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

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

FORM 10-K

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

or

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

Commission File Number: 000-17007

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

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

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

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

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

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

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

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

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

YES [X] NO [ ]

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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PART I

Item 1: Business

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

Forward Looking Statements

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

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

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

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

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

General

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

Historically, our primary objective had been to position ourselves as an alternative to the large banks for commercial banking services in the Greater Philadelphia and Southern New Jersey area. In the second quarter of 2008, we began to redirect our strategic efforts toward retail banking and the creation of a major regional retail and commercial bank with a distinct brand, by focusing on innovation, customer satisfaction, brand building and shareholder value creation. To achieve this transformation, the Bank hired a number of former senior Commerce Bank employees: Andrew Logue, President and Chief Operating Officer; Rhonda Costello, Chief Retail Officer; Jay Neilon, Chief Credit Officer; and Frank Cavallaro, Chief Financial Officer.

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

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

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

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

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

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

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

Republic Bank

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

Service Area/Market Overview

Our primary service area consists of Greater Philadelphia and Southern New Jersey. Our commercial lending activities extend beyond our primary service area, to include other counties in Pennsylvania and New Jersey, as well

as parts of Delaware, Maryland, New York and other out-of-market opportunities.

Competition

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

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

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

Products and Services

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

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

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

Our lending activities generally are focused on small and medium sized businesses within the communities that we serve. Commercial real estate loans represent the largest category within our loan portfolio, amounting to approximately 50% of total loans outstanding at December 31, 2013. Repayment of these loans is, in part, dependent on general economic conditions affecting our customers and various businesses within the community. As a commercial lender, we are subject to credit risk. Economic and financial conditions in recent years have adversely affected many of our borrowers. To manage the challenges of this economic environment we have adopted a more conservative loan classification system, enhanced our allowance for loan loss methodology, and undertaken a comprehensive review of our loan portfolio.

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

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

Branch Expansion Plans and Growth Strategy

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

Securities Portfolio

We maintain an investment securities portfolio. We purchase investment securities that are in compliance with our investment policies, which are approved annually by our Board of Directors. The investment policies address such issues as permissible investment categories, credit quality, maturities and concentrations. At December 31, 2013 and 2012, approximately 68% and 63%, respectively, of the aggregate dollar amount of the investment securities consisted of either U.S. government debt securities or U.S. government agency issued mortgage-backed securities. Credit risk associated with these U.S. government debt securities and the U.S. government agency securities is minimal, with risk-based capital weighting factors of 0% and 20%, respectively. The remainder of the securities portfolio consists of municipal securities, trust preferred securities, corporate bonds, asset-backed securities, and Federal Home Loan Bank (FHLB) capital stock.

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Supervision and Regulation

General

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

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

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

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

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

- Source of Strength. According to Federal Reserve policy, bank holding companies are expected to act as a source of financial strength to each subsidiary bank and to commit resources to support each such subsidiary. The Dodd-Frank Act codifies the source-of-strength doctrine and expands upon the Federal Reserve policy, defining “source of strength” to mean the “ability of a company that directly or indirectly controls an insured depository institution to provide financial assistance to such insured depository institution in the event of the financial distress of the insured depository institution.”

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

times of economic contraction consistent with safety and soundness.



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

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

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

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

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

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

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

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

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

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

Gramm-Leach-Bliley Act

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

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

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

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

Sarbanes-Oxley Act of 2002

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

Regulatory Restrictions on Dividends

Dividend payments by Republic to us are subject to the Pennsylvania Banking Code of 1965 ("Banking Code") and the Federal Deposit Insurance Act ("FDIA"). Under the Banking Code, no dividends may be paid except from "accumulated net earnings" (generally, undivided profits). Under the FDIA, an insured bank may pay no dividends if the bank is in arrears in the payment of any insurance assessment due to the FDIC. Under the Banking Code, Republic would be limited to $10.8 million of dividends payable plus an additional amount equal to its net profit for 2014, up to the date of any such dividend declaration. However, dividends would be further limited in order to maintain capital ratios as discussed in "Capital Adequacy".

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

Dividend Policy

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

Deposit Insurance and Assessments

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

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

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

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

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

Capital Adequacy

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

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In addition to the risk-based capital guidelines, the Federal Reserve has established minimum leverage ratio (Tier 1 capital to average total assets) guidelines for bank holding companies. These guidelines currently provide for a minimum leverage ratio of 3% for those bank holding companies that have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. All other bank holding companies currently must maintain a minimum Tier 1 leverage ratio of 4% with higher leverage capital ratios required for bank holding companies that have significant financial and/or operational weakness, a high risk profile, or are undergoing or anticipating rapid growth. Both we and Republic are in compliance with these guidelines. The FDIC subjects Republic to similar capital requirements.

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

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

Legislative and Regulatory Changes

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

Future Legislative and Regulatory Developments

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

Profitability, Monetary Policy and Economic Conditions

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

Employees

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

Item 1A: Risk Factors

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

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

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

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

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

our commercial real estate loan concentration could materially adversely affect our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We regularly review our deferred tax assets for recoverability to determine whether it is more likely than not (i.e. likelihood of more than 50%) that some portion, or all, of the deferred tax asset will not be realized within its life cycle, based on the weight of available evidence. If management makes a determination based on the available

evidence that it is more likely than not that some portion or all of the deferred tax assets will not be realized in future periods, a valuation allowance is calculated and recorded. These determinations are inherently subjective and dependent upon estimates and judgments concerning management's evaluation of both positive and negative evidence.

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

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

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

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

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

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

Since June 2008, we have been successful in attracting new, talented management to Republic, to add to our management team. We believe that our ability to successfully implement our retail strategy will require us to retain and attract additional management experienced in banking and financial services, and familiar with the communities in our market. Our ability to retain executive officers, the current management teams, branch managers and loan officers of Republic will continue to be important to the successful implementation of our strategy. It is also critical, as we grow, to be able to attract and retain qualified additional management and loan officers with the appropriate level of experience and knowledge about our market areas to implement the community-based operating strategy. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

The financial services industry is constantly undergoing technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand in our market. Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we

will be able to offer, which would put us at a competitive disadvantage. Accordingly, we may not be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers. If we are unable to do so, our competitive position and results of operations could be adversely affected.

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

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

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

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

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

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

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

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

Federal banking regulators require us, and Republic, to maintain capital to support our operations. Regulatory capital ratios are defined and required ratios are established by laws and regulations promulgated by banking regulatory agencies. At December 31, 2013, our regulatory capital ratios were above "well capitalized" levels under current bank regulatory guidelines. To be "well capitalized," banking companies generally must maintain a Tier 1 leverage ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6%, and a total risk-based capital ratio of at least 10%. Regulators, however, may require us, or Republic, to maintain higher regulatory capital ratios. For example, regulators recently have required some banks to attain a Tier 1 leverage ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 10%, and a total risk-based capital ratio of at least 12%. In addition, as discussed in Item 1. Business – Supervision and Regulation - Capital Adequacy, in July 2013 the FDIC and other federal banking agencies adopted new standards revising regulatory capital requirements, which establish new higher capital ratio requirements and narrow the definitions of capital.

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

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

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

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

We own common stock of the Federal Home Loan Bank of Pittsburgh, or the FHLB, in order to qualify for membership in the Federal Home Loan Bank system, which enables us to borrow funds under the Federal Home Loan Bank advance program. The carrying value and fair market value of our FHLB common stock was $1.4 million as of December 31, 2013.

Published reports indicate that certain member banks of the Federal Home Loan Bank system may be subject to asset quality risks that could result in materially lower regulatory capital levels. In December 2008, the FHLB had notified its member banks that it had suspended dividend payments and the repurchase of capital stock until further notice was provided. In October 2010, the FHLB of Pittsburgh began to repurchase excess capital stock and, in 2012, resumed the payment of dividends. During 2013 the FHLB of Pittsburgh repurchased all excess restricted stock outstanding and continued with the payment of dividends. In an extreme situation, it is possible that the capitalization of a Federal Home Loan Bank, including the FHLB, could be substantially diminished or reduced to zero. Consequently, given that there is no market for our FHLB common stock, we believe that there is a risk that our investment could be deemed other-than-temporarily impaired at some time in the future. If this occurs, it may adversely affect our results of operations and financial condition. If the FHLB were to cease operations, or if we were required to write-off our investment in the FHLB, our business, financial condition, liquidity, capital and results of operations may be materially adversely effected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 1B: Unresolved Staff Comments

None.

Item 2: Description of Properties

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

Item 3: Legal Proceedings

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

Item 4: Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

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

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

Dividend Policy

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

Item 6: Selected Financial Data

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

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

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

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

Executive Summary

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

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

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

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

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

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

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

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

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

Critical Accounting Policies, Judgments and Estimates

In reviewing and understanding our financial information, you are encouraged to read and understand the significant accounting policies used in preparing the consolidated financial statements. These policies are described in Note 2 – Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements. The accounting and financial reporting policies conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The preparation of the consolidated financial statements requires

management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Management evaluates these estimates and assumptions on an ongoing basis including those related to the allowance for loan losses, other than temporary impairment of securities and deferred income taxes. Management bases its estimates on historical experience and various other factors and assumptions that are believed to be reasonable under the circumstances. These form the basis for making judgments on the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

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

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

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

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

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

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

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

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

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

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

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Results of Operations

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

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

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

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

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

Average Balances and Net Interest Income

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

Average Balances and Net Interest Income

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

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

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

(2) Net interest income and net interest margin are presented on a tax equivalent basis. Net interest income has been increased over the financial statement amount by $323, $396, and $408 in 2013, 2012 and 2011, respectively, to adjust for tax equivalency. The tax equivalent net interest margin is calculated by dividing tax equivalent net interest income by average total interest earning assets.

Rate/Volume Analysis of Changes in Net Interest Income

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

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

Net Interest Income

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

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

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

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

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

Provision for Loan Losses

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

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

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

Non-Interest Income

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

Non-Interest Expenses

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

Provision (Benefit) for Income Taxes

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

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

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

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

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

The Company did assess tax planning strategies as defined under ASC 740 to determine the amount of a valuation allowance. Strategies reviewed included the sale of investment securities and loans with fair values greater than book values, redeployment of cash and cash equivalents into higher yielding investment options, a switch from tax-exempt to taxable investments and loans, and the election of a decelerated depreciation method for tax purposes for future fixed asset purchases. The Company believes that these tax planning strategies are (a) prudent and feasible; (b) steps that the Company would not ordinarily take, but would take to prevent an operating loss or tax credit carryforward

from expiring unused; and (c) would result in the realization of existing deferred tax assets. These tax planning strategies, if implemented, would result in taxable income in the first full reporting period after deployment and accelerate the recovery of deferred tax asset balances if faced with the inability to recover those assets or the risk of potential expiration. The Company believes that these are viable tax planning strategies and appropriately considered in the analysis at this time, but may not align with the strategic direction of the organization today and therefore, has no present intention to implement such strategies.

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

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

Results of Operations

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

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

Net Interest Income

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

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

points in 2012 when compared to 2011.

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

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

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

Provision for Loan Losses

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that management believes is adequate to absorb inherent losses in the loan portfolio. The Company recorded a $1.4 million provision for loan losses during 2012 compared to $16.0 million for the comparable prior year period.

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

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

Non-Interest Income

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

Non-Interest Expenses

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

Provision (Benefit) for Income Taxes

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

Financial Condition

December 31, 2013 compared to December 31, 2012

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

Cash and Cash Equivalents

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

Loans Held for Sale

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

Loans Receivable

The loan portfolio represents our largest asset category and is our most significant source of interest income. Our lending strategy is focused on small and medium sized businesses and professionals that seek highly personalized banking services. The loan portfolio consists of secured and unsecured commercial loans including commercial real estate, construction loans, residential mortgages, automobile loans, home improvement loans, home equity loans and

lines of credit, overdraft lines of credit, and others. Commercial loans typically range between $250,000 and $5,000,000 but customers may borrow significantly larger amounts up to our legal lending limit to a customer, which was approximately $13.9 million at December 31, 2013. Loans made to one individual customer, even if secured by different collateral, are aggregated for purposes of the lending limit. The aggregate amount of those relationships that exceeded $9.3 million at December 31, 2013, was $143.2 million. A $9.3 million threshold, which amounts to approximately 10% of total regulatory capital, reflects an additional internal monitoring guideline.

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

Investment Securities

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

Investment securities held-to-maturity are investments for which there is the intent and ability to hold the investment to maturity. These investments are carried at amortized cost. The held-to-maturity portfolio consists primarily of debt securities. At December 31, 2013 and December 31, 2012, securities held to maturity totaled $21,000 and $67,000, respectively. The decrease of $46,000 was the result of a debt security reaching its maturity during the fourth quarter of 2013. At both dates, respective carrying values approximated market values.

Restricted Stock

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

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

Other Real Estate Owned

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

Bank Owned Life Insurance

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

Deposits

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

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

Shareholders' Equity

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

Investment Securities Portfolio

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

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

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

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

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

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

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

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

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

Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

The trust preferred securities are pools of similar securities that are grouped into an asset structure commonly referred to as collateralized debt obligations ("CDOs") which consist of the debt instruments of various banks, diversified by the number of participants in the security as well as geographically. These securities are performing according to terms, however the secondary market for such securities has become inactive, and such securities are therefore classified as Level 3 securities. The fair value analysis does not reflect or represent the actual terms or prices at which any party could purchase the securities. There is currently no secondary market for the securities and there can be no assurance that any secondary market for the securities will develop.

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

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

An independent, third party pricing service is used to estimate the current fair market value of each CDO held in the investment securities portfolio. The calculations used to determine fair value are based on the attributes of the trust preferred securities, the financial condition of the issuers of the trust preferred securities, and market based assumptions. The INTEX CDO Deal Model Library was utilized to obtain information regarding the attributes of each security and its specific collateral as of December 31, 2013 and December 31, 2012. Financial information on the issuers was also obtained from Bloomberg, the FDIC and SNL Financial. Both published and unpublished industry sources were utilized in estimating fair value. Such information includes loan prepayment speed assumptions, discount rates, default rates, and loss severity percentages. A detailed explanation of the assumptions used to estimate the fair market value of the CDOs can be found in Note 14 "Fair Value Measurements and Fair Values of Financial Investments" to the Consolidated Financial Statements.

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

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

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

Loan Portfolio

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

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

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

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

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

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

Loan Maturity and Interest Rate Sensitivity

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

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

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

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

Credit Quality

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

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

While a loan is classified as non-accrual, collections of interest and principal are generally applied as a reduction to principal outstanding. When the future collectability of the recorded loan balance is expected, interest income may be

recognized on a cash basis. For non-accrual loans, which have been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Cash interest receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

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

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

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

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

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

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

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

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Allowance for Loan Losses

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

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

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

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

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

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

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

(1) Includes non-accruing loans.

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

The increase in the provision recorded during 2013 was primarily driven by a single loan relationship which was determined to be impaired during the fourth quarter of 2013 due to delinquency in payments. The need for a provision in the amount of $3.6 million was the result of a significant reduction in the collateral value supporting the loan based

upon a current appraisal. Management is working closely with this borrower to resolve the delinquency issue and address the collateral deficiency.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deposits

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

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

In general, Republic pays higher interest rates on time deposits compared to other deposit categories. Republic's various deposit liabilities may fluctuate from period-to-period, reflecting customer behavior and strategies to optimize net interest income. The decrease in total deposits to $869.5 million at December 31, 2013 from $889.2 million at December 31, 2012 was primarily the result of $44.4 million decrease in time deposits and a $37.5 million decrease in money market and savings deposits. We have intentionally allowed internet based certificates of deposit to mature and roll off to reduce our cost of funds. These decreases have been offset by strong growth in interest bearing demand deposits of $49.8 million and a $12.4 million increase within non-interest bearing deposits, which reflect our retail-focused strategy of gathering low-cost core deposits. This strategy has also allowed us to significantly reduce our dependence on the more volatile sources of funding in brokered and internet based certificates of deposit.

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

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

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

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

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

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

Off-Balance Sheet Arrangements

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

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

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

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

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

Contractual Obligations and Other Commitments

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows as of December 31, 2013:

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

As of December 31, 2013, we had entered into non-cancelable lease agreements for our main office and operations center, twelve current Republic retail branch facilities, and two loan offices, expiring through August 31, 2043, including renewal options. The leases are accounted for as operating leases. The minimum rental payments required under these leases are $43.1 million through the year 2043, including renewal options. We have retirement plan agreements with certain directors and officers. At December 31, 2013, the accrued benefits under the plan were approximately $1.4 million, with a minimum age of 65 established to qualify for the payments.

Interest Rate Risk Management

We attempt to manage our assets and liabilities in a manner that optimizes net interest income in a range of interest rate environments. Management uses an "interest sensitivity gap" ("GAP") analysis and simulation models to monitor behavior of its interest sensitive assets and liabilities. A GAP analysis is the difference between interest-sensitive assets and interest-sensitive liabilities. Adjustments to the mix of assets and liabilities are made periodically in an effort to provide steady growth in net interest income.

Management presently believes that the effect on Republic of any future reduction in interest rates, reflected in lower yielding assets, could be detrimental since Republic may not have the immediate ability to commensurately decrease rates on its interest bearing liabilities, primarily time deposits, other borrowings and certain transaction accounts. An increase in interest rates could have a negative effect on Republic, due to a possible lag in the re-pricing of core deposits not taken into account in the static GAP analysis. Interest rate risk management involves managing the extent to which interest-sensitive assets and interest-sensitive liabilities are matched. We attempt to optimize net interest income while managing period-to-period fluctuations therein. We typically define interest-sensitive assets and

interest-sensitive liabilities as those that re-price within one year or less. Generally, we limit long-term fixed rate assets and liabilities in our efforts to manage interest rate risk.

A positive GAP occurs when interest-sensitive assets exceed interest-sensitive liabilities re-pricing in the same time periods, and a negative GAP occurs when interest-sensitive liabilities exceed interest-sensitive assets re-pricing in the same time periods. A negative GAP ratio suggests that a financial institution may be better positioned to take advantage of declining interest rates rather than increasing interest rates, and a positive GAP ratio suggests the converse. Static GAP analysis describes interest rate sensitivity at a point in time; however, it alone does not accurately measure the magnitude of changes in net interest income as changes in interest rates do not impact all categories of assets and liabilities equally or simultaneously. Interest rate sensitivity analysis also requires assumptions about re-pricing certain categories of assets and liabilities. For purposes of interest rate sensitivity analysis, assets and liabilities are stated at their contractual maturity, estimated likely call date, or earliest re-pricing opportunity. Mortgage-backed securities and amortizing loans are scheduled based on their anticipated cash flow, including prepayments based on historical data and current market trends. Savings, money market and interest-bearing demand accounts do not have a stated maturity or re-pricing term and can be withdrawn or re-priced at any time. Management estimates the re-pricing characteristics of these accounts based upon decay rates and run off projections obtained in a deposit study performed by an independent third party, along with management's estimates of when rates would have to be increased to retain balances in response to competition. Such estimates are necessarily arbitrary and wholly judgmental. As a result of the run off projections, these deposits are not considered to re-price simultaneously and, accordingly, a portion of the deposits are moved into time brackets exceeding one year. However, management may choose not to re-price liabilities proportionally to changes in market interest rates, for competitive or other reasons.

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

The following tables present a summary of our GAP analysis at December 31, 2013. Amounts shown in the table include both estimated maturities and instruments scheduled to re-price, including prime based loans. For purposes of these tables, we have used assumptions based on industry data and historical experience to calculate the expected maturity of loans because, statistically, certain categories of loans are prepaid before their maturity date, even without regard to interest rate fluctuations. Additionally, certain prepayment assumptions were made with regard to investment securities based upon the expected prepayment of the underlying collateral of the mortgage-backed securities. The interest rate on a portion of the CDOs is variable and adjusts quarterly.

Interest Rate Sensitivity Gap
As of December 31, 2013

| (dollars in thousands) | 0 – 90 Days | 91-180 Days | 181-365 Days | 1-2 Years | 2-3 Years | 3-4 Years | 4-5 Years | More than 5 Years | Finan Stater Tot |
|---|---|---|---|---|---|---|---|---|---|
| Interest sensitive assets: | | | | | | | | | |
| Investment securities and other interest-bearing balances | $25,116 | $1,833 | $3,467 | $11,356 | $15,914 | $15,397 | $7,022 | $149,732 | $229, |
| Average interest rate | 0.93 % | 1.42 % | 1.67 % | 1.52 % | 2.07 % | 2.52 % | 2.38 % | 2.49 % | 2.32 |
| Loans receivable | 274,709 | 19,651 | 23,975 | 42,263 | 67,880 | 93,868 | 99,021 | 62,875 | 684, |
| Average interest rate | 5.02 % | 5.56 % | 5.90 % | 4.80 % | 5.04 % | 4.54 % | 4.40 % | 6.02 % | 4.99 |
| Total | $299,825 | $21,484 | $27,442 | $53,619 | $83,794 | $109,265 | $106,043 | $212,607 | $914, |
| Cumulative totals | $299,825 | $321,309 | $348,751 | $402,370 | $486,164 | $595,429 | $701,472 | $914,079 | |
| Interest sensitive liabilities: | | | | | | | | | |
| Demand interest bearing(1) | $12,436 | $12,436 | $24,871 | $18,782 | $16,533 | $14,316 | $12,400 | $118,447 | $230, |
| Average interest rate | 0.39 % | 0.39 % | 0.39 % | 0.38 % | 0.38 % | 0.38 % | 0.38 % | 0.37 % | 0.41 |
| Savings accounts(1) | 6,427 | 6,427 | 12,854 | 14,672 | 10,278 | 7,596 | 5,759 | | |