REPUBLIC FIRST BANCORP INC
Form 10-K
March 16, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (THE "EXCHANGE ACT")

For the fiscal year ended December 31, 2008
Commission file number: 000-17007
REPUBLIC FIRST BANCORP, INC.
(Exact name of registrant as specified in charter)

Pennsylvania (State or Other Jurisdiction of Incorporation or Organization)	23-2486815 (I.R.S. Employer Identification No.)
50 South 16th Street, Suite 2400, Philadelphia, PA (Address of Principal Executive offices)	19102 (Zip Code)

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

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

Common Stock, $0.01 par value (Title of each class)	The Nasdaq Stock Market (Name of each exchange on which registered)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES ____ NO __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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 __X__

Non-accelerated filer ____ (Do not check if a smaller reporting company) Smaller Reporting Company _____

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2008. The aggregate market value of $63,678,171 was based on the last sale price on the Nasdaq Stock Market on June 30, 2008.

APPLICABLE ONLY TO CORPORATE REGISTRANTS

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

Common Stock $0.01 Par Value	10,631,348
Title of Class	Number of Shares Outstanding as of March 6, 2009

REPUBLIC FIRST BANCORP, INC.

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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." The Company's website address is rfbkonline.com. The Company's annual 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:

- statements of goals, intentions and expectations;
- statements regarding prospects and business strategy;
- statements regarding asset quality and market risk; and
- estimates of future costs, benefits and results.

The forward-looking statements contained herein 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, risks and uncertainties can arise with changes in:

- the ability of the Company and Pennsylvania Commerce Bancorp, Inc. to obtain the required approvals for and complete their proposed merger;
- general economic conditions, including current turmoil in the financial markets and the efforts of government agencies to stabilize the financial system;
- adverse changes in the Company's loan portfolio and credit risk-related losses and expenses;
- 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;
- changes in accounting principles, policies and guidelines;
- rapidly changing technology;
- litigation liabilities, including costs, expenses, settlements and judgments; and
- other economic, competitive, governmental, regulatory and technological factors affecting the Company's operations, pricing, products and services.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis 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. Factors which could have a material 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 described included in this Annual Report on Form 10-K and in other documents the Company files from time to time with the SEC.

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Republic First Bancorp, Inc.

On November 7, 2008, the board of directors of the Company approved a merger agreement under which Pennsylvania Commerce Bancorp, Inc. (“Pennsylvania Commerce”) will acquire the Company, subject to the receipt of shareholder and regulatory approvals and the satisfaction of other customary closing conditions. The Company has scheduled a special meeting of shareholders to consider and vote upon the approval of the merger agreement for March 18, 2009, and Pennsylvania Commerce has scheduled a special meeting of its shareholders for March 19, 2009. Pennsylvania Commerce and the Company have filed a Registration Statement on Form S-4 with the SEC that includes a joint proxy statement of the Company and Pennsylvania Commerce, which also constitutes a preliminary prospectus of Pennsylvania Commerce. The registration statement has been declared effective by the SEC, and the Company and Pennsylvania Commerce have mailed the joint proxy statement/prospectus to their shareholders. INVESTORS ARE URGED TO READ THE JOINT PROXY STATEMENT/PROSPECTUS AND ANY OTHER DOCUMENTS TO BE FILED WITH THE SEC IN CONNECTION WITH THE MERGER OR INCORPORATED BY REFERENCE IN THE JOINT PROXY STATEMENT/PROSPECTUS BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. Investors will be able to obtain these documents free of charge at the SEC’s web site (www.sec.gov). In addition, documents filed with the SEC by the Company will be available free of charge by request to Republic First Bancorp, Inc., Attention: Linda Lewis, Two Liberty Place, 50 S. 16th Street, Suite 2400, Philadelphia, PA 19102, (215) 735-4422, ext. 5332, and documents filed with the SEC by Pennsylvania Commerce will be available free of charge by directing a request to Ms. Sherry Richart at Pennsylvania Commerce Bancorp, Inc., 3801 Paxton Street, Harrisburg, PA, 17111 (telephone: 800-653-6104).

The Company was organized and incorporated under the laws of the Commonwealth of Pennsylvania in 1987 to be the holding company for Republic First Bank and, in 1999, it established a second subsidiary bank, First Bank of Delaware. Through 2004, the Company was a two-bank holding company. Its wholly-owned subsidiaries, Republic First Bank (“Republic”) and First Bank of Delaware (“FBD”), offered a variety of credit and depository banking services. Such services were offered to individuals and businesses primarily in the Greater Philadelphia and Delaware area through their ten offices and branches in Philadelphia and Montgomery Counties in Pennsylvania and New Castle County, Delaware, but also through the national consumer loan products offered by the First Bank of Delaware.

First Bank of Delaware was spun off by the Company on January 31, 2005 through a distribution of all of the shares of FBD’s common stock to the Company’s shareholders. Since that date, the Company has been a one bank holding company.

As of December 31, 2008, the Company had total assets of approximately $952.0 million, total shareholders’ equity of approximately $79.3 million, total deposits of approximately $739.2 million and net loans receivable outstanding of approximately $774.7 million.

The Company provides banking services through Republic and does not presently engage in any activities other than banking activities. The principal executive office of the Company is located at Two Liberty Place, 50 South 16th Street, Suite 2400, Philadelphia, PA 19102, telephone number (215) 735-4422.

At December 31, 2008 the Company and Republic had a total of 153 full-time equivalent employees.

Republic First Bank

Republic First Bank is a commercial bank chartered pursuant to the laws of the Commonwealth of Pennsylvania, and is subject to examination and comprehensive regulation by the Federal Deposit Insurance Corporation (“FDIC”) and the Pennsylvania Department of Banking. The deposits held by Republic 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 six suburban offices in Ardmore, Plymouth Meeting, Bala Cynwyd and Abington, located in

Montgomery County, Media, located in Delaware County, and Voorhees, located in southern New Jersey.

As of December 31, 2008, Republic had total assets of approximately $949.9 million, total shareholder’s equity of approximately $89.5 million, total deposits of approximately $750.7 million and net loans receivable of approximately $774.7 million.

Services Offered

Republic offers many commercial and consumer banking services with an emphasis on serving the needs of individuals, small and medium-sized businesses, executives, professionals and professional organizations in its service area.

Republic attempts to offer a high level of personalized service to both its small and medium-sized businesses and consumer customers. Republic offers both commercial and consumer deposit accounts, including checking accounts, interest-bearing demand accounts, money market accounts, certificates of deposit, savings accounts, sweep accounts, lockbox services and individual retirement accounts (and other traditional banking services). Republic actively solicits both non-interest and interest-bearing deposits from its borrowers.

Republic offers a broad range of loan and credit facilities to the businesses and residents of its service area, including secured and unsecured commercial loans, commercial real estate and construction loans, residential mortgages, automobile loans, home improvement loans, home equity and overdraft lines of credit, and other products.

In relation to the offering of loan and credit facilities, Republic manages credit risk through loan application evaluation and monitoring for adherence with credit policies. Since its inception, Republic has had a senior officer monitor compliance with Republic's lending policies and procedures by Republic's loan officers.

As required for liquidity purposes for the products being offered, Republic also maintains an investment securities portfolio. Investment securities are purchased by Republic in compliance with Republic's Investment Policies, which are approved annually by Republic's board of directors. The Investment Policies address such issues as permissible investment categories, credit quality, maturities and concentrations. At December 31, 2008 and 2007, approximately 70% 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, and Federal Home Loan Bank (FHLB) securities.

Service Area/Market Overview

Republic's primary business banking service area consists of the Greater Philadelphia region, including Center City Philadelphia and the northern and western suburban communities located principally in Montgomery and Delaware Counties in Pennsylvania and northern Delaware. Republic also serves the surrounding counties of Bucks and Chester in Pennsylvania, southern New Jersey and southern Delaware.

Competition

There is substantial competition among financial institutions in Republic's business banking service area. Competitors include but are not restricted to the following banks: Wells Fargo, Citizens, PNC, Sovereign, TD Bank and Royal Bank America. Republic competes with new and established local commercial banks, as well as numerous regionally based and super-regional commercial banks. In addition Republic competes 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, but not limited to, 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, relative lending limits. It is the view of management that a combination of many factors, including, but not limited to, the level of market interest rates, has increased competition for loans and deposits.

Many of the banks with which Republic competes have greater financial resources than Republic and offer a wider range of deposit and lending instruments with higher legal lending limits. Republic's legal lending limit was approximately $15.0 million at December 31, 2008. Loans above these amounts may be made if the excess over the lending limit is participated to other institutions. Republic is subject to potential intensified competition from new branches of established banks in the area as well as new banks that could open in its market area. Several new banks with business strategies similar to those of Republic have opened since Republic's inception. 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 Republic's market. Republic competes to attract deposits and loan applications both from customers of existing institutions and from customers new to the greater Philadelphia area. Republic anticipates a continued increase in competition in its market area.

Operating Strategy for Business Banking

Since 2005, Republic's primary business banking objective has been for Republic to become the primary alternative to the large banks that dominate the Greater Philadelphia market. The Company's management team has developed a business strategy consisting of the following key elements to achieve this objective.

Providing Attentive and Personalized Service

The Company believes that a very attractive niche exists serving small to medium-sized business customers not adequately served by Republic's larger competitors. The Company believes this segment of the market responds very positively to the attentive and highly personalized service provided by Republic. Republic offers individuals and small to medium-sized businesses a wide array of banking products, informed and professional service, extended operating hours, and local, timely credit decisions. The banking industry is experiencing a period of rapid consolidation, and many local branches have been acquired by large out-of-market institutions. The Company is positioned to respond to these dynamics by offering a community banking alternative and tailoring its product offerings to fill voids created as larger competitors increase the price of products and services or de-emphasize such products and services. We believe the proposed merger with Pennsylvania Commerce will allow us to offer Pennsylvania Commerce's renowned service and convenience to our customers and to a wider geographic area.

Capitalizing on Market Dynamics

In recent years, banks controlling large amounts of the deposits in Republic's primary market areas have been acquired by large and super-regional bank holding companies. The ensuing cultural changes in these banking institutions have resulted in changes in their product offerings and in the degree of personal attention they provide. The Company has sought to capitalize on these changes by offering a community banking alternative. We believe when the proposed merger with Pennsylvania Commerce is completed, an opportunity will be provided to increase our market share.

Products and Services

Republic offers a range of competitively priced commercial and other banking services, including 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. Republic offers both commercial and consumer deposit accounts, including checking accounts, interest-bearing demand accounts, money market accounts, certificates of deposit, savings accounts, sweep accounts, lockbox services and individual retirement accounts (and other traditional banking services). 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 \$15.0 million. Individual customers may have several loans, often secured by different collateral, which are in total subject to that lending limit. Relationships in excess of \$9.8 million at December 31, 2008, amounted to \$287.3 million. The \$9.8 million threshold approximates 10% of total capital and reserves and reflects an additional internal monitoring guideline.

Republic attempts to offer a high level of personalized service to both its commercial and consumer customers. Republic is a member of the STAR™ and PLUS™ automated teller ("ATM") networks in order to provide customers with access to ATMs worldwide. Republic currently has twelve proprietary ATMs at branch locations and two additional proprietary ATMs at a location in Southern New Jersey.

Republic's lending activities generally are focused on small and medium sized businesses within the professional community. Commercial and construction loans are the most significant category of Republic's outstanding loans, representing approximately 96% of total loans outstanding at December 31, 2008. Repayment of these loans is, in part, dependent on general economic conditions affecting the community and the various businesses within the community. Although management continues to follow established underwriting policies, and monitors loans through Republic's loan review officer, credit risk is still inherent in the portfolio. Although the majority of Republic's loan portfolio is collateralized with real estate or other collateral, a portion of the commercial portfolio is unsecured, representing loans made to borrowers considered to be of sufficient financial strength to merit unsecured financing. Republic makes both fixed and variable rate loans with terms typically ranging from one to five years. Variable rate loans are generally tied to the national prime rate of interest.

Branch Expansion Plans and Growth Strategy

A branch was opened by Republic in Northeast Philadelphia in second quarter 2008. Three additional branches are planned for 2009 in southern New Jersey. Additional locations may also be pursued.

Supervision and Regulation

Various requirements and restrictions under the laws of the United States and the Commonwealth of Pennsylvania affect the Company and Republic.

General

Republic, a Pennsylvania chartered bank, is subject to supervision and regulation by the FDIC and the Pennsylvania Department of Banking. The Company is a bank holding company subject to supervision and regulation by the Federal Reserve Bank of Philadelphia ("FRB") under the federal Bank Holding Company Act of 1956, as amended (the "BHC Act"). As a bank holding company, the Company's activities and those of Republic are limited to the business of banking and activities closely related or incidental to banking, and the Company 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 FRB.

Republic is also subject to requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged thereon, and limitations on the types of investments that may be made and the types of services that may be offered. Various 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 Board of Governors of the Federal Reserve System (the "Federal Reserve") in attempting to control the money supply and credit availability in order to influence market interest rates and the national economy. In response to the current global financial crises, the United States and other governments have taken unprecedented steps in effort to stabilize the financial system, and may continue to do so.

Holding Company Structure

Republic is subject to restrictions under federal law which limit its ability to transfer funds to the Company, whether in the form of loans, other extensions of credit, investments or asset purchases. Such transfers by Republic to the Company are generally limited in amount to 10% of Republic's capital and surplus. Furthermore, such loans and extensions of credit are required to be secured in specific amounts, and all transactions are required to be on an arm's length basis. Republic has never made any loans or extensions of credit to the Company or purchased any assets from the Company.

Under regulatory policy, the Company is expected to serve as a source of financial strength to Republic and to commit resources to support Republic. This support may be required at times when, absent such policy, the Company might not otherwise provide such support. Any capital loans by the Company to Republic are subordinate in right of payment to deposits and to certain other indebtedness of Republic. In the event of the Company's bankruptcy, any commitment by the Company to a federal bank regulatory agency to maintain the capital of Republic will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Gramm-Leach-Bliley Act

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

(a) repealed the key provisions of the Glass Steagall Act so as to permit commercial banks to affiliate with investment banks (securities firms);
(b) amended the BHC Act to permit qualifying bank holding companies to engage in any type of financial activities that were not permitted for banks themselves; and
(c) permitted subsidiaries of banks to engage in a broad range of financial activities that were not permitted for banks themselves.

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

The GLB Act created a new kind of bank holding company called a "financial holding company" (an "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 CRA-rated "satisfactory" or better. A qualifying bank holding company becomes an FHC by filing with the Federal Reserve an election to become an FHC. If an FHC at any time fails to remain "well capitalized" or "well managed," the consequences can be severe. Such an FHC must enter into a written agreement with the Federal Reserve to restore compliance. If compliance is not restored within 180 days, the Federal Reserve can require the FHC to cease all its newly authorized activities or even to divest itself of its depository institutions. On the other hand, a failure to maintain a CRA rating of "satisfactory" will not jeopardize any then existing newly authorized activities; rather, the FHC cannot engage in any additional newly authorized activities until a "satisfactory" CRA rating is restored.

In addition to activities currently permitted by law and regulation for bank holding companies, an FHC may engage in virtually any other kind of financial activity. Under limited circumstances, an FHC may even be authorized to engage in certain non-financial activities. The most important of these authorized activities are as follows:

(a) Securities underwriting and dealing;
(b) Insurance underwriting and sales;
(c) Merchant banking activities;
(d) Activities determined by the Federal Reserve to be "financial in nature" and incidental activities; and
(e) Activities determined by the Federal Reserve to be "complementary" to financial activities.

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. The Company has not elected to become a FHC.

The GLB Act also authorized national banks to create "financial subsidiaries." This is in addition to the present authority of national banks to create "operating subsidiaries". A "financial subsidiary" is a direct subsidiary of a national bank that satisfies the same conditions as an FHC, plus certain other conditions, and is approved in advance by the Office of the Comptroller of the Currency (the "OCC"). A national bank's "financial subsidiary" can engage in most, but not all, of the newly authorized activities.

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 (1) adopt and disclose a privacy policy; (2) give customers the right to "opt out" of disclosures to non-affiliated parties; (3) not disclose any information to third party marketers; and (4) follow regulatory standards to protect the security and confidentiality of customer information.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 comprehensively revised the laws affecting corporate governance, auditing and accounting, executive compensation and corporate reporting for entities, such as the Company, with equity or debt securities registered under the Securities Exchange Act of 1934. 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 the Company and its outside auditors (including restrictions on the types of non-audit services our auditors may provide to us), imposed additional responsibilities for our external financial statements on our chief executive officer and chief financial officer, and expanded the disclosure requirements for our corporate insiders. The requirements are intended to allow stockholders to more easily and efficiently monitor the performance of companies and directors.

We have taken necessary steps with respect to achieving compliance and have updated our assessment and reporting on internal controls through the end of 2008.

Regulatory Restrictions on Dividends

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 $56.3 million of dividends payable plus an additional amount equal to its net profit for 2009, up to the date of any such dividend declaration. However, dividends would be further limited in order to maintain capital ratios as discussed in “Regulatory Capital Requirements”.

State and federal regulatory authorities have adopted standards for the maintenance of adequate levels of capital by banks, which may vary. Adherence to such standards further limits the ability of Republic to pay dividends to the Company.

Dividend Policy

The Company has not paid any cash dividends on its common stock. The Company has no plans to pay cash dividends in 2009.

Deposit Insurance and Assessments

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

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

All FDIC-insured depository institutions must also pay an annual assessment to provide funds for the repayment of debt obligations (commonly referred to as FICO bonds) issued by the Financing Corporation, a federal corporation, in connection with the disposition of failed thrift institutions by the Resolution Trust Corporation. The assessment rate for the first quarter of 2009 is set at approximately 1.14 cents per $100 of assessable deposits, and for second quarter of 2009 at 1.04 cents per $100 of assessable deposits. The FDIC has implemented a risk-related premium schedule for all insured depository institutions that results in the assessment of premiums based on capital and supervisory measures.

Emergency Economic Stabilization Act of 2008

The U.S. Congress adopted, and on October 3, 2008, President George W. Bush signed, the Emergency Economic Stabilization Act of 2008 (“EESA”) which authorizes the United States Department of the Treasury, to purchase from financial institutions and their holding companies up to $700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in a troubled asset relief program. The purpose of the troubled asset relief program is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. The troubled asset relief program is also expected to include direct purchases or guarantees of troubled assets of financial institutions. The Treasury Department has allocated $250 billion towards a capital purchase program. Under the capital purchase program, the

Treasury Department will purchase debt or equity securities from participating institutions

Temporary Liquidity Guarantee Program

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

Capital Adequacy

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

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

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

Interstate Banking

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1995 (the "Interstate Banking Law") amended various federal banking laws to provide for nationwide interstate banking, interstate bank mergers and interstate branching. The interstate banking provisions allow for the acquisition by a bank holding company of a bank located in another state.

Interstate bank mergers and branch purchase and assumption transactions were allowed effective September 1, 1998; however, states may "opt-out" of the merger and purchase and assumption provisions by enacting a law that specifically prohibits such interstate transactions. States could, in the alternative, enact legislation to allow interstate merger and purchase and assumption transactions prior to September 1, 1999. States could also enact legislation to allow for de novo interstate branching by out of state banks. In July 1997, Pennsylvania adopted "opt-in" legislation that allows interstate merger and purchase and assumption transactions.

Profitability, Monetary Policy and Economic Conditions

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

Item 1A: Risk Factors

In addition to factors discussed elsewhere in this report and in "Management's Discussion and Analysis of Results of Operations and Financial Condition," the following are some of the important factors that could materially and adversely affect our business, financial condition and results of operations.

Unfavorable economic and market conditions due to the current global financial crisis may adversely affect our financial position and results of operations.

Economic and market conditions in the United States and around the world have deteriorated significantly and may remain depressed for the foreseeable future. Conditions such as slowing or negative growth and the sub-prime debt devaluation crisis have resulted in a low level of liquidity in many financial markets, and extreme volatility in credit, equity and fixed income markets. These economic developments could have various effects on our business, including insolvency of major customers, an unwillingness of customers to borrow or to repay funds already borrowed and a negative impact on the investment income the Company is able to earn on its investment portfolio. The potential effects of the current global financial crisis are difficult to forecast and mitigate. As a consequence, the Company's operating results for a particular period are difficult to predict. Distress in the credit markets and issues relating to liquidity among financial institutions have resulted in the failure of some financial institutions around the world and others have been forced to seek acquisition partners. The United States and other governments have taken unprecedented steps in effort to stabilize the financial system, including investing in financial institutions. There can be no assurance that these efforts will succeed. Our business and our financial condition and results of operations could be adversely affected by (1) continued or accelerated disruption and volatility in financial markets; (2) continued capital and liquidity concerns regarding financial institutions; (3) limitations resulting from further governmental action in an effort to stabilize or provide additional regulation of the financial system; or (4) recessionary conditions that are deeper or longer lasting than currently anticipated.

Our earnings are sensitive to fluctuations in interest rates.

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

Our earnings and financial condition may be negatively impacted by a general economic downturn or changes in the credit risk of our borrowers.

Republic's results of operations and financial condition are affected by the ability of its borrowers to repay their loans. Lending money is an essential part of the banking business. However, borrowers do not always repay their loans. The risk of non-payment is affected by 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.

Our allowance for loan losses may not be sufficient to absorb actual loan losses.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require 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, and income taxes. Consideration is given to a variety of factors in establishing these estimates. There is no precise method of predicting loan losses. Republic can give no assurance that its allowance for loan losses is or will be sufficient to absorb actual loan losses. Loan losses could have a material adverse effect on Republic's financial condition and results of operations. Republic attempts to maintain an allowance for loan losses adequate to absorb losses inherent in its loan portfolio. In maintaining 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. Since the allowance for loan losses and carrying value of real estate owned are dependent, to a great extent, on the general economy and other conditions that may be beyond Republic's control, it is at least reasonably possible that the estimates of the allowance for loan losses and the carrying values of the real estate owned could differ materially in the near term.

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

Republic may not be able to compete effectively in its markets, which could adversely affect its results of operations. The banking and financial services industry in Republic's market area is highly competitive. The increasingly competitive environment is a result of changes in regulation, changes in technology and product delivery systems, and the accelerated pace of 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.

Our governing documents contain provisions which may reduce the likelihood of a change in control transaction.

The Company's 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 its board of directors. In particular, the articles of incorporation and bylaws: classify the board of directors into three groups, so that shareholders elect only 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 shareholders to give the Company advance notice to nominate candidates for election to the board of directors or to make shareholder proposals at a shareholders' meeting; and require the vote of the holders of at least 60% of the Company's voting shares for stockholder amendments to the Company's bylaws. These provisions of the Company's Articles of Incorporation and Bylaws could discourage potential acquisition proposals and could delay or prevent a change in control, even though a majority of the Company's shareholders may consider such proposals desirable. Such provisions could also make it more difficult for third parties to remove and replace the members of the Company's 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 the Company's common stock, and may also inhibit increases in the trading price of the Company's common stock that could result from takeover attempts or speculation.

In addition, in the event of certain hostile fundamental changes, all of our senior officers are entitled to receive payments equal to two times such officers' base annual salary in the event they determine not to continue their employment.

Government regulation restricts the scope of our operations.

The Company and Republic operate in a highly regulated environment and are subject to supervision and regulation by several governmental regulatory agencies, including the FDIC, the Pennsylvania Department of Banking and the FRB. 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. Regulations that apply to the Company and Republic are generally intended to provide protection for depositors and customers rather than for investors. The Company and Republic will remain subject to these regulations, and to the possibility of changes in federal and state laws, regulations, governmental policies, income tax laws and accounting principles. Changes in the regulatory environment in which the Company and Republic operate could adversely affect the banking industry as a whole and the Company and Republic's operations in particular. For example, regulatory changes could limit our growth and our return to investors by restricting such activities as the payment of dividends, mergers with or acquisitions by other institutions, investments, loans and interest rates, and providing securities, insurance or trust services. Such regulations and the cost of adherence to such regulations can have a significant impact on earnings and financial condition.

Also, legislation may change present capital requirements, which could restrict the Company and Republic's activities and require the Company and Republic to maintain additional capital. The Company and Republic cannot predict what changes, if any, legislators and federal and state agencies will make to existing federal and state legislation and regulations or the effect that such changes may have on the Company and Republic's business.

We anticipate increased and/or changes in regulations as a result of the current turmoil in the financial markets and the efforts of government agencies to stabilize the financial system.

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

We operate primarily in the Philadelphia geographic market. Our success depends upon the business activity, population, income levels, deposits and real estate activity in this market. Although our customers' business and financial interests may extend well beyond this market area, adverse economic conditions that affect our home market could reduce our growth rate, affect the ability of our customers to repay their loans to us and generally 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.

We may experience difficulties in managing our growth, and our growth strategy involves risks that may negatively impact our net income.

As part of our general growth strategy, we may expand into additional communities or attempt to strengthen our position in our current markets by opening new branches and acquiring existing branches of other financial institutions. To the extent that we undertake additional branch openings and acquisitions, we are likely to continue 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.

Our growth may require us to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our existing capital resources will satisfy our capital requirements for the foreseeable future. However, we may at some point need to raise additional capital to support our continued growth. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth, branching, de novo bank formations and/or acquisitions could be materially impaired.

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

Much of our success to date has been influenced strongly by our ability to attract and to retain senior 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 our bank subsidiary will continue to be important to the successful implementation of our strategy. It is also critical, as we grow, to be able to attract and retain qualified additional management and loan officers with the appropriate level of experience and knowledge about our market areas to implement our community-based operating strategy. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition and results of operations.

We have a continuing need for technological change and we may not have the resources to effectively implement new technology.

The financial services industry is constantly undergoing rapid 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 cannot provide you with assurance that we will be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

There is a limited trading market for our common shares, and you may not be able to resell your shares at or above the price shareholders paid for them.

Although our common shares are listed for trading on the NASDAQ Stock Market, the trading in our common shares has less liquidity than many other companies listed on the NASDAQ. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the market of willing buyers and sellers of our common shares at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control.

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, there can be no assurance that these security measures will 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.

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.

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

Our system of internal controls cannot provide absolute assurance of achieving their intended objectives because of inherent limitations. Internal control processes that involve human diligence and compliance are subject to lapses in judgment and breakdowns resulting from human failures. Internal controls can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements due to error or fraud may not be prevented or detected on a timely basis by internal controls. In connection with management's assessment of our internal control over financial reporting at December 31, 2008, management identified certain material weaknesses related to other than temporarily impaired investment securities and the financial statement reporting process. You should see Item 9A of this report and "Management's Report on Internal Control Over Financial Reporting," for additional information.

Additional Risk Factors Regarding the Proposed Merger with Pennsylvania Commerce

Because the market price of Pennsylvania Commerce common stock may fluctuate, the Company's shareholders will not know the exchange ratio or the market value of the Pennsylvania Commerce common stock they will receive in the merger when they vote at the special meeting.

Under the terms of the merger agreement, the exchange ratio will be calculated on the effective date of the merger based on the average closing price of Pennsylvania Commerce common stock during twenty (20) consecutive trading days, ending on the third calendar day immediately preceding the effective date of the merger. If the third calendar day is not a trading day on the NASDAQ Stock Market, then the twenty-day trading period will end on the trading day immediately preceding such calendar day. The closing price of Pennsylvania Commerce common stock as reported on the NASDAQ Stock Market was $28.86 on November 7, 2008, the date immediately preceding the trading day on which the merger was publicly announced. As of March 6, 2009 the closing price of Pennsylvania Commerce common stock as reported on the NASDAQ Stock Market was $12.82. The market price of Pennsylvania Commerce common stock may vary from these prices. The market price of Pennsylvania Commerce common stock may change as a result of a variety of factors, including general market and economic conditions, changes in its business, operations and prospects, and regulatory considerations. Many of these factors are beyond the control of Pennsylvania Commerce. While the exchange ratio is based on $10.00 per share of the Company's common stock and will vary depending on the average closing price of Pennsylvania Commerce common stock, the exchange ratio cannot exceed 0.38. As a result, the market value of shares of Pennsylvania Commerce common stock that a shareholder of the Company will receive per share in the merger will be less than $10.00 if the average closing price of Pennsylvania Commerce common stock is less than $26.32. Moreover, since the exchange ratio is based on an average closing price, the market price of Pennsylvania Commerce on the date that the merger consideration is exchanged may differ from the average closing price.

There can be no assurance that the value of the Pennsylvania Commerce common stock that Republic First shareholders receive in the merger will be $10.00 per share of Republic First common stock.

The market price of Pennsylvania Commerce common stock may be affected by factors different from those affecting Republic First common stock.

Upon completion of the merger, based on the maximum exchange ratio of 0.38 and the number of outstanding shares, outstanding stock options and convertible preferred securities on the companies' respective record date, the Company's shareholders will own approximately 40% of the combined company. Some of Pennsylvania Commerce's current businesses and markets differ from those of the Company and, accordingly, the results of operations of Pennsylvania Commerce after the merger may be affected by factors different from those currently affecting the results of operations of the Company.

Some of the conditions to closing of the merger may result in delay or prevent completion of the merger, which may adversely affect the value of the companies' securities.

Completion of the merger is conditioned upon the receipt of certain governmental consents and approvals, including consents and approvals required by the Board of Governors of the Federal Reserve and the Pennsylvania Department of Banking. Failure to obtain these consents would prevent consummation of the merger. Even if the approvals are obtained, the effort involved may delay consummation of the merger. Governmental authorities may also impose conditions in connection with the merger that may adversely affect the combined company's operations after the merger. Any of these events could have a negative impact on the value of Pennsylvania Commerce's and the Company's securities.

Upon completion of the merger, the Company's shareholders will become shareholders of a combined company that is controlled principally by current Pennsylvania Commerce management and members of the Pennsylvania Commerce board of directors.

Senior management of Pennsylvania Commerce will constitute the majority of the management team of the combined company. The chairman, president and chief executive officer of the combined company will be the current chairman, president and chief executive officer of Pennsylvania Commerce. The initial board of directors of the combined company will include 12 members, 8 of whom are current members of the Pennsylvania Commerce board of directors.

The merger may distract our management from their other responsibilities.

The merger could cause the management of the companies to focus their time and energies on matters related to the merger that otherwise would be directed to the companies' business and operations. Any such distraction on the part of management, if significant, could affect management's ability to service existing business and develop new business and adversely effect the companies' business and earnings following the merger.

If the merger is not completed, the companies will have incurred substantial expenses without realizing the expected benefits.

Both the Company and Pennsylvania Commerce have incurred expenses in connection with the merger transaction and expect to incur additional expenses prior to completing the merger. The completion of the merger depends on the satisfaction of specified conditions and the receipt of regulatory approvals. We cannot guarantee that these conditions will be met. If the merger is not completed, the merger-related expenses that the companies will have incurred could have an adverse impact on their financial condition without any of the expected benefits of the merger.

Item 1B: Unresolved Staff Comments

None

Item 2: Description of Properties

Republic First Bank leases approximately 39,956 square feet on two floors of Two Liberty Place, 50 South 16th Street, Philadelphia, Pennsylvania. The space serves as the headquarters and executive offices of the Company and Republic. Bank office operations and the commercial bank lending department of Republic First Bank are also located at the site. The initial lease term will expire on December 31, 2020 and the lease contains two five year renewal options. Rent expense commenced in June 2007 at an annual rate of approximately $562,684, subject to certain abatements during the first twenty-eight months of the lease.

Republic leases approximately 1,829 square feet on the ground floor at 1601 Market Street in Center City, Philadelphia. This space contains a banking area and vault and represents Republic's main office. The initial ten year term of the lease expired March 2003 and contains five-year and ten-year renewal options that have been exercised and also contains an additional five-year option. The 2009 annual rent for such location is $113,587 payable in monthly installments.

Republic leases approximately 1,743 square feet of space on the ground floor at 1601 Walnut Street, Center City Philadelphia, PA. This space contains a banking area and vault. The initial ten-year term of the lease expired August 2006. The lease has been extended to August 2014 and contains an additional five-year renewal option. The 2009 annual rent for such location is $134,097, payable in monthly installments.

Republic leases approximately 798 square feet of space on the ground floor and 903 square feet on the 2nd floor at 233 East Lancaster Avenue, Ardmore, PA. The space contains a banking area and business development office. The initial ten-year term of the lease expired in August 2005, and contains a five year renewal option that has been exercised and also contains an additional five-year option. The 2009 annual rental at such location is $61,895, payable in monthly installments.

Republic entered into a lease agreement that commenced May 1, 2007 for approximately 1,574 square feet for its Bala Cynwyd office at Two Bala Plaza, Bala Cynwyd, Pennsylvania. The space contains a banking area. The initial six-year, four month lease term contains two five-year renewal options and the initial lease term will expire on August 31, 2013. The 2009 annual rent at such location is $50,106, payable in monthly installments.

Republic entered into a lease agreement that commenced April 27, 2007 for approximately 2,820 square feet for its Plymouth Meeting office at 421 Germantown Pike, Plymouth Meeting, Pennsylvania. The space contains a banking area and a business development office. The initial seven-year, five month lease term contains one six-year renewal option and the initial lease terms will expire on September 30, 2014. The 2009 annual rent at such location is $94,705, payable in monthly installments.

Republic owns an approximately 2,800 square foot facility for its Abington, Montgomery County office at 1480 York Road, Abington, Pennsylvania. This space contains a banking area and a business development office.

Republic leases approximately 1,822 square feet on the ground floor at 1818 Market St. Philadelphia, Pennsylvania. The space contains a banking area and a vault. The initial ten-year term of the lease expired in August 2008, has been extended for fifteen years to August 2023, and contains an additional five-year renewal option. The 2009 annual rent for such location is $172,695, payable in monthly installments.

Republic leases approximately 4,700 square feet of space on the first, second, and third floor, at 436 East Baltimore Avenue, Media, Pennsylvania. The space contains a banking area and business development office. The initial five-year term of the lease expires October 2009 with four five-year renewal options. The 2009 annual rent is $78,861 payable in monthly installments.

Republic leases an approximately 6,000 square feet facility for its Northeast Philadelphia office at Mayfair and Cottman Avenues, Philadelphia, Pennsylvania. The space contains a banking area and a business development office. The initial fifteen-year term of the lease expires June 2021 with two five-year renewal options. The 2009 annual rent is $96,000 payable in monthly installments.

Republic leases an approximately 1,850 square feet facility for its Voorhees office at 342 Burnt Mill Road, Voorhees, New Jersey. The space contains a banking area. The initial fifteen-year term of the lease expires May 2021 with two five-year renewal options. The 2009 annual rent is $44,000 payable in monthly installments.

Republic entered into a lease agreement that commenced September 1, 2007 for approximately 2,467 square feet at 833 Chestnut Street, Philadelphia, Pennsylvania. The space contains a banking area and a business development office. The initial fifteen-year term of the lease expires August 2022 with three five-year renewal options. The 2009 annual rent is $73,188, payable in monthly installments.

Republic entered into a lease agreement that commenced December 26, 2007 for approximately 2,710 square feet for its Torresdale office, at 8764 Frankford Avenue, Philadelphia, Pennsylvania. The space contains a banking area and business development office. The initial fifteen-year term of the lease expires December 2022 with two five-year renewal options. The 2009 annual rent is $130,000, payable in monthly installments.

Republic purchased a parcel of land consisting of approximately 2.1 acres, on July 23, 2008, at 335 Route 70 East, Cherry Hill, New Jersey. A 4,000 square foot branch facility is in development, and is scheduled to be opened in 2009.

Republic entered into a lease agreement on October 29, 2008 for a building, approximately 5,000 square feet located at 30 Kings Highway East, Haddonfield, New Jersey. This location will be utilized for its Haddonfield branch and is scheduled to open in 2009. The initial twenty-year term of the lease expires January 2029 with two five-year renewal options. The 2009 annual rent is to be $128,333 payable in monthly installments.

Republic entered into purchase agreements for three parcels of land on October 12, 2008 totaling approximately 1.2 acres located at the Black Horse Pike and Ganttown Road, Turnersville, New Jersey. A 4,000 square foot branch facility is to be developed and is scheduled to open in 2009.

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, after reviewing pending actions with its legal counsel, is of the opinion that the liability of the Company and Republic, if any, resulting from such actions will not have a material effect on the financial condition or results of operations of the Company and Republic.

Item 4: Submission of Matters to a Vote of Security Holders

Not applicable.

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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 presents the range of high and low trade prices reported for the common stock on the Nasdaq Global Market for the periods indicated. Market prices reflect inter-dealer prices, without retail mark-up, markdown, or commission, and may not necessarily reflect actual transactions. As of January 29, 2009, there were approximately 2,400 holders of the Company's common stock, which includes an estimate of individual participants in security position listings. On March 6, 2009, the closing price of a share of common stock on Nasdaq was $4.69.

Year	Quarter	High	Low
2008	4th	$ 9.19	$ 7.26
	3rd	10.73	5.71
	2nd	7.75	4.20
	1st	8.59	4.31
2007	4th	$ 8.94	$ 6.77
	3rd	9.92	7.25
	2nd	11.93	9.45
	1st	12.09	11.09

Dividend Policy

The Company has not paid any cash dividends on its common stock and has no plans to pay cash dividends during 2009. For certain limitations on Republic's ability to pay cash dividends to the Company, see "Description of Business - Supervision and Regulation".

Item 6: Selected Financial Data

(Dollars in thousands, except per share data)	As of or for the Years Ended December 31, 2008	2007	2006	2005	2004
INCOME STATEMENT DATA (1):					
Total interest income	$ 53,976	$ 68,346	$ 62,745	$ 45,381	$ 33,599
Total interest expense	25,081	38,307	28,679	16,223	14,748
Net interest income	28,895	30,039	34,066	29,158	18,851
Provision for loan losses	7,499	1,590	1,364	1,186	(314)
Non-interest income	1,242	3,073	3,640	3,614	4,466
Non-interest expenses	23,887	21,364	21,017	18,207	15,346
Income (loss) from continuing operations before income taxes (benefit)	(1,249)	10,158	15,325	13,379	8,285
Provision (benefit) for income taxes	(777)	3,273	5,207	4,486	2,694
Income (loss) from continuing operations	(472)	6,885	10,118	8,893	5,591
Income from discontinued operations	-	-	-	-	5,060
Income tax on discontinued operations	-	-	-	-	1,711
Net income (loss)	$ (472)	$ 6,885	$ 10,118	$ 8,893	$ 8,940
PER SHARE DATA (1)					
Basic earnings per share					
Income (loss) from continuing operations	$ (0.04)	$ 0.66	$ 0.97	$ 0.88	$ 0.57
Income from discontinued operations	-	-	-	-	0.35
Net income (loss)	$ (0.04)	$ 0.66	$ 0.97	$ 0.88	$ 0.92
Diluted earnings per share					
Income (loss) from continuing operations	$ (0.04)	$ 0.65	$ 0.95	$ 0.84	$ 0.54
Income from discontinued operations	-	-	-	-	0.33
Net income (loss)	$ (0.04)	$ 0.65	$ 0.95	$ 0.84	$ 0.87
Book value per share	$ 7.46	$ 7.80	$ 7.16	$ 6.17	$ 5.49
BALANCE SHEET DATA (1) (2)					
Total assets (2)	$ 951,980	$ 1,016,308	$ 1,008,824	$ 850,855	$ 720,412
Total loans, net (3)	774,673	813,041	784,002	670,469	543,005
Total investment securities (4)	90,066	90,299	109,176	44,161	49,160
Total deposits	739,167	780,855	754,773	647,843	510,684
FHLB & overnight advances	102,309	133,433	159,723	123,867	86,090
Subordinated debt	22,476	11,341	6,186	6,186	6,186
Total shareholders' equity (2)	79,327	80,467	74,734	63,677	65,224
PERFORMANCE RATIOS (1)					
Return on average assets on continuing operations	(0.05)%	0.71%	1.19%	1.22%	0.87%
	(0.60)%	8.86%	14.59%	15.22%	10.93%

Return on average shareholders' equity on continuing operations					
Net interest margin	3.28%	3.26%	4.20%	4.23%	3.15%
Total non-interest expenses as a percentage of average assets	2.54%	2.20%	2.48%	2.49%	2.39%
ASSET QUALITY RATIOS (1)					
Allowance for loan losses as a percentage of loans (3)	1.07%	1.04%	1.02%	1.12%	1.22%
Allowance for loan losses as a percentage of non-performing loans	48.51%	38.19%	116.51%	222.52%	137.70%
Non-performing loans as a percentage of total loans (3)	2.21%	2.71%	0.87%	0.50%	0.88%
Non-performing assets as a percentage of total assets	2.72%	2.55%	0.74%	0.42%	0.75%
Net charge-offs as a percentage of average loans, net (3)	0.96%	0.14%	0.13%	0.04%	0.07%
LIQUIDITY AND CAPITAL RATIOS (1)					
Average equity to average assets	8.44%	8.01%	8.17%	7.99%	7.98%
Leverage ratio	11.14%	9.44%	8.75%	8.89%	9.53%
Tier 1 capital to risk-weighted assets	12.26%	10.07%	9.46%	10.65%	11.20%
Total capital to risk-weighted assets	13.26%	11.01%	10.30%	11.81%	12.45%

(1) Reflects the spin off of First Bank of Delaware, presented as discontinued operations for 2004.
(2) 2004 included First Bank of Delaware
(3) Includes loans held for sale
(4) Includes restricted stock

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

The following is management's discussion and analysis of the Company's financial condition, changes in financial condition and results of operations, liquidity and capital resources presented in the accompanying consolidated financial statements. This discussion should be read in conjunction with the accompanying consolidated financial statements and the notes thereto.

In connection with management's assessment of our internal control over financial reporting at December 31, 2008, management identified certain material weaknesses related to other than temporarily impaired investment securities and the financial statement reporting process. You should see Item 9A of this report and "Management's Report on Internal Control Over Financial Reporting," for additional information.

Critical Accounting Policies, Judgments and Estimates

Discontinued Operations - In accordance with SFAS No. 144, the Company has presented the operations of First Bank of Delaware as discontinued operations starting with the first quarter 2005. On January 31, 2005 the First Bank of Delaware was spun off, effective January 1, 2005. All assets, liabilities and equity of First Bank of Delaware were spun off as an independent company, trading on the OTC market under the stock symbol "FBOD". Shareholders received one share of stock in First Bank of Delaware, for every share owned of the Company. The short-term loan and tax refund lines of business were accordingly transferred after that date. Republic continued to purchase tax refund anticipation loans from the First Bank of Delaware through 2006. However, First Bank of Delaware decided not to continue with this program in 2007.

In reviewing and understanding financial information for the Company you are encouraged to read and understand the significant accounting policies used in preparing our consolidated financial statements. These policies are described in Note 3 of the notes to our audited consolidated financial statements. The accounting and financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Management evaluates these estimates and assumptions on an ongoing basis including those related to the allowance for loan losses, other-than-temporary impairment of securities and deferred income taxes. Management bases its estimates on historical experience and various other factors and assumptions that are believed to be reasonable under the circumstances. These form the bases for making judgments on the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Allowance for Loan Losses—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. Management's periodic evaluation of the adequacy of the allowance is based on the Company's past loan loss experience, the volume and composition of lending conducted by the Company, 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. This evaluation is inherently subjective as it requires material estimates including, among others, the amount and timing of expected future cash flows on impacted loans, exposure at default, value of collateral, and estimated losses on our commercial and residential loan portfolios. All of these estimates may be susceptible to significant change.

The allowance consists of specific allowances for both impaired loans and all classified loans which are not impaired, and a general allowance on the remainder of the portfolio. Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available for the entire portfolio.

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

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

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

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

While management uses the best information known to it in order to make loan loss allowance valuations, adjustments to the allowance may be necessary based on changes in economic and other conditions, changes in the composition of the loan portfolio, or changes in accounting guidance. In 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, our estimates of the allowance for loan loss have approximated actual losses incurred. In addition, the Pennsylvania Department of Banking and the FDIC, as an integral part of their examination processes, periodically review our allowance for loan losses. The Pennsylvania Department of Banking or the FDIC may require the recognition of adjustment to the allowance for loan losses based on their judgment of information available to them at the time of their examinations. 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 the intent and ability of the Company 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. In connection with management's assessment of our internal control over financial reporting at December 31, 2008, management identified certain material weaknesses related to other than temporarily impaired investment securities and the financial statement reporting process. See Item 9A of this report and "Management's Report on Internal Control Over Financial Reporting," for additional information.

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

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

Recent Accounting Pronouncements

In September 2006, the FASB issued FASB Statement No. 157, ‘‘Fair Value Measurements’’, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about assets and liabilities measured at fair value. FASB Statement No. 157 does not change existing guidance as to whether or not an asset or liability is carried at fair value. The new standard provides a consistent definition of fair value which focuses on exit price and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. The standard also establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The standard eliminates large position discounts for financial instruments quoted in active markets, requires costs related to acquiring financial instruments carried at fair value to be included in earnings as incurred and requires that an issuer’s credit standing be considered when measuring liabilities at fair value. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, with early adoption permitted. The implementation of this standard did not have a material impact on our consolidated financial statements or results of operations.

In December 2007, the FASB issued SFAS No. 141 (R), Business Combinations. This statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective as of the beginning of a company’s fiscal year beginning after December 15, 2008. This new pronouncement will impact the Company’s accounting for business combinations completed after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51. This statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance will become effective as of the beginning of a company’s fiscal year beginning after December 15, 2008. The implementation of this standard will not have a material impact on the Company’s consolidated financial position and results of operations.

In May 2008, the FASB issued FASB Staff Position (FSP) APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" which clarifies the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. The FSP requires issuers to account separately for the liability and equity components of certain convertible debt instruments in a manner that reflects the issuer's nonconvertible debt borrowing rate when interest cost is recognized. The FSP requires bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense. The FSP requires retrospective application to the terms of instruments as they existed for all periods presented. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. Early adoption is not permitted. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position (FSP) EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." This FSP clarifies that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. This FSP is effective for fiscal years beginning after December 15, 2008. The implementation of this standard will not have a material impact on the Company's consolidated financial position and results of operations.

In September 2008, the FASB issued FSP 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161" (FSP 133-1 and FIN 45-4). FSP 133-1 and FIN 45-4 amends and enhances disclosure requirements for sellers of credit derivatives and financial guarantees. It also clarifies that the disclosure requirements of SFAS No. 161 are effective for quarterly periods beginning after November 15, 2008, and fiscal years that include those periods. FSP 133-1 and FIN 45-4 is effective for reporting periods (annual or interim) ending after November 15, 2008. The implementation of this standard did not have a material impact on our consolidated financial position and results of operations.

In December 2008, the FASB issued FSP SFAS 140-4 and FASB Interpretation (FIN) 46(R)-8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities" (FSP SFAS 140-4 and FIN 46(R)-8). FSP SFAS 140-4 and FIN 46(R)-8 amends FASB SFAS 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", to require public entities to provide additional disclosures about transfers of financial assets. It also amends FIN 46(R), "Consolidation of Variable Interest Entities", to require public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. Additionally, this FSP requires certain disclosures to be provided by a public enterprise that is (a) a sponsor of a qualifying special purpose entity (SPE) that holds a variable interest in the qualifying SPE but was not the transferor of financial assets to the qualifying SPE and (b) a servicer of a qualifying SPE that holds a significant variable interest in the qualifying SPE but was not the transferor of financial assets to the qualifying SPE. The disclosures required by FSP SFAS 140-4 and FIN 46(R)-8 are intended to provide greater transparency to financial statement users about a transferor's continuing involvement with transferred financial assets and an enterprise's involvement with variable interest entities and qualifying SPEs. FSP SFAS 140-4 and FIN 46(R) is effective for reporting periods (annual or interim) ending after December 15, 2008. The implementation of this standard did not have an impact on the Company's consolidated financial position and results of operations.

In December 2008, the FASB issued FSP FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets". This FSP amends SFAS 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits", to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by this FSP shall be provided for fiscal years ending after December 15, 2009. The Company is currently reviewing the effect this new pronouncement will have on its consolidated financial statements.

Results of Operations for the years ended December 31, 2008 and 2007

Overview

The Company's net income decreased $7.4 million, or 106.9%, to a loss of $472,000` or $ (.04) per diluted share for the year ended December 31, 2008, compared to $6.9 million, or $0.65 per diluted share for the prior year. There was a $14.4 million, or 21.0%, decrease in total interest income, reflecting a 3.8% decrease in average loans outstanding while interest expense decreased $13.2 million reflecting a 1.9% decrease in average interest bearing deposits. Accordingly, net interest income decreased $1.1 million. The provision for loan losses in 2008 increased $5.9 million to $7.5 million, compared to $1.6 million in 2007, reflecting the impact of an economic downturn in real estate markets. Non-interest income decreased $1.8 million to $1.2 million in 2008 compared to $3.1 million in 2007. The decrease reflected a $1.4 million impairment charge on a bank pooled trust preferred security. Non-interest expenses increased $2.5 million to $23.9 million compared to $21.4 million in 2007. The increase reflected $1.6 million of write downs and losses on the sale of other real estate which also reflected the impact of the economic downturn. Return on average assets and average equity of (0.05)% and (0.60)% respectively in 2008 compared to 0.71% and 8.86% respectively in 2007.

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Analysis of Net Interest Income

Historically, the Company's 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 (i) average assets, liabilities, and shareholders' equity, (ii) interest income earned on interest-earning assets and interest expense on interest-bearing liabilities, (iii) average yields earned on interest-earning assets and average rates on interest-bearing liabilities, and (iv) Republic's net interest margin (net interest income as a percentage of average total interest-earning assets). Averages are computed based on daily balances. Non-accrual loans are included in average loans receivable. Yields are adjusted for tax equivalency in 2008, 2007 and 2006, as Republic had tax-exempt income in those years.

(Dollars in thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate (1)	Average Balance	Interest Income/ Expense	Yield/ Rate (1)	Average Balance	Interest Income/ Expense	Yield/ Rate (1)
	For the Year Ended December 31, 2008			For the Year Ended December 31, 2007			For the Year Ended December 31, 2006		
Interest-earning assets:									
Federal funds sold and other interest-earning assets	$ 9,821	$ 218	2.22%	$ 13,923	$ 686	4.93%	$ 25,884	$ 1,291	4.99%
Investment securities and restricted stock	89,365	5,135	5.75%	95,715	5,752	6.01%	57,163	3,282	5.74%
Loans receivable	789,446	48,846	6.19%	820,380	62,184	7.58%	728,754	58,254	7.99%
Total interest-earning assets	888,632	54,199	6.10%	930,018	68,622	7.38%	811,801	62,827	7.74%
Other assets	51,349			39,889			36,985		
Total assets	$ 939,981			$ 969,907			$ 848,786		
Interest-bearing liabilities:									
Demand - non-interest bearing	$ 76,671	$ -	N/A	$ 78,641	$ -	N/A	$ 82,233	$ -	N/A
Demand – interest-bearing	33,976	327	0.96%	38,850	428	1.10%	53,073	565	1.06%
Money market & savings	222,590	6,150	2.76%	266,706	11,936	4.48%	240,189	9,109	3.79%
Time deposits	397,740	14,844	3.73%	361,120	18,822	5.21%	304,375	14,109	4.64%
Total deposits	730,977	21,321	2.92%	745,317	31,186	4.18%	679,870	23,783	3.50%
Total interest-bearing deposits	654,306	21,321	3.26%	666,676	31,186	4.68%	597,637	23,783	3.98%
Other borrowings	121,236	3,760	3.10%	133,122	7,121	5.35%	88,609	4,896	5.53%
Total interest-bearing liabilities	775,542	25,081	3.23%	799,798	38,307	4.79%	686,246	28,679	4.18%
Total deposits and									

other borrowings	852,213	25,081	2.94%	878,439	38,307	4.36%	768,479	28,679	3.73%
Non-interest-bearing									
Other liabilities	8,459			13,734			10,981		
Shareholders' equity	79,309			77,734			69,326		
Total liabilities and Shareholders' equity	$ 939,981			$ 969,907			$ 848,786		
Net interest income (2)		$ 29,118			$ 30,315			$ 34,148	
Net interest spread			2.87%			2.59%			3.56%
Net interest margin (2)			3.28%			3.26%			4.20%

(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 $223, $276 and $82 in 2008, 2007 and 2006, 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, 2008 vs. 2007 Change due to			Year ended December 31, 2007 vs. 2006 Change due to		
(Dollars in thousands)	Average Volume	Average Rate	Total	Average Volume	Average Rate	Total
Interest earned on:						
Federal funds sold and other interest-earning assets	$ (91)	$ (377)	$ (468)	$ (589)	$ (16)	$ (605)
Securities	(366)	(251)	(617)	2,317	153	2,470
Loans	(1,919)	(11,419)	(13,338)	6,945	(3,015)	3,930
Total interest earning assets	$ (2,376)	$ (12,047)	$ (14,423)	$ 8,673	$ (2,878)	$ 5,795
Interest expense of						
Deposits						
Interest-bearing demand deposits	$ 47	$ 54	$ 101	$ 157	$ (20)	$ 137
Money market and savings	1,222	4,564	5,786	(1,187)	(1,640)	(2,827)
Time deposits	(1,370)	5,348	3,978	(2,958)	(1,755)	(4,713)
Total deposit interest expense	(101)	9,966	9,865	(3,988)	(3,415)	(7,403)
Other borrowings	370	2,991	3,361	(2,381)	156	(2,225)
Total interest expense	269	12,957	13,226	(6,369)	(3,259)	(9,628)
Net interest income	$ (2,107)	$ 910	$ (1,197)	$ 2,304	$ (6,137)	$ (3,833)

Net Interest Income

The Company’s tax equivalent net interest margin increased 2 basis points to 3.28% for 2008, versus 3.26% in 2007.

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

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

The Company's total tax equivalent interest income decreased $14.4 million, or 21.0%, to $54.2 million for 2008, from $68.6 million for the prior year comparable period. Interest and fees on loans decreased $13.3 million, or 21.4%, to $48.8 million for 2008, from $62.2 million for the prior year comparable period. The decrease was due primarily to the 139 basis point decline in the yield on loans resulting primarily from the repricing of the variable rate loan portfolio as a result of actions taken by the Federal Reserve as well as a $30.9 million, or 3.8%, decrease in average loans outstanding to $789.4 million from $820.4 million. Interest and dividends on investment securities decreased $617,000, or 10.7%, to $5.1 million 2008, from $5.8 million for the prior year comparable period. This decrease reflected a decrease in average securities outstanding of $6.4 million, or 6.6%, to $89.4 million from $95.7 million for the prior year comparable period. Interest on federal funds sold and other interest-earning assets decreased $468,000, or 68.2%, reflecting decreases in short- term interest rates and a $4.1 million decrease in average balances to $9.8 million for 2008 from $13.9 million for the comparable prior year period.

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

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

Provision for Loan Losses

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that reflects the known and inherent losses in the portfolio. The provision for loan losses amounted to $7.5 million for 2008 compared to $1.6 million for 2007. The majority of the increase in the provision for 2008 resulted from specific provisions for individual loans on properties secured by real estate. The 2007 provision reflected $283,000 for net recoveries on tax refund loans. The remaining provisions in both periods also reflected amounts required to increase the allowance for loan growth in accordance with the Company's methodology. Net charge-offs increased from $1.1 million in 2007 to $7.6 million in 2008 and non-accrual loans decreased from $22.3 million at December 31, 2007 to $17.3 million at December 31, 2008.

Non-Interest Income

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

Non-Interest Expenses

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

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

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

Legal fees increased $704,000, or 93.9%, to $1.5 million for 2008 compared to $750,000 for 2007 resulting primarily from increased legal fees for loan collections and fees related to the Company's proposed merger with Pennsylvania Commerce.

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

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

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

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

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

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

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

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

Provision for Income Taxes

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

Results of Operations for the years ended December 31, 2007 and 2006

Overview

The Company's net income decreased $3.2 million, or 32.0%, to $6.9 million or $0.65 per diluted share for the year ended December 31, 2007, compared to $10.1 million, or $0.95 per diluted share for the prior year. There was a $5.6 million, or 8.9%, increase in total interest income, reflecting a 12.6% increase in average loans outstanding and a 67.4% increase in average investment securities while interest expense increased $9.6 million reflecting a 11.6% increase in average interest bearing deposits outstanding and higher rates as well as a 50.2% increase in average borrowings outstanding. Accordingly, net interest income decreased $4.0 million. Contributing to the $4.0 million decrease in net interest income was the impact of $1.6 million in net interest income related to tax refund loans in 2006 which was not earned in 2007 due to the discontinuation of the program. Also there were interest income reductions due to the increase in non-performing loans in 2007. The provision for loan losses in 2007 increased $226,000 to $1.6 million, compared to $1.4 million in 2006, reflecting the impact of a 2007 increase in non-accrual loans as well as an increase in reserves on certain loans due to a downturn in the housing market which was offset by $283,000 in net tax refund recoveries in 2007 versus $359,000 in net tax refund charge-offs in 2006. Non-interest income decreased $567,000 to $3.1 million in 2007 compared to $3.6 million in 2006. Non-interest expenses increased $347,000 to $21.4 million compared to $21.1 million in 2006. Return on average assets and average equity of 0.71% and 8.86% respectively in 2007 compared to 1.19% and 14.59% respectively in 2006.

Net Interest Income

The Company's tax equivalent net interest margin decreased 94 basis points to 3.26% for 2007 compared to 4.20% in 2006. Excluding the impact of tax refund loans, which were substantially all a first quarter 2006 event, the net interest margin was 3.26% in 2007 and 4.04% in 2006.

While yields on interest-bearing assets decreased 36 basis points to 7.38% in 2007 from 7.74% in 2006, the yield on total deposits and other borrowings increased 63 basis points to 4.36% in 2007 from 3.73% in 2006. The decrease in yields on assets resulted primarily from the high yield tax refund loans recorded in 2006 as well as interest reductions due to the increase in non accrual loans in 2007 and rate reductions in the last four months of 2007 on variable rate loans as a result of actions taken by the Federal Reserve. The increase in yields on deposits was due to the repricing of maturing time deposits at higher rates and increases in rates on money market and savings deposits. The cost of overnight borrowings decreased slightly as a result of actions taken by the Federal Reserve but those actions had limited immediate impact in reducing the cost of deposits.

The Company's tax equivalent net interest income decreased $3.8 million, or 11.2%, to $30.3 million for 2007 from $34.1 million for 2006. As shown in the Rate Volume table on page 27, the decrease in net interest income was due primarily to higher rates on deposits and lower rates on loans as discussed in the previous paragraph. These factors more than offset the impact of the growth in average interest-earning assets, primarily loans. Average interest-earning assets amounted to $930.0 million for 2007 and $811.8 million for 2006. The $118.2 million increase resulted from loan growth of $91.6 million and securities growth of $38.6 million.

The Company's total tax equivalent interest income increased $5.8 million, or 9.2%, to $68.6 million for 2007 from $62.8 million for 2006. Interest and fees on loans increased $3.9 million, or 6.7%, to $62.2 million for 2007 from $58.3 million for 2006. The increase in interest and fees on loans of $3.9 million resulted from a 12.6% increase in average loans outstanding less interest reductions due to an increase in non-performing loans in 2007 and rate reductions on variable rate loans in the last four months of 2007. Also, $1.9 million in interest on tax refund loans was realized in 2006. Interest and dividends on investment securities increased $2.5 million to $5.8 million for 2007 from $3.3 million for 2006. The increase reflected an increase in average securities outstanding of $38.6 million, or 67.4%, to $95.7 million for 2007 from $57.2 million for 2006. Interest on federal funds sold and other interest earning assets decreased $605,000, or 46.9%, to $686,000 for 2007 from $1.3 million for 2006. The decrease reflected a $12.0 million decrease in average balances to $13.9 million for 2007 from $25.9 million for 2006.

The Company's total interest expense increased $9.6 million, or 33.6%, to $38.3 million for 2007 from $28.7 million for 2006. Interest-bearing liabilities averaged $799.8 million for 2007 from $686.2 million for 2006, or an increase of $113.6 million. The increase reflected additional funding for loan and securities growth. Average deposit balances increased $65.4 million while there was a $44.5 million increase in average other borrowings. The average rate paid on interest-bearing liabilities increased 61 basis points to 4.79% for 2007 from 4.18% for 2006. Interest expense on time deposit balances increased $4.7 million to $18.8 million for 2007 from $14.1 million for 2006. Money market and savings interest expense increased $2.8 million to $11.9 million for 2007 from $9.1 million for 2006. The majority of the increase in interest expense on deposits reflected the higher average deposit balances as well as the higher short term interest rate environment for the first eight months of 2007. The 100 basis point decrease in short term interest rates from September 2007 through December 2007 had minimal effect on deposit rates in 2007. Accordingly, rates on total interest-bearing deposits increased 70 basis points in 2007 compared to 2006.

Interest expense on other borrowings increased $2.2 million to $7.1 million for 2007 from $4.9 million for 2006, as a result of increased average balances. Average other borrowings, primarily overnight FHLB borrowings, increased $44.5 million, or 50.2%, between those respective periods. Increases in balances were utilized to fund loan growth. Rates on other borrowings, primarily due to the 100 basis point decrease in short-term interest rates from September 2007 through December 2007 decreased to 5.35% for 2007 from 5.53% for 2006. Interest expense on other borrowings also included the impact of $8.8 million of average subordinated debentures supporting trust preferred securities.

Provision for Loan Losses

The provision for loan losses is charged to operations in an amount necessary to maintain the total allowance for loan losses at a level which management determines is adequate to absorb all inherent losses in the loan portfolio. The provision for loan losses amounted to $1.6 million for 2007 compared to $1.4 million for 2006. The 2006 provision reflected $359,000 for net charge-offs of tax refund loans, which were more than offset by $1.6 million in related net revenues. The comparable 2007 provision reflected $283,000 for net recoveries on tax refund loans. This favorable variance was more than offset by an increase in the 2007 provision for loan losses of $1.4 million for loans transferred to non-accrual status in 2007 and $638,000 for increases in reserves on certain loans due to a downturn in the housing market. Those increases were partially offset by the reversal of reserves on loans which were paid down or otherwise disposed of. The remaining provisions in both periods also reflected amounts required to increase the allowance for loan growth in accordance with the Company's methodology. Non-accrual loans increased from $6.9 million at December 31, 2006 to $22.3 million at December 31, 2007.

Non-Interest Income

Total non-interest income decreased $567,000 to $3.1 million for 2007 compared to $3.6 million for 2006, primarily due to a decrease of $292,000 related to service fees on deposit accounts. The decrease in service fees on deposit accounts reflected the termination of services to several large customers. In addition, other income decreased $329,000 primarily due to fee recoveries recorded in 2006. Loan advisory and servicing fees decreased $57,000 which was partially offset by a $56,000 increase in bank owned life insurance income and a $55,000 increase in gain on sales of other real estate owned.

Non-Interest Expenses

Total non-interest expenses increased $347,000, or 1.7%, to $21.4 million for 2007 from $21.0 million in 2006. Salaries and employee benefits decreased $1.0 million, or 8.7%, to $10.6 million for 2007 from $11.6 million in 2006. That decrease reflected a reduction in bonuses and incentives expense of $1.0 million.

Occupancy expense increased $533,000, or 28.2%, to $2.4 million for 2007 compared to $1.9 million for 2006. The increase reflected two additional branches which opened in the second and third quarters of 2006 as well as the corporate headquarters move in second quarter 2007 and an additional branch which opened in the third quarter of 2007.

Depreciation expense increased $352,000, of 34.9%, to $1.4 million for 2007 compared to $1.0 million for 2006. The increase was primarily due to the impact of the three additional branch locations and the corporate headquarters move.

Legal fees increased $96,000, or 14.7%, to $750,000 for 2007 compared to $654,000 for 2006 resulting from increased fees on a number of different matters.

Advertising expenses increased $9,000, or 1.8%, to $503,000 for 2007 compared to $494,000 for 2006. The increase was primarily due to higher levels of print advertising.

Data processing increased $197,000, or 39.7%, to $693,000 for 2007 compared to $496,000 for 2006, primarily due to Check 21 related expenses and other system enhancements.

Insurance expense increased $45,000, or 12.7%, to $398,000 for 2007 compared to $353,000 for 2006, resulting from the overall growth of the Company.

Professional fees decreased $20,000, or 3.6%, to $542,000 for 2007 compared to $562,000 for 2006, reflecting decreases in recruiting expenses.

Taxes, other increased $79,000, or 10.7%, to $820,000 for 2007 compared to $741,000 for 2006. The increase reflected an increase in Pennsylvania shares tax, which is assessed at an amount of 1.25% on a 6 year moving average of regulatory capital. The full amount of the increase resulted from increased capital.

Other expenses increased $60,000, or 1.9%, to $3.2 million for 2007 compared to $3.2 million for 2006, which reflected the impact of the three additional branch locations.

Provision for Income Taxes

The provision for income taxes decreased $1.9 million to $3.3 million from $5.2 million for 2006. That decrease was primarily the result of the decrease in pre-tax income. The effective tax rates in those periods were 32% and 34%, respectively.

Financial Condition

December 31, 2008 Compared to December 31, 2007

Total assets decreased $64.3 million to $952.0 million at December 31, 2008, compared to $1.016 billion at December 31, 2007. This net decrease reflected lower balances of loans and federal funds sold offset by lower balances of deposits and short-term borrowings.

Loans:

The loan portfolio, which represents the Company's largest asset, is its most significant source of interest income. The Company's lending strategy is to focus on small and medium sized businesses and professionals that seek highly personalized banking services. Total gross loans decreased $38.5 million, or 4.7%, to $783.1 million at December 31, 2008, versus $821.5 million at December 31, 2007. The decrease reflected modest decreases in commercial real estate secured, construction and non real estate secured loans, partially offset by an increase in non real estate unsecured loans. 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. Republic's commercial loans typically range between $250,000 and $5,000,000 but customers may borrow significantly larger amounts up to Republic's legal lending limit of approximately $15.0 million at December 31, 2008. Individual customers may have several loans that are secured by different collateral which are in total subject to that lending limit. The aggregate amount of those relationships that exceeded $9.8 million at December 31, 2008, was $287.3 million. The $9.8 million threshold approximates 10% of total regulatory capital and reflects an additional internal monitoring guideline.

Investment Securities:

Investment securities available-for-sale are investments which may be sold in response to changing market and interest rate conditions and for liquidity and other purposes. The Company's investment securities available-for-sale consist primarily of U.S. Government agency issued mortgage backed securities, municipal securities and debt securities, which include corporate bonds and trust preferred securities. Available-for-sale securities totaled $83.0 million at December 31, 2008, a decrease of $627,000, or 0.7%, from year-end 2007. At December 31, 2008 and December 31, 2007, the portfolio had respective net unrealized losses and gains of $2.2 million and $409,000.

Investment securities held-to-maturity are investments for which there is the intent and ability to hold the investment to maturity. These investments are carried at amortized cost. The held-to-maturity portfolio consists primarily of debt securities and stocks. At December 31, 2008, securities held to maturity totaled $198,000, which was comparable to the $282,000 at year-end 2007. At both dates, respective carrying values approximated market values.

Restricted Stock:

Republic is required to maintain FHLB stock in proportion to its outstanding debt to FHLB. When the debt is repaid, the purchase price of the stock is refunded. At December 31, 2008, FHLB stock totaled $6.7 million, an increase of $478,000, or 7.7%, from $6.2 million at December 31, 2007.

Republic is also required to maintain stock in Atlantic Central Bankers Bank ("ACBB") as a condition of a contingency line of credit. At December 31, 2008 and 2007, ACBB stock totaled $143,000.

Cash and Cash Equivalents:

Cash and due from banks, interest bearing deposits and federal funds sold comprise this category which consists of the Company's most liquid assets. The aggregate amount in these three categories decreased by $38.8 million, to $34.4 million at December 31, 2008, from $73.2 million at December 31, 2007, primarily due to a $40.8 million decrease in federal funds sold.

Fixed Assets:

Bank premises and equipment, net of accumulated depreciation totaled $14.2 million at December 31, 2008 an increase of $2.9 million, or 25.9% from $11.3 million at December 31, 2007, primarily reflecting branch expansion.

Other Real Estate Owned:

At December 31, 2008, the Company had assets classified as other real estate owned with a value of $8.6 million comprised of 20 plus acres of vacant, unimproved ground with a value of $5.2 million, a vacant 24 unit motel/condominium building with a value of $2.3 million, a vacant, improved lot zoned for the construction of four townhouses with a value of $1.0 million and a commercial building with a value of $109,000. At December 31, 2007, the Company had assets classified as other real estate owned with a value of $3.7 million comprised of a tract development project for single family homes with a value of $3.5 million, a commercial building with a value of $109,000 and a parcel of land with a value of $42,000.

Bank Owned Life Insurance:

At December 31, 2008, the value of the insurance was $12.1 million, an increase of $400,000, or 3.4%, from $11.7 million at December 31, 2007. The increase reflected income earned on the insurance policies.

Other Assets:

Other assets increased by $6.0 million to $14.0 million at December 31, 2008, from $8.0 million at December 31, 2007, reflecting $1.7 million in current income tax assets, the effect of $1.1 million in short-term receivables expected to be collected in first quarter 2009, a $918,000 change in the deferred tax asset for unrealized securities losses, a $607,000 increase in prepaid expenses related to the issuance of trust preferred securities, a $517,000 deferred tax asset for realized securities losses and a $375,000 increase in other prepaid expenses.

Deposits:

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

Total deposits decreased by $41.7 million to $739.2 million at December 31, 2008, from $780.9 million at December 31, 2007. Average transaction accounts decreased 13.3% or $51.0 million from the prior year end to $333.2 million in 2008. Time deposits decreased $29.3 million, or 6.9%, to $393.7 million at December 31, 2008, versus $422.9 million at the prior year-end.

Short-Term Borrowings and FHLB Advances:

Short-term borrowings and FHLB advances are used to supplement deposit generation. Republic had $25.0 million of term borrowings at December 31, 2008 and $0 at December 31, 2007, respectively. The $25.0 million of term borrowings mature June, 2010. Republic had short-term borrowings (overnight) of $77.3 million at December 31, 2008 versus $133.4 million at the prior year-end.

Subordinated Debt:

Subordinated debt amounted to $22.5 million at December 31, 2008, compared to $11.3 million at December 31, 2007, as a result of an $11.1 million issuance of subordinated debentures to support trust preferred securities issued in June 2008. The new debentures were issued with an annual rate of 8% and are convertible into the Company’s common stock at a conversion ratio based on $6.50 per share of Company common stock.

Shareholders’ Equity:

Total shareholders’ equity decreased $1.1 million to $79.3 million at December 31, 2008, versus $80.5 million at December 31, 2007. This decrease was primarily the result of an increase in the unrealized loss on securities.

Commitments, Contingencies and Concentrations

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 $83.1 million and $160.2 million and standby letters of credit of approximately $5.3 million and $4.6 million at December 31, 2008 and 2007, respectively. Commitments often expire without being drawn upon. The $83.1 million of commitments to extend credit at December 31, 2008, were substantially all variable rate commitments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and many require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. 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, 2008:

(Dollars in thousands)	Total	Less than One Year	One to Three Years	Three to Five Years	After Five Years
Minimum annual rentals or noncancellable operating leases	$ 47,732	$ 1,666	$ 4,115	$ 4,333	$ 37,618
Remaining contractual maturities of time deposits	393,666	370,442	22,274	950	-
Subordinated debt	22,476	-	-	-	22,476
Employment agreements	530	530	-	-	-
Former CEO SERP	40	40	-	-	-
Director and Officer retirement plan obligations	1,391	205	277	227	682
Loan commitments	83,073	70,160	5,115	1,424	6,374
Standby letters of credit	5,314	5,010	201	103	-
Total	$ 554,222	$ 448,053	$ 31,982	$ 7,037	$ 67,150

As of December 31, 2008, the Company had entered into non-cancelable lease agreements for its main office and operations center, eleven current Republic retail branch facilities, and a new branch facility scheduled to open in 2009, expiring through August 31, 2037, including renewal options. The leases are accounted for as operating leases. The minimum rental payments required under these leases are $47.7 million through the year 2037, including renewal options. The Company has entered into an employment agreement with the CEO of the Company. The aggregate commitment for future salaries and benefits under this employment agreement at December 31, 2008 is approximately $530,000. The Company has retirement plan agreements with certain directors and officers. The accrued benefits under the plan at December 31, 2008 was approximately $1.4 million, with a minimum age of 65 established to qualify for the payments.

At December 31, 2008, the Company had no foreign loans and no loan concentrations exceeding 10% of total loans except for credits extended to real estate operators and lessors in the aggregate amount of $288.4 million, which represented 36.8% of gross loans receivable at December 31, 2008. Various types of real estate are included in this category, including industrial, retail shopping centers, office space, residential multi-family and others. In addition, credits extended for real estate agents and managers amounted to $99.8 million, which represented 12.7% of gross loans receivable at December 31, 2008. Loan concentrations are considered to exist when amounts are loaned to a multiple number of borrowers engaged in similar activities that management believes would cause them to be similarly impacted by economic or other conditions.

Interest Rate Risk Management

Interest rate risk management involves managing the extent to which interest-sensitive assets and interest-sensitive liabilities are matched. The Company attempts to optimize net interest income while managing period-to-period fluctuations therein. The Company typically defines interest-sensitive assets and interest-sensitive liabilities as those that reprice within one year or less. Generally, the Company limits long-term fixed rate assets and liabilities in its efforts to manage interest rate risk.

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

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

The Company attempts to manage its assets and liabilities in a manner that optimizes net interest income in a range of interest rate environments. Management uses GAP analysis and simulation models to monitor behavior of its interest sensitive assets and liabilities. Adjustments to the mix of assets and liabilities are made periodically in an effort to provide steady growth in net interest income.

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

The following table presents a summary of the Company's interest rate sensitivity GAP at December 31, 2008. Amounts shown in the table include both estimated maturities and instruments scheduled to reprice, including prime based loans. For purposes of these tables, the Company has used assumptions based on industry data and historical experience to calculate the expected maturity of loans because, statistically, certain categories of loans are prepaid before their maturity date, even without regard to interest rate fluctuations. Additionally, certain prepayment assumptions were made with regard to investment securities based upon the expected prepayment of the underlying collateral of the mortgage-backed securities. The interest rate on a portion of the trust preferred securities is variable and adjusts quarterly.

Interest Sensitivity Gap
At December 31, 2008
(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
Interest Sensitive Assets:								
Investment securities and other interest-bearing Balances	$ 28,330	$ 10,953	$ 23,754	$ 13,801	$ 8,282	$ 5,115	$ 3,227	$ 18,0
Average interest rate	.34%	2.50%	5.80%	5.80%	5808%	5.80%	5.80%	5.
Loans receivable	419,490	40,963	65,874	97,349	65,684	49,366	24,009	20,3
Average interest rate	4.52%	6.30%	6.46%	6.46%	6.45%	6.53%	6.09%	6.
Total	447,820	51,916	89,628	111,150	73,966	54,481	27,236	38,4
Cumulative Totals	$ 447,820	$ 499,736	$ 589,364	$ 700,514	$ 774,480	$ 828,961	$ 856,197	$ 894,6
Interest Sensitive Liabilities:								
Demand Interest Bearing(1)	$ 21,522	$ -	$ -	$ 21,522	$ -	$ -	$ -	$
Average interest rate	1.00%	-	-	1.00%	-	-	-	
Savings Accounts (1)	5,667	-	-	5,666	-	-	-	
Average interest rate	1.50%	-	-	1.50%	-	-	-	
Money Market Accounts(1)	110,155	-	-	110,155	-	-	-	
Average interest rate	1.50%	-	-	1.50%	-	-	-	
Time Deposits	243,345	37,016	90,081	21,528	746	471	479	
Average interest rate	2.44%	3.39%	3.79%	3.84%	3.53%	4.01%	3.71%	
FHLB and Short Term Advances	77,309	-	-	25,000	-	-	-	
Average interest rate	.45%	-	-	3.36%	-	-	-	
Subordinated Debt	22,476	-	-	-	-	-	-	
Average interest rate	5.89%	-	-	-	-	-	-	
Total	480,474	37,016	90,081	183,871	746	471	479	
Cumulative Totals	$ 480,474	$ 517,490	$ 607,571	$ 791,442	$ 792,188	$ 792,659	$ 793,138	$ 793,1
Interest Rate Sensitivity GAP	$ (32,654)	$ 14,900	$ (453)	$ (72,721)	$ 73,220	$ 54,010	$ 26,757	$ 38,4

Cumulative GAP	$ (32,654)	$ (17,754)	$ (18,207)	$ (90,928)	$ (17,708)	$ 36,302	$ 63,059	$ 101,5
Interest Sensitive Assets/ Interest Sensitive Liabilities	93%	97%	97%	89%	98%	105%	108%	1
Cumulative GAP/ Total Earning Assets	-4%	-2%	-2%	-10%	-2%	4%	7%	

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

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

Net Portfolio Value and Net Interest Income Analysis. Our interest rate sensitivity also is monitored by management through the use of models which generate estimates of the change in its net portfolio value ("NPV") and net interest income ("NII") over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The following table sets forth our NPV as of December 31, 2008 and reflects the changes to NPV as a result of immediate and sustained changes in interest rates as indicated.

Change in Interest Rates In Basis Points (Rate Shock)	Net Portfolio Value			NPV as % of Portfolio Value of Assets	
	Amount	$ Change	% Change	NPV Ratio	Change
	(Dollars in Thousands)				
200bp	$ 132,424	$ 5,542	4.37%	14.06%	57bp
100	130,162	3,280	2.59	13.82	33
Static	126,882	--	--	13.49	--
(100)	122,728	(4,154)	(3.27)	13.08	(41)
(200)	119,967	(6,915)	(5.45)	12.82	(67)

In addition to modeling changes in NPV, we also analyze potential changes to NII for a twelve-month period under rising and falling interest rate scenarios. The following table shows our NII model as of December 31, 2008.

Change in Interest Rates in Basis Points (Rate Shock)	Net Interest Income	$ Change	% Change
	(Dollars in Thousands)		
200bp	$ 28,408	$ (92)	(.32%)
100	28,979	479	1.68
Static	28,500	--	--
(100)	28,530	30	.11
(200)	28,794	294	1.03

The above table indicates that as of December 31, 2008, in the event of an immediate and sustained 200 basis point increase in interest rates, the Company's net interest income for the 12 months ending December 31, 2008, subject to the significant limitations specified in the following paragraph, would approximate the static scenario. However, higher net interest income than shown could result by the effective execution of various deposit pricing and other related strategies.

As is the case with the GAP table, certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV and NII require the making of certain assumptions which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the models presented assume that the composition of our interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the NPV measurements and net interest income models provide an indication of interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on net interest income and will differ from actual results. It is unlikely that the increases in net interest income shown in the table would occur, if deposit rates continue to lag prime rate reductions, in falling rate scenarios. Conversely, in rising rate scenarios, competitors deposit rates would be an important determinant for any increases in interest income.

The Company's management believes that the assumptions utilized in evaluating the Company's estimated net interest income are reasonable; however, the interest rate sensitivity of the Company's 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, the Company may and does make significant changes to underlying assumptions, which are wholly judgmental. Prepayments on residential mortgage loans and mortgage backed securities have increased over historical levels due to the lower interest rate environment, and may result in reductions in margins.

Capital Resources

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.

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 or any interest payment date after five years, without a prepayment penalty, notwithstanding their final 30 year maturity.

The Company caused Republic First Bancorp Capital Trust IV ("Trust IV") to issuance of $10.8 million of convertible trust preferred securities in June 2008 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, former director of Pennsylvania Commerce and, since the investment, a consultant to the Company, 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 a director of the Company. Trust IV also issued $0.4 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.

The shareholders' equity of the Company as of December 31, 2008, totaled approximately $79.3 million compared to approximately $80.5 million as of December 31, 2007. This decrease of approximately $1.1 million was comprised of other comprehensive loss of $1.7 million and 2008 net loss of $472,000, partially offset by $931,000 from stock option exercises. The book value per share of the Company's common stock decreased from $7.80 as of December 31, 2007, based upon 10,320,908 shares outstanding, as adjusted for treasury stock to $7.46 as of December 31, 2008, based upon 10,631,348 shares outstanding at December 31, 2008, as adjusted for treasury stock.

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 13.26% and 11.01% at December 31, 2008 and 2007, 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, 2008 and 2007 were 12.26% and 10.07%, respectively. At December 31, 2008 and 2007, the Company exceeded the requirements for risk-based capital adequacy under both federal and Pennsylvania state guidelines.

Under FRB and FDIC regulations, a bank and a holding company are 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, 2008 and 2007, the Company's leverage ratio was 11.14% and 9.44%, respectively. Accordingly, at December 31, 2008 and 2007, the Company was considered "well capitalized" under FRB and FDIC regulations.

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 regulatory capital ratios at December 31, 2008 and 2007:

	Actual		For Capital Adequacy Purposes		To be well capitalized under regulatory capital guidelines	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2008						
Total risk based capital						
Republic	$ 99,329	11.90%	$ 66,750	8.00%	$ 83,437	10.00%
Company.	110,927	13.26%	66,915	8.00%	-	-
Tier one risk based capital						
Republic	90,921	10.90%	33,375	4.00%	50,062	6.00%
Company.	102,518	12.26%	33,458	4.00%	-	-
Tier one leverage capital						
Republic	90,921	9.91%	45,890	5.00%	45,890	5.00%
Company.	102,518	11.14%	46,001	5.00%	-	-
At December 31, 2007						
Total risk based capital						
Republic	$ 99,634	11.02%	$ 72,534	8.00%	$ 90,667	10.00%
Company.	99,704	11.01%	72,638	8.00%	-	-
Tier one risk based capital						
Republic	91,126	10.08%	36,267	4.00%	54,400	6.00%
Company.	91,196	10.07%	36,319	4.00%	-	-
Tier one leverage capital						
Republic	91,126	9.45%	48,225	5.00%	48,225	5.00%

Company.	91,196	9.44%	48,294	5.00%	-	-

Management believes that the Company and Republic met, as of December 31, 2008 and 2007, all capital adequacy requirements to which they are subject. As of December 31, 2008, 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 addition to the above minimum capital requirements, federal banking regulators are required to take specified "prompt corrective action" when an insured institution's capital level falls below certain levels. The rule defines five capital categories based on several of the above capital ratios. Republic currently exceeds the levels required for a bank to be classified as "well capitalized". However, the Federal Reserve may consider other criteria when determining such classifications, which criteria could result in a downgrading in such classifications.

The Company's equity to assets ratio increased to 8.33% as of December 31, 2008, from 7.92% as of December 31, 2007. The increase at year-end 2008 was the result of the $64.3 million decrease in total assets at December 31, 2008 compared to December 31, 2007. The Company's average equity to assets ratio for 2008, 2007 and 2006 was 8.44%, 8.01% and 8.17%, respectively. The Company's average return on equity for 2008, 2007 and 2006 was (0.60) %, 8.86% and 14.59%, respectively; and its average return on assets for 2008, 2007 and 2006, was (0.05)%, 0.71% and 1.19%, respectively.

Liquidity

Financial institutions must maintain liquidity to meet day-to-day requirements of depositors and borrowers, time investment purchases to market conditions and provide a cushion against unforeseen needs. Liquidity needs can be met by either reducing assets or increasing liabilities. The most liquid assets consist of cash, amounts due from banks and federal funds sold.

Regulatory authorities require the Company to maintain certain liquidity ratios such that Republic maintains available funds, or can obtain available funds at reasonable rates, in order to satisfy commitments to borrowers and the demands of depositors. In response to these requirements, the Company has formed an Asset/Liability Committee (ALCO), comprised of certain members of Republic's board of directors and senior management, which monitors such ratios. The purpose of the committee is, in part, to monitor Republic's liquidity and adherence to the ratios in addition to managing relative interest rate risk. The ALCO meets at least quarterly.

The Company's most liquid assets, comprised of cash and cash equivalents on the balance sheet, totaled $34.4 million at December 31, 2008, compared to $73.2 million at December 31, 2007. Loan maturities and repayments are another source of asset liquidity. At December 31, 2008, Republic estimated that in excess of $50.0 million of loans would mature or repay in the six-month period ended June 30, 2009. Additionally, the majority of its securities are available to satisfy liquidity requirements through pledges to the FHLB to access Republic's line of credit.

Funding requirements have historically been satisfied by generating core deposits and certificates of deposit with competitive rates, buying federal funds or utilizing the facilities of the Federal Home Loan Bank System ("FHLB"). At December 31, 2008, Republic had $67.4 million in unused lines of credit available under arrangements with the FHLB and with correspondent banks, compared to $113.1 million at December 31, 2007. The decrease in available lines resulted from the reduction in the secured lines of available credit. Management believes it satisfactorily exceeds regulatory liquidity guidelines. These lines of credit enable Republic to purchase funds for short to long-term needs at rates often lower than other sources and require pledging of securities or loan collateral.

At December 31, 2008, the Company had outstanding commitments (including unused lines of credit and letters of credit) of $88.4 million.

Certificates of deposit scheduled to mature in one year totaled $370.4 million at December 31, 2008. The Company anticipates that it will have sufficient funds available to meet its current commitments. In addition, the Company can use term borrowings to replace these borrowed funds.

Republic's target and actual liquidity levels are determined by comparisons of the estimated repayment and marketability of Republic's interest-earning assets with projected future outflows of deposits and other liabilities. Republic has established a contingency line of credit with a correspondent bank to assist in managing Republic's liquidity position. That line of credit totaled $15.0 million at December 31, 2008. Republic had drawn down $0 on this line at December 31, 2008. Republic has also established a line of credit with the Federal Home Loan Bank of Pittsburgh with a maximum borrowing capacity of approximately $205.7 million. That $205.7 million capacity is reduced by advances outstanding to arrive at the unused line of credit available. As of December 31, 2008 and 2007, Republic had borrowed $92.0 million and $113.4 million, respectively from the FHLB. Investment securities represent a primary source of liquidity for Republic. Accordingly, investment decisions generally reflect liquidity over other considerations. Additionally, Republic has uncollateralized overnight advances with PNC. As of December 31, 2008 and 2007, there were $10.0 million and $20.0 million of such overnight advances outstanding.

Operating cash flows are primarily derived from cash provided from net income during the year and are another source of liquidity.

The Company's primary short-term funding sources are certificates of deposit and its securities portfolio. The circumstances that are reasonably likely to affect those sources are as follows. Republic has historically been able to generate certificates of deposit by matching Philadelphia market rates or paying a premium rate of 25 to 50 basis points over those market rates. It is anticipated that this source of liquidity will continue to be available; however, the incremental cost may vary depending on market conditions. The Company's securities portfolio is also available for liquidity, most likely as collateral for FHLB advances. In addition, numerous investment companies would likely provide repurchase agreements up to the amount of the market value of the securities.

The ALCO committee is responsible for managing the liquidity position and interest sensitivity of Republic. 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.

Investment Securities Portfolio

Republic's investment securities portfolio is intended to provide liquidity and contribute to earnings while diversifying credit risk. The Company attempts to maximize earnings while minimizing its exposure to interest rate risk. The securities portfolio consists primarily of U.S. Government Agency issued mortgage backed securities, municipal securities, corporate bonds and trust preferred securities. The Company's ALCO monitors and approves all security purchases. The decline in securities in 2007 primarily reflected the maturity of an eighteen month security. The increase in the total amortized cost of securities in 2008 primarily reflected the purchase of mortgage backed securities.

A summary of investment securities available-for-sale and investment securities held-to-maturity at December 31, 2008, 2007 and 2006 follows.

	Investment Securities Available for Sale at December 31, (Dollars in thousands)		
	2008	2007	2006
U.S. Government Agencies	$ -	$ -	$ 18,570
Mortgage backed Securities/CMOs (1)	60,859	55,579	58,642
Municipal Securities	10,073	12,338	11,533
Corporate Bonds	5,988	4,995	-
Trust Preferred Securities	8,003	10,058	12,586
Other securities	279	280	281
Total amortized cost of securities	$ 85,202	$ 83,250	$ 101,612
	$ 83,032	$ 83,659	$ 102,039

Total fair value of investment securities

	Investment Securities Held to Maturity at December 31, (Dollars in thousands)		
	2008	2007	2006
U.S. Government Agencies	$ 3	$ 3	$ 3
Mortgage backed Securities/CMOs (1)	15	15	58
Municipal Securities	30	90	100
Other securities	150	174	172
Total amortized cost of investment securities	$ 198	$ 282	$ 333
Total fair value of investment securities	$ 214	$ 285	$ 338

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

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The following table presents the contractual maturity distribution and weighted average yield of the securities portfolio of the Company at December 31, 2008. Mortgage backed securities are presented without consideration of amortization or prepayments.

	Investment Securities Available for Sale at December 31, 2008									
	Within One Year		One to Five Years		Five to Ten Years		Past 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield (Dollars in thousands)	Amount	Yield	Fair value	Cost
rnment Agencies	$ -	-	$ -	-	$ -	-	$ -	-	$ -	$ -
backed securities	-	-	105	5.87%	-	-	62,571	5.72%	62,676	60,859
securities	-	-	-	-	-	-	9,123	4.29%	9,123	10,073
Bonds	-	-	-	-	3,043	6.36%	3,000	5.96%	6,043	5,988
erred securities	-	-	-	-	-	-	4,932	5.40%	4,932	8,003
urities	-	-	155	4.40%	103	5.05%	-	-	258	279
tal AFS securities	$ -	-	$ 260	4.99%	$ 3,146	6.22%	$ 79,626	5.55%	$ 83,032	$ 85,202

	Investment Securities Held to Maturity at December 31, 2008									
	Within One Year		One to Five Years		Five to Ten Years		Past 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield (Dollars in thousands)	Amount	Yield	Amount	Yield
U. S. Government Agencies	$ -	-	$ -	-	$ 3	3.31%	$ -	-	$ 3	3.31%
Mortgage backed securities	-	-	-	-	-	-	15	7.48%	15	7.48%
Municipal securities	-	-	-	-	-	-	30	7.51%	30	7.51%
Other securities	-	-	110	6.31%	-	-	40	0.00%	150	4.64%
Total HTM securities	$ -	-	$ 110	6.31%	$ 3	3.31%	$ 85	3.96%	$ 198	5.26%

Fair Value of Financial Instruments

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

The types of instruments valued based on quoted market prices in active markets include all of the Company's 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 SFAS No. 157, the Company does not adjust the quoted price for such instruments.

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

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

The following table presents a reconciliation of the securities available for sale measured as fair value on a recurring basis using significant unobservable imputs (level 3) for the year ended December 31:

	2008 (In Thousands)
Beginning balance, January 1	$ -
Securities transferred to Level 3 measurement during 2008	9,986
Unrealized losses arising during 2008	(2,999)
Impairment charge on Level 3 security	(1,438)
Other, including proceeds from calls of investment securities	(617)
Ending balance, December 31	$ 4,932

A third party pricing service was used in the development of the fair market valuation. The calculations used to determine fair value are based on the attributes of the trust preferred securities, the financial condition of the issuers of the trust preferred securities, and market based assumptions. The INTEX CDO Deal Model Library was utilized to obtain information regarding the attributes of each security and its specific collateral as of December 31, 2008. Financial information on the issuers was also obtained from Bloomberg, the FDIC and the Office of Thrift Supervision. Both published and unpublished industry sources were utilized in estimating fair value. Such information includes loan prepayment speed assumptions, discount rates, default rates, and loss severity percentages. Due to the current state of the global capital and financial markets, the fair market valuation is subject to greater uncertainty that would otherwise exist.

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

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

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

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

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

Finally, the receipt of TARP funding is considered, and if so, the amount.

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

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

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

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

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

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

Internal Rate of Return. Internal rates of return are the pre-tax yield rates used to discount the future cash flow stream expected from the collateral cash flow. The marketplace for the trust preferred securities at December 31, 2008 was not active. This is evidenced by a significant widening of the bid/ask spreads the markets in which the trust preferred securities trade and then by a significant decrease in the volume of trades relative to historical levels. The new issue market is also inactive.

SFAS No. 157-3 provides guidance on the discount rates to be used when a market is not active. The discount rate should take into account the time value of money, price for bearing the uncertainty in the cash flows and other case specific factors that would be considered by market participants, including a liquidity adjustment. The discount rate used is a LIBOR 3-month forward looking curve plus 700 basis points.

Loan Portfolio

The Company’s loan portfolio consists of secured and unsecured commercial loans including commercial real estate loans, loans secured by one-to-four family residential property, commercial construction and residential construction loans as well as residential mortgages, home equity loans and other consumer loans. Commercial loans are primarily secured term loans made to small to medium-sized businesses and professionals for working capital, asset acquisition and other purposes. Commercial loans are originated as either fixed or variable rate loans with typical terms of 1 to 5 years. Republic’s commercial loans typically range between $250,000 and $5.0 million but customers may borrow significantly larger amounts up to Republic’s legal lending limit of approximately $15.0 million at December 31, 2008. Individual customers may have several loans often secured by different collateral. Such relationships in excess of $9.8 million (an internal monitoring guideline which approximates 10% of capital and reserves) at December 31, 2008, amounted to $287.3 million. There were no loans in excess of the legal lending limit at December 31, 2008.

The Company’s total loans decreased $38.5 million, or 4.7%, to $783.1 million at December 31, 2008, from $821.5 million at December 31, 2007. That decrease reflected a $21.4 million, or 4.5%, decrease in real estate secured loans, which represents the Company’s largest loan category. The decrease also reflected a $12.6 million, or 5.5%, decrease in construction loans and a decrease of $17.1 million, or 22.2%, decrease in non real estate secured loans, which was partially offset by a $13.1 million, or 154.8%, increase in non real estate unsecured loans.

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

	At December 31, (Dollars in thousands)				
	2008	2007	2006	2005	2004
Commercial:					
Real estate secured	$ 456,273	$ 477,678	$ 466,636	$ 447,673	$ 351,314
Construction and land development	216,060	228,616	218,671	141,461	107,462
Non real estate secured	60,203	77,347	71,816	49,515	57,361
Non real estate unsecured	21,531	8,451	8,598	10,620	8,917
Total commercial	754,067	792,092	765,721	649,269	525,054
Residential real estate (1)	5,347	5,960	6,517	7,057	8,219
Consumer and other	24,165	24,302	20,952	23,050	17,048
Total loans	783,579	822,354	793,190	679,376	550,321
Deferred loan fees	497	805	1,130	1,290	632
Total loans, net of deferred loan fees	$ 783,082	$ 821,549	$ 792,060	$ 678,086	$ 549,689

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

Loan Maturity and Interest Rate Sensitivity

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

	At December 31, 2008 (Dollars in thousands)				
	Commercial and Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer and Other	Total
Fixed Rate					
1 year or less	$ 79,637	$ 9,727	$ -	$ 3,779	$ 93,143
1-5 years	246,164	15,366	-	485	262,015
After 5 years	99,164	12,497	5,347	4,090	121,098
Total fixed rate	424,965	37,590	5,347	8,354	476,256

Adjustable Rate					
1 year or less	95,222	138,522	-	874	234,618
1-5 years	16,569	16,940	-	176	33,685
After 5 years	1,251	23,008	-	14,761	39,020
Total adjustable rate	113,042	178,470	-	15,811	307,323
Total	$ 538,007	$ 216,060	$ 5,347	$ 24,165	$ 783,579

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

At December 31, 2008, 60.8% of total loans were fixed rate compared to 57.0% at December 31, 2007.

Credit Quality

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

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

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

While a loan is classified as non-accrual or as an impaired loan and the future collectibility of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to principal outstanding. When the future collectibility 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,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Loans accruing, but past due 90 days or more	$ -	$ -	$ -	$ -	$ -
Restructured loans	-	-	-	-	-
Non-accrual loans					
Commercial	2,758	14,757	6,448	2,725	3,914
Construction	13,666	6,747	173	492	656
Residential real estate	-	-	-	-	-
Consumer and other	909	776	295	206	284
Total non-accrual loans	17,333	22,280	6,916	3,423	4,854
Total non-performing loans (1)	17,333	22,280	6,916	3,423	4,854
Other real estate owned	8,580	3,681	572	137	137
Total non-performing assets (1)	$ 25,913	$ 25,961	$ 7,488	$ 3,560	$ 4,991
Non-performing loans as a percentage of total loans, net of unearned income (1)	2.21%	2.71%	0.87%	0.50%	0.88%
Non-performing assets as a percentage of total assets	2.72%	2.55%	0.74%	0.42%	0.75%

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

Non-accrual loans decreased $4.9 million, to $17.3 million at December 31, 2008, from $22.3 million at December 31, 2007. An analysis of 2008 activity is as follows. The $4.9 million decrease reflected $15.8 million of transfers of loans to two customers to other real estate owned after related 2008 charge-offs of $4.2 million and payoffs of $1.3 million. The resulting decrease was partially offset by the transition of fifteen loans totaling $16.5 million to non-accrual status. Problem loans consist of loans that are included in performing loans, but for which potential credit problems of the borrowers have caused management to have serious doubts as to the ability of such borrowers to continue to comply with present repayment terms. At December 31, 2008, all identified problem loans are included in the preceding table, or are internally classified with a specific reserve allocation in the allowance for loan losses (see "Allowance For Loan Losses").

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

	For the Year Ended December 31,				
	2008	2007	2006	2005	2004
Interest income that would have been recorded had the loans been in accordance with their original terms	$ 553,000	$ 1,447,000	$ 479,000	$ 165,000	$ 391,000
Interest income included in net income	$ -	$ -	$ -	$ -	$ 170,000

At December 31, 2008, the Company had no foreign loans and no loan concentrations exceeding 10% of total loans except for credits extended to real estate operators and lessors in the aggregate amount of $288.4 million, which represented 36.8% of gross loans receivable at December 31, 2008. Various types of real estate are included in this category, including industrial, retail shopping centers, office space, residential multi-family and others. In addition, credits were extended to real estate agents and managers in the amount of $99.8 million, which represented 12.7% of gross loans receivable at December 31, 2008. Loan concentrations are considered to exist when multiple number of borrowers are engaged in similar activities that management believes would cause them to be similarly impacted by economic or other conditions. Republic had no credit exposure to “highly leveraged transactions” at December 31, 2008 as defined by the Federal Reserve.

Allowance for Loan Losses

A detailed analysis of the Company’s allowance for loan losses for the years ended December 31, 2008, 2007, 2006, 2005 and 2004 is as follows: (Dollars in thousands)

	For the Year Ended December 31,				
	2008	2007	2006	2005	2004
Balance at beginning of period	$ 8,508	$ 8,058	$ 7,617	$ 6,684	$ 7,333
Charge-offs:					
Commercial	7,778	1,503	601	29	1,036
Tax refund loans	-	-	1,286	1,113	700
Consumer	19	3	-	21	186
Total charge-offs	7,797	1,506	1,887	1,163	1,922
Recoveries:					
Commercial	119	81	37	287	1,383
Tax refund loans	77	283	927	617	200
Consumer	3	2	-	6	4
Total recoveries	199	366	964	910	1,587
Net charge-offs	7,598	1,140	923	253	335
Provision for loan losses	7,499	1,590	1,364	1,186	(314)
Balance at end of period	$ 8,409	$ 8,508	$ 8,058	$ 7,617	$ 6,684

Average loans outstanding (1)	$ 789,446	$ 820,380	$ 728,754	$ 602,031	$ 493,635
As a percent of average loans (1):					
Net charge-offs	0.96%	0.14%	0.13%	0.04%	0.07%
Provision for loan losses	0.95%	0.19%	0.19%	0.20%	(0.06)%
Allowance for loan losses	1.07%	1.04%	1.11%	1.27%	1.35%
Allowance for loan losses to:					
Total loans, net of unearned income	1.07%	1.04%	1.02%	1.12%	1.22%
Total non-performing loans	48.51%	38.19%	116.51%	222.52%	137.70%

(1) Includes non-accruing loans.

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In 2008, the Company charged-off loans to three customers totaling $7.6 million prior to the transfer of the remaining loan balances to other real estate owned. In 2007, the Company charged-off commercial loans to three borrowers totaling $1.4 million. There were no charge-offs on tax refund loans in 2008 and 2007 as the Company did not purchase tax refund loans in those years. Recoveries on tax refund loans decreased to $77,000 in 2008, from $283,000 in 2007 as a result of the discontinuation of the tax refund loan program in 2007. Management makes at least a quarterly determination as to an appropriate provision from earnings to maintain an allowance for loan losses that management determines is adequate to absorb inherent losses in the loan portfolio. The Company's board of directors periodically reviews the status of all non-accrual and impaired loans and loans classified by Republic's regulators or internal loan review officer, who reviews both the loan portfolio and overall adequacy of the allowance for loan losses. 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 has an existing loan review program, which monitors the loan portfolio on an ongoing basis. Loan review is conducted by a loan review officer who reports quarterly, directly to the board of directors.

Estimating the appropriate level of the allowance for loan losses at any given date is difficult, particularly in a continually changing economy. In management's opinion, the allowance for loan losses was appropriate at December 31, 2008. 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.

Republic's management is unable to determine in which loan category future charge-offs and recoveries may occur. The following schedule sets forth the allocation of the allowance for loan losses among various categories. The allocation is accordingly based upon historical experience. The entire allowance for loan losses is available to absorb loan losses in any loan category:

	At December 31, (Dollars in thousands)									
	2008		2007		2006		2005		2004	
Allocation of the allowance for loan losses (1):	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans
Commercial	$ 4,721	68.6%	$ 5,303	68.5%	$ 5,852	69.0%	$ 5,074	74.8%	$ 5,016	75.9%
Construction	3,278	27.6%	2,739	27.8%	1,714	27.6%	1,417	20.8%	783	19.5%
Residential real estate	41	0.7%	43	0.7%	48	0.8%	71	1.0%	33	1.5%
Consumer and other	241	3.1%	174	3.0%	156	2.6%	231	3.4%	115	3.1%
Unallocated	128	-								