historical financial information as of and for the three months ended March 31, 2010 and 2009 is derived from, and qualified by reference to, our unaudited consolidated financial statements and related notes appearing elsewhere in this prospectus. The unaudited financial information as of and for the three months ended March 31, 2010 and 2009 has been prepared on the same basis as our audited financial statements and includes, in the opinion of management, all adjustments, consisting of only normal recurring adjustments, necessary to fairly present the data for such periods. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results of operations to be expected for the full year or any future period. This information should be read in conjunction with our consolidated financial statements and related notes, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this prospectus.

Edgar Filing: REPUBLIC FIRST BANCORP INC - Form S-1/A

(Dollars in thousands, except per share data)	As Of or For the Three Months Ended March 31,			As Of or For the Years Ended December 31,		
	2010	2009	2009	2008	2007	2006
Balance Sheet Data						
Total assets	\$ 967,507	\$ 911,380	\$ 1,008,642	\$ 951,980	\$ 1,016,308	\$ 1,008,824
Total loans, net	665,711	741,822	680,977	774,673	813,041	784,002
Total investment securities	183,400	79,608	192,395	90,066	90,299	109,176
Total deposits	846,232	779,128	882,894	739,167	780,855	754,773
FHLB & overnight advances	25,000	25,000	25,000	102,309	133,433	159,723
Subordinated debt	22,476	22,476	22,476	22,476	11,341	6,186
Total shareholders' equity	65,182	76,487	70,264	79,327	80,467	74,734
Income Statement Data						
Total interest income	\$ 10,435	\$ 11,128	\$ 43,470	\$ 53,976	\$ 68,346	\$ 62,745
Total interest expense	3,026	4,270	16,055	25,081	38,307	28,679
Net interest income	7,409	4,270	27,415	28,895	30,039	34,066
Provision for loan loss	5,500	4,800	14,200	7,499	1,590	1,364
Non-interest income	475	652	79	1,242	3,073	3,640
Non-interest expenses	8,405	8,485	30,959	23,887	21,364	21,017
Income (loss) before provision (benefit) for income taxes	(6,021)	(5,775)	(17,665)	(1,249)	10,158	15,325
Provision (benefit) for income taxes	(2,159)	(2,015)	(6,223)	(777)	3,273	5,207
Net income (loss)	(3,862)	(3,760)	(11,442)	(472)	6,885	10,118
Per Share Data						
Basic earnings per share						
Net income (loss)	\$ (.37)	\$ (.35)	\$ (1.07)	\$ (0.04)	\$ 0.66	\$ 0.97
Diluted earnings per share						
Net income (loss)	(.37)	(.35)	(1.07)	(0.04)	0.65	0.95
Book value per share	6.13	7.19	6.59	7.46	7.80	7.16
Performance Ratios						
Return on average assets on continuing operations	(1.61)%	(1.66)%	(1.22)%	(0.05)%	0.71%	1.19%

Return on average shareholders' equity
on

continuing operations	(22.65)%	(19.44)%	(15.32)%	(0.60)%	8.86%	14.59%
Net interest margin	3.38%	3.23%	3.13%	3.28%	3.26%	4.20%
Total non-interest expenses as a percentage of average assets	3.51%	3.75%	3.29%	2.54%	2.20%	2.48%
Asset Quality Ratios						
Allowance for loan losses as a percentage of loans	2.02%	1.13%	1.85%	1.07%	1.04%	1.02%
Allowance for loan losses as a percentage of non-performing loans	37.37%	46.22%	49.32%	48.51%	38.19%	116.51%
Non-performing loans as a percentage of total loans	5.41%	2.43%	3.75%	2.21%	2.71%	0.87%
Non-performing assets as a percentage of total assets	4.94%	3.10%	3.93%	2.72%	2.55%	0.74%
Net charge-offs as a percentage of average loans, net	2.74%	2.51%	1.33%	0.96%	0.14%	0.13%
Liquidity And Capital Ratios						
Average equity to average assets	7.11%	8.57%	7.94%	8.44%	8.01%	8.17%
Leverage ratio	8.35%	10.88%	9.36%	11.14%	9.44%	8.75%
Tier 1 capital to risk-weighted assets	10.43%	12.35%	11.89%	12.26%	10.07%	9.46%
Total capital to risk-weighted assets	11.90%	13.39%	13.14%	13.26%	11.01%	10.30%

OUR BUSINESS

Republic First Bancorp, Inc.

Republic First Bancorp, Inc. was organized and incorporated under the laws of the Commonwealth of Pennsylvania in 1987 to be the holding company for Republic First Bank, which we may refer to as Republic or the Bank, and, in 1999, it established a second subsidiary bank, First Bank of Delaware, or FBD. From 1999 through 2004, we were a two-bank holding company. Our banking subsidiaries offered a variety of credit and depository banking services. Such services were offered to individuals and businesses primarily in the Greater Philadelphia and Delaware area through their offices and branches in Philadelphia and Montgomery Counties in Pennsylvania and New Castle County, Delaware, but also through the national consumer loan products offered by the First Bank of Delaware.

We spun off FBD on January 31, 2005 through a distribution of all of the shares of FBD's common stock to our shareholders. Since that date, we have been a one bank holding company. At the time FBD was spun off, the Bank and BSC Services Corporation, a wholly-owned subsidiary of FBD, entered into a number of agreements pursuant to which BSC Services Corporation provided services to the Bank, including a financial accounting and reporting service agreement, compliance services agreement, operation and data processing services agreement; and human resources and payroll services agreement. We have substantially reduced all of the shared service arrangements with FBD and expect to terminate all shared services by the end of 2010.

Beginning in 2005, our primary objective had been to be an alternative to the large banks for commercial banking services in the Greater Philadelphia and Southern New Jersey area. Since the second quarter of 2008, we began to redirect our strategic efforts toward retail banking and creating a major regional retail and commercial bank with a distinct brand, by focusing on innovation, customer satisfaction, brand building and shareholder value creation. To achieve this transformation, the Bank hired a number of former senior Commerce Bank employees: Andrew Logue, President and Chief Operating Officer; Rhonda Costello, Chief Retail Officer; Jay Neilon, Chief Credit Officer and Frank Cavallaro, Chief Financial Officer. With this management team in place and additional new employees for support, we believe the Bank has the foundation and commitment to become a leading financial institution in the Philadelphia metropolitan area.

Additionally, the Bank hired two experienced and former Commerce Bank regional market managers, Stephen McWilliams and Robert Worley. Messrs. McWilliams and Worley focus on our commercial lending initiatives and lead the Bank's lending efforts in the greater Philadelphia and Southern New Jersey area. They in turn have hired a number of experienced lenders with the same focus and the Bank is beginning to see the results of these teams in many new opportunities for loan and deposit relationships.

In November 2008, we entered into a merger agreement with Metro Bancorp, Inc., then known as Pennsylvania Commerce Bancorp, Inc., which we had hoped would accelerate our strategic plans. Because of uncertainties over regulatory approvals, however, we did not complete that merger. With the termination of the Metro agreement in March 2010, we have re-focused our strategic plans to develop our franchise as an independent institution. We believe we have a strong management team and adequate our capital resources and liquidity to deal with current economic conditions and plan for the future. In connection with the change in strategy to internally grow our distinct brand, we are in the process of rebranding our stores to begin operating under the name, "Republic Bank," the name under which the Bank was incorporated and under which it did business from 1988 until 1996.

During 2009, we renovated, refurbished and remodeled most of our existing stores, including significant capital improvements, as part of our ongoing efforts to adopt a more retail customer focus and attract additional retail business. We have plans to expand customer services hours, relocate certain existing stores, enhance our banking systems to better serve the retail customer and expand our retail product offerings.

On the lending side, we historically focused our efforts on business banking and commercial lending transactions, in particular commercial real estate loans. We have begun to restructure our loan portfolio and deemphasize commercial real estate loans. To further these efforts, during 2009, we undertook detailed reviews of our more significant credit relationships with an emphasis on reducing exposure, enhanced our allowance for loan loss methodology, and committed to originate fewer commercial real estate loans in order to reduce credit concentrations in that loan category.

As of March 31, 2010, we had total assets of approximately \$968 million, total shareholders' equity of approximately \$65 million, total deposits of approximately \$846 million and net loans receivable of approximately \$666 million.

We provide banking services through the Bank, and do not presently engage in any activities other than banking activities.

Republic First Bank

The 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. The deposits held by the Bank are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The Bank presently conducts its principal banking activities through its six Philadelphia offices and six suburban offices in Plymouth Meeting, Bala Cynwyd and Abington, located in Montgomery County, Ardmore and Media, located in Delaware County, and Voorhees, located in Southern New Jersey.

Service Area/Market Overview

Our primary service area consists of Greater Philadelphia and Southern New Jersey, and we currently have eleven store locations in Philadelphia, Montgomery and Delaware Counties in Pennsylvania, and one in Camden County, New Jersey, to serve this area. 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.

We will carefully evaluate growth opportunities throughout 2010, as we believe the national and local economies will begin to recover. We have applied for regulatory approval to open one new store in 2010 in Haddonfield, New Jersey, taken substantive steps toward opening two additional stores in Cherry Hill and Turnersville, New Jersey, and anticipate pursuing additional de novo branching opportunities in our primary service area in 2010 and beyond. The opening of these stores is subject to regulatory approval.

Competition

We face substantial competition from other financial institutions in our service area. Competitors include Wells Fargo, Citizens, PNC, Sovereign, TD Bank and Bank of America, as well as local commercial banks. In addition, we compete directly with savings banks, savings and loan associations, finance companies, credit unions, factors, 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.

Many of the banks with which we compete have greater financial resources than we do, and offer a wider range of deposit and lending instruments with higher legal lending limits to one borrower. Our legal lending limit to one borrower was approximately \$13.8 million at March 31, 2010. Loans above these amounts 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 its market area. Several new banks with business strategies similar to ours have opened since we commenced operations. 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 the greater Philadelphia area, and we anticipate a continued increase in competition in its market area.

We continue to believe that an attractive niche exists serving small to medium sized business customers not adequately served by our larger competitors, and we will continue to seek opportunities to build commercial relationships to complement our retail strategy. We believe small to medium-sized businesses will respond very positively 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, including 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 are a member of the STAR[™] and PLUS[™] automated teller (ATM) networks in order to provide customers with access to ATMs worldwide. We currently have twelve proprietary ATMs at branch locations and one additional proprietary ATM at a location in Southern New Jersey.

Our lending activities generally are focused on small and medium sized businesses within the professional community. Commercial real estate loans are the most significant category of our loan portfolio, representing approximately 72% of total loans outstanding at March 31, 2010. Repayment of these loans is, in part, dependent on general economic conditions affecting the community and the various businesses within the community. Although management continues to follow established underwriting policies, and monitors loans through Republic's loan review officer, credit risk is still inherent in the portfolio. Although the majority of Republic's loan portfolio is collateralized with real estate or other collateral, 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 loans with terms typically ranging from one to five years. Variable rate loans are generally tied to the national prime rate of interest.

As a commercial lender, we are subject to credit risk and recent economic and financial conditions have adversely effected our borrowers and our business. To manage this challenging environment, we have adopted a more conservative loan classification system, enhanced our allowance for loan loss methodology, and undertaken a comprehensive review of our loan portfolio. Although we follow established underwriting policies, and monitor loans through our loan review program, we remain subject to credit risk. Although the majority of our loan portfolio is collateralized with real estate or other collateral, a portion of the loan portfolio is unsecured.

We have been impacted by the challenging conditions in the economy and financial markets. Since mid-2008, like many other commercial lenders, we have experienced significant charge-offs, provisions for loan losses, and increased non-performing loans and other real estate owned, and continue to manage a significant amount of non-performing assets. We do, however, believe that the markets that we serve and the local economy are showing signs of stabilizing and during 2009 we instituted a vigilant credit administration process in which we reviewed over 40% of our loan portfolio and will continue to review our loan portfolio on a quarterly basis in order to closely monitor our borrowers.

Branch Expansion Plans and Growth Strategy

We will carefully evaluate growth opportunities throughout 2010 as the national and local economies begin to recover. Renovation and refurbishment of all existing branch locations took place during 2009 and relocations of some branch locations are planned for 2010 as we begin to direct more focus toward the retail customer experience. Subject to regulatory approval, one new branch is currently planned for 2010 in Southern New Jersey and we have taken substantive steps in consideration of two additional new branches in the same area for 2011. Additional locations may also be pursued.

Securities Portfolio

Republic also maintains an investment securities portfolio. Investment securities are purchased by Republic in compliance with Republic's investment policies, which are approved annually by Republic's board of directors. The investment policies address such issues as permissible investment categories, credit quality, maturities and concentrations. At March 31, 2010 and 2009, approximately 80% and 69%, 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, trust preferred securities, corporate bonds, and Federal Home Loan Bank (FHLB) securities.

Supervision and Regulation

We are subject to numerous requirements and restrictions under the laws of the United States and the Commonwealth of Pennsylvania.

General

Republic, as a Pennsylvania state chartered bank which is not a member of the Federal Reserve System (Federal Reserve), is subject to supervision and regulation by the FDIC and the Pennsylvania Department of Banking. The Company is a bank holding company 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.

Republic is also subject to 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 in attempting to control the money supply and credit availability in order to influence market interest rates and the national economy. In response to the current global financial crisis, the United States and other governments have taken unprecedented steps in efforts to stabilize the financial system, and may continue to do so.

Source of Strength

According to Federal Reserve policy, bank holding companies are expected to act as a source of financial strength to each subsidiary bank and to commit resources to support each such subsidiary. This support may be required at times when a bank holding company may not be able to provide such support.

Transactions with Affiliates

Republic is subject to restrictions under federal law that limit certain types of transactions between Republic and its non-bank affiliates. In general, Republic is 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 nonbank affiliates are required to be on arms length terms.

Gramm-Leach-Bliley Act

On November 12, 1999, the federal Gramm-Leach-Bliley Act (GLB Act) was enacted. The GLB Act did three fundamental things:

26

- repealed the key provisions of the Glass Steagall Act so as to permit commercial banks to affiliate with investment banks (securities firms);
- amended the BHC Act to permit qualifying bank holding companies to engage in any type 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 banks themselves.

The result was that banking companies would generally be able to offer a wider range of financial products and services and would be more readily able to combine with other types of financial companies, such as securities and insurance companies.

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 stockholders to more easily and efficiently monitor the performance of companies and directors.

Regulatory Restrictions on Dividends

Dividend payments by Republic to the 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 \$45.4 million of dividends payable plus an additional amount equal to its net profit for

2010, up to the date of any such dividend declaration. However, dividends would be further limited in order to maintain capital ratios as discussed in “Regulatory Capital Requirements”.

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 2010 or in the future.

Deposit Insurance and Assessments

The deposits of Republic are insured up to applicable limits per insured depositor by the FDIC. As an FDIC-insured bank, Republic is also subject to FDIC insurance assessments. Beginning in 2007, the FDIC adopted a revised risk-based assessment system to determine the assessment rates to be paid by insured institutions. Under a final rulemaking announced by the FDIC on March 4, 2009, and depending on the institution's risk category, assessment rates will range from 12 to 45 basis points. Institutions in the lowest risk category will be charged a rate between 12 and 16 basis points; these rates increase to 22, 32 and 45 basis points, respectively, for the remaining three risk categories. These rates may be offset in the future by any dividends declared by the FDIC if the deposit reserve ratio increases above a certain amount. Given the state of current economic environment, it is unlikely that the FDIC will lower these assessment rates, and such rates may in fact increase. Because FDIC deposit insurance premiums are "risk-based," higher premiums would be charged to banks that have lower capital ratios or higher risk profiles. Consequently, a decrease in Republic's capital ratios, or a negative evaluation by the FDIC, as Republic's primary federal banking regulator, may also increase Republic's net funding costs and reduce its net income.

Additionally, the FDIC recently adopted an interim rule that imposes a 20 basis point emergency special assessment on all insured depository institutions on June 30, 2009. The special assessment was collected September 30, 2009, at the same time that the risk-based assessments for the second quarter of 2009 were collected. The interim rule also permits the FDIC to impose an emergency special assessment of up to 10 basis points on all insured depository institutions whenever, after June 30, 2009, the FDIC estimates that the fund reserve ratio will fall to a level that the FDIC believes would adversely affect public confidence or to a level close to zero or negative at the end of a calendar quarter. Comments received during the public comment period may affect the content of the final rule on this issue.

All FDIC-insured depository institutions must also pay an annual assessment to provide funds for the repayment of debt obligations (commonly referred to as FICO bonds) issued by the Financing Corporation, a federal corporation, in connection with the disposition of failed thrift institutions by the Resolution Trust Corporation. The FDIC has implemented a risk-related premium schedule for all insured depository institutions that results in the assessment of premiums based on capital and supervisory measures.

The FDIC imposed a special assessment equal to five basis points of assets less Tier 1 capital as of June 30, 2009, payable on September 30, 2009, and reserved the right to impose additional special assessments. In November, 2009, instead of imposing additional special assessments, the FDIC amended the assessment regulations to require all insured depository institutions to prepay their estimated risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012 on December 30, 2009. For purposes of estimating the future assessments, each institution's base assessment rate in effect on September 30, 2009 was used, assuming a 5% annual growth rate in the assessment base and a 3 basis point increase in the assessment rate in 2011 and 2012. The prepaid assessment will be applied against actual quarterly assessments until exhausted. Any funds remaining after June 30, 2013 will be returned to the institution. If the prepayment would impair an institution's liquidity or otherwise create significant hardship, it may apply for an exemption. Requiring this prepaid assessment does not preclude the FDIC from changing assessment rates or from further revising the risk-based assessment system.

Temporary Liquidity Guarantee Program

The Federal Deposit Insurance Corporation increased deposit insurance on most accounts from \$100,000 to \$250,000, until the end of 2013. In addition, pursuant to Section 13(c)(4)(G) of the Federal Deposit Insurance Act, the Federal Deposit Insurance Corporation has implemented two temporary programs to provide deposit insurance for the full amount of most non-interest bearing transaction deposit and certain other accounts through the end of 2009, which deadline was recently extended until December 31, 2010, and to guarantee certain unsecured debt of financial institutions and their holding companies through June 2012. For non-interest bearing transaction deposit accounts, including accounts swept from a non-interest bearing transaction account into a non-interest bearing savings deposit account, a 10 basis point annual rate surcharge will be applied to deposit amounts in excess of \$250,000. Financial institutions could opt out of these two programs by December 5, 2008. Republic did opt out of the debt guarantee program, but did not opt out of the transaction account guarantee program. We do not expect that the assessment surcharge will have a material impact on our results of operations.

Capital Adequacy

The Federal Reserve has adopted risk-based capital guidelines for bank holding companies, such as us. The required minimum ratio of total capital to risk-weighted assets (including off-balance sheet activities, such as standby letters of credit) is 8.0%. At least half of the total capital is required to be Tier 1 capital, consisting principally of common shareholders' equity, non-cumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, less goodwill. The remainder, Tier 2 capital, may consist of a limited amount of subordinated debt and intermediate-term preferred stock, certain hybrid capital instruments and other debt securities, perpetual preferred stock, and a limited amount of the general loan loss allowance.

In addition to the risk-based capital guidelines, the Federal Reserve has established minimum leverage ratio (Tier 1 capital to average total assets) guidelines for bank holding companies. These guidelines provide for a minimum leverage ratio of 3% for those bank holding companies that have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. All other bank holding companies are required to maintain a leverage ratio of at least 1% to 2% above the 3% stated minimum. Each of us and Republic are in compliance with these guidelines. The FDIC subjects Republic to similar capital requirements.

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.

Interstate Banking

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, or the Interstate Banking Law, amended various federal banking laws to provide for nationwide interstate banking, interstate bank mergers and interstate branching. The interstate banking provisions allow for the acquisition by a bank holding company of a bank located in another state.

The Interstate Banking Law permits mergers and branch purchase and assumption transactions; however, states may "opt-out" of the merger and purchase and assumption provisions by enacting a law that specifically prohibits such interstate transactions. States could also enact legislation to allow for de novo interstate branching by out of state banks. In July 1997, Pennsylvania adopted "opt-in" legislation that allows interstate merger and purchase and assumption transactions.

New Jersey law permits an out-of-state bank with at least one branch in New Jersey, such as the Bank, to establish and maintain additional branch offices in New Jersey as long as the bank is adequately capitalized and will be adequately capitalized and managed after the branch is established, and is compliant with the CRA. Pennsylvania and New Jersey, along with New York, have entered into an interstate compact relating to branches of out-of-state banks, which gives regulatory oversight of any branch to the bank's home state regulatory authority. Any proposed New Jersey branches of the Bank would be subject to the requirements of the Pennsylvania Department of Banking and the FDIC.

Legislative and Regulatory Changes

We are heavily regulated by regulatory agencies at the federal and state levels. As a result of the recent financial crisis and economic downturn, 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 and the financial services industry in general.

On May 22, 2009, the Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act) was signed into law. The majority of the CARD Act provisions became effective in February 2010. The CARD Act legislation contains comprehensive credit card reform related to credit card industry practices including significantly restricting banks' ability to change interest rates and assess fees to reflect individual consumer risk, changing the way payments are applied and requiring changes to consumer credit card disclosures. Under the CARD Act, banks must give customers 45 days notice prior to a change in terms on their account and the grace period for credit card payments changes from 14 days to 21 days. The CARD Act also requires banks to review any accounts that were repriced since January 1, 2009 for a possible rate reduction. Additionally, the Federal Reserve Board has revised its regulations on consumer lending in Regulation Z and the U.S. Department of Housing and Urban Development (HUD) has revised its regulations implementing the Real Estate Settlement Procedures Act. We do not expect that they will have a substantial impact on Republic's operations.

In 2009, several major regulatory and legislative initiatives were adopted that may have future impacts on our businesses and financial results. For instance, in November 2009, the Federal Reserve Board issued amendments to Regulation E, which implements the Electronic Fund Transfer Act. The new rules have a compliance date of July 1, 2010. These amendments change, among other things, the way we and other banks may charge overdraft fees by limiting our ability to charge an overdraft fee for automated teller machine and one-time debit card transactions that overdraw a consumer's account, unless the consumer affirmatively consents to payment of overdrafts for those transactions. Additionally, in May 2010, the FDIC issued a proposed rule to revise the method through which insured depository institutions are assessed premiums for federal deposit insurance.

Future Legislative and Regulatory Developments

It is conceivable that compliance with current or future legislative and regulatory initiatives could require us to change certain of our 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. Proposed legislation pending in Congress has the potential to effect a complex and sweeping overhaul of the financial services industry, impacting a variety of areas of financial services activities, including but not limited to consumer protection, securities, corporate governance, and deposit insurance assessment methods. Additionally, we have recently witnessed the introduction of a number of regulatory proposals that could substantially impact us and others in the financial services industry. The extent of changes imposed by, and frequency of adoption of, any regulatory initiatives could make it more difficult for us to comply in a timely manner, which could further limit our operations, increase compliance costs or divert management attention or other resources. The long-term impact of legislative and regulatory initiatives on our business practices and revenues will depend upon the successful implementation of our strategies, consumer behavior, and competitors' responses to such initiatives, all of which are difficult to predict. Additionally, we may pursue, through appropriate avenues, legislative and regulatory advocacy to provide our input on possible legislative and regulatory developments.

Profitability, Monetary Policy and Economic Conditions

In addition to being affected by general economic conditions, the earnings and growth of Republic will be affected by the policies of regulatory authorities, including the Pennsylvania Department of Banking, the FRB and the FDIC. 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 FRB 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 March 31, 2010, we had a total of 151 full-time equivalent employees.

30

Description of Property

Republic leases approximately 39,959 square feet on two floors of Two Liberty Place, 50 South 16th Street, Philadelphia, Pennsylvania. The space serves as our and Republic's headquarters and executive offices. Bank office operations and the commercial bank lending department of Republic are also located at the site. The initial lease term will expire on December 31, 2020 and the lease contains two five year renewal options. Rent expense commenced in June 2007 at an annual rate of approximately \$562,684, subject to certain abatements during the first twenty-eight months of the lease. The 2010 annual rent for such location is \$902,728, payable in monthly installments.

Republic leases approximately 1,829 square feet on the ground floor at 1601 Market Street in Center City, Philadelphia. This space contains a banking area and vault and represents Republic's main office. The initial ten year term of the lease expired March 2003 and contains five-year and ten-year renewal options that have been exercised and also contains an additional five-year option. The 2010 annual rent for such location is \$115,859 payable in monthly installments.

Republic leases approximately 1,743 square feet of space on the ground floor at 1601 Walnut Street, Center City Philadelphia, PA. This space contains a banking area and vault. The initial ten-year term of the lease expired August 2006. The lease has been extended to August 2014 and contains an additional five-year renewal option. The 2010 annual rent for such location is \$138,119, payable in monthly installments.

Republic leases approximately 798 square feet of space on the ground floor and 903 square feet on the 2nd floor at 233 East Lancaster Avenue, Ardmore, PA. The space contains a banking area and business development office. The initial ten-year term of the lease expired in August 2005, and contains a five year renewal option that has been exercised and also contains an additional five-year option. The 2010 annual rental at such location is \$64,370, payable in monthly installments.

Republic entered into a lease agreement that commenced May 1, 2007 for approximately 1,574 square feet for its Bala Cynwyd office at Two Bala Plaza, Bala Cynwyd, Pennsylvania. The space contains a banking area. The initial six-year, four month lease term contains two five-year renewal options and the initial lease term will expire on August 31, 2013. The 2010 annual rent at such location is \$50,893, payable in monthly installments.

Republic entered into a lease agreement that commenced April 27, 2007 for approximately 2,820 square feet for its Plymouth Meeting office at 421 Germantown Pike, Plymouth Meeting, Pennsylvania. The space contains a banking area and a business development office. The initial seven-year, five month lease term contains one six-year renewal option and the initial lease terms will expire on September 30, 2014. The 2010 annual rent at such location is \$96,115, payable in monthly installments.

Republic owns an approximately 2,800 square foot facility for its Abington, Montgomery County office at 1408 Old York Road, Abington, Pennsylvania. This space contains a banking area and a business development office.

Republic leases approximately 1,822 square feet on the ground floor at 1818 Market St. Philadelphia, Pennsylvania. The space contains a banking area and a vault. The initial ten-year term of the lease expired in August 2008, has been extended for fifteen years to August 2023, and contains an additional five-year renewal option. The 2010 annual rent for such location is \$181,438, payable in monthly installments.

Republic leases approximately 4,700 square feet of space on the first, second, and third floor, at 436 East Baltimore Avenue, Media, Pennsylvania. The space contains a banking area and business development office. The initial five-year term of the lease expired in October 2009 contains a five-year renewal option that has been exercised and also contains three additional five-year renewal options. The 2010 annual rent is \$82,804 payable in monthly installments.

Republic leases an approximately 6,000 square feet facility for its Northeast Philadelphia office at Mayfair and Cottman Avenues, Philadelphia, Pennsylvania. The space contains a banking area and a business development office. The initial fifteen-year term of the lease expires June 2021 with two five-year renewal options. The 2010 annual rent is \$96,000 payable in monthly installments.

Republic leases an approximately 1,850 square feet facility for its Voorhees office at 342 Burnt Mill Road, Voorhees, New Jersey. The space contains a banking area. The initial fifteen-year term of the lease expires May 2021 with two five-year renewal options. The 2010 annual rent is \$45,000 payable in monthly installments.

Republic entered into a lease agreement that commenced September 1, 2007 for approximately 2,467 square feet at 833 Chestnut Street, Philadelphia, Pennsylvania. The space contains a banking area and a business development office. The initial fifteen-year term of the lease expires August 2022 with three five-year renewal options. The 2010 annual rent is \$74,421, payable in monthly installments.

Republic entered into a lease agreement that commenced December 26, 2007 for approximately 2,710 square feet for its Torresdale office, at 8764 Frankford Avenue, Philadelphia, Pennsylvania. The space contains a banking area and business development office. The initial fifteen-year term of the lease expires December 2022 with two five-year renewal options. The 2010 annual rent is \$130,000, payable in monthly installments.

Republic purchased a parcel of land consisting of approximately 2.1 acres, on July 23, 2008, at 335 Route 70 East, Cherry Hill, New Jersey. A 4,000 square foot branch facility is in development and, subject to regulatory approvals and other factors, we are planning to open a store at this location in 2011.

Republic entered into a lease agreement on October 29, 2008 for a building, approximately 5,000 square feet located at 30 Kings Highway East, Haddonfield, New Jersey. Subject to regulatory approvals and other factors, this location will be utilized for a Haddonfield store, and we are planning for an opening in 2010. The initial twenty-year term of the lease expires January 2029 with two five-year renewal options. The 2010 annual rent is to be \$140,000 payable in monthly installments.

Republic entered into purchase agreements for three parcels of land on October 12, 2008 totaling approximately 1.2 acres located at the Black Horse Pike and Ganttown Road, Turnersville, New Jersey. We are developing a 4,000 square foot branch facility at this location and, subject to regulatory approvals and other factors, we are planning to open a store at this location in 2011.

Legal Proceedings

From time to time, we are party, either as a defendant or plaintiff, to lawsuits in the normal course of our business. While any litigation involves an element of uncertainty, management is of the opinion that the liability, if any, resulting from pending legal proceedings will not have a material effect on our consolidated financial condition or results of operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of our consolidated financial condition, changes in financial condition and results of operations, liquidity and capital resources presented in the consolidated financial statements included in this prospectus, beginning at page F-1. This discussion should be read in conjunction with the included consolidated financial statements and the notes thereto.

Critical Accounting Policies, Judgments and Estimates

In reviewing and understanding our financial information for you are encouraged to read and understand the significant accounting policies used in preparing our consolidated financial statements. These policies are described in Note 3 to our audited consolidated financial statements. Our 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 our 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, other-than-temporary impairment of securities 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 bases 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.

Allowance for Loan Losses—Management's periodic evaluation of the adequacy of the allowance is based on our past loan loss experience, the volume and composition of lending conducted by us, 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 both impaired loans and all classified loans which are not impaired, and a general allowance on the remainder of the portfolio. Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available for the entire portfolio.

We establish 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.

We also establish a specific valuation allowance on classified loans which are not impaired. We segregate these loans by category and assign allowances 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.

We establish a general allowance on non-classified 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.

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 our 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 reevaluated 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 addition, the Pennsylvania Department of Banking and the FDIC, as an integral part of their examination processes, periodically review our allowance for loan losses. The Pennsylvania Department of Banking 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. 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. 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 our 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.

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, our estimates and judgments to calculate our 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 our past operating results and our forecast 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 us to make judgments about our future taxable income and are consistent with the plans and estimates we use to manage our business. Any reduction in estimated future taxable income may require us to record a valuation allowance against our 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 our future earnings.

Results of Operations for the Three Months Ended March 31, 2010 and 2009

Overview

We reported a net loss of \$3.9 million, or \$0.37 per diluted share, for the three months ended March 31, 2010, compared to a \$3.8 million net loss, or \$0.35 per diluted share, for the comparable prior year period. There was a \$693,000, or 6.2%, decrease in total interest income, driven by an \$86.7 million decrease in average loans outstanding while interest expense decreased \$1.2 million, due to a decrease in the rate on average interest-bearing deposits outstanding of 81 basis points and a \$39.1 million decrease in borrowings outstanding. Net interest income for the three months ended March 31, 2010 increased \$551,000 compared to March 31, 2009. The provision for loan losses in the first quarter of 2010 increased to \$5.5 million, compared to \$4.8 million in the first quarter of 2009. In both periods, the provision for loan losses reflected additional specific reserves on certain loans. The first quarter 2010 was also impacted by a significant increase required by the general reserve due to changing factors in that calculation. Non-interest income decreased \$177,000 to \$475,000 in first quarter 2010 compared to \$652,000 in first quarter 2009. Non-interest expenses decreased \$80,000 to \$8.4 million compared to \$8.5 million in the first quarter of 2009. Return on average assets and average equity from continuing operations were (1.61)% and (22.68)% respectively, in the first quarter of 2010 compared to (1.66)% and (19.41)% respectively for the same period in 2009.

Analysis of Net Interest Income

Historically, our earnings have depended primarily upon Republic's net interest income, which is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is affected by changes in the mix of the volume and rates of interest-earning assets and interest-bearing liabilities. The following table provides an analysis of net interest income, setting forth for the periods (i) average assets, liabilities, and shareholders' equity, (ii) interest income earned on interest-earning assets and interest expense on interest-bearing liabilities, (iii) annualized average yields earned on interest-earning assets and average rates on interest-bearing liabilities, and (iv) Republic's annualized 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 first quarter 2010 and 2009.

Edgar Filing: REPUBLIC FIRST BANCORP INC - Form S-1/A

	For the Three Months Ended March 31, 2010			For the Three Months Ended March 31, 2009		
	Average Balance	Interest Income/ Expense	Yield/ Rate (1)	Average Balance	Interest Income/ Expense	Yield/ Rate (1)
(Dollars in thousands)						
Interest-earning assets:						
Federal funds sold and other interest earning assets	\$ 22,840	\$ 20	0.36%	\$ 5,381	\$ 3	0.23%
Investment securities and restricted stock	190,738	1,716	3.60%	90,966	1,190	5.23%
Loans receivable	683,846	8,759	5.19%	770,562	9,990	5.26%
Total interest-earning assets	897,424	10,495	4.74%	866,909	11,183	5.23%
Other assets	73,516			49,574		
Total assets	\$ 970,940			\$ 916,483		
Interest-bearing liabilities:						
Demand - non-interest bearing	\$ 125,400			\$ 77,527		
Demand - interest-bearing	49,506	\$ 82	0.67%	42,087	\$ 65	0.63%
Money market & savings	307,862	1,050	1.38%	226,663	1,101	1.97%
Time deposits	360,796	1,405	1.58%	394,742	2,501	2.57%
Total deposits	843,564	2,537	1.22%	741,019	3,667	2.01%
Total interest-bearing deposits	718,164	2,537	1.43%	663,492	3,667	2.24%
Other borrowings	48,586	489	4.08%	87,726	603	2.79%
Total interest-bearing liabilities	\$ 766,750	\$ 3,026	1.60%	\$ 751,218	\$ 4,270	2.31%
Total deposits and other borrowings	892,150	3,026	1.38%	828,745	4,270	2.09%
Non interest-bearing other liabilities	9,716			9,184		
Shareholders' equity	69,074			78,554		
Total liabilities and shareholders' equity	\$ 970,940			\$ 916,483		
Net interest income						
(2)		\$ 7,469			\$ 6,913	
Net interest spread			3.14%			2.92%
Net interest margin						
(2)			3.38%			3.23%

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

(2) Net interest income and net interest margin are presented on a tax equivalent basis. Net interest income has been increased over the financial statement amount by \$60 and \$55 in first quarter 2010 and 2009, 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.

(Dollars in thousands)	Three Months Ended March 31, 2010 Versus March 31, 2009		
	Due to change in:		
	Volume	Rate	Total
Interest earned on:			
Federal funds sold and other interest-earning assets	\$ 16	\$ 1	\$ 17
Securities	885	(359)	526
Loans	(1,111)	(120)	(1,231)
Total interest-earning assets	(210)	(478)	(688)
Interest expense of:			
Deposits			
Interest-bearing demand deposits	(12)	(5)	(17)
Money market and savings	(277)	328	51
Time deposits	132	964	1,096
Total deposit interest expense	(157)	1,287	1,130
Other borrowings	394	(280)	114
Total interest expense	237	1,007	1,244
Net interest income	\$ 27	\$ 529	\$ 556

Our tax equivalent net interest margin increased 15 basis points to 3.38% for the three months ended March 31, 2010, compared to 3.23% for the prior year comparable period.

While yields on interest-earning assets decreased 49 basis points to 4.74% in first quarter 2010 from 5.23% in first quarter 2009, the rate on total deposits and other borrowings decreased 71 basis points to 1.38% from 2.09% between those respective periods. The decrease in yields on assets and rates on deposits and borrowings was primarily due to repricing of time deposits and money market and savings deposits over the last twelve months.

Our tax equivalent net interest income increased \$556,000, or 8.0%, to \$7.5 million for the three months ended March 31, 2010, from \$6.9 million for the prior year comparable period. As shown in the Rate Volume table above, the increase in net interest income was due primarily to a decrease in rates on time deposits and money market and savings deposits.

Our total tax equivalent interest income decreased \$688,000, or 6.2%, to \$10.5 million for the three months ended March 31, 2010, from \$11.2 million for the prior year comparable period. Interest and fees on loans decreased \$1.2 million, or 12.3%, to \$8.8 million for the three months ended March 31, 2010, from \$10.0 million for the prior year comparable period. The decrease was due primarily to the \$86.7 million decrease in average loans outstanding as a result of the Company's effort to reduce its concentrations of commercial real estate loans. Tax equivalent interest and dividends on investment securities increased \$526,000 to \$1.7 million for the three months ended March 31, 2010,

from \$1.2 million for the prior year comparable period. This increase was driven by a \$99.8 million increase in average investment securities due to strong growth in core deposits over the last twelve months. Interest on federal funds sold and other interest-earning assets increased \$17,000 to \$20,000, from \$3,000 for the prior year comparable period, reflecting higher average balances.

Our total interest expense decreased \$1.2 million, or 29.1%, to \$3.0 million for the three months ended March 31, 2010, from \$4.3 million for the prior year comparable period. Interest-bearing liabilities averaged \$766.8 million for the three months ended March 31, 2010, compared to \$751.2 million for the prior year comparable period, or an increase of \$15.6 million. The increase was primarily due to growth in average demand deposits and average money market and savings deposits as we shifted our focus toward the gathering of low-cost core deposits. Average deposit balances increased \$102.5 million while there was a \$39.1 million decrease in average other borrowings. The average rate paid on interest-bearing liabilities decreased 71 basis points to 1.60% for the three months ended March 31, 2010. Interest expense on time deposit balances decreased \$1.1 million to \$1.4 million in first quarter 2010, from \$2.5 million in the comparable prior year period, primarily reflecting lower rates. Money market and savings interest expense decreased to \$1.0 million in first quarter 2010, from \$1.1 million in the comparable prior year period. The majority of the decrease in interest expense on deposits reflected the impact of the repricing of time deposits and money market and savings deposits over the last twelve months. Accordingly, rates on total interest-bearing deposits decreased 79 basis points in first quarter 2010 compared to first quarter 2009.

Interest expense on other borrowings decreased \$114,000 to \$489,000 in first quarter 2010, primarily as a result of the lower average balances related outside borrowings. Average other borrowings, primarily overnight FHLB borrowings, decreased \$39.1 million, or 44.6%, between those respective periods. Interest expense on other borrowings includes the impact of \$22.5 million of average trust preferred securities and \$25.0 million of FHLB term borrowings.

Provision for Loan Losses

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 for loan losses amounted to \$5.5 million in first quarter 2010 compared to \$4.8 million in first quarter 2009.

The provisions recorded in 2010 and 2009 were primarily driven by the negative impact of the economic crisis. At March 31, 2010, loan specific reserves amounted to \$6.3 million representing 46% of the overall allowance for loan losses.

Non-Interest Income

Total non-interest income decreased \$177,000 to \$475,000 for first quarter 2010 compared to \$652,000 for the three months ended March 31, 2009, mainly due to decreases in loan advisory and servicing fees.

Non-Interest Expenses

Total non-interest expenses decreased \$80,000, or 0.9%, to \$8.4 million for the three months ended March 31, 2010, from \$8.5 million for the prior year comparable period.

Salaries and employee benefits decreased \$628,000 or 17.7%, to \$2.9 million for the three months ended March 31, 2010, from \$3.6 million for the prior year comparable period as bonus and severance costs recorded in first quarter 2009 were not incurred in the first quarter 2010.

Occupancy expense increased \$834,000, or 121.4%, to \$1.5 million in first quarter 2010, compared to \$687,000 in first quarter 2009. The increase was primarily driven by future branch development costs which were charged off as a result of the termination of the merger agreement with Metro Bancorp, Inc.

Depreciation expense increased \$147,000, or 43.9%, to \$482,000 for the three months ended March 31, 2010, compared to \$335,000 for the prior year comparable period.

Legal fees increased \$176,000, or 49.0%, to \$535,000 in first quarter 2010, compared to \$359,000 in first quarter 2009 due to expenses which were recorded as a result of the termination of the merger agreement with Metro Bancorp, Inc.

Other real estate expenses decreased \$882,000 for the three months ended March 31, 2010 to \$488,000 compared to \$1.4 million for the first quarter 2009 due to a decrease in writedowns and maintenance expenses on properties held in our other real estate portfolio.

Regulatory assessments and costs expenses increased \$340,000, or 198.8%, to \$511,000 in first quarter 2010, compared to \$171,000 in first quarter 2009, as a result of higher FDIC assessment rates.

Provision for Income Taxes

The provision for income taxes decreased \$144,000, to a \$2.2 million benefit for the three months ended March 31, 2010, from a \$2.0 million benefit for the prior year comparable period, as a result of the decrease in pre-tax income. The effective tax rates for the three-month periods ended March 31, 2010 and 2009 were 36% and 35% respectively.

Other Real Estate Owned

The balance of other real estate owned decreased to \$11.0 million at March 31, 2010 from \$13.6 million at December 31, 2009 primarily due to the sale of two properties totaling \$2.7 million.

Results of Operations for the Years Ended December 31, 2009 and 2008

Overview

We had a net loss of \$11.4 million or \$1.07 per diluted share for the year ended December 31, 2009, compared to a net loss of \$472,000, or \$0.04 per diluted share for the comparable prior year. There was a \$10.5 million, or 19.5%, decrease in total interest income, reflecting a 90 basis point decrease in the yield on average loans outstanding while interest expense decreased \$9.0 million, reflecting a 130 basis point decrease in the rate on average interest-bearing deposits outstanding. Accordingly, net interest income decreased \$1.5 million between the periods. The provision for loan losses in 2009 increased to \$14.2 million, compared to \$7.5 million provision expense in 2008, reflecting additional reserves on certain loans as the Company continues to deal with the impact of the current economic environment. Non-interest income decreased \$1.2 million to \$79,000 in 2009 compared to \$1.2 million in 2008, primarily due to impairment charges on investment securities. Non-interest expenses increased \$7.1 million to \$31.0 million compared to \$23.9 million in 2008, primarily due to activities surrounding the anticipated closing of the Metro merger as salaries and employee benefit expense increased by \$3.1 million and consulting fees increased by \$1.3 million. In addition, regulatory assessments and costs increased by \$1.8 million due to actions taken by the FDIC coupled with strong growth in core deposits. Return on average assets and average equity was (1.22)% and (15.32)% respectively, in 2009 compared to (0.05)% and (0.60)% respectively in 2008.

Analysis of Net Interest Income

Our earnings depend 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 in 2009, 2008 and 2007, as Republic had tax-exempt income in those years.

Edgar Filing: REPUBLIC FIRST BANCORP INC - Form S-1/A

	For the Year Ended December 31, 2009			For the Year Ended December 31, 2008			For the Year Ended December 31, 2007		
	Average Balance	Interest Income/ Expense	Yield/ Rate (1)	Average Balance	Interest Income/ Expense	Yield/ Rate (1)	Average Balance	Interest Income/ Expense	Yield/ Rate (1)
(Dollars in thousands)									
Interest-earning assets:									
Federal funds sold and other									
interest-earning assets	\$ 48,580	\$ 118	0.24%	\$ 9,821	\$ 218	2.22%	\$ 13,923	\$ 686	4.93%
Investment securities and									
restricted stock	96,787	4,633	4.79%	89,365	5,135	5.75%	95,715	5,752	6.01%
Loans receivable	736,647	38,943	5.29%	789,446	48,846	6.19%	820,380	62,184	7.58%
Total interest-earning assets	882,014	43,694	4.95%	888,632	54,199	6.10%	930,018	68,622	7.38%
Other assets	58,106			51,349			39,889		
Total assets	\$ 940,120			\$ 939,981			\$ 969,907		
Interest-bearing liabilities:									
Demand - non-interest									
Bearing	\$ 86,621	\$ -	N/A	\$ 76,671	\$ -	N/A	\$ 78,641	\$ -	N/A
Demand - interest-bearing	47,174	310	0.66%	33,976	327	0.96%	38,850	428	1.10%
Money market & savings	281,621	5,258	1.87%	222,590	6,150	2.76%	266,706	11,936	4.48%
Time deposits	383,535	8,374	2.18%	397,740	14,844	3.73%	361,120	18,822	5.21%
Total deposits	798,951	13,942	1.75%	730,977	21,321	2.92%	745,317	31,186	4.18%
Total interest-bearing deposits	712,330	13,942	1.96%	654,306	21,321	3.26%	666,676	31,186	4.68%
Other borrowings	57,454	2,113	3.68%	121,236	3,760	3.10%	133,122	7,121	5.35%
Total interest-bearing liabilities	769,784	16,055	2.09%	775,542	25,081	3.23%	799,798	38,307	4.79%
Total deposits and other borrowings	856,405	16,055	1.87%	852,213	25,081	2.94%	878,439	38,307	4.36%
Non-interest-bearing other liabilities									
	9,031			8,459			13,734		
Shareholders' equity	74,684			79,309			77,734		
Total liabilities and shareholders' equity	\$ 940,120			\$ 939,981			\$ 969,907		
Net interest income (2)		\$ 27,639			\$ 29,118			\$ 30,315	
Net interest spread			2.86%			2.87%			2.59%
Net interest margin (2)			3.13%			3.28%			3.26%

-
- (1) Yields on investments are calculated based on amortized cost.
- (2) Net interest income and net interest margin are presented on a tax equivalent basis. Net interest income has been increased over the financial statement amount by \$224, \$223 and \$276 in 2009, 2008 and 2007, 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.

(Dollars in thousands)	Year Ended December 31, 2009 vs. 2008 Change due to			Year Ended December 31, 2008 vs. 2007 Change due to		
	Average Volume	Average Rate	Total	Average Volume	Average Rate	Total
Interest earned on:						
Federal funds sold and other i n t e r e s t - e a r n i n g assets	\$ 94	\$ (194)	\$ (100)	\$ (91)	\$ (377)	\$ (468)
Securities	355	(857)	(502)	(366)	(251)	(617)
Loans	(2,791)	(7,112)	(9,903)	(1,919)	(11,419)	(13,338)
Total interest earning assets	\$ (2,342)	\$ (8,163)	\$ (10,505)	\$ (2,376)	\$ (12,047)	\$ (14,423)
Interest expense of Deposits						
Interest-bearing demand deposits	\$ (87)	\$ 104	\$ 17	\$ 47	\$ 54	\$ 101
Money market and savings Time deposits	(1,102)	1,994	892	1,222	4,564	5,786
Total deposit interest expense	(879)	6,160	6,470	(1,370)	5,348	3,978
Other borrowings	(879)	8,258	7,379	(101)	9,966	9,865
Total interest expense	2,346	(699)	1,647	370	2,991	3,361
N e t i n t e r e s t income	1,467	7,559	9,026	269	12,957	13,226
	\$ (875)	\$ (604)	\$ (1,479)	\$ (2,107)	\$ 910	\$ (1,197)

Net Interest Income

Our tax equivalent net interest margin decreased 15 basis points to 3.13% for the year ended December 31, 2009, versus 3.28% in the prior year comparable period.

While yields on interest-bearing assets decreased 115 basis points to 4.95% in 2009 from 6.10% in the prior year comparable period, the rate on total deposits and other borrowings decreased 107 basis points to 1.87% from 2.94% between those respective periods. The decrease in yields on assets and rates on deposits and borrowings was due to repricing assets and liabilities primarily as a result of actions taken by the Federal Reserve.

Our tax equivalent net interest income decreased \$1.5 million, or 5.2%, to \$27.6 million for 2009, from \$29.1 million for the prior year comparable period. The decrease in net interest income was due primarily to a decrease in average loans. Average interest earning assets amounted to \$882.0 million for 2009 and \$888.6 million for the comparable prior year period but average loans decreased \$52.8 million, replaced primarily with lower yielding investment securities, federal funds sold and other interest earning assets.

Our total tax equivalent interest income decreased \$10.5 million, or 19.4%, to \$43.7 million for 2009, from \$54.2 million for the prior year comparable period. Interest and fees on loans decreased \$9.9 million, or 20.3%, to \$38.9

million for 2009, from \$48.8 million for the prior year comparable period. The decrease was due primarily to the 90 basis point decline in the yield on loans resulting from the repricing of the variable rate loan portfolio as a result of actions taken by the Federal Reserve. Tax equivalent interest and dividends on investment securities decreased \$502,000 to \$4.6 million for 2009, from \$5.1 million for the prior year comparable period, primarily reflecting lower yields. Interest on federal funds sold and other interest-earning assets decreased \$100,000, or 45.9%, reflecting decreases in short-term market interest rates.

Our total interest expense decreased \$9.0 million, or 36.0%, to \$16.1 million for 2009, from \$25.1 million for the prior year comparable period. Interest-bearing liabilities averaged \$769.8 million for 2009, versus \$775.5 million for the prior year comparable period, or a decrease of \$5.8 million. The decrease primarily reflected reduced external funding requirements due to a decrease in outstanding loans. Average deposit balances increased \$68.0 million while there was a \$63.8 million decrease in average other borrowings. The average rate paid on interest-bearing liabilities decreased 114 basis points to 2.09% for 2009. Interest expense on time deposit balances decreased \$6.5 million to \$8.4 million in 2009 from \$14.8 million in the comparable prior year period, primarily reflecting lower rates. Money market and savings interest expense decreased \$892,000 to \$5.3 million in 2009, from \$6.2 million in the comparable prior year period. The decrease in interest expense on deposits reflected the impact of the lower short-term interest rate environment. Accordingly, rates on total interest-bearing deposits decreased 130 basis points in 2009 compared to the comparable prior year period.

Interest expense on other borrowings decreased \$1.6 million to \$2.1 million in 2009, as a result of lower average balances due to reduced external funding requirements. Average other borrowings, primarily overnight FHLB borrowings, decreased \$63.8 million, or 52.6%, between the respective periods. Interest expense on other borrowings includes the impact of \$22.5 million of average trust preferred securities and \$25.0 million of FHLB term borrowings.

Provision for Loan Losses

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 for loan losses amounted to \$14.2 million during 2009 compared to \$7.5 million for the comparable prior year period.

The \$14.2 million provision recorded in 2009 was primarily driven by a comprehensive internal, external and regulatory review of our loan portfolio. As a result of these reviews, management determined that an increased provision would be required. The significant increase from the comparable prior year period was primarily due to the continued decline of collateral values within our commercial real estate portfolio and a change in our methodology for calculating potential loan losses inherent in our loan portfolio, coupled with a more conservative loan classification system. At December 31, 2009, as a result of the above items loan specific reserves were increased to \$7.1 million representing 55% of the overall allowance for loan losses.

Non-Interest Income

Total non-interest income decreased \$1.1 million to \$79,000 for 2009 compared to \$1.2 million for the comparable prior year period, primarily due to an increase of \$0.7 million in impairment charges on bank pooled trust preferred securities held in our investment portfolio. During the second quarter of 2009, we recorded a cumulative effect adjustment in the amount of \$0.8 million to reclassify the non-credit component of previously recognized impairment on one these securities in accordance with accounting guidance issued in April 2009 under ASC 320-10. The reclassification resulted in an adjustment between retained earnings and accumulated other comprehensive income on the balance sheet. This impairment had previously been recognized as a reduction to earnings during the fourth quarter of 2008. Due to further deterioration of the underlying collateral of the pooled trust preferred securities, we again recognized an other than temporary impairment charge of \$0.8 million related to the same security during the fourth quarter of 2009 without the ability to re-state prior year results according to the accounting guidance.

Non-Interest Expenses

Total non-interest expenses increased \$7.1 million, or 29.6% to \$31.0 million for 2009 compared to \$23.9 million for 2008. Salaries and employee benefits increased \$3.1 million, or 31.9%, to \$12.7 million for 2009 as a result annual merit increases and higher medical insurance premiums. In addition, we continued to add staff in anticipation of the closing of the proposed Metro merger. Occupancy expense increased to \$3.1 million in 2009, compared to \$2.4 million for 2008 due to higher maintenance costs and incremental rent increases at several store locations, as well as the corporate headquarters. Professional fees increased to \$2.3 million in 2009, compared to \$1.0 million in 2008 mainly due to an increase in consulting fees mainly due to activities surrounding the anticipated closing of the proposed Metro merger. Regulatory assessments and costs increased to \$2.3 million for 2009 from \$0.6 million in 2008, primarily resulting from increases in statutory FDIC insurance rates along with a one-time special assessment paid during the third quarter of 2009.

Provision for Income Taxes

The benefit for income taxes generated by our net operating losses increased to \$6.2 million for 2009, compared to \$777,000 for the prior year comparable period. The effective tax rates in those periods were 35% and a 62% benefit respectively.

Results of Operations for the Years Ended December 31, 2008 and 2007

Overview

Our net income decreased \$7.4 million, or 106.9%, to a loss of \$472,000 or \$ (.04) per diluted share for the year ended December 31, 2008, compared to \$6.9 million, or \$0.65 per diluted share for the prior year. There was a \$14.4 million, or 21.0%, decrease in total interest income, reflecting a 3.8% decrease in average loans outstanding while interest expense decreased \$13.2 million reflecting a 1.9% decrease in average interest bearing deposits. Accordingly, net interest income decreased \$1.1 million. The provision for loan losses in 2009 increased \$5.9 million to \$7.5 million, compared to \$1.6 million in 2007, reflecting the impact of an economic downturn in real estate markets. Non-interest income decreased \$1.8 million to \$1.2 million in 2008 compared to \$3.1 million in 2007. The decrease reflected a \$4.1 million impairment charge on a bank pooled trust preferred security. Non-interest expenses increased \$2.5 million to \$23.9 million compared to \$21.4 million in 2007. The increase reflected \$1.6 million of write downs and losses on the sale of other real estate which also reflected the impact of the economic downturn. Return on average assets and average equity of (0.05)% and (0.60)% respectively in 2008 compared to 0.71% and 8.86% respectively in 2007.

Net Interest Income

Our tax equivalent net interest margin increased 2 basis points to 3.28% for 2008, versus 3.26% in 2007. While yields on interest-bearing assets decreased 128 basis points to 6.10% in 2008 from 7.38% in 2007, the rate on total deposits and other borrowings decreased 142 basis points to 2.94% from 4.36% between those respective periods. The 142 basis point decrease in the cost of deposits and other borrowings exceeded the 128 basis point decrease in yield on interest-bearing assets by 14 basis points. However, the net interest margin increased by a lesser 2 basis points reflecting a reduction in the amount loan balances which are the highest yielding interest earning assets. The decrease in yields on assets and rates on deposits and borrowings was due primarily to the repricing of assets and liabilities as a result of actions taken by the Federal Reserve since September 2007.

Our tax equivalent net interest income decreased \$1.2 million, or 3.9%, to \$29.1 million for 2008, from \$30.3 million for the prior year comparable period. As shown in the table "Rate/Volume Analysis of Changes in Net Interest Income" below, the decrease in net interest income was due primarily to a decrease in average interest-earning assets as well as a larger concentration of higher rate time deposits that offset a decrease in average money market and savings deposits. Average interest earning assets amounted to \$888.6 million for 2008 and \$930.0 million for the comparable prior year period. The \$41.4 million decrease resulted from reductions in loans, securities and federal funds sold.

Our total tax equivalent interest income decreased \$14.4 million, or 21.0%, to \$54.2 million for 2008, from \$68.6 million for the prior year comparable period. Interest and fees on loans decreased \$13.3 million, or 21.4%, to \$48.8 million for 2008, from \$62.2 million for the prior year comparable period. The decrease was due primarily to the 139 basis point decline in the yield on loans resulting primarily from the repricing of the variable rate loan portfolio as a result of actions taken by the Federal Reserve as well as a \$30.9 million, or 3.8%, decrease in average loans outstanding to \$789.4 million from \$820.4 million. Interest and dividends on investment securities decreased \$617,000, or 10.7%, to \$5.1 million 2008, from \$5.8 million for the prior year comparable period. This decrease reflected a decrease in average securities outstanding of \$6.4 million, or 6.6%, to \$89.4 million from \$95.7 million for the prior year comparable period. Interest on federal funds sold and other interest-earning assets decreased \$468,000,

or 68.2%, reflecting decreases in short-term interest rates and a \$4.1 million decrease in average balances to \$9.8 million for 2008 from \$13.9 million for the comparable prior year period.

Our total interest expense decreased \$13.2 million, or 34.5%, to \$25.1 million for 2008, from \$38.3 million for the prior year comparable period. Interest-bearing liabilities averaged \$775.5 million for 2008, versus \$799.8 million for the prior year comparable period, or a decrease of \$24.3 million. The decrease primarily reflected reduced funding requirements due to a decrease in average interest earning assets. Average deposit balances decreased \$14.3 million while there was an \$11.9 million decrease in average other borrowings. The average rate paid on interest-bearing liabilities decreased 156 basis points to 3.23% for 2008. Interest expense on time deposit balances decreased \$4.0 million to \$14.8 million in 2008 from \$18.8 million in the comparable prior year period, reflecting lower rates, the impact of which more than offset the impact of higher average balances. Money market and savings interest expense decreased \$5.8 million to \$6.2 million in 2008, from \$11.9 million in the comparable prior year period. The decrease in interest expense on deposits reflected the impact of the lower short-term interest rate environment as well as lower average balances. Accordingly, rates on total interest-bearing deposits decreased 142 basis points in 2008 compared to the comparable prior year period.

Interest expense on other borrowings decreased \$3.4 million to \$3.8 million in 2008, reflecting the lower short-term interest rate environment and lower average balances. Average other borrowings, primarily overnight FHLB borrowings, decreased \$11.9 million, or 8.9%, between the respective periods. Rates on overnight borrowings reflected the lower short-term interest rate environment as the rate of other borrowings decreased to 3.10% in 2008, from 5.35% in the comparable prior year period. In addition to the overnight FHLB borrowings, other borrowings also include average balances of \$17.8 million of subordinated debentures supporting trust preferred securities and \$14.3 million of FHLB term borrowings.

Provision for Loan Losses

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 for loan losses amounted to \$7.5 million for 2008 compared to \$1.6 million for 2007. The majority of the increase in the provision for 2008 resulted from specific provisions for individual loans on properties secured by real estate. The 2007 provision reflected \$283,000 for net recoveries on tax refund loans. The remaining provisions in both periods also reflected amounts required to increase the allowance for loan growth in accordance with our methodology. Net charge-offs increased from \$1.1 million in 2007 to \$7.6 million in 2008 and non-accrual loans decreased from \$22.3 million at December 31, 2007 to \$17.3 million at December 31, 2008.

Non-Interest Income

Total non-interest income decreased \$1.8 million to \$1.2 million for 2008 compared to \$3.1 million for 2007, primarily due to a \$1.4 million impairment charge on a bank pooled trust preferred security. In addition, a decrease of \$815,000 in loan advisory and servicing fees, which reflected the economic downturn in real estate markets was partially offset by a onetime \$309,000 gain from a Mastercard transaction and a \$100,000 legal settlement.

Non-Interest Expenses

Total non-interest expenses increased \$2.5 million, or 11.8%, to \$23.9 million for 2008 from \$21.4 million in 2007. Salaries and employee benefits decreased \$983,000, or 9.3%, to \$9.6 million for 2008 from \$10.6 million in 2007. That decrease reflected a reduction in bonuses and incentives, deferred compensation and other benefits of \$702,000.

Occupancy expense increased \$27,000, or 1.1%, to \$2.4 million for 2008 compared to \$2.4 million for 2007.

Depreciation expense decreased \$17,000, of 1.3%, to \$1.3 million for 2008 compared to \$1.3 million for 2007.

Legal fees increased \$704,000, or 93.9%, to \$1.5 million for 2008 compared to \$750,000 for 2007 resulting primarily from increased legal fees for loan collections and fees related to the merger that had been proposed with Metro.

Other real estate, including property write downs and losses on sales and property maintenance expenses, increased \$2.1 million to \$2.1 million in 2008 compared to \$23,000 in 2007 as a result of the increase in properties taken into other real estate owned, which reflected the economic downturn in real estate markets and declining credit quality.

Advertising expenses decreased \$39,000, or 7.8%, to \$464,000 for 2008 compared to \$503,000 for 2007. The decrease was primarily due to lower levels of print advertising.

Data processing increased \$152,000, or 21.9%, to \$845,000 for 2008 compared to \$693,000 for 2007, primarily due to system enhancements.

Insurance expense increased \$163,000, or 41.0%, to \$561,000 for 2008 compared to \$398,000 for 2007, resulting primarily from higher rates.

Professional fees increased \$431,000, or 79.5%, to \$973,000 for 2008 compared to \$542,000 for 2007, reflecting increases in consulting fees.

Regulatory assessments and costs increased \$380,000 to \$556,000 in 2008, compared to \$176,000 in 2007, resulting primarily from increases in statutory FDIC insurance rates.

Taxes, other decreased \$92,000, or 11.2%, to \$728,000 for 2008 compared to \$820,000 for 2007. The decrease reflected a reduction in Philadelphia Business Privilege Tax which more than offset an increase in Pennsylvania shares tax, which is assessed at an amount of 1.25% on a 6 year moving average of regulatory capital. The full amount of the increase resulted from increased capital.

Other expenses decreased \$308,000, or 10.0%, to \$2.8 million for 2008 compared to \$3.1 million for 2007. The decrease reflected a \$150,000 decrease in courier fees resulting from the imaging of checks which replaced physical couriers, and lesser decreases in a number of other categories including printing, supplies, director fees, fraud losses, auto expense, postage, freight and others.

Provision for Income Taxes

The provision for income taxes decreased \$4.1 million to a benefit of \$777,000 for 2008 from \$3.3 million for 2007. That decrease was primarily the result of the decrease in pre-tax income. The effective tax rate for 2007 was 32% and because of the small benefit in 2008, the tax rate was not meaningful in that year.

Financial Condition

March 31, 2010 Compared to December 31, 2009

Total assets decreased by \$41.1 million to \$967.5 million at March 31, 2010, compared to \$1.0 billion at December 31, 2009. This decrease was driven by a \$16.7 million decrease in cash and cash equivalents, \$15.3 million decrease in net loans receivable, and a \$9.0 million decrease in investment securities.

Loans. 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 size 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, automobile loans, home improvement loans, home equity loans and lines of credit, overdraft lines of credit and others. Gross loans decreased \$14.4 million, to \$679.4 million at March 31, 2010, compared to \$693.8 million at December 31, 2009. This decrease is reflective of our continuing effort to reduce exposure to commercial real estate and strengthen the loan portfolio. Commercial loans typically range

between \$250,000 and \$5,000,000 but customers may borrow significantly larger amounts up to Republic's legal lending limit, which was approximately \$13.8 million at March 31, 2010. Loans made to one individual customer even if secured by different collateral, are aggregated for purposes of the lending limit.

Investment Securities. Investment securities available-for-sale are investments which may be sold in response to changing market and interest rate conditions, and for liquidity and other purposes. Our investment securities available-for-sale consist primarily of U.S. Government Agency issued mortgage backed securities which include collateralized mortgage obligations (CMOs), municipal securities and debt securities, which include corporate bonds and trust preferred securities. Available-for-sale securities totaled \$176.4 million at March 31, 2010, compared to \$185.4 million at year-end 2009. At March 31, 2010, the portfolio had a net unrealized loss of \$3.0 million, compared to a net unrealized loss of \$1.1 million at December 31, 2009.

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 debt securities and stocks. At March 31, 2010 and December 31, 2009, securities held to maturity totaled \$146,000 and \$155,000, respectively.

Restricted Stock. Republic is a member of the Federal Home Loan Bank of Pittsburgh (“FHLB”) and, as such, had been required to maintain stock in FHLB in proportion to its outstanding FHLB advances, prior to the FHLB suspension of dividend payments in 2008. Since that suspension of dividend payments, the restricted stock has been frozen, therefore, at both March 31, 2010 and December 31, 2009, the investment in FHLB stock totaled \$6.7 million.

Republic is also required to maintain stock in Atlantic Central Bankers Bank (“ACBB”) as a condition of a rarely used contingency line of credit. At both March 31, 2010 and December 31, 2009, ACBB stock totaled \$143,000.

Cash and Cash Equivalents. Cash and due from banks, interest bearing deposits and federal funds sold comprise this category which consists of our most liquid assets. The aggregate amount in these three categories decreased by \$16.7 million, to \$38.9 million at March 31, 2010, from \$55.6 million at December 31, 2009. This decrease was caused by the reduction in deposit balances during the first quarter 2010.

Fixed Assets. The balance in premises and equipment, net of accumulated depreciation, was \$24.1 million at March 31, 2010, compared to \$24.5 million at December 31, 2009.

Other Real Estate Owned. Other real estate owned decreased to \$11.0 million at March 31, 2010, compared to \$13.6 million at December 31, 2009, as a result of the sale of two properties during the first quarter 2010.

Bank Owned Life Insurance. The balance of bank owned life insurance amounted to \$12.4 million at March 31, 2010 and December 31, 2009. The income earned on these policies is reflected in non-interest income.

Other Assets. Other assets increased by \$2.8 million to \$28.0 million at March 31, 2010, from \$25.2 million at December 31, 2009 due to an increase in current and deferred tax asset balances caused by a change in the unrealized loss on our investment securities, along with the recorded net loss during the first quarter.

Deposits. Deposits, which include non-interest and interest-bearing demand deposits, money market, savings and time deposits, including some brokered 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 decreased by \$36.7 million to \$846.2 million at March 31, 2010 from \$882.9 million at December 31, 2009 mainly due to the maturity of several high cost time deposit balances which were not renewed.

Short-Term Borrowings and FHLB Advances. Short-term borrowings and FHLB advances are used to supplement deposits as a source of funds. Republic had a \$25.0 million FHLB advance outstanding at March 31, 2010 and December 31, 2009. The average interest rate on this outstanding advance was 3.41% at March 31, 2010 and

December 31, 2009. This FHLB advance matures June, 2010. At March 31, 2010 and December 31, 2009 Republic had no short-term borrowings (overnight).

Subordinated Debt. Subordinated debt, which is comprised of the subordinated debentures supporting the common and capital, or trust preferred, securities of the Company's unconsolidated capital trusts, amounted to \$22.5 million at March 31, 2010 and December 31, 2009.

Shareholders' Equity. Total shareholders' equity decreased \$5.1 million to \$65.2 million at March 31, 2010, compared to \$70.3 million at December 31, 2009, primarily due to a \$3.9 million net loss recorded in first quarter 2010 and a \$1.3 million other comprehensive loss related to the Company's investment securities portfolio.

December 31, 2009 Compared to December 31, 2008

Total assets increased \$56.7 million to \$1.0 billion at December 31, 2009, compared to \$952.0 million at December 31, 2008. This increase was driven by strong growth in our core deposit base resulting in increased balances in cash and cash equivalents and the investment securities portfolio. This growth was partially offset by a reduction in outstanding loans receivable as we continue to strategically manage our concentration of commercial real estate loans in our loan portfolio.

Loans. The loan portfolio, which represents our largest asset, is our most significant source of interest income. Our lending strategy is to focus 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, automobile loans, home improvement loans, home equity loans and lines of credit, overdraft lines of credit and others. Total gross loans decreased \$89.3 million, or 11.4%, to \$693.8 million at December 31, 2009, versus \$783.1 million at December 31, 2008. Substantially all of the decrease resulted from a reduction in commercial real estate loans as a result of our ongoing effort to reduce exposure to commercial real estate and reposition our portfolio. Republic's commercial loans typically range between \$250,000 and \$5,000,000 but customers may borrow significantly larger amounts up to Republic's legal lending limit of approximately \$13.8 million at December 31, 2009. Individual customers may have several loans that are secured by different collateral which are in total subject to that lending limit. The aggregate amount of those relationships that exceeded \$9.2 million at December 31, 2009, was \$296.5 million. The \$9.2 million threshold approximates 10% of total regulatory capital and reflects an additional internal monitoring guideline.

Investment Securities. Investment securities available-for-sale are investments which may be sold in response to changing market and interest rate conditions and for liquidity and other purposes. Our investment securities available-for-sale consist primarily of U.S. Government Agency bonds, U.S. Government Agency issued mortgage backed securities which include collateralized mortgage obligations (CMOs), municipal securities and debt securities, which include corporate bonds and trust preferred securities. Available-for-sale securities totaled \$185.4 million at December 31, 2009, an increase of \$102.4 million, or 123.3%, from year-end 2008. At December 31, 2009, the portfolio had a net unrealized loss of \$1.1 million, compared to a net unrealized loss of \$2.2 million at December 31, 2008.

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 debt securities and stocks. At December 31, 2009, securities held to maturity totaled \$155,000, which was comparable to the \$198,000 at year-end 2008. At both dates, respective carrying values approximated market values.

Restricted Stock. Republic is required to maintain FHLB stock in proportion to its outstanding debt to FHLB. When the debt is repaid, the purchase price of the stock is refunded. At December 31, 2009 and 2008, FHLB stock totaled \$6.7 million.

Republic is also required to maintain stock in ACBB as a condition of a contingency line of credit. At December 31, 2009 and 2008, ACBB stock totaled \$143,000.

Cash and Cash Equivalents. Cash and due from banks, interest bearing deposits and federal funds sold comprise this category which consists of our most liquid assets. The aggregate amount in these three categories increased by \$21.2 million, to \$55.6 million at December 31, 2009, from \$34.4 million at December 31, 2008, primarily due to the deposit growth recognized during 2009.

Fixed Assets. Bank premises and equipment, net of accumulated depreciation totaled \$24.5 million at December 31, 2009 an increase of \$10.3 million, or 72.4% from \$14.2 million at December 31, 2008, primarily reflecting store renovation and expansion to enhance retail and deposit gathering efforts.

Other Real Estate Owned. The balance of other real estate owned increased to \$13.6 million at December 31, 2009 from \$8.6 million at December 31, 2008 due to additions totaling \$8.1 million partially offset by write-downs on properties of \$1.6 million and proceeds from sales of \$1.5 million.

Bank Owned Life Insurance. At December 31, 2009, the value of the insurance was \$12.4 million, an increase of \$255,000, or 2.1%, from \$12.1 million at December 31, 2008. The increase reflected income earned on the insurance policies.

Other Assets. Other assets increased by \$11.2 million to \$25.2 million at December 31, 2009, from \$14.0 million at December 31, 2008. This change was driven by increase in the tax receivable and deferred tax asset balances, along with an increase in prepaid expenses related to the prepayment of three-years of FDIC insurance premiums.

Deposits. Deposits, which include non-interest and interest-bearing demand deposits, money market, savings and time deposits including some brokered deposits, are Republic's major source of funding. Deposits are generally solicited from the Company's 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 \$143.7 million to \$882.9 million at December 31, 2009, from \$739.2 million at December 31, 2008 due to the emphasis placed on the gathering of low-cost core deposits. Average transaction accounts increased 24.7%, or \$82.2 million from the prior year end to \$415.4 million in 2009. Time deposits decreased \$16.4 million, or 4.2%, to \$377.3 million at December 31, 2009, versus \$393.7 million at the prior year-end as the Company intentionally reduced its dependence upon brokered deposits as a funding source.

Short-Term Borrowings and FHLB Advances. Short-term borrowings and FHLB advances are used to supplement deposit generation. Republic had \$25.0 million of term borrowings at December 31, 2009 and December 31, 2008. The \$25.0 million of term borrowings mature June, 2010. Republic had no short-term borrowings (overnight) at December 31, 2009 versus \$77.3 million at the prior year-end.

Shareholders' Equity. Total shareholders' equity decreased \$9.0 million to \$70.3 million at December 31, 2009, versus \$79.3 million at December 31, 2008. This decrease was primarily the result of the net loss recorded during 2009.

Off-balance Sheet Arrangements

We are a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

Credit risk is defined as the possibility of sustaining a loss due to the failure of the other parties to a financial instrument to perform in accordance with the terms of the contract. The maximum exposure to credit loss under commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. We use the same underwriting standards and policies in making credit commitments as it does for on-balance-sheet instruments.

Financial instruments whose contract amounts represent potential credit risk are commitments to extend credit of approximately \$80.6 million and \$68.6 million and standby letters of credit of approximately \$3.6 million and \$3.7 million at March 31, 2010, and December 31, 2009, respectively. Financial instruments whose contract amounts represent potential credit risk are commitments to extend credit of approximately \$68.6 million and \$83.1 million and standby letters of credit of approximately \$3.7 million and \$5.3 million at December 31, 2009 and 2008, respectively. Commitments often expire without being drawn upon. Substantially all of the \$80.6 million of commitments to extend credit at March 31, 2010 and the \$68.6 million of commitments to extend credit at December 31, 2009, were substantially all variable rate commitments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and many require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable.

Standby letters of credit are conditional commitments issued that guarantee the performance of a customer to a third party. The credit risk and collateral policy involved in issuing letters of credit is essentially the same as that involved in extending loan commitments. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable.

Contractual Obligations and Other Commitments

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows as of December 31, 2009:

(Dollars in thousands)	Total	Less than One Year	One to Three Years	Three to Five Years	After Five Years
Minimum annual rentals or noncancellable operating leases	\$ 48,263	\$ 2,118	\$ 4,412	\$ 4,620	\$ 37,113
Remaining contractual maturities of time deposits	377,254	371,565	4,013	1,676	-
Subordinated debt	22,476	-	-	-	22,476
Employment agreements	1,298	433	865	-	-
Director and officer retirement plan obligations	1,412	244	251	210	707
Loan commitments	68,611	58,706	2,152	7,592	161
Standby letters of credit	3,683	3,575	108	-	-
Total	\$ 522,997	\$ 436,641	\$ 11,801	\$ 14,098	\$ 60,457

As of December 31, 2009, we had entered into non-cancelable lease agreements for our main office and operations center, twelve current Republic retail branch facilities, and a new branch facility expected to open in 2010 (subject to regulatory approvals and other factors), expiring through August 31, 2037, including renewal options. The leases are accounted for as operating leases. The minimum rental payments required under these leases are \$48.3 million through the year 2037, including renewal options. We have entered into an employment agreement with our chief executive officer. The aggregate commitment for future salaries and benefits under this employment agreement at December 31, 2009 is approximately \$1.3 million. We have retirement plan agreements with certain directors and officers. The accrued benefits under the plan agreements at December 31, 2009 were approximately \$1.4 million, with a minimum age of 65 established to qualify for the payments.

Interest Rate Risk Management

We attempt to manage our assets and liabilities in a manner that optimizes net interest income in a range of interest rate environments. Management uses GAP analysis and simulation models (which are discussed below) to monitor

behavior of its interest sensitive assets and liabilities. Adjustments to the mix of assets and liabilities are made periodically in an effort to provide steady growth in net interest income.

Management presently believes that the effect on Republic of any future reduction in interest rates, reflected in lower yielding assets, could be detrimental since Republic may not have the immediate ability to commensurately decrease rates on its interest bearing liabilities, primarily time deposits, other borrowings and certain transaction accounts. An increase in interest rates could have a negative effect on Republic, due to a possible lag in the repricing of core deposits not taken into account in the static GAP analysis.

Interest rate risk management involves managing the extent to which interest-sensitive assets and interest-sensitive liabilities are matched. We attempt to optimize net interest income while managing period-to-period fluctuations therein. We typically define interest-sensitive assets and interest-sensitive liabilities as those that reprice within one year or less. Generally, we limit long-term fixed rate assets and liabilities in our efforts to manage interest rate risk.

The difference between interest-sensitive assets and interest-sensitive liabilities is known as the “interest-sensitivity gap,” or “GAP.” A positive GAP occurs when interest-sensitive assets exceed interest-sensitive liabilities repricing in the same time periods, and a negative GAP occurs when interest-sensitive liabilities exceed interest-sensitive assets repricing in the same time periods. A negative GAP ratio suggests that a financial institution may be better positioned to take advantage of declining interest rates rather than increasing interest rates, and a positive GAP ratio suggests the converse. Static GAP analysis describes interest rate sensitivity at a point in time. However, it alone does not accurately measure the magnitude of changes in net interest income as changes in interest rates do not impact all categories of assets and liabilities equally or simultaneously. Interest rate sensitivity analysis also requires assumptions about repricing certain categories of assets and liabilities. For purposes of interest rate sensitivity analysis, assets and liabilities are stated at either their contractual maturity, estimated likely call date, or earliest repricing opportunity. Mortgage backed securities and amortizing loans are scheduled based on their anticipated cash flow, including prepayments based on historical data and current market trends. Savings, money market and interest-bearing demand accounts do not have a stated maturity or repricing term and can be withdrawn or repriced at any time. Management estimates the repricing characteristics of these accounts based on historical performance and other deposit behavior assumptions. These deposits are not considered to reprice simultaneously and, accordingly, a portion of the deposits are moved into time brackets exceeding one year. However, management may choose not to reprice liabilities proportionally to changes in market interest rates, for competitive or other reasons.

Shortcomings, inherent in a simplified and static GAP analysis, may result in an institution with a negative GAP having interest rate behavior associated with an asset-sensitive balance sheet. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Furthermore, repricing characteristics of certain assets and liabilities may vary substantially within a given time period. In the event of a change in interest rates, prepayments and other cash flows could also deviate significantly from those assumed in calculating GAP in the manner presented in the table on the following page.

The following tables present a summary of our interest rate sensitivity GAP at December 31, 2009. Amounts shown in the table include both estimated maturities and instruments scheduled to reprice, including prime based loans. For purposes of these tables, we have used assumptions based on industry data and historical experience to calculate the expected maturity of loans because, statistically, certain categories of loans are prepaid before their maturity date, even without regard to interest rate fluctuations. Additionally, certain prepayment assumptions were made with regard to investment securities based upon the expected prepayment of the underlying collateral of the mortgage-backed securities. The interest rate on a portion of the trust preferred securities is variable and adjusts quarterly.

Interest Sensitivity Gap
At December 31, 2009

	0-90 Days	91-180 Days	181-365 Days	1-2 Years	2-3 Years	3-4 Years	4-5 Years	More than 5 Years
(Dollars in thousands)								
Interest Sensitive Assets:								
Investment securities and other interest-bearing balances								
	\$58,081	\$4,914	\$18,708	\$21,652	\$20,907	\$19,486	\$19,947	\$73,430
Average interest rate	1.32 %	4.57 %	3.48 %	4.58 %	4.58 %	4.57 %	3.24 %	2.83 %
Loans receivable								
	324,399	33,430	56,581	84,180	72,289	37,653	19,451	65,830
Average interest rate	4.43 %	6.32 %	6.29 %	6.19 %	6.14 %	5.92 %	6.09 %	5.95 %
Total	382,480	38,344	75,289	105,832	93,196	57,139	39,398	139,260
Cumulative totals	\$382,480	\$420,824	\$496,113	\$601,945	\$695,141	\$752,280	\$791,678	\$930,938
Interest Sensitive Liabilities:								
Demand interest bearing								
(1)	\$26,460	\$-	\$-	\$26,459	\$-	\$-	\$-	\$-
Average interest rate	0.65 %	-	-	0.65 %	-	-	-	-
Savings accounts (1)								
	5,786	-	-	5,785	-	-	-	-
Average interest rate	1.14 %	-	-	1.14 %	-	-	-	-
Money market accounts								
(1)	157,766	-	-	157,766	-	-	-	-
Average interest rate	1.53 %	-	-	1.53 %	-	-	-	-
Time deposits								
	114,038	106,714	149,589	2,918	1,095	736	940	1,224
Average interest rate	1.37 %	1.31 %	2.01 %	2.18 %	2.94 %	3.30 %	2.78 %	1.42 %
FHLB and short term advances								
	-	25,000	-	-	-	-	-	-
Average interest rate	-	3.35 %	-	-	-	-	-	-
Subordinated debt								
	22,476	-	-	-	-	-	-	-
Average interest rate	4.93 %	-	-	-	-	-	-	-
Total	326,526	131,714	149,589	192,928	1,095	736	940	1,224
Cumulative totals	\$326,526	\$458,240	\$607,829	\$800,757	\$801,852	\$802,588	\$803,528	\$804,752
Interest Rate Sensitivity GAP								
	\$55,954	\$(93,370)	\$(74,300)	\$(87,096)	\$92,101	\$56,403	\$38,458	\$138,000
Cumulative GAP	\$55,954	\$(37,416)	\$(111,716)	\$(198,812)	\$(106,711)	\$(50,308)	\$(11,850)	\$126,146
Interest sensitive assets/interest sensitive								

liabilities	117	%	92	%	82	%	75	%	87	%	94	%	99	%	116
Cumulative GAP/ total earning assets	6	%	-4	%	-12	%	-21	%	-11	%	-5	%	-1	%	14

(1) Demand, savings and money market accounts are shown to reprice based upon management's estimate of when rates would have to be increased to retain balances in response to competition. Such estimates are necessarily arbitrary and wholly judgmental.

In addition to the GAP analysis, we utilize income simulation modeling in measuring its interest rate risk and managing its interest rate sensitivity. Income simulation considers not only the impact of changing market interest rates on forecasted net interest income, but also other factors such as yield curve relationships, the volume and mix of assets and liabilities and general market conditions.

Net Portfolio Value and Net Interest Income Analysis

Our interest rate sensitivity also is monitored by management through the use of models which generate estimates of the change in its net portfolio value (NPV) and net interest income (NII) over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The following table sets forth our NPV as of December 31, 2009 and reflects the changes to NPV as a result of immediate and sustained changes in interest rates as indicated.

Change in Interest Rates In Basis Points (Rate Shock)	Net Portfolio Value			NPV as % of Portfolio Value of Assets	
	Amount	\$ Change (Dollars in thousands)	% Change	NPV Ratio	Change
+300	\$ 66,540	\$ (20,704)	(23.73)%	6.96%	(153)bp
+200	75,340	(11,904)	(13.64)%	7.73%	(76)
+100	81,607	(5,637)	(6.46)%	8.22%	(27)
Static	87,244	-	0.00%	8.49%	0
-100	88,961	1,717	1.97%	8.79%	30

In addition to modeling changes in NPV, we also analyze potential changes to NII for a twelve-month period under rising and falling interest rate scenarios. The following table shows our NII model as of December 31, 2009.

Change in Interest Rates in Basis Points (1)	Net Interest Income			% Change
	\$	\$	%	
	(Dollars in thousands)			
+300	\$ 36,020	\$ 2,021	5.94%	
+200	35,350	1,351	3.97%	
+100	34,686	688	2.02%	
Static	33,999	-	0.00%	
-100	33,618	(381)	(1.12)%	

(1) The net interest income results represent a rate ramp, achieving the rate change over a 12-month period, not an immediate and sustained rate shock.

As is the case with the GAP table, certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV and NII require the making of certain assumptions which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the models presented assume that the composition of our interest sensitive assets and liabilities existing at the beginning

of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the NPV measurements and net interest income models provide an indication of interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on net interest income and will differ from actual results. It is unlikely that the increases in net interest income shown in the table would occur, if deposit rates continue to lag prime rate reductions, in falling rate scenarios. Conversely, in rising rate scenarios, competitors deposit rates would be an important determinant for any increases in interest income.

Our management believes that the assumptions utilized in evaluating our estimated net interest income are reasonable; however, the interest rate sensitivity of our assets, liabilities and off-balance sheet financial instruments as well as the estimated effect of changes in interest rates on estimated net interest income could vary substantially if different assumptions are used or actual experience differs from the experience on which the assumptions were based. Periodically, we may and does make significant changes to underlying assumptions, which are wholly judgmental. Prepayments on residential mortgage loans and mortgage backed securities have increased over historical levels due to the lower interest rate environment, and may result in reductions in margins.

Capital Resources

We have sponsored three outstanding issues of corporation-obligated mandatorily redeemable capital securities of a subsidiary trust holding solely junior subordinated debentures of the corporation more commonly known as trust preferred securities. The subsidiary trusts are not consolidated with us for financial reporting purposes. The primary purpose of the issuances of these securities was to increase regulatory capital. The trust preferred securities qualify as Tier 1 capital for regulatory purposes in amounts up to 25% of total Tier 1 capital.

On December 27, 2006, Republic Capital Trust II (Trust II) issued \$6.0 million of trust preferred securities to investors and \$0.2 million of common securities to us. Trust II purchased \$6.2 million of our floating rate junior subordinated debentures due 2037, and the Company used the proceeds to call the securities of Republic Capital Trust I (Trust I). The debentures purchased by Trust II have a variable interest rate, adjustable quarterly, at 1.73% over the 3-month Libor. We may redeem the debentures on any interest payment date on or after March 1, 2012.

On June 28, 2007, the Company caused Republic Capital Trust III (Trust III), to issue \$5.0 million of trust preferred securities to one investor and \$0.2 million common securities to us. Trust III purchased \$5.2 million of our floating rate junior subordinated debentures due 2037, which have a variable interest rate, adjustable quarterly, at 1.55% over the 3 month Libor. We have the ability to redeem the debentures on any interest payment date on or after September 1, 2012, without a prepayment penalty.

We caused Republic First Bancorp Capital Trust IV (Trust IV) to issue \$10.8 million of convertible trust preferred securities on June 10, 2008 as part of our strategic capital plan. The securities were purchased by investors, including Vernon W. Hill, II, founder and chairman (retired) of Commerce Bancorp, and, since the investment, a consultant to us, a family trust of Harry D. Madonna, our chairman, president and chief executive officer, and Theodore J. Flocco, Jr., who, since the investment, has been one of our directors. Trust IV also issued \$0.3 million of common securities to us. Trust IV purchased \$11.1 million of our fixed rate junior subordinated convertible debentures due 2038, which pay interest at an annual rate of 8.0% and are redeemable on any interest payment date (a) at any time on or after June 13, 2013 if the closing price of our common stock for 20 trading days in the period of 30 consecutive trading days ending on the trading day prior to the mailing of the notice of redemption exceeds 120% of the then-applicable conversion price, or (ii) on or after June 30, 2018, without a prepayment penalty. The trust preferred securities of Trust IV are currently convertible into approximately 1.7 million shares of our common stock, which is subject to customary adjustments.

Our shareholders' equity as of December 31, 2009, totaled approximately \$70.3 million compared to approximately \$79.3 million as of December 31, 2008. The book value per share of our common stock decreased from \$7.46 as of December 31, 2008, based upon 10,631,348 shares outstanding, as adjusted for treasury stock to \$6.59 as of December 31, 2009, based upon 10,665,635 shares outstanding at December 31, 2009, as adjusted for treasury stock.

Regulatory Capital Requirements

We are required to comply with certain "risk-based" capital adequacy guidelines issued by the FRB and the FDIC. The federal banking agencies impose three minimum capital requirements on our risk-based capital ratios based on total capital, Tier 1 capital, and a leverage capital ratio. The risk-based capital guidelines assign varying risk weights to the individual assets held by a bank or bank holding company. The guidelines also assign weights to the "credit-equivalent" amounts of certain off-balance sheet items, such as letters of credit and interest rate and currency swap contracts. Under these guidelines, banks are expected to meet a minimum target ratio for "qualifying total capital" to weighted risk assets of 8%, at least one-half of which is to be in the form of "Tier 1 capital". Qualifying total capital is divided into two separate categories or "tiers". "Tier 1 capital" includes common stockholders' equity, certain qualifying perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, less goodwill, "Tier 2 capital" components (limited in the aggregate to one-half of total qualifying capital) includes allowances for credit losses

(within limits), certain excess levels of perpetual preferred stock and certain types of “hybrid” capital instruments, subordinated debt and other preferred stock. Applying the federal guidelines, the ratio of qualifying total capital to weighted-risk assets, was 13.14% and 13.26% at December 31, 2009 and 2008, respectively, and as required by the guidelines, at least one-half of the qualifying total capital consisted of Tier 1 capital elements. Tier 1 risk-based capital ratios on December 31, 2009 and 2008 were 11.89% and 12.26%, respectively. At December 31, 2009 and 2008, we exceeded the requirements for risk-based capital adequacy under federal guidelines. At December 31, 2009 and 2008, our leverage ratio was 9.36% and 11.14%, respectively.

The risk-based capital ratios measure the adequacy of a bank's capital against the riskiness of its assets and off-balance sheet activities. Failure to maintain adequate capital is a basis for "prompt corrective action" or other regulatory enforcement action. In assessing a bank's capital adequacy, regulators also consider other factors such as interest rate risk exposure; liquidity, funding and market risks; quality and level of earnings; concentrations of credit, quality of loans and investments; risks of any nontraditional activities; effectiveness of bank policies; and management's overall ability to monitor and control risks.

Under FDIC regulations, a bank is deemed to be "well capitalized" when it has a "leverage ratio" (Tier I capital to total assets) of at least 5%, a Tier I capital to weighted-risk assets ratio of at least 6%, and a total capital to weighted-risk assets ratio of at least 10%. At December 31, 2009 and 2008, Republic was considered "well capitalized" under FDIC regulations.

The following table presents the Company's and Republic's capital regulatory ratios at March 31, 2010, and December 31, 2009 and 2008:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under FDIC Capital Guidelines	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
At March 31, 2010						
Total risk based capital						
Republic	\$ 79,140	10.28%	\$ 61,583	8.00%	\$ 76,978	10.00%
Company	91,908	11.90%	61,780	8.00%	-	-
Tier one risk based capital						
Republic	69,467	9.02%	30,791	4.00%	46,187	6.00%
Company	80,540	10.43%	30,890	4.00%	-	-
Tier one leveraged capital						
Republic	69,467	7.22%	38,654	4.00%	48,091	5.00%
Company	80,540	8.35%	38,751	4.00%	-	-
At December 31, 2009						
Total risk based capital						
Republic	\$ 89,786	11.55%	\$ 62,204	8.00%	\$ 77,755	10.00%
Company	102,527	13.14%	62,399	8.00%	-	-
Tier one risk based capital						
Republic	80,028	10.29%	31,102	4.00%	46,653	6.00%
Company	92,739	11.89%	31,200	4.00%	-	-
Tier one leverage capital						
Republic	80,028	8.10%	39,544	4.00%	49,430	5.00%
Company	92,739	9.36%	39,640	4.00%	-	-
At December 31, 2008						
Total risk based capital						
Republic	\$ 99,329	11.90%	\$ 66,750	8.00%	\$ 83,437	10.00%
Company	110,927	13.26%	66,915	8.00%	-	-
Tier one risk based capital						
Republic	90,921	10.90%	33,375	4.00%	50,062	6.00%
Company	102,518	12.26%	33,458	4.00%	-	-
Tier one leverage capital						

Edgar Filing: REPUBLIC FIRST BANCORP INC - Form S-1/A

Republic	90,921	9.91%	36,712	4.00%	45,890	5.00%
Company	102,518	11.14%	36,801	4.00%	-	-

54

Management believes that we and Republic met, as of December 31, 2009 and 2008, all capital adequacy requirements to which they are subject. In 2009, the FDIC categorized Republic as well capitalized under the regulatory framework for prompt corrective action provisions of the Federal Deposit Insurance Act. There are no calculations or events since that notification, which management believes would have changed Republic's category.

Our and Republic's ability to maintain the required levels of capital is substantially dependent upon the success of their capital and business plans, the impact of future economic events on Republic's loan customers and Republic's ability to manage its interest rate risk, growth and other operating expenses.

Liquidity

A financial institution must maintain and manage liquidity to ensure it has the ability to meet its financial obligations. These obligations include the payment of deposits on demand or at their contractual maturity; the repayment of borrowings as they mature; the payment of lease obligations as they become due; the ability to fund new and existing loans and other funding commitments; and the ability to take advantage of new business opportunities. Liquidity needs can be met by either reducing assets or increasing liabilities. The most liquid assets consist of cash, amounts due from banks and federal funds sold.

Regulatory authorities require the Company to maintain certain liquidity ratios in order for funds to be available to satisfy commitments to borrowers and the demands of depositors. In response to these requirements, we formed an asset/liability committee, which we refer to as ALCO, comprised of certain members of Republic's board of directors and senior management to monitor such ratios. ALCO is responsible for managing the liquidity position and interest sensitivity. That committee's primary objective is to maximize net interest income while configuring Republic's interest-sensitive assets and liabilities to manage interest rate risk and provide adequate liquidity for projected needs. ALCO meets on a quarterly basis or more frequently if deemed necessary.

Our target and actual liquidity levels are determined by comparisons of the estimated repayment and marketability of interest-earning assets with projected future outflows of deposits and other liabilities. Our most liquid assets, comprised of cash and cash equivalents on the balance sheet, totaled \$38.9 million at March 31, 2010, \$55.6 million at December 31, 2009 and \$34.4 million at December 31, 2008. Loan maturities and repayments are another source of asset liquidity. At March 31, 2010, Republic estimated that more than \$50.0 million of loans would mature or repay in the six-month period ending September 30, 2010. Additionally, the majority of Republic's investment securities are available to satisfy liquidity requirements through sales on the open market or by pledging as collateral to access credit facilities. At March 31, 2010, we had outstanding commitments (including unused lines of credit and letters of credit) of \$84.2 million, compared to \$88.4 million at December 31, 2009. Certificates of deposit scheduled to mature in one year totaled \$342.6 million at March 31, 2010 compared to \$371.6 million at December 31, 2009. The Company anticipates that it will have sufficient funds available to meet its current commitments.

Daily funding requirements have historically been satisfied by generating core deposits and certificates of deposit with competitive rates, buying federal funds or utilizing the credit facilities of the FHLB. We established a line of credit with the FHLB of Pittsburgh with a current maximum borrowing capacity of approximately \$264.3 million at March 31, 2010, and a maximum borrowing capacity of \$256.1 million as of December 31, 2009. As of March 31, 2010 and December 31, 2009, we had outstanding borrowings of \$25.0 million with the FHLB. We also established a contingency line of credit of ACBB to assist in managing our liquidity position which was \$10.0 million as of March 31, 2010 and \$15.0 million as of December 31, 2009. We had no amounts outstanding against the ACBB line of credit at March 31, 2010 and December 31, 2009.

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 its exposure to interest rate risk. The securities portfolio consists primarily of U.S. Government Agency bonds, U.S. Government Agency issued mortgage backed securities which include collateralized mortgage obligations (CMOs), municipal securities, corporate bonds and trust preferred securities. ALCO monitors and approves all security purchases. The increase in the total amortized cost of securities in 2009 primarily reflected the purchase of CMOs and U.S. Government Agencies.

At March 31, 2010, the Company had identified certain investment securities that are being held for indefinite periods of time, including securities that will be used as part of the Company's asset/liability management strategy and that may be sold in response to changes in interest rates, prepayments and similar factors. These securities are classified as available-for-sale and are intended to increase the flexibility of the Company's asset/liability management. Available-for-sale securities totaled \$176.4 million and \$185.4 million as of March 31, 2010 and December 31, 2009, respectively. At March 31, 2010 and December 31, 2009, the portfolio had net unrealized losses of \$3.0 million and \$1.1 million, respectively.

A summary of investment securities available-for-sale and investment securities held-to-maturity at December 31, 2009, 2008 and 2007 follows.

(Dollars in thousands)	Investment Securities Available for Sale at		
	December 31,		
	2009	2008	2007
Mortgage backed securities/CMOs (1)	\$ 144,081	\$ 60,859	\$ 55,579
Municipal securities	10,325	10,073	12,338
Corporate bonds	5,989	5,988	4,995
Agency bonds	18,991	-	-
Trust preferred securities	6,789	8,003	10,058
Other securities	281	279	280
Total amortized cost of securities	\$ 186,456	\$ 85,202	\$ 83,250
Total fair value of investment securities	\$ 185,404	\$ 83,032	\$ 83,659

(Dollars in thousands)	Investment Securities Held to Maturity at		
	December 31,		
	2009	2008	2007
U.S. government agencies	\$ 2	\$ 3	\$ 3
Mortgage backed securities/CMOs (1)	-	15	15
Municipal securities	-	30	90
Other securities	153	150	174
Total amortized cost of investment securities	\$ 155	\$ 198	\$ 282
Total fair value of investment securities	\$ 165	\$ 214	\$ 285

(1) Substantially all of these obligations consist of U.S. Government Agency issued securities.

No single issues of securities (excluding government agencies) account for more than 5% of shareholders' equity.

The following table presents the contractual maturity distribution and weighted average yield of the securities portfolio of the Company at December 31, 2009. Mortgage backed securities are presented without consideration of amortization or prepayments.

Investment Securities Available for Sale at December 31, 2009

	Within One Year		One to Five Years		Five to Ten Years		Past 10 Years		Fair value	Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield		Cost	Yield
(Dollars in thousands)											
Mortgage backed securities/CMOs	\$ -	-	\$ 84	6.17%	\$ -	-	\$ 146,682	3.54%	\$ 146,766	\$ 144,081	3.54%
Municipal securities	-	-	-	-	-	-	9,523	4.29%	9,523	10,325	4.29%
Corporate bonds	-	-	-	-	3,090	6.36%	3,000	3.59%	6,090	5,989	4.99%
Agency bonds	-	-	9,969	3.01%	8,875	3.21%	-	-	18,844	18,991	3.10%
Trust Preferred securities	-	-	-	-	-	-	3,926	0.81%	3,926	6,789	0.81%
Other securities	151	4.40%	-	-	104	3.85%	-	-	255	281	3.22%
Total AFS securities	\$ 151	4.40%	\$ 10,053	3.04%	\$ 12,069	4.00%	\$ 163,131	3.52%	\$ 185,404	\$ 186,456	3.52%

Investment Securities Held to Maturity at December 31, 2009

	Within One Year		One to Five Years		Five to Ten Years		Past 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
(Dollars in thousands)										
U.S. government agencies	\$ -	-	\$ -	-	\$ 2	1.58%	\$ -	-	\$ 2	1.58%
Other securities	-	-	113	6.30%	-	-	40	-	153	4.65%
Total HTM securities	\$ -	-	\$ 113	6.30%	\$ 2	1.58%	\$ 40	-	\$ 155	4.64%

Fair Value of Financial Instruments

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 quoted market prices in active markets include all of our U.S. government and agency securities, municipal obligations and corporate bonds. Such instruments are generally classified within level 2 of the fair value hierarchy. As required by ASC 820-10, Republic does not adjust the quoted price for such instruments.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, and may be adjusted to reflect illiquidity and/or non-transferability, with such adjustment generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Subsequent to inception, management only changes level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed

or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows.

The Level 3 investment securities classified as available for sale are comprised of various issues of bank pooled trust preferred securities. Bank pooled trust preferred securities consist of the debt instruments of various banks, diversified by the number of participants in the security as well as geographically. The securities are performing according to terms, however the secondary market for such securities has become inactive, and such securities are therefore classified as Level 3 securities. The fair value analysis does not reflect or represent the actual terms or prices at which any party could purchase the securities. There is currently no secondary market for the securities and there can be no assurance that any secondary market for the securities will develop.

The following table presents a reconciliation of the securities available for sale measured at fair value on a reoccurring basis using significant unobservable inputs (Level 3) for the year ended December 31:

(Dollars in thousands)	2009	2008
Beginning balance, January 1	\$ 4,932	\$ -
Securities transferred to Level 3 measurement	-	9,986
Unrealized gains (losses)	208	(2,999)
Impairment charge on Level 3 securities	(2,073)	(1,438)
Other, including adjustment for non-credit component of previously recognized OTTI and proceeds from calls of investment securities	859	(617)
Ending balance, December 31	\$ 3,926	\$ 4,932

A third party pricing service was used in the development of the fair market valuation. The calculations used to determine fair value are based on the attributes of the trust preferred securities, the financial condition of the issuers of the trust preferred securities, and market based assumptions. The INTEX CDO Deal Model Library was utilized to obtain information regarding the attributes of each security and its specific collateral as of December 31, 2009. Financial information on the issuers was also obtained from Bloomberg, the FDIC and the Office of Thrift Supervision. 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. Due to the current state of the global capital and financial markets, the fair market valuation is subject to greater uncertainty that would otherwise exist.

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

Prepayment Assumptions. Due to the lack of new trust preferred issuances and the relatively poor conditions of the financial institution industry, the rate of voluntary prepayments are estimated at 0%.

Prepayments affect the securities in three ways. First, prepayments lower the absolute amount of excess spread, an important credit enhancement. Second, the prepayments are directed to the senior tranches, the effect of which is to increase the overcollateralization of the mezzanine layer, the layer at which we are located in each of the securities. However, the prepayments can lead to adverse selection in which the strongest institutions have prepaid, leaving the weaker institutions in the pool, thus mitigating the effect of the increased overcollateralization. Third, prepayments can limit the numeric and geographic diversity of the pool, leading to concentration risks.

Deferral and Default Rates. Trust preferred securities include a provision that allows the issuing bank to defer interest payments for up to five years. The estimates for the rates of deferral are based on the financial condition of the trust preferred issuers in the pool. Estimates for the conditional default rates are based on the trust preferred securities themselves as well as the financial condition of the trust preferred issuers in the pool.

Estimates for the near-term rates of deferral and conditional default are based on key financial ratios relating to the financial institutions' capitalization, asset quality, profitability and liquidity. Each bank in each security is evaluated based on ratings from outside services including Standard & Poors, Moodys, Fitch, Bankrate.com and The Street.com. Recent stock price information is also considered, as well as the 52 week high and low, for each bank in each security. Finally, the receipt of TARP funding is considered, and if so, the amount.

Estimates for longer term rates of deferral and defaults are based on historical averages based on a research report issued by Salomon Smith Barney in 2002. Default is defined as any instance when a regulator takes an active role in a bank's operations under a supervisory action. This definition of default is distinct from failure. A bank is considered to have defaulted if it falls below minimum capital requirements or becomes subject to regulatory actions including a written agreement, or a cease and desist order.

The rates of deferral and conditional default are estimated at 0.36%.

Loss Severity. The fact that an issuer defaults on a loan, does not necessarily mean that the investor will lose all of their investment. Thus, it is important to understand not only the default assumption, but also the expected loss given a default, or the loss severity assumption.

Both Standard & Poors and Moody's Analytics have performed and published research that indicate that recoveries on trust preferred securities are low (less than 20%). The loss severity estimates are estimated at a range of 80% to 100%.

Ratings Agencies. The major ratings agencies have recently been cutting the ratings on various trust preferred securities.

Bond Waterfall. The trust preferred securities have several tranches: senior tranches, mezzanine tranches and the residual or income tranches. We invested in the mezzanine tranches for all of our trust preferred securities. The senior and mezzanine tranches were overcollateralized at issuance, meaning that the par value of the underlying collateral was more than the balance issued on the tranches. The terms generally provide that if the performing collateral balances fall below certain triggers, then income is diverted from the residual tranches to pay the senior and mezzanine tranches. However, if significant deferrals occur, income could also be diverted from the mezzanine tranches to pay the senior tranches.

Internal Rate of Return. Internal rates of return are the pre-tax yield rates used to discount the future cash flow stream expected from the collateral cash flow. The marketplace for the trust preferred securities at December 31, 2009 was not active. This is evidenced by a significant widening of the bid/ask spreads the markets in which the trust preferred securities trade and then by a significant decrease in the volume of trades relative to historical levels. The new issue market is also inactive.

ASC 820-10 provides guidance on the discount rates to be used when a market is not active. The discount rate should take into account the time value of money, price for bearing the uncertainty in the cash flows and other case specific factors that would be considered by market participants, including a liquidity adjustment. The discount rate used is a LIBOR 3-month forward-looking curve plus 700 basis points.

Loan Portfolio

Our loan portfolio consists of secured and unsecured commercial loans including commercial real estate loans, loans secured by one-to-four family residential property, commercial construction and residential construction loans as well as residential mortgages, home equity loans and other consumer loans. 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 \$13.8 million at December 31, 2009. Individual customers may have several loans often secured by different collateral. Such relationships in excess of \$9.2 million (an internal monitoring guideline which approximates 10% of capital and reserves) at December 31, 2009, amounted to \$296.5 million. There were no loans in excess of the legal lending limit at December 31, 2009.

The majority of loans outstanding are with borrowers in our marketplace, Philadelphia and 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. 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, 2009, we had no foreign loans and no loan concentrations exceeding 10% of total loans except for credits extended to real estate operators and lessors in the aggregate amount of \$253.7 million, which represented 36.6% of gross loans receivable at December 31, 2009. Various types of real estate are included in this category, including industrial, retail shopping centers, office space, residential multi-family and others. In addition, credits were extended to real estate agents and managers in the amount of \$119.6 million, which represented 17.2% of gross loans receivable at December 31, 2009 and single family construction loans in the amount of \$72.6 million which represented 10.5% of gross loans receivable at December 31, 2009. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities that management believes would cause them to be similarly impacted by economic or other conditions.

Our total loans decreased \$89.3 million, or 11.4%, to \$693.8 million at December 31, 2009, from \$783.1 million at December 31, 2008. This decrease is a direct result of our ongoing effort to reduce its exposure related to the high concentration of loans in the commercial real estate portfolio through normal paydowns, early pay-offs, and participations with other financial institutions. Specific focus was placed upon reduction of the outstanding amounts within the construction and land development category.

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

(Dollars in thousands)	At December 31,				
	2009	2008	2007	2006	2005
Commercial:					
Real estate secured	\$ 487,018	\$ 456,273	\$ 477,678	\$ 466,636	\$ 447,673
Construction and land development	103,790	216,060	228,616	218,671	141,461
Non real estate secured	60,127	60,203	77,347	71,816	49,515
Non real estate unsecured	18,344	21,531	8,451	8,598	10,620
Total commercial	669,279	754,067	792,092	765,721	649,269
Residential real estate (1)	3,341	5,347	5,960	6,517	7,057
Consumer and other	21,640	24,165	24,302	20,952	23,050
Total loans	694,260	783,579	822,354	793,190	679,376
Deferred loan fees	442	497	805	1,130	1,290
Total loans, net of deferred loan fees	\$ 693,818	\$ 783,082	\$ 821,549	\$ 792,060	\$ 678,086

(1) Residential real estate secured is comprised of jumbo residential first mortgage loans for all years presented.

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)	At December 31, 2009				
	Commercial and Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer and Other	Total
Fixed Rate					
1 year or less	\$ 67,237	\$ 6,819	\$ -	\$ 2,704	\$ 76,760
1-5 years	246,805	1,521	-	325	248,651
After 5 years	104,609	-	3,341	3,657	111,607
Total fixed rate	418,651	8,340	3,341	6,686	437,018

Adjustable Rate					
1 year or less	127,226	65,304	-	358	192,888
1-5 years	5,095	30,146	-	99	35,340
After 5 years	14,517	-	-	14,497	29,014
Total adjustable rate	146,838	95,450	-	14,954	257,242
Total	\$ 565,489	\$ 103,790	\$ 3,341	\$ 21,640	\$ 694,260

In the ordinary course of business, loans maturing within one year may be renewed, in whole or in part, as to principal amount, at interest rates prevailing at the date of renewal.

At December 31, 2009, 62.9% of total loans were fixed rate compared to 60.8% at December 31, 2008.

Credit Quality

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

Loans, including impaired loans, are generally classified as non-accrual if they are past due as to maturity or payment of interest or principal for a period of more than 90 days, unless such loans are well-secured and in the process of collection. Loans that are on a current payment status or past due less than 90 days may also be classified as non-accrual if repayment in full of principal and/or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance by the borrower, in accordance with the contractual terms.

While a loan is classified as non-accrual or as an impaired loan and the future collectability of the recorded loan balance is doubtful, 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.

Non-accrual Loans

	At March 31, 2010		At December 31, 2009				2008		2007		2006		2005	
(Dollars in thousands)														
Loans accruing, but past due 90 days or more	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
Restructured loans		-		-		-		-		-		-		-
Non-accrual loans														
Commercial		11,629		9,545		2,758		14,757		6,448		2,725		
Construction		24,515		15,904		13,666		6,747		173		492		
Residential real estate		-		-		-		-		-		-		-
Consumer and other		582		585		909		776		295		206		
Total non-accrual loans		36,726		26,034		17,333		22,280		6,916		3,423		
Total non-performing loans (1)		36,726		26,034		17,333		22,280		6,916		3,423		
		11,044		13,611		8,580		3,681		572		137		

Other real estate
owned

Total non-performing assets (1)	\$ 47,770	\$ 39,645	\$ 25,913	\$ 25,961	\$ 7,488	\$ 3,560
---------------------------------	-----------	-----------	-----------	-----------	----------	----------

Non-performing loans as a
percentage of

total loans, net of unearned
income (1)

	5.41%	3.75%	2.21%	2.71%	0.87%	0.50%
--	-------	-------	-------	-------	-------	-------

Non-performing assets as a
percentage of

total assets

	4.94%	3.93%	2.72%	2.55%	0.74%	0.42%
--	-------	-------	-------	-------	-------	-------

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

Non-accrual loans increased \$10.7 million, to \$36.7 million at March 31, 2010, from \$26.0 million at December 31, 2009, as a result of loans entering non-accrual status, partially offset by charge-offs and transfers to other real estate owned. Non-accrual loans increased \$8.7 million, to \$26.0 million at December 31, 2009, from \$17.3 million at December 31, 2008. During the first quarter of 2010, \$15.9 million of loans to three customers entered non-accrual status. There were no commitments to extend credit to any borrowers with impaired loans as of March 31, 2010, December 31, 2009 and December 31, 2008. Republic had delinquent loans as follows: (i) 30 to 59 days past due, in the aggregate principal amount of \$23.1 million at March 31, 2010 and \$13.4 million at December 31, 2009; and (ii) 60 to 89 days past due, in the aggregate principal amount of \$6.5 million and \$23.7 million, at March 31, 2010 and December 31, 2009, respectively. Problem loans consist of loans that are included in performing loans, 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, 2009, all identified problem loans are included in the preceding table, or are internally classified with a specific reserve allocation in the allowance for loan losses (see “—Allowance For Loan Losses”).

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

	2009	For the Year Ended December 31,			2005
		2008	2007	2006	
Interest income that would have been recorded had the loans been in accordance with their original terms	\$ 1,180,000	\$ 553,000	\$ 1,447,000	\$ 479,000	\$ 165,000
Interest income included in net income	\$ -	\$ -	\$ -	\$ -	\$ -

Allowance for Loan Losses

An analysis of the allowance for loan losses for the three months ended March 31, 2010, and 2009, and the twelve months ended December 31, 2009 is as follows:

(Dollars in thousands)	For the Three Months Ended March 31,		For the Twelve Months Ended December 31,
	2010	2009	2009
Balance at beginning of period	\$ 12,841	\$ 8,409	\$ 8,409
Charge-offs:			
Commercial	4,766	4,775	9,764
Tax refund loans	-	-	-
Consumer	-	6	-
Total charge-offs	4,766	4,775	9,770
Recoveries:			
Commercial	150	-	-
Tax refund loans	-	-	-
Consumer	-	-	2
Total recoveries	150	-	2
Net charge-offs	4,616	4,775	9,768
Provision for loan losses	5,500	4,800	14,200
Balance at end of period	\$ 13,725	\$ 8,434	\$ 12,841
Average loans outstanding (1)	\$ 683,846	\$ 770,562	\$ 736,647
As a percent of average loans (1):			
Net charge-offs	2.74%	1.33%	2.51%
Provision for loan losses	3.26%	1.93%	2.53%
Allowance for loan losses	2.01%	1.74%	1.09%
Allowance for loan losses to:			

Total loans, net of unearned income	2.02%	1.85%	1.12%
Total non-performing loans	37.37%	49.32%	46.22%

(1) Includes non-accruing loans.

A detailed analysis of our allowance for loan losses for the years ended December 31, 2009, 2008, 2007, 2006 and 2005 is as follows:

(Dollars in thousands)	For the Year Ended December 31,				
	2009	2008	2007	2006	2005
Balance at beginning of period	\$ 8,409	\$ 8,508	\$ 8,058	\$ 7,617	\$ 6,684
Charge-offs:					
Commercial	9,764	7,778	1,503	601	29
Tax refund					
loans	-	-	-	1,286	1,113
Consumer	6	19	3	-	21
Total					
charge-offs	9,770	7,797	1,506	1,887	1,163
Recoveries:					
Commercial	-	119	81	37	287
Tax refund					
loans	-	77	283	927	617
Consumer	2	3	2	-	6
Total					
recoveries	2	199	366	964	910
Net					
charge-offs	9,768	7,598	1,140	923	253
Provision for loan					
losses	14,200	7,499	1,590	1,364	1,186
Balance at end of					
period	\$ 12,841	\$ 8,409	\$ 8,508	\$ 8,058	\$ 7,617
Average loans outstanding (1)	\$ 736,647	\$ 789,446	\$ 820,380	\$ 728,754	\$ 602,031
As a percent of average loans (1):					
Net					
charge-offs	1.33%	0.96%	0.14%	0.13%	0.04%
Provision for loan					
losses	1.93%	0.95%	0.19%	0.19%	0.20%
Allowance for loan losses	1.74%	1.07%	1.04%	1.11%	1.27%
Allowance for loan losses to:					
Total loans, net of unearned income	1.85%	1.07%	1.04%	1.02%	1.12%
Total non-performing loans	49.32%	48.51%	38.19%	116.51%	222.52%

(1) Includes non-accruing loans.

The allowance for loan losses as a percentage of non-performing loans was 49.3% at December 31, 2009. Coverage is considered adequate by management as of December 31, 2009 and is consistent with December 31, 2008 and 2007.

During the first quarter of 2010, charge-offs on eight loans, totaling \$4.8 million, were recorded and loans to one customer, totaling \$663,000, were transferred to other real estate owned. In 2009, we charged-off loans to three

customers totaling \$1.9 million prior to the transfer of the remaining loan balance to other real estate owned. There were no charge-offs on tax refund loans in 2009 and 2008 as we did not purchase tax refund loans in those years. Recoveries on tax refund loans decreased to \$0 in 2009, from \$77,000 in 2008 as a result of the discontinuation of the tax refund loan program in 2007. Management makes at least a quarterly determination as to an appropriate provision from earnings to maintain an allowance for loan losses that management determines is adequate to absorb inherent losses in the loan portfolio. Our board of directors periodically reviews the status of all non-accrual and impaired loans and loans classified by Republic's regulators or internal loan review officer, who reviews both the loan portfolio and overall adequacy of the allowance for loan losses. Our 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 have an existing loan review program, which monitors the loan portfolio on an ongoing basis. Loan review is conducted by a loan review officer who reports quarterly, 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, 2009. 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 accordingly based upon historical experience. The entire allowance for loan losses is available to absorb loan losses in any loan category:

At December 31,										
(Dollars in thousands)	2009		2008		2007		2006		2005	
Allocation of the allowance for loan losses (1):	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans
Commercial	\$ 8,762	81.5%	\$ 4,721	68.6%	\$ 5,303	68.5%	\$ 5,852	69.0%	\$ 5,074	74.8%
Construction	3,789	14.9%	3,278	27.6%	2,739	27.8%	1,714	27.6%	1,417	20.8%
Residential real estate	27	0.5%	41	0.7%	43	0.7%	48	0.8%	71	1.0%
Consumer and other	176	3.1%	241	3.1%	174	3.0%	156	2.6%	231	3.4%
Unallocated	87	-	128	-	249	-	288	-	824	-
Total	\$ 12,841	100.0%	\$ 8,409	100%	\$ 8,508	100%	\$ 8,058	100%	\$ 7,617	100%

(1) Gross loans net of unearned income.

The methodology utilized to determine the amount of the allowance for loan losses is as follows: we first apply an estimated loss percentage against all loans which are not specifically reserved. In 2009, we experienced net charge-offs to average loans of approximately 1.33%. Net recoveries and net charge-offs, respectively, to average loans were 0.96, 0.14%, 0.13% and 0.04% in 2008, 2007, 2006 and 2005. In addition to sustained charge-off history, management estimates loss percentages based upon the purpose and/or collateral of various commercial loan categories. While such loss percentages exceed the percentages suggested by historical experience longer than over the past five years, we maintained those percentages in 2009. Due to the economic downturn, we will continue to evaluate these percentages and may adjust these estimates on the basis of charge-off history, economic conditions, industry experience or other relevant factors. 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 classified 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. Total loans at December 31, 2009, decreased to \$693.8 million from \$783.1 million at the prior year-end. The unallocated allowance is established for losses that have not been identified through the formulaic and other specific components of the allowance as described above. The unallocated portion is more subjective and requires a high degree of management judgment and experience. 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 its 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 portfolios of loans made for purposes of financing residential mortgages and consumer loans are evaluated in groups. At December 31, 2009, loans made for commercial and construction, residential mortgage and consumer purposes, respectively, amounted to \$669.1 million, \$3.3 million and \$21.4 million.

The recorded investment in loans that are impaired in accordance with ASC 310 totaled \$124.4 million, \$18.3 million and \$22.3 million at December 31, 2009, 2008 and 2007 respectively. The amounts of related valuation allowances were \$7.1 million, \$2.4 million and \$1.6 million respectively at those dates. For the years ended December 31, 2009, 2008 and 2007 the average recorded investment in impaired loans was approximately \$79.2 million, \$10.6 million, and \$16.1 million, respectively. Republic earned \$5.4 million and \$70,000 of interest income on impaired loans (internally classified accruing loans) in 2009 and 2008, respectively. We did not recognize any interest income on impaired loans during 2007. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

At December 31, 2009 and 2008, internally classified accruing loans totaled approximately \$98.4 million and \$0.9 million respectively. The amounts of related valuation were \$5.3 million and \$0.2 million respectively at those dates. Republic had delinquent loans as follows: (i) 30 to 59 days past due, at December 31, 2009 and 2008, in the aggregate principal amount of \$13.4 million and \$8.9 million respectively; and (ii) 60 to 89 days past due, at December 31, 2009 and 2008 in the aggregate principal amount of \$23.7 million and \$3.6 million respectively.

Our estimates of market values of other real estate owned are primarily based on appraisals. The following table is an analysis of the change in other real estate owned for the years ended December 31, 2009 and 2008.

	2009	2008
(Dollars in thousands)		
Balance at January 1,	\$ 8,580	\$ 3,681
Additions, net Sales	8,113	21,384
Writedowns/losses on sales	1,511	14,870
Balance at December 31,	1,571	1,615
	\$ 13,611	\$ 8,580

Deposit Structure

The following table shows the composition of Republic's deposits for the periods ended as indicated:

	At December 31,		
(Dollars in thousands)	2009	2008	2007
Demand deposits, non-interest bearing	\$ 125,618	\$ 70,814	\$ 99,040
Demand deposits, interest bearing	52,919	43,044	35,235
Money market & savings deposits	327,103	231,643	223,645
Time deposits	377,254	393,666	422,935
Total deposits	\$ 882,894	\$ 739,167	\$ 780,855

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 following table shows the average balances of Republic's deposit categories and the average rates paid thereon, for the years ended December 31, 2009, 2008 and 2007.

	For the Years Ended December 31,					
	2009		2008		2007	
(Dollars in thousands)	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate
Demand deposits, non-interest-bearing	\$ 86,621	0.00%	\$ 76,671	0.00%	\$ 78,641	0.00%
	47,174	0.66%	33,976	0.96%	38,850	1.10%

Demand deposits, interest-bearing						
Money market & savings deposits	281,621	1.87%	222,590	2.76%	266,706	4.48%
Time deposits	383,535	2.18%	397,740	3.73%	361,120	5.21%
Total deposits	\$ 798,951	1.75%	\$ 730,977	2.92%	\$ 745,317	4.18%

65

The following is a breakdown by contractual maturity, of the Company's time certificates of deposit issued in denominations of \$100,000 or more as of December 31, 2009.

(Dollars in thousands)	Certificates of Deposit 2009
Maturing in:	
Three months or less	\$ 86,601
Over three months through six months	87,001
Over six months through twelve months	57,908
Over twelve months	1,122
Total	\$ 232,632

The following is a breakdown, by contractual maturities of our time certificates of deposit for the years 2010 through 2014, which includes brokered certificates of deposit of approximately \$24.1 million with original terms of two to five months.

2010	2011	2012	2013	2014	Thereafter	Total
(Dollars in thousands)						
\$ 371,565	\$ 2,918	\$ 1,095	\$ 736	\$ 940	\$ -	\$ 377,254

Variable Interest Entities

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 46 (FIN 46), Consolidation of Variable Interest Entities. FIN 46 clarifies the application of Accounting Research Bulletin 51, Consolidated Financial Statements, to certain entities in which voting rights are not effective in identifying the investor with the controlling financial interest. An entity is subject to consolidation under FIN 46 if the investors either do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support, are unable to direct the entity's activities, or are not exposed to the entity's losses or entitled to its residual returns (variable interest entities). Variable interest entities within the scope of FIN 46 will be required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity's expected losses, receives a majority of its expected returns, or both.

Management previously determined that each of our current and former subsidiary trusts, Trust I, Trust II, Trust III and Trust IV, qualifies as a variable interest entity under FIN 46. Trust I originally issued mandatorily redeemable preferred stock to investors and loaned the proceeds to us. The securities were subsequently refinanced via a call during 2006 from proceeds of an issuance by Trust II. Trust II holds, as its sole asset, subordinated debentures issued by us in 2006. We issued an additional \$5.0 million of pooled trust preferred securities in June 2007. Trust III holds, as its sole asset, subordinated debentures issued by us in 2007. In June 2008, we issued an additional \$10.8 million of convertible trust preferred securities. Trust IV holds as its sole asset, subordinated debentures issued by us in 2008.

We do not consolidate its subsidiary trusts. FIN 46 precludes consideration of the call option embedded in the preferred stock when determining if we has the right to a majority of the trust's expected residual returns. The

non-consolidation results in the investment in the common securities of the trust to be included in other assets with a corresponding increase in outstanding debt of \$676,000. In addition, the income received on our investment in the common securities of the trusts is included in other income. The adoption of FIN 46 did not have a material impact on the financial position or results of operations. The Federal Reserve has issued final guidance on the regulatory capital treatment for the trust-preferred securities issued by the capital trusts as a result of the adoption of FIN 46. The final rule would retain the current maximum percentage of total capital permitted for trust preferred securities at 25%, but would enact other changes to the rules governing trust preferred securities that affect their use as part of the collection of entities known as “restricted core capital elements”. In June 2009, FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R)” which was codified into ASC 810. SFAS No. 167 seeks to improve financial reporting by enterprises involved with variable interest entities by addressing (1) the effects on certain provisions of FIN 46, “Consolidation of Variable Interest Entities,” as a result of the elimination of the qualifying special-purpose entity concept in SFAS No. 166, and (2) constituent concerns about the application of certain key provisions of FIN 46, including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise’s involvement in a variable interest entity. This Statement shall be effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The impact of adoption is not expected to be material.

Effects of Inflation

The majority of assets and liabilities of a financial institution are monetary in nature. Therefore, a financial institution differs greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. Management believes that the most significant impact of inflation on financial results is the Company's need and ability to react to changes in interest rates. As discussed previously, management attempts to maintain an essentially balanced position between rate sensitive assets and liabilities over a one year time horizon in order to protect net interest income from being affected by wide interest rate fluctuations.

Supplementary Financial Information

The following tables are summary unaudited statements of operation information for each of the quarters ended during 2009 and 2008.

Selected Quarterly Consolidated Financial Data (Unaudited)

(Dollars in thousands, except per share data)	For the Quarter Ended, 2010		For the Quarter Ended, 2009		
	First	Fourth	Third	Second	First
Income Statement Data					
Total interest income	\$ 10,435	\$ 10,694	\$ 10,713	\$ 10,935	\$ 11,128
Total interest expense	3,026	3,734	3,908	4,143	4,270
Net interest income (loss)	7,409	6,960	6,805	6,792	6,858
Provision for loan losses	5,500	1,000	150	8,250	4,800
Non-interest income (loss)	475	(1,205)	250	382	652
Non-interest expense	8,405	8,555	6,700	7,219	8,485
Provision (benefit) for income taxes	(2,159)	(1,368)	20	(2,860)	(2,015)
Net income (loss)	\$ (3,862)	\$ (2,432)	\$ 185	\$ (5,435)	\$ (3,760)
Per Share Data (1)					
Basic:					
Net income (loss)	\$ (.37)	\$ (0.23)	\$ 0.02	\$ (0.51)	\$ (0.35)
Diluted:					
Net income (loss)	\$ (.37)	\$ (0.23)	\$ 0.02	\$ (0.51)	\$ (0.35)

(Dollars in thousands, except per share data)	For the Quarter Ended, 2008			
	Fourth	Third	Second	First
Income Statement Data				

Edgar Filing: REPUBLIC FIRST BANCORP INC - Form S-1/A

Total interest income	\$ 12,315	\$ 13,532	\$ 13,328	\$ 14,801
Total interest expense	5,264	5,914	6,324	7,579
Net interest income	7,051	7,618	7,004	7,222
Provision for loan losses	1,601	43	43	5,812
Non-interest income (loss)	(931)	672	836	665
Non-interest expense	5,370	6,008	6,061	6,448
Provision (benefit) for income taxes	(435)	706	547	(1,595)
Net income (loss)	\$ (416)	\$ 1,533	\$ 1,189	\$ (2,778)

Per Share Data (1)

Basic:

Net income (loss)	\$ (0.04)	\$ 0.14	\$ 0.11	\$ (0.27)
-------------------	-----------	---------	---------	-----------

Diluted:

Net income (loss)	\$ (0.04)	\$ 0.14	\$ 0.11	\$ (0.27)
-------------------	-----------	---------	---------	-----------

(1) Quarters do not add to full year EPS due to rounding

MANAGEMENT

Officers and Directors

Executive Officers