REPUBLIC FIRST BANCORP INC
Form 10-K
March 24, 2014

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

FORM 10-K

(Mark One)
[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013.

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ___ to ___.

Commission File Number: 000-17007

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

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

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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	Nasdaq Global Market

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO [ ]

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one)

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates was $60,051,330 based on the last sale price on Nasdaq Global Market on June 28, 2013.

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

Common Stock, par value $0.01 per share	25,972,897
Title of Class	Number of Shares Outstanding as of March 21, 2014

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for its 2014 Annual Meeting of Shareholders, which Definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended December 31, 2013, are incorporated by reference into Part III of this Form 10-K; provided, however, that the Compensation Committee Report, the Audit Committee Report and any other information in such proxy statement that is not required to be included in this Annual Report on Form 10-K, shall not be deemed to be incorporated herein by reference or filed as a part of this Annual Report on Form 10-K.

REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARY
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PART I

Item 1: Business

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

Forward Looking Statements

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

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

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

- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act;
- our securities portfolio and the valuation of our securities;
- accounting principles, policies and guidelines as well as estimates and assumptions used in the preparation of our financial statements;
- rapidly changing technology;
- litigation liabilities, including costs, expenses, settlements and judgments; and
- other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services.

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

General

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

Historically, our primary objective had been to position ourselves as an alternative to the large banks for commercial banking services in the Greater Philadelphia and Southern New Jersey area. In the second quarter of 2008, we began to redirect our strategic efforts toward retail banking and the creation of 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.

Additionally, the Bank hired two experienced and former Commerce Bank regional market managers, Stephen McWilliams and Robert Worley. They lead the Bank's lending efforts in the greater Philadelphia and Southern New Jersey area and in turn have hired a number of experienced lenders with the same focus. With this management team and additional new employees for support, we have built the foundation and made a commitment to become a leading financial institution in the Philadelphia metropolitan area.

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We believe we have a strong management team, as well as adequate capital resources and liquidity to deal with current economic conditions and growth plans for the future. In connection with the change in strategy to become a retail-focused and customer service based organization, in August 2010 we rebranded our stores to operate under the name "Republic Bank." This is the name in which the Bank was originally incorporated under and utilized from 1988 until 1996.

During 2009 and 2010, we renovated, refurbished and remodeled most of our existing stores, making significant capital improvements, as part of our ongoing effort to adopt a more retail customer focus and attract additional retail business. We have expanded customer services hours, enhanced our banking systems to better serve the retail customer and expanded our retail product offerings. In 2013, we relocated our Media store to a significantly improved and renovated corner location. In the first quarter of 2014 we took the first step in expanding our store network in Southern New Jersey by opening our new prototype building in Cherry Hill, NJ.

On the lending side, we historically focused our efforts on business banking and commercial lending transactions, in particular commercial real estate loans. We have restructured our loan portfolio and deemphasized origination of commercial real estate loans. To further these efforts, 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.

In December 2011, we completed the sale of several distressed commercial real estate loans and foreclosed properties to a single investor. This transaction dramatically reduced our non-performing asset balances and significantly improved our credit quality metrics. We believe the loan sale represented a major step in completing the transformation of the Bank, which began in 2008.

As of December 31, 2013, we had total assets of approximately \$961.7 million, total shareholders' equity of approximately \$62.9 million, total deposits of approximately \$869.5 million, net loans receivable of approximately \$667.0 million, and a net loss of \$3.5 million. The Company has one reportable segment: community banking. The community banking segment primarily encompasses the commercial loan and deposit activities of Republic, as well as consumer loan products in the areas surrounding our stores.

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

Republic Bank

Republic is a commercial bank chartered pursuant to the laws of the Commonwealth of Pennsylvania, and is subject to examination and comprehensive regulation by the Federal Deposit Insurance Corporation (FDIC) and the Pennsylvania Department of Banking and Securities. The deposits held by the Bank are insured, up to applicable limits, by the Deposit Insurance Fund of the FDIC. Republic presently conducts its principal banking activities through its six Philadelphia offices and eight suburban offices in Plymouth Meeting, Bala Cynwyd, Ardmore and Abington, located in Montgomery County, Media, located in Delaware County, and Haddonfield, Cherry Hill and Voorhees, located in Southern New Jersey.

Service Area/Market Overview

Our primary service area consists of Greater Philadelphia and Southern New Jersey. 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.

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 community 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.

Our legal lending limit to one borrower was approximately $13.9 million at December 31, 2013. Loans above this amount may be made if the excess over the lending limit is participated to other institutions. We are subject to potential intensified competition from new branches of established banks in the area as well as new banks that could open in our market area. There are banks and other financial institutions, which serve surrounding areas, and additional out-of-state financial institutions, which currently, or in the future, may compete in our market. We compete to attract deposits and loan applications both from customers of existing institutions and from customers new to the greater Philadelphia area and we anticipate a continued increase in competition in our 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, 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.

In February 2011, we announced the launch of a Small Business Administration (“SBA”) lending group to provide much needed credit to small businesses throughout our service areas. We hired two experienced lenders to lead our new SBA lending unit. Arnold V. Horvath, Executive Vice-President, and Pamela Innis, Senior Vice-President, who are both former executives with Commerce Bank and most recently Metro Bank.

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

Our lending activities generally are focused on small and medium sized businesses within the communities that we serve. Commercial real estate loans represent the largest category within our loan portfolio, amounting to approximately 50% of total loans outstanding at December 31, 2013. Repayment of these loans is, in part, dependent on general economic conditions affecting our customers and various businesses within the community. As a commercial lender, we are subject to credit risk. Economic and financial conditions in recent years have adversely affected many of our borrowers. To manage the challenges of this economic 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 management continues to follow established underwriting policies and closely monitor loans through Republic's loan review officer, credit risk is still inherent in the portfolio. The majority of Republic's loan portfolio is collateralized with real estate or other collateral; however, a portion of the commercial portfolio is unsecured, representing loans made to borrowers considered to be of sufficient financial strength to merit unsecured financing. Republic makes both fixed and variable rate loans with terms typically ranging from one to five years. Variable rate loans are generally tied to the national prime rate of interest.

We have been affected by the challenging conditions in the economy and financial markets. Beginning in mid-2008, like many other commercial lenders, we experienced elevated levels of charge-offs and loan loss provisions and increased amounts of non-performing loans and other real estate owned. During 2009 we instituted a vigilant credit administration process where we select and review a significant portion of our loan portfolio on a regular basis. The sale of several distressed commercial real estate loans and other real estate owned in December 2011 substantially improved asset quality for the Bank and immediately strengthened our balance sheet. In 2012 and 2013, the loan loss provision and other credit quality cost returned to more normalized levels. We also believe that economic indicators in the markets that we serve continue to show steady signs of improvement which will enable us to continue progress toward consistent and sustainable growth and profitability.

Branch Expansion Plans and Growth Strategy

We will carefully evaluate growth opportunities throughout 2014 and beyond. Renovation and refurbishment of all existing store locations took place during 2009. We relocated our Media, PA store to a renovated and improved corner location in 2013. In the first quarter of 2014 we opened a store utilizing our new and distinctive prototype building in Cherry Hill, NJ. Relocations of other store locations are planned for the future as we continue to direct more focus toward the retail customer experience. We also anticipate pursuing additional de novo store opportunities in our primary service area in the future. The opening of these stores is subject to regulatory approval.

Securities Portfolio

We maintain an investment securities portfolio. We purchase investment securities that are in compliance with our investment policies, which are approved annually by our Board of Directors. The investment policies address such issues as permissible investment categories, credit quality, maturities and concentrations. At December 31, 2013 and 2012, approximately 68% and 63%, 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, asset-backed securities, and Federal Home Loan Bank (FHLB) capital stock.

Supervision and Regulation

General

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

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

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

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

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"). The Dodd-Frank Act has and will continue to have a broad impact on the financial services industry, including significant regulatory and compliance changes including, among other things, (i) enhanced resolution authority of troubled and failing banks and their holding companies; (ii) increased capital and liquidity requirements; (iii) increased regulatory examination fees; (iv) changes to assessments to be paid to the FDIC for federal deposit insurance; and (v) numerous other provisions designed to improve supervision and oversight of, and strengthening safety and soundness for, the financial services sector. Additionally, the Dodd-Frank Act established a new framework for systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Consumer Financial Protection Bureau, the Federal Reserve, the Office of the Comptroller of the Currency, and the FDIC. A summary of certain provisions of the Dodd-Frank Act is set forth below.

- 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. The Dodd-Frank Act codifies the source-of-strength doctrine and expands upon the Federal Reserve policy, defining "source of strength" to mean the "ability of a company that directly or indirectly controls an insured depository institution to provide financial assistance to such insured depository institution in the event of the financial distress of the insured depository institution."

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

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

• Corporate Governance. The Dodd-Frank Act requires publicly traded companies to provide their shareholders with 1) a non-binding shareholder vote on executive compensation; 2) a non-binding shareholder vote on the frequency of such vote; 3) disclosure of "golden parachute" arrangements in connection with specified change in control transactions; and 4) a non-binding shareholder vote on golden parachute arrangements in connection with these change in control transactions.

• Debit Card Interchange Fees. The Dodd-Frank Act requires that the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction be reasonable and proportional to the cost incurred by the issuer. While the restrictions on interchange fees do not apply to banks that, together with their affiliates, have assets of less than $10 billion, the rule could affect the competitiveness of debit cards issued by smaller banks.

• Interstate Banking and Branching. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Banking Law") amended various federal banking laws then in effect to provide for nationwide interstate banking, interstate bank mergers and interstate branching. The interstate banking provisions allowed for the acquisition by a bank holding company of a bank located in another state by merger or b acquisition, although individual states had the ability to "opt out" of such provision. The Dodd-Frank Act relaxes national branching requirements, allowing national and state banks to establish branches in any state if that state would permit the establishment of the branch by a state bank chartered de novo in that state.

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

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

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

- Compensation Practices. The Dodd-Frank Act provides that the appropriate federal regulators must establish standards prohibiting as an unsafe and unsound practice any compensation plan of a bank holding company or other "covered financial institution" that provides an insider or other employee with "excessive compensation" or could lead to a material financial loss to such firm. The federal bank regulatory agencies have issued policies on compensation practices including consideration of the impact of activities to achieve incentive compensation with the related risk to the financial institution of such behavior. Together, the Dodd-Frank Act and the guidance on compensation may impact the current compensation policies at the Company.

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

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

Gramm-Leach-Bliley Act

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

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

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

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

Sarbanes-Oxley Act of 2002

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

Regulatory Restrictions on Dividends

Dividend payments by Republic to us 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 $10.8 million of dividends payable plus an additional amount equal to its net profit for 2014, up to the date of any such dividend declaration. However, dividends would be further limited in order to maintain capital ratios as discussed in "Capital Adequacy".

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

Dividend Policy

We have not paid any cash dividends on our common stock, and have no plans to pay any cash dividends in 2014 or in the foreseeable future. See Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities of this Form 10-K for more information.

Deposit Insurance and Assessments

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

As an FDIC-insured bank, Republic is subject to FDIC insurance assessments. The FDIC regulations assess insurance premiums for small insured depository institutions based on a risk-based assessment system. Under this assessment system, the FDIC evaluates the risk of each financial institution based on regulatory capital ratios and other supervisory factors. The rules base assessments on an institution's average consolidated total assets less its average tangible equity, as opposed to total deposits. The base assessment rates for small insured depository institutions range from 2.5 to 9 basis points for the least risky institutions to 30 to 45 basis points for the riskiest. The rate schedules will automatically adjust in the future as the Deposit Insurance Fund ("DIF") reserve ratio reaches certain milestones.

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

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

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

Capital Adequacy

The Federal Reserve has 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.

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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 currently 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 currently must maintain a minimum Tier 1 leverage ratio of 4% with higher leverage capital ratios required for bank holding companies that have significant financial and/or operational weakness, a high risk profile, or are undergoing or anticipating rapid growth. Both we and Republic are in compliance with these guidelines. The FDIC subjects Republic to similar capital requirements.

In July 2013, the federal bank regulatory agencies adopted revisions to the agencies' capital adequacy guidelines and prompt corrective action rules, which were designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. The final rules generally implement higher minimum capital requirements, add a new common equity tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity tier 1 capital, additional tier 1 capital or tier 2 capital. The new minimum capital to risk-adjusted assets requirements are a common equity tier 1 capital ratio of 4.5% (6.5% to be considered "well capitalized") and a tier 1 capital ratio of 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% to be considered "well capitalized"); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered "well capitalized"). Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The new minimum capital requirements are effective on January 1, 2015. The capital contribution buffer requirements phase in over a three-year period beginning January 1, 2016.

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

Legislative and Regulatory Changes

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

Future Legislative and Regulatory Developments

It is conceivable that compliance with current or future legislative and regulatory initiatives could require us to change certain 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. 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.

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Profitability, Monetary Policy and Economic Conditions

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

Employees

As of December 31, 2013, we had a total of 226 full-time equivalent employees.

Item 1A: Risk Factors

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

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

Our financial condition and results of operations are affected by the ability of our borrowers to repay their loans, and in a timely manner. Lending money is a significant part of the banking business. Borrowers, however, do not always repay their loans. The risk of non-payment is assessed through our underwriting and loan review procedures based on several factors including credit risks of a particular borrower, changes in economic conditions, the duration of the loan, and in the case of a collateralized loan, uncertainties as to the future value of the collateral and other factors. Despite our efforts, we do and will experience loan losses, and our financial condition and results of operations will be adversely affected. Our non-performing assets were approximately $14.5 million at December 31, 2013. Our allowance for loan losses was approximately $12.3 million at December 31, 2013. Our loans between thirty and eighty-nine days delinquent totaled $28.5 million at December 31, 2013.

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition to affecting interest income and expense, changes in interest rates also can affect the value of our interest-earning assets, comprising fixed and adjustable-rate instruments, as well as the ability to realize gains from the sale of such assets. Generally, the value of fixed-rate instruments fluctuates inversely with changes in interest rates, and changes in interest rates may therefore have a material adverse 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 Republic to fund dividend payments, if any, and to fund all payments on obligations. Republic and its subsidiaries are subject to laws that restrict dividend payments or authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to us. Restrictions or regulatory actions of that kind could impede our access to funds that we may need to make payments on our obligations or dividend payments, if any. In addition, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors.

We may be required to pay higher FDIC premiums or special assessments in the future that could adversely affect our earnings.

The FDIC's insurance fund has been depleted over recent years as a result of bank failures across the country. The Dodd-Frank Act requires the FDIC to increase reserves against future losses, which requires increased assessments that are to be borne primarily by institutions with assets of greater than $10 billion. In addition, the FDIC may issue a special assessment across all FDIC insured institutions. Any future increases in FDIC assessments or higher periodic fees could adversely affect us.

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

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

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

Although the U.S. economy has continued to gradually improve from the depressed levels of 2008 and early 2009, economic growth has been slow and uneven. We are operating in a challenging and uncertain economic environment, including generally uncertain conditions nationally and globally. While economic conditions in the United States are showing signs of recovery, there can be no assurance that these difficult conditions will continue to improve. Concerns over the stability of the financial markets and the economy have resulted in decreased lending by financial institutions to their customers and to each other. This market turmoil and tightening of credit has led to increased commercial and consumer deficiencies, lack of customer confidence, increased market volatility and widespread reduction in general business activity.

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

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

- limiting our interest income, by depressing the yields we are able to earn on our investment portfolio.

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 as well as our financial condition and results of operations could be adversely affected by 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.

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

As of December 31, 2013, we had approximately $33.8 million of U.S. Federal net operating loss carryforwards, referred to as "NOLs," available to reduce taxable income in future years.

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

In addition, the ability to use NOLs will be dependent on our ability to generate taxable income. The NOLs may expire before we generate sufficient taxable income. There were no NOLs that expired in the fiscal years ended December 31, 2013 and December 31, 2012. There are no NOLs that could expire if not utilized for the year ending December 31, 2014.

Our assets as of December 31, 2013 included a deferred tax asset and we may not be able to realize the full amount of such asset.

We recognize deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of assets and liabilities. At December 31, 2013, the net deferred tax asset was approximately $6.1 million, compared to a balance of approximately $3.6 million at December 31, 2012. The increase in the net deferred tax asset resulted mainly from an increase in the unrealized losses on securities available for sale and OREO writedowns in 2013.

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

Based on the analysis of the available positive and negative evidence, we determined that a valuation allowance should be recorded as of December 31, 2013. As a result of cumulative losses in recent years and the slow and uneven growth in the current economic environment, we did not use projections of future taxable income, exclusive of reversing temporary timing differences and carryforwards, as a factor to project recoverability of the deferred tax asset balance. We will exclude future taxable income as a factor until we can show consistent and sustained profitability. The release of this valuation allowance would have a positive impact on future earnings. There can be no assurance as to when we could be in a position to recapture the benefits of our deferred tax asset. Further discussion on the analysis of our deferred tax asset can be found in the "Provision (Benefit) for Income Taxes" section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

We 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.

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

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

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

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

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

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

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

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

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

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

We maintain disclosure controls and procedures designed to ensure that we timely report information as specified in the rules and forms of the Securities and Exchange Commission, 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.

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

Federal banking regulators require us, and Republic, to maintain capital to support our operations. Regulatory capital ratios are defined and required ratios are established by laws and regulations promulgated by banking regulatory agencies. At December 31, 2013, 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 Republic, 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%. In addition, as discussed in Item 1. Business – Supervision and Regulation - Capital Adequacy, in July 2013 the FDIC and other federal banking agencies adopted new standards revising regulatory capital requirements, which establish new higher capital ratio requirements and narrow the definitions of capital.

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 affect 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 $1.4 million as of December 31, 2013.

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 was provided. In October 2010, the FHLB of Pittsburgh began to repurchase excess capital stock and, in 2012, resumed the payment of dividends. During 2013 the FHLB of Pittsburgh repurchased all excess restricted stock outstanding and continued with the payment of dividends. 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 effected.

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

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

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

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

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

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

Our common stock is currently traded on the Nasdaq Global Market. During 2013, the average daily trading volume for our common stock was approximately 29,600 shares. Sales of our common stock may place significant downward pressure on the market price of our common stock. Furthermore, it may be difficult for holders to resell their shares at prices they find attractive, or at all.

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

Shares of our common stock are common equity interests in us and, as such, will rank junior to all of our existing and future indebtedness and other liabilities. Additionally, holders of our common stock may become subject to the prior dividend and liquidation rights of holders of any classes or series of preferred stock that our Board of Directors may designate and issue without any action on the part of the holders of our common stock. Furthermore, our right to participate in a distribution of assets upon any of our subsidiaries' liquidation or reorganization is subject to the prior claims of that subsidiary's creditors and preferred shareholders. As of December 31, 2013, we had $22.5 million of outstanding debt.

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

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

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

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

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, referred to as Section 404, we are required to include in our Annual Reports on Form 10-K, our management's report on internal control over financial reporting. While we have reported no material weaknesses in the Form 10-K for the fiscal year ended December 31, 2013, we cannot guarantee that we will not have any material weaknesses in the future.

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

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

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

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

Item 1B: Unresolved Staff Comments

None.

Item 2: Description of Properties

The Company currently leases its headquarters, executive offices, and twelve store locations under lease agreements that expire at various dates in the future. The spaces covered by these leases range in square footage from approximately 800 square feet to 40,000 square feet. Please see Note 11 "Commitments and Contingencies" to the Consolidated Financial Statements for further information regarding the leases. In addition, the Company owns three properties utilized for store locations. Two of the stores are open and operating today and one is currently under construction. Management believes these facilities are adequate to meet the Company's present and immediately foreseeable needs.

Item 3: Legal Proceedings

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

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Item 4: Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

Shares of the Company's class of common stock are listed on the Nasdaq Global Market under the symbol "FRBK." The table below sets forth the high and low sales prices reported for the common stock on the Nasdaq Global Market for the periods indicated. As of March 21, 2014, there were approximately 1,800 record holders of the Company's common stock. On March 21, 2014, the closing price of a share of common stock on Nasdaq Global Market was $4.26.

Quarter	High	Low
2013:		
4th	$ 3.30	$ 2.90
3rd	$ 3.83	$ 2.75
2nd	$ 3.19	$ 2.62
1st	$ 2.78	$ 1.97
2012:		
4th	$ 2.30	$ 1.90
3rd	$ 2.25	$ 1.92
2nd	$ 2.42	$ 1.77
1st	$ 2.42	$ 1.38

Dividend Policy

The Company has not paid any cash dividends on its common stock and has no plans to pay cash dividends during 2014. The Company's ability to pay dividends depends primarily on receipt of dividends from the Company's subsidiary, Republic. Dividend payments from Republic are subject to legal and regulatory limitations. The ability of Republic to pay dividends is also subject to profitability, financial condition, capital expenditures and other cash flow requirements.

Item 6: Selected Financial Data

	As of or for the Years Ended December 31,				
(dollars in thousands, except per share data)	2013	2012	2011	2010	2009
INCOME STATEMENT DATA					
Total interest income	$37,205	$38,260	$38,273	$40,309	$43,470
Total interest expense	4,590	6,366	8,199	10,245	16,055
Net interest income	32,615	31,894	30,074	30,064	27,415
Provision for loan losses	4,935	1,350	15,966	16,600	14,200
Non-interest income	9,216	8,828	10,581	2,620	79
Non-interest expenses	40,411	35,902	41,200	32,848	30,959
Income (loss) before provision (benefit) for income taxes	(3,515)	3,470	(16,511)	(16,764)	(17,665)
Provision (benefit) for income taxes	(35)	(144)	8,191	(6,074)	(6,223)
Net income (loss)	$(3,480)	$3,614	$(24,702)	$(10,690)	$(11,442)
PER SHARE DATA					
Basic earnings (loss) per share	$(0.13)	$0.14	$(0.95)	$(0.57)	$(1.07)
Diluted earnings (loss) per share	$(0.13)	$0.14	$(0.95)	$(0.57)	$(1.07)
Book value per share	$2.42	$2.69	$2.50	$3.39	$6.64
BALANCE SHEET DATA					
Total assets	$961,665	$988,658	$1,047,353	$876,097	$1,008,642
Total loans, net	667,048	608,359	577,442	608,911	680,977
Total investment securities	206,482	193,142	179,784	150,087	192,395
Total deposits	869,534	889,201	952,611	757,730	882,894
FHLB & overnight advances	-	-	-	-	25,000
Subordinated debt	22,476	22,476	22,476	22,476	22,476
Total shareholders' equity	62,899	69,902	64,851	88,146	70,264
PERFORMANCE RATIOS					
Return on average assets	(0.37)%	0.37%	(2.68)%	(1.14)%	(1.22)%
Return on average shareholders' equity	(5.07)%	5.36%	(28.68)%	(13.42)%	(15.32)%
Net interest margin	3.66%	3.53%	3.59%	3.50%	3.13%
Total non-interest expenses as a percentage of average assets	4.25%	3.70%	4.47%	3.52%	3.29%
ASSET QUALITY RATIOS					
Allowance for loan losses as a percentage of loans	1.81%	1.54%	2.04%	1.84%	1.85%
Allowance for loan losses as a percentage of non-performing loans	117.69%	59.46%	106.52%	28.62%	49.32%
Non-performing loans as a percentage of total loans	1.53%	2.60%	1.92%	6.45%	3.75%
Non-performing assets as a percentage of total assets	1.51%	2.52%	1.70%	6.30%	3.93%
	0.35%	0.63%	2.44%	2.73%	1.33%

Net charge-offs as a percentage of average loans, net					
LIQUIDITY AND CAPITAL RATIOS					
Average equity to average assets	7.22%	6.95%	9.34%	8.47%	7.94%
Leverage ratio	8.59%	9.01%	8.77%	11.01%	9.36%
Tier 1 capital to risk-weighted assets	10.28%	11.48%	11.81%	13.68%	11.89%
Total capital to risk-weighted assets	11.53%	12.73%	13.09%	14.93%	13.14%

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

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

Executive Summary

The highlights for the year ended December 31, 2013 are as follows:

- Loans grew by $61.4 million, or 10%, to $679.3 million at December 31, 2013, versus $617.9 million at December 31, 2012, driven by an increase in quality loan demand during 2013. Increases were recognized in the consumer, commercial and industrial, owner occupied real estate, and commercial real estate categories.

- Core deposits grew by $17.5 million, or 2%, to a total of $859.3 million during the year ended December 31, 2013 as a result of the continued success of our retail focused, customer service model.

- Small Business lending continues to be a focal point of the Company's lending strategy. The Small Business lending team originated $76.6 million in new SBA loans during the year ended December 31, 2013 and is ranked as the #1 SBA lender in New Jersey and the #3 SBA lender in Pennsylvania based on the dollar volume of loan originations.

- The net interest margin increased year over year despite an incredibly challenging rate environment. The net interest margin increased to 3.66% for the year ended December 31, 2013 compared to 3.53% for the year ended December 31, 2012.

- Capital levels remain strong with a Total Risk-Based Capital ratio of 11.53% and a Tier 1 Leverage Ratio of 8.59% at December 31, 2013.

- Non-performing assets as a percentage of total assets decreased from 2.52% to 1.51%. Net charge-offs as a percentage of loans decreased to 0.35%, which is the lowest level the Company has seen since 2007.

- We relocated our store in Media, PA to a newly renovated, prime location during the fourth quarter of 2013. In addition, during 2013 we also broke ground on two locations in South Jersey which will feature our new and distinctive prototype building.

- The Haddonfield, NJ store continues to grow at a strong pace, with $88.0 million in core deposits since opening in 2010.

Critical Accounting Policies, Judgments and Estimates

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

We have identified the policies related to the allowance for loan losses, other-than-temporary impairment of securities and deferred income taxes as being critical.

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

The allowance consists of specific allowances for both impaired and classified loans and a general allowance on the remainder of the portfolio. Although management determines the amount of each element of the allowance separately, the allowance for loan losses is available for the entire loan portfolio.

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

Management also establishes a general allowance on non-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.

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

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

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

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

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

In evaluating our ability to recover deferred tax assets, management considers all available positive and negative evidence, including the past operating results and 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 management to make judgments about the future taxable income and are consistent with the plans and estimates used to manage the business. Any reduction in estimated future taxable income may require management to record a valuation allowance against the deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on future earnings.

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Results of Operations

For the year ended December 31, 2013 as compared to the year ended December 31, 2012

We recorded a net loss of $3.5 million, or $(0.13) per diluted share for 2013 compared to net income of $3.6 million, or $0.14 per diluted share, for 2012. The net loss in 2013 was primarily driven by two isolated events.

We recorded a one-time charge in the amount of $1.9 million during the third quarter of 2013 related to a settlement agreement in connection with a lawsuit in which we were a defendant. The lawsuit arose from an issue that occurred prior to 2007. We had vigorously contested the claims in the suit. However, as a result of reversals of certain procedural rulings in the case, we concluded that it would be in our best interest to avoid further litigation by executing a settlement agreement. The settlement released us from all claims and actions related to the matter.

We also recorded a loan loss provision in the amount of $3.6 million during the fourth quarter of 2013 related to a single loan in our portfolio. This loan was determined to be impaired during the fourth quarter and the provision was a result of a significant reduction in the collateral value supporting the loan based upon a current appraisal.

Return on average assets and average equity was (0.37)% and (5.07)%, respectively, for 2013 as compared to 0.37% and 5.36%, respectively, for 2012. Average equity to average assets was 7.22% for 2013 as compared to 6.95% for 2012.

Average Balances and Net Interest Income

Historically, our earnings have depended primarily upon Republic's net interest income, which is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is affected by changes in the mix of the volume and rates of interest-earning assets and interest-bearing liabilities. The following table provides an analysis of net interest income on an annualized basis, setting forth for the periods average assets, liabilities, and shareholders' equity, interest income earned on interest-earning assets and interest expense on interest-bearing liabilities, average yields earned on interest-earning assets and average rates on interest-bearing liabilities, and Republic's net interest margin (net interest income as a percentage of average total interest-earning assets). Averages are computed based on daily balances. Non-accrual loans are included in average loans receivable. Yields are adjusted for tax equivalency, using a rate of 35% in 2013, 2012 and 2011.

Average Balances and Net Interest Income

(dollars in thousands)	For the Year Ended December 31, 2013 Average Balance	Interest Income/ Expense	Yield/ Rate(1)	For the Year Ended December 31, 2012 Average Balance	Interest Income/ Expense	Yield/ Rate(1)	For the Year Ended December 31, 2011 Average Balance	Interest Income/ Expense	Yield/ Rate(1)
Interest-earning assets:									
Federal funds sold and other interest earning assets	$ 67,307	$ 185	0.27 %	$ 116,268	$ 300	0.26 %	$ 62,082	$ 145	0.23 %
Investment securities and restricted stock	192,315	4,820	2.51 %	187,446	5,622	3.00 %	156,367	5,119	3.27 %
Loans receivable	640,233	32,523	5.08 %	609,943	32,734	5.37 %	630,309	33,417	5.30 %
Total interest-earning assets	899,855	37,528	4.17 %	913,657	38,656	4.23 %	848,758	38,681	4.56 %
Other assets	50,616			56,149			73,053		
Total assets	$ 950,471			$ 969,806			$ 921,811		
Interest bearing liabilities:									
Demand – non-interest bearing	$ 149,125			$ 136,999			$ 119,189		
Demand – interest bearing	192,224	825	0.43 %	146,319	796	0.54 %	91,577	590	0.64 %
Money market & savings	417,652	1,786	0.43 %	433,422	2,718	0.63 %	345,885	3,457	1.00 %
Time deposits	92,484	867	0.94 %	155,549	1,718	1.10 %	244,741	3,017	1.23 %
Total deposits	851,485	3,478	0.41 %	872,289	5,232	0.60 %	801,392	7,064	0.88 %
Total interest bearing deposits	702,360	3,478	0.50 %	735,290	5,232	0.71 %	682,203	7,064	1.04 %
Other borrowings	22,476	1,112	4.95 %	22,531	1,134	5.03 %	24,831	1,135	4.57 %
Total interest-bearing liabilities	724,836	4,590	0.63 %	757,821	6,366	0.84 %	707,034	8,199	1.16 %
Total deposits and other borrowings	873,961	4,590	0.53 %	894,820	6,366	0.71 %	826,223	8,199	0.99 %
Non-interest bearing other	7,902			7,573			9,472		

liabilities									
Shareholders' equity	68,608			67,413			86,116		
Total liabilities and shareholders' equity	$ 950,471			$ 969,806			$ 921,811		
Net interest income(2)		$ 32,938			$ 32,290			$ 30,482	
Net interest spread			3.54 %			3.39 %			3.40 %
Net interest margin(2)			3.66 %			3.53 %			3.59 %

(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 $323, $396, and $408 in 2013, 2012 and 2011, respectively, to adjust for tax equivalency. The tax equivalent net interest margin is calculated by dividing tax equivalent net interest income by average total interest earning assets.

Rate/Volume Analysis of Changes in Net Interest Income

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

	Year ended December 31, 2013 vs. 2012			Year ended December 31, 2012 vs. 2011		
	Changes due to:			Changes due to:		
(dollars in thousands)	Average Volume	Average Rate	Total Change	Average Volume	Average Rate	Total Change
Interest earned:						
Federal funds sold and other interest-earning assets	$(134)	$19	$(115)	$140	$15	$155
Securities	122	(924)	(802)	932	(429)	503
Loans	1,409	(1,620)	(211)	(1,170)	487	(683)
Total interest-earning assets	1,397	(2,525)	(1,128)	(98)	73	(25)
Interest expense:						
Deposits						
Interest-bearing demand deposits	$197	$(168)	$29	$298	$(92)	$206
Money market and savings	(62)	(870)	(932)	588	(1,327)	(739)
Time deposits	(591)	(260)	(851)	(985)	(314)	(1,299)
Total deposit interest expense	(456)	(1,298)	(1,754)	(99)	(1,733)	(1,832)
Other borrowings	-	(22)	(22)	(16)	15	(1)
Total interest expense	(456)	(1,320)	(1,776)	(115)	(1,718)	(1,833)
Net interest income	$1,853	$(1,205)	$648	$17	$1,791	$1,808

Net Interest Income

The tax equivalent net interest margin increased 13 basis points to 3.66% during 2013, compared to 3.53% during 2012 and the Company’s tax equivalent net interest income increased $648,000, or 2.0%, to $32.9 million for 2013, as compared to $32.3 million for 2012. Yields on interest-bearing assets decreased 6 basis points to 4.17% in 2013 from 4.23% in 2012 and the rates on total deposits and other borrowings decreased 18 basis points to 0.53% in 2013 from 0.71% in 2012.

The Company’s total tax equivalent interest income decreased $1.1 million, or 2.9%, to $37.5 million for 2013 as compared to $38.7 million for 2012. A 29 basis point decrease in loan yields and a 49 basis point decrease in securities yields were partially offset by a $30.3 million increase in average loans outstanding.

The Company’s total interest expense decreased $1.8 million, or 27.9%, to $4.6 million for 2013, from $6.4 million for 2012 as the Company continues to lower the rates paid on interest bearing deposit accounts. Interest-bearing liabilities averaged $724.8 million for 2013, versus $757.8 million for 2012, a decrease of $33.0 million. Average deposit balances decreased $20.8 million, as a result of the Company’s retail focused, customer service strategy, which emphasizes the gathering of low-cost core deposits, while reducing its dependence on wholesale funding sources such as brokered and internet-based certificates of deposit. Internet based certificate of deposit balances decreased by

$36.9 million during 2013. The average rate paid on interest-bearing deposits decreased 21 basis points to 0.50% for 2013, as compared to 0.71% for 2012. Average time deposit balances declined $63.1 million for 2013 as compared to 2012. Interest expense paid on time deposit balances decreased $851,000 to $867,000 in 2013 from $1.7 million in 2012. The maturity and roll-off of higher cost time deposits resulted in the decrease in the average rate paid on time deposits of 16 basis points to 0.94% for 2013 as compared to 1.10% for 2012. Average interest-bearing demand balances increased $45.9 million for 2013 as compared to 2012. Money market and savings interest expense decreased $932,000 to $1.8 million in 2013 from $2.7 million in 2012, primarily due to a reduction in rates paid on money market and savings deposits. Accordingly, rates on total interest-bearing liabilities decreased 21 basis points in 2013 when compared to 2012.

Interest expense on other borrowings decreased $22,000 to $1.1 million in 2013. Average other borrowings, consisting mainly of $22.5 million of trust preferred securities outstanding, decreased $55,000, or 0.2%, between the respective periods.

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 Company recorded a $4.9 million provision for loan losses during 2013 compared to $1.4 million for the comparable prior year period.

The increase in the provision recorded during 2013 was primarily driven by a single loan relationship which was originated in 2006 and determined to be impaired during the fourth quarter of 2013 due to delinquency in payments. The need for a provision in the amount of $3.6 million was the result of a significant reduction in the collateral value supporting the loan based upon a current appraisal. Management is working closely with this borrower to resolve the delinquency issue and address the collateral deficiency.

The lower provision recorded during 2012 was mainly attributable to the significant improvement in credit quality in the loan portfolio, along with a reduction in the component of the allowance for loan losses related to loans collectively evaluated for impairment caused by an adjustment to the analysis of historical losses during the period. See disclosure under “Credit Quality” and “Allowance for Loan Losses” for further discussion.

Non-Interest Income

Total non-interest income increased to $9.2 million for 2013 compared to $8.8 million for 2012, primarily due to the growth in fees earned on the servicing of SBA loans.

Non-Interest Expenses

Total non-interest expenses increased $4.5 million, or 12.6%, to $40.4 million for 2013 compared to $35.9 million for 2012 primarily as a result of higher expenses related to foreclosed real estate during 2013 and a one-time charge related to a settlement agreement in connection with litigation in which the Company was a defendant. Carrying costs and write downs of other real estate owned amounted to $3.2 million in 2013 compared to $763,000 in 2012. The increase was primarily driven by the writedown in value of one property as a result of a current appraisal. The legal settlement of $1.9 million was executed to avoid further litigation on a matter stemming from an issue associated with a lending relationship that arose several years ago. The settlement released the Company from all claims and actions related to this matter.

Provision (Benefit) for Income Taxes

The Company recorded a benefit for income taxes in the amount of $35,000 for the twelve month period ended December 31, 2013, compared to a benefit for income taxes of $144,000 for the twelve month period ended December 31, 2012. The $35,000 benefit recorded in 2013 was the result of a tax benefit in the amount of $1.5 million calculated on the net loss generated during the period using the Company's normal estimated tax rates offset by an adjustment to the deferred tax asset valuation allowance in the amount of $1.4 million. The effective tax rate was (42%) for 2013 and 27% for 2012, excluding the adjustment to the deferred tax asset valuation allowance.

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

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

In assessing the need for a valuation allowance, the Company carefully weighed both positive and negative evidence currently available. Judgment is required when considering the relative impact of such evidence. The weight given to the potential effect of positive and negative evidence must be commensurate with the extent to which it can be objectively verified. A cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome. Based on the analysis of available positive and negative evidence, the Company determined that a valuation allowance should be recorded as of December 31, 2013 and December 31, 2012.

When calculating an estimate for a valuation allowance, the Company assessed the possible sources of taxable income available under tax law to realize a tax benefit for deductible temporary differences and carryforwards as defined in ASC 740. As a result of cumulative losses in recent years and the uncertain nature of the current economic environment, the Company did not use projections of future taxable income, exclusive of reversing temporary timing differences and carryforwards, as a factor. The Company will exclude future taxable income as a factor until it can show consistent and sustainable profitability.

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

The net deferred tax asset balance before consideration of a valuation allowance was $21.4 million as of December 31, 2013 and $17.5 million as of December 31, 2012. The tax planning strategies assessed resulted in the projected realization of approximately $6.1 million in tax assets which can be considered more likely than not to be realized as of December 31, 2013 and $3.6 million as of December 31, 2012. Accordingly, the Company recorded a partial valuation allowance related to the deferred tax asset balance in the amount of $15.3 million as of December 31, 2013 and $13.9 million as of December 31, 2012.

The deferred tax asset will continue to be analyzed on a quarterly basis for changes affecting realizability. Sustained profitability is a driving factor used to determine when projections of future taxable income become more reliable and can again be used to assess the ability to fully realize the deferred tax asset. When the determination is made to include projections of future taxable income as a factor, the valuation allowance will be reduced accordingly resulting in a corresponding increase in net income.

Results of Operations

For the year ended December 31, 2012 as compared to the year ended December 31, 2011

We recorded net income of $3.6 million or $0.14 per diluted share for 2012 compared to a net loss of $24.7 million, or $0.95 per diluted share, for 2011. The net income for 2012 was primarily driven by the significant improvement in asset quality compared to 2011, which resulted in a much lower loan loss provision and a reduction of other credit costs in 2012. We recorded a loan loss provision in the amount of $1.4 million for 2012 compared to a $16.0 million provision for 2011. Financial results for 2011 were impacted by a loss incurred on a bulk sale of distressed and impaired commercial real estate loans and foreclosed properties which closed in the fourth quarter of 2011. Return on average assets and average equity was 0.37% and 5.36%, respectively, for 2012 as compared to (2.68)% and (28.68)%, respectively, for 2011. Average equity to average assets was 6.95% for 2012 as compared to 9.34% for 2011.

Net Interest Income

The Company's total tax equivalent interest income remained flat at $38.7 million for 2012 compared to 2011. A $20.4 million reduction in average loans receivable was offset by a 7 basis point increase in loan yields and a $31.1 million increase in average investment securities. The Company also reduced its average non-performing asset balances through a bulk sale of distressed loans and foreclosed properties during the fourth quarter of 2011.

The Company's total interest expense decreased $1.8 million, or 22.4%, to $6.4 million for 2012, from $8.2 million for 2011 as the Company continues to lower the rates paid on interest bearing deposit accounts. Interest-bearing liabilities averaged $757.8 million for 2012, versus $707.0 million for 2011, an increase of $50.8 million. Average deposit balances increased $70.9 million and average other borrowings decreased $2.3 million, as a result of the Company's retail focused, customer service strategy, which emphasizes the gathering of low-cost core deposits. The average rate paid on interest-bearing deposits decreased 33 basis points to 0.71% for 2012, as compared to 1.04% for 2011. Average time deposit balances declined $89.2 million for 2012 as compared to 2011. Interest expense on time deposit balances decreased $1.3 million to $1.7 million in 2012 from $3.0 million in 2011. The maturity and roll-off of higher cost time deposits resulted in the decrease in the average rate paid on time deposits of 13 basis points to 1.10% for 2012 as compared to 1.23% for 2011. Average money market and savings balances increased $87.5 million for 2012 as compared to 2011. Money market and savings interest expense decreased $739,000 to $2.7 million in 2012 from $3.5 million in 2011, primarily due to a reduction in rates paid on money market and savings deposits as a result of the aforementioned customer service strategy. Accordingly, rates on total interest-bearing liabilities decreased 32 basis points in 2012 when compared to 2011.

The tax equivalent net interest margin decreased 6 basis points to 3.53% during 2012, compared to 3.59% during 2011 and the Company's tax equivalent net interest income increased $1.8 million, or 5.9 %, to $32.3 million for 2012, as compared to $30.5 million for 2011.

Yields on interest-bearing assets decreased 33 basis points to 4.23% in 2012 from 4.56% in 2011 and the rates on total deposits and other borrowings decreased 28 basis points to 0.71% in 2012 from 0.99% in 2011. The decrease in yields on assets and rates on deposits/and borrowings was due to decreases in both average loans outstanding and the average cost of deposits.

Interest expense on other borrowings decreased $1,000 to $1.1 million in 2012. Average other borrowings, consisting mainly of $22.5 million of trust preferred securities outstanding, decreased $2.3 million, or 9.3%, between the respective periods. As a result of the continued success of our retail deposit gathering strategy we were able to further reduce dependence on short-term borrowings during 2012.

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 Company recorded a $1.4 million provision for loan losses during 2012 compared to $16.0 million for the comparable prior year period.

The lower provision recorded during 2012 was mainly attributable to the significant improvement in credit quality in the loan portfolio, along with a reduction in the component of the allowance for loan losses related to loans collectively evaluated for impairment caused by an adjustment to the analysis of historical losses during the period. See disclosure under "Credit Quality" and "Allowance for Loan Losses" for further discussion.

The $16.0 provision recorded in 2011 was primarily driven by $9.6 million of charge-offs taken in relation to a bulk sale of classified and non-performing commercial real estate loans that was closed during the fourth quarter of 2011. This sale substantially reduced non-performing asset balances and immediately improved credit quality metrics. The remainder of the provision recorded during 2011 was driven by updated appraisals of collateral associated with troubled loans, which were received earlier in the year. Every non-performing asset included in the loan sale, which drove the loan loss provisions recorded during 2011 and 2010, was originated prior to December 31, 2007.

Non-Interest Income

Total non-interest income decreased to $8.8 million for 2012 compared to $10.6 million for 2011, primarily due to revenue recognized on two legal settlements in 2011 which did not recur in 2012.

Non-Interest Expenses

Total non-interest expenses decreased $5.3 million, or 12.9% to $35.9 million for 2012 compared to $41.2 million for 2011 primarily as a result of lower expenses related to foreclosed real estate during 2012. Carrying costs and write downs of other real estate owned amounted to $0.8 million in 2012 compared to $7.3 million in 2011. A significant portion of the write downs and expenses incurred during 2011 were related to the disposition of foreclosed properties in a bulk sale of impaired assets which was completed in the fourth quarter of 2011. The decrease in other real estate costs was offset by increases of $1.3 million in salaries and benefits and $1.0 million in legal fees during 2012. Salaries and benefits primarily grew as a result of merit increases and higher bonus expense. Legal fees increased due to costs incurred on matters associated with troubled loans.

Provision (Benefit) for Income Taxes

The Company recorded a benefit for income taxes in the amount of $144,000 for the twelve month period ended December 31, 2012, compared to a provision for income taxes of $8.2 million for the twelve month period ended December 31, 2011. The $144,000 benefit recorded in 2012 was the result of a tax provision in the amount of $939,000 calculated on the net profit generated during the period using the Company's normal estimated tax rates offset by an adjustment to the deferred tax asset valuation allowance in the amount of $1.0 million. The effective tax rate was 27% for 2012 and 38% for 2011, excluding the adjustment to the deferred tax asset valuation allowance.

Financial Condition

December 31, 2013 compared to December 31, 2012

Total assets decreased $27.0 million to $961.7 million at December 31, 2013, compared to $988.7 million at December 31, 2012, mainly due to a decrease in cash and cash equivalents and deposit balances.

Cash and Cash Equivalents

Cash and due from banks and interest bearing deposits comprise this category, which consists of our most liquid assets. The aggregate amount in these two categories decreased by $92.1 million to $35.9 million at December 31, 2013, from $128.0 million at December 31, 2012. The decrease was primarily caused by a growth in outstanding loan balances, a decrease in deposit balances, and the purchase of investment securities during 2013.

Loans Held for Sale

Loans held for sale are comprised of loans guaranteed by the U.S. Small Business Administration ("SBA") which the Company usually originates with the intention of selling in the future. Total SBA loans held for sale were $4.9 million at December 31, 2013. This increase was primarily driven by the timing of settlement on the sale of two loans which closed shortly after the year end. Loans held for sale, as a percentage of total Company assets, were less than 1% at December 31, 2013.

Loans Receivable

The loan portfolio represents our largest asset category and is our most significant source of interest income. Our lending strategy is focused on small and medium sized businesses and professionals that seek highly personalized banking services. The loan portfolio consists of secured and unsecured commercial loans including commercial real estate, construction loans, residential mortgages, automobile loans, home improvement loans, home equity loans and lines of credit, overdraft lines of credit, and others. Commercial loans typically range between $250,000 and $5,000,000 but customers may borrow significantly larger amounts up to our legal lending limit to a customer, which was approximately $13.9 million at December 31, 2013. Loans made to one individual customer, even if secured by different collateral, are aggregated for purposes of the lending limit. The aggregate amount of those relationships that exceeded $9.3 million at December 31, 2013, was $143.2 million. A $9.3 million threshold, which amounts to approximately 10% of total regulatory capital, reflects an additional internal monitoring guideline.

Loans increased $61.4 million, or 10%, to $679.3 million at December 31, 2013, versus $617.9 million at December 31, 2012. This growth was driven by an increase in loan demand in the consumer, commercial real estate, commercial and industrial and owner occupied real estate categories resulting in higher originations during 2013.

Investment Securities

Investment securities considered available-for-sale are investments that may be sold in response to changing market and interest rate conditions, and for liquidity and other purposes. Our investment securities classified as available-for-sale consist primarily of U.S. Government agency collateralized mortgage obligations (CMO), agency mortgage-backed securities (MBS), municipal securities, corporate bonds, asset-backed securities (ABS), and pooled trust preferred securities (CDO). Available-for-sale securities totaled $204.9 million at December 31, 2013, compared to $189.3 million at December 31, 2012. The increase of $15.6 million was primarily due to the purchase of securities totaling $62.5 million partially offset by proceeds from sales and pay downs of securities totaling $40.9 million during 2013. At December 31, 2013, the portfolio had a net unrealized loss of $4.4 million, compared to a net unrealized gain of $1.6 million at December 31, 2012. The change in value of the investment portfolio was driven by an increase in market interest rates and widening asset spreads during 2013.

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. At December 31, 2013 and December 31, 2012, securities held to maturity totaled $21,000 and $67,000, respectively. The decrease of $46,000 was the result of a debt security reaching its maturity during the fourth quarter of 2013. At both dates, respective carrying values approximated market values.

Restricted Stock

Restricted stock, which represents a required investment in the capital stock of correspondent banks related to available credit facilities, is carried at cost as of December 31, 2013 and December 31, 2012. As of those dates, restricted stock consisted of investments in the capital stock of the Federal Home Loan Bank of Pittsburgh (“FHLB”) and Atlantic Central Bankers Bank (“ACBB”). In 2012, the FHLB repurchased 29% of Republic’s total restricted stock outstanding and issued its first dividend payments since 2008. During 2013, FHLB repurchased all remaining excess restricted stock outstanding and continued with the quarterly payment of dividends.

At December 31, 2013 and December 31, 2012, the investment in FHLB of Pittsburgh stock totaled $1.4 million and $3.7 million, respectively. At both December 31, 2013 and December 31, 2012, ACBB stock totaled $143,000.

Other Real Estate Owned

The balance of other real estate owned decreased to $4.1 million at December 31, 2013 from $8.9 million at December 31, 2012, primarily due to the sale of two OREO properties totaling $2.2 million and writedowns in the amount of $2.6 million on existing foreclosed properties during 2013.

Bank Owned Life Insurance

At December 31, 2013, the Company carried no investment in bank owned life insurance asset, compared to a $10.5 million asset at December 31, 2012. The decrease was due to surrender proceeds of $10.5 million received as a result of the Company’s decision to liquidate this investment in the second quarter of 2013.

Deposits

Deposits, which include non-interest and interest-bearing demand deposits, money market, savings and time deposits, are Republic’s major source of funding. Deposits are generally solicited from 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 decreased by $19.7 million to $869.5 million at December 31, 2013, from $889.2 million at December 31, 2012. The decrease was primarily the result of a reduction in certificate of deposit balances and money market and savings balances partially offset by increases in non-interest and interest-bearing demand deposit balances. The reduction in certificate of deposit balances was primarily the result of maturities of internet-based certificates of deposit which the Company considers non-core deposits and intentionally decided not to renew. Republic has continued to focus on its efforts to gather low-cost, core deposits, intentionally reducing dependence on the more volatile sources of funding in brokered and public fund certificates of deposit.

Shareholders’ Equity

Total shareholders’ equity decreased $7.0 million to $62.9 million at December 31, 2013, compared to $69.9 million at December 31, 2012, primarily due to accumulated other comprehensive losses associated with unrealized losses in the investment securities portfolio in 2013 and the net loss recognized in 2013. The shift in market value of the securities portfolio resulting in accumulated other comprehensive losses of $2.8 million at December 31, 2013 compared to accumulated other comprehensive income of $1.0 million at December 31, 2012 was primarily driven by an increase in market interest rates and widening asset spreads during the period causing a decline in the value of the investments held in the portfolio.

Investment Securities Portfolio

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

A summary of investment securities available-for-sale and investment securities held-to-maturity at December 31, 2013, 2012 and 2011 is as follows:

	At December 31,		
(dollars in thousands)	2013	2012	2011
Available for sale			
Collateralized mortgage obligations	$127,242	$97,959	$117,382
Mortgage-backed securities	15,669	20,626	12,764
Municipal securities	9,737	11,150	10,863
Corporate bonds	32,174	32,231	26,881
Asset-backed securities	19,089	19,785	-
Trust preferred securities	5,277	5,785	6,375
Other securities	115	131	131
Total amortized cost of securities	$209,303	$187,667	$174,396
Total fair value of investment securities	$204,891	$189,259	$174,323
Held to maturity			
U.S. Government Agencies	$1	$1	$2
Other securities	20	66	138
Total amortized cost of securities	$21	$67	$140
Total fair value of investment securities	$21	$69	$144

No single issuer of securities (excluding government agencies) account for more than 10% of shareholders' equity at December 31, 2013 with the exception of corporate bonds issued by Goldman Sachs and Morgan Stanley. The Goldman Sachs bonds had a book value of $10.3 million and a market value of $10.8 million at December 31, 2013. The Morgan Stanley bonds had a book value of $10.0 million and a market value of $10.3 million at December 31, 2013.

At December 31, 2013, the investment portfolio included seventeen municipal securities with a total market value of $9.6 million. The securities are reviewed quarterly for impairment. Research on each issuer is completed to assess the financial stability of the municipal entity. The largest geographic concentration was in Pennsylvania where one municipal security had a market value of $1.3 million. As of December 31, 2013, management found no evidence of other than temporary impairment ("OTTI") on any of the municipal securities held in the investment securities portfolio.

At December 31, 2013, the portfolio included two asset-backed securities with a total market value of $19.4 million, the majority of which (97%) is guaranteed by the U.S. Dept. of Education.

At December 31, 2013, the portfolio included pooled trust preferred securities (CDOs) with a market value of $2.9 million. The unrealized loss for the CDOs was due to the secondary market for such securities becoming inactive and is considered temporary.

The following table presents the contractual maturity distribution and weighted average yield of our investment securities portfolio at December 31, 2013. Mortgage-backed securities are categorized based on final maturity dates and do not consider the impact of amortization or prepayments on the estimated average life.

	December 31, 2013										
	Within One Year		One to Five Years		Five to Ten Years		Past Ten Years		Total		
(dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Fair value	Cost	Yield
Available for Sale											
Collateralized mortgage obligations	$-	-	$-	-	$-	-	$123,440	2.43%	$123,440	$127,242	2.43%
Mortgage-backed securities	-	-	-	-	30	1.94%	16,151	3.40%	16,181	15,669	3.40%
Municipal securities	-	-	-	-	5,642	2.54%	4,001	4.14%	9,643	9,737	3.20%
Corporate bonds	-	-	26,173	3.28%	4,074	5.59%	3,006	3.69%	33,253	32,174	2.92%
Asset-backed securities	-	-	-	-	10,536	1.45%	8,871	1.47%	19,407	19,089	1.46%
Trust Preferred securities	-	-	-	-	-	-	2,850	0.00%	2,850	5,277	0.00%
Other securities	-	-	117	1.17%	-	-	-	-	117	115	1.17%
Total AFS securities	$-	-	$26,290	3.27%	$20,282	2.58%	$158,319	2.50%	$204,891	$209,303	2.50%
Held to Maturity											
U.S. Government Agencies	$-	-	$1	1.51%	$-	-	$-	-	$1	$1	1.51%
Other securities	-	-	20	0.00%	-	-	-	-	20	20	0.00%
Total HTM securities	$-	-	$21	0.08%	$-	-	$-	-	$21	$21	0.08%

Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

The types of instruments valued based on matrix pricing in active markets include all of the 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, we do not adjust the matrix pricing for such instruments.

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

The trust preferred securities are pools of similar securities that are grouped into an asset structure commonly referred to as collateralized debt obligations ("CDOs") which consist of the debt instruments of various banks, diversified by the number of participants in the security as well as geographically. These 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 recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2013, 2012, and 2011:

Level 3 Investments Only (dollars in thousands)	Year Ended December 31, 2013 Trust Preferred Securities	Year Ended December 31, 2013 Corporate Bonds	Year Ended December 31, 2012 Trust Preferred Securities	Year Ended December 31, 2012 Corporate Bonds	Year Ended December 31, 2011 Trust Preferred Securities	Year Ended December 31, 2011 Corporate Bonds
Balance, January 1,	$3,187	$3,007	$3,410	$3,004	$3,450	$3,000
Security transferred to Level 3 measurement	-	-	-	-	-	-
Unrealized gains (losses)	171	(1)	401	3	2	4
Paydowns	(508)	-	(590)	-	-	-
Impairment charges on Level 3	-	-	(34)	-	(42)	-
Balance, December 31,	$2,850	$3,006	$3,187	$3,007	$3,410	$3,004

An independent, third party pricing service is used to estimate the current fair market value of each CDO held in the investment securities portfolio. 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, 2013 and December 31, 2012. Financial information on the issuers was also obtained from Bloomberg, the FDIC and SNL Financial. Both published and unpublished industry sources were utilized in estimating fair value. Such information includes loan prepayment speed assumptions, discount rates, default rates, and loss severity percentages. A detailed explanation of the assumptions used to estimate the fair market value of the CDOs can be found in Note 14 “Fair Value Measurements and Fair Values of Financial Investments” to the Consolidated Financial Statements.

The fair market valuation for each CDO 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 that do default.

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

Also included in Level 3 investment securities classified as available for sale is a single-issuer corporate bond transferred from Level 2 in 2010 since the bond is not actively traded. Impairment would depend on the repayment ability of the underlying issuer, which is assessed through a detailed quarterly review of the issuer’s financial statements. The issuer is a “well capitalized” financial institution as defined by federal banking regulations and has demonstrated the ability to raise additional capital, when necessary, through the public capital markets. The fair value of this corporate bond is estimated by obtaining a price of a comparable floating rate debt instrument through Bloomberg.

Loan Portfolio

Our loan portfolio consists of secured and unsecured commercial loans including commercial real estate loans, construction and land development loans, commercial and industrial loans, owner occupied real estate loans, consumer and other loans, and residential mortgages. Commercial loans are primarily secured term loans made to small to medium-sized businesses and professionals for working capital, asset acquisition and other purposes. Commercial loans are originated as either fixed or variable rate loans with typical terms of 1 to 5 years. Republic's commercial loans typically range between $250,000 and $5.0 million, but customers may borrow significantly larger amounts up to Republic's legal lending limit of approximately $13.9 million at December 31, 2013. Individual customers may have several loans often secured by different collateral. Such relationships in excess of $9.3 million (an internal monitoring guideline which approximates 10% of capital and reserves) at December 31, 2013, amounted to $143.2 million. There were no loans in excess of the legal lending limit at December 31, 2013.

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, 2013, we had loan concentrations exceeding 10% of total loans for credits extended to lessors of nonresidential real estate in the aggregate amount of $207.5 million, which represented 30.5% of gross loans receivable at December 31, 2013 and lessors of residential real estate in the aggregate amount of $104.9 million, which represented 15.4% of gross loans receivable at December 31, 2013. Loan concentrations are considered to exist when amounts are loaned to multiple numbers of borrowers engaged in similar activities that management believes would cause them to be similarly impacted by economic or other conditions. At December 31, 2013, we had no foreign loans outstanding.

Total loans, net of deferred loan fees, increased by $61.4 million, or 9.9%, to $679.3 million at December 31, 2013, from $617.9 million at December 31, 2012, as we saw a positive trend in quality loan demand during 2013 and continued success in our relationship banking model.

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

	At December 31,				
(dollars in thousands)	2013	2012	2011	2010	2009
Commercial real estate	$342,794	$335,561	$344,377	$374,935	$393,262
Construction and land development	23,977	26,659	35,061	73,795	103,790
Commercial and industrial	118,209	103,768	87,668	78,428	88,926
Owner occupied real estate	160,229	126,242	102,777	70,833	85,481
Consumer and other	31,981	23,449	16,683	17,808	19,460
Residential mortgage	2,359	2,442	3,150	5,026	3,341
Total loans	$679,549	$618,121	$589,716	$620,825	$694,260
Deferred loan fees	238	220	224	470	442
Total loans, net of deferred loan fees	$679,311	$617,901	$589,492	$620,355	$693,818

Loan Maturity and Interest Rate Sensitivity

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

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Total
Fixed rate:							
1 year or less	$41,298	$ 10,146	$6,206	$4,942	$37	$-	$62,629
1-5 years	168,964	60	22,807	64,941	258	-	257,030
After 5 years	63,388	-	12,662	45,542	6,375	423	128,390
Total fixed rate	273,650	10,206	41,675	115,425	6,670	423	448,049
Adjustable rate:							
1 year or less	$31,420	$ 3,509	$41,992	$1,786	$113	$-	$78,820
1-5 years	29,167	5,973	17,392	5,778	1,557	-	59,867
After 5 years	8,557	4,289	17,150	37,240	23,641	1,936	92,813
Total adjustable rate	69,144	13,771	76,534	44,804	25,311	1,936	231,500
Total	$342,794	$ 23,977	$118,209	$160,229	$31,981	$2,359	$679,549

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

At December 31, 2013, 65.9% of total loans were fixed rate compared to 64.7% at December 31, 2012.

Credit Quality

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

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

While a loan is classified as non-accrual, 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:

	At December 31,				
(dollars in thousands)	2013	2012	2011	2010	2009
Loans accruing, but past due 90 days or more	$-	$202	$748	$-	$-
Non-accrual loans:					
Commercial real estate	1,104	7,987	1,880	14,955	7,466
Construction and land development	1,618	1,342	4,022	18,970	15,904
Commercial and industrial	6,837	4,693	3,925	4,500	997
Owner occupied real estate	205	968	-	1,061	1,225
Consumer and other	656	856	737	506	442
Residential mortgage	-	-	-	-	-
Total non-accrual loans	10,420	15,846	10,564	39,992	26,034
Total non-performing loans(1)	10,420	16,048	11,312	39,992	26,034
Other real estate owned	4,059	8,912	6,479	15,237	13,611
Total non-performing assets(1)	$14,479	$24,960	$17,791	$55,229	$39,645
Non-performing loans as a percentage of total loans, net of unearned income(1)	1.53 %	2.60 %	1.92 %	6.45 %	3.75 %
Non-performing assets as a percentage of total assets	1.51 %	2.52 %	1.70 %	6.30 %	3.93 %

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

Problem loans can consist of loans that are performing, but for which potential credit problems of the borrowers have caused management to have serious doubts as to the ability of such borrowers to continue to comply with present repayment terms. At December 31, 2013, all identified problem loans, included in the preceding table, are internally classified and have been evaluated for a specific reserve allocation in the allowance for loan losses (see "Allowance for Loan Losses").

Non-performing assets decreased by $10.5 million, or 42%, to $14.5 million at December 31, 2013, compared to $25.0 million at December 31, 2012. The decrease is the result of paydowns of $9.2 million and writedowns of $4.8 million partially offset by $3.8 million in loans transferred to non-accrual status.

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

	For the Year Ended December 31,				
	2013	2012	2011	2010	2009
Interest income that would have been recorded had the loans been in accordance with their original terms	$ 488,000	$ 699,000	$ 583,000	$ 2,405,000	$1,180,000
Interest income included in net income	$-	$-	$-	$-	$-

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Allowance for Loan Losses

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

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

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

Prior to the first quarter of 2012, historical losses for all commercial loans secured by real estate were aggregated into one group for purposes of calculating a loss rate for loans collectively evaluated for impairment in the allowance for loan loss calculation. During the first quarter of 2012, management elected to disaggregate this grouping into five separate categories based on distinct risk factors to provide a more detailed estimate for the allowance calculation. This change resulted in a reduction of approximately $2.6 million in the estimated allowance required for non-impaired loans in the first quarter of 2012 due to the application of lower loss rates to a larger segment of the commercial real estate portfolio with a lower risk profile.

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

A detailed analysis of our allowance for loan losses for the years ended December 31, 2013, 2012, 2011, 2010 and 2009 is as follows:

	For the Year Ended December 31,				
(dollars in thousands)	2013	2012	2011	2010	2009
Balance at beginning of period	$9,542	$12,050	$11,444	$12,841	$8,409
Charge-offs:					
Commercial real estate	1,291	1,582	8,783	3,823	4,145
Construction and land development	60	1,004	3,719	13,835	4,552
Commercial and industrial	611	1,304	1,088	1,468	865
Owner occupied real estate	320	-	1,838	-	44
Consumer and other	75	102	41	42	164
Residential mortgage	-	-	-	-	-
Total charge-offs	2,357	3,992	15,469	19,168	9,770
Recoveries:					
Commercial real estate	54	-	44	437	-
Construction and land development	-	105	10	621	-
Commercial and industrial	63	-	-	110	-
Owner occupied real estate	-	-	15	-	-
Consumer and other	26	29	40	3	2
Residential mortgage	-	-	-	-	-
Total recoveries	143	134	109	1,171	2
Net charge-offs	2,214	3,858	15,360	17,997	9,768
Provision for loan losses	4,935	1,350	15,966	16,600	14,200
Balance at end of period	$12,263	$9,542	$12,050	$11,444	$12,841
Average loans outstanding(1)	$640,233	$609,943	$630,309	$659,882	$736,647
As a percent of average loans:(1)					
Net charge-offs	0.35 %	0.63 %	2.44 %	2.73 %	1.33 %
Provision for loan losses	0.77 %	0.22 %	2.53 %	2.52 %	1.93 %
Allowance for loan losses	1.92 %	1.56 %	1.91 %	1.73 %	1.75 %
Allowance for loan losses to:					
Total loans, net of unearned income	1.81 %	1.54 %	2.04 %	1.84 %	1.85 %
Total non-performing loans	117.69 %	59.46 %	106.52 %	28.62 %	49.32 %

(1) Includes non-accruing loans.

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that management believes is adequate to absorb inherent losses in the loan portfolio. The Company recorded a loan loss provision in the amount of $4.9 million in 2013 compared to a $1.4 million provision in 2012.

The increase in the provision recorded during 2013 was primarily driven by a single loan relationship which was determined to be impaired during the fourth quarter of 2013 due to delinquency in payments. The need for a provision in the amount of $3.6 million was the result of a significant reduction in the collateral value supporting the loan based upon a current appraisal. Management is working closely with this borrower to resolve the delinquency issue and address the collateral deficiency.

The decrease in the provision recorded in 2012 compared to 2011 was driven by a significant improvement in asset quality year over year. In the fourth quarter 2011 we completed a bulk sale of distressed loans and foreclosed properties which drove a substantial portion of the provision recorded in 2011. This transaction was reflective of our effort to transform and strengthen the balance sheet by substantially reducing non-performing asset balances and improving credit quality metrics through one transaction. We continue to closely monitor and examine all aspects of the loan portfolio to assure that credit quality issues have been appropriately addressed.

The allowance for loan losses as a percentage of non-performing loans (coverage ratio) was 117.7% at December 31, 2013 as compared to 59.5% at December 31, 2012 and 106.5% at December 31, 2011. The decrease in the coverage ratio at December 31, 2012 when compared to December 31, 2011 was primarily the result of an increase in non-performing loans during 2012. This increase was driven by one loan relationship that transferred to non-accrual status in the third quarter 2012. This loan was paid off during 2013 resulting in a reduction in non-performing loans and a corresponding increase in the coverage ratio. Coverage is considered adequate by management as of December 31, 2013.

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

The Company's charge-off policy was enhanced during 2010 to memorialize the factors which drive the recognition of a charge-off. Prior to 2010 the charge-off policy simply stated that a charge-off would be recognized when management made the determination that full repayment on a loan or obligation to the company was not probable. Additional language was added to memorialize the factors considered when making the determination on when collection becomes not probable. The policy now includes wording that discusses the review of primary and secondary repayment sources on a loan, assessment of a borrower's liquidity and length of delinquency. These same factors were previously used when making the determination to record a charge-off. They are now formally documented in a written policy. These changes have had no discernible impact on the quantitative or qualitative factors used to determine the adequacy of the allowance for loan losses. The Company evaluates loans for impairment and potential charge-offs on a quarterly basis. Any loan rated as substandard or lower will have a collateral evaluation analysis completed in accordance with the guidance under generally accepted accounting principles (GAAP) on impaired loans to determine if a deficiency exists.

Our credit monitoring process assesses the ultimate collectability of an outstanding loan balance from all potential sources. When a loan is determined to be uncollectible it is charged-off against the allowance for loan losses. Unsecured commercial loans and all consumer loans are charged-off immediately upon reaching the 90-day delinquency mark unless they are well secured and in the process of collection. The timing on charge-offs of all other loan types is subjective and will be recognized when management determines that full repayment, either from the cash flow of the borrower, collateral sources, and/or guarantors, will not be sufficient and that repayment is unlikely. A full or partial charge-off is recognized equal to the amount of the estimated deficiency calculation.

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

Partial charge-offs of non-performing and impaired loans can significantly reduce the coverage ratio and other credit loss statistics due to the fact that the balance of the allowance for loan losses will be reduced while still carrying the remainder of a non-performing loan balance in the impaired loan category. The amount of non-performing loans for which there were partial charge-offs during the year amounted to $6.2 million at December 31, 2013 compared to $11.3 million at December 31, 2012.

The Company's charge-off policy is reviewed on an annual basis and updated as necessary. During the twelve months ended December 31, 2013, there have been no changes made to this policy.

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

Estimating the appropriate level of the allowance for loan losses at any given date is difficult, particularly in a continually changing economy. In management's opinion, the allowance for loan losses was appropriate at December 31, 2013. However, there can be no assurance that, if asset quality deteriorates in future periods, additions to the allowance for loan losses will not be required.

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

The allocation of the allowance for loan losses for the years ended December 31, 2013, 2012, 2011, 2010 and 2009 is as follows:

	At December 31,									
	2013		2012		2011		2010		2009	
(dollars in thousands)	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans
Commercial real estate	$6,454	50.4 %	$3,979	54.3 %	$7,372	58.4 %	$7,243	60.4 %	$6,828	56.6 %
Construction and land development	1,948	3.5 %	1,273	4.3 %	558	6.0 %	837	11.9 %	3,789	15.0 %
Commercial and industrial	2,309	17.4 %	1,880	16.8 %	1,928	14.9 %	1,443	12.6 %	1,057	12.8 %
Owner occupied real estate	985	23.6 %	1,967	20.4 %	1,963	17.4 %	1,575	11.4 %	894	12.3 %
Consumer and other	225	4.7 %	234	3.8 %	113	2.8 %	130	2.9 %	159	2.8 %
	14	0.4 %	17	0.4 %	23	0.5 %	41	0.8 %	27	0.5 %

Residential mortgage										
Unallocated	328	-	192	-	93	-	175	-	87	-
Total allowance for loan losses	$12,263	100 %	$9,542	100 %	$12,050	100 %	$11,444	100 %	$12,841	100 %

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

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

In estimating the allowance for loan losses, management considers current economic conditions, past loss experience, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews and regulatory examinations, borrowers' perceived financial and managerial strengths, the adequacy of underlying collateral, if collateral dependent, or present value of future cash flows, and other relevant and qualitative risk factors. These qualitative risk factors include:

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

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

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

The majority of our loan portfolio represents loans made for commercial purposes, while significant amounts of residential property may serve as collateral for such loans. We attempt to evaluate larger loans individually, on the basis of our loan review process, which scrutinizes loans on a selective basis and other available information. Even if all commercial purpose loans could be reviewed, information on potential problems might not be available. Our portfolio of loans made for purposes of financing residential mortgages and consumer loans are evaluated in groups. At December 31, 2013, loans made for commercial real estate, construction and land development, commercial and industrial, owner occupied real estate, consumer and other, and residential mortgage purposes, respectively, amounted to $342.8 million, $24.0 million, $118.2 million, $160.2 million, $32.0 million, and $2.4 million.

A loan is considered impaired, in accordance with ASC 310, when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans, but also include internally classified accruing loans. As of December 31, 2013, management identified three troubled debt restructurings in the loan portfolio in the amount of $4.2 million. Four troubled debt restructurings in the amount of $7.5 million were identified as of December 31, 2012.

The following table presents the Company’s impaired loans at December 31, 2013, 2012 and 2011:

(dollars in thousands)	December 31, 2013	2012	2011
Impaired loans without a valuation allowance	$10,790	$27,594	$23,463
Impaired loans with a valuation allowance	21,743	13,421	14,736
Total impaired loans	$32,533	$41,015	$38,199
Valuation allowance related to impaired loans	$5,610	$2,943	$3,104
Total nonaccrual loans	10,420	15,846	10,564
Total loans past-due ninety days or more and still accruing	-	202	748

The recorded investment in loans that are impaired in accordance with ASC 310 totaled $32.5 million, $41.0 million, and $38.2 million at December 31, 2013, 2012 and 2011, respectively. The amounts of related valuation allowances were $5.6 million, $2.9 million, and $3.1 million, respectively at those dates. For the years ended December 31, 2013, 2012 and 2011 the average recorded investment in impaired loans was approximately $33.7 million, $40.8 million, and $70.7 million, respectively. Republic earned $1.2 million, $1.6 million, and $1.8 million of interest income on impaired loans (internally classified accruing loans) in 2013, 2012, and 2011, respectively. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

Total impaired loans decreased by $8.5 million, or 21%, during the year ended December 31, 2013. This decrease was the result of balance payoffs and credit upgrades processed in 2013. The valuation allowance related to impaired loans increased to $5.6 million at December 31, 2013 compared to $2.9 million at December 31, 2012.

At December 31, 2013 and 2012, internally classified accruing loans totaled approximately $22.1 million and $25.2 million, respectively. The amounts of related valuation allowance were $4.0 million and $1.6 million, respectively at those dates. Republic had delinquent loans as follows: (i) 30 to 59 days past due, at December 31, 2013 and 2012, in the aggregate principal amount of $21.5 million and $1.1 million respectively; and (ii) 60 to 89 days past due, at December 31, 2013 and 2012 in the aggregate principal amount of $7.0 million and $27.8 million, respectively. The increase in loan balances 30 to 59 days past due was the result of delinquency in two lending relationships at

December 31, 2013, one of which in the amount of $12.7 million moved into 30 to 59 days past due at December 31, 2013 from 60 to 89 days past due as of December 31, 2012. Management has engaged in active discussions with both relationships to address these delinquencies and is confident that acceptable resolutions will be achieved in the near term.

Deposits

Total deposits at December 31, 2013 were $869.5 million, a decrease of $19.7 million or 2.2% from total deposits of $889.2 million at December 31, 2012. Total deposits by account type at December 31, 2013, 2012 and 2011 are as follows:

(dollars in thousands)	At December 31,		
	2013	2012	2011
Demand deposits, non-interest bearing	$157,806	$145,407	$226,287
Demand deposits, interest bearing	230,221	180,440	109,242
Money market & savings deposits	402,671	440,120	400,141
Time deposits	78,836	123,234	216,941
Total deposits	$869,534	$889,201	$952,611

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 decrease in total deposits to $869.5 million at December 31, 2013 from $889.2 million at December 31, 2012 was primarily the result of $44.4 million decrease in time deposits and a $37.5 million decrease in money market and savings deposits. We have intentionally allowed internet based certificates of deposit to mature and roll off to reduce our cost of funds. These decreases have been offset by strong growth in interest bearing demand deposits of $49.8 million and a $12.4 million increase within non-interest bearing deposits, which reflect our retail-focused strategy of gathering low-cost core deposits. This strategy has also allowed us to significantly reduce our dependence on the more volatile sources of funding in brokered and internet based certificates of deposit.

The average balances and weighted average rates of Republic's deposits for the years ended December 31, 2013, 2012 and 2011 are as follows:

	For the Years Ended December 31,					
	2013		2012		2011	
(dollars in thousands)	Average Balance	Rate	Average Balance	Rate	Average Balance	Rate
Demand deposits:						
Non-interest bearing	$149,125		$136,999		$119,189	
Interest bearing	192,224	0.43 %	146,319	0.54 %	91,577	0.64 %
Money market & savings deposits	417,652	0.43 %	433,422	0.63 %	345,885	1.00 %
Time deposits	92,484	0.94 %	155,549	1.10 %	244,741	1.23 %
Total deposits	$851,485	0.41 %	$872,289	0.60 %	$801,392	0.88 %

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The remaining maturity of certificates of deposit for $100,000 or more as of December 31, 2013 is as follows:

(dollars in thousands)		
Maturity:		
3 months or less	$	7,163
3 to 6 months		3,242
6 to 12 months		11,593
Over 12 months		17,407
Total	$	39,405

The following is a summary of the remaining maturity of time deposits, which includes certificates of deposits of $100,000 or more, as of December 31, 2013:

(dollars in thousands)		
Maturity:		
2014	$	53,294
2015		12,980
2016		11,253
2017		462
2018		847
Thereafter		-
Total	$	78,836

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 our 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 we do for on-balance-sheet instruments.

Financial instruments whose contract amounts represent potential credit risk are commitments to extend credit of approximately $109.3 million and $99.7 million and standby letters of credit of approximately $2.7 million and $4.3 million at December 31, 2013 and 2012, respectively. Commitments often expire without being drawn upon. The $109.3 million of commitments to extend credit at December 31, 2013, substantially all were 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. The Company evaluates 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, 2013:

(dollars in thousands)	Total	Less than One Year	One to Three Years	Three to Five Years	After Five Years
Minimum annual rentals or non-cancellable operating leases	$43,055	$2,547	$4,923	$4,891	$30,694
Remaining contractual maturities of time deposits	78,836	53,294	24,233	1,309	-
Subordinated debt	22,476	-	-	-	22,476
Director and Officer retirement plan obligations	1,368	459	200	219	490
Loan commitments	109,315	58,980	4,264	8,052	38,019
Standby letters of credit	2,684	2,299	-	-	385
Total	$257,734	$117,579	$33,620	$14,471	$92,064

As of December 31, 2013, we had entered into non-cancelable lease agreements for our main office and operations center, twelve current Republic retail branch facilities, and two loan offices, expiring through August 31, 2043, including renewal options. The leases are accounted for as operating leases. The minimum rental payments required under these leases are $43.1 million through the year 2043, including renewal options. We have retirement plan agreements with certain directors and officers. At December 31, 2013, the accrued benefits under the plan 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 an "interest sensitivity gap" ("GAP") analysis and simulation models to monitor behavior of its interest sensitive assets and liabilities. A GAP analysis is the difference between interest-sensitive assets and interest-sensitive 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 re-pricing 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 re-price within one year or less. Generally, we limit long-term fixed rate assets and liabilities in our efforts to manage interest rate risk.

A positive GAP occurs when interest-sensitive assets exceed interest-sensitive liabilities re-pricing in the same time periods, and a negative GAP occurs when interest-sensitive liabilities exceed interest-sensitive assets re-pricing 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 re-pricing certain categories of assets and liabilities. For purposes of interest rate sensitivity analysis, assets and liabilities are stated at their contractual maturity, estimated likely call date, or earliest re-pricing 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 re-pricing term and can be withdrawn or re-priced at any time. Management estimates the re-pricing characteristics of these accounts based upon decay rates and run off projections obtained in a deposit study performed by an independent third party, along with management's estimates of when rates would have to be increased to retain balances in response to competition. Such estimates are necessarily arbitrary and wholly judgmental. As a result of the run off projections, these deposits are not considered to re-price simultaneously and, accordingly, a portion of the deposits are moved into time brackets exceeding one year. However, management may choose not to re-price 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 re-pricing, they may react in different degrees to changes in market interest rates. Furthermore, re-pricing 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 GAP analysis at December 31, 2013. Amounts shown in the table include both estimated maturities and instruments scheduled to re-price, 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 CDOs is variable and adjusts quarterly.

Interest Rate Sensitivity Gap
As of December 31, 2013

(dollars in thousands)	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	Fina State To
Interest sensitive assets:									
Investment securities and other interest-bearing balances	$25,116	$1,833	$3,467	$11,356	$15,914	$15,397	$7,022	$149,732	$229
Average interest rate	0.93 %	1.42 %	1.67 %	1.52 %	2.07 %	2.52 %	2.38 %	2.49 %	2.3
Loans receivable	274,709	19,651	23,975	42,263	67,880	93,868	99,021	62,875	684
Average interest rate	5.02 %	5.56 %	5.90 %	4.80 %	5.04 %	4.54 %	4.40 %	6.02 %	4.9
Total	$299,825	$21,484	$27,442	$53,619	$83,794	$109,265	$106,043	$212,607	$914
Cumulative totals	$299,825	$321,309	$348,751	$402,370	$486,164	$595,429	$701,472	$914,079	
Interest sensitive liabilities:									
Demand interest bearing(1)	$12,436	$12,436	$24,871	$18,782	$16,533	$14,316	$12,400	$118,447	$230
Average interest rate	0.39 %	0.39 %	0.39 %	0.38 %	0.38 %	0.38 %	0.38 %	0.37 %	0.4
Savings accounts(1)	6,427	6,427	12,854	14,672	10,278	7,596	5,759	33,648	97,
Average interest rate	0.45 %	0.45 %	0.45 %	0.46 %	0.46 %	0.46 %	0.46 %	0.48 %	0.4
Money market accounts(1)	3,480	3,480	6,959	6,042	11,231	48,403	39,829	185,586	305
	0.40 %	0.40 %	0.40 %	0.40 %	0.36 %	0.33 %	0.33 %	0.33 %	0.3

Average interest rate									
Time deposits	18,494	9,122	25,679	12,979	11,253	463	846	-	78,8
Average interest rate	0.61 %	0.52 %	0.68 %	1.24 %	1.90 %	1.17 %	1.00 %	-	0.9
Subordinated debt	11,341	-	-	-	-	-	-	11,135	22,4
Average interest rate	1.96 %	-	-	-	-	-	-	8.00 %	4.9
Total	$52,178	$31,465	$70,363	$52,475	$49,295	$70,778	$58,834	$348,816	$734
Cumulative totals	$52,178	$83,643	$154,006	$206,481	$255,776	$326,554	$385,388	$734,204	
Interest rate sensitivity GAP	$247,647	$(9,981)	$(42,921)	$1,144	$34,499	$38,487	$47,209	$(136,209)	
Cumulative GAP	$247,647	$237,666	$194,745	$195,889	$230,388	$268,875	$316,084	$179,875	
Interest sensitive assets/Interest sensitive liabilities	574.62 %	384.14 %	226.45 %	194.87 %	190.07 %	182.34 %	182.02 %	124.50 %	
Cumulative GAP/ Total earning assets	27.09 %	26.00 %	21.31 %	21.43 %	25.20 %	29.41 %	34.58 %	19.68 %	

(1) Demand, savings and money market accounts are scheduled to reprice based upon decay rate and run off percentage estimates obtained through a deposit study performed by an independent third party, along with management's estimates 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 our interest rate risk and managing our 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

The income simulation models management used to measure interest rate risk and manage interest rate sensitivity generates estimates of the change in 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, 2013 and reflects the changes to NPV as a result of immediate and sustained changes in interest rates as indicated (dollars in thousands):

Change in Interest Rates in Basis Points (Rate Shock)	Net Portfolio Value Amount	$ Change	% Change	NPV as a % of Portfolio Value of Assets NPV Ratio	Change (in Basis Points)
+400	$113,702	$29,820	35.55%	12.53%	145
+300	111,314	27,432	32.70%	12.03%	95
+200	104,857	20,705	24.68%	11.12%	35
+100	94,863	10,981	13.09%	9.96%	(56)
Static	83,882	-	0.00%	8.73%	-
-100	71,509	(12,373)	(14.75)%	7.37%	(134)

In addition to modeling changes in NPV, we also analyze potential changes to NII for a forecasted twelve-month period under rising and falling interest rate scenarios. The following table shows the NII model as of December 31, 2013 (dollars in thousands):

Change in Interest Rates in Basis Points(1)	Net Interest Income	$ Change	% Change
+400	$ 36,121	565	1.59%
+300	35,971	415	1.17%
+200	35,851	295	0.83%
+100	35,722	166	0.47%
Static	35,556	-	0.00%
-100	35,404	(152)	(0.43)%

(1) The net interest income results were calculated assuming 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 re-pricing 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.

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 do make significant changes to underlying assumptions, which are wholly judgmental. Prepayments on residential mortgage loans and mortgage-backed securities have increased over historical levels in recent years 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 for financial reporting purposes. The purpose of the issuances of these securities was to increase 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 we 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 without a prepayment penalty.

On June 28, 2007, Republic Capital Trust III (Trust III), issued $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 without a prepayment penalty.

On June 10, 2008, Republic First Bancorp Capital Trust IV (Trust IV) issued $10.8 million of convertible trust preferred securities 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 the Company. The investor group also included 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 elected to our Board of Directors and serves as the Chairman of our Audit Committee. 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 (b) 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.

Shareholders' equity as of December 31, 2013 totaled approximately $62.9 million compared to approximately $69.9 million as of December 31, 2012. The book value per share of our common stock decreased from $2.69 as of December 31, 2012, based upon 25,972,897 shares outstanding, as adjusted for treasury stock and deferred compensation plan shares, to $2.42 as of December 31, 2013, based upon 25,972,897 shares outstanding at December 31, 2013, as adjusted for treasury stock and deferred compensation plan shares.

Regulatory Capital Requirements

The Company is required to comply with certain "risk-based" capital adequacy guidelines issued by the FRB and the FDIC. The risk-based capital guidelines assign varying risk weights to the individual assets held by a bank. 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 11.53% and 12.73% at December 31, 2013 and 2012, respectively, and as required by the guidelines, at least one-half of the qualifying total capital consisted of Tier l capital elements. Tier l risk-based capital ratios on December 31, 2013 and 2012 were 10.28% and 11.48%, respectively. At December 31, 2013 and 2012, we exceeded the requirements for risk-based capital adequacy under federal guidelines. At December 31, 2013 and 2012, our leverage ratio was 8.59% and 9.01%, 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 or 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 l capital to total assets") of at least 5%, a Tier l 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, 2013 and 2012, Republic was considered "well capitalized" under FDIC regulations.

The following table presents our regulatory capital ratios at December 31, 2013 and 2012:

(dollars in thousands)	Actual		For Capital Adequacy Purposes		To be well capitalized under regulatory capital guidelines	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2013:						
Total risk based capital						
Republic	$ 92,493	11.38 %	$ 65,038	8.00 %	$ 81,297	10.00 %
Company	93,848	11.53 %	65,092	8.00 %	-	- %
Tier one risk based capital						
Republic	82,305	10.12 %	32,519	4.00 %	48,778	6.00 %
Company	83,652	10.28 %	32,546	4.00 %	-	- %
Tier one leveraged capital						
Republic	82,305	8.46 %	38,921	4.00 %	48,651	5.00 %
Company	83,652	8.59 %	38,971	4.00 %	-	- %
At December 31, 2012:						
Total risk based capital						
Republic	$ 96,366	12.70 %	$ 60,685	8.00 %	$ 75,857	10.00 %
Company	97,006	12.73 %	60,971	8.00 %	-	- %
Tier one risk based capital						
Republic	86,883	11.45 %	30,343	4.00 %	45,514	6.00 %
Company	87,479	11.48 %	30,485	4.00 %	-	- %
Tier one leveraged capital						
Republic	86,883	8.96 %	38,786	4.00 %	48,483	5.00 %
Company	87,479	9.01 %	38,838	4.00 %	-	- %

Management believes that the Company and Republic met, as of December 31, 2013 and 2012, all capital adequacy requirements to which we are subject. In the current year, 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.

The Company 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.

In July 2013, the federal bank regulatory agencies adopted revisions to the agencies' capital adequacy guidelines and prompt corrective action rules, which were designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. The final rules generally implement higher minimum capital requirements, add a new common equity tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity tier 1 capital, additional tier 1 capital or tier 2 capital. The new minimum capital to risk-adjusted assets requirements are a common equity tier 1 capital ratio of 4.5% (6.5% to be considered "well capitalized") and a tier 1 capital ratio of 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% to be considered "well capitalized"); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered "well capitalized"). Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The new minimum capital requirements are effective on January 1, 2015. The capital contribution buffer requirements phase in over a three-year period beginning January 1, 2016.

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. Our most liquid assets consist of cash, amounts due from banks and federal funds sold.

Regulatory authorities require us 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 have formed an asset/liability committee (ALCO), comprised of certain members of Republic's Board of Directors and senior management to monitor such ratios. The ALCO committee 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. The ALCO committee 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 $35.9 million at December 31, 2013, compared to $128.0 million at December 31, 2012. Loan maturities and repayments are another source of asset liquidity. At December 31, 2013, Republic estimated that more than $35.0 million of loans would mature or repay in the six-month period ending June 30, 2014. Additionally, the majority of our investment securities are available to satisfy liquidity requirements through sales on the open market or by pledging as collateral to access credit facilities. At December 31, 2013, we had outstanding commitments (including unused lines of credit and letters of credit) of $112.0 million. Certificates of deposit scheduled to mature in one year totaled $53.3 million at December 31, 2013. We anticipate that we will have sufficient funds available to meet all 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 have established a line of credit with the FHLB of Pittsburgh. Our maximum borrowing capacity with the FHLB was $372.6 million at December 31, 2013. As of December 31, 2013 and 2012, we had no outstanding borrowings with the FHLB. We also established a contingency line of credit of $10.0 million with Atlantic Central Bankers Bank ("ACBB") to assist in managing our liquidity position. We had no amounts outstanding against the ACBB line of credit at December 31, 2013 and 2012.

Variable Interest Entities

The Company follows the guidance under ASC 810, Consolidation, with regard to variable interest entities. ASC 810 clarifies the application of consolidation principles for certain legal entities in which voting rights are not effective in identifying the investor with the controlling financial interest. An entity is subject to consolidation under ASC 810 if the investors 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 ASC 810 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.

The Company does not consolidate its subsidiary trusts. ASC 810 precludes consideration of the call option embedded in the preferred securities when determining if the Company has the right to a majority of the trusts’ expected residual returns. The non-consolidation results in the investment in the common securities of the trusts to be included in other assets with a corresponding increase in outstanding debt of $676,000. In addition, the income received on the Company’s investment in the common securities of the trusts is included in other income.

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 our 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.

Item 7A: Quantitative and Qualitative Disclosure about Market Risk

See “Management Discussion and Analysis of Results of Operations and Financial Condition – Interest Rate Risk Management”.

Item 8: Financial Statements and Supplementary Data

The Consolidated Financial Statements of the Company begin on page 65.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Republic First Bancorp, Inc.
Philadelphia, Pennsylvania

We have audited the accompanying consolidated balance sheet of Republic First Bancorp, Inc. and Subsidiaries (the "Bancorp"), Inc. as of December 31, 2013 and the related consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Bancorp's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Republic First Bancorp, Inc. and Subsidiaries at December 31, 2013 and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Bancorp's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 24, 2014 expressed an unqualified opinion.

Harrisburg, Pennsylvania
March 24, 2014

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Republic First Bancorp, Inc.

We have audited the accompanying consolidated balance sheet of Republic First Bancorp, Inc. and Subsidiaries (the "Bancorp") as of December 31, 2012 and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Bancorp's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Republic First Bancorp, Inc. and Subsidiaries as of December 31, 2012 and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

Pittsburgh, Pennsylvania
March 15, 2013

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

	December 31, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$12,525	$9,097
Interest bearing deposits with banks	23,355	118,907
Cash and cash equivalents	35,880	128,004
Investment securities available for sale, at fair value	204,891	189,259
Investment securities held to maturity, at amortized cost (fair value of $21 and $69, respectively)	21	67
Restricted stock, at cost	1,570	3,816
Loans held for sale	4,931	82
Loans receivable (net of allowance for loan losses of $12,263 and $9,542, respectively)	667,048	608,359
Premises and equipment, net	22,748	21,976
Other real estate owned, net	4,059	8,912
Accrued interest receivable	3,049	3,128
Bank owned life insurance	-	10,490
Other assets	17,468	14,565
Total Assets	$961,665	$988,658
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand – non-interest bearing	$157,806	$145,407
Demand – interest bearing	230,221	180,440
Money market and savings	402,671	440,120
Time deposits	78,836	123,234
Total Deposits	869,534	889,201
Accrued interest payable	237	301
Other liabilities	6,519	6,778
Subordinated debt	22,476	22,476
Total Liabilities	898,766	918,756
Shareholders' Equity		
Preferred stock, par value $0.01 per share: 10,000,000 shares authorized; no shares issued	-	-
Common stock, par value $0.01 per share: 50,000,000 shares authorized; shares issued 26,501,742	265	265
Additional paid in capital	107,078	106,753
Accumulated deficit	(37,708)	(34,228)
Treasury stock at cost (416,303 shares)	(3,099)	(3,099)
Stock held by deferred compensation plan (112,542 shares)	(809)	(809)
Accumulated other comprehensive income (loss)	(2,828)	1,020
Total Shareholders' Equity	62,899	69,902

Total Liabilities and Shareholders' Equity	$961,665	$988,658

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Operations
For the Years Ended December 31, 2013, 2012 and 2011
(Dollars in thousands, except per share data)

	Years Ended December 31,		
	2013	2012	2011
Interest income:			
Interest and fees on taxable loans	$31,986	$32,326	$32,954
Interest and fees on tax-exempt loans	349	265	301
Interest and dividends on taxable investment securities	4,435	4,899	4,416
Interest and dividends on tax-exempt investment securities	250	470	457
Interest on federal funds sold and other interest-earning assets	185	300	145
Total interest income	37,205	38,260	38,273
Interest expense:			
Demand- interest bearing	825	796	590
Money market and savings	1,786	2,718	3,457
Time deposits	867	1,718	3,017
Other borrowings	1,112	1,134	1,135
Total interest expense	4,590	6,366	8,199
Net interest income	32,615	31,894	30,074
Provision for loan losses	4,935	1,350	15,966
Net interest income after provision for loan losses	27,680	30,544	14,108
Non-interest income:			
Loan advisory and servicing fees	1,615	1,251	480
Gain on sales of SBA loans	5,338	5,531	5,263
Service fees on deposit accounts	1,046	922	768
Legal settlements	238	155	2,780
Gain on sale of investment securities	703	737	640
Other-than-temporary impairment losses	-	(35)	(49)
Portion recognized in other comprehensive income (before taxes)	-	1	7
Net impairment loss on investment securities	-	(34)	(42)
Bank owned life insurance income	13	73	137
Other non-interest income	263	193	555
Total non-interest income	9,216	8,828	10,581
Non-interest expenses:			
Salaries and employee benefits	17,064	16,512	15,197
Occupancy	3,635	3,454	3,336
Depreciation and amortization	2,105	2,006	2,107
Legal	1,878	2,966	1,948
Other real estate owned	3,179	763	7,301
Advertising	447	307	334
Data processing	1,000	1,187	1,163
Insurance	625	654	829
Professional fees	1,420	1,106	1,600
Regulatory assessments and costs	1,257	1,367	1,913
Taxes, other	557	594	862

Legal settlement	1,875	-	-
Other operating expenses	5,369	4,986	4,610
Total non-interest expense	40,411	35,902	41,200
Income (loss) before provision (benefit) for income taxes	(3,515)	3,470	(16,511)
Provision (benefit) for income taxes	(35)	(144)	8,191
Net income (loss)	$(3,480)	$3,614	$(24,702)
Net income (loss) per share:			
Basic	$(0.13)	$0.14	$(0.95)
Diluted	$(0.13)	$0.14	$(0.95)

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
For the Years Ended December 31, 2013, 2012 and 2011
(Dollars in thousands)

	Years Ended December 31, 2013	2012	2011
Net income (loss)	$(3,480)	$3,614	$(24,702)
Other comprehensive income (loss), net of tax			
Unrealized gain (loss) on securities (pre-tax $(5,301), $2,368 and $2,233, respectively)	(3,398)	1,517	1,437
Reclassification adjustment for securities gains (pre-tax $703, $737 and $640, respectively)	(450)	(472)	(416)
Reclassification adjustment for impairment charge (pre-tax $-, $34 and $42, respectively)	-	22	27
Total other comprehensive income (loss)	(3,848)	1,067	1,048
Total comprehensive income (loss)	$(7,328)	$4,681	$(23,654)

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2013, 2012 and 2011
(Dollars in thousands)

	2013	2012	2011
Cash flows from operating activities			
Net income (loss)	$(3,480)	$3,614	$(24,702)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for loan losses	4,935	1,350	15,966
(Gain) loss on sale of other real estate owned	(68)	10	4,804
Write down of other real estate owned	2,567	130	1,299
Depreciation and amortization	2,105	2,006	2,107
Deferred income taxes	(304)	(225)	8,262
Stock based compensation	325	370	359
Gain on sale of investment securities	(703)	(737)	(640)
Impairment charges on investment securities	-	34	42
Amortization of premiums on investment securities	731	440	75
Proceeds from sales of SBA loans originated for sale	57,939	56,983	56,748
SBA loans originated for sale	(57,450)	(50,609)	(52,410)
Gains on sales of SBA loans originated for sale	(5,338)	(5,531)	(5,263)
Increase in value of bank owned life insurance	(13)	(73)	(137)
Net (increase) decrease in accrued interest receivable and other assets	(363)	(222)	1,734
Decrease in accrued interest payable and other liabilities	(323)	(336)	(330)
Net cash provided by operating activities	560	7,204	7,914
Cash flows from investing activities			
Purchase of investment securities available for sale	(62,544)	(72,464)	(80,987)
Proceeds from the sale of securities available for sale	7,946	25,784	34,277
Proceeds from the maturity or call of securities available for sale	32,931	33,670	17,969
Proceeds from the maturity or call of securities held to maturity	48	75	7
Proceeds from redemption of FHLB stock	2,246	1,505	1,180
Net increase in loans	(63,870)	(35,174)	(13,865)
Proceeds from sale of loans	-	-	22,576
Net proceeds from sale of other real estate owned	2,600	334	9,447
Proceeds from death benefit on bank owned life insurance	-	-	2,275
Surrender proceeds on bank owned life insurance	10,503	-	-
Premises and equipment expenditures	(2,877)	(475)	(584)
Net cash used in investing activities	(73,017)	(46,745)	(7,705)
Cash flows from financing activities			
Net increase in demand, money market and savings deposits	24,731	30,297	211,067
Net decrease in time deposits	(44,398)	(93,707)	(16,186)
Net cash (used in) provided by financing activities	(19,667)	(63,410)	194,881
Net (decrease) increase in cash and cash equivalents	(92,124)	(102,951)	195,090

Cash and cash equivalents, beginning of year	128,004	230,955	35,865
Cash and cash equivalents, end of year	$35,880	$128,004	$230,955
Supplemental disclosures:			
Interest paid	$4,654	$7,114	$8,103
Income taxes paid	$235	$-	$-
Non-cash transfers from loans to other real estate owned	$246	$2,907	$6,792

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2013, 2012 and 2011
(Dollars in thousands)

	Common Stock	Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance January 1, 2011	$ 265	$ 106,024	$ (13,140)	$ (3,099)	$ (809)	$ (1,095)	$ 88,146
Net loss			(24,702)				(24,702)
Other comprehensive income, net of tax						1,048	1,048
Stock based compensation		359					359
Balance December 31, 2011	$ 265	$ 106,383	$ (37,842)	$ (3,099)	$ (809)	$ (47)	$ 64,851
Net income			3,614				3,614
Other comprehensive income, net of tax						1,067	1,067
Stock based compensation		370					370
Balance December 31, 2012	$ 265	$ 106,753	$ (34,228)	$ (3,099)	$ (809)	$ 1,020	$ 69,902
Net loss			(3,480)				(3,480)
Other comprehensive loss, net of tax						(3,848)	(3,848)
Stock based compensation		325					325
Balance December 31, 2013	$ 265	$ 107,078	$ (37,708)	$ (3,099)	$ (809)	$ (2,828)	$ 62,899

(See notes to consolidated financial statements)

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

1. Nature of Operations

Republic First Bancorp, Inc. ("The Company") is a one-bank holding company organized and incorporated under the laws of the Commonwealth of Pennsylvania. It is comprised of one wholly-owned subsidiary, Republic First Bank, which does business under the name of Republic Bank ("Republic"). Republic is a Pennsylvania state chartered bank that offers a variety of banking services to individuals and businesses throughout the Greater Philadelphia and South Jersey area through its offices and store locations in Philadelphia, Montgomery, Delaware and Camden Counties. The Company also has three unconsolidated subsidiaries, which are statutory trusts established by the Company in connection with its sponsorship of three separate issuances of trust preferred securities.

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

The Company has evaluated subsequent events through the date of issuance of the financial data included herein.

Risks and Uncertainties and Certain Significant Estimates

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

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

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

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

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

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

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

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within the Greater Philadelphia region. Note 3 – Investment Securities discusses the types of investment securities that the Company invests in. Note 4 – Loans Receivable discusses the types of lending that the Company engages in as well as loan concentrations. The Company does not have a significant concentration of credit risk with any one customer.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all cash and due from banks, interest-bearing deposits with an original maturity of ninety days or less and federal funds sold, maturing in ninety days or less, to be cash and cash equivalents.

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Restrictions on Cash and Due from Banks

Republic is required to maintain certain average reserve balances as established by the Federal Reserve Board. The amounts of those balances for the reserve computation periods that include December 31, 2013 and 2012 were approximately $3.1 million and $1.6 million, respectively. These requirements were satisfied through the restriction of vault cash and a balance at the Federal Reserve Bank of Philadelphia.

Investment Securities

Held to Maturity – Certain debt securities that management has the positive intent and ability to hold until maturity are classified as held to maturity and are carried at their remaining unpaid principal balances, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using the interest method over the estimated remaining term of the underlying security.

Available for Sale – Debt and equity securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity, and changes in the availability of and in the yield of alternative investments, are classified as available for sale. These assets are carried at fair value. Unrealized gains and losses are excluded from operations and are reported net of tax as a separate component of other comprehensive income until realized. Realized gains and losses on the sale of investment securities are reported in the consolidated statements of operations and determined using the adjusted cost of the specific security sold on the trade date.

Investment securities are evaluated on at least a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline, the intent to hold the security and the likelihood of the Company not being required to sell the security prior to an anticipated recovery in the fair value. The term “other-than-temporary” is not intended to indicate that the decline is permanent, but indicates that the 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 portion of the decline related to credit impairment is charged to earnings. Impairment charges on bank pooled trust preferred securities of $0, $34,000, and $42,000 were recognized during the years ended December 31, 2013, 2012 and 2011, respectively, as a result of estimated other-than-temporary impairment.

Restricted Stock

Restricted stock, which represents a required investment in the capital stock of correspondent banks related to available credit facilities, was carried at cost as of December 31, 2013 and 2012. As of those dates, restricted stock consisted of investments in the capital stock of the FHLB of Pittsburgh and Atlantic Central Bankers Bank (“ACBB”). The required investment in the capital stock of the FHLB is calculated based on outstanding loan balances and open credit facilities with the FHLB. Excess investments are returned to Republic on a quarterly basis. In December 2009, the FHLB notified member banks that it was temporarily suspending the repurchase of capital stock along with all dividend payments. In October 2010, the FHLB of Pittsburgh lifted this suspension and began partial repurchases of excess investments in its capital stock. During 2013 the FHLB of Pittsburgh repurchased all excess restricted stock outstanding and made regular quarterly dividend payments.

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Loans Receivable

The loans receivable portfolio is segmented into commercial real estate loans, construction and land development loans, commercial and industrial loans, owner occupied real estate loans, consumer and other loans, and residential mortgages. Consumer loans consist of home equity loans and other consumer loans.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal, reduced by unearned income and an allowance for loan losses. Interest on loans is calculated based upon the principal amounts outstanding. The Company defers and amortizes certain origination and commitment fees, and certain direct loan origination costs over the contractual life of the related loan. This results in an adjustment of the related loans yield.

The Company accounts for amortization of premiums and accretion of discounts related to loans purchased based upon the effective interest method. If a loan prepays in full before the contractual maturity date, any unamortized premiums, discounts or fees are recognized immediately as an adjustment to interest income.

Loans are generally classified as non-accrual if they are past due as to maturity or payment of principal or interest 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 of interest and principal by the borrower, in accordance with the contractual terms. Generally, in the case of non-accrual loans, cash received is applied to reduce the principal outstanding.

Allowance for Credit Losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments would represent management's estimate of losses inherent in its unfunded loan commitments and would be recorded in other liabilities on the consolidated balance sheet, if necessary. The allowance for credit losses is established through a provision for loan losses charged to operations. Loans are charged against the allowance when management believes that the collectability of the loan principal is unlikely. Recoveries on loans previously charged off are credited to the allowance.

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

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

In estimating the allowance for credit losses, management considers current economic conditions, past loss experience, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews and regulatory examinations, borrowers' perceived financial and managerial strengths, the adequacy of underlying collateral, if collateral dependent, or present value of future cash flows, and other relevant and qualitative risk factors. These qualitative risk factors include:

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

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

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment, include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual residential mortgage loans, home equity loans and other consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, federal and state regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Transfers of Financial Assets

The Company accounts for the transfers and servicing financial assets in accordance with ASC 860, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities. ASC 860, revises the standards for accounting for the securitizations and other transfers of financial assets and collateral.

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

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Loans Held for Sale

Loans held for sale consist of the guaranteed portion of SBA loans that the Company intends to sell after origination and are reflected at the lower of aggregate cost or fair value. When the sale of the loan occurs, the premium received is combined with the estimated present value of future cash flows on the related servicing asset and recorded as a Gain on the Sale of SBA loans which is categorized as non-interest income. Subsequent fees collected for servicing of the sold portion of a loan are combined with fair value adjustments to the SBA servicing asset and recorded as a net amount in Loan Advisory and Servicing Fees, which is also categorized as non-interest income.

Guarantees

The Company accounts for guarantees in accordance with ASC 815 Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others. ASC 815 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company has financial and performance letters of credit. Financial letters of credit require the Company to make payment if the customer's financial condition deteriorates, as defined in the agreements. Performance letters of credit require the Company to make payments if the customer fails to perform certain non-financial contractual obligations. The maximum potential undiscounted amount of future payments of these letters of credit as of December 31, 2013 is $2.7 million and they expire as follows: $2.3 million in 2014 and $385,000 in 2019. Amounts due under these letters of credit would be reduced by any proceeds that the Company would be able to obtain in liquidating the collateral for the loans, which varies depending on the customer.

Premises and Equipment

Premises and equipment (including land) are stated at cost less accumulated depreciation and amortization. Depreciation of furniture and equipment is calculated over the estimated useful life of the asset using the straight-line method for financial reporting purposes, and accelerated methods for income tax purposes. The estimated useful lives are 40 years for buildings and 3 to 13 years for furniture, fixtures and equipment. Leasehold improvements are amortized over the shorter of their estimated useful lives or terms of their respective leases, which range from 1 to 30 years. Repairs and maintenance are charged to current operations as incurred, and renewals and major improvements are capitalized.

Other Real Estate Owned

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

Bank Owned Life Insurance

The Company carries no investment in bank owned life insurance ("BOLI") policies as of December 31, 2013.

Advertising Costs

It is the Company's policy to expense advertising costs in the period in which they are incurred.

Income Taxes

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company accounts for uncertain tax positions if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

The Company recognizes interest and penalties on income taxes, if any, as a component of the provision for income taxes.

Stock Based Compensation

The Company has a Stock Option and Restricted Stock Plan ("Plan"), under which stock options, restricted stock or stock appreciation rights may be granted to the Company's employees, directors, and certain consultants. Under the terms of the Plan, 1.5 million shares of common stock, plus an annual increase equal to the number of shares needed to restore the maximum number of shares that may be available for grant under the Plan to 1.5 million shares, are available for such grants. As of December 31, 2013, the only grants under the Plan have been option grants. The Plan provides that the exercise price of each option granted equals the market price of the Company's stock on the date of grant. Options granted pursuant to the Plan vest within one to four years from the date of grant and have a maximum term of 10 years.

Earnings Per Share

Earnings per share ("EPS") consists of two separate components, basic EPS and diluted EPS. Basic EPS is computed by dividing net income (loss) by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income (loss) by the weighted average number of common shares outstanding plus dilutive common stock equivalents ("CSE"). CSEs consist of dilutive stock options granted through the Company's Plan and convertible securities related to trust preferred securities issued in 2008. In the diluted EPS computation, the after tax interest expense on the trust preferred securities issuance is added back to the net income. In 2013, 2012 and 2011, the effect of CSEs (convertible securities related to the trust preferred securities only) and the related add back of after tax interest expense was considered anti-dilutive and therefore was not included in the EPS calculations.

The calculation of EPS for the years ended December 31, 2013, 2012 and 2011 is as follows:

(dollars in thousands, except per share amounts)	2013	2012	2011
Net income (loss) - basic and diluted	$(3,480)	$3,614	$(24,702)
Weighted average shares outstanding	25,973	25,973	25,973
Net income (loss) per share – basic	$(0.13)	$0.14	$(0.95)
Weighted average shares outstanding (including dilutive CSEs)	25,973	25,992	25,973
Net income (loss) per share – diluted	$(0.13)	$0.14	$(0.95)

Comprehensive Income / (Loss)

The Company presents as a component of comprehensive income (loss) the amounts from transactions and other events, which currently are excluded from the consolidated statements of operations and are recorded directly to shareholders' equity. These amounts consist of unrealized holding gains (losses) on available for sale securities.

Trust Preferred Securities

The Company has 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 the Company for financial reporting purposes. The purpose of the issuances of these securities was to increase capital. The trust preferred securities qualify as Tier 1 capital for regulatory purposes in amounts up to 25% of total Tier 1 capital. See Note 7 "Borrowings" for further information regarding the issuances.

Variable Interest Entities

The Company follows the guidance under ASC 810, Consolidation, with regard to variable interest entities. ASC 810 clarifies the application of consolidation principles for certain legal entities in which voting rights are not effective in identifying the investor with the controlling financial interest. An entity is subject to consolidation under ASC 810 if the investors 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 ASC 810 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.

The Company does not consolidate its subsidiary trusts. ASC 810 precludes consideration of the call option embedded in the preferred securities when determining if the Company has the right to a majority of the trusts' expected residual returns. The non-consolidation results in the investment in the common securities of the trusts to be included in other assets with a corresponding increase in outstanding debt of $676,000. In addition, the income received on the Company's investment in the common securities of the trusts is included in other income.

Recent Accounting Pronouncements

ASU 2014-04

In January 2014, the FASB issued ASU 2014-04, "Receivables – Troubled Debt Restructuring by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure – a consensus of the FASB Emerging Issues Task Force. The guidance clarifies when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate property recognized. For public business entities, the ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the ASU is effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. The Company does not believe the adoption of the amendment to this guidance will have a material impact on the financial statements.

ASU 2013-02

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

Reclassifications

Certain reclassifications have been made to 2012 and 2011 information to conform to the 2013 presentation. The reclassifications had no effect on results of operations.

3. Investment Securities

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

	At December 31, 2013			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	$127,242	$665	$(4,467)	$123,440
Mortgage-backed securities	15,669	623	(111)	16,181
Municipal securities	9,737	68	(162)	9,643
Corporate bonds	32,174	1,079	-	33,253
Asset-backed securities	19,089	318	-	19,407
Trust preferred securities	5,277	-	(2,427)	2,850
Other securities	115	2	-	117
Total securities available for sale	$209,303	$2,755	$(7,167)	$204,891
U.S. Government agencies	$1	$-	$-	$1
Other securities	20	-	-	20
Total securities held to maturity	$21	$-	$-	$21

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

The maturity distribution of the amortized cost and estimated market value of investment securities by contractual maturity at December 31, 2013 is as follows:

	Available for Sale		Held to Maturity	
(dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value

Due in 1 year or less	$1,192	$1,195	$-	$-
After 1 year to 5 years	74,270	74,351	21	21
After 5 years to 10 years	123,418	118,653	-	-
After 10 years	10,423	10,692	-	-
Total	$209,303	$204,891	$21	$21

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

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

In instances when a determination is made that an other-than-temporary impairment exists with respect to a debt security but the investor does not intend to sell the debt security and it is more likely than not that the investor will not be required to sell the debt security prior to its anticipated recovery, accounting standards require the other-than-temporary impairment to be separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income. There were no impairment charges (credit losses) on trust preferred securities for the year ended December 31, 2013. Impairment charges (credit losses) on trust preferred securities for the years ended December 31, 2012 and 2011 amounted to $34,000 and $42,000, respectively.

The Company realized gross gains on the sale of securities of $703,000 in 2013. The related sale proceeds amounted to $7.9 million. The tax provision applicable to these gross gains in 2013 amounted to approximately $253,000. The Company realized gross gains on the sale of securities of $737,000 in 2012. The related sale proceeds amounted to $25.8 million. The tax provision applicable to these gross gains in 2012 amounted to approximately $265,000. The Company realized gross gains on the sale of securities of $640,000 in 2011. The related sale proceeds amounted to $34.3 million. The tax provision applicable to these gross gains in 2011 amounted to approximately $224,000.

At December 31, 2013 and 2012, investment securities in the amount of approximately $113.1 million and $100.8 million, respectively, were pledged as collateral for public deposits and certain other deposits as required by law.

The following table presents a roll-forward of the balance of credit-related impairment losses on securities held at December 31, 2013 and 2012 for which a portion of OTTI was recognized in other comprehensive income:

(dollars in thousands)	2013	2012
Beginning Balance, January 1st	$3,959	$3,925
Additional credit-related impairment loss on securities for which an other-than-temporary impairment was previously recognized	-	34
Reductions for securities paid off during the period	-	-
Reductions for securities for which the amount previously recognized in other comprehensive income was recognized in earnings because the Company intends to sell the security	-	-
Ending Balance, December 31st	$3,959	$3,959

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The following tables show the fair value and gross unrealized losses associated with the investment portfolio, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2013 and 2012:

	At December 31, 2013					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized mortgage obligations	$73,137	$3,923	$8,697	$ 544	$81,834	$ 4,467
Mortgage-backed securities	1,450	41	1,123	70	2,573	111
Municipal securities	5,108	162	-	-	5,108	162
Corporate bonds	-	-	-	-	-	-
Trust preferred securities	-	-	2,850	2,427	2,850	2,427
Total	$79,695	$4,126	$12,670	$ 3,041	$92,365	$ 7,167

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

The impairment of the investment portfolio totaled $7.2 million with a total fair value of $92.4 million at December 31, 2013. The most significant components of this impairment are related to the collateralized mortgage obligations and trust preferred securities held in the portfolio. The unrealized losses on the CMO's are primarily related to the recent movement in market interest rates rather than the underlying credit quality of the issuers. The Company does not currently intend to sell these securities prior to maturity or recovering the cost bases and does not believe it will be forced to sell these securities prior to maturity or recovering the cost bases.

At December 31, 2013, the investment portfolio included twenty-five collateralized mortgage obligations with a total market value of $123.4 million. Seventeen of these securities carried an unrealized loss at December 31, 2013. At December 31, 2013, the investment portfolio included forty-two mortgage-backed securities with a total market value of $16.2 million. Two of these securities carried an unrealized loss at December 31, 2013. Management found no evidence of OTTI on any of these securities and the unrealized losses are due to changes in market value resulting from changes in market interest rates and are considered temporary as of December 31, 2013.

The unrealized losses on the trust preferred securities are primarily the result of the secondary market for such securities becoming inactive and are also considered temporary at this time.

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The following table provides additional detail about trust preferred securities as of December 31, 2013.

(dollars in thousands)	Class / Tranche	Amortized Cost	Fair Value	Unrealized Losses	Lowest Credit Rating Assigned	Number of Banks Currently Performing	Deferrals / Defaults as % of Current Balance	Conditional Default Rates for 2013 and beyond	Cumulative OTTI Life to Date
Preferred Term Securities IV	Mezzanine Notes	$ 49	$ 39	$ (10)	B	6	18%	0.34%	$ -
Preferred Term Securities VII	Mezzanine Notes	989	726	(263)	C	11	54	0.36	2,173
TPREF Funding II	Class B Notes	739	336	(403)	C	17	41	0.39	260
TPREF Funding III	Class B2 Notes	1,520	696	(824)	C	17	34	0.31	480
Trapeza CDO I, LLC	Class C1 Notes	556	284	(272)	C	9	49	0.38	470
ALESCO Preferred Funding IV	Class B1 Notes	604	358	(246)	C	41	6	0.36	396
ALESCO Preferred Funding V	Class C1 Notes	820	411	(409)	C	39	24	0.36	180
Total		$ 5,277	$ 2,850	$ (2,427)		140	38%		$ 3,959

At December 31, 2013, the investment portfolio included seventeen municipal securities with a total market value of $9.6 million. Nine of these securities carried an unrealized loss at December 31, 2013. Each of the municipal securities are reviewed quarterly for impairment. Research on each issuer is completed to ensure the financial stability of the municipal entity. The largest geographic concentration was in Pennsylvania where one municipal security had a market value of $1.3 million. As of December 31, 2013, management found no evidence of OTTI on any of the municipal securities held in the investment securities portfolio.

4. Loans Receivable

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

(dollars in thousands)	December 31, 2013	December 31, 2012
Commercial real estate	$ 342,794	$ 335,561
Construction and land development	23,977	26,659
Commercial and industrial	118,209	103,768
Owner occupied real estate	160,229	126,242
Consumer and other	31,981	23,449
Residential mortgage	2,359	2,442
Total loans receivable	679,549	618,121
Deferred costs (fees)	(238)	(220)

Allowance for loan losses	(12,263)	(9,542)
Net loans receivable	$667,048	$608,359

A loan is considered impaired, in accordance with ASC 310 Receivables, when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans, but also include internally classified accruing loans.

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

	December 31, 2013			December 31, 2012		
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial real estate	$6,850	$6,971	$-	$19,231	$20,000	$-
Construction and land development	902	4,076	-	3,153	6,312	-
Commercial and industrial	2,043	2,882	-	3,793	7,106	-
Owner occupied real estate	542	862	-	505	505	-
Consumer and other	453	711	-	912	1,146	-
Total	$10,790	$15,502	$-	$27,594	$35,069	$-
With an allowance recorded:						
Commercial real estate	$13,044	$13,044	$3,679	$6,085	$6,085	$1,077
Construction and land development	716	3,867	237	593	3,700	70
Commercial and industrial	4,889	7,634	1,254	3,147	3,255	861
Owner occupied real estate	2,891	2,891	430	3,450	3,450	860
Consumer and other	203	210	10	146	155	75
Total	$21,743	$27,646	$5,610	$13,421	$16,645	$2,943
Total:						
Commercial real estate	$19,894	$20,015	$3,679	$25,316	$26,085	$1,077
Construction and land development	1,618	7,943	237	3,746	10,012	70
Commercial and industrial	6,932	10,516	1,254	6,940	10,361	861
Owner occupied real estate	3,433	3,753	430	3,955	3,955	860
Consumer and other	656	921	10	1,058	1,301	75
Total	$32,533	$43,148	$5,610	$41,015	$51,714	$2,943

The following table presents additional information regarding the Company’s impaired loans for the years ended December 31, 2013 and 2012:

	Years Ended December 31,			
	2013		2012	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate	$14,062	$731	$15,675	$821
Construction and land development	1,954	35	4,587	112
Commercial and industrial	2,783	19	4,366	128
Owner occupied real estate	347	9	912	32

Consumer and other	651	6	875	9
Total	$19,797	$800	$26,415	$1,102
With an allowance recorded:				
Commercial real estate	$6,261	$195	$7,207	$312
Construction and land development	499	-	1,163	-
Commercial and industrial	3,881	40	3,393	47
Owner occupied real estate	3,139	146	2,542	154
Consumer and other	110	-	87	-
Total	$13,890	$381	$14,392	$513
Total:				
Commercial real estate	$20,323	$926	$22,882	$1,133
Construction and land development	2,453	35	5,750	112
Commercial and industrial	6,664	59	7,759	175
Owner occupied real estate	3,486	155	3,454	186
Consumer and other	761	6	962	9
Total	$33,687	$1,181	$40,807	$1,615

The total average recorded investment on the Company's impaired loans for the years ended December 31, 2013, 2012, and 2011 were $33.7 million, $40.8 million, and $70.7 million, respectively, and the related interest income recognized for those dates was $1.2 million, $1.6 million, and $1.9 million, respectively. If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately $488,000, $699,000, and $583,000 for the years ended December 31, 2013, 2012, and 2011, respectively.

Included in loans are loans due from directors and other related parties of $8.8 million, $9.1 million, and $16.9 million at December 31, 2013, 2012, and 2011, respectively. All loans made to directors have substantially the same terms and interest rates as other bank borrowers. The Board of Directors approves loans to individual directors to confirm that collateral requirements, terms and rates are comparable to other borrowers and are in compliance with underwriting policies. The following presents the activity in amount due from directors and other related parties for the years ended December 31, 2013, 2012 and 2011.

(dollars in thousands)	December 31, 2013	December 31, 2012	December 31, 2011
Balance at beginning of year	$9,128	$16,941	$16,376
Additions	51	259	1,727
Repayments	(417)	(8,072)	(1,162)
Balance at end of year	$8,762	$9,128	$16,941

5. Allowances for Loan Losses

The following tables provide the activity in and ending balances of the allowance for loan losses by loan portfolio class at and for the years ended December 31, 2013, 2012, and 2011:

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
Year ended December, 2013								
Allowance for loan losses:								
Beginning balance:	$ 3,979	$ 1,273	$ 1,880	$ 1,967	$ 234	$ 17	$ 192	$ 9,542
Charge-offs	(1,291)	(60)	(611)	(320)	(75)	-	-	(2,357)
Recoveries	54	-	63	-	26	-	-	143
Provisions (credits)	3,712	735	977	(662)	40	(3)	136	4,935
Ending balance	$ 6,454	$ 1,948	$ 2,309	$ 985	$ 225	$ 14	$ 328	$ 12,263
Year ended December, 2012								
Allowance for loan losses:								
Beginning Balance:	$ 7,372	$ 558	$ 1,928	$ 1,963	$ 113	$ 23	$ 93	$ 12,050
Charge-offs	(1,582)	(1,004)	(1,304)	-	(102)	-	-	(3,992)
Recoveries	-	105	-	-	29	-	-	134
Provisions (credits)	(1,811)	1,614	1,256	4	194	(6)	99	1,350
Ending balance	$ 3,979	$ 1,273	$ 1,880	$ 1,967	$ 234	$ 17	$ 192	$ 9,542
Year ended December, 2011								
Allowance for loan losses:								
Beginning Balance:	$ 7,243	$ 837	$ 1,443	$ 1,575	$ 130	$ 41	$ 175	$ 11,444
Charge-offs	(8,783)	(3,719)	(1,088)	(1,838)	(41)	-	-	(15,469)
Recoveries	44	10	-	15	40	-	-	109
Provisions (credits)	8,868	3,430	1,573	2,211	(16)	(18)	(82)	15,966
Ending balance	$ 7,372	$ 558	$ 1,928	$ 1,963	$ 113	$ 23	$ 93	$ 12,050

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

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
December 31, 2013								
Allowance for loan losses:								
Individually evaluated for impairment	$ 3,679	$ 237	$ 1,254	$ 430	$ 10	$ -	$ -	$ 5,610
Collectively evaluated for impairment	2,775	1,711	1,055	555	215	14	328	6,653
Total allowance for loan losses	$ 6,454	$ 1,948	$ 2,309	$ 985	$ 225	$ 14	$ 328	$ 12,263
Loans receivable:								
Loans evaluated individually	$ 19,894	$ 1,618	$ 6,932	$ 3,433	$ 656	$ -	$ -	$ 32,533
Loans evaluated collectively	322,900	22,359	111,277	156,796	31,325	2,359	-	647,016
Total loans receivable	$ 342,794	$ 23,977	$ 118,209	$ 160,229	$ 31,981	$ 2,359	$ -	$ 679,549

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

Loans evaluated individually	$ 25,316	$ 3,746	$ 6,940	$ 3,955	$ 1,058	$ -	$ -	$ 41,015
Loans evaluated collectively	310,245	22,913	96,828	122,287	22,391	2,442	-	577,106
Total loans receivable	$ 335,561	$ 26,659	$ 103,768	$ 126,242	$ 23,449	$ 2,442	$ -	$ 618,121

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

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
At December 31, 2013							
Commercial real estate	$19,707	$5,635	$1,104	$26,446	$316,348	$342,794	$-
Construction and land development	-	-	1,618	1,618	22,359	23,977	-
Commercial and industrial	951	71	6,837	7,859	110,350	118,209	-
Owner occupied real estate	808	1,281	205	2,294	157,935	160,229	-
Consumer and other	38	-	656	694	31,287	31,981	-
Residential mortgage	-	-	-	-	2,359	2,359	-
Total	$21,504	$6,987	$10,420	$38,911	$640,638	$679,549	$-

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
At December 31, 2012							
Commercial real estate	$772	$26,000	$7,987	$34,759	$300,802	$335,561	$-
Construction and land development	-	261	1,342	1,603	25,056	26,659	-
Commercial and industrial	86	-	4,693	4,779	98,989	103,768	-
Owner occupied real estate	285	1,562	968	2,815	123,427	126,242	-
Consumer and other	-	-	1,058	1,058	22,391	23,449	202
Residential mortgage	-	-	-	-	2,442	2,442	-
Total	$1,143	$27,823	$16,048	$45,014	$573,107	$618,121	$202

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within our internal risk rating system as of December 31, 2013 and 2012:

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
At December 31, 2013:					
Commercial real estate	$305,974	$16,372	$20,448	$-	$342,794
Construction and land development	22,359	-	1,618	-	23,977
Commercial and industrial	110,629	611	6,969	-	118,209
Owner occupied real estate	155,648	1,485	3,096	-	160,229
Consumer and other	30,993	75	913	-	31,981
Residential mortgage	2,359	-	-	-	2,359
Total	$627,962	$18,543	$33,044	$-	$679,549

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
At December 31, 2012:					
Commercial real estate	$300,174	$9,174	$26,213	$-	$335,561
Construction and land development	22,652	261	3,746	-	26,659
Commercial and industrial	96,051	642	7,075	-	103,768
Owner occupied real estate	121,381	906	3,955	-	126,242
Consumer and other	22,033	100	1,316	-	23,449
Residential mortgage	2,442	-	-	-	2,442
Total	$564,733	$11,083	$42,305	$-	$618,121

The following table shows non-accrual loans by class as of December 31, 2013 and 2012:

(dollars in thousands)	December 31, 2013	December 31, 2012
Commercial real estate	$1,104	$7,987
Construction and land development	1,618	1,342
Commercial and industrial	6,837	4,693
Owner occupied real estate	205	968
Consumer and other	656	856
Residential mortgage	-	-
Total	$10,420	$15,846

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately $488,000, $699,000, and $583,000, for 2013, 2012 and 2011, respectively.

Troubled Debt Restructurings

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

The following table summarizes information with regard to troubled debt restructurings for the years ended December 31, 2013 and 2012:

(dollars in thousands)	Number of Loans	Accrual Status	Non-Accrual Status	Total TDRs
December 31, 2013				
Commercial real estate	1	$103	$-	$103
Construction and land development	-	-	-	-
Commercial and industrial	1	-	2,188	2,188
Owner occupied real estate	1	1,894	-	1,894
Consumer and other	-	-	-	-
Residential mortgage	-	-	-	-
Total	3	$1,997	$2,188	$4,185
December 31, 2012				
Commercial real estate	1	$1,261	$-	$1,261
Construction and land development	1	2,069	-	2,069
Commercial and industrial	1	2,248	-	2,248
Owner occupied real estate	1	1,933	-	1,933
Consumer and other	-	-	-	-

Residential mortgage	-	-	-	-
Total	4	$7,511	$-	$7,511

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All TDRs are considered impaired and are therefore individually evaluated for impairment in the calculation of the allowance for loan losses. Some TDRs may not ultimately result in the full collection of principal and interest as restructured and could lead to potential incremental losses. These potential incremental losses would be factored into our estimate of the allowance for loan losses. The level of any subsequent defaults will likely be affected by future economic conditions. There were no loan modifications made during the year ended December 31, 2013 that met the criteria of a TDR.

The Company modified one owner occupied real estate loan during the year ended December 31, 2012. In accordance with the modified terms of this owner occupied real estate loan, the Company extended the maturity date of the loan. In addition the effective interest rate of the modified loan was reduced when compared to the interest rate of the original loan. The owner occupied real estate loan has been and continues to be an accruing loan. The borrower has remained current since the modification.

The Company modified one commercial and industrial loan during the year ended December 31, 2012. In accordance with the modified terms of the commercial and industrial loan, the Company implemented a hard maturity date whereas the loan had formerly been a demand note. The loan has also been converted from interest only payments to a term-out of the debt on this loan. In addition, the Company modified the amortization time frame and reduced the effective interest rate when compared to the interest rate of the original loan. The Company also extended the maturity date of the loan. The commercial and industrial loan had been an accruing loan. During 2013 this loan was transferred to non-accrual status. The borrower has not remained current since the modification.

After a loan is determined to be a TDR, we continue to track its performance under the most recent restructured terms. One loan classified as a TDR subsequently defaulted during the year ended December 31, 2013. There were no TDRs that subsequently defaulted during the year ended December 31, 2012.

6. Premises and Equipment

A summary of premises and equipment is as follows:

(dollars in thousands)	December 31, 2013	December 31, 2012
Land	$200	$200
Bank building	1,057	1,051
Leasehold improvements	19,017	18,714
Furniture, fixtures and equipment	7,670	6,894
Construction in progress	6,402	5,143
	34,346	32,002
Less accumulated depreciation	(11,598)	(10,026)
Net premises and equipment	$22,748	$21,976

Depreciation expense on premises, equipment and leasehold improvements amounted to approximately $2.1 million, $2.0 million, and $2.1 million in 2013, 2012 and 2011, respectively. The construction in progress balance of $6.4 million mainly represents costs incurred for the selection and development of future store locations. Of this balance, $4.0 million represents land purchased for two specific store locations. Costs to complete the projects in process are estimated to be $5.0 million as of December 31, 2013.

7. Borrowings

Republic has a line of credit with the Federal Home Loan Bank ("FHLB") of Pittsburgh with a maximum borrowing capacity of $372.6 million as of December 31, 2013. As of December 31, 2013 and 2012, there were no fixed term or overnight advances against this line of credit. There were no fixed term advances outstanding at any month-end during 2013 and 2012. The maximum amount of overnight borrowings outstanding at any month-end was $0 in 2013 and 2012.

Republic also has a line of credit in the amount of $10.0 million available for the purchase of federal funds through another correspondent bank. At December 31, 2013 and 2012, Republic had no amount outstanding against this line. The maximum amount of overnight advances on this line at any month end was $0 in 2013 and $4.5 million in 2012.

Subordinated debt and corporation-obligated-mandatorily redeemable capital securities of subsidiary trust holding solely junior obligations of the corporation:

The Company has 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 the Company for financial reporting purposes. The purpose of the issuances of these securities was to increase capital. The trust preferred securities qualify as Tier 1 capital for regulatory purposes in amounts up to 25% of total Tier 1 capital.

In December 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 the Company. Trust II purchased $6.2 million of junior subordinated debentures of the Company due 2037, and the Company used the proceeds to call the securities of Republic Capital Trust I ("Trust I"). The debentures supporting Trust II have a variable interest rate, adjustable quarterly, at 1.73% over the 3-month Libor. The Company may call the securities on any interest payment date after five years without a prepayment penalty.

On June 28, 2007, the Company caused Republic Capital Trust III ("Trust III"), through a pooled offering, to issue $5.0 million of trust preferred securities to investors and $0.2 million common securities to the Company. Trust III purchased $5.2 million of junior subordinated debentures of the Company due 2037, which have a variable interest rate, adjustable quarterly, at 1.55% over the 3 month Libor. The Company has the ability to call the securities on any interest payment date without a prepayment penalty.

On June 10, 2008, the Company caused Republic First Bancorp Capital Trust IV ("Trust IV") to issue $10.8 million of convertible trust preferred securities as part of the Company's strategic capital plan. The securities were purchased by various investors, including Vernon W. Hill, II, founder and chairman (retired) of Commerce Bancorp and, since the investment, a consultant to the Company. This investor group also included a family trust of Harry D. Madonna, chairman, president and chief executive officer of the Company, and Theodore J. Flocco, Jr., who, since the investment, has been elected to the Company's Board of Directors and serves as the Chairman of the Audit Committee. Trust IV also issued $0.3 million of common securities to the Company. Trust IV purchased $11.1 million of junior subordinated debentures due 2038, which pay interest at an annual rate of 8.0% and are callable after the fifth year. The trust preferred securities of Trust IV are convertible into approximately 1.7 million shares of common stock of the Company, based on a conversion price of $6.50 per share of Company common stock, and at December 31, 2013 were fully convertible.

8. Deposits

The following is a breakdown, by contractual maturities of the Company's certificates of deposit for the years 2014 through 2018.

(dollars in thousands)	2014	2015	2016	2017	2018	Thereafter	Total

Certificates of Deposit	$53,294	$12,980	$11,253	$462	$847	$-	$78,836

Certificates of deposit of $100,000 or more totaled $39.4 million and $78.3 million at December 31, 2013 and 2012, respectively.

Deposits of related parties totaled $57.5 million and $59.4 million at December 31, 2013 and 2012, respectively.

9. Income Taxes

The (benefit) provision for income taxes for the years ended December 31, 2013, 2012 and 2011 consists of the following:

(dollars in thousands)	2013	2012	2011
Current			
Federal	$269	$81	$(71)
State	-	-	-
Deferred	(304)	(225)	8,262
Total provision (benefit) for income taxes	$(35)	$(144)	$8,191

The following table reconciles the difference between the actual tax provision and the amount per the statutory federal income tax rate of 35.0% for the years ended December 31, 2013, 2012 and 2011.

(dollars in thousands)	2013	2012	2011
Tax (benefit) provision computed at statutory rate	$(1,230)	$1,214	$(5,779)
Tax exempt interest	(210)	(257)	(265)
Bank owned life insurance	(4)	(26)	(48)
Deferred tax asset valuation allowance	1,428	(1,002)	14,912
Other	(19)	(73)	(629)
Total provision (benefit) for income taxes	$(35)	$(144)	$8,191

The significant components of the Company's net deferred tax asset as of December 31, 2013 and 2012 are as follows:

(dollars in thousands)	2013	2012
Deferred tax assets		
Allowance for loan losses	$4,403	$3,427
Deferred compensation	721	733
Unrealized loss on securities available for sale	1,584	-
Realized loss in other than temporary impairment charge	1,121	1,121
Foreclosed real estate write-downs	1,131	232
Interest income on non-accrual loans	955	1,000
Net operating loss carryforward	11,826	11,689
Other	986	1,052
Total deferred tax assets	22,727	19,254
Deferred tax liabilities		
Deferred loan costs	859	712
Unrealized gain on securities available for sale	-	572
Other	460	450
Total deferred tax liabilities	1,319	1,734
Net deferred tax asset before valuation allowance	21,408	17,520
Less: valuation allowance	(15,338)	(13,910)
Net deferred tax asset	$6,070	$3,610

The Company’s net deferred tax asset before the consideration of a valuation allowance increased to $21.4 million at December 31, 2013 compared to $17.5 million at December 31, 2012. This increase was primarily driven by increases in unrealized losses on securities available for sale, foreclosed real estate writedowns, and the allowance for loan losses during the twelve month period ended December 31, 2013. The $21.4 million net deferred tax asset as of December 31, 2013 is comprised of $11.8 million currently recognizable through NOL carryforwards and $9.6 million attributable to several items associated with temporary timing differences which will reverse at some point in the future to provide a net reduction in tax liabilities. The Company’s largest future reversal relates to its allowance for loan losses, which totaled $4.4 million as of December 31, 2013.

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

In conducting the deferred tax asset analysis, the Company believes it is important to consider the unique characteristics of an industry or business. In particular, characteristics such as business model, level of capital and reserves held by financial institutions and their ability to absorb potential losses are important distinctions to be considered for bank holding companies like the Company. In addition, it is also important to consider that NOLs for federal income tax purposes can generally be carried back two years and carried forward for a period of twenty years. The Company has an NOL which will begin to expire after December 31, 2030 if not utilized prior to that date. In order to realize our deferred tax assets, we must generate sufficient taxable income in such future years.

In assessing the need for a valuation allowance, the Company carefully weighed both positive and negative evidence currently available. Judgment is required when considering the relative impact of such evidence. The weight given to the potential effect of positive and negative evidence must be commensurate with the extent to which it can be objectively verified. A cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome. Based on the analysis of available positive and negative evidence, the Company determined that a valuation allowance should be recorded as of December 31, 2013 and 2012.

When determining an estimate for a valuation allowance, the Company assessed the possible sources of taxable income available under tax law to realize a tax benefit for deductible temporary differences and carryforwards as defined in ASC 740-10-30. As a result of cumulative losses in recent years and the uncertain nature of the current economic environment, the Company did not use projections of future taxable income, exclusive of reversing temporary timing differences and carryforwards, as a factor. The Company will continue to exclude future taxable income as a factor until it can show consistent and sustained profitability.

The Company did assess tax planning strategies as defined under ASC 740-10-30 to determine the amount of a valuation allowance. Strategies reviewed included the sale of investment securities and loans with fair values greater than book values, redeployment of cash and cash equivalents into higher yielding investment options, a switch from tax-exempt to taxable investments and loans, and the election of a decelerated depreciation method for tax purposes for future fixed asset purchases. The Company believes that these tax planning strategies are (i.) prudent and feasible, (ii.) steps that the Company would not ordinarily take, but would take to prevent an operating loss or tax credit carryforward from expiring unused, and (iii.) would result in the realization of existing deferred tax assets. These tax planning strategies, if implemented, would result in taxable income in the first full reporting period after deployment and accelerate the recovery of deferred tax asset balances if faced with the inability to recover those assets or the risk of potential expiration. The Company believes that these are viable tax planning strategies and appropriately considered in the analysis at this time, but may not align with the strategic direction of the organization today and therefore, has no present intention to implement such strategies.

The net deferred tax asset balance before consideration of a valuation allowance was $21.4 million as of December 31, 2013 and $17.5 million as of December 31, 2012. The tax planning strategies assessed resulted in the projected realization of approximately $6.1 million in tax assets as of December 31, 2013 and $3.6 million as of December 31, 2012 which can be considered more likely than not to be realized. Accordingly, the Company recorded a partial valuation allowance related to the deferred tax asset balance in the amount of $15.3 million as of December 31, 2013 and $13.9 million as of December 31, 2012.

The deferred tax asset will continue to be analyzed on a quarterly basis for changes affecting realizability. As the Company continues to record consecutive quarters of profitable results, projections of future taxable income become more reliable and can again be used as a factor in assessing the ability to fully realize the deferred tax asset. When the determination is made to include projections of future taxable income as a factor, the valuation allowance will be reduced accordingly resulting in a corresponding increase in net income.

The Company accounts for uncertain tax positions if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The Internal Revenue Service has completed its audits of the Company's federal tax returns for all tax years through December 31, 2008. There are currently no income tax audits being conducted by the Internal Revenue Service or the Pennsylvania Department of Revenue. The Company's federal income tax returns for the years ended December 31, 2012, 2011, and 2010 remain subject to examination by the Internal Revenue Service.

10. Financial Instruments with Off-Balance Sheet Risk

The Company is 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. The Company uses 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 $109.3 million and $99.7 million and standby letters of credit of approximately $2.7 million and $4.3 million at December 31, 2013 and 2012, respectively. Commitments often expire without being drawn upon. Of the $109.3 million of commitments to extend credit at December 31, 2013, substantially all were 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. The Company evaluates 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. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of liability as of December 31, 2013 and 2012 for guarantees under standby letters of credit issued is not material.

11. Commitments and Contingencies

Lease Arrangements

As of December 31, 2013, the Company had entered into non-cancelable leases expiring through August 31, 2043, including renewal options. The leases are accounted for as operating leases. The minimum annual rental payments required under these leases are as follows (dollars in thousands):

Year Ended	Amount
2014	$ 2,547
2015	2,521
2016	2,402
2017	2,416
2018	2,475
Thereafter	30,694
Total	$ 43,055

The Company incurred rent expense of $2.3 million, $2.2 million, and $2.1 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Other

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

12. Regulatory Capital

Dividend payments by Republic to the Company are subject to the Pennsylvania Banking Code of 1965 (the "Banking Code") and the Federal Deposit Insurance Act (the "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 current banking laws, Republic would be limited to $10.8 million of dividends plus an additional amount equal to its net profit for 2014, up to the date of any such dividend declaration. However, dividends would be further limited in order to maintain capital ratios.

State and Federal regulatory authorities have adopted standards for the maintenance of adequate levels of capital by Republic. Federal banking agencies impose three minimum capital requirements on the Company's risk-based capital ratios based on total capital, Tier 1 capital, and a leverage capital ratio. 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 or 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.

The following table presents the Company's and Republic's capital regulatory ratios at December 31, 2013 and 2012:

(dollars in thousands)	Actual			For Capital Adequacy Purposes			To be well capitalized under regulatory capital guidelines		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
At December 31, 2013:									
Total risk based capital									
Republic	$92,493	11.38	%	$65,038	8.00	%	$81,297	10.00	%
Company	93,848	11.53	%	65,092	8.00	%	-	-	%
Tier one risk based capital									
Republic	82,305	10.12	%	32,519	4.00	%	48,778	6.00	%
Company	83,652	10.28	%	32,546	4.00	%	-	-	%
Tier one leveraged capital									
Republic	82,305	8.46	%	38,921	4.00	%	48,651	5.00	%
Company	83,652	8.59	%	38,971	4.00	%	-	-	%
At December 31, 2012:									
Total risk based capital									
Republic	$96,366	12.70	%	$60,685	8.00	%	$75,857	10.00	%
Company	97,006	12.73	%	60,971	8.00	%	-	-	%
Tier one risk based capital									
Republic	86,883	11.45	%	30,343	4.00	%	45,514	6.00	%
Company	87,479	11.48	%	30,485	4.00	%	-	-	%
Tier one leveraged capital									
Republic	86,883	8.96	%	38,786	4.00	%	48,483	5.00	%
Company	87,479	9.01	%	38,838	4.00	%	-	-	%

Management believes that Republic met, as of December 31, 2013, all capital adequacy requirements to which it is subject. As of December 31, 2013 and 2012, 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 that management believes have changed Republic's category.

In July 2013, the federal bank regulatory agencies adopted revisions to the agencies' capital adequacy guidelines and prompt corrective action rules, which were designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. The final rules generally implement higher minimum capital requirements, add a new common equity tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity tier 1 capital, additional tier 1 capital or tier 2 capital. The new minimum capital to risk-adjusted assets requirements are a common equity tier 1 capital ratio of 4.5% (6.5% to be considered "well capitalized") and a tier 1 capital ratio of 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% to be considered "well capitalized"); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered "well capitalized"). Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The new minimum capital requirements are effective on January 1, 2015. The capital contribution buffer requirements phase in over a three-year period beginning January 1, 2016.

13. Benefit Plans

Defined Contribution Plan

The Company has a defined contribution plan pursuant to the provision of 401(k) of the Internal Revenue Code. The Plan covers all full-time employees who meet age and service requirements. The plan provides for elective employee contributions with a matching contribution from the Company limited to 4% of total salary. The total expense charged to Republic, and included in salaries and employee benefits relating to the plan, was $425,000 in 2013, $366,000 in 2012 and $307,000 in 2011.

Directors' and Officers' Plans

The Company has agreements that provide for an annuity payment upon the retirement or death of certain directors and officers, ranging from $15,000 to $25,000 per year for ten years. The agreements were modified for most participants in 2001, to establish a minimum age of 65 to qualify for the payments. All participants are fully vested. The accrued benefits under the plan at both December 31, 2013 and 2012 totaled $1.4 million. The expense for the years ended December 31, 2013, 2012 and 2011, totaled $39,000, $27,000, and $27,000, respectively. The Company funded the plan through the purchase of certain life insurance contracts. The cash surrender value of these contracts (owned by the Company) aggregated $2.2 million and $2.0 million at December 31, 2013 and 2012, respectively, which is included in other assets.

The Company maintains a deferred compensation plan for the benefit of certain officers and directors. As of December 31, 2013, no additional individuals may participate in the plan. The plan permits certain participants to make elective contributions to their accounts, subject to applicable provisions of the Internal Revenue Code. In addition, the Company may make discretionary contributions to participant accounts. Company contributions are subject to vesting, and generally vest three years after the end of the plan year to which the contribution applies, subject to acceleration of vesting upon certain changes in control (as defined in the plan) and to forfeiture upon termination for cause (as defined in the plan). Participant accounts are adjusted to reflect contributions and distributions, and income, gains, losses, and expenses as if the accounts had been invested in permitted investments selected by the participants, including Company common stock. The plan provides for distributions upon retirement and, subject to applicable limitations under the Internal Revenue Code, limited hardship withdrawals. As of December 31, 2013 and 2012, $638,000 and $681,000, respectively, in benefits had vested.

Expense recognized for the deferred compensation plan for 2013, 2012, and 2011 was $0, $109,000 and $112,000, respectively. Although the plan is an unfunded plan, and does not require the Company to segregate any assets, the Company has purchased shares of Company common stock in anticipation of its obligation to pay benefits under the plan. Such shares are classified in the financial statements as stock held by deferred compensation plan. No purchases were made in 2013, 2012 and 2011. As of December 31, 2013, approximately 112,542 shares of Company common stock were classified as stock held by deferred compensation plan.

14. Fair Value Measurements and Fair Values of Financial Instruments

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

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

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

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

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

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

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

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2013 and 2012 were as follows:

(dollars in thousands)	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2013				
Collateralized mortgage obligations	$123,440	$-	$123,440	$ -
Mortgage-backed securities	16,181	-	16,181	-
Municipal securities	9,643	-	9,643	-
Corporate bonds	33,253	-	30,247	3,006
Asset-backed securities	19,407	-	19,407	-
Trust Preferred Securities	2,850	-	-	2,850
Other securities	117	-	117	-
Securities Available for Sale	$204,891	$-	$199,035	$ 5,856
December 31, 2012				
Collateralized mortgage obligations	$99,783	$-	$99,783	$-
Mortgage-backed securities	21,640	-	21,640	-
Municipal securities	12,101	-	12,101	-
Corporate bonds	32,685	-	29,678	3,007
Asset-backed securities	19,729	-	19,729	-
Trust Preferred Securities	3,187	-	-	3,187
Other securities	134	-	134	-
Securities Available for Sale	$189,259	$-	$183,065	$6,194

The following table presents a reconciliation of the securities available for sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2013, 2012, and 2011:

Level 3 Investments Only (dollars in thousands)	Year Ended December 31, 2013 Trust Preferred Securities	Year Ended December 31, 2013 Corporate Bonds	Year Ended December 31, 2012 Trust Preferred Securities	Year Ended December 31, 2012 Corporate Bonds	Year Ended December 31, 2011 Trust Preferred Securities	Year Ended December 31, 2011 Corporate Bonds
Balance, January 1,	$3,187	$3,007	$3,410	$3,004	$3,450	$3,000
Security transferred to Level 3 measurement	-	-	-	-	-	-
Unrealized gains (losses)	171	(1)	401	3	2	4
Paydowns	(508)	-	(590)	-	-	-
Impairment charges on Level 3	-	-	(34)	-	(42)	-
Balance, December 31,	$2,850	$3,006	$3,187	$3,007	$3,410	$3,004

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2013 and 2012, respectively, were as follows:

(dollars in thousands)	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2013:				
Impaired loans	$17,474	$-	$-	$ 17,474
Other real estate owned	3,921	-	-	3,921
SBA servicing assets	3,477	-	-	3,477
December 31, 2012:				
Impaired loans	$19,876	$-	$-	$ 19,876
Other real estate owned	3,642	-	-	3,642
SBA servicing assets	2,340	-	-	2,340

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

Quantitative Information about Level 3 Fair Value Measurements				
Asset Description	Fair Value	Valuation Technique	Unobservable Input	Range Weighted Average
December 31, 2013:				
Impaired loans	$ 17,474	Fair Value of Collateral (1)	Appraised Value (2)	0% - 40% (23%) (4)
Other real estate owned	$ 3,921	Fair Value of Collateral (1)	Appraised Value (2) Sales Price	4% - 77% (17%) (4)
SBA Servicing Assets	$ 3,477	Fair Value	Individual Loan Valuation (3)	(3)
December 31, 2012:				
Impaired loans	$ 19,876	Fair Value of Collateral (1)	Appraised Value (2)	0% - 48% (15%) (4)
Other real estate owned	$ 3,642	Fair Value of Collateral (1)	Appraised Value (2) Sales Price	2% - 8% (5%) (4)
SBA Servicing Assets	$ 2,340	Fair Value	Individual Loan Valuation (3)	(3)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which include Level 3 inputs that are not identifiable.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.
(3) There is a lack of transactional data in this market place for the non-guaranteed portion of SBA loans.
(4) The range and weighted average of qualitative factors such as economic conditions and estimated liquidation expenses are presented as a percent of the appraised value.

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

The following table presents an analysis of the activity in the SBA servicing assets for the years ended December 31, 2013 and 2012:

(dollars in thousands)	2013	2012
Beginning balance, January 1st	$2,340	$1,102
Additions	1,349	1,175
Fair value adjustments	(212)	63
Ending balance, December 31st	$3,477	$2,340

Fair Value Assumptions

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2013 and December 31, 2012:

Cash and Cash Equivalents (Carried at Cost)

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

Investment Securities

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

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

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

The trust preferred securities are pools of similar securities that are grouped into an asset structure commonly referred to as collateralized debt obligations ("CDOs") which consist of the debt instruments of various banks, diversified by the number of participants in the security as well as geographically. The secondary market for these securities has become inactive, and therefore these securities are 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 a limited secondary market for the securities and there can be no assurance that any secondary market for the securities will expand.

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An independent, third party pricing service is used to estimate the current fair market value of each CDO held in the investment securities portfolio. 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, 2013 and December 31, 2012. Financial information on the issuers was also obtained from Bloomberg, the FDIC, the Office of Thrift Supervision and SNL Financial. Both published and unpublished industry sources were utilized in estimating fair value. Such information includes loan prepayment speed assumptions, discount rates, default rates, and loss severity percentages. 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.

The fair market valuation for each CDO 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 that do default.

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

Also included in Level 3 investment securities classified as available for sale is a single-issuer corporate bond transferred from Level 2 in 2010 since the bond is not actively traded. Impairment would depend on the repayment ability of the underlying issuer, which is assessed through a detailed quarterly review of the issuer's financial statements. The issuer is a "well capitalized" financial institution as defined by federal banking regulations and has demonstrated the ability to raise additional capital, when necessary, through the public capital markets. The fair value of this corporate bond is estimated by obtaining a price of a comparable floating rate debt instrument through Bloomberg.

Loans Held For Sale (Carried at Lower of Cost or Fair Value)

The fair values of loans held for sale is determined, when possible, using quoted secondary-market prices. If no such quoted prices exist, the fair value of a loan is determined using quoted prices for a similar loan or loans, adjusted for the specific attributes of that loan. The Company did not write down any loans held for sale during the years ended December 31, 2013 and 2012.

Loans Receivable (Carried at Cost)

The fair values of loans receivable, excluding all nonaccrual loans and accruing loans deemed impaired with specific loan allowances, are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Due to the significant judgment involved in evaluating credit quality, loans are classified within Level 3 of the fair value hierarchy.

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

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

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

These assets are carried at the lower of cost or fair value. At December 31, 2013 and 2012 these assets are carried at current fair value.

SBA Servicing Asset (Carried at Fair Value)

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

The Company uses assumptions and estimates in determining the impairment of the SBA servicing asset. These assumptions include prepayment speeds and discount rates commensurate with the risks involved and comparable to assumptions used by participants to value and bid serving rights available for sale in the market. At December 31, 2013, the sensitivity of the current fair value of the SBA loan servicing rights to immediate 10% and 20% adverse changes in key assumptions are included in the accompanying table.

(dollars in thousands)	December 31, 2013	December 31, 2012
SBA Servicing Asset		
Fair Value of SBA Servicing Asset	$3,477	$2,340
Composition of SBA Loans Serviced for Others		
Fixed-rate SBA loans	0 %	0 %
Adjustable-rate SBA loans	100 %	100 %
Total	100 %	100 %
Weighted Average Remaining Term	21.4 years	21.4 years
Prepayment Speed	6.72 %	6.59 %
Effect on fair value of a 10% increase	$(83)	$(55)
Effect on fair value of a 20% increase	(163)	(107)
Weighted Average Discount Rate	13.59 %	14.23 %
Effect on fair value of a 10% increase	$(162)	$(115)
Effect on fair value of a 20% increase	(316)	(222)

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

Restricted Stock (Carried at Cost)

The carrying amount of restricted stock approximates fair value, and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amounts of accrued interest receivable and accrued interest payable approximates fair value.

Deposit Liabilities (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Subordinated Debt (Carried at Cost)

Fair values of subordinated debt are estimated using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit risk characteristics, terms and remaining maturity. Due to the significant judgment involved in developing the spreads used to value the subordinated debt, it is classified within Level 3 of the fair value hierarchy.

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

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

The estimated fair values of the Company's financial instruments were as follows at December 31, 2013 and 2012:

	Fair Value Measurements at December 31, 2013				
(dollars in thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Balance Sheet Data					
Financial assets:					
Cash and cash equivalents	$35,880	$35,880	$35,880	$-	$ -
Investment securities available for sale	204,891	204,891	-	199,035	5,856
Investment securities held to maturity	21	21	-	21	-
Restricted stock	1,570	1,570	-	1,570	-
Loans held for sale	4,931	5,225	-	-	5,225
Loans receivable, net	667,048	660,237	-	-	660,237
SBA servicing assets	3,477	3,477	-	-	3,477
Accrued interest receivable	3,049	3,049	-	3,049	-
Financial liabilities:					
Deposits					
Demand, savings and money market	$790,698	$790,698	$-	$790,698	$ -
Time	78,836	79,323	-	79,323	-
Subordinated debt	22,476	17,835	-	-	17,835
Accrued interest payable	237	237	-	237	-
Off-Balance Sheet Data					
Commitments to extend credit	-	-			
Standby letters-of-credit	-	-			

	Fair Value Measurements at December 31, 2012				
(dollars in thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Balance Sheet Data					
Financial assets:					
Cash and cash equivalents	$128,004	$128,004	$128,004	$-	$ -
Investment securities available for sale	189,259	189,259	-	183,065	6,194
Investment securities held to maturity	67	69	-	69	-
Restricted stock	3,816	3,816	-	3,816	-
Loans held for sale	82	82	-	-	82

Loans receivable, net	608,359	603,237	-	-	603,237
SBA servicing assets	2,340	2,340	-	-	2,340
Accrued interest receivable	3,128	3,128	-	3,128	-
Financial liabilities:					
Deposits					
Demand, savings and money market	$765,967	$765,967	$-	$765,967	$ -
Time	123,234	124,044	-	124,044	-
Subordinated debt	22,476	20,187	-	-	20,187
Accrued interest payable	301	301	-	301	-
Off-Balance Sheet Data					
Commitments to extend credit	-	-			
Standby letters-of-credit	-	-			

15. Stock Based Compensation

The Company has a Stock Option and Restricted Stock Plan ("Plan"), under which stock options, restricted stock or stock appreciation rights may be granted to the Company's employees, directors, and certain consultants. Under the terms of the Plan, 1.5 million shares of common stock, plus an annual increase equal to the number of shares needed to restore the maximum number of shares that may be available for grant under the Plan to 1.5 million shares, are available for such grants. As of December 31, 2013, the only grants under the Plan have been option grants. The Plan provides that the exercise price of each option granted equals the market price of the Company's stock on the date of grant. Any option granted vests within one to four years and has a maximum term of ten years.

The Company utilized the Black-Scholes option pricing model to calculate the estimated fair value of each stock option granted on the date of the grant. A summary of the assumptions used in the Black-Scholes option pricing model for 2013, 2012 and 2011 is as follows:

	2013	2012	2011
Dividend yield(1)	0.0%	0.0%	0.0%
Expected volatility(2)	54.88% to 55.61%	53.12% to 54.49%	43.33% to 49.11%
Risk-free interest rate(3)	1.28% to 2.03%	1.01% to 1.61%	1.38% to 2.84%
Expected life(4)	7.0 years	7.0 years	7.0 years

(1) A dividend yield of 0.0% is utilized because cash dividends have never been paid.
(2) Expected volatility is based on Bloomberg's seven year volatility calculation for "FRBK" stock.
(3) The risk-free interest rate is based on the seven year Treasury bond.
(4) The expected life reflects a 3 to 4 year "all or nothing" vesting period, the maximum ten year term and review of historical behavior.

During 2013, 127,287 shares vested as compared to 146,000 shares in 2012 and 53,500 shares in 2011. Expense is recognized ratably over the period required to vest. At December 31, 2013 the intrinsic value of the 1,215,530 options outstanding was $421,510, while the intrinsic value of the 306,217 exercisable (vested) options was $43,195. During 2013, 96,250 options were forfeited with a weighted average grant date fair value of $306,483.

Information regarding stock based compensation for the years ended December 31, 2013, 2012 and 2011 is set forth below:

	2013	2012	2011
Stock based compensation expense recognized	$325,000	$370,000	$359,000
Number of unvested stock options	909,313	710,600	612,350
Fair value of unvested stock options	$1,245,679	$1,091,948	$1,337,780
Amount remaining to be recognized as expense	$545,862	$467,314	$554,763

The remaining amount of $545,862 will be recognized ratably as expense through October 2017.

A summary of stock option activity under the Plan as of December 31, 2013, 2012 and 2011 is as follows:

	For the Years Ended December 31,					
	2013		2012		2011	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	964,530	$4.38	839,417	$6.04	663,500	$7.32
Granted	347,250	2.72	296,750	1.95	263,850	3.12
Exercised	-	-	-	-	-	-
Forfeited	(96,250)	7.39	(171,637)	8.32	(87,933)	5.73
Outstanding, end of year	1,215,530	$3.66	964,530	$4.38	839,417	$6.04
Options exercisable at year-end	306,217	$6.24	253,930	$7.92	227,067	$9.00
Weighted average fair value of options granted during the year		$1.51		$1.05		$1.61

There were no stock options exercised during the years ended December 31, 2013, 2012 and 2011.

The following table summarizes information about options outstanding at December 31, 2013:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
$1.39 to $2.95	651,500	8.7	$ 2.33	41,937	$ 1.95
$3.14 to $5.12	311,750	6.8	3.72	12,000	4.50
$5.70 to $8.00	228,507	3.7	6.58	228,507	6.58
$9.93 to $12.13	23,773	2.3	11.36	23,773	11.36
	1,215,530		$ 3.66	306,217	$ 6.24

A roll-forward of non-vested options during the year ended December 31, 2013 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested, beginning of year	710,600	$ 1.54
Granted	347,250	1.51
Vested	(127,287)	1.63
Forfeited	(21,250)	1.40
Nonvested, end of year	909,313	$ 1.37

16. Segment Reporting

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

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17. Transactions with Affiliates and Related Parties

At December 31, 2013 and 2012, Republic had outstanding balances of $2.7 million and $3.3 million, respectively, of commercial loans, which had been participated to First Bank of Delaware ("FBD"), a wholly-owned subsidiary of the Company prior to January 1, 2005. As of December 31, 2013 and 2012 Republic had no outstanding commercial loan balances it had purchased from FBD. The above loan participations and sales were made at arms length. They are made as a result of lending limit and other regulatory requirements.

The Board of Directors of FBD approved a Plan of Liquidation and Dissolution on April 27, 2012. As a result of stockholder approval of the Plan of Dissolution, FBD executed the FBD Liquidating Trust Agreement. On November 6, 2012, FBD gave notice to the Financial Industry Regulatory Authority of its intent to dissolve on or about November 16, 2012.

The Company made payments to related parties in the amount of $412,000 during 2013 as compared to $346,000 during 2012 and $333,000 during 2011. The disbursements made during 2013, 2012 and 2011 include $127,000, $95,000, and $83,000, respectively, in fees for marketing, graphic design, architectural and project management services paid to InterArch, a company owned by the spouse of Vernon W. Hill, II. Mr. Hill is a major shareholder of the Company, beneficially owning 9.9% of the common shares currently outstanding. He also acts as a consultant for the Company and is paid $250,000 annually.

The Company paid $35,000 during 2013 to Brian Communications for public relations services. Brian Tierney, a member of the Board of Directors, is the CEO of Brian Communications, a strategic communications agency.

18. Parent Company Financial Information

The following financial statements for Republic First Bancorp, Inc. (Parent Company) should be read in conjunction with the consolidated financial statements and the other notes related to the consolidated financial statements.

Balance Sheet
December 31, 2013 and 2012
(Dollars in thousands)

	December 31, 2013	December 31, 2012
ASSETS		
Cash	$697	$736
Corporation-obligated mandatorily redeemable capital securities of subsidiary trust holding junior obligations of the corporation	676	676
Investment in subsidiaries	80,666	88,945
Other assets	3,354	2,848
Total Assets	$85,393	$93,205
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accrued expenses	$18	$827
Corporation-obligated mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the corporation	22,476	22,476
Total Liabilities	22,494	23,303
Shareholders' Equity		
Total Shareholders' Equity	62,899	69,902
Total Liabilities and Shareholders' Equity	$85,393	$93,205

Statements of Operations, Comprehensive Income (Loss), and Changes in Shareholders' Equity
For the years ended December 31, 2013, 2012 and 2011
(Dollars in thousands)

	2013	2012	2011
Interest income	$33	$34	$33
Dividend income from subsidiaries	1,859	-	212
Total income	1,892	34	245
Trust preferred interest expense	1,112	1,134	1,117
Expenses	318	317	288
Total expenses	1,430	1,451	1,405
Net income (loss) before taxes	462	(1,417)	(1,160)
Benefit for income taxes	(489)	(496)	(406)
Income (loss) before undistributed income of subsidiaries	951	(921)	(754)
Equity in undistributed income (loss) of subsidiaries	(4,431)	4,535	(23,948)
Net income (loss)	$(3,480)	$3,614	$(24,702)
Net income (loss)	$(3,480)	$3,614	$(24,702)
Total other comprehensive income (loss)	(3,848)	1,067	1,048
Total comprehensive income (loss)	$(7,328)	$4,681	$(23,654)
Shareholders' equity, beginning of year	$69,902	$64,851	$88,146
Stock based compensation	325	370	359
Net income (loss)	(3,480)	3,614	(24,702)
Total other comprehensive income (loss)	(3,848)	1,067	1,048
Shareholders' equity, end of year	$62,899	$69,902	$64,851

Statements of Cash Flows
For the years ended December 31, 2013, 2012 and 2011
(Dollars in thousands)

	2013	2012	2011
Cash flows from operating activities:			
Net income (loss)	$(3,480)	$3,614	$(24,702)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Share based compensation	325	370	359
Increase in other assets	(506)	(542)	(486)
(Decrease) increase in other liabilities	(809)	(226)	223
Equity in undistributed (income) losses of subsidiaries	4,431	(4,535)	23,948
Net cash used in operating activities	(39)	(1,319)	(658)
Cash flows from investing activities:			
Investment in subsidiary	-	-	(8,000)
Net cash used in investing activities	-	-	(8,000)
Decrease in cash	(39)	(1,319)	(8,658)
Cash, beginning of period	736	2,055	10,713
Cash, end of period	$697	$736	$2,055

19. Quarterly Financial Data (unaudited)

The following represents summarized unaudited quarterly financial data of the Company for each of the quarters ended during 2013 and 2012.

Summary of Selected Quarterly Consolidated Financial Data
(dollars in thousands, except per share data)

	For the Quarter Ended			
	December 31st	September 30th	June 30th	March 31st
2013				
Interest income	$9,544	$9,339	$9,215	$9,107
Interest expense	1,106	1,113	1,117	1,254
Net interest income	8,438	8,226	8,098	7,853
Provision for loan losses	3,760	250	925	-
Non-interest income	2,211	1,892	2,870	2,243
Non-interest expense	10,117	12,108	9,056	9,130
Provision (benefit) for income taxes	33	(18)	(24)	(26)
Net income (loss)	$(3,261)	$(2,222)	$1,011	$992
Net income (loss) per share (1):				
Basic	$(0.13)	$(0.09)	$0.04	$0.04
Diluted	$(0.13)	$(0.09)	$0.04	$0.04
2012				
Interest income	$9,423	$9,612	$9,649	$9,576
Interest expense	1,406	1,436	1,624	1,900
Net interest income	8,017	8,176	8,025	7,676
Provision (credit) for loan losses	750	850	500	(750)
Non-interest income	2,852	1,831	2,499	1,646
Non-interest expense	9,269	8,787	9,010	8,836
Provision (benefit) for income taxes	(54)	(28)	7	(69)
Net income	$904	$398	$1,007	$1,305
Net income per share (1):				
Basic	$0.03	$0.02	$0.04	$0.05
Diluted	$0.03	$0.02	$0.04	$0.05

(1) Quarterly net income (loss) per share does not add to full year net income (loss) per share due to rounding.

Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and accumulated and communicated to the Company's management, including the Company's principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The Company's management, with the participation of the principal executive officer and the principal financial officer, conducted an evaluation, as of the end of the period covered by this report, of the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Exchange Act Rule 13a-15(e). Based on this evaluation, the principal executive officer and the principal financial officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures, as defined in Rule 13a-15(e), were effective at the reasonable assurance level.

Changes in Internal Controls

The principal executive officer and principal financial officer also conducted an evaluation of the Company's internal control over financial reporting ("Internal Control") to determine whether any changes in Internal Control occurred during the quarter ended December 31, 2013 that have materially affected or which are reasonably likely to materially affect Internal Control. Based on that evaluation, there has been no such change during the quarter ended December 31, 2013.

Management's Report on Internal Controls

Management of Republic First Bancorp, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act.

The Company's management, under the supervision and with the participation of the principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of internal control over financial reporting, as of December 31, 2013, based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the framework in Internal Control – Integrated Framework, management of the Company has concluded the Company maintained effective internal control over financial reporting, as such term is defined in Securities Exchange Act of 1934 Rules 13a-15(f), as of December 31, 2013.

Limitations on the Effectiveness of Controls

Control systems, no matter how well designed and operated, can provide only reasonable, not an absolute, level of assurance that the objectives of the control system are met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

BDO, an independent registered public accounting firm, has audited the Company's consolidated financial statements as of and for the year ended December 31, 2013, and the effectiveness of the Company's internal control over financial reporting as of December 31, 2013, as stated in their reports, which are included herein.

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320 Market Street, 6th Floor
Harrisburg, PA 17101

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Republic First Bancorp, Inc.
Philadelphia, Pennsylvania

We have audited Republic First Bancorp, Inc. and Subsidiaries (the "Bancorp") internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Bancorp's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Republic First Bancorp, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Republic First Bancorp, Inc. and Subsidiaries as of December 31, 2013, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for the year then ended and our report dated March 24, 2014 expressed an unqualified opinion.

Harrisburg, Pennsylvania
March 24, 2014

Item 9B: Other Information

None.

PART III

Item 10: Directors, Executive Officers and Corporate Governance

Except as set forth below, the information required by this Item is incorporated by reference from the definitive proxy materials of the Company to be filed with the Securities and Exchange Commission in connection with the Company's 2014 annual meeting of shareholders, including, but not necessarily limited to, the sections entitled "Board of Directors and Committees" and "Executive Officers and Compensation."

The Company has adopted a code of ethics that applies to the Company's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The text of the Company's code of ethics is available on the Company's website at www.myrepublicbank.com. We intend to disclose any changes in or revision to our code of ethics on our website, if applicable.

Item 11: Executive Compensation

The information required by this Item is incorporated by reference from the definitive proxy materials of the Company to be filed with the Securities and Exchange Commission in connection with the Company's 2014 annual meeting of shareholders, including, but not necessarily limited to, the section entitled "Executive Officers and Compensation."

Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Except as set forth below, the information required by this Item is incorporated by reference from the definitive proxy materials of the Company to be filed with the Securities and Exchange Commission in connection with the Company's 2014 annual meeting of shareholders, including, but not necessarily limited to, the section entitled "Security Ownership of Certain Beneficial Owners and Management."

The following table sets forth information as of December 31, 2013, with respect to the shares of common stock that may be issued under the Company's existing equity compensation plans.

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column)
Equity compensation plans approved by security holders	1,215,530	$ 3.66	(1)
Equity compensation plans not approved by security holders	-	-	-

Total	1,215,530	$ 3.66	(1)

(1) The Amended and Restated Stock Option and Restricted Stock Plan includes an "evergreen formula" which provides that the maximum number of shares which may be issued is 1,540,000 shares plus an annual increase equal to the number of shares required to restore the maximum number of shares available for grant to 1,540,000 shares.

Item 13: Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference from the definitive proxy materials of the Company to be filed with the Securities and Exchange Commission in connection with the Company's 2014 annual meeting of shareholders, including, but not necessarily limited to, the sections entitled "Certain Relationships and Related Transactions" and "Board of Directors and Committees."

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated by reference from the definitive proxy materials of the Company to be filed with the Securities and Exchange Commission in connection with the Company's 2014 annual meeting of shareholders, including, but not necessarily limited to, the section entitled "Information Regarding Independent Registered Public Accounting Firm".

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) The following financial statements and related documents of Republic First Bancorp, Inc. are filed as part of this Annual Report on Form 10-K in Part II – Item 8 "Financial Statements and Supplementary Data":

a. Consolidated Balance Sheets as of December 31, 2013 and 2012;
b. Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011;
c. Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2013, 2012 and 2011;
d. Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011;
e. Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2013, 2012 and 2011; and
f. Notes to Consolidated Financial Statements.

(a) (2) None

(a)(3) The exhibits filed or furnished, as applicable, as part of this report are listed under Exhibits at subsection (b) of this Item 15.

(b) Exhibits

The following Exhibits are filed as part of this report.

Exhibit Number	Description	Location
3.1	Amended and Restated Articles of Incorporation of Republic First Bancorp, Inc.	Incorporated by reference to Form 8-K filed May 13, 2010
3.2	Amended and Restated By-Laws of Republic First Bancorp, Inc.	Incorporated by reference to Form S-1 filed April 23, 2010 (333-166286)

Exhibit Number	Description	Location
4.1	The Company will furnish to the SEC upon request copies of the following documents relating to the Company's Floating Rate Junior Subordinated Debt Securities due 2037: (i) Indenture dated as of December 27, 2006, between the Company and Wilmington Trust Company, as trustee; (ii) Amended and Restated Declaration of Trust of Republic Capital Trust II, dated as of December 27, 2006; and (iii) Guarantee Agreement dated as of December 27, 2006, between the Company and Wilmington Trust Company, as trustee, for the benefit of the holders of the capital securities of Republic Capital Trust II	
4.2	The Company will furnish to the SEC upon request copies of the following documents relating to the Company's Floating Rate Junior Subordinated Debt Securities due 2037: (i) Indenture dated as of June 28, 2007, between the Company and Wilmington Trust Company, as trustee; (ii) Amended and Restated Declaration of Trust of Republic Capital Trust III, dated as of June 28, 2007; and (iii) Guarantee Agreement dated as of June 28, 2007, between the Company and Wilmington Trust Company, as trustee, for the benefit of the holders of the capital securities of Republic Capital Trust III	
4.3	The Company will furnish to the SEC upon request copies of the following documents relating to the Company's Fixed Rate Junior Subordinated Convertible Debt Securities due 2038: (i) Indenture dated as of June 10, 2008, between the Company and Wilmington Trust Company, as trustee; (ii) Amended and Restated Declaration of Trust of Republic First Bancorp Capital Trust IV, dated as of June 10, 2008; and (iii) Guarantee Agreement dated as of June 10, 2008, between the Company and Wilmington Trust Company, as trustee, for	

	the benefit of the holders of the capital securities of Republic First Bancorp Capital Trust IV	
10.1	Employment Agreement between the Company and Harry D. Madonna, dated May 10, 2013*	Incorporated by reference to Form 10-Q filed May 10, 2013

Exhibit Number	Description	Location
10.2	Amended and Restated Stock Option Plan and Restricted Stock Plan*	Incorporated by reference to Form 10-K filed March 10, 2008
10.3	Deferred Compensation Plan*	Incorporated by reference to Form 10-K filed March 16, 2010
10.4	Amended and Restated Supplemental Retirement Plan Agreements between Republic First Bank and Certain Directors*	Incorporated by reference to Form 10-Q filed November 7, 2008
10.5	Purchase Agreement among Republic First Bancorp, Inc., Republic First Bancorp Capital Trust IV, and Purchasers of the Trust IV Capital Securities	Incorporated by reference to Form 10-Q filed November 7, 2008
10.6	Registration Rights Agreement among Republic First Bancorp, Inc. and the Holders of the Trust IV Capital Securities	Incorporated by reference to Form10-Q filed November 7, 2008
10.7	Consulting Agreement between Republic First Bancorp, Inc. and Vernon W. Hill, II	Incorporated by reference to Form 10-Q filed November 7, 2008
10.8	Employment Agreement between Republic First Bank and Andrew J. Logue, dated August 20, 2008*	Incorporated by reference to Form S-1 filed April 23, 2010 (333-166286)
10.9	Employment Agreement between Republic First Bank and Rhonda S. Costello, dated August 25, 2008*	Incorporated by reference to Form S-1 filed April 23, 2010 (333-166286)
10.10	Form of Option Award*	Incorporated by reference to Form S-1 filed April 23, 2010 (333-166286)
10.11	Amendment to Employment Agreement, by and between Andrew J. Logue and Republic First Bank, dated April 26, 2010*	Incorporated by reference to Form 8-K filed May 4, 2010
10.12	Amendment to Employment Agreement, by and between Andrew J. Logue and Republic First Bank, dated March 13, 2013.*	Incorporated by reference to Form 10-Q filed May 10, 2013
10.13	Amendment to Employment Agreement, by and between Rhonda Costello and Republic	Incorporated by reference to Form 10-Q filed May 10, 2013

	First Bank, dated March 13, 2013.*	
10.14	Letter Agreement, by and between Jay Neilon and the Company, dated March 13, 2013.*	Incorporated by reference to Form 10-Q filed May 10, 2013
10.15	Letter Agreement, by and between Frank A. Cavallaro and the Company, dated March 13, 2013.*	Incorporated by reference to Form 10-Q filed May 10, 2013

Exhibit Number	Description	Location
21.1	Subsidiaries of the Company	Filed Herewith
23.1	Consent of BDO USA, LLP	Filed Herewith
23.2	Consent of ParenteBeard LLC	Filed Herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer of Republic First Bancorp, Inc.	Filed Herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Republic First Bancorp, Inc.	Filed Herewith
32.1	Section 1350 Certification of Harry D. Madonna	Furnished Herewith
32.2	Section 1350 Certification of Frank A. Cavallaro	Furnished Herewith
101	The following materials from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Balance Sheets as of December 31, 2013 and December 31, 2012, (ii) Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011, (iii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2013, 2012 and 2011, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011, (v) Consolidated Statement of Changes in Shareholders' Equity for the years ended December 31, 2013, 2012 and 2011, and (vi) Notes to Consolidated Financial Statements.	

* Constitutes a management compensation agreement or arrangement.

(c) All financial statement schedules are omitted because the required information is not present or not present in amounts sufficient to require submission of the schedule or because the information required is included in the respective financial statements or notes thereto contained herein.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

REPUBLIC FIRST BANCORP, INC.

Date: March 24, 2014	By: /s/ Harry D. Madonna Harry D. Madonna Chairman, President and Chief Executive Officer (principal executive officer)
Date: March 24, 2014	By: /s/ Frank A. Cavallaro Frank A. Cavallaro Executive Vice President and Chief Financial Officer (principal financial and accounting officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: March 24, 2014	By: /s/ Robert Coleman Robert Coleman, Director
Date: March 24, 2014	By: /s/ Theodore J. Flocco, Jr. Theodore J. Flocco, Jr., Director
Date: March 24, 2014	By: /s/ Harry D. Madonna Harry D. Madonna, Director and Chairman of the Board
Date: March 24, 2014	By: /s/ Barry L. Spevak Barry L. Spevak, Director
Date: March 24, 2014	By: /s/ Brian P. Tierney Brian P. Tierney, Director
Date: March 24, 2014	By: /s/ Harris Wildstein, Esq. Harris Wildstein, Esq., Director