REPUBLIC FIRST BANCORP INC
Form 10-Q
May 10, 2011

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

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Act of 1934 for the quarterly period ended March 31, 2011.

or

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

Commission File Number: 000-17007

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

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common Stock, $0.01 per share	25,972,897
Title of Class	Number of Shares Outstanding as of May 09, 2011

REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARIES
TABLE OF CONTENTS

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
March 31, 2011 and December 31, 2010
(Dollars in thousands, except share data)
(unaudited)

	March 31, 2011	December 31, 2010
ASSETS		
Cash and due from banks	$7,095	$6,146
Interest bearing deposits with banks	19,784	29,620
Federal funds sold	2,162	99
Cash and cash equivalents	29,041	35,865
Investment securities available for sale, at fair value	139,638	143,439
Investment securities held to maturity, at amortized cost (fair value of $157 and $157, respectively)	148	147
Restricted stock, at cost	6,183	6,501
Loans held for sale	6,156	-
Loans receivable (net of allowance for loan losses of $14,450 and $11,444, respectively)	616,360	608,911
Premises and equipment, net	24,623	25,496
Other real estate owned, net	14,077	15,237
Accrued interest receivable	3,216	3,119
Bank owned life insurance	12,586	12,555
Other assets	25,053	24,827
Total Assets	$877,081	$876,097
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand – non-interest bearing	$78,221	$128,578
Demand – interest bearing	76,349	66,283
Money market and savings	333,458	329,742
Time Deposits	273,049	233,127
Total Deposits	761,077	757,730
Accrued interest payable	1,097	953
Other liabilities	6,047	6,792
Subordinated debt	22,476	22,476
Total Liabilities	790,697	787,951
Shareholders' Equity		
Preferred stock, par value $0.01 per share: 10,000,000 shares authorized; no shares issued as of March 31, 2011 and December 31, 2010	-	-
Common stock, par value $0.01 per share: 50,000,000 shares authorized; shares issued 26,501,742 as of March 31, 2011 and December 31, 2010	265	265
Additional paid in capital	106,110	106,024
Accumulated deficit	(15,648)	(13,140)
Treasury stock at cost (416,303 shares)	(3,099)	(3,099)

Stock held by deferred compensation plan	(809)	(809)
Accumulated other comprehensive loss	(435)	(1,095)
Total Shareholders' Equity	86,384	88,146
Total Liabilities and Shareholders' Equity	$877,081	$876,097

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Operations
For the Three Months Ended March 31, 2011 and 2010
(Dollars in thousands, except per share data)
(unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Interest income:		
Interest and fees on loans	$8,211	$8,759
Interest and dividends on taxable investment securities	996	1,542
Interest and dividends on tax-exempt investment securities	113	114
Interest on federal funds sold and other interest-earning assets	14	20
Total interest income	9,334	10,435
Interest expense:		
Demand- interest bearing	98	82
Money market and savings	799	1,050
Time deposits	721	1,405
Other borrowings	296	489
Total interest expense	1,914	3,026
Net interest income	7,420	7,409
Provision for loan losses	3,550	5,500
Net interest income after provision for loan losses	3,870	1,909
Non-interest income:		
Loan advisory and servicing fees	37	57
Gain on sale of loans	697	-
Service fees on deposit accounts	169	282
Other-than-temporary impairment losses	-	(1,448)
Portion recognized in other comprehensive income (before taxes)	-	1,299
Net impairment loss on investment securities	-	(149)
Gain on sale of other real estate owned	-	200
Bank owned life insurance income	31	51
Other non-interest income	193	34
Total non-interest income	1,127	475
Non-interest expenses:		
Salaries and employee benefits	3,338	2,930
Occupancy	855	1,521
Depreciation and amortization	528	482
Legal	295	535
Other real estate owned	1,359	540
Advertising	105	65
Data processing	247	218
Insurance	217	162
Professional fees	434	511
Regulatory assessments and costs	483	511
Taxes, other	213	226
Other operating expenses	918	704

Total non-interest expense	8,992	8,405
Loss before benefit for income taxes	(3,995)	(6,021)
Benefit for income taxes	(1,487)	(2,159)
Net loss	$(2,508)	$(3,862)
Net loss per share:		
Basic	$(0.10)	$(0.37)
Diluted	$(0.10)	$(0.37)

(See notes to consolidated financial statements)

2

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2011 and 2010
(Dollars in thousands)
(unaudited)

	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net loss	$(2,508)	$(3,862)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Provision for loan losses	3,550	5,500
Writedown of other real estate owned	1,099	488
Net gain on sale of other real estate owned	-	(200)
Depreciation and amortization	528	482
Share based compensation	86	42
Impairment charges on investment securities	-	149
Amortization of premiums/(discounts) on investment securities	45	13
Proceeds from sales of SBA loans	8,225	-
SBA loans originated for sale	(13,684)	-
Gains on sales of SBA loans originated for sale	(697)	-
Increase in value of bank owned life insurance	(31)	(51)
Increase in accrued interest receivable and other assets	(693)	(1,931)
(Decrease) increase in accrued interest payable and other liabilities	(135)	609
Net cash (used in) provided by operating activities	(4,215)	1,239
Cash flows from investing activities:		
Proceeds from the maturity or call of securities available for sale	4,785	6,857
Proceeds from the maturity or call of securities held to maturity	-	7
Proceeds from redemption of FHLB stock	318	-
Net (increase) decrease in loans	(10,999)	9,103
Net proceeds from sale of other real estate owned	61	2,942
Premises and equipment expenditures	(121)	(172)
Net cash (used in) provided by investing activities	(5,956)	18,737
Cash flows from financing activities:		
Net decrease in demand, money market and savings deposits	(36,575)	(9,419)
Net increase (decrease) in time deposits	39,922	(27,243)
Net cash provided by (used in) financing activities	3,347	(36,662)
Net decrease in cash and cash equivalents	(6,824)	(16,686)
Cash and cash equivalents, beginning of year	35,865	55,618
Cash and cash equivalents, end of year	$29,041	$38,932
Supplemental disclosures:		
Interest paid	$1,770	$2,633
Non-cash transfers from loans to other real estate owned	-	663

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Three Months Ended March 31, 2011 and 2010
(Dollars in thousands, except per share data)
(unaudited)

	Common Stock	Additional Paid in Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance January 1, 2011	$ 265	$ 106,024	$ (13,140)	$ (3,099)	$ (809)	$ (1,095)	$ 88,146
Net loss			(2,508)				(2,508)
Other comprehensive gain, net of tax:							
Unrealized gain on securities (pre-tax $1,030)						660	660
Total comprehensive loss							(1,848)
Stock based compensation		86					86
Balance March 31, 2011	$ 265	$ 106,110	$ (15,648)	$ (3,099)	$ (809)	$ (435)	$ 86,384
Balance January 1, 2010	$ 111	$ 77,086	$ (2,450)	$ (3,099)	$ (709)	$ (675)	$ 70,264
Net loss			(3,862)				(3,862)
Other comprehensive loss, net of tax:							
Unrealized loss on securities (pre-tax $2,120)						(1,359)	(1,359)
Reclassification adjustment for impairment charge (pre-tax $149)						97	97
							(1,262)
Total comprehensive							(5,124)

loss							
Stock based compensation	-	42					42
Balance March 31, 2010	$ 111	$ 77,128	$ (6,312)	$ (3,099)	$ (709)	$ (1,937)	$ 65,182

(See notes to consolidated financial statements)

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

Note 1: Basis of Presentation

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

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

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to United States Securities and Exchange Commission (“SEC”) Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for financial statements for a complete fiscal year. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements. The Company has evaluated subsequent events through the date of issuance of the financial data included herein.

Note 2: Summary of Significant Accounting Policies

Risks and Uncertainties

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

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

Use of Estimates

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

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

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

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

In estimating impairment of restricted stock, management's determination of whether these investments are impaired is based on the assessment of the ultimate recoverability of the cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of the cost is influenced by criteria such as (1) the significance of the decline in net assets of the Federal Home Loan Bank of Pittsburgh ("FHLB") and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and accordingly, on the customer base of the FHLB.

In evaluating the Company's ability to recover deferred tax assets, management considers all available positive and negative evidence, including the Company's past operating results and the Company's 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 Company's future taxable income and are consistent with the plans and estimates management uses to manage the Company's business. Any reduction in estimated future taxable income may require the Company to record a valuation allowance against its 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 the Company's future earnings.

Stock-Based Compensation

The Company maintains the Amendment and Restatement No. 3 of the Stock Option Plan and Restricted Stock Plan of Republic First Bancorp, Inc. ("Plan"), under which the Company may grant options, restricted stock or stock appreciation rights to the Company's employees, directors, and certain consultants. Under the terms of the Plan, 1.5 million shares of common stock, plus an annual increase equal to the number of shares needed to restore the maximum number of shares that may be available for grant under the Plan to 1.5 million shares, are available for such grants. As of March 31, 2011, the only grants under the Plan have been option grants. The Plan provides that the exercise price of each option granted equals the market price of the Company's stock on the date of the grant. Any option granted vests within one to five years and has a maximum term of ten years.

The Company utilizes a Black-Scholes option pricing model to determine the fair market value of stock options. In 2011, the following assumptions were utilized: a dividend yield of 0%; expected volatility of 49.11%; a risk-free interest rate of 2.84%; and an expected life of 7.0 years. In 2010, the following assumptions were utilized: a dividend yield of 0%; expected volatility of 33.67% to 37.37%; a risk-free interest rate of 2.06% to 3.46%; and an expected life of 7.0 years. A dividend yield of 0% is utilized, because cash dividends have never been paid. The expected life reflects a 3 to 4 year "all or nothing" vesting period, the maximum ten-year term and review of historical behavior. The volatility was based on Bloomberg's seven-year volatility calculation for "FRBK" stock. The risk-free interest rate is based on the seven year Treasury bond. During the three months ended March 31, 2011, 53,500 shares vested. No options vested during the three months ended March 31, 2010. Expense is recognized ratably over the period required to vest. There were 445,350 unvested options at January 1, 2011 with a fair value of $1,158,861 with $531,757 of that amount remaining to be recognized as expense. At March 31, 2011, there were 562,950 unvested options with a fair value of $1,235,096 with $724,281 of that amount remaining to be recognized as expense. At that date, the intrinsic value of the 823,604 options outstanding was $9,655, while the intrinsic value of the 260,654 exercisable (vested) options was $15.

Compensation expense of $86,000 and $42,000 was recognized during the three months ended March 31, 2011 and 2010, respectively. For each of these periods, a 35% assumed tax benefit for the Plan was utilized in making the calculations.

Earnings per Share

Earnings per share (“EPS”) consists of two separate components: basic EPS and diluted EPS. Basic EPS is computed by dividing net income (loss) by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income (loss) by the weighted average number of common shares outstanding plus dilutive common stock equivalents (“CSEs”). CSEs consist of dilutive stock options granted through the Company’s Plan and convertible securities related trust preferred securities issued in 2008. In the diluted EPS computation, the after tax interest expense on the trust preferred securities issuance is added back to the net income. For the three months ended March 31, 2011 and 2010, the effect of CSEs and the related add back of after tax interest expense was considered anti-dilutive and therefore was not included in the EPS calculation.

The calculation of EPS for the three months ended March 31, 2011 and 2010 is as follows (in thousands, except per share amounts):

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net loss	$ (2,508)	$ (3,862)
Weighted average shares outstanding	25,973	10,578
Net loss per share – basic and diluted	$ (0.10)	$ (0.37)

Recent Accounting Pronouncements

ASU 2011-02
In April 2011, the FASB issued Accounting Standards Update (“ASU”) 2011-02, Receivables (Topic 310): A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring. The FASB has issued this ASU to clarify the accounting principles applied to loan modifications, as defined by FASB ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors.

The ASU clarifies guidance on a creditor’s evaluation of whether or not a concession has been granted, with an emphasis on evaluating all aspects of the modification rather than focus on specific criteria, such as the effective interest rate test, to determine a concession. The ASU goes on to provide guidance on specific types of modifications such as changes in the interest rate of the borrowing, and insignificant delays in payments, as well as guidance on the creditor’s evaluation of whether or not a debtor is experiencing financial difficulties.

The effective date of ASU 2011-02 differs for public and nonpublic companies. For public companies, the amendments in the ASU are effective for the first interim or annual periods beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption.

The entity should also disclose information required by ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which had previously been deferred by ASU 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20, for interim and annual periods beginning on or after June 15, 2011. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

ASU 2010-20
In July 2010, the FASB issued ASU 2010-20, Receivables (Topic 310): Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The FASB believes that this guidance will help investors assess the credit risk of a company's receivables portfolio and the adequacy of its allowance for credit losses held against the portfolios by expanding credit risk disclosures.

This ASU requires more information about the credit quality of financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. This disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure.

The amendments in this ASU apply to all public and nonpublic entities with financing receivables. Financing receivables include loans and trade accounts receivable. However, short-term trade accounts receivable, receivables measured at fair value or lower of cost or fair value, and debt securities are exempt from these disclosure amendments.

The effective date of ASU 2010-20 differs for public and nonpublic companies. For public companies, the amendments that require disclosures as of the end of a reporting period are effective for periods ending on or after December 15, 2010. The amendments that require disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

Note 3: Legal Proceedings

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

Note 4: Segment Reporting

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

Note 5: Comprehensive Loss

Total comprehensive loss, which for the Company included net loss and changes in unrealized gains and losses on the Company's available for sale securities, was $1.8 million and $5.1 million for the three months ended March 31, 2011 and 2010, respectively.

9

Note 6: Investment Securities

A summary of the amortized cost and market value of securities available for sale and securities held to maturity at March 31, 2011 and December 31, 2010 is as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2011:				
Mortgage-backed securities/CMOs	$120,112	$3,257	$-	$123,369
Municipal securities	10,657	106	(1,213)	9,550
Corporate bonds	3,000	-	-	3,000
Pooled Trust Preferred Securities	6,417	-	(2,816)	3,601
Other securities	131	2	(15)	118
Total securities available for sale	$140,317	$3,365	$(4,044)	$139,638
U.S. Government agencies	$2	$-	$-	$2
Other securities	146	9	-	155
Total securities held to maturity	$148	$9	$-	$157
December 31, 2010:				
Mortgage-backed securities/CMOs	$125,011	$2,784	$(133)	$127,662
Municipal securities	10,589	36	(1,415)	9,210
Corporate bonds	3,000	-	-	3,000
Pooled Trust Preferred Securities	6,417	-	(2,967)	3,450
Other securities	131	2	(16)	117
Total securities available for sale	$145,148	$2,822	$(4,531)	$143,439
U.S. Government agencies	$2	$-	$-	$2
Other securities	145	10	-	155
Total securities held to maturity	$147	$10	$-	$157

The maturity distribution of the amortized cost and estimated market value of investment securities by contractual maturity at March 31, 2011 is as follows:

	Available for Sale		Held to Maturity	
(dollars in thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$-	$-	$-	$-
After 1 year to 5 years	25	26	116	125
After 5 years to 10 years	417	442	2	2
After 10 years	139,875	139,170	-	-
No stated maturity	-	-	30	30
Total	$140,317	$139,638	$148	$157

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

As of March 31, 2011 and December 31, 2010, the mortgage backed securities and collateralized mortgage obligations included in the investment securities portfolio consist solely of securities issued by U.S. government sponsored agencies. There were no private label mortgage securities held in the investment securities portfolio as of those dates. The Company does not hold any mortgage-backed securities that are rated “Alt-A” or “Subprime” as of March 31, 2011 and December 31, 2010. In addition, the Company does not hold any private issued CMO’s as of March 31, 2011 and December 31, 2010.

In instances when a determination is made that an other-than-temporary impairment exists with respect to a debt security but the investor does not intend to sell the debt security and it is more likely than not that the investor will not be required to sell the debt security prior to its anticipated recovery, FASB Accounting Standards Codification ("ASC") 320-10, Investments – Debt and Equity Securities, changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income. The adoption of updated guidance under ASC 320-10 had an impact on the amounts reported in the consolidated financial statements as impairment charges (credit losses) on bank pooled trust preferred securities for the three months ended March 31, 2011 and 2010 in the amount of $0 and $149,000, respectively.

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

	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2011:						
Mortgage-backed securities/CMOs	$-	$-	$30	$-	$30	$-
Municipal securities	4,401	263	3,716	950	8,117	1,213
Trust Preferred Securities	-	-	3,602	2,816	3,602	2,816
Other securities	-	-	75	15	75	15
Total	$4,401	$263	$7,423	$3,781	$11,824	$4,044
December 31, 2010:						
Mortgage-backed securities/CMOs	$17,599	$133	$31	$-	$17,630	$133
Municipal securities	5,288	398	3,599	1,017	8,887	1,415
Trust Preferred Securities	-	-	3,450	2,967	3,450	2,967
Other securities	-	-	74	16	74	16
Total	$22,887	$531	$7,154	$4,000	$30,041	$4,531

The impairment of the investment portfolio at March 31, 2011 totaled $4.0 million with a total fair value of $11.8 million at March 31, 2011. The unrealized loss for the Bank's pooled trust preferred securities was due to the secondary market for such securities becoming inactive and is considered temporary at March 31, 2011.

The unrealized loss on the remaining securities is due to changes in market value resulting from changes in market interest rates and is also considered temporary. At March 31, 2011, the investment portfolio included twenty-five municipal securities with a total market value of $9.5 million. The securities are reviewed quarterly for impairment. Research on each issuer is completed to ensure the financial stability of the municipal entity. The largest geographic concentration was in California where thirteen municipal securities had a market value of $4.6 million. There were no defaults by any Moody's rated state or local government during the three months ended March 31, 2011. As of March 31, 2011, management found no evidence of other than temporary impairment on any of the municipal securities held in the investment securities portfolio.

Note 7: Loans Receivable and Allowance for Loan Losses

The following table sets forth the Company's gross loans by major categories as of March 31, 2011 and December 31, 2010:

(dollars in thousands)	March 31, 2011	December 31, 2010
Commercial	$ 78,735	$ 78,428
Owner occupied	79,412	70,833
Total commercial	158,147	149,261
Consumer and residential	21,344	22,834
Commercial real estate	451,779	448,730
Total loans receivable	631,270	620,825
Less: Deferred loan fees	(460)	(470)
Less: Allowance for loan losses	(14,450)	(11,444)
Net loans receivable	$ 616,360	$ 608,911

A loan is considered impaired, in accordance with ASC 310, Receivables, when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans, but also include internally classified accruing loans. As of March 31, 2011 and December 31, 2010, management did not identify any troubled debt restructurings in the loan portfolio.

The following table presents the Company's impaired loans at March 31, 2011 and December 31, 2010:

(dollars in thousands)	March 31, 2011	December 31, 2010
Impaired loans without a valuation allowance	$52,768	$72,908
Impaired loans with a valuation allowance	28,827	14,206
Total impaired loans	$81,595	$87,114
Valuation allowance related to impaired loans	$4,979	$2,786
Total nonaccrual loans	39,161	39,992
Total loans past-due ninety days or more and still accruing	-	-

As of March 31, 2011 and December 31, 2010, the average recorded investment in impaired loans was approximately $84.4 million and $100.3 million, respectively. The Company earned $612,000 and $2.7 million of interest income on impaired loans (internally classified accruing loans) for the three months ended March 31, 2011 and the year ended December 31, 2010, respectively. The Company recognized interest income on a cash basis on impaired loans of $580,000 and $2.9 million during the three months ended March 31, 2011 and the year ended December 31, 2010, respectively. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

The following table summarizes information in regards to impaired loans by loan portfolio class as of March 31, 2011 and December 31, 2010:

	March 31, 2011				
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$1,965	$1,965	$-	$4,223	$27
Owner occupied	1,957	1,957	-	2,118	19
Total commercial	3,922	3,922	-	6,341	46
Consumer and residential	798	1,015	-	652	-
Commercial real estate	48,048	62,354	-	55,845	417
Total	$52,768	$67,291	$-	$62,838	$463
With an allowance recorded:					
Commercial	$5,298	$6,807	$1,629	$3,048	$6
Owner occupied	3,399	3,399	464	3,418	59
Total commercial	8,697	10,206	2,093	6,466	65
Consumer and residential	-	-	-	-	-
Commercial real estate	20,130	24,460	2,886	15,051	84
Total	$28,827	$34,666	$4,979	$21,517	$149
Total:					
Commercial	$7,263	$8,772	$1,629	$7,271	$33
Owner occupied	5,356	5,356	464	5,536	78
Total commercial	12,619	14,128	2,093	12,807	111
Consumer and residential	798	1,015	-	652	-
Commercial real estate	68,178	86,814	2,886	70,896	501
Total	$81,595	$101,957	$4,979	$84,355	$612

	December 31, 2010				
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$6,482	$7,992	$-	$7,040	$160
Owner occupied	2,278	2,278	-	2,370	132
Total commercial	8,760	10,270	-	9,410	292
Consumer and residential	506	684	-	536	6
Commercial real estate	63,642	81,161	-	75,205	1,632
Total	$72,908	$92,115	$-	$85,151	$1,930
With an allowance recorded:					
Commercial	$798	$798	$287	$809	$26
Owner occupied	3,436	3,436	517	3,832	267
Total commercial	4,234	4,234	804	4,641	293
Consumer and residential	-	-	-	-	-
Commercial real estate	9,972	10,312	1,982	10,484	445
Total	$14,206	$14,546	$2,786	$15,125	$738
Total:					
Commercial	$7,280	$8,790	$287	$7,849	$186
Owner occupied	5,714	5,714	517	6,202	399
Total commercial	12,994	14,504	804	14,051	585
Consumer and residential	506	684	-	536	6
Commercial real estate	73,614	91,473	1,982	85,689	2,077
Total	$87,114	$106,661	$2,786	$100,276	$2,668

As of March 31, 2011 and December 31, 2010, there were loans of approximately $39.2 million and $40.0 million, respectively, which were classified as non-accrual. If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately $637,000 and $2.4 million, for the three months ended March 31, 2011 and the year ended December 31, 2010, respectively. There were no loans past due 90 days and accruing interest at March 31, 2011 or December 31, 2010.

The following is an analysis of the changes in the allowance for loan losses for the three months ended March 31, 2011 and year ended December 31, 2010:

(dollars in thousands)	March 31, 2011	December 31, 2010
Balance at beginning of year	$ 11,444	$ 12,841
Provision for loan losses	3,550	16,600
Recoveries of loans previously charged off	9	1,171
Loan charge-offs	(553)	(19,168)
Balance at end of year	$ 14,450	$ 11,444

The following provides the ending balances of the allowance for credit losses and loan receivables, including loans held for sale, by loan portfolio class as of March 31, 2011 and December 31, 2010:

(dollars in thousands)	Commercial	Owner Occupied	Consumer and Residential	Commercial Real Estate	Unallocated	Total
Allowance for credit losses at March 31, 2011:						
Beginning balance:	$ 1,443	$ 1,575	$ 171	$ 8,080	$ 175	$ 11,444
Charge-offs	-	-	(31)	(522)	-	(553)
Recoveries	-	-		9	-	9
Provisions	1,326	70	13	1,435	706	3,550
Ending balance	$ 2,769	$ 1,645	$ 153	$ 9,002	$ 881	$ 14,450
Ending balance: individually evaluated for impairment	$ 1,629	$ 464	$ -	$ 2,886	$ -	$ 4,979
Ending balance: collectively evaluated for impairment	1,140	1,181	153	6,116	881	9,471
Ending balance: loans acquired with deteriorated credit quality	-	-	-	-	-	-
Allowance for credit losses at December 31, 2010:						
Ending balance	$ 1,443	$ 1,575	$ 171	$ 8,080	$ 175	$ 11,444
Ending balance: individually evaluated for impairment	$ 287	$ 517	$ -	$ 1,982	$ -	$ 2,786
Ending balance: collectively evaluated for impairment	1,156	1,058	171	6,098	175	8,658
Ending balance: loans acquired with deteriorated credit quality	-	-	-	-	-	-

(dollars in thousands)	Commercial	Owner Occupied	Consumer and Residential	Commercial Real Estate	Unallocated	Total
Loans receivable at March 31, 2011:						
Ending balance	$ 78,735	$79,412	$20,884	$ 451,779	$-	$630,810
Ending balance: individually evaluated for impairment	7,263	5,356	798	68,178	-	81,595
Ending balance: collectively evaluated for impairment	71,472	74,056	20,086	383,601	-	549,215
Ending balance: loans acquired with deteriorated credit quality	-	-	-	-	-	-
Loans receivable at December 31, 2010:						
Ending balance	$ 78,428	$70,833	$22,364	$ 448,730	$-	$620,355
Ending balance: individually evaluated for impairment	7,280	5,714	506	73,614	-	87,114
Ending balance: collectively evaluated for impairment	71,148	65,119	21,858	375,116	-	533,241
Ending balance: loans acquired with deteriorated credit quality	-	-	-	-	-	-

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of March 31, 2011 and December 31, 2010:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
March 31, 2011:							
Commercial	$500	$-	$4,500	$5,000	$73,735	$78,735	$-
Owner occupied	1,913	-	788	2,701	76,711	79,412	-
Total commercial	2,413	-	5,288	7,701	150,446	158,147	-
	1	-	798	799	20,085	20,884	-

Consumer and residential							
Commercial real estate	17,142	4,351	33,075	54,568	397,211	451,779	-
Total	$19,556	$4,351	$39,161	$63,068	$567,742	$630,810	$-

16

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
December 31, 2010:							
Commercial	$251	$-	$4,500	$4,751	$73,677	$78,428	$-
Owner occupied	-	2,179	1,061	3,240	67,593	70,833	-
Total commercial	251	2,179	5,561	7,991	141,270	149,261	-
Consumer and residential	164	198	461	823	21,541	22,364	-
Commercial real estate	1,249	15,161	33,925	50,335	398,395	448,730	-
Total	$1,664	$17,538	$39,947	$59,149	$561,206	$620,355	$-

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company’s internal risk rating system as of March 31, 2011 and December 31, 2010:

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
March 31, 2011:					
Commercial	$65,307	$2,767	$ 10,661	$-	$78,735
Owner occupied	69,848	3,867	5,697	-	79,412
Total commercial	135,155	6,634	16,358	-	158,147
Consumer and residential	19,761	-	1,123	-	20,844
Commercial real estate	339,158	22,741	89,880	-	451,779
Total	$494,074	$29,375	$ 107,361	$-	$630,810
December 31, 2010:					
Commercial	$65,361	$2,794	$ 10,273	$-	$78,428
Owner occupied	60,849	3,923	6,061	-	70,833
Total commercial	126,210	6,717	16,334	-	149,261
Consumer and residential	21,533	-	831	-	22,364
Commercial real estate	336,691	18,531	93,508	-	448,730
Total	$484,434	$25,248	$ 110,673	$-	$620,355

The following table shows non-accrual loans by class as of March 31, 2011 and December 31, 2010:

(dollars in thousands)	March 31, 2011	December 31, 2010
Commercial	$ 4,500	$ 4,500
Owner occupied	788	1,061
Total commercial	5,288	5,561

Consumer and residential		798		506
Commercial real estate		33,075		33,925
Total	$	39,161	$	39,992

Note 8: 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 sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

The Company follows the guidance issued under ASC 820-10, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measuring fair value under GAAP, and identifies required disclosures on fair value measurements.

ASC 820-10 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 820-10 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.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at March 31, 2011 and December 31, 2010 were as follows:

	At March 31, 2011			
(dollars in thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage Backed Securities/CMOs	$123,369	$-	$123,369	$ -
Municipal securities	9,550	-	9,550	-
Corporate bonds	3,000	-	-	3,000
Pooled Trust Preferred Securities	3,601	-	-	3,601
Other securities	118	-	118	-
Total fair value	$139,638	$-	$133,037	$ 6,601

18

	At December 31, 2010			
(dollars in thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage Backed Securities/CMOs	$127,662	$ -	$127,662	$ -
Municipal securities	9,210	-	9,210	-
Corporate bonds	3,000	-	-	3,000
Pooled Trust Preferred Securities	3,450	-	-	3,450
Other securities	117	-	117	-
Total fair value	$143,439	$ -	$136,989	$6,450

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 three months ended March 31, 2011 and the year ended December 31, 2010:

(dollars in thousands)	March 31, 2011	December 31, 2010
Beginning Balance:	$ 6,450	$ 3,926
Security transferred to Level 3 measurement	-	3,000
Unrealized gains/(losses)	151	(104)
Impairment charges on Level 3 securities	-	(372)
Adjustment for non-credit component of previously recognized OTTI	-	-
Other, including proceeds from calls of investment securities	-	-
Ending Balance:	$ 6,601	$ 6,450

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at March 31, 2011 and December 31, 2010 were as follows (dollars in thousands):

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2011:				
Impaired loans	$23,848	$-	$-	$ 23,848
Other real estate owned	14,077	-	-	14,077
Total fair value	$37,925	$-	$-	$ 37,925

December 31, 2010:				
Impaired loans	$11,420	$-	$-	$ 11,420
Other real estate owned	15,237	-	-	15,237
Total fair value	$26,657	$-	$-	$ 26,657

The recorded investment in impaired loans with a valuation allowance totaled $28.8 million at March 31, 2011 and $14.2 million at December 31, 2010. The amounts of related valuation allowances were $5.0 million and $2.8 million, respectively, at March 31, 2011 and December 31, 2010.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at March 31, 2011 and December 31, 2010:

Cash and Cash Equivalents (Carried at Cost)

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

Investment Securities

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining 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.

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

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.

Subsequent to inception, management only changes level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows. The Level 3 investment securities classified as available for sale are primarily comprised of various issues of bank pooled trust preferred securities and a corporate bond.

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

A third party pricing service was used in the development of the fair market valuation. The calculations used to determine fair value are based on the attributes of the bank pooled trust preferred securities, the financial condition of the issuers of the bank pooled 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 March 31, 2011 and December 31, 2010. Financial information on the issuers was also obtained from Bloomberg, the FDIC and the Office of Thrift Supervision and SNL Financial. Both published and unpublished industry sources were utilized in estimating fair value. Such information includes loan prepayment speed assumptions, discount rates, default rates, and loss severity percentages. For more information on these assumptions, please refer to the Company's most recent 10-K. Due to the current state of the global capital and financial markets, the fair market valuation is subject to greater uncertainty that would otherwise exist.

Fair market valuation for each security was determined based on discounted cash flow analyses. ASC 820-10 provides guidance on the discount rates to be used when a market is not active. The discount rate should take into account the time value of money, price for bearing the uncertainty in the cash flows and other case specific factors that would be considered by market participants, including a liquidity adjustment. The discount rate used is a LIBOR 3-month forward-looking curve plus a range of 443 to 1,055 basis points. In addition, the cash flows are primarily dependent on the estimated speeds at which the bank pooled trust preferred securities are expected to prepay, the estimated rates at which the bank pooled trust preferred securities are expected to defer payments, the estimated rates at which the bank pooled trust preferred securities are expected to default, and the severity of the losses on securities which default. Management's estimates of cash flows used to evaluate other-than-temporary impairment of pooled trust-preferred securities were based on sensitive assumptions regarding the timing and amounts of defaults that may occur, and changes in those assumptions could produce different conclusions for each security.

Also included in Level 3 investment securities classified as available for sale is a single-issue corporate bond transferred from Level 2 in 2010 since the bond is not actively traded. Impairment would depend on the repayment ability of the single underlying institution, which is supported by a detailed quarterly review of the institution's financial statements. The institution is a "well capitalized" institution under banking regulations.

Loans Receivable, including Loans Held for Sale (Carried at Cost)

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

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

These assets are carried at the lower of cost or market. At March 31, 2011, these assets were carried at current market value.

Restricted Stock (Carried at Cost)

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

Accrued Interest Receivable and Payable (Carried at Cost)

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

Deposit Liabilities (Carried at Cost)

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

FHLB Advances (Carried at Cost)

Fair values of FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Subordinated Debt (Carried at Cost)

Fair values of subordinated debt are estimated using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit risk characteristics, terms and remaining maturity.

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

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

The estimated fair values of the Company's financial instruments were as follows at March 31, 2011 and December 31, 2010:

(dollars in thousands)	March 31, 2011 Carrying Amount	March 31, 2011 Fair Value	December 31, 2010 Carrying Amount	December 31, 2010 Fair Value
Balance Sheet Data				
Financial assets:				
Cash and cash equivalents	$29,041	$29,041	$35,865	$35,865
Investment securities available for sale	139,638	139,638	143,439	143,439
Investment securities held to maturity	148	157	147	157
Restricted stock	6,183	6,183	6,501	6,501
Loans receivable, net (including loans held for sale)	622,516	625,128	608,911	611,813
Accrued interest receivable	3,216	3,216	3,119	3,119
Financial liabilities:				
Deposits				
Demand, savings and money market	$488,028	$488,028	$524,603	$524,603
Time	273,049	274,310	233,127	234,417
Subordinated debt	22,476	18,613	22,476	17,728
FHLB advances	-	-	-	-
Accrued interest payable	1,097	1,097	953	953
Off-Balance Sheet Data				
Commitments to extend credit	-	-	-	-
Standby letters-of-credit	-	-	-	-

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Certain statements in this report may be considered to be "forward-looking statements" as that term is defined in the U.S. Private Securities Litigation Reform Act of 1995, such as statements that include the words "may," "believes," "expect," "estimate," "project," "anticipate," "should," "intend," "probability," "risk," "target," "objective" and similar e variations on such expressions. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. For example, risks and uncertainties can arise with changes in: general economic conditions, including their impact on capital expenditures; new service and product offerings by competitors and price pressures; and similar items. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof, except as may be required by applicable laws or regulations. Readers should carefully review the risk factors described in the Form 10-K for the year ended December 31, 2010 and other documents the Company files from time to time with the SEC, such as Quarterly Reports on Form 10-Q, and any Current Reports on Form 8-K, as well as other filings.

Regulatory Reform and Legislation

Last year, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was enacted. This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years. The discussion below generally discusses the material provision of the Dodd-Frank Act applicable to the Company and the Bank and is not complete or meant to be an exhaustive discussion.

Among other things, the Dodd-Frank Act directs the Federal Deposit Insurance Corporation to redefine the base for deposit insurance assessments paid by banks (assessments will now be based on the average consolidated total assets less tangible equity of a financial institution), permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, extends the FDIC's program of insuring non-interest bearing transaction accounts on an unlimited basis through December 31, 2012, increases the minimum reserve ratio for the Deposit Insurance Fund from 1.15% to 1.35% of estimated insured deposits and requires the FDIC to take the necessary steps for the reserve ratio to reach the new minimum reserve ratio by September 30, 2020, imposes new capital requirements on bank and thrift holding companies, permits interest on demand deposits, imposes new restrictions on transactions between banks and thrifts and their affiliates and insiders, relaxes de novo branching and imposes additional requirements for interstate bank acquisitions and mergers.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets, such as Republic, will continued to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives.

The Company expects that many of the requirements called for in the Dodd-Frank Act will be implemented over time, and most will be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and 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 the Company's business activities, require changes to certain of its business practices, impose upon it more stringent capital, liquidity and leverage ration requirements or otherwise adversely affect the Company's business. These changes also may require the Company to invest significant management attention and resources to make any necessary changes to its operations in order to comply, and could materially adversely affect its business, results of operations and financial condition.

Financial Condition

Assets

Total assets increased by $1.0 million to $877.1 million at March 31, 2011, compared to $876.1 million at December 31, 2010.

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. During the first quarter 2011, the Company originated SBA loans totaling $13.7 million and transferred the guaranteed portion of those loans totaling $7.5 million to the loans held for sale category. The Company recognized total gains of $697,000 in the first quarter 2011 on the sales of SBA loans. Total SBA loans held for sale were $6.2 million at March 31, 2011. Loans held for sale, as a percentage of total Company assets, were less than 1% at March 31, 2011.

Loans Receivable

The loan portfolio represents the Company's largest asset category and is its most significant source of interest income. The Company's lending strategy is focused on small and medium size businesses and professionals that seek highly personalized banking services. The loan portfolio consists of secured and unsecured commercial loans including commercial real estate, construction loans, residential mortgages, automobile loans, home improvement loans, home equity loans and lines of credit, overdraft lines of credit and others. Commercial loans typically range between $250,000 and $5,000,000 but customers may borrow significantly larger amounts up to Republic's legal lending limit to a customer, which was approximately $16.4 million at March 31, 2011. Loans made to one individual customer even if secured by different collateral, are aggregated for purposes of the lending limit. Gross loans increased $10.5 million, to $630.9 million at March 31, 2011, compared to $620.4 million at December 31, 2010 mainly as a result of new originations in the commercial and industrial category.

Investment Securities

Investment securities available-for-sale are investments which may be sold in response to changing market and interest rate conditions, and for liquidity and other purposes. The Company's investment securities available-for-sale consist primarily of U.S. Government agency mortgage-backed securities (MBS), agency collateralized mortgage obligations (CMO), municipal securities, corporate bonds and pooled trust preferred securities. Available-for-sale securities totaled $139.6 million at March 31, 2011, compared to $143.4 million at December 31, 2010. The decrease of $3.8 million was mainly attributable to principal and interest pay downs on MBS and CMO securities held in the investment portfolio. At March 31, 2011, the portfolio had a net unrealized loss of $679,000 compared to a net unrealized loss of $1.7 million at December 31, 2010.

Investment securities held-to-maturity are investments for which there is the intent and ability to hold the investment to maturity. These investments are carried at amortized cost. The held-to-maturity portfolio consists primarily of debt securities and stocks. At March 31, 2011 and December 31, 2010, securities held to maturity totaled $148,000 and $147,000, respectively.

Restricted Stock

Restricted stock, which represents required investment in the common stock of correspondent banks related to a credit facility, is carried at cost and as of March 31, 2011 and December 31, 2010, consists of the common stock of the Federal Home Loan Bank ("FHLB") of Pittsburgh and Atlantic Central Bankers Bank ("ACBB"). In December 2009, the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of excess capital stock investments. In October 2010 and again in February 2011, the FHLB of Pittsburgh repurchased 5% of Republic's total restricted stock outstanding. Decisions regarding any future repurchase of restricted stock will be made on a quarterly basis.

At March 31, 2011 and December 31, 2010, the investment in FHLB stock totaled $6.0 million and $6.4 million, respectively. At both March 31, 2011 and December 31, 2010, ACBB stock totaled $143,000.

Cash and Cash Equivalents

Cash and due from banks, interest bearing deposits and federal funds sold comprise this category, which consists of the Company's most liquid assets. The aggregate amount in these three categories decreased by $6.9 million, to $29.0 million at March 31, 2011, from $35.9 million at December 31, 2010. This decrease was caused by the growth in outstanding loan balances offset by a reduction in investment securities and growth in deposit balances during the first three months of 2011.

Premises and Equipment

The balance in premises and equipment, net of accumulated depreciation, was $24.6 million at March 31, 2011, compared to $25.5 million at December 31, 2010.

Other Real Estate Owned

Other real estate owned decreased to $14.1 million at March 31, 2011, compared to $15.2 million at December 31, 2010, primarily due to write-downs recorded during the first quarter of 2011 as a result of updated appraisals received during the period.

Bank Owned Life Insurance

The balance of bank owned life insurance amounted to $12.6 million at March 31, 2011 and December 31, 2010. The income earned on these policies is reflected in non-interest income.

Other Assets

Other assets slightly increased by $226,000 to $25.1 million at March 31, 2011, from $24.8 million at December 31, 2010.

Included in other assets at March 31, 2011 were deferred tax assets of $13.8 million. Deferred tax assets are recognized based on differences between financial statement carrying amounts and the tax bases of certain assets and liabilities. A significant component of the deferred tax asset is driven by the allowance for loan losses recorded for financial reporting purposes which is not currently deductible for federal income tax reporting purposes. The Company regularly reviews deferred tax assets for recoverability based on a history of earnings, expectations for future earnings and expected reversals of temporary differences and believes the deferred tax assets recorded at March 31, 2011 are fully realizable.

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 increased by $3.3 million to $761.1 million at March 31, 2011 from $757.7 million at December 31, 2010.

Short-Term Borrowings and FHLB Advances

Short-term borrowings and FHLB advances are used to supplement deposits as a source of funds. Republic had no short-term borrowings (overnight) or FHLB advance amounts outstanding as of March 31, 2011 and December 31, 2010.

Subordinated Debt

Subordinated debt, which is comprised of the subordinated debentures supporting the common and capital, or trust preferred, securities of the Company’s unconsolidated capital trusts, amounted to $22.5 million at March 31, 2011 and December 31, 2010.

Shareholders’ Equity

Total shareholders’ equity decreased $1.8 million to $86.4 million at March 31, 2011, compared to $88.1 million at December 31, 2010, primarily due to the net loss recognized during the first quarter 2011.

Results of Operations

Three Months Ended March 31, 2011 Compared to March 31, 2010

The Company reported a net loss of $2.5 million, or $0.10 per share, for the three months ended March 31, 2011, as compared to a net loss of $3.9 million, or $0.37 per share, for the three months ended March 31, 2010.

Net interest income for both of the three month periods ended March 31, 2011 and 2010 was $7.4 million. Interest income decreased $1.1 million, or 10.6%, from $10.4 million for the three months ended March 31, 2010 to $9.3 million for the three months ended March 31, 2011, primarily due to a $103.4 million decrease in average interest earning assets. The reduction in interest earning assets was driven by a reduction in outstanding loans as a result of the intentional effort to reduce asset quality concerns in the commercial real estate loan portfolio. Investment securities also decreased as a result of early calls on agency bonds held in the investment portfolio. Interest expense decreased $1.1 million, or 36.7%, from $3.0 million for the three months ended March 31, 2010 to $1.9 million for the three months ended March 31, 2011, due to a 36 basis point decrease in the rate on average interest-bearing deposits outstanding and a $119.9 million decrease in average interest bearing liabilities. This decrease is the result of the Company’s decision to reduce its dependence on the more volatile sources of funding found in the brokered and public fund certificate of deposit market.

Non-interest income increased $652,000 to $1.1 million during the three months ended March 31, 2011 compared to $475,000 during the three months ended March 31, 2010 primarily due to gains recognized on the sale of SBA loans during the first quarter of 2011. Non-interest expenses increased $587,000 to $9.0 million during the three months ended March 31, 2011 as compared to $8.4 million during the three months ended March 31, 2010 primarily due to an increase in carrying costs and write-downs associated with other real estate owned. Return on average assets and average equity from continuing operations were (1.17)% and (11.59)%, respectively, during the three months ended March 31, 2011 compared to (1.61)% and (22.68)%, respectively, for the three months ended March 31, 2010.

Analysis of Net Interest Income

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

Average Balances and Net Interest Income

	For the three months ended March 31, 2011			For the three months ended March 31, 2010		
(dollars in thousands)	Average Balance	Interest	Yield/ Rate(1)	Average Balance	Interest	Yield/ Rate(1)
Interest-earning assets:						
Federal funds sold and other interest-earning assets	$14,675	$14	0.39 %	$22,840	$20	0.36 %
Investment securities and restricted stock	149,485	1,170	3.13 %	190,738	1,716	3.60 %
Loans receivable	629,825	8,211	5.29 %	683,846	8,759	5.19 %
Total interest-earning assets	793,985	9,395	4.79 %	897,424	10,495	4.74 %
Other assets	76,454			73,516		
Total assets	$870,439			$970,940		
Interest-earning liabilities:						
Demand – non-interest bearing	$127,055			$125,400		
Demand – interest bearing	63,870	$98	0.62 %	49,506	$82	0.67 %
Money market & savings	309,805	799	1.05 %	307,862	1,050	1.38 %
Time deposits	241,191	721	1.21 %	360,796	1,405	1.58 %
Total deposits	741,921	1,618	0.88 %	843,564	2,537	1.22 %
Total interest-bearing deposits	614,866	1,618	1.07 %	718,164	2,537	1.43 %
Other borrowings	31,946	296	3.76 %	48,586	489	4.08 %
Total interest-bearing liabilities	$646,812	1,914	1.20 %	$766,750	3,026	1.60 %
Total deposits and other borrowings	773,867	1,914	1.00 %	892,150	3,026	1.38 %
Non interest-bearing other liabilities	8,781			9,716		
Shareholders' equity	87,791			69,074		
Total liabilities and shareholders' equity	$870,439			$970,940		
Net interest income (2)		$7,481			$7,469	
Net interest spread			3.60 %			3.14 %
Net interest margin (2)			3.82 %			3.38 %

(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 $61,000 and $60,000 for the three months ended March 31, 2011 and 2010, 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 three months ended March 31, 2011, as compared to the three months ended March 31, 2010. 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.

	For the three months ended March 31, 2011 vs. 2010		
	Changes due to:		
(dollars in thousands)	Average Volume	Average Rate	Total Change
Interest earned:			
Federal funds sold and other interest-earning assets	$(8)	$3	$(5)
Securities	(323)	(223)	(546)
Loans	(705)	156	(549)
Total interest-earning assets	(1,036)	(64)	(1,100)
Interest expense:			
Deposits			
Interest-bearing demand deposits	22	(6)	16
Money market and savings	2	(253)	(251)
Time deposits	(349)	(335)	(684)
Total deposit interest expense	(325)	(594)	(919)
Other borrowings	(195)	1	(194)
Total interest expense	(520)	(593)	(1,113)
Net interest income	$(516)	$529	$13

Net Interest Income

The Company’s total tax equivalent interest income decreased $1.1 million, or 10.5%, to $9.4 million for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010. The primary reason for the decrease is the $103.4 reduction of interest-earning asset balances for the three months ended March 31, 2011 as compared to the same prior year period. Average loans receivable declined $54.0 million due to the effort to reduce exposure in the commercial real estate loan portfolio. Average investment securities declined $41.3 million due to calls and maturities of securities over the last twelve months, primarily agency bonds and mortgage backed securities.

The Company's total interest expense decreased $1.1 million, or 36.7%, to $1.9 million for the three months ended March 31, 2011 as compared to $3.0 million for the three months ended March 31, 2010. Average deposit balances declined $101.6 million for the three months ended March 31, 2011 as compared to the same prior year period as a result of the intentional reduction in volatile sources of funding, such as brokered and public fund certificates of deposit. Average other borrowings decreased $16.6 million during the same period, primarily as a result of the maturity of $25.0 million of FHLB term borrowings in June 2010. The average rate paid on interest-bearing liabilities decreased 40 basis points to 1.20% for the three months ended March 31, 2011. Average time deposit balances declined $119.6 million for the three months ended March 31, 2011 as compared to the same prior year period. The maturity and rollover of higher cost time deposits resulted in the decrease in the average rate paid on time deposits of 37 basis points to 1.21% for the three months ended March 31, 2011. The majority of the decrease in interest expense on deposits reflected the impact of the gathering of low-cost core deposits over the last twelve months. Accordingly, rates on total interest-bearing deposits decreased 36 basis points during the three months ended March 31, 2011 as compared to the same prior year period.

The Company's tax equivalent net interest margin increased 44 basis points to 3.82% for the three months ended March 31, 2011, compared to 3.38% for the comparable prior year period and the Company's tax equivalent net interest income increased $12,000, or 0.02%, to $7.5 million for the three months ended March 31, 2011 as compared to the same prior year period.

Provision for Loan Losses

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that management believes is adequate to absorb inherent losses in the loan portfolio. The provision for loan losses amounted to $3.6 million for the three months ended March 31, 2011 compared to $5.5 million for the three months ended March 31, 2010.

The provision recorded during the first quarter of 2011 was driven by updated appraisals and financial data received during the period related to impaired loans that had been identified as substandard in prior periods. All loans currently classified as impaired were originated prior to December 31, 2007.

Non-Interest Income

Total non-interest income increased $652,000 to $1.1 million for the three months ended March 31, 2011, compared to $475,000 for the three months ended March 31, 2010, primarily due to $697,000 in gains recognized on the sale of SBA loans.

Non-Interest Expenses

Total non-interest expenses increased $587,000 to $9.0 million for the three months ended March 31, 2011, compared to $8.4 million for the three months ended March 31, 2010. The increase in total non-interest expenses was primarily due to an increase of $819,000 in carrying costs and write-downs associated with other real estate owned.

Benefit for Income Taxes

The benefit for income taxes decreased $672,000 to a $1.5 million benefit for the three months ended March 31, 2011, compared to a $2.2 million benefit for the three months ended March 31, 2010, primarily as a result of the decrease in pre-tax loss. The effective tax rates for the three-month periods ended March 31, 2011 and 2010 were 37% and 36%, respectively.

Commitments, Contingencies and Concentrations

Financial instruments, whose contract amounts represent potential credit risk, were commitments to extend credit of approximately $71.5 million and $62.0 million, and standby letters of credit of approximately $3.3 and $3.6 million, at March 31, 2011 and December 31, 2010, respectively. These financial instruments constitute off-balance sheet arrangements. Commitments often expire without being drawn upon. Substantially all of the $71.5 million of commitments to extend credit at March 31, 2011 were committed as variable rate credit facilities.

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

Standby letters of credit are conditional commitments 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 issuing loan commitments. The amount of collateral which may be pledged to secure a letter of credit is based on management’s credit evaluation of the customer. The type of collateral which may be held varies, but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable.

Regulatory Matters

The following table presents the capital regulatory ratios for both Republic and the Company as at March 31, 2011, and December 31, 2010 (dollars in thousands):

	Actual			For Capital Adequacy Purposes			To be well capitalized under regulatory capital guidelines		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
At March 31, 2011:									
Total risk based capital									
Republic	$103,328	13.98	%	$59,143	8.00	%	$73,929	10.00	%
Company	105,918	14.28	%	59,350	8.00	%	-	-	
Tier one risk based capital									
Republic	94,023	12.72	%	29,572	4.00	%	44,357	6.00	%
Company	96,581	13.02	%	29,675	4.00	%	-	-	
Tier one leveraged capital									
Republic	94,023	10.97	%	34,282	4.00	%	42,852	5.00	%
Company	96,581	11.25	%	34,336	4.00	%	-	-	
At December 31, 2010:									
Total risk based capital									
Republic	$97,570	13.51	%	$57,775	8.00	%	$72,218	10.00	%
Company	108,222	14.93	%	57,977	8.00	%	-	-	
Tier one risk based capital									
Republic	88,513	12.26	%	28,887	4.00	%	43,331	6.00	%
Company	99,134	13.68	%	28,988	4.00	%	-	-	
Tier one leveraged capital									
Republic	88,513	9.85	%	35,957	4.00	%	44,946	5.00	%
Company	99,134	11.01	%	36,013	4.00	%	-	-	

Dividend Policy

The Company has not paid any cash dividends on its common stock. The Company has no plans to pay cash dividends in 2011.

Liquidity

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

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

The Company's target and actual liquidity levels are determined by comparisons of the estimated repayment and marketability of interest-earning assets with projected future outflows of deposits and other liabilities. The Company's most liquid assets, comprised of cash and cash equivalents on the balance sheet, totaled $29.0 million at March 31, 2011, compared to $35.9 million at December 31, 2010. Loan maturities and repayments are another source of asset liquidity. At March 31, 2011, Republic estimated that more than $50.0 million of loans would mature or repay in the six-month period ending September 30, 2011. Additionally, the majority of its investment securities are available to satisfy liquidity requirements through sales on the open market or by pledging as collateral to access credit facilities. At March 31, 2011, the Company had outstanding commitments (including unused lines of credit and letters of credit) of $74.8 million. Certificates of deposit scheduled to mature in one year totaled $193.1 million at March 31, 2011. The Company anticipates that it will have sufficient funds available to meet its current commitments.

Daily funding requirements have historically been satisfied by generating core deposits and certificates of deposit with competitive rates, buying federal funds or utilizing the credit facilities of the Federal Home Loan Bank System ("FHLB"). The Company has established a line of credit with the FHLB of Pittsburgh. The Company is required to pledge qualified collateral to access its full borrowing capacity which was $277.2 million at March 31, 2011. As of March 31, 2011 and December 31, 2010, the Company had no outstanding term borrowings with the FHLB. The Company had no short-term borrowings at both March 31, 2011 and December 31, 2010. The Company has also established a contingency line of credit of $10.0 million with Atlantic Central Bankers Bank ("ACBB") to assist in managing its liquidity position. The Company had no amounts outstanding against the ACBB line of credit at both March 31, 2011 and December 31, 2010.

Investment Securities Portfolio

At March 31, 2011, the Company had identified certain investment securities that are being held for indefinite periods of time, including securities that will be used as part of the Company’s asset/liability management strategy and that may be sold in response to changes in interest rates, prepayments and similar factors. These securities are classified as available for sale and are intended to increase the flexibility of the Company’s asset/liability management. Available for sale securities consisted of U.S Government Agency issued mortgage-backed securities, which include collateralized mortgage obligations (CMOs), municipal securities, corporate bonds and trust preferred securities. Available-for-sale securities totaled $139.6 million and $143.4 million as of March 31, 2011 and December 31, 2010, respectively. At March 31, 2011 and December 31, 2010, the portfolio had a net unrealized loss of $679,000 and $1.7 million, respectively.

Loan Portfolio

The Company’s 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 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 $5,000,000 million but customers may borrow significantly larger amounts up to Republic’s combined legal lending limit, which was approximately $16.4 million at March 31, 2011. Individual customers may have several loans often secured by different collateral.

Credit Quality

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

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

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

While a loan is classified as non-accrual or as an impaired loan and the future collectability of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to principal outstanding. When the future collectability of the recorded loan balance is expected, interest income may be recognized on a cash basis. For non-accrual loans, which have been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Cash interest receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

The following summary shows information concerning loan delinquency and non-performing assets at the dates indicated (dollars in thousands):

(dollars in thousands)	March 31, 2011		December 31, 2010	
Loans accruing, but past due 90 days or more	$-		$-	
Non-accrual loans	39,161		39,992	
Total non-performing loans(1)	39,161		39,992	
Other real estate owned	14,077		15,237	
Total non-performing assets(1)	$53,238		$55,229	
Non-performing loans as a percentage of total loans, net of unearned income(1)	6.15	%	6.45	%
Non-performing assets as a percentage of total assets	6.07	%	6.30	%

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

Non-accrual loans decreased $831,000 to $39.2 million at March 31, 2011, from $40.0 million at December 31, 2010. Problem loans consist of loans that are included in performing loans, but for which potential credit problems of the borrowers have caused management to have serious doubts as to the ability of such borrowers to continue to comply with present repayment terms. At March 31, 2011 and December 31, 2010, all identified problem loans are included in the preceding table, or are internally classified with a specific reserve allocation in the allowance for loan losses (see “Allowance for Loan Losses”).

Republic had delinquent loans as follows: (i) 30 to 59 days past due, in the aggregate principal amount of $19.6 million and $1.7 million at March 31, 2011 and December 31, 2010, respectively; and (ii) 60 to 89 days past due, at March 31, 2011 and December 31, 2010, in the aggregate principal amount of $4.4 million and $17.5 million, respectively. The Company had $0 of delinquent loans past due 90 days or more, but still accruing at March 31, 2011. Delinquent loans are currently in the process of collection and management believes they are supported by adequate collateral.

Other Real Estate Owned

The balance of other real estate owned decreased by $1.1 million to $14.1 million at March 31, 2011 from $15.2 million at December 31, 2010 primarily due to a write-down of $1.1 million recorded in the first quarter of 2011.

At March 31, 2011, the Company had no credit exposure to “highly leveraged transactions” as defined by the FDIC.

Allowance for Loan Losses

An analysis of the allowance for loan losses for the three months ended March 31, 2011 and 2010, and the twelve months ended December 31, 2010 is as follows (dollars in thousands):

	For the three months ended March 31, 2011		For the twelve months ended December 31, 2010		For the three months ended March 31, 2010	
Balance at beginning of period	$11,444		$12,841		$12,841	
Charge-offs:						
Commercial	522		19,126		4,766	
Tax refund loans	-		-		-	
Consumer	31		42		-	
Total charge-offs	553		19,168		4,766	
Recoveries:						
Commercial	9		1,168		150	
Tax refund loans	-		-		-	
Consumer	-		3		-	
Total recoveries	9		1,171		150	
Net charge-offs	544		17,997		4,616	
Provision for loan losses	3,550		16,600		5,500	
Balance at end of period	$14,450		$11,444		$13,725	
Average loans outstanding(1)	$629,825		$659,882		$683,846	
As a percent of average loans:(1)						
Net charge-offs	0.35	%	2.73	%	2.74	%
Provision for loan losses	2.29	%	2.52	%	3.26	%
Allowance for loan losses	2.29	%	1.73	%	2.01	%
Allowance for loan losses to:						
Total loans, net of unearned income	2.27	%	1.84	%	2.02	%
Total non-performing loans	36.90	%	28.62	%	37.37	%

(1) Includes non-accruing loans.

Management makes at least a quarterly determination as to an appropriate provision from earnings to maintain an allowance for loan losses that management determines is adequate to absorb inherent losses in the loan portfolio. Our board of directors periodically reviews the status of all non-accrual and impaired loans and loans classified by Republic's regulators or internal loan review officer, who reviews both the loan portfolio and overall adequacy of the allowance for loan losses. Our board of directors also considers specific loans, pools of similar loans, historical charge-off activity, economic conditions and other relevant factors in reviewing the adequacy of the allowance for loan losses. Any additions deemed necessary to the allowance for loan losses are charged to operating expenses.

The Company has a loan review program, which monitors the loan portfolio and the Company's borrowers on an ongoing basis. Loan review is conducted by a loan review officer who reports directly to the board of directors on a quarterly basis with the findings of the review.

The methodology utilized to determine the amount of the allowance for loan losses is as follows: management first applies an estimated loss percentage against all loans which are not specifically reserved. In addition to sustained charge-off history, management estimates loss percentages based upon the purpose and/or collateral of various commercial loan categories. Due to the economic downturn, management will continue to evaluate these percentages and may adjust these estimates on the basis of charge-off history, economic conditions, industry experience or other relevant factors. Management also provides 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, management estimates and recognizes 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.

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 March 31, 2011. 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 allocation is accordingly based upon historical experience.

Recent Accounting Pronouncements

ASU 2011-02

In April 2011, the FASB issued ASU 2011-02, Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring. The FASB has issued this ASU to clarify the accounting principles applied to loan modifications, as defined by FASB ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors.

The ASU clarifies guidance on a creditor's evaluation of whether or not a concession has been granted, with an emphasis on evaluating all aspects of the modification rather than focus on specific criteria, such as the effective interest rate test, to determine a concession. The ASU goes on to provide guidance on specific types of modifications such as changes in the interest rate of the borrowing, and insignificant delays in payments, as well as guidance on the creditor's evaluation of whether or not a debtor is experiencing financial difficulties.

The effective date of ASU 2011-02 differs for public and nonpublic companies. For public companies, the amendments in the ASU are effective for the first interim or annual periods beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption.

The entity should also disclose information required by ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which had previously been deferred by ASU 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20, for interim and annual periods beginning on or after June 15, 2011. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

ASU 2010-20
In July 2010, the FASB issued ASU 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The FASB believes that this guidance will help investors assess the credit risk of a company's receivables portfolio and the adequacy of its allowance for credit losses held against the portfolios by expanding credit risk disclosures.

This ASU requires more information about the credit quality of financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure.

The amendments in this ASU apply to all public and nonpublic entities with financing receivables. Financing receivables include loans and trade accounts receivable. However, short-term trade accounts receivable, receivables measured at fair value or lower of cost or fair value, and debt securities are exempt from these disclosure amendments.

The effective date of ASU 2010-20 differs for public and nonpublic companies. For public companies, the amendments that require disclosures as of the end of a reporting period are effective for periods ending on or after December 15, 2010. The amendments that require disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

Effects of Inflation

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

ITEM 3: QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISK

There has been no material change in the Company’s assessment of its sensitivity to market risk since its presentation in the Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC on March 16, 2011.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company, under the supervision and with the participation of its management, including its principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of the end of the period covered by this report (March 31, 2011) (“Disclosure Controls”). Based upon the Disclosure Controls evaluation, the principal executive officer and principal financial officer have concluded that the Disclosure Controls are effective in reaching a reasonable level of assurance that (i) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and (ii) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

The principal executive officer and principal financial officer also conducted an evaluation of the Company’s internal control over financial reporting (“Internal Control”) to determine whether any changes in Internal Control occurred during the quarter ended March 31, 2011 that have materially affected or which are reasonably likely to materially affect Internal Control. Based on that evaluation, there has been no such change during the quarter ended March 31, 2011.

ITEM 4. CONTROLS AND PROCEDURES (CONTINUED)

Limitations on the Effectiveness of Controls

Control systems, no matter how well conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. The Company conducts periodic evaluations of its internal controls to enhance, where necessary, its procedures and controls.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

Significant risk factors could adversely affect the Company's business, financial condition and results of operation. Risk factors discussing these risks can be found in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010. The risk factors in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 have not materially changed. You should carefully consider these risk factors. The risks described in the Company's Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following Exhibits are filed as part of this report. (Exhibit numbers correspond to the exhibits required by Item 601 of Regulation S-K for quarterly reports on Form 10-Q).

Exhibit Number	Description	Location
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer of Republic First Bancorp, Inc.	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Republic First Bancorp, Inc.	Filed herewith
32.1	Section 1350 Certification of Harry D. Madonna	Filed herewith
32.2	Section 1350 Certification of Frank A. Cavallaro	Filed herewith

SIGNATURES

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

REPUBLIC FIRST BANCORP, INC.

Date: May 10, 2011	By: /s/ Harry D. Madonna Harry D. Madonna Chairman, President and Chief Executive Officer
Date: May 10, 2011	By: /s/ Frank A. Cavallaro Frank A. Cavallaro Senior Vice President and Chief Financial Officer