THE RESULTS ARE IN!

AMERICA'S #1 BANK FOR SERVICE

\- Forbes

REPUBLIC BANK

2020 ANNUAL REPORT

AMERICA'S #1 BANK FOR SERVICE

- Forbes

IN-STORE

ONLINE

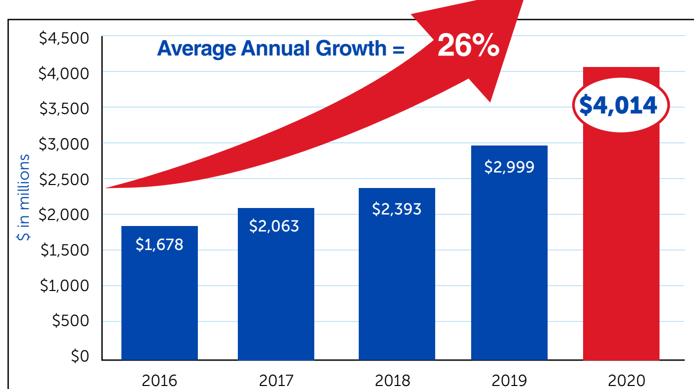
MOBILE

This year, in a national consumer satisfaction survey commissioned by Forbes, Republic Bank was recognized as **America's #1 Bank for Service**. We received top marks for technology, physical stores, longer hours than competitors, dog-friendly policies and free services, like coin counting, we're honored that our customers and FANS made us #1 in the country!

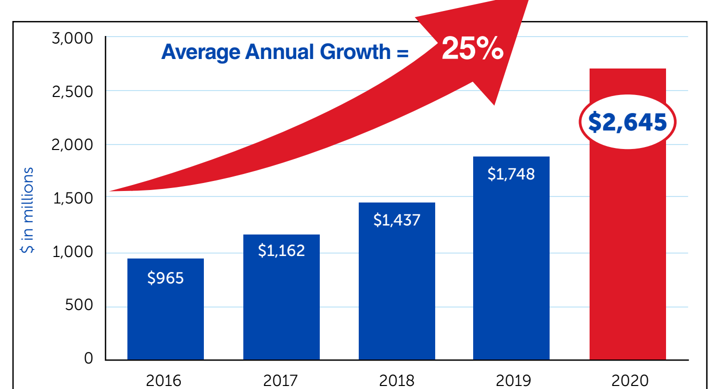
We know that our retail-based model focused on fanatical customer service and absolute convenience has deeply resonated with each community we serve – from New York City to the Greater Philadelphia Region.

We create FANS, not customers, by delivering an unmatched banking experience across all delivery channels.

TOTAL DEPOSITS



TOTAL LOANS



A LETTER FROM THE CHAIRMAN/CEO

Dear Shareholders, Customers, Investors,
Team Members and Friends,

2020 was a year defined by the unprecedented challenges and economic uncertainty brought on by the devastating coronavirus pandemic. Through it all, Republic Bank was steadfast in our commitment to what is most important: our customers. We continued to deliver exceptional service, both virtually and in-person, turning customers into FANS and proving that, no matter the obstacles faced, ***"The Power of Red is Back"*** and here to stay.

In a difficult year, we're proud to have remained laser-focused on our customer-centric philosophy:

- Providing an elite in-store banking experience and matching it with online and mobile options as well
- Planning for new digital offerings to ensure we're at the forefront of banking innovation
- Hiring the best and brightest team members to exceed customer expectations
- Creating **FANS** not customers

2020 culminated in Republic Bank being named ***America's #1 Bank for Service*** by Forbes after it released the results of its national consumer satisfaction survey. The prestigious honor recognizes our model of creating FANS, not customers, by delivering an unmatched banking experience across all delivery channels. Republic Bank topped the list, with survey respondents noting our mobile banking solutions, welcoming all-glass prototype stores, long hours, dog-friendly policies and free coin counting as key differentiators.

We are local commercial bankers making local loans to people we know and support.

As a result of our commitment to excellence, the past 12 months saw:

- Assets increase 52% to $5.1 billion
- Loans grow 51% to $2.6 billion
- Deposits increase 34% to $4.0 billion

We are particularly proud of our participation in the PPP loan program, which provided critical funding to small businesses throughout our footprint. We capitalized on being one of the few banks willing to accept loan

applications from businesses that were not existing customers. More than 50% of applications received came from non-customers, and many of those businesses have since switched their primary banking relationship to Republic Bank. In total, we originated more than $680M in PPP loans for nearly 5,000 small businesses.

During 2020, Republic Bank continued to expand its footprint to meet customer demand, opening new locations in Northfield, NJ and Bensalem, PA. We also broke ground on future store locations in Deptford, NJ and Ocean City, NJ, which are both expected to open in 2021. After making our entrance into the New York market in 2019, we continued to invest in our Manhattan-based team, bringing on several experienced lending team members and other executive-level hires.

New stores opened since the beginning of the *"Power of Red is Back"* expansion campaign are growing deposits at an average rate of $38 million per year, while the average deposit growth for all stores over the last 12 months was $33 million. To complement the in-store experience, we're investing in our technology platforms, offering customers an unmatched banking experience.

As we put 2020 behind us, I'm incredibly proud of what we've accomplished during this challenging time and look forward to the year ahead.

We're more confident than ever that **THE BEST IS YET TO COME**.

Vernon W. Hill, II,
Chairman, CEO

REPUBLIC FIRST BANCORP, INC. FINANCIAL HIGHLIGHTS

($ in millions, except per share data)

	2020	% Change vs 2019	3 YEAR AVERAGE GROWTH RATE	2019	2018	2017	2016
ASSETS	$5,066	+52%	+31%	$3,341	$2,753	$2,322	$1,924
LOANS	2,645	+51%	+32%	1,748	1,437	1,162	965
DEPOSITS	4,014	+34%	+25%	2,999	2,393	2,063	1,678
NET INCOME	5.1	+244%	+34%	(3.5)	8.6	8.9	4.9
NET INCOME PER SHARE	$ 0.07	+217%	+26%	$ (0.06)	$ 0.15	$ 0.15	$ 0.12

A LETTER FROM THE CHAIRMAN EMERITUS

Throughout 2020, despite the impact of the pandemic, Republic Bank has produced the same strong organic growth in asset, loan and deposit balances we have long been known for. Equally important, we were able to drive significant improvement in earnings, thanks to our focus on targeted cost control measures to deliver positive operating leverage.

At Republic Bank, our foremost priority is to provide the absolute best banking experience across every channel – affording customers incredible convenience whether they prefer to bank online, via mobile or in our industry-leading stores. Our unique value proposition continues to resonate with our customers, as reinforced by Forbes ranking Republic Bank as America's #1 Bank for Service as a result of a comprehensive national survey.

When I founded Republic Bank in 1988, I couldn't have imagined all that we've accomplished. It has been the honor of my life to serve as CEO for more than three decades, working alongside the most talented team in the business to change the way people think about banking. I'm particularly thankful to Vernon for everything he has done and know his passion for our brand will continue to push Republic Bank to new heights. As I begin a new chapter as president and chairman emeritus, I'm confident that Republic Bank's unique model and strategic growth plan will enable us to achieve even greater success in the years to come.

On behalf of the Board of Directors and our Executive Team, thank you for your steadfast support of our mission and vision. We look forward to a healthy and prosperous 2021.

Harry D. Madonna
President, Chairman Emeritus

EXECUTIVE MANAGEMENT

Vernon W. Hill, II
Chairman
Chief Executive Officer

Harry D. Madonna
President
Chairman Emeritus

Andrew J. Logue
President
Chief Operating Officer

Frank Cavallaro
Executive Vice President
Chief Financial Officer

Jay Neilon
Executive Vice President
Chief Credit Officer

Tracie Young
Executive Vice President
Chief Risk Officer

SENIOR OFFICERS

Sharon Hammel
Senior Vice President
Chief Retail Officer

Steve McWilliams
Senior Vice President
Senior Commercial Lender

Joseph Tredinnick
Senior Vice President
Market President, PA & NJ

Margaret Manthe
Senior Vice President
Senior Credit Officer

BOARD OF DIRECTORS

Vernon W. Hill, II

Harry D. Madonna

Andrew B. Cohen

Theodore J. Flocco, Jr., CPA

Lisa R. Jacobs, Esquire

Barry L. Spevak, CPA

Brian P. Tierney, Esquire

Harris Wildstein, Esquire

PAYROLL PROTECTION PROGRAM (PPP)

Amid the coronavirus pandemic, a time of extreme economic distress for small businesses, we worked rapidly to fund loans through the PPP program to customers and non-customers. In fact, we were the first bank in the Philadelphia region to welcome non-customers at the start of the program. While many of our competitors were slow to accept applications, we were able to leverage our expertise in SBA lending to make the process quick and easy for business owners throughout the East Coast and beyond. Our commitment to this program and to small businesses ultimately made Republic Bank one of the top PPP lenders in the country. As always, we are proud to champion small businesses.

Catholic Partnership Schools provides education for over 1,000 students grades K-8, in five schools in Camden, NJ. When the COVID-19 pandemic hit, the future of the school was uncertain; CPS needed to act quickly and turned to Republic Bank to secure a $1M+ PPP loan. The loan provided a life raft, saving the jobs of 140 employees, 100 of whom are teachers, and allowed the students to continue instruction, providing time and consistency- a critical piece of a child's learning process.

“With so much uncertainty, we were unsure of what our future would hold, without needed financial assistance. I found out that Republic Bank was already ahead of the game, accepting PPP applications. I reached out to the Board and we decided it was time to make the switch to secure a PPP loan through Republic – and to work with them going forward.”

— Brian Berry, Director of Development

ACCT is the region's largest animal care and control service provider handling nearly 18,000 animals annually. Republic Bank assisted in the approval of a PPP loan which allowed staff to continue offering critical services throughout the COVID-19 pandemic.

“Working with Republic Bank to secure a PPP loan for ACCT was an outstanding experience. During a time of stress and uncertainty, it was a relief to have a partner like Republic guiding us every step of the way with a great sense of urgency. The funding we received was invaluable in ensuring our organization can withstand the challenges from the pandemic and continue to deliver on our mission.”

— Mike Gillen, ACCT Board Member

COMMERCIAL BANKING

Republic Bank is focused on the banking and credit needs of businesses and non-profits throughout Metro Philadelphia and Metro New York.

Local bankers making local loans, including:

- Term Lending
- Lines of Credit
- SBA Lending
- Construction Lending
- Permanent Mortgage
- Municipal Finance

Plus full service integrated Treasury Management.

$12,500,000

FOULKE MANAGEMENT

Commercial Mortgage
Auto Dealer
& full treasury management

Camden County, NJ

$10,000,000

DOLAN CONTRACTORS INC

Real Estate Development Facility
& full treasury management

Burlington County, NJ

$2,300,000

PROCACCI HOMES

Construction and development loan for an 8 unit subdivision

Burlington County, NJ

$14,000,000

GOODWILL INDUSTRIES
of Southern NJ and Philadelphia

Commercial lending relationship and full treasury management

Burlington County, NJ

$5,000,000

LEAP ACADEMY

Refinance & Expansion of Charter School with full treasury management

Camden County, NJ

$18,000,000

SPORTS DEVELOPMENT INC

Boardwalk and sports plex commercial mortgage and term loan with full treasury management

Cape May County, NJ

MAKING HEADLINES: FROM PHILADELPHIA AND BEYOND

Throughout 2020, with media looking to us for financial expertise, Republic Bank executives offered commentary to national and local publications.

The Philadelphia Inquirer

This small Philly bank is approving hundreds of PPP loans for anyone, while others stall or favor their own.

RIGHT MOVES: **Vernon Hill on PPP.**

PHILADELPHIA BUSINESS JOURNAL

"I have been in banking for 47 years and I have never seen anything like this," Hill said.

"We have received hundreds of applications. Many customers are dropping them off at our branches. We are getting referrals from lawyers, accountants and influencers, as well as other banks." (Vernon Hill)

Inc.

Plenty of banks including Republic Bank are still accepting and processing loans from both existing and new customers.

FORTUNE

Chairman Vernon Hill tells Fortune the bank is already receiving a tremendous volume of PPP loan applications.

STORE OPENINGS

Despite the challenges of the pandemic, we remained steadfast in our growth plan with the opening of two new stores. While our Grand Openings looked a little different this year, the public enthusiasm for our customer-centric approach to banking remained unchanged. Our second Jersey Shore location opened with great fanfare in **Northfield, NJ** in January, and we also continued expanding our presence in Bucks County with a new location in **Bensalem, PA** in September. As national and regional banks downsize their inflated branch networks, we continue to strategically build our signature all-glass stores in highly trafficked areas with identified customer demand.

Bensalem, PA Ribbon Cutting (September 12, 2020)

PERSONAL BANKING

We are fanatical when it comes to customer service, always going above and beyond to exceed customer expectations. We prioritize getting to know customers on a personal basis so that we can better serve their needs, while aiming to make banking easy and convenient. Our customers are comforted knowing they will never be treated as just another number on a balance sheet and we're excited to offer the absolutely best banking experience across every channel, whether you prefer to bank online, via mobile or in-store.

- **Open 7 Days**
  early & late, 361 days a year
- **Absolutely FREE Personal Checking**
- **Residential Mortgages**
- **FREE Coin Counting**
  for everyone[1]
- **ATM/Debit & Credit Cards**
  on the spot
- **Fee FREE ATMs**[2]
  over 55,000 Allpoint® ATMs worldwide
- **Bank Anywhere**
  in-store, online, phone or mobile[3]

[1] Some limitations or restrictions may apply for businesses.
[2] For Republic Bank customers. [3] Text and data charges may apply.

BUSINESS BANKING

At Republic Bank, we love small businesses and understand they are the backbone of our local economies. That's why we continue to prioritize delivering necessary funding to business owners quickly, creatively and locally. As a result of our unmatched commitment to small businesses, we have been ranked as a top small business lender in the tri-state region for seven years running. We offer a comprehensive suite of business banking products and services to meet our customers' unique needs, including:

- **Absolutely FREE Business Checking***
- **Cash Management Solutions**
- **Loans and Lines of Credit**
- **Online Banking with Bill Pay**
- **Business Visa® Credit Card**
- **Small Business Lending**
- **Commercial Real Estate**

*Up to 600 checks/deposited items monthly for this account.

STORE LOCATIONS

NEW YORK CITY

14th & 5th
51st & 3rd

PENNSYLVANIA

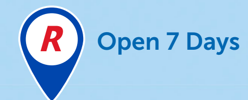
1601 Market St
1601 Walnut St
1818 Market St
833 Chestnut St
Abington
Bensalem
Fairless Hills
Feasterville
Mayfair
Media
Plymouth Meeting
Torresdale
Wynnewood

NEW JERSEY

Berlin
Cherry Hill
Cherry Hill Mall
Evesboro
Gloucester
Haddonfield
Glassboro
Lumberton
Marlton
Medford
Moorestown
Northfield
Sicklerville
Somers Point
Voorhees
Washington Township

COMING SOON

Havertown, PA
King of Prussia, PA
Lawrence Park, PA
Southampton, PA
Cinnaminson, NJ
Deptford, NJ
Ocean City, NJ



Open 7 Days

Coming Soon

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

FORM 10-K

(Mark One)
[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2020.
or
[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ___ to ___.

Commission File Number: **000-17007**

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

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	FRBK	Nasdaq Global Market

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months. **YES [X] NO [ ]**

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

Large accelerated filer [ ]	Accelerated filer **[X]**
Non-Accelerated filer [ ]	Smaller reporting company [ ]
Emerging growth company [ ]	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. **[ ]**

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. **[X]**

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates was $128,218,333 based on the last sale price on Nasdaq Global Market on June 30, 2020.

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

Common Stock, par value $0.01 per share	**58,867,653**
Title of Class	Number of Shares Outstanding as of March 10, 2021

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for its 2021 Annual Meeting of Shareholders, which Definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended December 31, 2020, are incorporated by reference into Part III of this Form 10-K; provided, however, that the Compensation Committee Report, the Audit Committee Report and any other information in such proxy statement that is not required to be included in this Annual Report on Form 10-K, shall not be deemed to be incorporated herein by reference or filed as a part of this Annual Report on Form 10-K.

REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARY
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PART I

Item 1: Business

Throughout this Annual Report on Form 10-K, the registrant, Republic First Bancorp, Inc., is referred to as the "Company" or as "we," "our" or "us". The Company's website address is www.myrepublicbank.com. The information on this website is not and should not be considered part of this Form 10-K and is not incorporated by reference in this Form 10-K. This website is, and is only intended to be, for reference purposes only. The Company makes available free of charge on or through its website its Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission (the "SEC").

Forward Looking Statements

This document contains "forward-looking statements," as that term is defined in the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as "believes," "expects," "anticipates," "plans," "estimates," "projects," "forecasts," "should," "could," "would," "will," "confident," "may," "can," "potential," "possible," "proposed," "target," "pursue," "outlook," "maintain," or similar expressions, or when we discuss our guidance, strategy, goals, vision, mission, opportunities, projections or intentions.

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

- the negative impacts and disruptions of the COVID-19 pandemic and measures taken to contain its spread on our employees, customers, business operations, credit quality, financial position, liquidity and results of operations;
- the length and extent of the economic contraction as a result of the COVID-19 pandemic;
- deterioration in general economic conditions;
- changes in interest rates;
- changes in customer behavior, including loan demand;
- changes in the adequacy of our allowance for loan losses and our methodology for determining such allowance;
- adverse changes in our loan portfolio and credit risk-related losses and expenses;
- changes in concentrations within our loan portfolio, including our exposure to commercial real estate loans, and to our primary service area; changes in interest rates;
- our ability to identify, negotiate, secure and develop new store locations and renew, modify, or terminate leases or dispose of properties for existing store locations effectively;
- business conditions in the financial services industry, including competitive pressure among financial services companies, new service and product offerings by competitors, price pressures and similar items;
- changes in deposit flows and loan demand;
- the regulatory environment, including evolving banking industry standards, changes in legislation or regulation;
- our securities portfolio and the valuation of our securities;

- changes in accounting principles, policies and guidelines as well as estimates and assumptions used in the preparation of our financial statements;
- operational risks including, but not limited to, cybersecurity incidents, fraud, natural disasters and future pandemics;
- litigation liabilities, including costs, expenses, settlements and judgments; and
- other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services.

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

General

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

Historically, our primary objective had been to position ourselves as an alternative to the large financial institutions for commercial banking services in the Greater Philadelphia and Southern New Jersey region. However, in 2008, we made an important and strategic shift in our business approach, redirecting our efforts toward the creation of a major retail bank that would meet an important need in our existing marketplace. Focused on delivering high levels of customer service and satisfaction, driving innovation, developing a bold brand and creating shareholder value, Republic Bank sought to offer a banking experience that would turn customers into Fans. As other banks began to turn toward automation for growth, Republic Bank took a different approach and chose not only to embrace advances in technology, but to also define itself by the personal touch.

To achieve such a transformation, we recruited several key banking executives who had previously served in leadership roles at Commerce Bank, upon which this business model draws inspiration. With a strong management team in place, along with adequate capital resources to support this revitalized vision, we began to build a unique brand with the goal of establishing ourselves as a premier financial institution in the Philadelphia metropolitan area.

An important part of that strategic shift toward creating a retail and customer focused bank was the decision in 2010 to rebrand our stores from Republic First Bank to Republic Bank, which had been the name under which we had initially incorporated and operated from 1988-1996. In support of that rebrand, we also renovated and remodeled the majority of our existing branches which refer to and operate as stores. Further, we embraced critical service changes that reframed the Republic Bank brand and experience in the eyes of the consumer to include expanded hours, absolutely free checking, free coin counting, no ATM surcharges, mobile banking and much more.

From a lending perspective, we also shifted away from our historic approach, which was primarily focused on business banking and isolated commercial lending transactions, in particular commercial real estate loans. While restructuring our loan portfolio and deemphasizing the origination of commercial real estate loans, we also undertook a detailed review of our more significant credit relationships. This review allowed us to reduce exposure, enhance our allowance for loan loss methodology and commit to originate fewer commercial real estate loans in an effort to reduce our credit concentrations in that particular category.

With these significant changes implemented, Republic Bank was then well-positioned to execute an aggressive expansion plan which was given the title, "**The Power of Red is Back**." To support this growth strategy, we completed the sale of $45 million of common stock through a private placement offering in April 2014 which provided the necessary capital to begin our aggressive expansion plan.

During 2016, we expanded our product offerings through the addition of a residential mortgage lending team. We acquired Oak Mortgage Company in July 2016 which has been fully integrated and now a division of the Bank. The acquisition of Oak Mortgage allows us to provide our customers with opportunities in the residential lending market. The Oak Mortgage team has been a tremendous fit for Republic's commitment to extraordinary customer service and has proven to be a perfect complement to the Bank's network of store locations.

To strengthen our capital position and prepare for the next stage of growth and expansion, we completed a capital raise in the amount of $100 million through a registered direct offering of our common stock in December 2016. At the same time, Vernon W. Hill, II became a member of the Board of Directors and was appointed Chairman of Republic First Bancorp, Inc. He has been a major investor and consultant to Republic since 2008. Mr. Hill is often credited with reinventing the concept of Retail Banking. He was the Founder and Chairman of Commerce Bancorp, a $50 billion Retail Bank headquartered in metro Philadelphia, which grew to 450 locations along the east coast before its sale in 2007.

In February 2021, Mr. Hill was named to the additional role of Chief Executive Officer of both the Company and the Bank. Since joining Republic in 2008, Mr. Hill has led the growth of the Company from $900 million in assets to $5.1 billion as of December 31, 2020. The number of stores has grown from eight to thirty-one, with each location making a concentrated effort to become a valued part of the community in which it operates. During this time Republic has also become one of the top small business lenders in its market as proven by its performance during 2020 in the Paycheck Protection Program ("PPP") authorized by the CARES Act. Republic originated more than $680 million in PPP loans to nearly 5,000 local businesses providing critical funding during an unprecedented economic crisis caused by the COVID-19 pandemic. Mr. Hill's unique approach to banking and focus on customer service culminated in Republic Bank being named "America's #1 Bank for Service" by Forbes based on a survey conducted during 2020.

In August 2020, we completed a capital raise through an offering of $50 million of convertible preferred stock to strengthen our capital position and continue with our aggressive growth plan. As we expand our footprint we take all steps required to ensure that we do not lose focus on our commitment to extraordinary levels of customer service and satisfaction. Our stores are open seven days a week, 361 days a year, with extended lobby and drive-thru hours providing customers with tremendous convenience and flexibility. In 2020, we expanded our store network by building our signature glass building at new locations in Northfield, NJ and Bensalem, PA. It is our goal to deliver best in class service across all delivery channels including not only our physical store locations, but online and mobile options as well. We continue to make investments in digital and technology tools as we strive to maintain our position as "America's #1 Bank for Service".

As of December 31, 2020, we had total assets of approximately $5.1 billion, total shareholders' equity of approximately $308.1 million, total deposits of approximately $4.0 billion, net loans receivable of

approximately $2.6 billion, and net income of $5.1 million with net income of $4.1 million available to common shareholders for the year ended December 31, 2020. We have one reportable segment: community banking. The community bank segment primarily encompasses the commercial loan and deposit activities of Republic, as well as residential mortgage and other consumer loan products in the area surrounding its stores. We provide banking services through the Bank, and do not presently engage in any activities other than traditional banking activities.

Republic Bank

Republic First Bank is a commercial bank chartered pursuant to the laws of the Commonwealth of Pennsylvania, and is subject to examination and comprehensive regulation by the Federal Deposit Insurance Corporation (FDIC) and the Pennsylvania Department of Banking and Securities. Republic First Bank is a subsidiary of Republic First Bancorp, Inc. Republic First Bank does business under the name of Republic Bank. The deposits held by the Bank are insured, up to applicable limits, by the Deposit Insurance Fund of the FDIC.

Service Area / Market Overview

Our primary service area currently consists of Greater Philadelphia, Southern New Jersey, and New York City. We presently conduct our principal banking activities through thirty-one branch locations which are commonly referred to as “stores” throughout this document to reflect our retail oriented approach to customer service and convenience. Thirteen of these stores are located in Philadelphia and the surrounding suburbs of Plymouth Meeting, Wynnewood, Abington, Media, Fairless Hills, Feasterville, and Bensalem in Pennsylvania. There are Sixteen stores located in the Southern New Jersey market in Haddonfield, Voorhees, Glassboro, Marlton, Berlin, Washington Township, Moorestown, Sicklerville, Medford, Cherry Hill, Gloucester Township, Evesboro, Somers Point, Lumberton, and Northfield. There are two stores located in New York City at 14th Street & 5th Avenue and 51st Street & 3rd Avenue. Our commercial lending activities extend beyond our primary service area, to include other counties in Pennsylvania, New Jersey, and New York as well as parts of Delaware, Maryland, and other out-of-market opportunities. Our residential lending activities also extend outside of our primary service area, to include other counties in Pennsylvania, New Jersey, and New York, in addition to other states such as Delaware and Florida.

Competition

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

Our legal lending limit to one borrower was approximately $45.0 million at December 31, 2020. Loans above this amount may be made if the excess over the lending limit is participated to other institutions. We are subject to potential intensified competition from new branches of established banks in the area as well as new banks that could open in our market area. There are banks and other financial institutions, which

serve surrounding areas, and additional out-of-state financial institutions, which currently, or in the future, may compete in our market. We compete to attract deposits and loan applications both from customers of existing institutions and from customers new to our market and we anticipate a continued increase in competition in our service area.

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

Products and Services

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

We also maintain a Small Business Lending team that specializes in the origination of loans guaranteed by the U.S. Small Business Administration ("SBA") to provide much needed credit to small businesses throughout our service area. This team has consistently been one of the top lenders under the SBA program in our region. For the last several years they have been ranked as one of the top SBA lenders in the tri-state market of Pennsylvania, New Jersey and Delaware based on the dollar volume of loan originations.

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

Our lending activities generally are focused on small and medium sized businesses within the communities that we serve. Commercial real estate loans represent the largest category within our loan portfolio, amounting to approximately 27% of total loans outstanding at December 31, 2020. Repayment of these loans is, in part, dependent on general economic conditions affecting our customers and various businesses within the community. As a commercial lender, we are subject to credit risk. Economic and financial conditions could have an adverse effect on the ability of our borrowers to repay their loans. To manage the challenges that the economic environment may present we have adopted a conservative loan classification system, continually review and enhance our allowance for loan loss methodology, and perform a comprehensive review of our loan portfolio on a regular basis.

As a result of the addition of Oak Mortgage Company in 2016, we are now able to offer residential mortgage loan products to customers throughout our footprint. Our residential mortgage lending activities also extend to geographies outside of our primary service area. A majority of the residential loans originated are currently sold on the secondary market shortly after closing. Oak Mortgage follows the established underwriting policies and guidelines of third party vendors with whom loans are being sold to maintain compliance, but credit risk still exists in the portfolio. Repayment of residential loans held in the portfolio is, in part, dependent on general economic conditions affecting our customers.

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

Store Expansion Plans and Growth Strategy

During 2020, we opened new stores in Northfield, New Jersey and Bensalem, Pennsylvania utilizing our distinctive glass prototype building. The Bank anticipates the continuation of its expansion strategy in 2021. However, as previously announced, the pace of new store openings will be slowed as we deal with the challenging nature of the pandemic and the current interest rate environment which has resulted in compression of the net interest margin. Relocation of other existing store locations may also occur in the future as we continue to enhance our brand and focus on constantly improving the customer experience. The opening or relocation of any store is subject to regulatory approval.

Securities Portfolio

We maintain an investment securities portfolio. We purchase investment securities that are in compliance with our investment policies, which are approved annually by our Board of Directors. The investment policies address such issues as permissible investment categories, credit quality, maturities and concentrations. At December 31, 2020 and 2019, approximately 91% and 94%, respectively, of the aggregate dollar amount of the investment securities consisted of either U.S. government debt securities or U.S. government agency issued mortgage-backed securities and commercial mortgage obligations. Credit risk associated with these U.S. government debt securities and the U.S. government agency mortgage-backed securities and commercial mortgage obligations is minimal, with risk-based capital weighting factors of 0% and 20%, respectively. The remainder of the securities portfolio consists of municipal securities, corporate bonds, and preferred stock.

Supervision and Regulation

General

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

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

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

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

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

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

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

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

- *Transactions with Affiliates*. Under federal law, we are subject to restrictions that limit certain types of transactions between Republic and its non-bank affiliates. In general, we are subject to quantitative and qualitative limits on extensions of credit, purchases of assets and certain other transactions involving us and our non-bank affiliates. Transactions between Republic and its non-bank affiliates are required to be on arms length terms. The Dodd-Frank Act enhanced the requirements for certain transactions with affiliates

under Section 23A and 23B of the Federal Reserve Act, including expanding the definition of "covered transactions" and "affiliates," as well as increasing the amount of time for which collateral requirements regarding covered transactions must be maintained.

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

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

Gramm-Leach-Bliley Act

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

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

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

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

Sarbanes-Oxley Act of 2002

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

Regulatory Restrictions on Dividends

Dividend payments by Republic to the holding company are subject to the Pennsylvania Banking Code of 1965 ("Banking Code") and the Federal Deposit Insurance Act ("FDIA"). Under the Banking Code, no dividends may be paid except from "accumulated net earnings" (generally, undivided profits). Under the FDIA, an insured bank may pay no dividends if the bank is in arrears in the payment of any insurance assessment due to the FDIC. Under the Banking Code, Republic would be limited to $55.7 million of dividends payable plus an additional amount equal to its net profit for 2021, up to the date of any such dividend declaration. However, dividends would be further limited in order to maintain capital ratios as discussed in "Capital Adequacy".

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

Dividend Policy

We have not paid any cash dividends on our common stock, and have no plans to pay any cash dividends in 2020 or in the foreseeable future. We paid $923,000 in preferred stock dividends during the year ended December 31, 2020. See Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities of this Form 10-K for more information.

Deposit Insurance and Assessments

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

As an FDIC-insured bank, Republic is subject to FDIC insurance assessments. The FDIC regulations assess insurance premiums for small insured depository institutions based on a risk-based assessment system. Under this assessment system, the FDIC evaluates the risk of each financial institution based on regulatory capital ratios and other supervisory factors. The rules base assessments on an institution's average consolidated total assets less its average tangible equity, as opposed to total deposits. The FDIC has authority to increase insurance assessments. Any future increase in insurance premiums may adversely affect our results of operations.

In addition to paying basic deposit insurance assessments, the FDIC collected Financing Corporation ("FICO") assessments to pay interest on FICO bonds. FICO bonds were issued in the late 1980's to recapitalize the (former) Federal Savings & Loan Insurance Corporation. The last of the remaining FICO bonds matured in September 2019. The last FICO assessment was collected on March 29, 2019.

Capital Adequacy

The Federal Reserve has issued risk-based and leverage capital rules applicable to U.S. banking organizations such as the Company and Republic. These guidelines are intended to reflect the relationship between the banking organization's capital and the degree of risk associated with its operations based on transactions recorded on-balance sheet as well as off-balance sheet items. The Federal Reserve may from time to time require that a banking organization maintain capital above the minimum levels discussed below, due to the banking organization's financial condition or actual or anticipated growth.

The capital adequacy rules define qualifying capital instruments and specify minimum amounts of capital as a percentage of assets that banking organizations are required to maintain. Common equity Tier 1 capital generally includes common stock and related surplus, retained earnings and, in certain cases and subject to certain limitations, minority interest in consolidated subsidiaries, less goodwill, other non-qualifying intangible assets and certain other deductions. Tier 1 capital for banks and bank holding companies generally consists of the sum of common equity Tier 1 elements, non-cumulative perpetual preferred stock, and related surplus in certain cases and subject to limitations, minority interests in consolidated subsidiaries that do not qualify as common equity Tier 1 capital, less certain deductions. Tier 2 capital generally consists of hybrid capital instruments, perpetual debt and mandatory convertible debt securities, cumulative perpetual preferred stock, term subordinated debt and intermediate-term preferred stock, and, subject to limitations, allowances for loan losses. The sum of Tier 1 and Tier 2 capital less certain required deductions represents qualifying total risk-based capital. Prior to the effectiveness of certain provisions of the Dodd-Frank Act, bank holding companies were permitted to include trust preferred securities and cumulative perpetual preferred stock in Tier 1 capital, subject to limitations. However, the Federal Reserve's capital rule applicable to bank holding companies permanently grandfathers non-qualifying capital instruments, including trust preferred securities, issued before May 19, 2010 by depository institution holding companies with less than $15 billion in total assets as of December 31, 2009, subject to a limit of 25% of Tier 1 capital. In addition, under rules that became effective January 1, 2015, accumulated other comprehensive income (positive or negative) must be reflected in Tier 1 capital; however, we were permitted to make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. We have made this election.

State and Federal regulatory authorities have adopted standards for the maintenance of adequate levels of capital by Republic. Federal banking agencies impose four minimum capital requirements on the Company's risk-based capital ratios based on total capital, Tier 1 capital, CET 1 capital, and a leverage capital ratio. The risk-based capital ratios measure the adequacy of a bank's capital against the riskiness of its assets and off-balance sheet activities. Failure to maintain adequate capital is a basis for "prompt corrective action" or other regulatory enforcement action. In assessing a bank's capital adequacy, regulators also consider other factors such as interest rate risk exposure; liquidity, funding and market risks; quality and level or earnings; concentrations of credit; quality of loans and investments; risks of any nontraditional activities; effectiveness of bank policies; and management's overall ability to monitor and control risks.

Republic is considered "well capitalized" under the FDIC's prompt corrective action rules. The risk-based capital standards are required to take adequate account of interest rate risk, concentration of credit risk and the risks of non-traditional activities.

Economic Growth, Regulatory Relief, and Consumer Protection Act

The Economic Growth, Regulatory Relief, and Consumer Protection Act, enacted in May 2018 (the "Regulatory Relief Act"), amended certain provisions of the Dodd-Frank Act, as well as certain other statutes administered by the federal banking agencies. Some of the key provisions of the Regulatory Relief Act as it relates to community banks and bank holding companies include: (i) designating mortgages held in portfolio as "qualified mortgages" for banks with less than $10 billion in assets, subject to certain documentation and product limitations; (ii) exempting banks with less than $10 billion in assets (and total trading assets and trading liabilities of 5% or less of total assets) from Volcker Rule requirements relating to proprietary trading; (iii) simplifying capital calculations for banks with less than $10 billion in assets by requiring federal banking agencies to establish a community bank leverage ratio of tangible equity to average consolidated assets of not less than 8% or more than 10%, and provide that banks that maintain tangible equity in excess of such ratio will be deemed to be in compliance with risk-based capital and leverage requirements; (iv) assisting smaller banks with obtaining stable funding by providing an exception for reciprocal deposits from FDIC restrictions on acceptance of brokered deposits; (v) raising the eligibility for use of short-form Call Reports from $1 billion to $5 billion in assets; (vi) clarifying definitions pertaining to high volatility commercial real estate loans, which require higher capital allocations, so that only loans with increased risk are subject to higher risk weightings; and (vii) changing the eligibility for use of the small bank holding company policy statement from institutions with under $1 billion in assets to institutions with under $3 billion in assets.

In September 2019, the federal banking agencies approved the final rule to implement the provisions of Section 201 of the Regulatory Relief Act relating to the community bank leverage ratio ("CBLR"). Under the new rule, which became effective January 1, 2020, a qualifying community banking organization is defined as a depository institution or depository institution holding company with less than $10 billion in assets. A qualifying community banking organization has the option to elect the CBLR framework if its CBLR is greater than 9%, it has off-balance sheet exposures of 25% or less of consolidated assets, and trading assets and liabilities of 5% or less of total consolidated assets. The leverage ratio for purposes of the CBLR is calculated as Tier I capital divided by average total assets, consistent with the manner banking organizations calculate the leverage ratio under generally applicable capital rules. Qualifying community banking organizations that exceed the CBLR level established by the agencies, and that elect to be covered by the CBLR framework, will be considered to have met: (i) the generally applicable leverage and risk-based capital requirements under the banking agencies' capital rules; (ii) the capital ratio requirements necessary to be considered "well capitalized" under the banking agencies' prompt corrective action framework in the case of insured depository institutions; and (iii) any other applicable capital or leverage requirements. For institutions that fall below the 9% capital requirement but remain above 8%, are allowed a two-quarter grace period to either meet the qualifying criteria again or to comply with the generally applicable capital rules. As a result of the Coronavirus Aid, Relief and Economic Security Act, during 2020 the CBLR was reduced to 8.0% for the remainder of 2020 and set at 8.5% for 2021. We have not at this time opted to use the CBLR framework. We do not believe that the changes resulting from the Regulatory Relief Act, including whether we elect to use the CBLR framework, will materially impact our business, operations, or financial results.

Legislative and Regulatory Changes

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

Future Legislative and Regulatory Developments

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

Profitability, Monetary Policy and Economic Conditions

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

Employees

As of December 31, 2020, we had a total of 499 employees, including 467 full-time employees.

Item 1A: Risk Factors

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

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

Our financial condition and results of operations are affected by the ability of our borrowers to repay their loans, and in a timely manner. Lending money is a significant part of the banking business. Borrowers, however, do not always repay their loans. The risk of non-payment is assessed through our underwriting and loan review procedures based on several factors including credit risks of a particular borrower, changes in economic conditions, the duration of the loan, and in the case of a collateralized loan, uncertainties as to the future value of the collateral and other factors. Despite our efforts, we do and will experience loan

losses, and our financial condition and results of operations will be adversely affected. Our non-performing assets were approximately $12.2 million at December 31, 2020. Our allowance for loan losses was approximately $13.0 million at December 31, 2020. Our loans between thirty and eighty-nine days delinquent totaled $3.3 million at December 31, 2020.

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

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

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

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

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

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

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

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

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

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

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

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

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

Potential concerns for the longer term economic outlook include the continued flattening of the yield curve or an inverted yield curve (which may or may not signal a future recession), the risk of economic overheating in the near future, and concerns surrounding the long term fiscal position of the United States. In addition to affecting interest income and expense, changes in interest rates also can affect the value of our interest-earning assets, comprising fixed and adjustable-rate instruments, as well as the ability to realize gains from the sale of such assets. Generally, the value of fixed-rate instruments fluctuates inversely with changes in interest rates, and changes in interest rates may therefore have a material adverse effect on our results of operations.

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

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

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

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

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

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

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

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

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

As of December 31, 2020, we had no U.S. Federal net operating loss carryforwards, referred to as "NOLs," available to reduce taxable income in future years. However, this condition could change in future periods.

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

In addition, the ability to use NOLs will be dependent on our ability to generate taxable income. The NOLs may expire before we generate sufficient taxable income. There were no NOLs that expired in the fiscal years ended December 31, 2020 and December 31, 2019. There are no NOLs that could expire if not utilized for the year ending December 31, 2021.

Our assets as of December 31, 2020 included a deferred tax asset and we may not be able to realize the full amount of such asset.

We recognize deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of assets and liabilities. At December 31, 2020, the net deferred tax asset was $12.0 million, compared to a balance of $12.6 million at December 31, 2019.

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

Based on the analysis of the available positive and negative evidence, we determined that a valuation allowance should not be recorded as of December 31, 2020. We used projections of future taxable income, exclusive of reversing temporary timing differences and carryforwards, as a factor to project recoverability of the deferred tax asset balance. There can be no assurance as to when we will be in a position to fully recapture the benefits of our deferred tax asset. Further discussion on the analysis of our deferred tax asset can be found in the "Provision (Benefit) for Income Taxes" section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

We are required to adopt the FASB's accounting standard which requires measurement of certain financial assets (including loans) using the current expected credit losses (CECL) beginning in calendar year 2022.

Current GAAP requires an incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The FASB's amendment replaces the current incurred loss methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonableness and supportable information to inform credit loss estimates. We are currently evaluating the impact of ASU 2016-13, continuing our implementation efforts and reviewing the loss modeling requirements consistent with lifetime expected loss estimates. Calculations of expected losses under the new guidance were run parallel to the calculations under existing guidance to assess and evaluate the potential impact to our financial statements. The new model includes different assumptions used in calculating credit losses, such as estimating losses over the estimated life of a financial asset and considers expected future changes in macroeconomic conditions. The adoption of this ASU may result in an increase or decrease to our allowance for loan losses which will depend upon the nature and characteristics of our loan portfolio at the adoption date, as well as the macroeconomic conditions and forecasts at that date. At the present time, we do not expect a material increase to the allowance for credit losses. When finalized, any adjustment to the allowance for credit losses as a result of the adoption of ASU 2016-13 will be recorded, net of tax, as an adjustment to retained earnings effective January 1, 2022. This estimate is subject to change based on continuing refinement and validation of the model and methodologies. This ASU will become effective for us as of January 1, 2022.

Our mortgage lending business may not provide us with significant noninterest income.

In 2020, we originated more than $700 million residential mortgage loans and sold $480 million of those loans to investors on the secondary market. The residential mortgage business is highly competitive, and highly susceptible to changes in market interest rates, consumer confidence levels, employment statistics, the capacity and willingness of secondary market purchasers to acquire and hold or securitize loans, and other factors beyond our control.

Because we sell a substantial number of the mortgage loans we originate, the profitability of our mortgage banking business also depends in large part on our ability to aggregate a high volume of loans and sell them in the secondary market at a gain. In fact, as rates rise, we expect increasing industry-wide competitive pressures related to changing market conditions to reduce our pricing margins and mortgage revenues generally. Thus, in addition to our dependence on the interest rate environment, we are dependent upon (i) the existence of an active secondary market and (ii) our ability to profitably sell loans or securities into that market. If our level of mortgage production declines, the profitability will depend upon our ability to reduce our costs commensurate with the reduction of revenue from our mortgage operations.

Our ability to originate and sell mortgage loans readily is dependent upon the availability of an active secondary market for single-family mortgage loans, which in turn depends in part upon the continuation of programs currently offered by government-sponsored entities ("GSEs") and other institutional and non-institutional investors. These entities account for a substantial portion of the secondary market in residential mortgage loans. We are highly dependent on these purchasers continuing their mortgage purchasing programs. Additionally, because the largest participants in the secondary market are Ginnie Mae, Fannie Mae and Freddie Mac, GSEs whose activities are governed by federal law, any future changes in laws that significantly affect the activity of these GSEs could, in turn, adversely affect our operations. In September 2008, Fannie Mae and Freddie Mac were placed into conservatorship by the U.S. government. The federal government has for many years considered proposals to reform Fannie Mae and Freddie Mac, but the results of any such reform, and their impact on us, are difficult to predict. To date, no reform proposal has been enacted.

We may be required to repurchase mortgage loans or indemnify buyers against losses in some circumstances, which could harm liquidity, results of operations and financial condition.

We sell a large portion of the mortgage loans that we originate. When mortgage loans are sold, whether as whole loans or pursuant to a securitization, we are required to make customary representations and warranties to purchasers, guarantors and insurers, including the GSEs, about the mortgage loans and the manner in which they were originated. Whole loan sale agreements require repurchase or substitute mortgage loans, or indemnify buyers against losses, in the event we breach these representations or warranties. In addition, we may be required to repurchase mortgage loans as a result of early payment default of the borrower on a mortgage loan, resulting in these mortgage loans being placed on our books and subjecting us to the risk of a potential default. If repurchase and indemnity demands increase and such demands are valid claims and are in excess of our provision for potential losses, our liquidity, results of operations and financial condition may be adversely affected.

Potential acquisitions may disrupt our business and dilute shareholder value.

We regularly evaluate opportunities to acquire and invest in banks and in other complementary businesses. As a result, we may engage in negotiations or discussions that, if they were to result in a transaction, could have a material effect on our operating results and financial condition, including short and long-term liquidity and capital structure. Our acquisition activities could be material to us. For example, we could issue additional shares of common stock in a purchase transaction, which could dilute current shareholders' ownership interest. These activities could require us to use a substantial amount of cash, other liquid assets, and/or incur debt. In addition, if goodwill recorded in connection with our prior or potential future acquisitions were determined to be impaired, then we would be required to recognize a charge against our earnings, which could materially and adversely affect our results of operations during the period in which the impairment was recognized. Any potential charges for impairment related to goodwill would not impact cash flow, tangible capital or liquidity but would decrease shareholders' equity.

Our acquisition activities could involve a number of additional risks, including the risks of:

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions;
- using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or its assets;
- the time and expense required to integrate the operations and personnel of the combined businesses;
- creating an adverse short-term effect on our results of operations; and
- losing key employees and customers as a result of an acquisition that is poorly conceived.

We may not be successful in overcoming these risks or any other problems encountered in connection with potential acquisitions. Our inability to overcome these risks could have an adverse effect on our ability to achieve our business strategy and maintain our market value.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Federal banking regulators require us, and Republic, to maintain capital to support our operations. Regulatory capital ratios are defined and required ratios are established by laws and regulations promulgated by banking regulatory agencies. At December 31, 2020, our regulatory capital ratios were above "well capitalized" levels under current bank regulatory guidelines. To be "well capitalized," banking companies generally must maintain a Tier 1 leverage ratio of at least 5%, a Common Equity Tier 1 ratio of at least 6.5%, a Tier 1 risk-based capital ratio of at least 8%, and a total risk-based capital ratio of at least 10%. Regulators, however, may require us, or Republic, to maintain higher regulatory capital ratios.

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

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

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

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

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

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

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

Additionally, the sale of substantial amounts of our common stock or securities convertible into or exchangeable or exercisable for our common stock, whether directly by us or by existing common shareholders in the secondary market, the perception that such sales could occur or the availability for future sale of shares of our common stock or securities convertible into or exchangeable or exercisable for our common stock could, in turn, materially and adversely affect the market price of our common stock and our ability to raise capital through future offerings of equity or equity-related securities.

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

Our common stock is currently traded on the Nasdaq Global Market. During 2020, the average daily trading volume for our common stock was approximately 224,200 shares. Sales of our common stock may place significant downward pressure on the market price of our common stock. Furthermore, it may be difficult for holders to resell their shares at prices they find attractive, or at all.

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

Shares of our common stock are common equity interests in us and, as such, will rank junior to all of our existing and future indebtedness and other liabilities. Additionally, holders of our common stock may become subject to the prior dividend and liquidation rights of holders of any classes or series of preferred stock that our Board of Directors may designate and issue without any action on the part of the holders of our common stock. Furthermore, our right to participate in a distribution of assets upon any of our subsidiaries' liquidation or reorganization is subject to the prior claims of that subsidiary's creditors and preferred shareholders. As of December 31, 2020, we had $11.3 million of outstanding debt related to trust preferred securities and $50.0 million of perpetual non-cumulative preferred stock outstanding.

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

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

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

In August 2020, we issued 2.0 million shares of perpetual non-cumulative convertible preferred stock. Each holder is entitled to receive, if declared by the Board of Directors, non-cumulative cash dividends on a quarterly basis at an annual accrual rate of 7.00% of the liquidation preference.

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

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, referred to as Section 404, we are required to include in our Annual Reports on Form 10-K, our management's report on internal control over financial reporting. While we have reported no material weaknesses in the Form 10-K for the fiscal year ended December 31, 2020, we cannot guarantee that we will not have any material weaknesses in the future.

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

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

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

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

Uncertainty about the future of LIBOR may adversely affect our business.

LIBOR and certain other interest rate "benchmarks" are the subject of recent national, international, and other regulatory guidance and proposals for reform. These reforms may cause such benchmarks to perform differently than in the past or have other consequences which cannot be predicted. On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, publicly announced that it intends to stop persuading or compelling banks to submit information to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis cannot be guaranteed after 2021. While there is no consensus on what rate or rates may become accepted alternatives to LIBOR, a group of market participants convened by the Federal Reserve, the Alternative Reference Rate Committee, has selected the Secured Overnight Finance Rate ("SOFR") as its recommended alternative to LIBOR. The Federal Reserve Bank of New York started to publish the SOFR rate in April 2018. SOFR is a broad measure of the cost of overnight borrowings collateralized by Treasury securities that was selected by the Alternative Reference Rate Committee due to the depth and robustness of the U.S. Treasury repurchase market. At this time, it is impossible to predict whether SOFR will become an accepted alternative to LIBOR.

The market transition away from LIBOR to an alternative reference rate, such as SOFR, is complex and could have a range of adverse effects on our business, financial condition and results of operations. In particular, any such transition could:

- adversely affect the interest rates paid or received on, the revenue and expenses associated with or the value of our LIBOR-based assets and liabilities, which include certain variable rate loans and subordinated debt;
- adversely affect the interest rates paid or received on, the revenue and expenses associated with or the value of other securities or financial arrangements, given LIBOR's role in determining market interest rates globally;
- prompt inquiries or other actions from regulators in respect of our preparation and readiness for the replacement of LIBOR with an alternative reference rate; and
- result in disputes, litigation or other actions with counterparties regarding the interpretation and enforceability of certain fallback language in LIBOR-based contracts and securities.

The transition away from LIBOR to an alternative reference rate will require the transition to or development of appropriate systems and analytics to effectively transition our risk management and other processes from LIBOR-based products to those based on the applicable alternative reference rate, such as the Secured Overnight Financing Rate. There can be no guarantee that these efforts will successfully mitigate the operational risks associated with the transition away from LIBOR to an alternative reference rate.

The manner and impact of the transition from LIBOR to an alternative reference rate, as well as the effect of these developments on our funding costs, loan and investment and trading securities portfolios, asset-liability management, and business, is uncertain.

Our financial results may be adversely affected by changes in U.S. and non-U.S. tax and other laws and regulations.

On December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act, was signed into law. The Tax Act includes many provisions that effected our income tax expenses, including reducing its corporate federal tax rate from 35% to 21% effective January 1, 2018. As a result of the rate reduction, we were required to re-measure, through income tax expense in the period of enactment, our deferred tax assets and liabilities using the enacted rate at which we expected them to be recovered or settled. The re-measurement of the net deferred tax asset resulted in additional income tax expense of $7.7 million recorded in fourth quarter 2017.

Also on December 22, 2017, the SEC released SAB 118 to address any uncertainty or diversity of views in practice in accounting for the income tax effects of the Act in situations where a registrant does not have the necessary information available, prepared or analyzed in reasonable detail to complete this accounting in the reporting period that includes the enactment date. SAB 118 allowed for a measurement period not to extend beyond one year from the Act's enactment date to complete the necessary accounting.

We recorded provisional amounts of deferred income taxes using reasonable estimates in three areas where information necessary to complete the accounting was not available, prepared or analyzed as follows: (i) the deferred tax liability for temporary differences between the tax and financial reporting bases of fixed assets principally due to the accelerated depreciation under the Act which allowed for full expensing of qualified property purchased and placed in service after September 27, 2017; (ii) the deferred tax asset for temporary differences associated with accrued compensation was awaiting final determinations of amounts that were paid and deducted on the 2017 income tax returns and (iii) the deferred tax liability for temporary differences associated with equity investments in partnerships were awaiting receipt of Schedules K-1 from outside preparers, which was necessary to determine the 2017 tax impact from these investments.

In a fourth area, we made no adjustments to deferred tax assets representing future deductions for accrued compensation that were subject to new limitations under Internal Revenue Code Section 162(m) which, generally, limits the annual deduction for certain compensation paid to certain team members to $1 million. There was uncertainty in applying the newly enacted rules to existing contracts, and we were seeking further clarifications before completing its analysis. We completed the calculations for the provisional items with the completion of the 2017 tax returns and completed the analysis of the Section 162(m) rules after further guidance was issued. The impact of the completed calculations to the re-measurement of the deferred taxes resulted in an immaterial change and the analysis of the 162(m) rules resulted in no adjustment.

The COVID-19 pandemic, and the measures taken to control its spread, will continue to adversely impact our employees, customers, business operations and financial results, and the ultimate impact will depend on future developments, which are highly uncertain and cannot be predicted.

The COVID-19 pandemic has impacted and is likely to continue to impact the national economy and the regional and local markets in which we operate, lower equity market valuations, create significant volatility and disruption in capital and debt markets, and increase unemployment levels. Our business operations may be disrupted if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic. We are subject to heightened cybersecurity, information security and operational risks as a result

of work-from-home arrangements that we have put in place for our employees. Federal Reserve actions to combat the economic contraction caused by the COVID-19 pandemic, including the reduction of the target federal funds rate and quantitative easing programs, could, if prolonged, adversely affect our net interest income and margins, and our profitability. The continued closures of many businesses and the institution of social distancing, shelter in place and stay home orders in the states and communities we serve, have reduced business activity and financial transactions. While certain of these restrictions have been eased and workplaces in the communities we serve are beginning to reopen, the pace of reopening is measured, and these government policies and directives are subject to change as the effects and spread of the COVID-19 pandemic continue to evolve. It is unclear whether any COVID-19 pandemic-related businesses losses that we or our customers may suffer will be recovered by existing insurance policies. Changes in customer behavior due to worsening business and economic conditions or legislative or regulatory initiatives may impact the demand for our products and services, which could adversely affect our revenue, increase the recognition of credit losses in our loan portfolios and increase our allowance for credit losses. The measures we have taken to aid our customers, including short-term loan payment deferments, may be insufficient to help our customers who have been negatively impacted by the economic fallout from the COVID-19 pandemic. Loans that are currently in deferral status may become nonperforming loans. Because of adverse economic and market conditions affecting issuers, we may be required to recognize impairments on the securities we hold as well as reductions in other comprehensive income. While the COVID-19 pandemic negatively impacted our results of operations for the first half of 2020, the extent to which the COVID-19 pandemic will continue to impact our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic, as well as further actions we may take as may be required by government authorities or that we determine is in the best interests of our employees and customers. There is no certainty that such measures will be sufficient to mitigate the risks posed by the pandemic.

The COVID-19 pandemic is a highly unusual, unprecedented and evolving public health and economic crisis that may have a significant adverse impact on the economy, the banking industry and the Company in future fiscal periods, all subject to a high degree of uncertainty.

The CARES Act. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted to address the economic effects of the COVID-19 pandemic. Among other things, the CARES Act provides for the following:

- *Paycheck Protection Program ("PPP")*. The CARES Act appropriated $349 billion for "paycheck protection loans" through the PPP. The amount appropriated was subsequently increased to $659 billion. Loans under the PPP that meet U.S. Small Business Administration ("SBA") requirements may be forgiven in certain circumstances, and are 100% guaranteed by the SBA. In conjunction with the PPP, the Board of Governors of the Federal Reserve System (the "Federal Reserve") has created a lending facility for qualified financial institutions. The Paycheck Protection Program Liquidity Facility ("PPPLF") will extend credit to depository institutions with a term equal to the term of the pledged loans at an interest rate of 0.35%. Only loans issued under the PPP can be pledged as collateral to access the facility. The Company participated in both the PPP loan program and the PPPLF in 2020.

- *Troubled Debt Restructuring Relief*. From March 1, 2020 through the earlier of December 31, 2020 or 60 days after the termination date of the national emergency declared by the President on March 13, 2020 concerning the COVID–19 outbreak (the "national emergency"), a financial institution may elect to suspend the requirements under accounting principles generally accepted in the U.S. for loan modifications related to the COVID–19 pandemic that would otherwise be categorized as a troubled debt restructured ("TDR"), including impairment accounting. This TDR relief is

applicable for the term of the loan modification that occurs during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019. Financial institutions are required to maintain records of the volume of loans involved in modifications to which TDR relief is applicable. The Company elected to exclude modifications meeting these requirements from TDR classification.

- *CECL Delay*. Banks, savings associations, credit unions, bank holding companies and their affiliates are not required to comply with the Financial Accounting Standards Board Accounting Standards Update No. 2016–13 ("Measurement of Credit Losses on Financial Instruments"), including the current expected credit losses methodology for estimating allowances for credit losses ("CECL"), from the date of the law's enactment until the earlier of the end of the national emergency or December 31, 2020. On March 27, 2020, the Federal Reserve, the Federal Deposit Insurance Corporation (the "FDIC"), and the Office of the Comptroller of the Currency issued an interim final rule that allows banking organizations that are required to adopt CECL this year to mitigate the estimated cumulative regulatory capital effects for up to two years. The relief afforded by the CARES Act and interim final rule is in addition to the three-year transition period already in place. The Company has elected to delay the adoption of CECL.

- *Forbearance*. The CARES Act codified in part guidance from state and federal regulators and government-sponsored enterprises, including the 60-day suspension of foreclosures on federally-backed mortgages and requirements that servicers grant forbearance to borrowers affected by COVID-19.

The Economic Aid Act. On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act) became law, extending the SBA's ability to make loans under the PPP through March 31, 2021, and revising certain PPP requirements, including the loan forgiveness process.

COVID-19 Response Efforts

Republic is committed to providing the financial resources necessary to support the economic recovery in our market. We took an active role in participating in the first round of the Paycheck Protection Program. We quickly developed a process to accept PPP loan applications not only from our valued small business customers, but from non-customers throughout our community as well. During the first round of the PPP program we processed and obtained SBA approval for nearly 5,000 PPP loan applications resulting in more than $680 million in loans. We are now assisting the recipients of those loans through the application process for forgiveness of the outstanding loan balance with the SBA. In addition, we are processing applications for the second round of the PPP which was authorized by the Economic Aid Act in December 2020.

During 2020, we also took a number of steps to mitigate the potential spread of the coronavirus and to assist our customers, employees and other members of the community during this pandemic crisis. As of December 31, 2020 we have:

- Put procedures and supplies in place at all of our store locations such as plastic shields, notices, hand sanitizer, etc., in accordance with CDC guidelines. While temporarily closed for a period of time, all of our store lobbies have been re-opened for all transactions including new account openings.

- Encouraged customers to utilize our online, mobile and telephone banking systems. In addition, we continue to offer more than 55,000 surcharge free ATM machines to all of our customers.

- Directed our commercial lenders to contact each of their customers to discuss the impact of the current economic conditions on their business and to develop a plan for assistance if required.

- Implemented a work from home policy for all employees whose primary responsibilities can be completed in this manner.

- Initiated additional preventative measures by providing guidance and proper supplies to all employees to support appropriate hygiene and social distancing.

Our participation in the U.S. Small Business Administration ("SBA") Paycheck Protection Program ("PPP") may expose us to certain additional risks, including risks relating to alleged noncompliance with PPP rules and regulations, which could have a material adverse impact on the Company's business, financial condition and results of operations.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), enacted on March 27, 2020, included a $349 billion loan program administered through the SBA referred to as the PPP. Additional funding was provided for the PPP on April 24, 2020. Under the PPP, small businesses and other entities and individuals were permitted to apply for loans from existing SBA lenders and other approved lenders. We are a participating lender under the PPP, and, as of December 31, 2020, had processed and received SBA approval for more than 5,000 loan applications resulting in approximately $680 million in loans. There is some ambiguity in the laws, rules, and guidance regarding the operation of the PPP, which may expose us to compliance risks relating to the PPP. We may also have credit risk on PPP loans if a determination is later made by the SBA that a deficiency exists in the manner in which a particular loan was originated, funded, or serviced, such as an issue with the eligibility of a borrower to receive a PPP loan. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, funded, or serviced, the SBA may deny its liability under the guaranty relating to the loan, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency.

Item 1B: Unresolved Staff Comments

None.

Item 2: Description of Properties

We currently have thirty-eight locations that we utilize to conduct business. Seven of these locations are utilized for loan production offices, storage facilities, operations and back office support, and our corporate headquarters. Thirty-one properties are store locations that are open and operating as of December 31, 2020. We have another five locations under our control for future store locations. Of the forty-three total locations, seventeen are owned by Republic. The remaining twenty-six locations are subject to land and building leases. The spaces covered by these leases range in size from 1,700 to 10,590 square feet with the exception of our corporate headquarters which consists of approximately 53,000 square feet. Please see Note 25 "Leases" in the Consolidated Financial Statements for further information regarding the leases. Management believes these properties and facilities are adequate to meet our present and immediately foreseeable needs from a real estate perspective.

Item 3: Legal Proceedings

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

Item 4: Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

Shares of the Company's class of common stock are listed on the Nasdaq Global Market under the symbol "FRBK." As of March 10, 2021, there were approximately 100 registered shareholders of Republic First Bancorp, Inc. common stock. Most shares are held in "nominee" or "street name" and accordingly, the number of beneficial owners of those shares is not known or included in the previous number.

Dividend Policy

The Company has not paid any cash dividends on its common stock and has no plans to pay cash dividends on its common stock during 2021**.** The Company paid $923,000 in non-cumulative preferred stock dividends during 2020. The Company's ability to pay dividends depends primarily on receipt of dividends from the Company's subsidiary, Republic. Dividend payments from Republic are subject to legal and regulatory limitations. The ability of Republic to pay dividends is also subject to profitability, financial condition, capital expenditures and other cash flow requirements.

Item 6: Selected Financial Data

(dollars in thousands, except per share data)	As of or for the Years Ended December 31, 2020	2019	2018	2017	2016
INCOME STATEMENT DATA					
Total interest income	$ 114,950	$ 104,864	$ 92,074	$ 70,849	$ 54,227
Total interest expense	23,118	27,057	16,170	8,784	6,863
Net interest income	91,832	77,807	75,904	62,065	47,364
Provision for loan losses	4,200	1,905	2,300	900	1,557
Non-interest income	36,235	23,738	20,322	20,097	15,312
Non-interest expenses	117,423	104,490	83,721	75,276	56,293
Income (loss) before provision (benefit) for income taxes	6,444	(4,850)	10,205	5,986	4,826
Provision (benefit) for income taxes	1,390	(1,350)	1,578	(2,919)	(119)
Net income (loss)	$ 5,054	$ (3,500)	$ 8,627	$ 8,905	$ 4,945
Preferred stock dividends	923	-	-	-	-
Net income available to common stockholders	$ 4,131	$ (3,500)	$ 8,627	$ 8,905	$ 4,945
PER SHARE DATA					
Basic earnings (loss) per share	$ 0.07	$ (0.06)	$ 0.15	$ 0.16	$ 0.13
Diluted earnings (loss) per share	$ 0.07	$ (0.06)	$ 0.15	$ 0.15	$ 0.12
Book value per share	$ 4.41	$ 4.23	$ 4.17	$ 3.97	$ 3.79
Tangible book value per share [(1)]	$ 4.41	$ 4.15	$ 4.09	$ 3.89	$ 3.70
BALANCE SHEET DATA					
Total assets	$ 5,065,735	$ 3,341,290	$ 2,753,297	$ 2,322,347	$ 1,923,931
Total loans, net	2,632,367	1,738,929	1,427,983	1,153,679	955,817
Total investment securities	1,364,160	1,186,630	1,088,331	938,561	803,604
Total deposits	4,013,751	2,999,163	2,392,867	2,063,295	1,677,670
Other borrowings	633,866	-	-	-	-
Short-term borrowings	-	-	91,422	-	-
Subordinated debt	11,271	11,265	11,259	21,681	21,881
Total shareholders' equity	308,113	249,168	245,189	226,460	215,053
PERFORMANCE RATIOS					
Return on average assets	0.13%	(0.12%)	0.34%	0.43%	0.30%
Return on average shareholders' equity	1.86%	(1.41%)	3.69%	4.02%	3.97%
Net interest margin	2.51%	2.85%	3.16%	3.23%	3.14%
Total non-interest expenses as a percentage of average assets	2.97%	3.51%	3.28%	3.64%	3.45%
ASSET QUALITY RATIOS					
Allowance for loan losses as a percentage of loans	0.49%	0.53%	0.60%	0.74%	0.95%
Allowance for loan losses as a percentage of non-performing loans	100.91%	74.65%	83.31%	57.93%	48.45%
Non-performing loans as a percentage of total loans	0.49%	0.71%	0.72%	1.28%	1.96%
Non-performing assets as a percentage of total assets	0.28%	0.42%	0.60%	0.94%	1.51%
Net charge-offs as a percentage of average loans, net	0.02%	0.08%	0.17%	0.13%	0.12%
LIQUIDITY AND CAPITAL RATIOS					
Average equity to average assets	6.86%	8.36%	9.16%	10.72%	7.63%
Leverage ratio	8.17%	7.83%	9.35%	10.64%	12.74%
CET 1 capital to risk-weighted assets	10.51%	11.41%	13.90%	14.75%	16.59%
Tier 1 capital to risk-weighted assets	12.96%	11.93%	14.53%	16.13%	18.28%
Total capital to risk-weighted assets	13.50%	12.37%	15.03%	16.70%	18.99%

(1) A Non-GAAP Disclosure

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

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

Executive Summary

2020 was a year filled with unprecedented challenges and economic uncertainty. During this time the Republic Bank Team maintained its commitment to outstanding customer service and satisfaction while driving positive momentum. We are extremely proud of our participation and performance in the PPP loan program which provided crucial funding to businesses throughout our footprint during a time of extreme economic distress. In recognition of our commitment to **FAN**atical customer service we were named "**America's #1 Bank for Service"** as a result of a survey conducted by Forbes during 2020. As we put an incredibly challenging year behind us, we look forward to growing our rapidly expanding network of FANS in the future.

During 2020 we continued to demonstrate our ability to produce strong organic growth in asset, loan and deposit balances even in an economic environment inhibited by governmental restrictions and the ongoing effects of the COVID-19 pandemic. We were also able to drive significant improvement in earnings despite the challenges faced in the current year. Our focus on cost control measures continues to drive positive operating leverage. We have consistently stated that it is our goal to deliver best in class service across all delivery channels; in-store, by phone, online and mobile options....as we strive to create new FANS each and every day. We are focused on meeting that goal in the most efficient manner possible.

Financial Highlights

- Net income for the year ended December 31, 2020 was $5.1 million, or $0.07 per share, compared to a net loss of $3.5 million, or $(0.06) per share, for the year ended December 31, 2019 representing improvement of 244% year over year.

- Earnings before tax increased by $11.3 million or 233% to $6.4 million at December 31, 2020 compared to a loss before tax of $4.9 million at December 31, 2019. Financial results for the twelve-month period ended December 31, 2020 were impacted by a one-time goodwill impairment charge of $5.0 million. Excluding this charge, earnings before tax were $11.5 million during the year ended December 31, 2020 compared to a net loss before tax of $4.9 million during the year ended December 31, 2019. This represents an increase of $16.3 million, or 336%, year over year.

- The improvement in earnings was driven by the Company's focus on cost control initiatives while driving revenue growth. During the twelve-month period ended December 31, 2020 total revenue increased 26% and non-interest expense, excluding goodwill impairment, increased by 8% compared to the twelve-month period ended December 31, 2019.

- The goodwill impairment charged recorded during 2020 represents a complete write-off of all goodwill on the balance sheet at the present time.

- Total assets increased by $1.7 billion, or 52%, to $5.1 billion as of December 31, 2020 compared to $3.3 billion as of December 31, 2019. Excluding the short-term impact of the PPP loan program total assets increased by $1.1 billion, or 33%, year over year.

- Total loans grew $897 million, or 51%, to $2.6 billion as of December 31, 2020 compared to $1.7 billion at December 31, 2019. This growth includes more than $600 million in PPP loans. Excluding the impact of the PPP loan program loans grew $273 million, or 16%, year over year.

- Total deposits increased by $1.0 billion, or 34%, to $4.0 billion as of December 31, 2020 compared to $3.0 billion as of December 31, 2019.

- Asset quality remains strong as the ratio of non-performing assets to total assets declined to 0.28% as of December 31, 2020. Only twenty-one loan customers were deferring loan payments at the end of the year. These deferrals relate to approximately $16 million of outstanding loan balances which is less than 1% of total loans.

PPP Loan Program

The Paycheck Protection Program ("PPP") included in the CARES Act authorized financial institutions to make loans to companies that have been impacted by the devastating economic effects of the coronavirus (COVID-19) pandemic. We responded by quickly developing a process to accept applications for the program not only from our valued small business customers, but from non-customers throughout our community as well.

- During 2020 we originated more than $680 million in the first round of the PPP loan program for nearly 5,000 businesses.

- More than 50% of the applications received were from businesses that were not existing customers of Republic Bank, many of which have switched their primary banking relationship to Republic.

- Net origination fees of $19 million were received by Republic which is being recognized as income over the life of the loans. $13 million of net revenue has been deferred and will be recognized as income in future periods.

- As a percentage of existing loan balances as of March 31, 2020, the $680 million in PPP loans originated amounted to 36% making Republic one of the top PPP lenders in the entire country.

- We are now assisting all of our PPP loan customers with the application process for forgiveness of the outstanding loan balances through the SBA.

- The Economic Aid Act approved by Congress in December 2020 provided for a second round of funding for loans under the PPP program. We are now processing applications for not only our existing business customers in this next round, but again are welcoming non-customers to apply through Republic Bank as well.

Additional Highlights

- New stores opened since the beginning of the "Power of Red is Back" expansion campaign are currently growing deposits at an average rate of $38 million per year, while the average deposit growth for all stores over the last twelve months was approximately $33 million per store.

- Our residential mortgage division, Oak Mortgage, is serving the home financing needs of customers throughout our footprint. Loan production during 2020 was strong despite the impact of the COVID-19 pandemic. The Oak Mortgage team originated more than $700 million in mortgage loans over the last twelve months which was a record high for this division.

- A $50 million capital raise was completed during the third quarter of 2020 through a registered direct offering of convertible preferred stock providing the capital resources necessary to continue with our growth and expansion strategy.

- Total Risk-Based Capital ratio was 13.50% and Tier I Leverage Ratio was 8.17% at December 31, 2020.

- Book value per common share increased to $4.41 as of December 31, 2020 compared to $4.23 as of December 31, 2019.

Non-GAAP Based Financial Measures

Our selected financial data contains a non-GAAP financial measure calculated using non-GAAP amounts. This measure is tangible book value per common share. Tangible book value per share adjusts the numerator by the amount of Goodwill and Other Intangible Assets (as a reduction of Shareholders' Equity). Management uses non-GAAP measures to present historical periods comparable to the current period presentation. In addition, management believes the use of non-GAAP measures provides additional clarity when assessing our financial results and use of equity. Disclosures of this type should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities.

The following table provides a reconciliation of tangible book value per common share as of December 31, 2020 and December 31, 2019.

(dollars in thousands)	December 31, 2020	December 31, 2019
Total shareholders' equity	$ 308,113	$ 249,168
Reconciling items:		
Preferred stock	(48,325)	-
Goodwill	-	(5,011)
Tangible common equity	$ 259,788	$ 244,157
Common shares outstanding	58,859,778	58,842,778
Tangible book value per common share	$ 4.41	$ 4.15

Critical Accounting Policies, Judgments and Estimates

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

We have identified the policies related to the allowance for loan losses, other-than-temporary impairment of securities, loans receivable, mortgage loans held for sale, interest rate lock commitments, forward loan sale commitments, goodwill, other real estate owned, and deferred income taxes as being critical.

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

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

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

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

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

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

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

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

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

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

Pursuant to the CARES Act, loan modifications made from March 1, 2020 through the earlier of December 31, 2020 or 60 days after the termination date of the national emergency declared by the President on March 13, 2020 concerning the COVID–19 outbreak (the "national emergency"), a financial institution may elect to suspend the requirements under accounting principles generally accepted in the U.S. for loan modifications related to the COVID–19 pandemic that would otherwise be categorized as a troubled debt restructure ("TDR"), including impairment accounting. In December 2020, the Economic Aid Act was signed into law which amended certain sections of the CARES Act. This amendment extended the period to suspend the requirements under TDR accounting guidance to the earlier of i) January 1, 2022 or ii) 60 days after the President declares a termination of the national emergency related to the COVID-19 pandemic. This TDR relief is applicable for the term of the loan modification that occurs during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019. Financial institutions are required to maintain records of the volume of loans involved in modifications to which TDR relief is applicable. The Company elected to exclude modifications meeting these requirements from TDR classification.

As a result of the recent changes in economic conditions, we have increased the qualitative factors for certain components of the allowance for loan loss calculation. We have also taken into consideration the probable impact that the various stimulus initiatives provided through the CARES Act, along with other government programs, may have to assist borrowers during this period of economic stress. We believe the combination of ongoing communication with our customers, loan to values on underlying collateral, loan payment deferrals, increased focus on risk management practices, and access to government programs such as the PPP should help mitigate potential future period losses. We will continue to closely monitor all key economic indicators and our internal asset quality metrics as the effects of the coronavirus pandemic begin to unfold. Based on the incurred loss methodology currently utilized, the provision for loan losses and charge-offs may be impacted in future periods, but more time is needed to fully understand the magnitude and length of the economic downturn and the full impact on our loan portfolio.

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

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

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

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

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

Commercial and industrial loans are underwritten after evaluating historical and projected profitability and cash flow to determine the borrower's ability to repay their obligation as agreed. Commercial and industrial loans are made primarily based on the identified cash flow of the borrower and secondarily on the underlying collateral supporting the loan facility. Accordingly, the repayment of a commercial and industrial loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is a secondary and often insufficient source of repayment.

Commercial real estate and owner occupied real estate loans are subject to the underwriting standards and processes similar to commercial and industrial loans, in addition to those underwriting standards for real estate loans. These loans are viewed primarily as cash flow dependent and secondarily as loans secured by real estate. Repayment of these loans is generally dependent upon the successful operation of the property securing the loan or the principal business conducted on the property securing the loan. In addition, the underwriting considers the amount of the principal advanced relative to the property value. Commercial real estate and owner occupied real estate loans may be adversely affected by conditions in the real estate markets or the economy in general. Management monitors and evaluates commercial real estate and owner occupied real estate loans based on cash flow estimates, collateral and risk-rating criteria. The Company also utilizes third-party experts to provide environmental and market valuations. Substantial effort is required to underwrite, monitor and evaluate commercial real estate and owner occupied real estate loans.

Construction and land development loans are underwritten based upon a financial analysis of the developers and property owners and construction cost estimates, in addition to independent appraisal valuations. These loans will rely on the value associated with the project upon completion. These cost and valuation amounts used are estimates and may be inaccurate. Construction loans generally involve the disbursement of substantial funds over a short period of time with repayment substantially dependent upon the success of the completed project. Sources of repayment of these loans would be permanent financing upon completion or sales of developed property. These loans are closely monitored by onsite inspections and are considered to be of a higher risk than other real estate loans due to their ultimate repayment being sensitive to general economic conditions, availability of long-term financing, interest rate sensitivity, and governmental regulation of real property.

Consumer and other loans consist of home equity loans and lines of credit and other loans to individuals originated through the Company’s retail network, which are typically secured by personal property or unsecured. Home equity loans and lines of credit often carry additional risk as a result of typically being in a second position or lower in the event collateral is liquidated. Consumer loans have may also have greater credit risk because of the difference in the underlying collateral, if any. The application of various federal and state bankruptcy and insolvency laws may limit the amount that can be recovered on such loans.

Residential mortgage loans are secured by one to four family dwelling units. This group consists of first mortgages and are originated primarily at loan to value ratios of 80% or less.

Paycheck Protection Program (“PPP”) loans, authorized by the Small Business Administration (“SBA”) and Treasury Department through a provision in the CARES Act, are SBA-guaranteed loans to small business to pay their employees, rent, mortgage interest, and utilities. PPP loans will be forgiven subject to clients’ providing documentation evidencing their compliant use of funds and otherwise complying with the terms of the program.

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

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

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

Mortgage Loans Held for Sale and Mortgage Banking Activities - Mortgage loans held for sale are originated and held until sold to permanent investors. Management elected to adopt the fair value option in accordance with FASB Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, and record loans held for sale at fair value.

Mortgage loans held for sale originated on or subsequent to the election of the fair value option, are recorded on the balance sheet at fair value. The fair value is determined on a recurring basis by utilizing quoted prices from dealers in such securities. Changes in fair value are reflected in mortgage banking income in the statements of income. Direct loan origination costs are recognized when incurred and are included in non-interest expense in the statements of income.

Interest Rate Lock Commitments - Mortgage loan commitments known as interest rate locks that relate to the origination of a mortgage that will be held for sale upon funding are considered derivative instruments under the derivatives and hedging accounting guidance FASB ASC 815, *Derivatives and Hedging*. Loan commitments that are classified as derivatives are recognized at fair value on the balance sheet as other assets and other liabilities with changes in their fair values recorded as mortgage banking income and included in non-interest income in the statements of income. Outstanding IRLCs are subject to interest rate risk and related price risk during the period from the date of issuance through the date of loan funding, cancellation or expiration. Loan commitments generally range between 30 and 90 days; however, the borrower is not obligated to obtain the loan. Republic is subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs. Republic uses best efforts commitments to substantially eliminate these risks. The valuation of the IRLCs issued by Republic includes the value of the servicing released premium. Republic sells loans servicing released, and the servicing released premium is included in the market price. See Note 23 Derivatives and Risk Management Activities for further detail on IRLCs.

Forward Loan Sale Commitments - Forward loan sale commitments are commitments to sell individual mortgage loans at a fixed price to an investor at a future date. Forward loan sale commitments are accounted for as derivatives and carried at fair value, determined as the amount that would be necessary to settle the derivative financial instrument at the balance sheet date. Gross derivative assets and liabilities are recorded as other assets and other liabilities with changes in fair value during the period recorded as mortgage banking income and included in non-interest income in the statements of income.

Goodwill - Goodwill represents the excess of cost over the identifiable net assets of businesses acquired. Goodwill is recognized as an asset and is to be reviewed for impairment annually. The Company completed an annual impairment test for goodwill as of July 31, 2020 and 2019. Goodwill was written off as a result of an interim test completed as of September 30, 2020. This was a complete write-off off all goodwill on the balance sheet. During the year ended December 31, 2019, there was no goodwill impairment recorded.

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

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

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

Results of Operations

For the year ended December 31, 2020 as compared to the year ended December 31, 2019

We reported net income available to common shareholders of $4.1 million, or $0.07 per diluted share, for the twelve months ended December 31, 2020 compared to a net loss of $3.5 million, or ($0.06) per diluted share, for the twelve months ended December 31, 2019. Earnings in 2020 were positively impacted by our participation in the PPP program and the Company's focus on cost control initiatives while driving revenue growth.

Net interest income for the twelve months ended December 31, 2020 increased $14.0 million to $91.8 million as compared to $77.8 million for the twelve months ended December 31, 2019. Total assets grew by $1.7 billion, or 52%, during 2019 to $5.1 billion. Growth in net interest income of $14.0 million was a result of an increase in interest income of $10.1 million and a reduction in interest expense of $3.9 million. The increase in interest income of $10.1 million, or 10%, was driven by an increase in average interest-earning assets, primarily loans receivable. Interest expense decreased $3.9 million, or 15%, primarily due to a decrease in the rate on average interest-bearing liabilities. The net interest margin decreased by 34 basis points to 2.51% during the twelve months ended December 31, 2020 compared to 2.85% during the twelve months ended December 31, 2019.

We recorded a loan loss provision in the amount of $4.2 million, an increase of $2.3 million for the twelve months ended December 31, 2020 compared to a provision of $1.9 million during the twelve months ended December 31, 2019. The provision recorded for the twelve months ended December 31, 2020 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 increase in the provision year over year was primarily a result of an increase in the allowance required for loans collectively evaluated for impairment during 2020. The increase was largely associated with assumptions and estimates related to the uncertainty surrounding the economic environment caused by the impact of the COVID-19 pandemic.

Non-interest income increased $12.5 million to $36.2 million during the twelve months ended December 31, 2020 as compared to $23.7 million during the twelve months ended December 31, 2019. The increase was primarily driven by an increase in mortgage banking income, higher loan and servicing fees, an increase in service fees on deposit accounts, and gains on sale of investment securities during the twelve months ended December 31, 2020.

Non-interest expenses increased $12.9 million to $117.4 million during the twelve months ended December 31, 2020 as compared to $104.5 million during the twelve months ended December 31, 2019. The increase was primarily driven by a one time charge for goodwill impairment, higher salaries, employee benefits, occupancy, and equipment expenses associated with the addition of new stores related to our expansion strategy which we refer to as “The Power of Red is Back”.

Return on average assets and average equity were 0.13% and 1.86%, respectively, during the twelve months ended December 31, 2020 compared to (0.12%) and (3.41%), respectively, for the twelve months ended December 31, 2019.

Average Balances and Net Interest Income

Historically, our earnings have depended primarily upon Republic’s net interest income, which is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is affected by changes in the mix of the volume and rates of interest-earning assets and interest-bearing liabilities. The following table provides an analysis of net interest income on an annualized basis, setting forth for the periods average assets, liabilities, and shareholders’ equity, interest income earned on interest-earning assets and interest expense on interest-bearing liabilities, average yields earned on interest-earning assets and average rates on interest-bearing liabilities, and Republic’s net interest margin (net interest income as a percentage of average total interest-earning assets). Averages are computed based on daily balances. Non-accrual loans are included in average loans receivable. Yields are adjusted for tax equivalency, a non-GAAP measure, using a rate of 21% in 2020, 21% in 2019, and 21% in 2018.

Average Balances and Net Interest Income

(dollars in thousands)	For the Year Ended December 31, 2020 Average Balance	Interest Income/ Expense	Yield/ Rate[1]	For the Year Ended December 31, 2019 Average Balance	Interest Income/ Expense	Yield/ Rate[1]	For the Year Ended December 31, 2018 Average Balance	Interest Income/ Expense	Yield/ Rate[1]
Interest-earning assets:									
Federal funds sold and other interest earning assets	$ 242,132	$ 514	0.21%	$ 129,528	$ 2,571	1.98%	$ 40,931	$ 847	2.07%
Investment securities and restricted stock	1,086,386	21,166	1.95%	1,074,706	27,886	2.59%	1,037,810	27,316	2.63%
Loans receivable	2,359,169	93,854	3.98%	1,544,904	74,946	4.85%	1,340,117	64,455	4.81%
Total interest-earning assets	3,687,687	115,534	3.13%	2,749,138	105,403	3.83%	2,418,858	92,618	3.83%
Other assets	265,893			229,767			131,369		
Total assets	$ 3,953,580			$ 2,978,905			$ 2,550,227		
Interest bearing liabilities:									
Demand – non-interest bearing	$ 926,692			$ 555,385			$ 488,995		
Demand – interest bearing	1,509,826	12,645	0.84%	1,184,530	15,621	1.32%	918,508	7,946	0.87%
Money market & savings	916,607	6,247	0.68%	705,445	6,796	0.96%	697,135	4,898	0.70%
Time deposits	211,636	3,859	1.82%	190,567	3,850	2.02%	128,892	1,588	1.23%
Total deposits	3,564,761	22,751	0.64%	2,635,927	26,267	1.00%	2,233,530	14,432	0.65%
Total interest bearing deposits	2,638,069	22,751	0.86%	2,080,542	26,267	1.26%	1,744,535	14,432	0.83%
Other borrowings	30,413	367	1.21%	22,911	790	3.45%	73,573	1,738	2.36%
Total interest-bearing liabilities	2,668,482	23,118	0.87%	2,103,453	27,057	1.29%	1,818,108	16,170	0.89%
Total deposits and other borrowings	3,595,174	23,118	0.64%	2,658,838	27,057	1.02%	2,307,103	16,170	0.70%
Non-interest bearing other liabilities	87,200			71,131			9,431		
Shareholders' equity	271,206			248,936			233,693		
Total liabilities and shareholders' equity	$ 3,953,580			$ 2,978,905			$ 2,550,227		
Net interest income[2]		$ 92,416			$ 78,346			$ 76,448	
Net interest spread			2.26%			2.54%			2.94%
Net interest margin[2]			2.51%			2.85%			3.16%

(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, a Non-GAAP measure. Net interest income has been increased over the financial statement amount by $585, $539, and $544 in 2020, 2019, and 2018, respectively, to adjust for tax equivalency. The tax equivalent net interest margin is calculated by dividing tax equivalent net interest income by average total interest earning assets.

Rate/Volume Analysis of Changes in Net Interest Income

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

	Year ended December 31, 2020 vs. 2019			Year ended December 31, 2019 vs. 2018		
	Changes due to:			Changes due to:		
(dollars in thousands)	Average Volume	Average Rate	Total Change	Average Volume	Average Rate	Total Change
Interest earned:						
Federal funds sold and other interest-earning assets	$ 239	$ (2,296)	$ (2,057)	$ 1,759	$ (35)	$ 1,724
Securities	227	(6,947)	(6,720)	958	(388)	570
Loans	32,296	(13,388)	18,908	9,439	1,052	10,491
Total interest-earning assets	32,762	(22,631)	10,131	12,156	629	12,785
Interest expense:						
Deposits						
Interest-bearing demand deposits	$ 2,725	$ (5,701)	$ (2,976)	$ 3,508	$ 4,167	$ 7,675
Money market and savings	1,462	(2,011)	(549)	46	1,852	1,898
Time deposits	384	(375)	9	1,246	1,016	2,262
Total deposit interest expense	4,571	(8,087)	(3,516)	4,800	7,035	11,835
Other borrowings	27	(450)	(423)	(1,402)	454	(948)
Total interest expense	4,598	(8,537)	(3,939)	3,398	7,489	10,887
Net interest income	$ 28,164	$ (14,094)	$ 14,070	$ 8,758	$ (6,860)	$ 1,898

Net Interest Income and Net Interest Margin

Net interest income, on a fully tax-equivalent basis, a non-GAAP measure, for the twelve months ended December 31, 2020 increased by $14.1 million, or 18%, over twelve months ended December 31, 2019. Interest income on interest-earning assets totaled $115.5 million for the twelve months ended December 31, 2020, an increase of $10.1 million, compared to $105.4 million for the twelve months ended December 31, 2019. The increase in interest income earned was the result of an increase in average interest-earning balances, primarily loans receivable during 2020. Loan growth was driven by continued success with our expansion strategy driving new customer relationships, in addition to our participation in the PPP loan program. PPP loans earn a fixed interest rate of 1.00% and mature in either two years or five years depending upon the date of origination. Origination fees paid by the SBA are also recognized as interest income over the life of the loans. We recognized approximately $6.8 million of origination fees related to PPP loans during the twelve month period ended December 31, 2020. Growth in loan balances and corresponding interest income helped offset the decline in interest income driven by a lower rate environment, including interest income associated with the investment securities portfolio. A decline in mortgage interest rates resulted in a sharp increase in prepayment speeds on mortgage-backed securities held in our portfolio which caused acceleration in the amortization of premiums related to those investments.

Total interest expense for the twelve months ended December 31, 2020 decreased $3.9 million, or 15%, to $23.1 million from $27.1 million for the twelve months ended December 31, 2019. Interest expense on deposits decreased by $3.5 million, or 13%, for the twelve months ended December 31, 2020 versus the twelve months ended December 31, 2019 due to lower rates offset by increases in average deposit balances. Lower interest rates were caused by actions taken by the Federal Reserve Bank during the first quarter of 2020 in response to the onset of the COVID-19 pandemic. Interest expense on other borrowings decreased by $423,000 for the twelve months ended December 31, 2020 compared to the twelve months ended December 31, 2019 due primarily to a decrease in the average rate on other borrowings.

Changes in net interest income are frequently measured by two statistics: net interest rate spread and net interest margin. Net interest rate spread is the difference between the average rate earned on interest-earning assets and the average rate incurred on interest-bearing liabilities. Our net interest rate spread on a fully tax-equivalent basis was 2.26% during the twelve months ended December 31, 2020 versus 2.54% during the twelve months ended December 31, 2019. Net interest margin represents the difference between interest income, including net loan fees earned, and interest expense, reflected as a percentage of average interest-earning assets. For the twelve months ended December 31, 2020 and 2019, the fully tax-equivalent net interest margin was 2.51% and 2.85%, respectively. Compression in the net interest margin was primarily driven by a 70 basis point decrease in the yield on interest earning assets resulting from the lower interest rate environment and fixed rate 1.00% loans generated through PPP lending.

Provision for Loan Losses

We recorded a provision for loan losses in the amount of $4.2 million, an increase of $2.3 million, for the twelve months ended December 31, 2020 compared to a $1.9 million provision for the twelve months ended December 31, 2019. 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 recorded for the twelve months ended December 31, 2020 compared to the twelve months ended December 31, 2019 increased primarily due to an increase required for loans collectively evaluated for impairment. This change was primarily driven by the uncertainty surrounding the economic environment as a result of the impact of the COVID-19 pandemic. Qualitative factors in the calculation of the provision for loan losses were adjusted to account for this uncertainty. While the U.S. government has taken swift action to provide stimulus and implement programs to support the economy, the long-term impact of the effect on the economy remains uncertain.

Non-performing assets as a percentage of total assets declined to 0.28% as of December 31, 2020 compared to 0.42% as of December 31, 2019. This is the sixth consecutive year that this ratio has declined. Net charge-offs as a percentage of average loans also declined during 2020.

Non-Interest Income

Total non-interest income for the twelve months ended December 31, 2020 increased by $12.5 million, or 53%, compared to the twelve months ended December 31, 2019. Mortgage banking income totaled $17.6 million for the twelve months ended December 31, 2020, an increase of $7.5 million, compared to $10.1 million for the twelve months ended 2019. An increase in the volume of residential mortgage loans due to a decline in interest rates drove the increase in mortgage banking income. Loan and servicing fees totaled $2.9 million for the twelve months ended December 31, 2020 which represents an increase of $1.4 million compared to the twelve months ended December 31, 2019. For the twelve months ended December 31, 2020, service fees on deposit accounts totaled $11.1 million which represents an increase of $3.5 million compared to the twelve months ended December 31, 2019. This increase was driven by growth in customer deposit accounts and transaction volume as we continue with our growth and expansion strategy. We recognized gains of $2.8 million on the sale of securities during the twelve months ended December 31,

2020, an increase of $1.7 million, compared to gains of $1.1 million on the sales of securities for the twelve months ended December 31, 2019. Gains on the sale of SBA loans totaled $1.7 million for the twelve months ended December 31, 2020, a decrease of $1.4 million, versus $3.2 million for the twelve months ended December 31, 2019. Lower origination volumes related to SBA loans was caused by the effects of the COVID-19 pandemic.

Non-Interest Expenses

Non-interest expenses increased by $12.9 million, or 12%, for the twelve months ended December 31, 2020, compared to the twelve months ended December 31, 2019. An explanation of changes of non-interest expenses for certain categories is presented in the following paragraphs.

Salary expenses and employee benefits for the twelve months ended December 31, 2020 increased by $2.4 million, or 4%, compared to the twelve months ended December 31, 2019. The increase was primarily driven by annual merit increases along with increased staffing levels related to our growth strategy of adding and relocating stores, which we refer to as “The Power of Red is Back”. There were thirty-one stores open as of December 31, 2020 compared to twenty-nine stores open at December 31, 2019. The increase was also a result of higher commissions paid to residential mortgage lenders as a result of growth in the volume of mortgage loan originations.

Occupancy expense, including depreciation and amortization expense, increased by $4.2 million, or 23%, for the twelve months ended December 31, 2020 compared to the twelve months ended December 31, 2019, also as a result of our continuing growth and expansion strategy. The full year impact of the two new stores opened in New York City during 2019 was recognized in 2020.

Other real estate owned expenses totaled $459,000 during the twelve months ended December 31, 2020, a decrease of $1.7 million, when compared to the twelve months ended December 31, 2019. This decrease was a result of lower costs to carry foreclosed assets during the twelve months ended December 31, 2020.

Goodwill impairment totaled $5.0 million during the twelve months ended December 31, 2020. During the third quarter of 2020 a goodwill impairment analysis was completed which concluded that a write-off was required. All goodwill on the balance sheet was written off as a result of this one-time, non-cash charge for goodwill impairment.

All other non-interest expenses for the twelve months ended December 31, 2020 increased $3.0 million compared to the twelve months ended December 31, 2019. Increases in expenses related to data processing, debit card processing, professional fees, and regulatory assessments and costs were mainly associated with our growth strategy.

One key measure that management utilizes to monitor progress in controlling overhead expenses is the ratio of annualized net non-interest expenses to average assets, a non-GAAP measure. For purposes of this calculation, net non-interest expenses equal non-interest expenses less non-interest income. For the twelve months ended December 31, 2020, the ratio was 2.97% compared to 2.71% for the twelve months ended December 31, 2019, respectively. The increase in this ratio was mainly due to our growth and expansion strategy.

Another productivity measure utilized by management is the operating efficiency ratio, another non-GAAP measure. This ratio expresses the relationship of non-interest expenses to net interest income plus non-interest income. The efficiency ratio was 91.69% for the twelve months ended December 31, 2020, compared to 102.90% for the twelve months ended December 31, 2019. The decrease for the twelve months

ended December 31, 2020 versus the twelve months ended December 31, 2019 was due to net interest income and non-interest income increasing at a faster rate than non-interest expenses.

Provision (Benefit) for Income Taxes

We recorded a provision for income taxes of $1.4 million for the twelve months ended December 31, 2020 compared to a benefit of $1.4 million for the twelve months ended December 31, 2019. The effective tax rates for the twelve month periods ended December 31, 2020 and 2019 were 22% and (28%), respectively. The effect of permanent deductions increases the effective tax benefit percentage when in a pre-tax loss position and decreases the effective tax rate when in a pre-tax income position. The impact of these permanent differences on the effective tax rate is proportional to the level of the non taxable income in relation to pre-tax income.

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

In assessing the need for a valuation allowance, the Company carefully weighed both positive and negative evidence currently available. Judgment is required when considering the relative impact of such evidence. The weight given to the potential effect of positive and negative evidence must be commensurate with the extent to which it can be objectively verified.

The Company is in a three year cumulative profit position factoring in pre-tax GAAP income and permanent book/tax differences. Growth in interest-earning assets is expected to continue and is supported by the capital raise completed during 2020. The ratio of non-performing assets to total assets along with other credit quality metrics continue to improve. A number of cost control measures have been implemented to offset the challenges faced in growing revenue as a result of compression in the net interest margin. The Company has added thirteen store locations in the past four years and since the inception of the growth and expansion strategy in 2014, almost every new store location has met or exceeded expectations. The success of the expansion strategy, combined with the stabilization of interest rates and continued loan growth are expected to continue to support improvement in profitability going forward. As of December 31, 2020, the Company has no federal NOLs to carry forward which could expire in the future.

Conversely, the Company's net interest margin declined during 2020 as a result of the challenging interest rate environment which appears to be consistent across the financial services industry. The effects of the COVID-19 pandemic to the local and global economy may result in a significant increase in future loan loss provisions and charge-offs. Rising interest rates and a downturn in the economy could significantly decrease the volume of mortgage loan originations.

Based on the guidance provided in FASB Accounting Standards Codification Topic 740 (ASC 740), the Company believed that the positive evidence considered at December 31, 2020 outweighed the negative evidence and that it was more likely than not that all of the Company's deferred tax assets would be realized within their life cycle. Therefore, a valuation allowance was not required at December 31, 2020.

The net deferred tax asset balance was $12.0 million as of December 31, 2020 and $12.6 million as of December 31, 2019. The deferred tax asset will continue to be analyzed on a quarterly basis for changes affecting realizability.

Preferred Dividends

Preferred dividends of $923,000 were declared and paid on preferred stock during the twelve months ended December 31, 2020.

Net Income and Net Income per Common Share

The net income available to shareholders for the twelve months ended December 31, 2020 was $4.1 million, compared to a net loss of $3.5 million for the twelve months ended December 31, 2019. For the twelve months ended December 31, 2020, basic and fully-diluted net income per common share was $0.07, compared to basic and fully-diluted net loss per common share of ($0.06) for the twelve months ended December 31, 2019.

Return on Average Assets and Average Equity

Return on average assets (ROA) measures our net income in relation to our total average assets. The ROA for the twelve months ended December 31, 2020 and 2019 was 0.13% and (0.12%), respectively. Return on average equity (ROE) indicates how effectively we can generate net income on the capital invested by our stockholders. ROE is calculated by dividing annualized net income by average stockholders' equity. The ROE for the twelve months ended December 31, 2020 was 1.86%, compared to (1.41%) for the twelve months ended December 31, 2019.

Results of Operations

For the year ended December 31, 2019 as compared to the year ended December 31, 2018

We reported a net loss of $3.5 million, or ($0.06) per diluted share, for the twelve months ended December 31, 2019 compared to net income of $8.6 million, or $0.15 per diluted share, for the twelve months ended December 31, 2018. Earnings in 2019 were negatively impacted by compression of the net interest margin caused by a flat and inverted yield curve which drove lower yields on interest earning assets and higher rates on interest bearing liabilities. In the midst of this challenging rate environment we also incurred costs to execute our expansion strategy in New York City. In addition to new hires, training, advertising, and occupancy expenses related to the opening of our first two stores in New York, we also established a management and lending team for this new market.

Net interest income for the twelve months ended December 31, 2019 increased $1.9 million to $77.8 million as compared to $75.9 million for the twelve months ended December 31, 2018. Total assets grew by $588 million, or 21%, during 2019 to $3.3 billion. However, growth in net interest income of $8.8 million driven by the increase in interest earning assets was offset by a decrease of $6.9 million as a result of interest rate changes resulting in a net increase of only $1.9 million in net interest income. For comparison purposes net interest income increased by $13.5 million during 2018 on growth in assets of $431 million. Interest income increased $12.8 million, or 14%, due primarily to an increase in average interest-earning assets, primarily loans receivable. Interest expense increased $10.9 million, or 67%, primarily due to an increase in the rate on average interest-bearing liabilities and average deposit balances. The net interest margin decreased by 31 basis points to 2.85% during the twelve months ended December 31, 2019 compared to 3.16% during the twelve months ended December 31, 2018.

We recorded a loan loss provision in the amount of $1.9 million, a decrease of $395,000 for the twelve months ended December 31, 2019 compared to a provision of $2.3 million during the twelve months ended December 31, 2018. The provision recorded for the twelve months ended December 31, 2019 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 decrease in the provision year over year was primarily a result of a decrease in the allowance required for loans individually evaluated for impairment during 2019 and is supported by the steady decline in the ratio of non-performing assets to total assets.

Non-interest income increased $3.4 million to $23.7 million during the twelve months ended December 31, 2019 as compared to $20.3 million during the twelve months ended December 31, 2018. The increase was primarily driven by higher service fees on deposit accounts and gains on sale of investment securities during the twelve months ended December 31, 2019.

Non-interest expenses increased $20.8 million to $104.5 million during the twelve months ended December 31, 2019 as compared to $83.7 million during the twelve months ended December 31, 2018. The increase was primarily driven by higher salaries, employee benefits, occupancy, and equipment expenses associated with the addition of new stores related to our expansion strategy which we refer to as “The Power of Red is Back”.

Return on average assets and average equity were (0.12%) and (1.41%), respectively, during the twelve months ended December 31, 2019 compared to 0.34% and 3.69%, respectively, for the twelve months ended December 31, 2018.

Net Interest Income and Net Interest Margin

Net interest income, on a fully tax-equivalent basis, a non-GAAP measure, for the twelve months ended December 31, 2019 increased by $1.9 million, or 2%, over twelve months ended December 31, 2018. Interest income on interest-earning assets totaled $105.4 million for the twelve months ended December 31, 2019, an increase of $12.8 million, compared to $92.6 million for the twelve months ended December 31, 2018. The increase in interest income earned was primarily the result of an increase in average interest-earning balances, primarily loans receivable. Total interest expense for the twelve months ended December 31, 2019 increased $10.9 million, or 67%, to $27.1 million from $16.2 million for the twelve months ended December 31, 2018. Interest expense on deposits increased by $11.8 million, or 82%, for the twelve months ended December 31, 2019 versus the twelve months ended December 31, 2018 due to higher rates and increases in average deposit balances. Interest expense on other borrowings decreased by $948,000 for the twelve months ended December 31, 2019 compared to the twelve months ended December 31, 2018 due primarily to a $48.2 million decrease in average overnight borrowings.

Changes in net interest income are frequently measured by two statistics: net interest rate spread and net interest margin. Net interest rate spread is the difference between the average rate earned on interest-earning assets and the average rate incurred on interest-bearing liabilities. Our net interest rate spread on a fully tax-equivalent basis was 2.54% during the twelve months ended December 31, 2019 versus 2.94% during the twelve months ended December 31, 2018. Net interest margin represents the difference between interest income, including net loan fees earned, and interest expense, reflected as a percentage of average interest-earning assets. For the twelve months ended December 31, 2019 and 2018, the fully tax-equivalent net interest margin was 2.85% and 3.16%, respectively. Compression in the net interest margin was driven by flattening of the yield curve resulting in a more rapid increase in our cost of funds compared to the yield on interest earning assets.

Provision for Loan Losses

We recorded a provision for loan losses in the amount of $1.9 million, a decrease of $395,000, for the twelve months ended December 31, 2019 compared to a $2.3 million provision for the twelve months ended December 31, 2018. 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 recorded for the twelve months ended December 31, 2019 compared to the twelve months ended December 31, 2018 decreased primarily as a result of a decrease in the allowance required for loans individually evaluated for impairment. Non-performing assets as a percentage of total assets declined to 0.42% as of December 31, 2019 compared to 0.60% as of December 31, 2018. This is the fifth consecutive year that this ratio has declined. Net charge-offs as a percentage of average loans also declined during 2019.

Non-Interest Income

Total non-interest income for the twelve months ended December 31, 2019 increased by $3.4 million, or 17%, compared to the twelve months ended December 31, 2018. Service fees on deposit accounts totaled $7.5 million for the twelve months ended December 31, 2019 which represents an increase of $2.1 million compared to the twelve months ended December 31, 2018. This increase was driven by growth in customer deposit accounts and transaction volume. We recognized gains of $1.1 million on the sale of securities during the twelve months ended December 31, 2019, an increase of $1.2 million, compared to losses of $67,000 on the sales of securities for the twelve months ended December 31, 2018. Loan and servicing fees totaled $1.6 million for the twelve months ended December 31, 2019 which represents an increase of $167,000 compared to the twelve months ended December 31, 2018. Gains on the sale of SBA loans totaled $3.2 million for the twelve months ended December 31, 2019, an increase of $82,000, versus $3.1 million for the twelve months ended December 31, 2018. Mortgage banking income totaled $10.1 million and $10.2 million for the twelve months ended December 31, 2019 and 2018.

Non-Interest Expenses

Non-interest expenses increased by $20.8 million, or 25%, for the twelve months ended December 31, 2019, compared to the twelve months ended December 31, 2018. An explanation of changes of non-interest expenses for certain categories is presented in the following paragraphs.

Salary expenses and employee benefits for the twelve months ended December 31, 2019 increased by $9.8 million, or 22%, compared to the twelve months ended December 31, 2018. The increase was primarily driven by annual merit increases along with increased staffing levels related to our growth strategy of adding and relocating stores, which we refer to as “The Power of Red is Back”. There were twenty-nine stores open as of December 31, 2019 compared to twenty-five stores open at December 31, 2018. The strategic decision to expand into New York City was also a significant factor driving the increase in salaries and employee benefits.

Occupancy expense, including depreciation and amortization expense, increased by $4.6 million, or 34%, for the twelve months ended December 31, 2019 compared to the twelve months ended December 31, 2018, also as a result of our continuing growth and expansion strategy.

Other real estate owned expenses totaled $2.1 million during the twelve months ended December 31, 2019, an increase of $521,000, when compared to the twelve months ended December 31, 2018. This increase was a result of higher costs to carry foreclosed properties on foreclosed assets during the twelve months ended December 31, 2019.

All other non-interest expenses for the twelve months ended December 31, 2019 increased $5.8 million compared to the twelve months ended December 31, 2018. Increases in expenses related to data processing, advertising, automated teller machine expenses, and professional fees were mainly associated with our growth strategy.

One key measure that management utilizes to monitor progress in controlling overhead expenses is the ratio of annualized net non-interest expenses to average assets, a non-GAAP measure. For purposes of this calculation, net non-interest expenses equal non-interest expenses less non-interest income. For the twelve months ended December 31, 2019, the ratio equaled 2.71% compared to 2.49% for the twelve months ended December 31, 2018, respectively. The increase in this ratio was mainly due to our growth and expansion strategy which drives the addition of new stores, along with additional employees to support the growth strategy.

Another productivity measure utilized by management is the operating efficiency ratio, another non-GAAP measure. This ratio expresses the relationship of non-interest expenses to net interest income plus non-interest income. The efficiency ratio equaled 102.90% for the twelve months ended December 31, 2019, compared to 87.0% for the twelve months ended December 31, 2018. The increase for the twelve months ended December 31, 2019 versus the twelve months ended December 31, 2018 was due to non-interest expenses increasing at a faster rate than net interest income and non-interest income.

Provision (Benefit) for Income Taxes

We recorded a benefit for income taxes of $1.4 million for the twelve months ended December 31, 2019 compared to a provision of $1.6 million for the twelve months ended December 31, 2018. The effective tax rates for the twelve month periods ended December 31, 2019 and 2018 were (28%) and 15%, respectively. The effect of permanent deductions increases the effective tax benefit percentage when in a pre-tax loss position and decreases the effective tax rate when in a pre-tax income position.

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

In conducting the deferred tax asset analysis, we believe it is important to consider the unique characteristics of an industry or business. In particular, characteristics such as business model, level of capital and reserves held by a financial institution and the ability to absorb potential losses are important distinctions to be considered for bank holding companies like us. In addition, it is also important to consider that net operating loss carryforwards (“NOLs”) calculated for federal income tax purposes can generally be carried back two years and carried forward for a period of twenty years, for NOLs created prior to January 1, 2018. Federal NOLs generated after December 31, 2017 can be carried forward indefinitely. In order to realize our deferred tax assets, we must generate sufficient taxable income in such future years.

In assessing the need for a valuation allowance, the Company carefully weighed both positive and negative evidence currently available. Judgment is required when considering the relative impact of such evidence. The weight given to the potential effect of positive and negative evidence must be commensurate with the extent to which it can be objectively verified.

The Company is in a three year cumulative profit position factoring in pre-tax GAAP income and permanent book/tax differences. Strong growth in interest-earning assets is expected to continue and is supported by the capital raise completed at the end of 2016. The ratio of non-performing assets to total assets along with other credit quality metrics continue to improve. A number of cost control measures have been implemented to offset the challenges faced in growing revenue as a result of compression in the net interest margin. The Company has added eleven store locations in the past three years and since the inception of the "Power of Red is Back" growth and expansion strategy in 2014, almost every new store location has met or exceeded expectations. The success of the expansion into New York, combined with the stabilization of interest rates and continued loan growth are expected to improve profitability going forward.

Conversely, the Company generated a loss in the current year when factoring in pre-tax GAAP income and permanent book/tax differences. The Bank's net interest margin declined during 2019 as a result of the challenging interest rate environment which appears to be consistent across the financial services industry. Non-accrual loans increased by 20% during 2019. Rising interest rates and a downturn in the economy could significantly decrease the volume of mortgage loan originations.

The Company has experienced a growing balance sheet driven by the growth and expansion strategy over the last several years. Loans and deposits have consistently grown at rates far above industry standards generating a higher level of interest earning assets. Assets quality metrics have improved to levels not seen in more than 20 years. From 2014 to 2018, the Company demonstrated consistent and steady improvement in earnings despite the investments required to initiate the expansion plan which put it in a position to comfortably rely on projections of future taxable income when evaluating the need for a valuation allowance against its deferred tax assets for the years ended December 31, 2018 and 2017.

In 2019, the Company began opening branches in New York City. Management was aware of the initial costs and investments required to expand into this new market. As a result of the flat and inverted yield curve experienced in 2019, the net interest margin compressed and revenue did not grow at the rate necessary to support the increased expense levels which caused a decline in earnings. Management and the Board of Directors have engaged in detailed discussions on how to improve profitability going forward. During the preparation of the 2020 budget, several cost reduction and control initiatives were identified and incorporated into the projections. These initiatives include, but are not limited to, a reduction of store hours and slowing of the number of locations to be opened in the coming years. Efforts to reduce high cost deposits and increase loan production to improve the net interest margin have also been initiated. The Company's multi-year budget plan projects future taxable income will be more than sufficient to support the realization of the deferred tax assets.

Based on the guidance provided in FASB Accounting Standards Codification Topic 740 (ASC 740), the Company believed that the positive evidence considered at December 31, 2019 outweighed the negative evidence and that it was more likely than not that all of the Company's deferred tax assets would be realized within their life cycle. Therefore, a valuation allowance was not required at December 31, 2019.

The net deferred tax asset balance was $12.6 million as of December 31, 2019 and $12.3 million as of December 31, 2018. The deferred tax asset will continue to be analyzed on a quarterly basis for changes affecting realizability.

Net Income and Net Income per Common Share

The net loss for the twelve months ended December 31, 2019 was $3.5 million, compared to net income of $8.6 million for the twelve months ended December 31, 2018. For the twelve months ended December 31, 2019, basic and fully-diluted net loss per common share was ($0.06), compared to basic and fully-diluted net income per common share of $0.15, respectively for the twelve months ended December 31, 2018.

Return on Average Assets and Average Equity

Return on average assets (ROA) measures our net income in relation to our total average assets. The ROA for the twelve months ended December 31, 2019 and 2018 was (0.12%) and 0.34%, respectively. Return on average equity (ROE) indicates how effectively we can generate net income on the capital invested by our stockholders. ROE is calculated by dividing annualized net income by average stockholders' equity. The ROE for the twelve months ended December 31, 2019 was (1.41%), compared to 3.69% for the twelve months ended December 31, 2018.

Financial Condition

December 31, 2020 compared to December 31, 2019

Total assets increased by $1.7 billion, or 52%, to $5.1 billion at December 31, 2020, compared to $3.3 billion at December 31, 2019. In addition to our ongoing success with our expansion strategy, the growth in assets was also driven by our participation in the PPP loan program during 2020 which resulted in a significant increase in new business relationships and account openings. A more detailed discussion of changes in the balance sheet accounts can be found in the following paragraphs.

Cash and Cash Equivalents

Cash and due from banks and interest bearing deposits comprise this category, which consists of our most liquid assets. The aggregate amount in these three categories increased by $607.0 million to $775.3 million at December 31, 2020, from $168.3 million at December 31, 2019. The increase as of December 31, 2020 was caused by borrowings in the amount of $633.9 million related to the PPP loan program which were repaid shortly after the year end.

Loans Held for Sale

Loans held for sale are comprised of loans guaranteed by the U.S. Small Business Administration ("SBA") which we usually originate with the intention of selling in the future and residential mortgage loans, which we also intend to sell in the future. Total SBA loans held for sale were $3.0 million at both December 31, 2020 and December 31, 2019. Residential mortgage loans held for sale totaled $50.4 million at December 31, 2020, an increase of $40.1 million, versus $10.3 million at December 31, 2019. An increase in the volume of residential mortgage loans during 2020, particularly in the fourth quarter, drove the increase in residential mortgage loans held for sale as of December 31, 2020. Loans held for sale, as a percentage of our total assets, were less than 2% at December 31, 2020.

Loans Receivable

The loan portfolio represents our largest asset category and is our most significant source of interest income. Our lending strategy is focused on small and medium sized businesses and professionals that seek highly personalized banking services. The loan portfolio consists of secured and unsecured commercial

loans including commercial real estate, construction loans, residential mortgages, home improvement loans, home equity loans and lines of credit, overdraft lines of credit, and others. Commercial loans typically range between $250,000 and $5,000,000 but customers may borrow significantly larger amounts up to our legal lending limit to a customer, which was approximately $45.0 million at December 31, 2020. Loans made to one individual customer, even if secured by different collateral, are aggregated for purposes of the lending limit. There were no loans in excess of the legal lending limit at December 31, 2020. A $30 million threshold, which amounts to approximately 10% of total regulatory capital, reflects an additional internal monitoring guideline. We had no loan relationships in excess of $30 million at December 31, 2020. The internal monitoring guideline in place as of December 31, 2019 was $25 million. We had one loan relationship in excess of that guideline at December 31, 2019 that amounted to $28.0 million.

Loans increased $893 million, or 51%, to $2.6 billion at December 31, 2020, versus $1.7 billion at December 31, 2019. This growth was primarily the result our of participation in the PPP loan program during 2020. As of December 31, 2020, we held approximately $637 million in PPP loans which are expected to be forgiven by the SBA and repaid during the early part of 2021. We also grew loans during 2020 as a result of our successful execution of our relationship banking strategy which focuses on customer service. During an incredibly challenging year that consisted of governmental restrictions and other obstacles related to the COVID-19 pandemic, we grew loan balances outside of PPP by $273 million, or 16%, during 2020. We also expect many of the new business relationships that grew from our success with PPP to provide significant opportunities for commercial loan growth in future periods.

Investment Securities

Investment securities available for sale are investments that may be sold in response to changing market and interest rate conditions, and for liquidity and other purposes. Our debt securities consist primarily of U.S. Government agency Small Business Administration ("SBA") bonds, U.S. Government agency collateralized mortgage obligations ("CMO"), agency mortgage-backed securities ("MBS"), municipal securities, and corporate bonds. Investment securities available for sale totaled $528.5 million at December 31, 2020 as compared to $539.0 million at December 31, 2019. The $10.5 million decrease was primarily due to sales, paydowns, maturities, and calls of securities totaling $296.1 million offset by the purchase of securities totaling $284.1 million by during 2020. At December 31, 2020, the portfolio had a net unrealized gain of $1.3 million compared to a net unrealized loss of $1.7 million at December 31, 2019. The $3.0 million increase in the unrealized gain/(loss) of the investment portfolio was driven by a decrease in market interest rates which drove an increase in value of the securities held in our portfolio during 2020.

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 U.S. Government agency Small Business Investment Company bonds (SBIC) and Small Business Administration (SBA) bonds, CMO's and MBS's. The fair value of securities held-to-maturity totaled $837.0 million and $653.1 million at December 31, 2020 and December 31, 2019, respectively. The $170.3 million increase was primarily due to the purchase of securities held to maturity totaling $402.6 million partially offset paydowns, maturities, and calls of securities held in the portfolio totaling $232.2 million during the year ended December 31, 2020.

ASC 320 "Investments – Debt Securities" requires an entity to determine how to classify a security at the time of acquisition. The appropriateness of the original classification should be reassessed at each reporting period. The transfer of investment securities from available-for-sale to held-to maturity category during the quarter ended December 31, 2018 was completed after an extensive analysis of the characteristics of all securities held in the portfolio, in addition to a review of our liquidity position under multiple scenarios including varying interest rate environments. Twenty-three of the twenty-five securities transferred from available-to-sale to held-to-maturity were collateralized mortgage obligations. Thirteen

securities transferred were GNMA collateralized mortgage obligations which are backed by the full faith and credit of the U.S. government. The remaining ten collateralized mortgage obligations were issued by FNMA or FHLMC. Bonds issued by GNMA receive favorable risk rating when calculating regulatory risk-based capital ratios. In addition, GNMA, FNMA, and FHLMC securities are often pledged as collateral as required to hold certain government deposits and are accepted as collateral as a result of the high quality and low-risk nature of these bonds. The other two securities transferred from available-for sale to held-to-maturity were FNMA agency mortgage-backed securities.

After completion of these analyses and consideration of the factors mentioned above, management determined that it had the intent and ability to hold specific securities until maturity and it was appropriate to transfer them to the held-to-maturity category during the fourth quarter of 2018.

The fair value of the securities transferred to the held-to-maturity category was $230.1 million. The book value of the securities on the date of transfer was $239.5 million. The unrealized holding gain or loss on each individual security calculated at the time of transfer was reported as a component of shareholders' equity in the accumulated other comprehensive income account and will be amortized as an adjustment to yield over the remaining life of each security.

Equity securities consist of investments in the preferred stock of domestic banks. Equity securities are held at fair value. The fair value of equity securities purchased during 2020 totaled $9.0 million at December 31, 2020. We did not have any equity securities at December 31, 2019.

Restricted Stock

Restricted stock, which represents a required investment in the capital stock of correspondent banks related to available credit facilities, is carried at cost as of December 31, 2020 and December 31, 2019. As of those dates, restricted stock consisted of investments in the capital stock of the Federal Home Loan Bank of Pittsburgh ("FHLB") and Atlantic Community Bankers Bank ("ACBB").

At December 31, 2020 and December 31, 2019, the investment in FHLB stock totaled $2.9 million and $2.6 million, respectively. The $293,000 increase was due to a higher required investment in FHLB stock during 2020. At both December 31, 2020 and December 31, 2019, ACBB stock totaled $143,000.

Premises and Equipment

The balance of premises and equipment increased to $123.2 million at December 31, 2020 from $117.0 million at December 31, 2019. The increase was primarily due to premises and equipment expenditures of $14.4 million reduced by depreciation and amortization expense of $6.2 million during 2020. The expenditures made during 2020 primarily relate to the construction of new store locations in addition to normal investments in hardware, software and other operating equipment. New stores were opened in Northfield, NJ in January 2020 and Bensalem, PA in September 2020 bringing the total store count to thirty-one at December 31, 2020. There are also additional sites in various stages of development for future store locations.

Other Real Estate Owned

The balance of other real estate owned decreased to $1.2 million at December 31, 2020 from $1.7 million at December 31, 2019. The decrease was primarily the result of dispositions totaling $744 thousand partially offset by additions of $233,000 during 2020.

Operating Leases – Right of Use Asset

Accounting Standards Codification Topic 842, also known as ASC 842 and ASU 2016-02, is the new lease accounting standard published by the FASB. ASC 842 represents a significant modification to the accounting treatment for leases, with the most significant change being that most leases, including operating leases, will now be capitalized on the balance sheet. Under the previous guidance (ASC 840), FASB permitted operating leases to be reported only in the footnotes of corporate financial statements. Under ASC 842, the only leases that are exempt from the capitalization requirement are short-term leases less than or equal to twelve months in length.

The right-of-use asset is valued as the initial amount of the lease liability obligation adjusted for any initial direct costs, prepaid or accrued rent, and any lease incentives. At December 31, 2020 and 2019, the balance of the operating lease right-of-use asset was $72.9 million and $64.8 million, respectively.

Goodwill

The Company completed an annual impairment test for goodwill as of July 31, 2020 and 2019. Goodwill was written off as a result of an interim test completed as of September 30, 2020. This was a complete write-off off all goodwill on the balance sheet. During the year ended December 31, 2019, there was no goodwill impairment recorded.

Impairment is a condition that exists when the carrying amount of goodwill exceeds its implied fair value. Based on the interim impairment test completed as of September 30, 2020, management determined that the carrying amount of goodwill exceeded its implied fair value and that the balance should be written off as of that date. The determination of the fair value of the Reporting Unit incorporates assumptions that marketplace participants would use in their estimates of fair value of the Reporting Unit in a change of control transaction, as prescribed by ASC Topic 820.

To arrive at a conclusion of fair value, we utilize both the Income and Market Approach and then apply weighting factors to each result. Weighting factors represent our best business judgment of the weightings a market participant would utilize in arriving at a fair value for the reporting unit. In performing our analyses, we also made numerous assumptions with respect to industry performance, business, economic and market conditions and various other matters, many of which cannot be predicted and are beyond our control. With respect to financial projections, projections reflect the best currently available estimates and judgments as to the expected future financial performance of the Reporting Unit.

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 our market area through the offering of a variety of products to attract and retain customers, with a primary focus on multi-product relationships.

Total deposits increased by $1.0 billion to $4.0 billion at December 31, 2020, from $3.0 billion at December 31, 2019. We constantly focus our efforts on the growth of deposit balances through the successful execution of our relationship banking model which is based upon a high level of customer service and satisfaction. This strategy has also allowed us to build a stable core-deposit base and nearly eliminate our dependence upon the more volatile sources of funding found in brokered and internet certificates of deposit. We continued to have success with this strategy during 2020 which lead to the growth in deposit balances despite a year filled with challenges, governmental restrictions and business closings due to the COVID-19 pandemic. Our participation in the PPP loan program also resulted in significant growth in new

deposit relationships throughout the year. Approximately half of the applications that we accepted for the PPP program were from businesses that were not Republic Bank customers at the time. Many of those applicants were so pleased with their experience during the PPP process that they chose to move their primary banking relationship to Republic.

Other Borrowings

At December 31, 2020, we borrowed $633.9 million through the Paycheck Protection Program Liquidity Facility ("PPPLF") provided by the Federal Reserve Bank at a rate of 35 basis points. This borrowing was repaid in full during the first week of January 2021. As of December 31, 2019, we had no PPPLF borrowings.

Operating Lease Liability Obligation

Accounting Standards Codification Topic 842, also known as ASC 842 and ASU 2016-02, is the new lease accounting standard published by the FASB. ASC 842 represents a significant modification to the accounting treatment for leases, with the most significant change being that most leases, including operating leases, will now be capitalized on the balance sheet. Under the previous guidance (ASC 840), FASB permitted operating leases to be reported only in the footnotes of corporate financial statements. Under ASC 842, the only leases that are exempt from the capitalization requirement are short-term leases less than or equal to twelve months in length.

The operating lease liability obligation is calculated as the present value of the lease payments, using the discount rate specified in the lease, or if that is not available, our incremental borrowing rate. At December 31, 2020 and 2019, the balance of the operating lease liability obligation was $77.6 million and $68.9 million, respectively.

Shareholders' Equity

Total shareholders' equity increased $58.9 million to $308.1 million at December 31, 2020 compared to $249.2 million at December 31, 2019. The increase was primarily due to the net proceeds of a preferred stock offering of $48.3 million completed during 2020. The balance was also affected by a $4.5 million decrease in accumulated other comprehensive losses associated with an increase in the market value of the investment securities portfolio, and an increase driven by net income available to common shareholders of $4.1 million, and entries related to stock based compensation of $1.9 million. The shift in market value of the securities portfolio was primarily driven by a decrease in market interest rates which drove an increase in the market value of the securities held in our portfolio.

Investment Securities Portfolio

Republic's investment securities portfolio is intended to provide liquidity and contribute to earnings while diversifying credit risk. We attempt to maximize earnings while minimizing our exposure to interest rate risk. Investment securities in the portfolio consist primarily of U.S. Government agency collateralized mortgage obligations (CMO), agency mortgage-backed securities (MBS), corporate bonds, municipal securities, U.S. Government agency Small Business Investment Company bonds (SBIC), and Small Business Administration (SBA) bonds. Equity securities in the portfolio consist of non-cumulative preferred stock. Our ALCO committee monitors and reviews all security purchases.

A summary of investment securities available for sale at fair value, investment securities held-to-maturity, and equity securities at December 31, 2020, 2019, and 2018 is as follows:

	At December 31,		
(dollars in thousands)	2020	2019	2018
Investment securities available for sale			
U.S. Government agencies	$ 32,312	$ 38,743	$ -
Collateralized mortgage obligations	218,232	329,492	197,812
Agency mortgage-backed securities	149,325	98,953	39,105
Municipal securities	8,201	4,064	20,807
Corporate bonds	119,118	69,499	62,583
Asset-backed securities	-	-	6,433
Amortized cost of investment securities available for sale	$ 527,188	$ 540,751	$ 326,740
Fair value of investment securities available for sale	$ 528,508	$ 539,042	$ 321,014
Investment securities held to maturity			
U.S. Government agencies	$ 82,093	$ 94,913	$ 107,390
Collateralized mortgage obligations	363,363	416,177	500,690
Agency mortgage-backed securities	369,480	133,752	153,483
Amortized cost of investment securities held to maturity	$ 814,936	$ 644,842	$ 761,563
Fair value of investment securities held to maturity	$ 836,972	$ 653,109	$ 747,323
Equity Securities	$ 9,039	$ -	$ -

The total amortized cost of the investment securities portfolio has grown to $1.3 billion at December 31, 2020 compared to $1.2 billion at December 31, 2019, and $1.1 billion at December 31, 2018. Investment securities represented 27% of total assets at December 31, 2020 and 35% of total assets at December 31, 2019. We evaluate our investment securities portfolio on a continual basis in light of the interest rate environment and changing market conditions and when appropriate, take necessary actions to improve and enhance our overall positioning. We consider the portfolio to be well structured and of high quality. At December 31, 2020, 91% of the portfolio consisted of U.S. government debt securities or U.S. government agency issued mortgage-backed securities which were rated Aaa /AA+ by the major credit rating agencies.

The investment securities portfolio includes investment securities classified as both available for sale and held to maturity and equity securities at fair value. During 2020 and 2019, we designated a portion of our securities portfolio as held to maturity based our intent and ability to hold those securities until they mature.

The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. The fair value of investment securities generally decreases when interest rates rise and increases when interest rates fall. In addition, the fair value generally decreases when credit spreads widen and increases when credit spreads tighten. Net unrealized gains in the total investment securities portfolio were $23.4 million at December 31, 2020 compared to net unrealized gains of $6.6 million at December 31, 2019. The increase was a result of a decrease in market interest rates in 2020. The comparable amounts for the securities classified as available for sale were unrealized gains of $1.3 million at December 31, 2020 and unrealized losses of $1.7 million at December 31, 2019.

No single issuer of securities (excluding government agencies) in the portfolio exceeded more than 10% of shareholders' equity at December 31, 2020 and December 31, 2019. We held four U.S. Government agency securities, fifteen collateralized mortgage obligations and six agency mortgage-backed securities that were in an unrealized loss position at December 31, 2020. Principal and interest payments of the underlying collateral for each of these securities carry minimal credit risk. Management found no evidence of OTTI on any of these securities and believes the unrealized losses are due to fluctuations in fair values resulting from changes in market interest rates and are considered temporary as of December 31, 2020.

At December 31, 2020, the investment portfolio included eleven municipal securities with a total market value of $8.2 million. These securities are reviewed quarterly for impairment. Each bond carries an investment grade rating by either Moody's or Standard & Poor's. In addition, we periodically conduct our own independent review on each issuer to ensure the financial stability of the municipal entity. The largest geographic concentration was in Pennsylvania and New Jersey where nine municipal securities had a market value of $7.4 million. As of December 31, 2020, management found no evidence of other than temporary impairment ("OTTI") on any of the municipal securities held in the investment securities portfolio.

At December 31, 2020, the investment portfolio included nine corporate bonds that were in an unrealized loss position. Management believes the unrealized losses on these securities were also driven by changes in market interest rates and not a result of credit deterioration. Eight of the nine corporate bonds are with five of the largest U.S. financial institutions. Each financial institution is well capitalized.

Proceeds associated with the sale of securities available for sale in 2020 were $125.2 million. Gross gains of $3.0 million and gross losses of $230,000 were realized on these sales. The tax provision applicable to the net gains of $2.8 million for the year ended December 31, 2020 amounted to $700,000.

Proceeds associated with the sale of securities available for sale in 2019 were $54.7 million. Gross gains of $1.2 million and gross losses of $67,000 were realized on these sales. The tax provision applicable to the net gains of $1.1 million for the year ended December 31, 2019 amounted to $280,000.

Proceeds associated with the sale of securities available for sale in 2018 were $6.4 million. Gross losses of $67,000 were realized on these sales. The tax benefit applicable to the net losses for the year ended December 31, 2018 amounted to $18,000. Included in the 2018 sales activity was the sale of one CDO security. Proceeds from the sale of the CDO security totaled $660,000. A gross loss of $66,000 was realized on this sale. The tax benefit applicable to the net loss for the twelve months ended December 31, 2018 amounted to $17,000. Management had previously stated that it did not intend to sell the CDO security prior to its maturity or the recovery of its cost basis, nor would it be forced to sell this security prior to maturity or recovery of the cost basis. This statement was made over a period of several years where there was limited trading activity in the pooled trust preferred CDO market resulting in fair market value estimates well below the book values. During 2018, management received several inquiries regarding the availability of the remaining CDO security and noted an increased level of trading in this type of security. As a result of the increased activity and the level of bids received, management elected to sell the remaining CDO security resulting in a net loss of $66,000 during 2018.

The following table presents the maturity distribution and weighted average yield by holding type and year of maturity of our investment securities portfolio at December 31, 2020. Collateralized mortgage obligations and agency mortgage-backed securities have expected maturities that differ from contractual maturities because borrowers have the right to call or prepay and, therefore, these securities are classified separately with no specific maturity date. Equity securities are at fair value.

	December 31, 2020												
	Within One Year		One to Five Years		Five to Ten Years		Past Ten Years		No Specific Maturity		Total		
(dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Fair value	Amortized Cost	Yield
Available for Sale													
U.S. Government Agencies	$ -	-	$ 31,886	1.34%	$ -	-	$ -	-	$ -	-	$ 31,886	$ 32,312	1.34%
Collateralized mortgage obligations	-	-	-	-	-	-	-	-	221,546	1.61%	221,546	218,232	1.61%
Agency mortgage-backed securities	-	-	-	-	-	-	-	-	150,528	1.88%	150,528	149,325	1.88%
Municipal securities	1,301	3.30%	1,009	2.06%	5,915	3.04%	-	-	-	-	8,225	8,201	2.96%
Corporate bonds	11,676	3.59%	43,531	2.35%	44,393	1.47%	16,723	1.81%	-	-	116,323	119,118	2.08%
Total AFS securities	$12,977	3.56%	$ 76,426	1.92%	$ 50,308	1.66%	$16,723	1.81%	$372,074	1.72%	$528,508	$527,188	1.73%
Held to Maturity													
U.S. Government Agencies	$ 763	2.36%	$ 77,214	2.45%	$ 8,301	2.62%	$ -	-	$ -	-	$ 86,278	$ 82,093	2.47%
Collateralized mortgage obligations	-	-	-	-	-	-	-	-	375,819	1.80%	375,819	363,363	1.80%
Agency mortgage-backed securities	-	-	-	-	-	-	-	-	374,875	1.77%	374,875	369,480	1.77%
Total HTM securities	$ 763	2.36%	$ 77,214	2.45%	$ 8,301	2.62%	$ -	-	$750,694	1.78%	$836,972	$814,936	2.41%
Equity Securities	$ -	-	$ -	-	$ -	-	$ -	-	$ 9,039	-	$ 9,039	-	-

Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of our 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 we could have realized in a sale transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

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

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

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

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

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

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

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

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

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, and may be adjusted to reflect illiquidity and/or non-transferability, with such adjustment generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Subsequent to inception, management only changes Level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows. There was one Level 3 investment security classified as available-for-sale at December 31, 2020. This security is a corporate bond.

The trust preferred securities held during 2018 were pools of similar securities that are grouped into an asset structure commonly referred to as collateralized debt obligations ("CDOs") which consist of the debt instruments of various banks, diversified by the number of participants in the security as well as geographically. The secondary market for these securities had become inactive, and therefore the securities were classified as a Level 3 securities. The fair value analysis did not reflect or represent the actual terms or prices at which any party could purchase the securities. The last trust preferred security was sold in 2018.

The following table presents a reconciliation of the securities available for sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2020, 2019, and 2018:

Level 3 Investments Only *(dollars in thousands)*	**Year Ended December 31, 2020**		**Year Ended December 31, 2019**		**Year Ended December 31, 2018**	
	Trust Preferred Securities	**Corporate Bonds**	**Trust Preferred Securities**	**Corporate Bonds**	**Trust Preferred Securities**	**Corporate Bonds**
Balance, January 1,	$ -	$ 2,820	$ -	$ 3,069	$ 489	$ 3,086
Security transferred to Level 3 measurement	-	-	-	-	-	-
Unrealized (losses) gains	-	(189)	-	(249)	237	(17)
Paydowns	-	-	-	-	-	-
Proceeds from sales	-	-	-	-	(660)	-
Realized losses	-	-	-	-	(66)	-
Impairment charges on Level 3	-	-	-	-	-	-
Balance, December 31,	$ -	$ 2,631	$ -	$ 2,820	$ -	$ 3,069

An independent, third party pricing service was used to estimate the current fair market value of the CDO previously held in the investment securities portfolio. The calculations used to determine fair value were based on the attributes of the trust preferred security, the financial condition of the issuers of the trust preferred security, and market based assumptions. The INTEX CDO Deal Model Library was utilized to obtain information regarding the attributes of the security and its specific collateral as of December 31, 2018. Financial information on the issuers was also obtained from Bloomberg, the FDIC, and S&P Global Market Intelligence. 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.

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

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

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

Loan Portfolio

Our loan portfolio consists of secured and unsecured commercial loans including commercial real estate loans, construction and land development loans, commercial and industrial loans, owner occupied real estate loans, consumer and other loans, residential mortgages and PPP loans. Commercial loans are primarily secured term loans made to small to medium-sized businesses and professionals for working capital, asset acquisition and other purposes. Commercial loans are originated as either fixed or variable rate loans with typical terms of 1 to 5 years. Republic's commercial loans typically range between $250,000 and $5.0 million, but customers may borrow significantly larger amounts up to Republic's legal lending limit of approximately $45 million at December 31, 2020. Management has established an internal monitoring guideline for loan relationships in the amount of $30 million which approximates 10% of capital and reserves. Individual customers may have several loans often secured by different collateral. We had no loan relationships in excess of $30 million at December 31, 2020. The internal monitoring guideline in place as of December 31, 2019 was $25 million. We had one loan relationship in excess of that guideline at December 31, 2019 that amounted to $28.0 million.

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

At December 31, 2020, we had loan concentrations exceeding 10% of total loans for credits extended to lessors of nonresidential real estate in the aggregate amount of $453.5 million, which represented 17% of gross loans receivable. Loan concentrations are considered to exist when amounts are loaned to multiple numbers of borrowers engaged in similar activities that management believes would cause them to be similarly impacted by economic or other conditions. At December 31, 2020, we had no foreign loans outstanding.

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

	At December 31,				
(dollars in thousands)	**2020**	**2019**	**2018**	**2017**	**2016**
Commercial real estate	$ 705,748	$ 613,631	$ 515,738	$ 433,304	$ 378,519
Construction and land development	142,821	121,395	121,042	104,617	61,453
Commercial and industrial	200,188	223,906	200,423	173,343	174,744
Owner occupied real estate	475,206	424,400	367,895	309,838	276,986
Consumer and other	102,368	101,320	91,152	76,183	63,660
Residential mortgage	395,174	263,444	140,364	64,764	9,682
Paycheck protection program	636,637	-	-	-	-
Total loans	$ 2,658,142	$ 1,748,096	$ 1,436,614	$ 1,162,049	$ 965,044
Deferred loan costs (fees)	(12,800)	99	(16)	229	(72)
Total loans, net of deferred loan fees	2,645,342	1,748,195	1,436,598	1,162,278	964,972

Total loans, net of deferred loan costs, increased $897 million, or 51%, to $2.6 billion at December 31, 2020, versus $1.7 billion at December 31, 2019. This growth includes more than $600 million in PPP loans. Excluding the impact of the PPP loan program loans grew $273 million, or 16%, year over year.

Loan Maturity and Interest Rate Sensitivity

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

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Paycheck Protection Program	Total
Fixed rate:								
1 year or less	$ 56,728	$ 3,123	$ 6,565	$ 49,042	$ 702	$ -	$ -	$ 116,160
1-5 years	417,914	84,058	96,277	209,732	1,702	-	636,637	1,446,320
After 5 years	210,427	11,298	40,141	138,200	12,930	393,076	-	806,072
Total fixed rate	685,069	98,479	142,983	396,974	15,334	393,076	636,637	2,368,552
Adjustable rate:								
1 year or less	$ 16,435	$ 26,772	$ 46,184	$ 10,723	$ 1,057	$ -	$ -	$ 101,171
1-5 years	3,866	17,516	4,305	5,509	2,767	-	-	33,963
After 5 years	378	54	6,716	62,000	83,210	2,098	-	154,456
Total adjustable rate	20,679	44,342	57,205	78,232	87,034	2,098	-	289,590
Total	$ 705,748	$ 142,821	$ 200,188	$ 475,206	$ 102,368	$ 395,174	$ 636,637	$ 2,658,142

In the ordinary course of business, loans maturing within one year may be renewed, in whole or in part, as to principal amount, and at interest rates prevailing at the date of renewal. At December 31, 2020, 89% of total loans were fixed rate compared to 82% at December 31, 2019.

Loss Mitigation and Loan Portfolio Analysis

We have taken a proactive approach to analyze and prepare for the potential challenges to be faced as the effects of the COVID-19 pandemic continue to unfold. A detailed analysis of loan concentrations and segments that may present the areas of highest risk has been prepared. Our commercial lending team has initiated contact with a majority of our loan customers to discuss the impact that this pandemic crisis has had on their businesses to date and the expected ramifications that could be felt in the future. We have executed loan modifications and initiated payment deferrals for all customers that had an immediate need for assistance.

Pursuant to the CARES Act, loan modifications made between March 1, 2020 and the earlier of i) December 30, 2020 or ii) 60 days after the President declares a termination of the COVID-19 national emergency are not classified as TDRs if the related loans were not more than 30 days past due as of December 31, 2019. In December 2020, the Economic Aid Act was signed into law which amended certain sections of the CARES Act. This amendment extended the period to suspend the requirements under TDR accounting guidance to the earlier of i) January 1, 2022 or ii) 60 days after the President declares a termination of the national emergency related to the COVID-19 pandemic. Deferrals reached a peak during the second quarter of 2020, at which time we had granted payment deferrals to 491 customers with outstanding balances of $444 million, or 24% of total loans outstanding. As of December 31, 2020, deferrals declined to 21 customers with outstanding balances of $16 million, or less than 1% of total loans outstanding. At December 31, 2020, approximately $4 million of the deferral requests were for deferment of principal balances only. The remaining deferrals include requests to defer both principal and interest payments. Deferrals as of December 31, 2020 were comprised of the following categories: 90 day deferrals

amounted to 8 customers with outstanding balances of $3 million and second deferrals amounted to 13 customers with outstanding balances of $13 million.

As a result of the recent changes in economic conditions, we have increased the qualitative factors for certain components of Republic's allowance for loan loss calculation. We have also taken into consideration the probable impact that the various stimulus initiatives provided through the CARES Act, along with other government programs, may have to assist borrowers during this period of economic stress. We believe the combination of ongoing communication with our customers, loan to values on underlying collateral, loan payment deferrals, increased focus on risk management practices, and access to government programs such as the PPP should help mitigate potential future period losses. We will continue to closely monitor all key economic indicators and our internal asset quality metrics as the effects of the coronavirus pandemic begin to unfold. Based on the incurred loss methodology currently utilized by Republic, the provision for loan losses and charge-offs may be impacted in future periods, but more time is needed to fully understand the magnitude and length of the economic downturn and the full impact on our loan portfolio.

Credit Quality

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

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

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

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

	At December 31,				
(dollars in thousands)	**2020**	**2019**	**2018**	**2017**	**2016**
Loans accruing, but past due 90 days or more	$ 612	$ -	$ -	$ -	$ 302
Non-accrual loans:					
Commercial real estate	4,421	4,159	4,631	8,963	13,089
Construction and land development	-	-	-	-	-
Commercial and industrial	2,963	3,087	3,661	2,895	3,151
Owner occupied real estate	2,859	3,337	1,188	2,136	1,546
Consumer and other	1,302	1,062	861	851	808
Residential mortgage	701	768	-	-	-
Paycheck Protection Program	-	-	-	-	-
Total non-accrual loans	12,246	12,413	10,341	14,845	18,594
Total non-performing loans[(1)]	12,858	12,413	10,341	14,845	18,896
Other real estate owned	1,188	1,730	6,223	6,966	10,174
Total non-performing assets[(1)]	$ 14,046	$ 14,143	$ 16,564	$ 21,811	$ 29,070
Non-performing loans as a percentage of total loans, net of unearned income[(1)]	0.49%	0.71%	0.72%	1.28%	1.96%
Non-performing assets as a percentage of total assets	0.28%	0.42%	0.60%	0.94%	1.51%

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

Problem loans can consist of loans that are performing, but for which potential credit problems of the borrowers have caused management to have serious doubts as to the ability of such borrowers to continue to comply with present repayment terms. At December 31, 2020, all identified problem loans included in the preceding table are internally classified and have been evaluated for a specific reserve allocation in the allowance for loan losses (see discussion on “Allowance for Loan Losses”).

Non-performing assets decreased by $97 thousand, or 1%, to $14.0 million at December 31, 2020, compared to $14.1 million at December 31, 2019. An increase in non-performing loans was driven by additions to non-performing loans of $3.2 million during 2020, offset by payments of $2.3 million, transfers to other real estate owned of $233,000, charge-offs of $199,000, and a write down of $31,000. The reduction in other real estate owned was the result of the disposition of two OREO properties for a total of $744,000 offset by the addition of one property for a total of $233,000.

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

	For the Year Ended December 31,				
(dollars in thousands)	**2020**	**2019**	**2018**	**2017**	**2016**
Interest income that would have been recorded had the loans been in accordance with their original terms	$ 718	$ 548	$ 498	$ 590	$ 1,024
Interest income included in net income	$ -	$ -	$ -	$ -	$ -

Allowance for Loan Losses

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

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

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

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

A detailed analysis of our allowance for loan losses for the years ended December 31, 2020, 2019, 2018, 2017, and 2016 is as follows:

(dollars in thousands)	For the Year Ended December 31, 2020	2019	2018	2017	2016
Balance at beginning of period	$ 9,266	$ 8,615	$ 8,599	$ 9,155	$ 8,703
Charge-offs:					
Commercial real estate	-	-	1,603	-	-
Construction and land development	-	-	-	-	60
Commercial and industrial	333	1,356	151	1,366	143
Owner occupied real estate	48	-	465	157	1,052
Consumer and other	107	126	219	53	11
Residential mortgage	67	-	-	-	10
Paycheck Protection Program	-	-	-	-	-
Total charge-offs	555	1,482	2,438	1,576	1,276
Recoveries:					
Commercial real estate	-	-	50	54	6
Construction and land development	3	-	-	-	-
Commercial and industrial	48	217	81	64	163
Owner occupied real estate	1	2	20	-	-
Consumer and other	12	9	3	2	2
Residential mortgage	-	-	-	-	-
Paycheck Protection Program	-	-	-	-	-
Total recoveries	64	228	154	120	171
Net charge-offs	491	1,254	2,284	1,456	1,105
Provision for loan losses	4,200	1,905	2,300	900	1,557
Balance at end of period	$ 12,975	$ 9,266	$ 8,615	$ 8,599	$ 9,155
Average loans outstanding[(1)]	$ 2,359,169	$ 1,544,904	$ 1,340,117	$ 1,090,851	$ 936,492
As a percent of average loans:[(1)]					
Net charge-offs	0.02%	0.08%	0.17%	0.13%	0.12%
Provision for loan losses	0.18%	0.12%	0.17%	0.08%	0.17%
Allowance for loan losses	0.55%	0.60%	0.64%	0.79%	0.98%
Allowance for loan losses to:					
Total loans, net of unearned income	0.49%	0.53%	0.60%	0.74%	0.95%
Total non-performing loans	100.91%	74.65%	83.31%	57.93%	48.45%

(1) Includes non-accruing loans.

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that management believes is adequate to absorb inherent losses in the loan portfolio. We recorded a loan loss provision in the amount of $4.2 million in 2020 compared to a $1.9 million provision in 2019. The increase in the provision during 2020 was driven by an increase required for loans collectively evaluated for impairment. This change was primarily caused by the uncertainty surrounding the economic environment as a result of the COVID-19 pandemic. Qualitative factors in the calculation of the provision for loan losses were adjusted to account for this uncertainty.

The ratio of non-performing assets to total assets declined to 0.28% as of December 31, 2020 compared to 0.42% as of December 31, 2019. Net charge-offs as a percentage of average loans outstanding declined to 0.02% for the year ended December 31, 2020 from 0.08% for the year ended December 31, 2019.

The allowance for loan losses as a percentage of non-performing loans (coverage ratio) was 101% at December 31, 2020 as compared to 75% at December 31, 2019 and 83% at December 31, 2018. The increase in the coverage ratio during 2020 was mainly driven by the increase in the allowance for loan losses during 2020 driven by the conditions described earlier. All loans individually evaluated for impairment are adequately secured with collateral and/or specific reserves. Coverage is considered adequate by management as of December 31, 2020.

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

We evaluate loans for impairment and potential charge-offs on a quarterly basis. Any loan rated as substandard or lower will have a collateral evaluation analysis completed in accordance with the guidance under generally accepted accounting principles (GAAP) on impaired loans to determine if a deficiency exists. Our credit monitoring process assesses the ultimate collectability of an outstanding loan balance from all potential sources. When a loan is determined to be uncollectible it is charged-off against the allowance for loan losses. Unsecured commercial loans and all consumer loans are charged-off immediately upon reaching the 90-day delinquency mark unless they are well secured and in the process of collection. The timing on charge-offs of all other loan types is subjective and will be recognized when management determines that full repayment, either from the cash flow of the borrower, collateral sources, and/or guarantors, will not be sufficient and that repayment is unlikely. A full or partial charge-off is recognized equal to the amount of the estimated deficiency calculation.

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

Partial charge-offs of non-performing and impaired loans can significantly reduce the coverage ratio and other credit loss statistics due to the fact that the balance of the allowance for loan losses will be reduced while still carrying the remainder of a non-performing loan balance in the impaired loan category. The amount of non-performing loans for which partial charge-offs have been recorded during the year amounted to $1.1 million at December 31, 2020 compared to $3.6 million at December 31, 2019. This decrease was primarily driven by full charge-offs during 2019. Our charge-off policy is reviewed on an annual basis and updated as necessary. During the twelve months ended December 31, 2020, there have been no changes made to this policy.

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

Estimating the appropriate level of the allowance for loan losses at any given date is difficult, particularly in a continually changing economy. In management’s opinion, the allowance for loan losses was appropriate at December 31, 2020. However, there can be no assurance that, if asset quality deteriorates in future periods, additions to the allowance for loan losses will not be required.

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

The allocation of the allowance for loan losses for the past five years is as follows:

	At December 31,									
	2020		2019		2018		2017		2016	
(dollars in thousands)	**Amount**	**% of Loans**	**Amount**	**% of Loans**	**Amount**	**% of Loans**	**Amount**	**% of Loans**	**Amount**	**% of Loans**
Commercial real estate	$ 4,394	26.6%	$ 3,043	35.1%	$ 2,462	35.9%	$ 3,774	37.3%	$ 3,254	39.2%
Construction and land development	948	5.4%	688	6.9%	777	8.4%	725	9.0%	557	6.4%
Commercial and industrial	1,367	7.5%	931	12.8%	1,754	14.0%	1,317	14.9%	2,884	18.1%
Owner occupied real estate	2,374	17.9%	2,292	24.3%	2,033	25.6%	1,737	26.7%	1,382	28.7%
Consumer and other	723	3.9%	590	5.8%	577	6.3%	573	6.5%	588	6.6%
Residential mortgage	3,025	14.9%	1,705	15.1%	894	9.8%	392	5.6%	58	1.0%
Paycheck Protection Program	-	24.0%	-	0%	-	0%	-	0%	-	0%
Unallocated	144	-	17	-	118	-	81	-	432	-
Total allowance for loan losses	$ 12,975	100%	$ 9,266	100%	$ 8,615	100%	$ 8,599	100%	$ 9,155	100%

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

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

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

1. Lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices.
2. National, regional and local economic and business conditions as well as the condition of various segments.
3. Nature and volume of the portfolio and terms of loans.

4. Experience, ability and depth of lending management and staff.
5. Volume and severity of past due, classified and nonaccrual loans as well as other loan modifications.
6. Quality of our loan review system, and the degree of oversight by our Board of Directors.
7. Existence and effect of any concentration of credit and changes in the level of such concentrations.
8. Effect of external factors, such as competition and legal and regulatory requirements.

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

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

The majority of our loan portfolio represents loans made for commercial purposes, while significant amounts of residential property may serve as collateral for such loans. We attempt to evaluate larger loans individually, on the basis of our loan review process, which scrutinizes loans on a selective basis and other available information. Even if all commercial purpose loans could be reviewed, information on potential problems might not be available. Our portfolio of loans made for purposes of financing residential mortgages and consumer loans are evaluated in groups. PPP loans include an embedded credit enhancement guarantee from the SBA, which guarantees 100% of the principal and interest owed by the borrower.

A loan is considered impaired, in accordance with ASC 310, when based on current information and events, it is probable that we will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans, but also include internally classified accruing loans. As of December 31, 2020, management identified one troubled debt restructuring in the loan portfolio in the amount of $4.5 million. One troubled debt restructuring in the amount of $6.2 million was identified as of December 31, 2019.

The following table presents our impaired loans at December 31, 2020, 2019, and 2018:

(dollars in thousands)	December 31,		
	2020	2019	2018
Impaired loans without a valuation allowance	$ 12,842	$ 12,862	$ 10,602
Impaired loans with a valuation allowance	5,127	6,020	7,428
Total impaired loans	$ 17,969	$ 18,882	$ 18,030
Valuation allowance related to impaired loans	$ 591	$ 556	$ 1,473
Total nonaccrual loans	12,246	12,413	10,341
Total loans past-due ninety days or more and still accruing	612	-	-

For the years ended December 31, 2020, 2019, and 2018, the average recorded investment in impaired loans was approximately $19.6 million, $18.1 million, and $22.8 million, respectively. Republic earned $478,000, $386,000, and $451,000 of interest income on impaired loans (internally classified accruing loans) in 2020, 2019, and 2018, respectively. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

Total impaired loans decreased by $913,000, or 5%, during the year ended December 31, 2020. This decrease demonstrates the Company's continued focus on maintaining its high standard of asset quality. The valuation allowance related to impaired loans increased to $591,000 at December 31, 2020 compared to $556,000 at December 31, 2019. At December 31, 2020 and 2019, internally classified accruing loans totaled approximately $1.8 million and $2.3 million, respectively.

The following table presents our 30 to 89 days past due loans at December 31, 2020, 2019, and 2018:

(dollars in thousands)	At December 31,		
	2020	2019	2018
30 to 59 days past due	$ 2,321	$ 112	$ 1,135
60 to 89 days past due	938	1,823	1,574
Total loans 30 to 89 days past due	$ 3,259	$ 1,935	$ 2,709

Management has engaged in active discussions with all delinquent relationships to address delinquencies and is confident that acceptable resolutions will be achieved in the near term.

Deposits

Total deposits at December 31, 2020 were $4.0 billion, an increase of $1.0 billion or 34% from total deposits of $3.0 billion at December 31, 2019. Total deposits by account type at December 31, 2020, 2019, and 2018 are as follows:

(dollars in thousands)	At December 31,		
	2020	2019	2018
Demand deposits, non-interest bearing	$ 1,006,876	$ 661,431	$ 519,056
Demand deposits, interest bearing	1,776,995	1,352,360	1,042,561
Money market & savings deposits	1,043,519	761,793	676,993
Time deposits	186,361	223,579	154,257
Total deposits	$ 4,013,751	$ 2,999,163	$ 2,392,867

In general, Republic pays higher interest rates on time deposits compared to other deposit categories. Republic's various deposit liabilities may fluctuate from period-to-period, reflecting customer behavior and strategies to optimize net interest income. The increase in total deposits of $1.0 billion to $4.0 billion at December 31, 2020 from $3.0 billion at December 31, 2019 was primarily the result of a $770.1 million increase in demand deposits, which reflects the success of our strategy based on a high level of customer service and satisfaction, which in turn drives the gathering of low-cost core deposits. This strategy has also allowed us to eliminate our dependence on the more volatile source of funding in brokered and internet based certificates of deposit.

We continued to have success with our strategy during 2020 which lead to the growth in deposit balances even in a year filled with challenges, governmental restrictions and business closings due to the COVID-19 pandemic. Our participation in the PPP loan program also resulted in significant growth in new deposit relationships throughout the year. Approximately half of the applications that we accepted for the PPP program were from businesses that were not Republic Bank customers at the time. Many of those applicants were so pleased with their experience during the PPP process that they chose to move their primary banking relationship to Republic. On a percentage basis the largest increase in deposits was in the non-interest bearing demand deposit category. These deposits grew by 52% during 2020 which demonstrates the success of our strategy outlined above.

The average balances and weighted average rates of Republic's interest bearing deposits for the last three years are as follows:

	For the Years Ended December 31,					
	2020		2019		2018	
(dollars in thousands)	**Average Balance**	**Rate**	**Average Balance**	**Rate**	**Average Balance**	**Rate**
Interest bearing demand deposits	$ 1,509,826	0.84%	$ 1,184,530	1.32%	$ 918,508	0.87%
Money market & savings deposits	916,607	0.68%	705,445	0.98%	697,135	0.70%
Time deposits	211,636	1.82%	190,567	2.02%	128,892	1.23%
Total interest bearing deposits	$ 2,638,069	0.86%	$ 2,080,542	1.26%	$1,744,535	0.83%

The remaining maturity of certificates of deposit for $100,000 or more as of December 31, 2020 is as follows:

(dollars in thousands)	
Maturity:	
3 months or less	$ 31,966
3 to 6 months	62,898
6 to 12 months	33,031
Over 12 months	16,998
Total	$ 144,893

The following is a summary of the remaining maturity of time deposits, which includes certificates of deposits of $100,000 or more, as of December 31, 2020:

(dollars in thousands)	
Maturity:	
2021	$ 162,450
2022	19,210
2023	1,443
2024	805
2025	2,453
Thereafter	-
Total	$ 186,361

Off-Balance Sheet Arrangements

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

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

Financial instruments whose contract amounts represent potential credit risk are commitments to extend credit of approximately $428.9 million and $329.9 million and standby letters of credit of approximately $16.6 million and $17.2 million at December 31, 2020 and 2019, respectively. Commitments often expire without being drawn upon. The $428.9 million of commitments to extend credit at December 31, 2020, substantially all were variable rate commitments.

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

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

Contractual Obligations and Other Commitments

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows as of December 31, 2020:

(dollars in thousands)	Total	Less than One Year	One to Three	Three to Five	After Five
Minimum annual rentals or non-cancellable operating leases	$ 124,093	$ 8,260	$ 15,719	$ 14,938	$ 85,176
Other borrowings	633,866	-	614,601	19,265	-
Branch construction commitments	2,509	2,509	-	-	-
Remaining contractual maturities of time deposits	186,361	162,450	20,653	3,258	-
Subordinated debt	11,341	18	-	-	11,323
Director and Officer retirement plan obligations	1,092	686	104	104	198
Loan commitments	428,875	174,121	92,981	48,066	113,707
Standby letters of credit	16,587	15,809	778	-	-
Total	$ 1,404,724	$ 363,853	$ 744,836	$ 85,631	$ 210,404

As of December 31, 2020, we had entered into non-cancelable lease agreements for our main office and operations center, twenty current and pending retail branch facilities, five loan offices, one storage facility, and fifteen equipment leases expiring on various dates through December 31, 2058. The leases are accounted for as operating leases. The minimum rental payments required under these leases are $99.4 million through the year 2058.

We have retirement plan agreements with certain directors and officers. At December 31, 2020, the accrued benefits under the plan were approximately $1.1 million, with a minimum age of 65 established to qualify for the payments.

Interest Rate Risk Management

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

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

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

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

The following tables present a summary of our GAP analysis at December 31, 2020. Amounts shown in the table include both estimated maturities and instruments scheduled to re-price, including prime based loans. For purposes of these tables, we have used assumptions based on industry data and historical experience to calculate the expected maturity of loans because, statistically, certain categories of loans are prepaid before their maturity date, even without regard to interest rate fluctuations. Additionally, certain prepayment assumptions were made with regard to investment securities based upon the expected prepayment of the underlying collateral of the mortgage-backed securities.

Interest Rate Sensitivity Gap
As of December 31, 2020

(dollars in thousands)	**0 – 90 Days**	**91-180 Days**	**181-365 Days**	**1-2 Years**	**2-3 Years**	**3-5 Years**	**More than 5 Years**	**Financial Statement Total**	**Fair Value**
Interest sensitive assets:									
Investment securities and other interest-bearing balances	$ 928,001	$ 112,052	$ 149,697	$ 170,853	$ 128,089	$ 214,500	$ 387,525	$ 2,090,717	$ 2,123,112
Loans receivable	898,847	86,889	162,289	411,243	263,171	446,377	363,551	2,632,367	2,618,104
Total	$ 1,826,848	$ 198,941	$ 311,986	$ 582,096	$ 391,260	$ 660,877	$ 751,076	$ 4,723,084	$ 4,741,216
Cumulative totals	$ 1,826,848	$ 2,025,789	$ 2,337,775	$ 2,919,871	$ 3,311,131	$ 3,972,008	$ 4,723,084		
Interest sensitive liabilities:									
Demand interest bearing[1]	$ 1,776,995	$ -	$ -	$ -	$ -	$ -	-	$ 1,776,995	$ 1,776,995
Savings accounts[1]	327,195	-	-	-	-	-	-	327,195	327,195
Money market accounts[1]	716,324	-	-	-	-	-	-	716,324	716,324
Time deposits	41,358	72,932	48,160	19,209	1,443	3,259	-	186,361	187,292
Other borrowings	-	-	-	614,601	-	19,265	-	633,866	633,866
Subordinated debt	11,271	-	-	-	-	-	-	11,271	8,026
Total	$ 2,873,143	$ 72,932	$ 48,160	$ 633,810	$ 1,443	$ 22,524	-	$ 3,652,012	$ 3,649,698
Cumulative totals	$ 2,873,143	$ 2,946,075	$ 2,994,235	$ 3,628,045	$ 3,629,488	$ 3,652,012	3,652,012		
Interest rate sensitivity GAP	$ (1,046,295)	$ 126,009	$ 263,826	$ (51,714)	$ 389,817	$ 638,353	751,076		
Cumulative GAP	$ (1,046,295)	$ (920,286)	$ (656,460)	$ (708,174)	$ (318,357)	$ 319,996	1,071,072		
Interest sensitive assets/Interest sensitive liabilities	63.58%	68.76%	78.08%	80.48%	91.23%	108.76%	129.33%		
Cumulative GAP/ Total earning assets	(22.15)%	(19.48)%	(13.90)%	(14.99)%	(6.74)%	6.78%	22.68%		

(1) Demand, savings and money market accounts are scheduled to reprice based upon decay rate and run off percentage estimates obtained through a deposit study performed by an independent third party, along with management's estimates of when rates would have to be increased to retain balances in response to competition. Such estimates are necessarily arbitrary and wholly judgmental.

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

Net Portfolio Value and Net Interest Income Analysis

The income simulation models management used to measure interest rate risk and manage interest rate sensitivity generates estimates of the change in net portfolio value (NPV) and net interest income (NII) over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The following table sets forth our NPV as of December 31, 2020 and reflects the changes to NPV as a result of immediate and sustained changes in interest rates as indicated (dollars in thousands):

Change in Interest Rates in Basis Points (Rate Shock)	Net Portfolio Value			NPV as a % of Portfolio Value of Assets	
	Amount	$ Change	% Change	NPV Ratio	Change (in Basis Points)
+400	$ 638,123	$ 134,246	26.64%	14.00%	405
+300	646,952	143,075	28.39%	13.79%	384
+200	635,426	131,549	26.11%	13.17%	322
+100	592,430	88,553	17.57%	11.96%	201
Static	503,877	-	0.00%	9.95%	-
-100	464,134	(169,068)	(33.55)%	6.52%	(343)

In addition to modeling changes in NPV, we also analyze potential changes to NII for a forecasted twelve-month period under rising and falling interest rate scenarios. The following tables shows the NII model as of December 31, 2020 and December 31, 2019:

(dollars in thousands)	December 31, 2020		
Change in Interest Rates in Basis Points[(1)]	Net Interest Income	$ Change	% Change
+400	$ 131,184	27,010	25.93%
+300	125,317	21,143	20.30%
+200	119,142	14,968	14.37%
+100	112,732	8,558	8.22%
Static	104,174	-	0.00%
-100	95,041	(9,133)	(8.76)%

(dollars in thousands)	December 31, 2019		
Change in Interest Rates in Basis Points[(1)]	Net Interest Income	$ Change	% Change
+400	$ 81,477	(2,125)	(2.54)%
+300	83,011	(591)	(0.71)%
+200	84,132	530	0.63%
+100	84,782	1,180	1.41%
Static	83,602	-	0.00%
-100	80,201	(3,401)	(4.06)%

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

As is the case with the GAP table, certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV and NII require the making of certain assumptions, which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the models presented assume that the composition of our interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or re-pricing of specific assets and liabilities. Accordingly, although the NPV measurements and net interest income models provide an indication of interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on net interest income and will differ from actual results.

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

Capital Resources

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

In December 2006, Republic Capital Trust II ("Trust II") issued $6.0 million of trust preferred securities to investors and $0.2 million of common securities to the Company. Trust II purchased $6.2 million of junior subordinated debentures of the Company due 2037, and the Company used the proceeds to call the securities of Republic Capital Trust I ("Trust I"). The debentures supporting Trust II have a variable interest rate, adjustable quarterly, at 1.73% over the 3-month Libor. The Company may call the securities on any interest payment date after five years without a prepayment penalty.

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

On June 10, 2008, the Company caused Republic First Bancorp Capital Trust IV ("Trust IV") to issue $10.8 million of convertible trust preferred securities as part of the Company's strategic capital plan. The securities were purchased by various investors, including Vernon W. Hill, II, founder and chairman (retired) of Commerce Bancorp and, since December 5, 2016, chairman of the Company. This investor group also included a family trust of Harry D. Madonna, president and chief executive officer of Republic First Bancorp, Inc, and Theodore J. Flocco, Jr., who, since the investment, has been elected to the Company's Board of Directors and serves as the Chairman of the Audit Committee. Trust IV also issued $0.3 million of common securities to the Company. Trust IV purchased $11.1 million of junior subordinated debentures

due 2038, which paid interest at an annual rate of 8.0% and were callable after the fifth year under certain terms and conditions. The trust preferred securities of Trust IV were convertible into approximately 1.7 million shares of common stock of the Company, based on a conversion price of $6.50 per share of Company common stock. One independent director converted $240,000 of trust preferred securities into 37,000 shares of common stock in 2017. On January 31, 2018, the Company notified the existing holders of Trust IV of its intent to fully redeem these securities in accordance with the Optional Redemption terms included in the Indenture Agreement. The securities were redeemed on March 31, 2018 at a price equal to the outstanding principal amount. The holders had the option to convert these securities into shares of the Company's common stock at any time until the end of the last business day preceding the redemption date. During the first quarter of 2018, $10.1 million of trust preferred securities were converted into 1.6 million shares of common stock. After redemption of the remaining securities on March 31 2018, Trust IV was dissolved.

Deferred issuance costs included in subordinated debt were $70,000 and $76,000 at December 31, 2020 and December 31, 2019, respectively. Amortization of deferred issuance costs were $6,000, $6,000, and $6,000 for the years ended December 31, 2020, 2019, and 2018, respectively. Deferred issuance costs in the amount of $467,000 were recorded against additional paid in capital during the first quarter of 2018 as a result of the conversion of trust preferred securities into common stock in accordance with ASC 470-20.

Shareholders' equity as of December 31, 2020 totaled approximately $308.1 million compared to approximately $249.2 million as of December 31, 2019. The book value per share of our common stock increased to $4.41 as of December 31, 2020, based upon 58,859,778 shares outstanding, from $4.23 as of December 31, 2019, based upon 58,842,778 shares outstanding at December 31, 2019. Outstanding shares are adjusted for treasury stock and deferred compensation plan shares.

Regulatory Capital Requirements

We are required to comply with certain "risk-based" capital adequacy guidelines issued by the Federal Reserve and the FDIC. The risk-based capital guidelines assign varying risk weights to the individual assets held by a bank. The guidelines also assign weights to the "credit-equivalent" amounts of certain off-balance sheet items, such as letters of credit and interest rate and currency swap contracts.

Under the capital rules, risk-based capital ratios are calculated by dividing common equity Tier 1, Tier 1, and total risk-based capital, respectively, by risk-weighted assets. Assets and off-balance sheet credit equivalents are assigned to one of several categories of risk-weights, based primarily on relative risk. Under applicable capital rules, Republic is required to maintain a minimum common equity Tier 1 capital ratio requirement of 4.5%, a minimum Tier 1 capital ratio requirement of 6%, a minimum total capital requirement of 8% and a minimum leverage ratio requirement of 4%. Under the rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity Tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets.

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

Management believes that the Company and Republic met, as of December 31, 2020 and 2019, all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis. In the current year, the FDIC categorized Republic as well capitalized under the regulatory framework for prompt corrective action provisions of the Federal Deposit Insurance Act. There are no calculations or events since that notification which management believes would have changed Republic's category.

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

The following table presents the Company's and Republic's capital regulatory ratios calculated based on Basel III guidelines at December 31, 2020 and 2019:

(dollars in thousands)	Actual		Minimum Capital Adequacy		Minimum Capital Adequacy with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2020:								
Total risk based capital								
Republic	$ 298,291	12.36%	$ 193,062	8.00%	$ 253,394	10.50%	$ 241,327	10.00%
Company	326,554	13.50%	193,498	8.00%	253,967	10.50%	-	-%
Tier one risk based capital								
Republic	285,316	11.82%	144,796	6.00%	205,128	8.50%	193,062	8.00%
Company	313,579	12.96%	145,124	6.00%	205,592	8.50%	-	-%
CET 1 risk based capital								
Republic	285,316	11.82%	108,597	4.50%	168,929	7.00%	156,863	6.50%
Company	254,254	10.51%	108,843	4.50%	169,311	7.00%	-	-%
Tier one leveraged capital								
Republic	287,114	7.44%	153,414	4.00%	153,414	4.00%	191,767	5.00%
Company	308,113	8.17%	153,621	4.00%	153,621	4.00%	-	-%
At December 31, 2019:								
Total risk based capital								
Republic	$ 252,307	11.94%	$ 169,016	8.00%	$ 221,833	10.50%	$ 211,270	10.00%
Company	261,759	12.37%	169,251	8.00%	222,141	10.50%	-	-%
Tier one risk based capital								
Republic	243,041	11.50%	126,762	6.00%	179,579	8.50%	169,016	8.00%
Company	252,493	11.93%	126,938	6.00%	179,829	8.50%	-	-%
CET 1 risk based capital								
Republic	243,041	11.50%	95,071	4.50%	147,889	7.00%	137,325	6.50%
Company	241,493	11.41%	95,203	4.50%	148,094	7.00%	-	-%
Tier one leveraged capital								
Republic	245,158	7.54%	128,935	4.00%	128,935	4.00%	161,169	5.00%
Company	249,168	7.83%	129,058	4.00%	129,058	4.00%	-	-%

Liquidity

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

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

Our target and actual liquidity levels are determined by comparisons of the estimated repayment and marketability of interest-earning assets with projected future outflows of deposits and other liabilities. Our most liquid assets, comprised of cash and cash equivalents on the balance sheet, totaled $775.3 million at December 31, 2020, compared to $168.3 million at December 31, 2019. Loan maturities and repayments are another source of asset liquidity. At December 31, 2020, Republic estimated that more than $85 million of loans would mature or repay in the six-month period ending June 30, 2021. Additionally, a significant portion of our investment securities are available to satisfy liquidity requirements through sales on the open market or by pledging as collateral to access credit facilities. At December 31, 2020, we had outstanding commitments (including unused lines of credit and letters of credit) of $445.5 million. Certificates of deposit scheduled to mature in one year totaled $162.5 million at December 31, 2020. We anticipate that we will have sufficient funds available to meet all current commitments.

Daily funding requirements have historically been satisfied by generating core deposits and certificates of deposit with competitive rates, buying federal funds or utilizing the credit facilities of the FHLB. We have established a line of credit with the FHLB of Pittsburgh. Our maximum borrowing capacity with the FHLB was $1.1 billion at December 31, 2020. As of December 31, 2020, we had no outstanding overnight borrowings. At December 31, 2020, FHLB had issued a letter on Republic's behalf, totaling $150.0 million against our available credit. Our maximum borrowing capacity with the FHLB was $860.5 million at December 31, 2019. As of December 31, 2019, we had no outstanding overnight borrowings. At December 31, 2019, FHLB had issued a letter on Republic's behalf, totaling $150.0 million against our available credit. We also established a contingency line of credit of $10.0 million with ACBB and a Fed Funds line of credit with Zions Bank in the amount of $15.0 million to assist in managing our liquidity position. We had no amounts outstanding against the ACBB line of credit or the Zions Fed Funds line at both December 31, 2020 and December 31, 2019. As part of the CARES Act, the Federal Reserve Bank of Philadelphia offered secured discounted borrowing capacity to banks that originated PPP loans through the Paycheck Protection Program Liquidity Facility or PPPLF program. At December 31, 2020, the Company pledged $633.9 million of PPP loans to the Federal Reserve Bank of Philadelphia to borrow $633.9 million of funds at a rate of 0.35%.

Variable Interest Entities

We follow the guidance under ASC 810, *Consolidation*, with regard to variable interest entities. ASC 810 clarifies the application of consolidation principles for certain legal entities in which voting rights are not effective in identifying the investor with the controlling financial interest. An entity is subject to consolidation under ASC 810 if the investors do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support, are unable to direct the entity's activities, or are not exposed to the entity's losses or entitled to its residual returns ("variable interest entities"). Variable interest entities within the scope of ASC 810 will be required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity's expected losses, receives a majority of its expected returns, or both.

We do not consolidate our subsidiary trusts. ASC 810 precludes consideration of the call option embedded in the preferred securities when determining if we have the right to a majority of the trusts' expected residual returns. The non-consolidation results in the investment in the common securities of the trusts to be included in other assets with a corresponding increase in outstanding debt of $341,000. In addition, the income received on our investment in the common securities of the trusts is included in other income.

Effects of Inflation

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

Item 7A: Quantitative and Qualitative Disclosure about Market Risk

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

Item 8: Financial Statements and Supplementary Data

The Consolidated Financial Statements of the Company begin on page 87.

Tel: 215-564-1900
Fax: 215-564-3940
www.bdo.com

Ten Penn Center
1801 Market Street, Suite 1700
Philadelphia, PA 19103

Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Republic First Bancorp, Inc. (the "Company") and subsidiaries as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2020 and 2019, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 11, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

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Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses

As described in Notes 2 and 5 to the Company's consolidated financial statements, the Company has a gross loan portfolio of $2.7 billion and related allowance for credit losses of $13.0 million as of December 31, 2020. The allowance for credit losses includes a reserve for loans collectively evaluated for impairment of $12.4 million and loans individually evaluated for impairment of $0.6 million. In calculating the reserve for loans collectively evaluated for impairment, factors considered include quantitative loss factors and qualitative risk factors to estimate inherent losses. Significant judgment is used by management to determine the qualitative factors' effect on the estimation of inherent losses within the collectively evaluated loan portfolio.

We identified the assumptions used by management to estimate the qualitative factors used in the collectively evaluated component of the allowance for credit losses as a critical audit matter. The Company assigns qualitative risk factors reflecting current conditions, including the impact of COVID-19, that are expected to impact the collectability of the loan portfolio. Auditing these complex judgments and assumptions involved especially challenging and subjective auditor judgment due to the nature and extent of audit evidence and effort required to address these matters.

The primary procedures we performed to address this critical audit matter included:

- Assessing the design and operating effectiveness of controls relating to management's review of assumptions used in qualitative risk factors, and the resulting reserve for loans collectively evaluated for impairment.

- Assessing the appropriateness of assumptions and factors that the Company used in forming the qualitative risk factors reflecting current conditions including the impact COVID-19, for collectively evaluated loans and assessing whether such factors were relevant, reliable, and reasonable for the purpose used.

- Evaluating data used in developing the qualitative factors by comparing it to internally developed and other third-party data available in the Company's geography, and evaluating any contradictory evidence identified.

We have served as the Company's auditor since 2013.

BDO USA, LLP

Philadelphia, Pennsylvania
March 11, 2021

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2020 and 2019

(Dollars in thousands, except per share data)

	December 31, 2020	December 31, 2019
ASSETS		
Cash and due from banks	$ 29,746	$ 41,928
Interest bearing deposits with banks	745,554	126,391
Cash and cash equivalents	775,300	168,319
Investment securities available for sale, at fair value	528,508	539,042
Investment securities held to maturity, at amortized cost (fair value of $836,972 and $653,109, respectively)	814,936	644,842
Equity securities	9,039	-
Restricted stock, at cost	3,039	2,746
Mortgage loans held for sale, at fair value	50,387	10,345
Other loans held for sale	2,983	3,004
Loans receivable (net of allowance for credit losses of $12,975 and $9,266, respectively)	2,632,367	1,738,929
Premises and equipment, net	123,170	116,956
Other real estate owned, net	1,188	1,730
Accrued interest receivable	16,120	9,934
Operating lease right-of-use asset	72,946	64,805
Goodwill	-	5,011
Other assets	35,752	35,627
Total Assets	$ 5,065,735	$ 3,341,290
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand – non-interest bearing	$ 1,006,876	$ 661,431
Demand – interest bearing	1,776,995	1,352,360
Money market and savings	1,043,519	761,793
Time deposits	186,361	223,579
Total Deposits	4,013,751	2,999,163
Other borrowings	633,866	-
Accrued interest payable	926	1,630
Other liabilities	20,232	11,208
Operating lease liability	77,576	68,856
Subordinated debt	11,271	11,265
Total Liabilities	4,757,622	3,092,122
Commitments and contingencies (see note 12)	-	-
Shareholders' Equity		
Preferred stock, par value $0.01 per share; liquidation preference $25.00 per share; 10,000,000 shares authorized; share issued 2,000,000 as of December 31, 2020 and no shares as of December 31,2019; shares outstanding 2,000,000 as of December 31, 2020 and no shares as of December 31, 2019	20	-
Common stock, par value $0.01 per share: 100,000,000 shares authorized; shares issued 59,388,623 as of December 31, 2020 and 59,371,623 as of December 31, 2019; shares outstanding 58,859,778 as of December 31, 2020 and 58,842,778 as of December 31, 2019	594	594
Additional paid in capital	322,321	272,039
Accumulated deficit	(8,085)	(12,216)
Treasury stock at cost (503,408 shares as of December 31, 2020 and December 31, 2019)	(3,725)	(3,725)
Stock held by deferred compensation plan (25,437 shares as of December 31, 2020 and December 31, 2019)	(183)	(183)
Accumulated other comprehensive loss	(2,829)	(7,341)
Total Shareholders' Equity	308,113	249,168
Total Liabilities and Shareholders' Equity	$ 5,065,735	$ 3,341,290

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Operations
For the Years Ended December 31, 2020, 2019, and 2018
(Dollars in thousands, except per share data)

	Years Ended December 31,		
	2020	2019	2018
Interest income			
Interest and fees on taxable loans	$ 91,177	$ 72,808	$ 62,502
Interest and fees on tax-exempt loans	2,115	1,689	1,543
Interest and dividends on taxable investment securities	21,059	27,459	26,677
Interest and dividends on tax-exempt investment securities	85	337	505
Interest on federal funds sold and other interest-earning assets	514	2,571	847
Total interest income	114,950	104,864	92,074
Interest expense			
Demand- interest bearing	12,645	15,621	7,946
Money market and savings	6,247	6,796	4,898
Time deposits	3,859	3,850	1,588
Other borrowings	367	790	1,738
Total interest expense	23,118	27,057	16,170
Net interest income	91,832	77,807	75,904
Provision for loan losses	4,200	1,905	2,300
Net interest income after provision for loan losses	87,632	75,902	73,604
Non-interest income			
Loan and servicing fees	2,920	1,568	1,401
Mortgage banking income	17,588	10,125	10,233
Gain on sales of SBA loans	1,741	3,187	3,105
Service fees on deposit accounts	11,058	7,541	5,476
Gain (loss) on sale of investment securities	2,760	1,103	(67)
Other non-interest income	168	214	174
Total non-interest income	36,235	23,738	20,322
Non-interest expenses			
Salaries and employee benefits	56,277	53,888	44,082
Occupancy	14,033	11,565	8,046
Depreciation and amortization	8,177	6,482	5,447
Legal	1,164	1,335	985
Other real estate owned	459	2,109	1,588
Appraisal and other loan expenses	2,368	1,829	1,840
Advertising	1,240	1,930	1,211
Data processing	6,471	5,220	3,855
Insurance	1,172	1,070	996
Professional fees	3,058	2,589	2,048
Debit card processing	3,587	2,467	1,868
Regulatory assessments and costs	2,549	1,228	1,675
Taxes, other	916	837	796
Goodwill impairment	5,011	-	-
Other operating expenses	10,941	11,941	9,284
Total non-interest expense	117,423	104,490	83,721
Income (loss) before provision (benefit) for income taxes	6,444	(4,850)	10,205
Provision (benefit) for income taxes	1,390	(1,350)	1,578
Net income (loss)	$ 5,054	$ (3,500)	$ 8,627
Preferred stock dividends	923	-	-
Net income (loss) available to common stockholders	$ 4,131	$ (3,500)	$ 8,627
Net income (loss) per share			
Basic earnings per common share	$ 0.07	$ (0.06)	$ 0.15
Diluted earnings per common share	$ 0.07	$ (0.06)	$ 0.15

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2020, 2019, and 2018
(Dollars in thousands)

	Years Ended December 31,		
	2020	2019	2018
Net income (loss)	$ 5,054	$ (3,500)	$ 8,627
Other comprehensive income (loss), net of tax			
Unrealized gain on securities (pre-tax $5,789, $5,120, and $5,364, respectively)	4,320	4,284	3,927
Reclassification adjustment for securities losses (gains) (pre-tax $(2,760), $(1,103) and $67, respectively)	(2,060)	(823)	49
Net unrealized gains on securities	2,260	3,461	3,976
Net unrealized holding losses on securities transferred from available-for-sale to held-to-maturity (pre-tax $-, $-, $(9,362), respectively)	-	-	(6,855)
Amortization of net unrealized holding losses during the period (pre-tax $3,018, $1,658, and $137, respectively)	2,252	1,125	101
Total other comprehensive income (loss)	4,512	4,586	(2,778)
Total comprehensive income	$ 9,566	$ 1,086	$ 5,849

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2020, 2019, and 2018

(Dollars in thousands)

	2020	2019	2018
Cash flows from operating activities			
Net income (loss)	$ 5,054	$ (3,500)	$ 8,627
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Goodwill impairment	5,011	-	-
Provision for loan losses	4,200	1,905	2,300
Write down of other real estate owned	31	286	563
Depreciation and amortization	8,177	6,482	5,447
Deferred income taxes	910	1,744	1,527
Stock based compensation	1,918	2,632	2,116
Loss (gain) on sale of investment securities	(2,760)	(1,103)	67
Amortization of premiums on investment securities	7,480	3,730	2,878
Accretion of discounts on retained SBA loans	(880)	(1,411)	(1,332)
Fair value adjustments on SBA servicing assets	358	1,364	1,458
Proceeds from sales of SBA loans originated for sale	25,470	46,951	42,726
SBA loans originated for sale	(23,708)	(41,364)	(42,700)
Gains on sales of SBA loans originated for sale	(1,741)	(3,187)	(3,105)
Proceeds from sales of mortgage loans originated for sale	479,324	335,991	322,264
Mortgage loans originated for sale	(504,488)	(317,881)	(291,870)
Fair value adjustment for mortgage loans originated for sale	(1,915)	454	513
Gains on mortgage loans originated for sale	(12,981)	(8,117)	(8,378)
Amortization of debt issuance costs	6	6	6
Non-cash expense related to leases	532	1,128	-
Increase in accrued interest receivable and other assets	(7,845)	(8,464)	(5,047)
Net increase in accrued interest payable and other liabilities	7,118	1,687	1,570
Net cash (used in) provided by operating activities	(10,729)	19,333	39,630
Cash flows from investing activities			
Purchase of investment securities available for sale	(284,015)	(338,500)	(149,209)
Purchase of equity securities	(9,039)	-	-
Purchase of investment securities held to maturity	(402,554)	-	(123,265)
Proceeds from the sale of securities available for sale	125,222	54,742	6,439
Proceeds from the paydown, maturity, or call of securities available for sale	170,874	69,012	48,796
Proceeds from the paydown, maturity, or call of securities held to maturity	232,238	116,486	63,565
Net (purchase) redemption of restricted stock	(293)	3,008	(3,836)
Net increase in loans	(896,991)	(312,665)	(275,587)
Net proceeds from sale of other real estate owned	744	5,072	495
Premises and equipment expenditures	(14,391)	(35,777)	(18,161)
Net cash used in investing activities	(1,078,205)	(438,622)	(450,763)
Cash flows from financing activities			
Net proceeds from issuance of preferred stock	48,325	-	-
Net proceeds from exercise of stock options	41	261	670
Net increase in demand, money market and savings deposits	1,051,806	536,974	292,053
Net (decrease) increase in time deposits	(37,218)	69,322	37,519
Increase (repayment) in short-term borrowings	-	(91,422)	91,422
Increase (repayment) in other borrowings	633,866	-	-
Preferred stock dividends paid	(923)	-	-
Return of short swing profit	18	-	-
Net cash provided by financing activities	1,695,915	515,135	421,664
Net increase in cash and cash equivalents	606,981	95,846	10,531
Cash and cash equivalents, beginning of year	168,319	72,473	61,942
Cash and cash equivalents, end of year	$ 775,300	$ 168,319	$ 72,473
Supplemental disclosures			
Interest paid	$ 23,822	$ 25,985	$ 15,905
Non-cash transfers from loans to other real estate owned	$ 233	$ 1,225	$ 315
Conversion of subordinated debt to common stock	$ -	$ -	$ 10,094
Transfer of available-for-sale securities to held-to-maturity securities	$ -	$ -	$ 230,094

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2020, 2019, and 2018
(Dollars in thousands)

	Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance January 1, 2018	$ -	$ 575	$ 256,285	$ (18,983)	$ (3,725)	$ (183)	$ (7,509)	$ 226,460
Reclassification due to the adoption of ASU 2018-02				1,640			(1,640)	-
Net income				8,627				8,627
Other comprehensive loss, net of tax							(2,778)	(2,778)
Stock based compensation			2,116					2,116
Conversion of subordinated debt to common stock (1,624,614 shares)		16	10,078					10,094
Options exercised (174,850 shares)		2	668					670
Balance December 31, 2018	-	593	269,147	(8,716)	(3,725)	(183)	(11,927)	245,189
Net loss				(3,500)				(3,500)
Other comprehensive income, net of tax							4,586	4,586
Stock based compensation			2,632					2,632
Options exercised (53,550 shares)		1	260					261
Balance December 31, 2019	-	594	272,039	(12,216)	(3,725)	(183)	(7,341)	249,168
Net income				5,054				5,054
Other comprehensive income, net of tax							4,512	4,512
Preferred stock dividends[(1)]				(923)				(923)
Proceeds from shares issued under preferred stock offering (2,000,000 shares) net of offering costs of $1,675	20		48,305					48,325
Stock based compensation			1,918					1,918
Return of short swing profit			18					18
Options exercised (17,000 shares)			41					41
Balance December 31, 2020	$ 20	$ 594	$ 322,321	$ (8,085)	$ (3,725)	$ (183)	$ (2,829)	$ 308,113

(1) Dividends per share of $0.46 were declared on preferred stock for the twelve months ended December 31, 2020

(See notes to consolidated financial statements)

1. Nature of Operations

Republic First Bancorp, Inc. (the "Company") is a one-bank holding company organized and incorporated under the laws of the Commonwealth of Pennsylvania. It is comprised of one wholly-owned subsidiary, Republic First Bank, which does business under the name of Republic Bank ("Republic"). Republic is a Pennsylvania state chartered bank that offers a variety of banking services to individuals and businesses throughout the Greater Philadelphia, Southern New Jersey, and New York City markets through its offices and store locations in Philadelphia, Montgomery, Delaware, Bucks, Camden, Burlington, Atlantic, Gloucester, and New York Counties. In 2016, Republic acquired all of the issued and outstanding limited liability company interests of Oak Mortgage Company, LLC ("Oak Mortgage") and, as a result, Oak Mortgage became a wholly owned subsidiary of Republic on that date. Oak Mortgage is headquartered in Marlton, NJ and is licensed to do business in Pennsylvania, Delaware, New Jersey, and Florida. In 2018, Oak Mortgage was merged into Republic and restructured as a division of Republic. The Oak Mortgage name is still utilized for marketing and branding purposes. The Company also has two unconsolidated subsidiaries, which are statutory trusts established by the Company in connection with its sponsorship of two separate issuances of trust preferred securities.

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Republic. The Company follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("US GAAP") that are followed to ensure consistent reporting of financial condition, results of operations, and cash flows. All material inter-company transactions have been eliminated. Events occurring subsequent to the date of the balance sheet have been evaluated for potential recognition or disclosure in the consolidated financial statements.

Risks and Uncertainties and Certain Significant Estimates

The earnings of the Company depend primarily on the earnings of Republic. The earnings of Republic are heavily dependent 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 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.

The coronavirus ("COVID-19") outbreak and the public health response to contain it have resulted in unprecedented economic and financial market conditions during the twelve months ended December 31, 2020 that did not exist at December 31, 2019. In response to these evolving conditions, the Board of Governors of the Federal Reserve System ("Federal Reserve") reduced the federal funds target range by 150 basis points to 0.00% to 0.25% in March 2020. The Federal Reserve has taken additional steps to bolster the economy by promoting liquidity in certain securities markets and providing funding sources for small and mid-sized businesses, as well as, state and local governments as they work through the cash flow stresses caused by the COVID-19 pandemic.

The economic downturn that began in the U.S. as a result of the government-mandated business closures and stay-at-home orders is significantly impacting the labor market, consumer spending, business investment and profitability. As a result, the President signed into law the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), which is the largest economic stimulus package in the nation's history in an effort to lessen the impact of COVID-19 on consumers and businesses. Among other measures, the CARES Act authorized funding for the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") to provide loans to small businesses to keep employees on their payroll and to make other eligible payments to sustain their operation in the near term. In December 2020, the Economic Aid Act was signed into law, which extended certain provisions of the CARES Act and provides additional support and financial assistance for small businesses, non-profit organizations and other entities.

In a period of economic contraction, elevated levels of loan losses and lost interest income may occur. The Company continues to accrue interest on loans modified in accordance with the CARES Act. To the extent those borrowers are unable to resume normal contractual payments, the Company could experience additional losses of principal and interest. The extent to which the COVID-19 pandemic has a further impact the Company's business, results of operations, and financial condition, as well as the Company's regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the COVID-19 pandemic and actions taken by governmental authorities and other third parties in response to the COVID-19 pandemic.

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

Significant Group Concentrations of Credit Risk

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

Cash and Cash Equivalents

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

Restrictions on Cash and Due from Banks

Republic is required to maintain certain average reserve balances as established by the Federal Reserve Board. Effective March 26, 2020, the Federal Reserve announced they were reducing the reserve requirement ratio to zero percent across all deposit tiers. This comes as the COVID-19 pandemic continues to impact much of the way financial institutions both operate and serve their customers. As a result of this rule, there were no reserve balance requirements as of December 31, 2020. The amount of the balance for the reserve computation period December 31, 2019 was approximately $57.2 million. These requirements were satisfied through the restriction of vault cash and a balance held by the Federal Reserve Bank of Philadelphia.

Investment Securities

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

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

Equity Securities – Equity securities are carried at their fair value. Changes in the fair value of equity securities are reported in other non-interest income.

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

Restricted Stock

Restricted stock, which represents a required investment in the capital stock of correspondent banks related to available credit facilities, was carried at cost as of December 31, 2020 and 2019. As of those dates, restricted stock consisted of investments in the capital stock of the FHLB of Pittsburgh and Atlantic Community Bankers Bank ("ACBB"). The required investment in the capital stock of the FHLB is calculated based on outstanding loan balances and open credit facilities with the FHLB. Excess investments are returned to Republic on a quarterly basis.

At December 31, 2020 and December 31, 2019, the investment in FHLB stock totaled $2.9 million and $2.6 million, respectively. The increase was due primarily to a higher membership stock requirement by FHLB at December 31, 2020 which resulted in a higher required investment as of that date. At both December 31, 2020 and December 31, 2019, ACBB stock totaled $143,000.

Mortgage Banking Activities and Mortgage Loans Held for Sale

Mortgage loans held for sale are originated and held until sold to permanent investors. Management elected to adopt the fair value option in accordance with FASB Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, and record loans held for sale at fair value.

Mortgage loans held for sale originated on or subsequent to the election of the fair value option, are recorded on the balance sheet at fair value. The fair value is determined on a recurring basis by utilizing quoted prices from dealers in such securities. Changes in fair value are reflected in mortgage banking income in the statements of operations. Direct loan origination costs are recognized when incurred and are included in non-interest expense in the statements of income.

Interest Rate Lock Commitments

Mortgage loan commitments known as interest rate locks that relate to the origination of a mortgage that will be held for sale upon funding are considered derivative instruments under the derivatives and hedging accounting guidance FASB ASC 815, *Derivatives and Hedging*. Loan commitments that are classified as derivatives are recognized at fair value on the balance sheet as other assets and other liabilities with changes in their fair values recorded as mortgage banking income and included in non-interest income in the statements of income. Outstanding interest rate lock commitments ("IRLCs") are subject to interest rate risk and related price risk during the period from the date of issuance through the date of loan funding, cancellation or expiration. Loan commitments generally range between 30 and 90 days; however, the borrower is not obligated to obtain the loan. Republic is subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs. Republic uses best efforts commitments to substantially eliminate these risks. The valuation of the IRLCs issued by Republic includes the value of the servicing released premium. Republic sells loans where the servicing is released, and the servicing released premium is included in the market price. See Note 23 Derivatives and Risk Management Activities for further detail of IRLCs.

Best Efforts Forward Loan Sale Commitments

Best efforts forward loan sale commitments are commitments to sell individual mortgage loans at a fixed price to an investor at a future date. Best efforts forward loan sale commitments are accounted for as derivatives and carried at fair value, determined as the amount that would be necessary to settle the derivative financial instrument at the balance sheet date. Gross derivative assets and liabilities are recorded as other assets and other liabilities with changes in fair value during the period recorded as mortgage banking income and included in non-interest income in the statements of income.

Mandatory Forward Loan Sales Commitments

Mandatory forward loan sales commitments are based on fair values of the underlying mortgage loans and the probability of such commitments being exercised. Mandatory forward loan sale commitments are accounted for as derivatives and carried at fair value, determined as the amount that would be necessary to settle the derivative financial instrument at the balance sheet date. Gross derivative assets and liabilities are recorded as other assets and other liabilities with changes in fair value during the period recorded as mortgage banking income and included in non-interest income in the statements of income.

Goodwill

Goodwill represents the excess of cost over the identifiable net assets of businesses acquired. Goodwill is recognized as an asset and is to be reviewed for impairment annually and between annual tests when events and circumstances indicate that impairment may have occurred. Impairment is a condition that exists when the carrying amount of goodwill exceeds its implied fair value.

The Company has one reportable segment: Community Banking. The community banking segment primarily encompasses the commercial loan and deposit activities of the Bank, as well as, residential mortgage and consumer loan products in the area surrounding its stores. Oak Mortgage was acquired by the Bank in 2016 and organized as a wholly owned subsidiary of the Bank. Oak Mortgage was maintained as a separate legal entity through December 31, 2017 in order to preserve certain secondary market contracts and regulatory licensing requirements.

On January 1, 2018, Oak Mortgage operations were restructured as a division of Republic and all assets, liabilities, contracts, employees and activity were merged into the Republic. As a result of this restructuring, the Company re-evaluated its reporting unit structure and determined that as of July 31, 2018 there were no longer two reporting units but rather a sole reporting unit in Republic Bank. As of July 31, 2019, the Company elected to perform a Step One Test for goodwill impairment. The fair value of the reporting unit was higher than the book value and, therefore, no Step Two analysis was required. Goodwill totaled $5.0 million as of December 31, 2019.

At March 31, 2020, June 30, 2020, and September 30, 2020, the Company performed a quantitative analysis to determine if goodwill had been impaired due to impact of COVID-19 on the economy and the sustained decline in the Company’s stock price. At both March 31, 2020 and June 30, 2020, the quantitative analysis determined goodwill was not impaired. At September 30, 2020, the quantitative analysis determined goodwill was impaired. The Company concluded that all of its goodwill was impaired and recorded a non-cash charge for the amount of the impairment against earnings based on the quantitative analysis. The charge had no impact on tangible capital and a minimal impact on regulatory capital.

Loans Receivable

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

Commercial and industrial loans are underwritten after evaluating historical and projected profitability and cash flow to determine the borrower’s ability to repay their obligation as agreed. Commercial and industrial loans are made primarily based on the identified cash flow of the borrower and secondarily on the underlying collateral supporting the loan facility. Accordingly, the repayment of a commercial and

industrial loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is a secondary and often insufficient source of repayment.

Commercial real estate and owner occupied real estate loans are subject to the underwriting standards and processes similar to commercial and industrial loans, in addition to those underwriting standards for real estate loans. These loans are viewed primarily as cash flow dependent and secondarily as loans secured by real estate. Repayment of these loans is generally dependent upon the successful operation of the property securing the loan or the principal business conducted on the property securing the loan. In addition, the underwriting considers the amount of the principal advanced relative to the property value. Commercial real estate and owner occupied real estate loans may be adversely affected by conditions in the real estate markets or the economy in general. Management monitors and evaluates commercial real estate and owner occupied real estate loans based on cash flow estimates, collateral and risk-rating criteria. The Company also utilizes third-party experts to provide environmental and market valuations. Substantial effort is required to underwrite, monitor and evaluate commercial real estate and owner occupied real estate loans.

Construction and land development loans are underwritten based upon a financial analysis of the developers and property owners and construction cost estimates, in addition to independent appraisal valuations. These loans will rely on the value associated with the project upon completion. These cost and valuation amounts used are estimates and may be inaccurate. Construction loans generally involve the disbursement of substantial funds over a short period of time with repayment substantially dependent upon the success of the completed project. Sources of repayment of these loans would be permanent financing upon completion or sales of developed property. These loans are closely monitored by onsite inspections and are considered to be of a higher risk than other real estate loans due to their ultimate repayment being sensitive to general economic conditions, availability of long-term financing, interest rate sensitivity, and governmental regulation of real property.

Consumer and other loans consist of home equity loans and lines of credit and other loans to individuals originated through the Company's retail network, which are typically secured by personal property or unsecured. Home equity loans and lines of credit often carry additional risk as a result of typically being in a second position or lower in the event collateral is liquidated. Consumer loans have may also have greater credit risk because of the difference in the underlying collateral, if any. The application of various federal and state bankruptcy and insolvency laws may limit the amount that can be recovered on such loans.

Residential mortgage loans are secured by one to four family dwelling units. This group consists of first mortgages and are originated primarily at loan to value ratios of 80% or less.

Paycheck Protection Program ("PPP") loans, created through the Small Business Administration ("SBA") and Treasury Department from a provision in the CARES Act, are SBA-guaranteed loans to small business to pay their employees, rent, mortgage interest, and utilities. PPP loans will be forgiven subject to clients' providing documentation evidencing their compliant use of funds and otherwise complying with the terms of the program.

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

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

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

Allowance for Credit Losses

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

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

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

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

1) Lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices.

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

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

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

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

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

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

Pursuant to the CARES Act, loan modifications made from March 1, 2020 through the earlier of December 31, 2020 or 60 days after the termination date of the national emergency declared by the President on March 13, 2020 concerning the COVID–19 outbreak (the "national emergency"), a financial institution may elect to suspend the requirements under accounting principles generally accepted in the U.S. for loan modifications related to the COVID–19 pandemic that would otherwise be categorized as a troubled debt

restructured (“TDR”), including impairment accounting. This TDR relief is applicable for the term of the loan modification that occurs during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019. In December 2020, the Economic Aid Act was signed into law which amended certain sections of the CARES Act. This amendment extended the period to suspend the requirements under TDR accounting guidance to the earlier of i) January 1, 2022 or ii) 60 days after the President declares a termination of the national emergency related to the COVID-19 pandemic. The option to defer principal payments only or both principal and interest payments was offered to loan customers that expressed a need to defer loan payments as a result of the financial impact of the COVID pandemic on their business. The ability to defer loan payments was initially limited to 90 days. An extension for an additional 90 days was granted if conditions warranted such an extension based on an evaluation performed by management. Financial institutions are required to maintain records of the volume of loans involved in modifications to which TDR relief is applicable. The Company elected to exclude modifications meeting these requirements from TDR classification.

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

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

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

Transfers of Financial Assets

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

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

A servicing asset related to SBA loans is initially recorded when these loans are sold and the servicing rights are retained. The servicing asset is recorded on the balance sheet and included in other assets. An updated fair value of the servicing asset is obtained from an independent third party on a quarterly basis and any necessary adjustments are included in loan and servicing fees on the statement of income. The valuation begins with the projection of future cash flows for each asset based on their unique characteristics, our market-based assumptions for prepayment speeds and estimated losses and recoveries. The present value of the future cash flows are then calculated utilizing our market-based discount ratio assumptions. In all cases, the Company models expected payments for every loan for each quarterly period in order to create the most detailed cash flow stream possible.

The Company uses various assumptions and estimates in determining the impairment of the SBA servicing asset. These assumptions include prepayment speeds and discount rates commensurate with the risks involved and comparable to assumptions used by participants to value and bid serving rights available for sale in the market.

For more information on the SBA servicing asset including the sensitivity of the current fair value of the SBA loan servicing rights to adverse changes in key assumptions, see Note 15 – Fair Value Measurements and Fair Values of Financial Instruments.

Other Loans Held for Sale

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

Guarantees

The Company accounts for guarantees in accordance with ASC 815 *Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others*. ASC 815 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company has financial and performance letters of credit. Financial letters of credit require the Company to make payment if the customer's financial condition deteriorates, as defined in the agreements. Performance letters of credit require the Company to make payments if the customer fails to perform certain non-financial contractual obligations. The maximum potential undiscounted amount of future payments of these letters of credit as of December 31, 2020 is $16.6 million and they expire as follows: $15.8 million in 2021 and $778,000 in 2022. Amounts due under these letters of credit would be reduced by any proceeds that the Company would be able to obtain in liquidating the collateral for the loans, which varies depending on the customer. There was no liability for guarantees under standby letters of credit as of December 31, 2020 and December 31, 2019.

Premises and Equipment

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

Operating Leases

The Company enters into lease agreements to obtain the right to use assets ("ROU") for its business operations, substantially all of which are real estate. Lease liabilities and ROU assets are recognized when the Company enters into operating leases and represent its obligations and rights to use these assets over the period of the leases and may be re-measured for certain modifications, resolution of certain contingencies involving variable consideration, or its exercise of options (renewal, extension, or termination) under the lease.

Operating lease liabilities include fixed and in-substance fixed payments for the contractual duration of the lease, adjusted for renewals or terminations which were considered probable of exercise when measured. During 2020, one lease term for real property was extended, for which the extension was considered probable at the time of measurement. The lease payments are discounted using a rate determined when the lease is recognized. As the Company typically does not know the discount rate implicit in the lease, the Company estimates a discount rate that it believes approximates a collateralized borrowing rate for the estimated duration of the lease. The discount rate is updated when re-measurement events occur. The related operating lease ROU assets may differ from operating lease liabilities due to initial direct costs, deferred or prepaid lease payments and lease incentives.

The amortization of operating lease ROU assets and the accretion of operating lease liabilities are reported together as fixed lease expense and are included in net occupancy expense within noninterest expense. The fixed lease expense is recognized on a straight-line basis over the life of the lease.

The Company has elected to exclude leases with original terms of less than one year from the operating lease ROU assets and lease liabilities. The Company has no agreements that qualified as a short-term lease. The related short-term lease expense would be included in net occupancy expense.

Other Real Estate Owned

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

Advertising Costs

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

Income Taxes

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

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

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

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

Stock Based Compensation

The Company has a Stock Option and Restricted Stock Plan ("the 2005 Plan"), under which the Company granted options, restricted stock or stock appreciation rights to the Company's employees, directors, and certain consultants. The 2005 Plan became effective on November 14, 1995, and was amended and approved at the Company's 2005 annual meeting of shareholders. Under the terms of the 2005 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 could be available for grant under the 2005 Plan to 1.5 million shares, were available for such grants. As of December 31, 2020, the only grants under the 2005 Plan were option grants. The 2005 Plan provided that the exercise price of each option granted equaled the market price of the Company's stock on the date of the grant. Options granted pursuant to the 2005 Plan vest within one to four years and have a maximum term of 10 years. The 2005 Plan terminated on November 14, 2015 in accordance with the terms and conditions specified in the Plan agreement.

On April 29, 2014 the Company's shareholders approved the 2014 Republic First Bancorp, Inc. Equity Incentive Plan (the "2014 Plan"), under which the Company may grant options, restricted stock, stock units, or stock appreciation rights to the Company's employees, directors, independent contractors, and consultants. Under the terms of the 2014 Plan, 2.6 million shares of common stock, plus an annual adjustment to be no less than 10% of the outstanding shares or such lower number as the Board of Directors may determine, are available for such grants. Compensation cost for all option awards is calculated and recognized over the vesting period of the option awards. If the service conditions are not met, the Company reverses previously recorded compensation expense upon forfeiture. The Company's accounting policy election is to recognize forfeitures as they occur. At December 31, 2020, the maximum number of common shares issuable under the 2014 Plan was 6.5 million shares. During the twelve months ended December 31, 2020, 1.3 million options were granted under the 2014 Plan with a fair value of $1.1 million.

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 by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income 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 stock option plans and convertible preferred stock for the twelve months ended December 31, 2020. CSEs consist of dilutive stock options granted through the Company's stock options for the twelve months ended December 31, 2019 and 2018. The effects of stock options or payment of dividends on the Company's Preferred Stock are excluded from the computation of diluted earnings per share in periods in which the effect would be anti-dilutive.

The calculation of EPS for the years ended December 31, 2020, 2019, and 2018 is as follows:

(dollars in thousands, except per share amounts)	2020	2019	2018
Net income (loss) available to common shareholders	$ 4,131	$ (3,500)	$ 8,627
Weighted average shares outstanding	58,853	58,833	58,358
Net income (loss) per share – basic	$ 0.07	$ (0.06)	$ 0.15
Weighted average shares outstanding (including dilutive CSEs)	58,904	58,833	59,407
Net income (loss) per share – diluted	$ 0.07	$ (0.06)	$ 0.15

The following is a summary of securities that could potentially dilute basic earnings per common share in future periods that were not included in the computation of diluted earnings per common share because to do so would have been anti-dilutive for the periods presented.

(in thousands)	2020	2019	2018
Anti-dilutive securities			
Share based compensation awards	5,848	4,979	2,813
Convertible preferred stock	5,556	-	-
Total anti-dilutive securities	11,404	4,979	2,813

Comprehensive Income

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

Trust Preferred Securities

The Company has sponsored two outstanding issues of corporation-obligated mandatorily redeemable capital securities of a subsidiary trust holding solely junior subordinated debentures of the corporation, more commonly known as trust preferred securities. The subsidiary trusts are not consolidated with the Company for financial reporting purposes. The purpose of the issuances of these securities was to increase capital. The trust preferred securities qualify as Tier 1 capital for regulatory purposes in amounts up to 25% of total Tier 1 capital. See Note 8 “Borrowings” for further information regarding the issuances.

Variable Interest Entities

The Company follows the guidance under ASC 810, *Consolidation*, with regard to variable interest entities. ASC 810 clarifies the application of consolidation principles for certain legal entities in which voting rights are not effective in identifying the investor with the controlling financial interest. An entity is subject to consolidation under ASC 810 if the investors do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support, are unable to direct the entity’s activities, or are not exposed to the entity’s losses or entitled to its residual returns ("variable interest entities"). Variable interest entities within the scope of ASC 810 will be required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity's expected losses, receives a majority of its expected returns, or both.

The Company does not consolidate its subsidiary trusts. ASC 810 precludes consideration of the call option embedded in the preferred securities when determining if the Company has the right to a majority of the trusts’ expected residual returns. The non-consolidation results in the investment in the common securities of the trusts to be included in other assets with a corresponding increase in outstanding debt of $341,000. In addition, the income received on the Company’s investment in the common securities of the trusts is included in other income.

Treasury Stock

Common stock purchased for treasury is recorded at cost.

Recent Accounting Pronouncements

ASU 2016-13

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The Company has evaluated the impact of this ASU, continuing its implementation efforts and reviewing the loss modeling requirements consistent with lifetime expected loss estimates. Calculations of expected losses under the new guidance have been run parallel to the calculations under existing guidance to assess and evaluate the potential impact to the Company’s financial statements. The new model includes different assumptions used to calculate credit losses, such as estimating losses over the estimated life of a financial asset and considers expected future changes in macroeconomic conditions. The Company was initially required to adopt this ASU on January 1, 2020. The Company elected to defer the adoption of this ASU as

permitted by Section 4014 of the CARES Act, which allowed financial institutions to postpone adoption until the earlier of (i) the date on which the national emergency concerning the COVID-19 outbreak declared under the National Emergencies Relief Act terminates or (ii) December 31, 2020. The Economic Aid Act approved in December 2020 extended the option to defer this ASU until January 1, 2021 or January 1, 2022. The Company has chosen to defer adoption until January 1, 2022. While based on the parallel calculations run to date, the Company does not anticipate a material increase to the allowance for credit losses at the present time, the impact on the date of adoption is unknown.

ASU 2020-04

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* The ASU provides optional guidance for a limited period of time to ease the potential burden in accounting for (or derecognizing the effects of) reference rate reform on financial reporting. Specifically, the amendments provide optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. These relate only to those contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The ASU became effective March 12, 2020 and can be adopted anytime during the period of January 1, 2020 through December 31, 2022. The Company is currently evaluating the impact of this guidance. There is only one relationship that has LIBOR pricing with a maturity date beyond December 31, 2022. The loan documentation for the relationship contains language for an alternative pricing index when LIBOR is no longer available.

ASU 2021-01

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope.* The ASU clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition, including derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. The ASU became effective as of March 12, 2020 and can be adopted anytime during the period of January 1, 2020 through December 31, 2022. The Company is currently evaluating the impact of this guidance. There is only one relationship that has LIBOR pricing with a maturity date beyond December 31, 2022. The loan documentation for the relationship contains language for an alternative pricing index when LIBOR is no longer available.

3. Investment Securities

A summary of the amortized cost and market value of securities available for sale, securities held to maturity, and equity securities at December 31, 2020 and 2019 is as follows:

	At December 31, 2020			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Government agencies	$ 32,312	$ -	$ (426)	$ 31,886
Collateralized mortgage obligations	218,232	3,584	(270)	221,546
Agency mortgage-backed securities	149,325	1,204	(1)	150,528
Municipal securities	8,201	24	-	8,225
Corporate bonds	119,118	595	(3,390)	116,323
Investment securities available for sale	$ 527,188	$ 5,407	$ (4,087)	$ 528,508
Held to maturity				
U.S. Government agencies	$ 82,093	$ 4,185	$ -	$ 86,278
Collateralized mortgage obligations	363,363	12,687	(231)	375,819
Agency mortgage-backed securities	369,480	5,640	(245)	374,875
Investment securities held to maturity	$ 814,936	$ 22,512	$ (476)	$ 836,972
Equity securities[(1)]				$ 9,039

(1) Equity securities consist of investments in non-cumulative preferred stock.

	At December 31, 2019			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Government agencies	$ 38,743	$ 1	$ (439)	$ 38,305
Collateralized mortgage obligations	329,492	2,368	(422)	331,438
Agency mortgage-backed securities	98,953	82	(98)	98,937
Municipal securities	4,064	18	-	4,082
Corporate bonds	69,499	79	(3,298)	66,280
Investment securities available for sale	$ 540,751	$ 2,548	$ (4,257)	$ 539,042
Held to maturity				
U.S. Government agencies	$ 94,913	$ 482	$ (294)	$ 95,101
Collateralized mortgage obligations	416,177	7,603	(793)	422,987
Agency mortgage-backed securities	133,752	1,782	(513)	135,021
Investment securities held to maturity	$ 644,842	$ 9,867	$ (1,600)	$ 653,109
Equity securities				$ -

The following table presents investment securities by stated maturity at December 31, 2020. Collateralized mortgage obligations and agency mortgage-backed securities have expected maturities that differ from contractual maturities because borrowers have the right to call or prepay and, therefore, these securities are classified separately with no specific maturity date.

	Available for Sale		Held to Maturity	
(dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 1 year or less	$ 12,989	$ 12,977	$ 757	$ 763
After 1 year to 5 years	77,313	76,426	73,504	77,214
After 5 years to 10 years	52,410	50,308	7,832	8,301
After 10 years	16,919	16,723	-	-
Collateralized mortgage obligations	218,232	221,546	363,363	375,819
Agency mortgage-backed securities	149,325	150,528	369,480	374,875
Total investment securities	$ 527,188	$ 528,508	$ 814,936	$ 836,972

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

The Company's investment securities portfolio consists primarily of debt securities issued by U.S. government agencies, U.S. government-sponsored agencies, state governments, local municipalities, certain corporate entities. Equity securities consist of investments in non-cumulative preferred stock. At December 31, 2020, fair value gains on the equity securities were immaterial. There were no private label mortgage-backed securities ("MBS") or collateralized mortgage obligations ("CMO") held in the investment securities portfolio as of December 31, 2020 and December 31, 2019. There were also no MBS or CMO securities that were rated "Alt-A" or "sub-prime" as of those dates.

The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. Net unrealized gains and losses in the available for sale portfolio are included in shareholders' equity as a component of accumulated other comprehensive income or loss, net of tax. Securities classified as held to maturity are carried at amortized cost. An unrealized loss exists when the current fair value of an individual security is less than the amortized cost basis.

The Company regularly evaluates investment securities that are in an unrealized loss position in order to determine if the decline in fair value is other than temporary. Factors considered in the evaluation include the current economic climate, the length of time and the extent to which the fair value has been below cost, the current interest rate environment and the rating of each security. An OTTI loss must be recognized for a debt security in an unrealized loss position if the Company intends to sell the security or it is more likely than not that it will be required to sell the security prior to recovery of the amortized cost basis. The amount of OTTI loss recognized is equal to the difference between the fair value and the amortized cost basis of the security that is attributed to credit deterioration. Accounting standards require the evaluation of the expected cash flows to be received to determine if a credit loss has occurred. In the event of a credit loss, that amount must be recognized against income in the current period. The portion of the unrealized loss related to other factors, such as liquidity conditions in the market or the current interest rate environment, is recorded in accumulated other comprehensive income (loss) for investment securities classified available for sale. There were no impairment charges (credit losses) recorded during the years ended December 31, 2020, 2019, and 2018.

At December 31, 2020 and 2019, investment securities in the amount of approximately $1.2 billion and $847.1 million, respectively, were pledged as collateral for public deposits and certain other deposits as required by law.

The following table presents a roll-forward of the balance of credit-related impairment losses on securities held at December 31, 2020, 2019, and 2018 for which a portion of OTTI was recognized in other comprehensive income:

(dollars in thousands)	2020	2019	2018
Beginning Balance, January 1st	$ -	$ -	$ 274
Reductions for securities sold during the period	-	-	(274)
Ending Balance, December 31st	$ -	$ -	$ -

The following tables show the fair value and gross unrealized losses associated with the investment portfolio, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2020 and 2019:

	At December 31, 2020					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	$ -	$ -	$ 31,886	$ 426	$ 31,886	$ 426
Collateralized mortgage obligations	99,497	270	-	-	99,497	270
Agency mortgage-backed securities	20,934	1	-	-	20,934	1
Municipal securities	-	-	-	-	-	-
Corporate bonds	4,559	39	54,649	3,351	59,208	3,390
Investment Securities Available for Sale	$ 124,990	$ 310	$ 86,535	$ 3,777	$ 211,525	$ 4,087

	At December 31, 2020					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	$ -	$ -	$ -	$ -	$ -	$ -
Collateralized mortgage obligations	62,603	231	-	-	62,603	231
Agency mortgage-backed securities	54,537	245	-	-	54,537	245
Investment Securities Held to Maturity	$ 117,140	$ 476	$ -	$ -	$ 117,140	$ 476

	At December 31, 2019					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	$ 28,136	$ 439	$ -	$ -	$ 28,136	$ 439
Collateralized mortgage obligations	63,384	328	6,164	94	69,548	422
Agency mortgage-backed securities	2,924	13	6,411	85	9,335	98
Municipal securities	-	-	-	-	-	-
Corporate bonds	2,820	180	51,882	3,118	54,702	3,298
Investment Securities Available for Sale	$ 97,264	$ 960	$ 64,457	$ 3,297	$ 161,721	$ 4,257

	At December 31, 2019					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	$ 33,092	$ 220	$ 3,703	$ 74	$ 36,795	$ 294
Collateralized mortgage obligations	24,211	18	64,324	775	88,535	793
Agency mortgage-backed securities	14,044	33	52,132	480	66,176	513
Investment Securities Held to Maturity	$ 71,347	$ 271	$ 120,159	$ 1,329	$ 191,506	$ 1,600

Unrealized losses on securities in the investment portfolio amounted to $4.6 million with a total fair value of $328.7 million as of December 31, 2020 compared to unrealized losses of $5.9 million with a total fair value of $353.2 million as of December 31, 2019. The Company believes the unrealized losses presented in the tables above are temporary in nature and primarily related to market interest rates or limited trading activity in particular type of security rather than the underlying credit quality of the issuers. The Company does not believe that these losses are other than temporary and does not currently intend to sell or believe it will be required to sell securities in an unrealized loss position prior to maturity or recovery of the amortized cost bases.

The Company held four U.S. Government agency securities, fifteen collateralized mortgage obligations and six agency mortgage-backed securities that were in an unrealized loss position at December 31, 2020. Principal and interest payments of the underlying collateral for each of these securities carry minimal credit risk. Management found no evidence of OTTI on any of these securities and believes the unrealized losses are due to fluctuations in fair values resulting from changes in market interest rates and are considered temporary as of December 31, 2020.

All municipal securities held in the investment portfolio are reviewed on least a quarterly basis for impairment. Each bond carries an investment grade rating by either Moody's or Standard & Poor's. In addition, the Company periodically conducts its own independent review on each issuer to ensure the financial stability of the municipal entity. The largest geographic concentration was in Pennsylvania and New Jersey and consisted of either general obligation or revenue bonds backed by the taxing power of the issuing municipality. At December 31, 2020, the investment portfolio had no municipal securities that were in an unrealized loss position.

At December 31, 2020, the investment portfolio included nine corporate bonds that were in an unrealized loss position. Management believes the unrealized losses on these securities were also driven by changes in market interest rates and not a result of credit deterioration. Eight of the nine corporate bonds are issued by five of the largest U.S. financial institutions. Each financial institution is well capitalized.

Proceeds associated with the sale of securities available for sale in 2020 were $125.2 million. Gross gains of $3.0 million and gross losses of $230,000 were realized on these sales. The tax provision applicable to the net gains of $2.8 million for the year ended December 31, 2020 amounted to $700,000. Proceeds associated with the sale of securities available for sale in 2019 were $54.7 million. Gross gains of $1.2 million and gross losses of $67,000 were realized on these sales. The tax provision applicable to the net gains of $1.1 million for the year ended December 31, 2019 amounted to $280,000.

Proceeds associated with the sale of securities available for sale in 2018 were $6.4 million. Gross losses of $67,000 were realized on these sales. The tax benefit applicable to the net losses for the year ended December 31, 2018 amounted to $18,000. Included in the 2018 sales activity was the sale of one CDO security. Proceeds from the sale of the CDO security totaled $660,000. A gross loss of $66,000 was realized on this sale. The tax benefit applicable to the net loss for the twelve months ended December 31, 2018 amounted to $17,000. Management had previously stated that it did not intend to sell the CDO security prior to its maturity or the recovery of its cost basis, nor would it be forced to sell this security prior to maturity or recovery of the cost basis. This statement was made over a period of several years where there was limited trading activity in the pooled trust preferred CDO market resulting in fair market value estimates well below the book values. During 2018, management received several inquiries regarding the availability of the remaining CDO security and noted an increased level of trading in this type of security. As a result of the increased activity and the level of bids received, management elected to sell the remaining CDO security resulting in a net loss of $66,000 during 2018.

In December 2018, twenty-three CMOs and two MBSs with a fair value of $230.1 million that were previously classified as available-for-sale were transferred to the held-to-maturity category. The securities were transferred at fair value. Unrealized losses of $9.4 million associated with the transferred securities will remain in other comprehensive income and be amortized as an adjustment to yield over the remaining life of the securities. At December 31, 2020, the total approximated unrealized loss of $5.1 million remaining to be amortized includes ten securities previously transferred in July 2014.

4. Loans Receivable

The following table sets forth the Company's gross loans by major categories as of December 31, 2020 and 2019:

(dollars in thousands)	**December 31, 2020**	**December 31, 2019**
Commercial real estate	$ 705,748	$ 613,631
Construction and land development	142,821	121,395
Commercial and industrial	200,188	223,906
Owner occupied real estate	475,206	424,400
Consumer and other	102,368	101,320
Residential mortgage	395,174	263,444
Paycheck protection program	636,637	-
Total loans receivable	2,658,142	1,748,096
Deferred costs (fees)	(12,800)	99
Allowance for loan losses	(12,975)	(9,266)
Net loans receivable	$ 2,632,367	$ 1,738,929

The Company disaggregates its loan portfolio into groups of loans with similar risk characteristics for purposes of estimating the allowance for loan losses. The Company's loan groups include commercial real estate, construction and land development, commercial and industrial, owner occupied real estate, consumer, residential mortgages, and loans issued under the Paycheck Protection Program ("PPP"). PPP loans are fully guaranteed by the U.S. Government and as such have no allowance associated with them. The loan groups are also considered classes for purposes of monitoring and assessing credit quality based on certain risk characteristics.

Included in loans are loans due from directors and other related parties of $14.9 million at December 31, 2020, $13.6 million at December 31, 2019, and $13.0 million at December 31, 2018. The Board of Directors approves loans to individual directors to conform to our underwriting policies. The following presents the activity in amount due from directors and other related parties for the years ended December 31, 2020, 2019, and 2018.

(dollars in thousands)	**December 31, 2020**	**December 31, 2019**	**December 31, 2018**
Balance at beginning of year	$ 13,593	$ 13,029	$ 8,920
Additions	2,838	2,064	4,812
Repayments	(1,491)	(1,500)	(703)
Balance at end of year	$ 14,940	$ 13,593	$ 13,029

5. Allowances for Loan Losses

The following tables provide the activity in and ending balances of the allowance for loan losses by loan portfolio class at and for the years ended December 31, 2020, 2019, and 2018:

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Paycheck Protection Program	Unallocated	Total
Year ended December, 2020									
Allowance for loan losses:									
Beginning balance:	**$ 3,043**	**$ 688**	**$ 931**	**$ 2,292**	**$ 590**	**$ 1,705**	**$ -**	**$ 17**	**$ 9,266**
Charge-offs	-	-	(333)	(48)	(107)	(67)	-	-	(555)
Recoveries	-	3	48	1	12	-	-	-	64
Provisions	1,351	257	721	129	228	1,387	-	127	4,200
Ending balance	$ 4,394	$ 948	$ 1,367	$ 2,374	$ 723	$ 3,025	$ -	$ 144	$ 12,975
Year ended December, 2019									
Allowance for loan losses:									
Beginning Balance:	**$ 2,462**	**$ 777**	**$ 1,754**	**$ 2,033**	**$ 577**	**$ 894**	**$ -**	**$ 118**	**$ 8,615**
Charge-offs	-	-	(1,356)	-	(126)	-	-	-	(1,482)
Recoveries	-	-	217	2	9	-	-	-	228
Provisions (credits)	581	(89)	316	257	130	811	-	(101)	1,905
Ending balance	$ 3,043	$ 688	$ 931	$ 2,292	$ 590	$ 1,705	$ -	$ 17	$ 9,266
Year ended December, 2018									
Allowance for loan losses:									
Beginning Balance:	**$ 3,774**	**$ 725**	**$ 1,317**	**$ 1,737**	**$ 573**	**$ 392**	**$ -**	**$ 81**	**$ 8,599**
Charge-offs	(1,603)	-	(151)	(465)	(219)	-	-	-	(2,438)
Recoveries	50	-	81	20	3	-	-	-	154
Provisions (credits)	241	52	507	741	220	502	-	37	2,300
Ending balance	$ 2,462	$ 777	$ 1,754	$ 2,033	$ 577	$ 894	$ -	$ 118	$ 8,615

The following tables provide a summary of the allowance for loan losses and balance of loans receivable by loan class and by impairment method as of December 31, 2020 and 2019:

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Paycheck Protection Program	Unallocated	Total
December 31, 2020									
Allowance for loan losses:									
Individually evaluated for impairment	$ 418	$ -	$ 51	$ 122	$ -	$ -	$ -	$ -	$ 591
Collectively evaluated for impairment	3,976	948	1,316	2,252	723	3,025	-	144	12,384
Total allowance for loan losses	$ 4,394	$ 948	$ 1,367	$ 2,374	$ 723	$ 3,025	$ -	$ 144	$ 12,975
Loans receivable:									
Loans evaluated individually	$ 9,048	$ -	$ 2,963	$ 3,955	$ 1,302	$ 701	$ -	$ -	$ 17,969
Loans evaluated collectively	696,700	142,821	197,225	471,251	101,066	394,473	636,637	-	2,640,173
Total loans receivable	$ 705,748	$ 142,821	$ 200,188	$ 475,206	$ 102,368	$ 395,174	$ 636,637	$ -	$ 2,658,142

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Paycheck Protection Program	Unallocated	Total
December 31, 2019									
Allowance for loan losses:									
Individually evaluated for impairment	$ 265	$ -	$ 23	$ 268	$ -	$ -	$ -	$ -	$ 556
Collectively evaluated for impairment	2,778	688	908	2,024	590	1,705	-	17	8,710
Total allowance for loan losses	$ 3,043	$ 688	$ 931	$ 2,292	$ 590	$ 1,705	$ -	$ 17	$ 9,266
Loans receivable:									
Loans evaluated individually	$ 10,331	$ -	$ 3,087	$ 3,634	$ 1,062	$ 768	$ -	$ -	$ 18,882
Loans evaluated collectively	603,300	121,395	220,819	420,766	100,258	262,676	-	-	1,729,214
Total loans receivable	$ 613,631	$ 121,395	$ 223,906	$ 424,400	$ 101,320	$ 263,444	$ -	$ -	$ 1,748,096

A loan is considered impaired, 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 loans, but also include internally classified accruing loans. The following table summarizes information with regard to impaired loans by loan portfolio class as of December 31, 2020 and 2019:

	December 31, 2020			December 31, 2019		
(dollars in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance recorded:						
Commercial real estate	$ 5,033	$ 5,040	$ -	$ 6,186	$ 6,192	$ -
Construction and land development	-	-	-	-	-	-
Commercial and industrial	2,608	2,794	-	2,719	2,989	-
Owner occupied real estate	3,198	3,407	-	2,127	2,275	-
Consumer and other	1,302	1,556	-	1,062	1,375	-
Residential mortgage	701	768	-	768	768	-
Paycheck protection program	-	-	-	-	-	-
Total	$ 12,842	$ 13,565	$ -	$ 12,862	$ 13,599	$ -
With an allowance recorded:						
Commercial real estate	$ 4,015	$ 4,536	$ 418	$ 4,145	$ 4,667	$ 265
Construction and land development	-	-	-	-	-	-
Commercial and industrial	355	371	51	368	383	23
Owner occupied real estate	757	775	122	1,507	1,521	268
Consumer and other	-	-	-	-	-	-
Residential mortgage	-	-	-	-	-	-
Paycheck protection program	-	-	-	-	-	-
Total	$ 5,127	$ 5,682	$ 591	$ 6,020	$ 6,571	$ 556
Total:						
Commercial real estate	$ 9,048	$ 9,576	$ 418	$ 10,331	$ 10,859	$ 265
Construction and land development	-	-	-	-	-	-
Commercial and industrial	2,963	3,165	51	3,087	3,372	23
Owner occupied real estate	3,955	4,182	122	3,634	3,796	268
Consumer and other	1,302	1,556	-	1,062	1,375	-
Residential mortgage	701	768	-	768	768	-
Paycheck protection program	-	-	-	-	-	-
Total	$ 17,969	$ 19,247	$ 591	$ 18,882	$ 20,170	$ 556

The following table presents additional information regarding the Company's impaired loans for the years ended December 31, 2020, 2019, and 2018:

	Years Ended December 31,					
	2020		2019		2018	
(dollars in thousands)	**Average Recorded Investment**	**Interest Income Recognized**	**Average Recorded Investment**	**Interest Income Recognized**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:						
Commercial real estate	$ 6,279	$ 288	$ 6,463	$ 289	$ 10,429	$ 288
Construction and land development	-	-	-	-	-	-
Commercial and industrial	2,645	3	2,144	5	3,341	52
Owner occupied real estate	2,964	93	1,908	38	2,275	58
Consumer and other	1,224	47	909	20	658	21
Residential mortgage	755	4	461	2	-	-
Paycheck protection program	-	-	-	-	-	-
Total	$ 13,867	$ 435	$ 11,885	$ 354	$ 16,703	$ 419
With an allowance recorded:						
Commercial real estate	$ 4,015	$ -	$ 4,281	$ 1	$ 3,076	$ -
Construction and land development	-	-	-	-	-	-
Commercial and industrial	454	-	838	-	1,862	6
Owner occupied real estate	1,287	39	1,071	31	969	25
Consumer and other	-	-	30	-	191	1
Residential mortgage	24	4	-	-	-	-
Paycheck protection program	-	-	-	-	-	-
Total	$ 5,780	$ 43	$ 6,220	$ 32	$ 6,098	$ 32
Total:						
Commercial real estate	$ 10,294	$ 288	$ 10,744	$ 290	$ 13,505	$ 288
Construction and land development	-	-	-	-	-	-
Commercial and industrial	3,099	3	2,982	5	5,203	58
Owner occupied real estate	4,251	132	2,979	69	3,244	83
Consumer and other	1,224	47	939	20	849	22
Residential mortgage	779	8	461	2	-	-
Paycheck protection program	-	-	-	-	-	-
Total	$ 19,647	$ 478	$ 18,105	$ 386	$ 22,801	$ 451

The total average recorded investment on the Company's impaired loans for the years ended December 31, 2020, 2019, and 2018 were $19.6 million, $18.1 million, and $22.8 million, respectively, and the related interest income recognized for those dates was $478,000, $386,000, and $451,000, respectively.

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2020 and 2019:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
At December 31, 2020							
Commercial real estate	$ -	$ 97	$ 4,421	$ 4,518	$ 701,230	$ 705,748	$ -
Construction and land development	-	-	-	-	142,821	142,821	-
Commercial and industrial	1,648	-	2,963	4,611	195,577	200,188	-
Owner occupied real estate	581	813	2,859	4,253	470,953	475,206	-
Consumer and other	92	28	1,302	1,422	100,946	102,368	-
Residential mortgage	-	-	1,313	1,313	393,861	395,174	612
Paycheck protection program	-	-	-	-	636,637	636,637	-
Total	$ 2,321	$ 938	$ 12,858	$ 16,117	$ 2,642,025	$ 2,658,142	$ 612

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
At December 31, 2019							
Commercial real estate	$ -	$ 313	$ 4,159	$ 4,472	$ 609,159	$ 613,631	$ -
Construction and land development	-	-	-	-	121,395	121,395	-
Commercial and industrial	-	50	3,087	3,137	220,769	223,906	-
Owner occupied real estate	-	1,219	3,337	4,556	419,844	424,400	-
Consumer and other	112	241	1,062	1,415	99,905	101,320	-
Residential mortgage	-	-	768	768	262,676	263,444	-
Paycheck protection program	-	-	-	-	-	-	-
Total	$ 112	$ 1,823	$ 12,413	$ 14,348	$ 1,733,748	$ 1,748,096	$ -

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within our internal risk rating system as of December 31, 2020 and 2019:

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
At December 31, 2020:					
Commercial real estate	$ 701,151	$ 80	$ 4,517	$ -	$ 705,748
Construction and land development	142,821	-	-	-	142,821
Commercial and industrial	197,225	-	2,963	-	200,188
Owner occupied real estate	470,732	519	3,955	-	475,206
Consumer and other	101,066	-	1,302	-	102,368
Residential mortgage	394,473	-	701	-	395,174
Paycheck protection program	636,637	-	-	-	636,637
Total	$ 2,644,105	$ 599	$ 13,438	$ -	$ 2,658,142

(dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
At December 31, 2019:					
Commercial real estate	$ 609,382	$ 90	$ 4,159	$ -	$ 613,631
Construction and land development	121,395	-	-	-	121,395
Commercial and industrial	220,819	-	3,087	-	223,906
Owner occupied real estate	418,997	1,770	3,633	-	424,400
Consumer and other	100,258	-	1,062	-	101,320
Residential mortgage	262,555	121	768	-	263,444
Paycheck protection program	-	-	-	-	-
Total	$ 1,733,406	$ 1,981	$ 12,709	$ -	$ 1,748,096

The following table shows non-accrual loans by class as of December 31, 2020 and 2019:

(dollars in thousands)	December 31, 2020	December 31, 2019
Commercial real estate	$ 4,421	$ 4,159
Construction and land development	-	-
Commercial and industrial	2,963	3,087
Owner occupied real estate	2,859	3,337
Consumer and other	1,302	1,062
Residential mortgage	701	768
Paycheck protection program	-	-
Total	$ 12,246	$ 12,413

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately $718,000, $548,000, and $498,000, for 2020, 2019, and 2018, respectively.

Troubled Debt Restructurings

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

Pursuant to the CARES Act, loan modifications made between March 1, 2020 and the earlier of i) December 30, 2020 or ii) 60 days after the President declares a termination of the COVID-19 national emergency are not classified as TDRs if the related loans were not more than 30 days past due as of December 31, 2019. In December 2020, the Economic Aid Act was signed into law which amended certain sections of the CARES Act. This amendment extended the period to suspend the requirements under TDR accounting guidance to the earlier of i) January 1, 2022 or ii) 60 days after the President declares a termination of the national emergency related to the COVID-19 pandemic. Deferrals reached a peak during the second quarter of 2020. As of December 31, 2020, deferrals declined to 21 customers with outstanding balances of $16 million, or less than 1% of total loans outstanding. At December 31, 2020, approximately $4 million of the deferral requests were for deferment of principal balances only. The remaining deferrals include requests to defer both principal and interest payments. Deferrals as of December 31, 2020 were comprised of the following categories: 90 day deferrals amounted to 8 customers with outstanding balances of $3 million and second deferrals amounted to 13 customers with outstanding balances of $13 million.

The following table summarizes information with regard to outstanding troubled debt restructurings at December 31, 2020 and 2019:

(dollars in thousands)	**Number of Loans**	**Accrual Status**	**Non-Accrual Status**	**Total TDRs**
December 31, 2020				
Commercial real estate	1	$ 4,530	$ -	$ 4,530
Construction and land development	-	-	-	-
Commercial and industrial	-	-	-	-
Owner occupied real estate	-	-	-	-
Consumer and other	-	-	-	-
Residential mortgage	-	-	-	-
Paycheck protection program	-	-	-	-
Total	1	$ 4,530	$ -	$ 4,530
December 31, 2019				
Commercial real estate	1	$ 6,173	$ -	$ 6,173
Construction and land development	-	-	-	-
Commercial and industrial	-	-	-	-
Owner occupied real estate	-	-	-	-
Consumer and other	-	-	-	-
Residential mortgage	-	-	-	-
Paycheck protection program	-	-	-	-
Total	1	$ 6,173	$ -	$ 6,173

All TDRs are considered impaired and are therefore individually evaluated for impairment in the calculation of the allowance for loan losses. Some TDRs may not ultimately result in the full collection of principal and interest as restructured and could lead to potential incremental losses. These potential incremental losses would be factored into our estimate of the allowance for loan losses. The level of any subsequent defaults will likely be affected by future economic conditions.

There were no loan modifications made during the twelve months ended December 31, 2020 and 2019 that met the criteria of a TDR. After a loan is determined to be a TDR, we continue to track its performance under the most recent restructured terms. There were no TDRs that subsequently defaulted during the years ended December 31, 2020 and 2019.

There was one residential mortgage in the process of foreclosure as of December 31, 2020. There was one residential mortgage in the process of foreclosure at December 31, 2019. There was no other real estate owned relating to residential real estate at December 31, 2020 and 2019.

6. Other Real Estate Owned

Other real estate owned consists of properties acquired as a result of foreclosures or deeds in-lieu-of foreclosure. Costs relating to the development or improvement of assets are capitalized, and costs relating to holding the property are charged to expense. As of December 31, 2020 the balance of OREO is comprised of four properties.

The following table presents a reconciliation of other real estate owned for the years ended December 31, 2020, 2019, and 2018:

(dollars in thousands)	**December 31, 2020**	**December 31, 2019**	**December 31, 2018**
Beginning Balance, January 1st	$ 1,730	$ 6,223	$ 6,966
Additions	233	1,225	315
Valuation adjustments	(31)	(646)	(563)
Dispositions	(744)	(5,072)	(495)
Ending Balance	$ 1,188	$ 1,730	$ 6,223

7. Premises and Equipment

A summary of premises and equipment is as follows:

(dollars in thousands)	**December 31, 2020**	**December 31, 2019**
Land	$ 21,304	$ 18,991
Buildings	65,936	58,917
Leasehold improvements	31,909	29,898
Furniture, fixtures and equipment	33,400	29,067
Construction in progress	11,842	13,728
	164,391	150,601
Less accumulated depreciation	(41,221)	(33,645)
Net premises and equipment	$ 123,170	$ 116,956

Depreciation expense on premises and equipment amounted to approximately $8.2 million, $6.5 million, and $5.4 million in 2020, 2019, and 2018, respectively. The construction in progress balance of $11.8 million mainly represents costs incurred for the selection and development of future store locations. Of this balance, $8.5 million represents land purchased and land deposits for nine future store locations. Contractual construction commitments related to future store locations were $2.5 million as of December 31, 2020.

8. Borrowings

Republic has a line of credit with the Federal Home Loan Bank ("FHLB") of Pittsburgh with a maximum borrowing capacity of $1.1 billion as of December 31, 2020. As of December 31, 2020 and 2019, there were no fixed term borrowings against this line of credit. There were no overnight borrowings outstanding as of December 31, 2020 and 2019. At both December 31, 2020 and 2019, FHLB had issued letters of credit, on Republic's behalf, totaling $150.0 million against its available credit line, primarily to be used as collateral for public funds deposit balances. There were no fixed term advances outstanding at any month-end during 2020 and 2019. At December 31, 2020, $1.5 billion of loans collateralized the FHLB line of credit. No overnight borrowings were outstanding at any month-end in 2020. The maximum amount of overnight borrowings outstanding at any month-end was $69.0 million in 2019.

Republic also has a line of credit in the amount of $10.0 million available for the purchase of federal funds through the Atlantic Community Bankers Bank ("ACBB"). At December 31, 2020 and 2019, Republic had no amount outstanding against the line at ACBB. There were no overnight advances on this line at any month end in 2020 and 2019.

Republic also has a line of credit with Zions Bank in the amount of $15.0 million to assist in managing our liquidity position. At December 31, 2020 and 2019, Republic had no amount outstanding against the line at Zions Bank. There were no overnight balances on this line at any month end in 2020 and 2019.

As part of the CARES Act, the Federal Reserve Bank of Philadelphia offered secured discounted borrowing capacity to banks that originated PPP loans through the Paycheck Protection Program Liquidity Facility or PPPLF program. At December 31, 2020, the Company pledged $633.9 million of PPP loans to the Federal Reserve Bank of Philadelphia to borrow $633.9 million of funds at a rate of 0.35%.

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

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

In December 2006, Republic Capital Trust II ("Trust II") issued $6.0 million of trust preferred securities to investors and $0.2 million of common securities to the Company. Trust II purchased $6.2 million of junior subordinated debentures of the Company due 2037, and the Company used the proceeds to call the securities of Republic Capital Trust I ("Trust I"). The debentures supporting Trust II have a variable interest rate, adjustable quarterly, at 1.73% over the 3-month Libor. The Company may call the securities on any interest payment date after five years without a prepayment penalty.

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

On June 10, 2008, the Company caused Republic First Bancorp Capital Trust IV ("Trust IV") to issue $10.8 million of convertible trust preferred securities as part of the Company's strategic capital plan. The securities were purchased by various investors, including Vernon W. Hill, II, founder and chairman (retired) of Commerce Bancorp and, since December 5, 2016, chairman of the Company. This investor group also included a family trust of Harry D. Madonna, president and chief executive officer of Republic First Bancorp, Inc, and Theodore J. Flocco, Jr., who, since the investment, has been elected to the Company's Board of Directors and serves as the Chairman of the Audit Committee. Trust IV also issued $0.3 million of common securities to the Company. Trust IV purchased $11.1 million of junior subordinated debentures due 2038, which paid interest at an annual rate of 8.0% and were callable after the fifth year under certain terms and conditions. The trust preferred securities of Trust IV were convertible into approximately 1.7 million shares of common stock of the Company, based on a conversion price of $6.50 per share of Company common stock. One independent director converted $240,000 of trust preferred securities into 37,000 shares of common stock in 2017. On January 31, 2018, the Company notified the existing holders of Trust IV of its intent to fully redeem these securities in accordance with the Optional Redemption terms included in the Indenture Agreement. The securities were redeemed on March 31, 2018 at a price equal to the outstanding principal amount. The holders had the option to convert these securities into shares of the Company's common stock at any time until the end of the last business day preceding the redemption date. During the first quarter of 2018, $10.1 million of trust preferred securities were converted into 1.6 million shares of common stock. After redemption of the remaining securities on March 31 2018, Trust IV was dissolved.

Deferred issuance costs included in subordinated debt were $70,000 and $76,000 at December 31, 2020 and December 31, 2019, respectively. Amortization of deferred issuance costs was $6,000 in each of the years ended December 31, 2020, 2019, and 2018. Deferred issuance costs in the amount of $467,000 were recorded against additional paid in capital during the first quarter of 2018 as a result of the conversion of trust preferred securities into common stock in accordance with ASC 470-20.

9. Deposits

The following is a breakdown, by contractual maturities of the Company's certificates of deposit for the years 2021 through 2025.

(dollars in thousands)	**2021**	**2022**	**2023**	**2024**	**2025**	**Thereafter**	**Total**
Certificates of Deposit	$ 162,450	$ 19,210	$ 1,443	$ 805	$ 2,453	$ -	$ 186,361

Certificates of deposit of $250,000 or more totaled $88.4 million and $146.8 million at December 31, 2020 and 2019, respectively. Deposits of related parties totaled $98.0 million and $103.0 million at December 31, 2020 and 2019, respectively. Brokered deposits totaled $1.0 million at December 31, 2020 and 2019 respectively. Overdrafts totaled $230,000 and $540,000 at December 31, 2020 and 2019, respectively.

10. Income Taxes

The provision (benefit) for income taxes for the years ended December 31, 2020, 2019, and 2018 consists of the following:

(dollars in thousands)	2020	2019	2018
Current			
Federal	$ 810	$ 394	$ -
State	1,490	-	51
Deferred			
Federal	417	(1,524)	2,006
State	(1,327)	(220)	(479)
Total provision (benefit) for income taxes	$ 1,390	$ (1,350)	$ 1,578

The following table reconciles the difference between the actual tax provision and the amount per the statutory federal income tax rate of 21.0% for the year ended December 31, 2020, 21.0% for the year ended December 31, 2019 and 21.0% for the year ended December 31, 2018.

(dollars in thousands)	2020	2019	2018
Tax provision computed at federal statutory rate	$ 1,353	$ (1,018)	$ 2,143
State income tax, net of federal benefit	360	(260)	(340)
Tax exempt interest	(461)	(425)	(430)
Deferred tax only items	-	-	199
Other	138	353	6
Total provision (benefit) for income taxes	$ 1,390	$ (1,350)	$ 1,578

Reclassifications

A reclassification has been made to 2019 information to conform to the 2020 presentation in the table below. The reclassification had no effect on the results of operations or shareholders' equity. In 2019, deferred tax assets pertaining to stock option expense of $1.4 million were reclassed from other deferred tax assets.

The significant components of the Company's net deferred tax asset as of December 31, 2020 and 2019 are as follows:

(dollars in thousands)	2020	2019
Deferred tax assets		
Allowance for loan losses	$ 3,291	$ 2,351
Deferred compensation	641	620
Unrealized losses on securities available for sale	960	2,495
Deferred fees on PPP loans	3,737	-
Foreclosed real estate write-downs	985	996
Interest income on non-accrual loans	706	541
Stock option expense	1,780	1,413
Goodwill	890	-
Net operating loss carryforward	-	5,123
Other	1,033	850
Total deferred tax assets	14,023	14,389
Deferred tax liabilities		
Deferred loan costs	1,818	1,138
Premises and equipment	191	612
Total deferred tax liabilities	2,009	1,750
Net deferred tax asset	$ 12,014	$ 12,639

The Company's net deferred tax asset decreased to $12.0 million at December 31, 2020 compared to $12.6 million at December 31, 2019. The effective tax rates for the years ended December 31, 2020 and 2019 were 22% and (28%), respectively.

The $12.0 million net deferred tax asset as of December 31, 2020 is comprised of $3.7 million attributable to deferred fees on PPP Loans which are expected to reverse in the coming year and $8.3 million attributable to several items associated with temporary timing differences which will reverse at some point in the future to provide a net reduction in tax liabilities. The next largest future reversal relates to unrealized losses on the loan portfolio, which totaled $3.3 million as of December 31, 2020.

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

In assessing the need for a valuation allowance, the Company carefully weighed both positive and negative evidence currently available. Judgment is required when considering the relative impact of such evidence. The weight given to the potential effect of positive and negative evidence must be commensurate with the extent to which it can be objectively verified.

The Company is in a three year cumulative profit position factoring in pre-tax GAAP income and permanent book/tax differences. Growth in interest-earning assets is expected to continue and is supported by the capital raise completed during 2020. The ratio of non-performing assets to total assets along with other credit quality metrics continue to improve. A number of cost control measures have been implemented

to offset the challenges faced in growing revenue as a result of compression in the net interest margin. The Company has added thirteen store locations in the past four years and since the inception of the growth and expansion strategy in 2014, almost every new store location has met or exceeded expectations. The success of the expansion strategy, combined with the stabilization of interest rates and continued loan growth are expected to continue to support improvement in profitability going forward. As of December 31, 2020, the Company has no federal NOLs to carry forward which could expire in the future.

Conversely, the Company's net interest margin declined during 2020 as a result of the challenging interest rate environment which appears to be consistent across the financial services industry. The effects of the COVID-19 pandemic to the local and global economy may result in a significant increase in future loan loss provisions and charge-offs. Rising interest rates and a downturn in the economy could significantly decrease the volume of mortgage loan originations.

Based on the guidance provided in FASB Accounting Standards Codification Topic 740 (ASC 740), the Company believed that the positive evidence considered at December 31, 2020 outweighed the negative evidence and that it was more likely than not that all of the Company's deferred tax assets would be realized within their life cycle. Therefore, a valuation allowance was not required at December 31, 2020.

The net deferred tax asset balance was $12.0 million as of December 31, 2020 and $12.6 million as of December 31, 2019. The deferred tax asset will continue to be analyzed on a quarterly basis for changes affecting realizability.

The Company accounts for uncertain tax positions if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The Company has not identified any uncertain tax position as of December 31, 2020. No interest or penalties have been recorded for the years ended December 31, 2020, 2019, and 2018. The Internal Revenue Service has completed its audits of the Company's federal tax returns for all tax years through December 31, 2016. The Pennsylvania Department of Revenue is not currently conducting any income tax audits. The Company's federal income tax returns filed subsequent to 2017 remain subject to examination by the Internal Revenue Service.

11. Financial Instruments with Off-Balance Sheet Risk

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

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

Financial instruments whose contract amounts represent potential credit risk are commitments to extend credit of approximately $428.9 million and $329.9 million and standby letters of credit of approximately $16.6 million and $17.2 million at December 31, 2020 and 2019, respectively. Commitments often expire without being drawn upon. Of the $428.9 million of commitments to extend credit at December 31, 2020, substantially all were variable rate commitments.

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

Standby letters of credit are conditional commitments issued that guarantee the performance of a customer to a third party. The credit risk and collateral policy involved in issuing letters of credit is essentially the same as that involved in extending loan commitments. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of liability as of December 31, 2020 and 2019 for guarantees under standby letters of credit issued is not material.

12. Commitments and Contingencies

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

13. Regulatory Capital

Dividend payments by Republic to the Company are subject to the Pennsylvania Banking Code of 1965 (the "Banking Code") and the Federal Deposit Insurance Act (the "FDIA"). Under the Banking Code, no dividends may be paid except from "accumulated net earnings" (generally, undivided profits). Under the FDIA, an insured bank may pay no dividends if the bank is in arrears in the payment of any insurance assessment due to the FDIC. Under current banking laws, Republic would be limited to $55.7 million of dividends plus an additional amount equal to its net profit for 2021, up to the date of any such dividend declaration. However, dividends would be further limited in order to maintain capital ratios.

State and Federal regulatory authorities have adopted standards for the maintenance of adequate levels of capital by Republic. Federal banking agencies impose four minimum capital requirements on the Company's risk-based capital ratios based on total capital, Tier 1 capital, CET 1 capital, and a leverage capital ratio. The risk-based capital ratios measure the adequacy of a bank's capital against the riskiness of its assets and off-balance sheet activities. Failure to maintain adequate capital is a basis for "prompt corrective action" or other regulatory enforcement action. In assessing a bank's capital adequacy, regulators also consider other factors such as interest rate risk exposure; liquidity, funding and market risks; quality and level or earnings; concentrations of credit; quality of loans and investments; risks of any nontraditional activities; effectiveness of bank policies; and management's overall ability to monitor and control risks.

The following table presents the Company's and Republic's capital regulatory ratios calculated based on Basel III guidelines at December 31, 2020 and 2019:

(dollars in thousands)	Actual		Minimum Capital Adequacy		Minimum Capital Adequacy with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2020:								
Total risk based capital								
Republic	$ 298,291	12.36%	$ 193,062	8.00%	$ 253,394	10.50%	$ 241,327	10.00%
Company	326,554	13.50%	193,498	8.00%	253,967	10.50%	-	-%
Tier one risk based capital								
Republic	285,316	11.82%	144,796	6.00%	205,128	8.50%	193,062	8.00%
Company	313,579	12.96%	145,124	6.00%	205,592	8.50%	-	-%
CET 1 risk based capital								
Republic	285,316	11.82%	108,597	4.50%	168,929	7.00%	156,863	6.50%
Company	254,254	10.51%	108,843	4.50%	169,311	7.00%	-	-%
Tier one leveraged capital								
Republic	287,114	7.44%	153,414	4.00%	153,414	4.00%	191,767	5.00%
Company	308,113	8.17%	153,621	4.00%	153,621	4.00%	-	-%
At December 31, 2019:								
Total risk based capital								
Republic	$ 252,307	11.94%	$ 169,016	8.00%	$ 221,833	10.50%	$ 211,270	10.00%
Company	261,759	12.37%	169,251	8.00%	222,141	10.50%	-	-%
Tier one risk based capital								
Republic	243,041	11.50%	126,762	6.00%	179,579	8.50%	169,016	8.00%
Company	252,493	11.93%	126,938	6.00%	179,829	8.50%	-	-%
CET 1 risk based capital								
Republic	243,041	11.50%	95,071	4.50%	147,889	7.00%	137,325	6.50%
Company	241,493	11.41%	95,203	4.50%	148,094	7.00%	-	-%
Tier one leveraged capital								
Republic	245,158	7.54%	128,935	4.00%	128,935	4.00%	161,169	5.00%
Company	249,168	7.83%	129,058	4.00%	129,058	4.00%	-	-%

Management believes that Republic met, as of December 31, 2020, all capital adequacy requirements to which it is subject. As of December 31, 2020 and 2019, the FDIC categorized Republic as well capitalized under the regulatory framework for prompt corrective action provisions of the Federal Deposit Insurance Act. There are no calculations or events since that notification that management believes have changed Republic's category.

Under the capital rules, risk-based capital ratios are calculated by dividing common equity Tier 1, Tier 1, and total risk-based capital, respectively, by risk-weighted assets. Assets and off-balance sheet credit equivalents are assigned to one of several categories of risk-weights, based primarily on relative risk. Under applicable capital rules, Republic is required to maintain a minimum common equity Tier 1 capital ratio requirement of 4.5%, a minimum Tier 1 capital ratio requirement of 6%, a minimum total capital requirement of 8% and a minimum leverage ratio requirement of 4%. Under the rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity Tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets.

14. Benefit Plans

Defined Contribution Plan

The Company has a defined contribution plan pursuant to the provision of 401(k) of the Internal Revenue Code. The Plan covers all full-time employees who meet age and service requirements. The plan provides for elective employee contributions with a matching contribution from the Company limited to 4% of total salary. The total expense charged to Republic, which is included in salaries and employee benefits relating to the plan, was $1.5 million in 2020, $1.2 million in 2019, and $1.1 million in 2018.

Directors' and Officers' Plans

The Company has agreements that provide for an annuity payment upon the retirement or death of certain directors and officers, ranging from $15,000 to $25,000 per year for ten years. The agreements were modified for most participants in 2001, to establish a minimum age of 65 to qualify for the payments. All participants are fully vested. The accrued benefits under the plan amounted to $1.1 million at both December 31, 2020 and December 31, 2019, which is included in other liabilities. The expense for the years ended December 31, 2020, 2019, and 2018, totaled $6,000, $16,000, and $18,000, respectively, which is included in salaries and employee benefits. The Company funded the plan through the purchase of certain life insurance contracts. The aggregate cash surrender value of these contracts (owned by the Company) was $2.6 million at December 31, 2020 and December 31, 2019 and is included in other assets.

The Company maintains a deferred compensation plan for the benefit of certain officers and directors. The plan permitted certain participants to make elective contributions to their accounts, subject to applicable provisions of the Internal Revenue Code. In addition, the Company made discretionary contributions to participant accounts. Company contributions were subject to vesting, and generally vested three years after the end of the plan year to which the contribution applied, subject to acceleration of vesting upon certain changes in control (as defined in the plan) and to forfeiture upon termination for cause (as defined in the plan). No future contributions are permitted. Participant accounts are adjusted to reflect distributions, and income, gains, losses, and expenses as if the accounts had been invested in permitted investments selected by the participants, including Company common stock. The plan provides for distributions upon retirement and, subject to applicable limitations under the Internal Revenue Code, limited hardship withdrawals. As of December 31, 2020 and 2019, $1.4 million and $1.3 million in benefits, respectively, had vested and the accrued benefits are included in other liabilities. A reduction in expense of $10,000 and $15,000 was recognized for the deferred compensation plan during 2020 and 2018. Expense recognized for the deferred compensation plan for 2019 was $2,000 and is included in salaries and employee benefits. Although the plan is an unfunded plan, and does not require the Company to segregate any assets, the Company has purchased shares of Company common stock in anticipation of its obligation to pay benefits under the plan. Such shares are classified in the financial statements as stock held by deferred compensation plan. No purchases were made in 2020, 2019, and 2018. As of December 31, 2020, approximately 25,437 shares of Company common stock were classified as stock held by deferred compensation plan.

15. Fair Value Measurements and Fair Values of Financial Instruments

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

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

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

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

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

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

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

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2020 and December 31, 2019 were as follows:

(dollars in thousands)	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2020				
Assets:				
U.S. Government agencies	$ 31,886	$ -	$ 31,886	$ -
Collateralized mortgage obligations	221,546	-	221,546	-
Agency mortgage-backed securities	150,528	-	150,528	-
Municipal securities	8,225	-	8,225	-
Corporate bonds	116,323	-	113,692	2,631
Investment securities available for sale	$ 528,508	$	$ 525,877	$ 2,631
Equity securities	9,039	9,039	-	-
Mortgage Loans Held for Sale	$ 50,387	$ -	$ 50,387	$ -
SBA Servicing Assets	4,626	-	-	4,626
Interest Rate Lock Commitments	1,580	-	1,580	-
Best Efforts Forward Loan Sales Commitments	2	-	2	-
Mandatory Forward Loan Sales Commitments	-	-	-	-
Liabilities:				
Interest Rate Lock Commitments	-	-	-	-
Best Efforts Forward Loan Sales Commitments	612	-	612	-
Mandatory Forward Loan Sales Commitments	800	-	800	-
December 31, 2019				
Assets:				
U.S. Government agencies	$ 38,305	$ -	$ 38,305	$ -
Collateralized mortgage obligations	331,438	-	331,438	-
Agency mortgage-backed securities	98,937	-	98,937	-
Municipal securities	4,082	-	4,082	-
Corporate bonds	66,280	-	63,460	2,820
Investment securities available for sale	$ 539,042	$ -	$ 536,222	$ 2,820
Mortgage Loans Held for Sale	$ 10,345	$ -	$ 10,345	$ -
SBA Servicing Assets	4,447	-	-	4,447
Interest Rate Lock Commitments	362	-	362	-
Best Efforts Forward Loan Sales Commitments	4	-	4	-
Mandatory Forward Loan Sales Commitments	2	-	2	-
Liabilities:				
Interest Rate Lock Commitments	-	-	-	-
Best Efforts Forward Loan Sales Commitments	133	-	133	-
Mandatory Forward Loan Sales Commitments	83	-	83	-

The following table presents an analysis of the activity in the SBA servicing assets for the years ended December 31, 2020, 2019, and 2018:

(dollars in thousands)	2020	2019	2018
Beginning balance, January 1st	$ 4,447	$ 4,785	$ 5,243
Additions	537	1,026	1,000
Fair value adjustments	(358)	(1,364)	(1,458)
Ending balance, December 31st	$ 4,626	$ 4,447	$ 4,785

Fair value adjustments are recorded as loan and servicing fees on the statement of operations. Servicing fee income, not including fair value adjustments, totaled $1.8 million, $1.9 million, and $2.0 million for the years ended December 31, 2020, 2019, and 2018, respectively. Total loans in the amount of $208.7 million at December 31, 2020 and $201.7 million at December 31, 2019 were serviced for others.

The following table presents a reconciliation of the securities available for sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2020, 2019, and 2018:

	Year Ended December 31, 2020		Year Ended December 31, 2019		Year Ended December 31, 2018	
Level 3 Investments Only *(dollars in thousands)*	**Trust Preferred Securities**	**Corporate Bonds**	**Trust Preferred Securities**	**Corporate Bonds**	**Trust Preferred Securities**	**Corporate Bonds**
Balance, January 1,	$ -	$ 2,820	$ -	$ 3,069	$ 489	$ 3,086
Security transferred to Level 3 measurement	-	-	-	-	-	-
Unrealized (losses) gains	-	(189)	-	(249)	237	(17)
Paydowns	-	-	-	-	-	-
Proceeds from sales	-	-	-	-	(660)	-
Realized losses	-	-	-	-	(66)	-
Impairment charges on Level 3	-	-	-	-	-	-
Balance, December 31,	$ -	$ 2,631	$ -	$ 2,820	$ -	$ 3,069

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2020 and 2019, respectively, were as follows:

(dollars in thousands)	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2020:				
Impaired loans	$ 5,678	$ -	$ -	$ 5,678
Other real estate owned	364	-	-	364
December 31, 2019:				
Impaired loans	$ 5,730	$ -	$ -	$ 5,730
Other real estate owned	899	-	-	899

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

	Quantitative Information about Level 3 Fair Value Measurements			
Asset Description	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range (Weighted Average)**
December 31, 2020				
Corporate bonds	$ 2,631	Discounted Cash Flows	Discount Rate	(3.48%)
SBA servicing assets	$ 4,626	Discounted Cash Flows	Conditional Prepayment Rate	(13.22%)
			Discount Rate	(10.00%)
Impaired loans	$ 5,678	Appraised Value of Collateral(1)	Liquidation expenses(2)	0% - 23% (12%)(3)
Other real estate owned	$ 364	Appraised Value of Collateral(1)	Liquidation expenses(2)	7% - 16% (13%)(3)
December 31, 2019				
Corporate bonds	$ 2,820	Discounted Cash Flows	Discount Rate	(6.66%)
SBA servicing assets	$ 4,447	Discounted Cash Flows	Conditional Prepayment Rate	(13.53%)
			Discount Rate	(10.75%)
Impaired loans	$ 5,730	Appraised Value of Collateral(1)	Liquidation expenses(2)	9% - 20% (12%)(3)
Other real estate owned	$ 899	Appraised Value of Collateral(1)	Liquidation expenses(2)	6% - 16% (8%)(3)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which include Level 3 inputs that are not identifiable.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.
(3) The range and weighted average of qualitative factors such as economic conditions and estimated liquidation expenses are presented as a percent of the appraised value.

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

Fair Value Assumptions

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2020 and December 31, 2019:

Investment Securities

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

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

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

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

Mortgage Loans Held for Sale (Carried at Fair Value)

The fair value of mortgage loans held for sale is determined by obtaining prices at which they could be sold in the principal market at the measurement date and are classified within Level 2 of the fair value hierarchy. Republic elected to adopt the fair value option for its mortgage loans held for sale portfolio in order to more accurately reflect their economic value. Interest income on loans held for sale, totaled $846,000 and $500,000 for the twelve months ended December 31, 2020 and December 31, 2019, respectively, are included in interest and fees in the statements of operations.

The following table reflects the difference between the carrying amount of mortgage loans held for sale, measured at fair value and the aggregate unpaid principal amount that Republic is contractually entitled to receive at maturity as of December 31, 2020 and December 31, 2019 (dollars in thousands):

	Carrying Amount	Aggregate Unpaid Principal Balance	Excess Carrying Amount Over Aggregate Unpaid Principal Balance
December 31, 2020	$ 50,387	$ 48,109	$ 2,278
December 31, 2019	$ 10,345	$ 9,983	$ 362

Changes in the excess carrying amount over aggregate unpaid principal balance are recorded in the statement of operations in mortgage banking income. Republic did not have any mortgage loans held for sale recorded at fair value that were 90 or more days past due and on non-accrual at December 31, 2020 and December 31, 2019.

Interest Rate Lock Commitments ("IRLC")

The Company determines the value of IRLCs by comparing the market price to the price locked in with the customer, adding fees or points to be collected at closing, subtracting commissions to be paid at closing, and subtracting estimated remaining loan origination costs to the bank based on the processing status of the loan. The Company also considers pull-through as it determines the fair value of IRLCs. Factors that affect pull-through rates include the origination channel, current mortgage interest rates in the market versus the interest rate incorporated in the IRLC, the purpose of the mortgage (purchase versus financing), the stage of completion of the underlying application and underwriting process, and the time remaining until the IRLC expires. IRLCs are classified within Level 2 of the valuation hierarchy.

Best Efforts Forward Loan Sales Commitments

Best efforts forward loan sales commitments are classified within Level 2 of the valuation hierarchy. Best efforts forward loan sales commitments fix the forward sales price that will be realized upon the sale of mortgage loans into the secondary market. Best efforts forward loan sales commitments are entered into for loans at the time the borrower commitment is made. These best efforts forward loan sales commitments are valued using the committed price to the counterparty against the current market price of the interest rate lock commitment or mortgage loan held for sale.

Mandatory Forward Loan Sales Commitments

Fair values for mandatory forward loan sales commitments are based on fair values of the underlying mortgage loans and the probability of such commitments being exercised. Due to the observable inputs used by Republic, best efforts mandatory loan sales commitments are classified within Level 2 of the valuation hierarchy.

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

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

future cash flows or it is calculated based on discounted collateral values if the loans are collateral dependent.

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

These assets are carried at the lower of cost or fair value. Fair value is determined through valuations periodically performed by third-party appraisers, and the real estate is carried at the lower of its carrying amount or fair value less estimated costs to sell. Any declines in the fair value of the real estate properties below the initial cost basis are recorded through a valuation expense. At December 31, 2020 and December 31, 2019, these assets are carried at current fair value and classified within Level 3 of the fair value hierarchy.

SBA Servicing Asset (Carried at Fair Value)

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

The Company uses assumptions and estimates in determining the impairment of the SBA servicing asset. These assumptions include prepayment speeds and discount rates commensurate with the risks involved and comparable to assumptions used by participants to value and bid serving rights available for sale in the market. At December 31, 2020 and December 31, 2019, the sensitivity of the current fair value of the SBA loan servicing rights to immediate 10% and 20% adverse changes in key assumptions are included in the accompanying table.

(dollars in thousands)	December 31, 2020	December 31, 2019
SBA Servicing Asset		
Fair Value of SBA Servicing Asset	$ 4,626	$ 4,447
Composition of SBA Loans Serviced for Others		
Fixed-rate SBA loans	2%	2%
Adjustable-rate SBA loans	98%	98%
Total	100%	100%
Weighted Average Remaining Term	20.0 years	20.7 years
Prepayment Speed	13.22%	13.53%
Effect on fair value of a 10% increase	$ (170)	$ (175)
Effect on fair value of a 20% increase	(329)	(338)
Weighted Average Discount Rate	10.00%	10.75%
Effect on fair value of a 10% increase	$ (152)	$ (154)
Effect on fair value of a 20% increase	(295)	(298)

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

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 at December 31, 2020 were as follows:

	Fair Value Measurements at December 31, 2020				
(dollars in thousands)	**Carrying Amount**	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Balance Sheet Data					
Financial assets:					
Cash and cash equivalents	$ 775,300	$ 775,300	$ 775,300	$ -	$ -
Investment securities available for sale	528,508	528,508	-	525,877	2,631
Investment securities held to maturity	814,936	836,972	-	836,972	-
Equity securities	9,039	9,039	9,039	-	-
Restricted stock	3,039	3,039	-	3,039	-
Loans held for sale	53,370	53,370	-	50,387	2,983
Loans receivable, net	2,632,367	2,618,104	-	-	2,618,104
SBA servicing assets	4,626	4,626	-	-	4,626
Accrued interest receivable	16,120	16,120	-	16,120	-
Interest rate lock commitments	1,580	1,580	-	1,580	-
Best efforts forward loan sales commitments	2	2	-	2	-
Mandatory forward loan sales commitments	-	-	-	-	-
Financial liabilities:					
Deposits					
Demand, savings and money market	$ 3,827,390	$ 3,827,390	$ -	$ $ 3,827,390	$ -
Time	186,361	187,292	-	187,292	-
Subordinated debt	11,271	8,026	-	-	8,026
Accrued interest payable	926	926	-	926	-
Interest rate lock commitments	-	-	-	-	-
Best efforts forward loan sales commitments	612	612	-	612	-
Mandatory forward loan sales commitments	800	800	-	800	-
Off-Balance Sheet Data					
Commitments to extend credit	-	-	-	-	-
Standby letters-of-credit	-	-	-	-	-

The estimated fair values of the Company's financial instruments at December 31, 2019 were as follows:

	Fair Value Measurements at December 31, 2019				
(dollars in thousands)	**Carrying Amount**	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Balance Sheet Data					
Financial assets:					
Cash and cash equivalents	$ 168,319	$ 168,319	$ 168,319	$ -	$ -
Investment securities available for sale	539,042	539,042	-	536,222	2,820
Investment securities held to maturity	644,842	653,109	-	653,109	-
Restricted stock	2,746	2,746	-	2,746	-
Loans held for sale	13,349	13,349	-	10,345	3,004
Loans receivable, net	1,738,929	1,731,876	-	-	1,731,876
SBA servicing assets	4,447	4,447	-	-	4,447
Accrued interest receivable	9,934	9,934	-	9,934	-
Interest rate lock commitments	362	362	-	362	-
Best efforts forward loan sales commitments	4	4	-	4	-
Mandatory forward loan sales commitments	2	2	-	2	-
Financial liabilities:					
Deposits					
Demand, savings and money market	$ 2,775,584	$ 2,775,584	$ -	$ 2,775,584	$ -
Time	223,579	224,095	-	224,095	-
Subordinated debt	11,265	8,540	-	-	8,540
Accrued interest payable	1,630	1,630	-	1,630	-
Interest rate lock commitments	-	-	-	-	-
Best efforts forward loan sales commitments	133	133	-	133	-
Mandatory forward loan sales commitments	83	83	-	83	-
Off-Balance Sheet Data					
Commitments to extend credit	-	-	-	-	-
Standby letters-of-credit	-	-	-	-	-

16. Stock Based Compensation

The Company has a Stock Option and Restricted Stock Plan ("the 2005 Plan"), under which the Company granted options, restricted stock or stock appreciation rights to the Company's employees, directors, and certain consultants. The 2005 Plan became effective on November 14, 1995, and was amended and approved at the Company's 2005 annual meeting of shareholders. Under the terms of the 2005 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 could be available for grant under the 2005 Plan to 1.5 million shares, were available for such grants. As of December 31, 2020, the only grants under the 2005 Plan were option grants. The 2005 Plan provided that the exercise price of each option granted equaled the market price of the Company's stock on the date of the grant. Options granted pursuant to the 2005 Plan vest within one to four years and have a maximum term of 10 years. The 2005 Plan terminated on November 14, 2015 in accordance with the terms and conditions specified in the Plan agreement.

On April 29, 2014, the Company's shareholders approved the 2014 Republic First Bancorp, Inc. Equity Incentive Plan (the "2014 Plan"), under which the Company may grant options, restricted stock, stock units, or stock appreciation rights to the Company's employees, directors, independent contractors, and consultants. Under the terms of the 2014 Plan, 2.6 million shares of common stock, plus an annual adjustment to be no less than 10% of the outstanding shares or such lower number as the Board of Directors may determine, are available for such grants. At December 31, 2020, the maximum number of common shares issuable under the 2014 Plan was 6.5 million shares. During the twelve months ended December 31, 2020, 1.3 million options were granted under the 2014 Plan with a fair value of $1.1 million. During 2020, options to purchase the Company's common stock were granted to certain employees and directors. The exercise price for the options granted was equal to the closing price of the Company's common stock on the date of grant. The options issued are subject to a one to four year vesting period and expire after ten years.

The Company utilized the Black-Scholes option pricing model to calculate the estimated fair value of each stock option granted on the date of the grant. A summary of the assumptions used in the Black-Scholes option pricing model for 2020, 2019, and 2018 is as follows:

	2020	2019	2018
Dividend yield(1)	0.0%	0.0%	0.0%
Expected volatility(2)	28.61%	28.81%	28.22%
Risk-free interest rate(3)	0.36% to 1.22%	1.42% to 2.78%	2.35% to 2.96%
Expected life(4)	6.25 years	6.25 years	6.25 years
Assumed forfeiture rate(5)	5.0%	4.0%	4.0%

(1) A dividend yield of 0.0% is utilized because cash dividends have never been paid.
(2) The expected volatility was based on the historical volatility of the Company's common stock price as adjusted for certain historical periods of extraordinary volatility in order to estimate expected volatility.
(3) The risk-free interest rate is based on the five to seven year Treasury bond.
(4) The expected life reflects an 8 month to 4 year vesting period, the maximum ten year term and review of historical behavior.
(5) Forfeiture rate is determined through forfeited and expired options as a percentage of options granted over the current three year period.

During 2020, 918,790 options vested as compared to 842,898 options in 2019 and 753,864 options in 2018. Expense is recognized ratably over the period required to vest. At December 31, 2020, the intrinsic value of the 5.9 million options outstanding was $229,000, while the intrinsic value of the 3.4 million exercisable (vested) options was $206,000. During 2020, 333,500 options were forfeited with a weighted average grant date fair value of $643,000.

Information regarding stock based compensation for the years ended December 31, 2020, 2019, and 2018 is set forth below:

	2020	2019	2018
Stock based compensation expense recognized	$ 1,918,000	$ 2,632,000	$ 2,116,000
Number of unvested stock options	2,514,800	2,367,515	1,962,163
Fair value of unvested stock options	$ 4,702,676	$ 6,108,271	$ 5,550,820
Amount remaining to be recognized as expense	$ 2,788,559	$ 3,574,740	$ 3,406,394

The remaining amount of $2.8 million will be recognized ratably as expense through December 2024.

A summary of stock option activity under the plans as of December 31, 2020, 2019, and 2018 is as follows:

	For the Years Ended December 31,					
	2020		2019		2018	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	4,979,475	$ 6.05	3,861,650	$ 5.96	3,005,825	$ 4.98
Granted	1,270,450	2.98	1,356,500	6.35	1,106,800	8.34
Exercised	(17,000)	2.43	(53,550)	4.88	(174,850)	3.83
Forfeited	(333,500)	5.34	(185,125)	6.76	(76,125)	6.80
Outstanding, end of year	5,899,425	$ 5.44	4,979,475	$ 6.05	3,861,650	$ 5.96
Options exercisable at year-end	3,384,625	$ 5.67	2,611,960	$ 5.28	1,899,487	$ 4.53
Weighted average fair value of options granted during the year		$ 0.91		$ 2.15		$ 2.85

A summary of stock option exercises and related proceeds during the years end December 31, 2020, 2019, and 2018 is as follows:

	For the Years Ended December 31,		
	2020	2019	2018
Number of options exercised	17,000	53,550	174,850
Cash received	$ 41,305	$ 261,143	$ 670,413
Intrinsic value	$ 10,410	$ 72,187	$ 814,855
Tax benefit	$ 355	$ 5,159	$ 12,288

The following table summarizes information about options outstanding at December 31, 2020:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
$1.55 to $3.53	1,721,150	6.9	$2.85	507,200	$2.53
$3.55 to $3.95	595,725	3.8	3.60	593,725	3.60
$3.99 to $7.85	1,756,875	7.2	5.71	1,025,875	5.31
$8.00 to $9.45	1,825,675	6.7	8.22	1,257,825	8.20
	5,899,425		$5.44	3,384,625	$5.67

A roll-forward of non-vested options during the year ended December 31, 2020 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested, beginning of year	2,367,515	$2.58
Granted	1,270,450	0.91
Vested	(918,790)	2.46
Forfeited	(204,375)	2.03
Nonvested, end of year	2,514,800	$1.87

17. Segment Reporting

The Company has one reportable segment: community banking. The community banking segment primarily encompasses the commercial loan and deposit activities of Republic, as well as, residential mortgage and consumer loan products in the area surrounding its stores. Mortgage loans in Delaware and Florida are primarily made to local customers that have second homes (vacation) in Delaware and Florida. We do not have loan production offices in those states.

18. Transactions with Affiliates and Related Parties

The Company made payments to related parties in the amount of $690,000, $1.4 million, and $685,000 during 2020, 2019, and 2018, respectively. The disbursements made during 2020, 2019, and 2018 include $390,000, $1.1 million, and $400,000, respectively, in fees for marketing, graphic design, architectural and project management services paid to InterArch, a company owned by the spouse of Vernon W. Hill, II. Mr. Hill is the Chairman of the Company, and beneficially owns 9.9% of the common shares currently outstanding. In February 2021, he was named to the additional role of Chief Executive Officer of both the Company and the Bank. The Company paid $177,000, $158,000 and $165,000 during 2020, 2019, and 2018 to Glassboro Properties, LLC related to a land lease agreement for its Glassboro store. Mr. Hill has an ownership interest in Glassboro Properties LLC, a commercial real estate firm.

The Company paid $120,000 during 2020, 2019 and 2018 to Brian Communications for public relations services in addition to reimbursements for out-of-pocket expenses and other reimbursable costs. Brian Tierney, a member of the Board of Directors, is the CEO of Brian Communications, a strategic communications agency.

19. Parent Company Financial Information

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

Balance Sheet
December 31, 2020 and 2019
(Dollars in thousands)

	December 31, 2020	December 31, 2019
ASSETS		
Cash	$ 22,872	$ 6,327
Corporation-obligated mandatorily redeemable capital securities of subsidiary trust holding junior obligations of the corporation	341	341
Investment in subsidiaries	287,114	245,158
Other assets	9,347	8,640
Total Assets	$ 319,674	$ 260,466
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accrued expenses	$ 290	$ 33
Corporation-obligated mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the corporation	11,271	11,265
Total Liabilities	11,561	11,298
Shareholders' Equity		
Total Shareholders' Equity	308,113	249,168
Total Liabilities and Shareholders' Equity	$ 319,674	$ 260,466

Statements of Operations, Comprehensive Income, and Changes in Shareholders' Equity
For the years ended December 31, 2020, 2019, and 2018
(Dollars in thousands)

	2020	2019	2018
Interest income	$ 9	$ 14	$ 13
Total income	9	14	13
Trust preferred interest expense	297	476	441
Other expenses	2,805	3,662	4,972
Total expenses	3,102	4,138	5,413
Net loss before taxes	(3,093)	(4,124)	(5,400)
Benefit for income taxes	(703)	(917)	(1,640)
Loss before undistributed income of subsidiaries	(2,390)	(3,207)	(3,760)
Equity in undistributed income of subsidiaries	7,444	(293)	12,387
Net income (loss)	$ 5,054	$ (3,500)	$ 8,627
Net income (loss)	$ 5,054	$ (3,500)	$ 8,627
Total other comprehensive income (loss)	4,512	4,586	(2,778)
Total comprehensive income	$ 9,566	$ 1,086	$ 5,849
Shareholders' equity, beginning of year	$ 249,168	$ 245,189	$ 226,460
Stock based compensation	1,918	2,632	2,116
Exercise of stock options	41	261	670
Conversion of subordinated debt to common shares	-	-	10,094
Proceeds from shares issued under preferred stock offering (2,000,000 shares) net of offering costs of $1,675	48,325	-	-
Preferred stock dividends	(923)	-	-
Return of short swing profit	18	-	-
Net income (loss)	5,054	(3,500)	8,627
Total other comprehensive income (loss)	4,512	4,586	(2,778)
Shareholders' equity, end of year	$ 308,113	$ 249,168	$ 245,189

Statements of Cash Flows
For the years ended December 31, 2020, 2019, and 2018
(Dollars in thousands)

	2020	2019	2018
Cash flows from operating activities:			
Net income (loss)	$ 5,054	$ (3,500)	$ 8,627
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Share based compensation	1,918	2,632	2,116
Amortization of debt issuance costs	6	6	6
Increase in other assets	(707)	(1,069)	(1,639)
Net increase (decrease) in other liabilities	257	(18)	20
Equity in undistributed income of subsidiaries	(7,444)	293	(12,387)
Net cash used in operating activities	(916)	(1,656)	(3,257)
Cash flows from investing activities:			
Investment in subsidiary	(30,000)	(20,000)	(30,000)
Net cash used in investing activities	(30,000)	(20,000)	(30,000)
Cash flows from financing activities:			
Proceeds from shares issued under preferred stock offering (2,000,000 shares) net of offering costs of $1,675	48,325	-	-
Preferred share dividends	(923)	-	-
Return of short swing profit	18	-	-
Exercise of stock options	41	261	670
Net cash provided by financing activities	47,461	261	670
Increase (decrease) in cash	16,545	(21,395)	(32,587)
Cash, beginning of period	6,327	27,722	60,309
Cash, end of period	$ 22,872	$ 6,327	$ 27,722

20. Quarterly Financial Data (unaudited)

The following represents summarized unaudited quarterly financial data of the Company for each of the quarters ended during 2020 and 2019.

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

	For the Quarter Ended			
	December 31st	September 30th	June 30th	March 31st
2020				
Interest income	$ 31,248	$ 28,560	$ 27,859	$ 27,283
Interest expense	5,527	5,630	5,432	6,529
Net interest income	25,721	22,930	22,427	20,754
Provision for loan losses	1,400	850	1,000	950
Non-interest income	11,235	10,031	8,424	6,545
Non-interest expense	29,907	33,580	26,664	27,272
Provision (benefit) for income taxes	1,548	(503)	675	(330)
Net income (loss)	$ 4,101	$ (967)	$ 2,512	$ (593)
Preferred stock dividends	923	-	-	-
Net income available to common shareholders	$ 3,178	$ (967)	$ 2,512	$ (593)
Net income (loss) per share(1):				
Basic	$ 0.05	$ (0.02)	$ 0.04	$ (0.01)
Diluted	$ 0.05	$ (0.02)	$ 0.04	$ (0.01)
2019				
Interest income	$ 26,892	$ 26,208	$ 26,245	$ 25,519
Interest expense	6,978	6,826	6,874	6,379
Net interest income	19,914	19,382	19,371	19,140
Provision for loan losses	1,155	450	-	300
Non-interest income	5,213	6,554	7,026	4,945
Non-interest expense	27,488	27,824	25,911	23,267
Provision (benefit) for income taxes	(1,031)	(516)	105	92
Net income (loss)	$ (2,485)	$ (1,822)	$ 381	$ 426
Preferred stock dividends	-	-	-	-
Net income available to common shareholders	$ (2,485)	$ (1,822)	$ 381	$ 426
Net income (loss) per share(1):				
Basic	$ (0.04)	$ (0.03)	$ 0.01	$ 0.01
Diluted	$ (0.04)	$ (0.03)	$ 0.01	$ 0.01

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

21. Changes in Accumulated Other Comprehensive Income (Loss) By Component [1]

The following table presents the changes in accumulated other comprehensive loss by component, net of taxes, for the years ended December 31, 2020, 2019, and 2018.

(dollars in thousands)	Unrealized Gains (Losses) on Available-For-Sale Securities	Unrealized Holding Losses on Securities Transferred From Available-For-Sale To Held-To-Maturity	Total
Balance January 1, 2020	$ (1,275)	$ (6,066)	$ (7,341)
Unrealized gain on securities	4,320	-	4,320
Amounts reclassified from accumulated other comprehensive income to net income[2]	(2,060)	2,252	192
Net current-period other comprehensive income	2,260	2,252	4,512
Total change in accumulated other comprehensive income	2,260	2,252	4,512
Balance December 31, 2020	$ 985	$ (3,814)	$ (2,829)
Balance January 1, 2019	(4,736)	$ (7,191)	$ (11,927)
Unrealized gain on securities	4,284	-	4,284
Amounts reclassified from accumulated other comprehensive income to net income[2]	(823)	1,125	302
Net current-period other comprehensive income	3,461	1,125	4,586
Total change in accumulated other comprehensive income	3,461	1,125	4,586
Balance December 31, 2019	$ (1,275)	$ (6,066)	$ (7,341)
Balance January 1, 2018	(7,150)	$ (359)	$ (7,509)
Reclassification due to the adoption of ASU 2018-02	(1,562)	(78)	(1,640)
Unrealized gain on securities	3,927	-	3,927
Net unrealized holding losses on securities transferred from available-for-sale to held-to-maturity	-	(6,855)	(6,855)
Amounts reclassified from accumulated other comprehensive income to net income[2]	49	101	150
Net current-period other comprehensive income (loss)	3,976	(6,754)	(2,778)
Total change in accumulated other comprehensive income (loss)	2,414	(6,832)	(4,418)
Balance December 31, 2018	$ (4,736)	$ (7,191)	$ (11,927)

(1) All amounts are net of tax. Amounts in parentheses indicate reductions to other comprehensive income.
(2) Reclassification amounts are reported as gains/losses on sales of investment securities, impairment losses, and amortization of net unrealized losses on the Consolidated Statement of Income.

22. Goodwill

The Company completed an annual impairment test for goodwill as of July 31, 2020 and 2019. Goodwill was written off as a result of an interim test completed as of September 30, 2020. This was a

complete write-off off all goodwill on the balance sheet. During the year ended December 31, 2019, there was no goodwill impairment recorded.

In 2016, Republic acquired all of the issued and outstanding limited liability company interests of Oak Mortgage Company, LLC (“Oak Mortgage”) and, as a result, Oak Mortgage became a wholly owned subsidiary of Republic on that date. The Company’s goodwill related to the acquisition of Oak Mortgage in July 2016 is detailed below:

(dollars in thousands)	Balance December 31, 2019	Additions/ Adjustments	Write-offs	Amortization	Balance December 31, 2020	Amortization Period (in years)
Goodwill	$ 5,011	$ -	$ (5,011)	$ -	$ -	None

(dollars in thousands)	Balance December 31, 2018	Additions/ Adjustments	Write-offs	Amortization	Balance December 31, 2019	Amortization Period (in years)
Goodwill	$ 5,011	$ -	$ -	$ -	$ 5,011	Indefinite

23. Derivatives and Risk Management Activities

Republic did not have any derivative instruments designated as hedging instruments, or subject to master netting and collateral agreements for the twelve months ended December 31, 2020 and 2019. The following table summarizes the amounts recorded in Republic’s statement of financial condition for derivatives not designated as hedging instruments as of December 31, 2020 and December 31, 2019 (in thousands):

December 31, 2020	**Balance Sheet Presentation**	**Fair Value**	**Notional Amount**
Asset derivatives:			
IRLC’s	Other Assets	$ 1,580	$ 48,223
Best efforts forward loan sales commitments	Other Assets	2	2,069
Mandatory forward loan sales commitments	Other Assets	-	-
Liability derivatives:			
IRLC’s	Other Liabilities	$ -	$ -
Best efforts forward loan sales commitments	Other Liabilities	612	46,154
Mandatory forward loan sales commitments	Other Liabilities	800	48,373

December 31, 2019	**Balance Sheet Presentation**	**Fair Value**	**Notional Amount**
Asset derivatives:			
IRLC’s	Other Assets	$ 362	$ 14,586
Best efforts forward loan sales commitments	Other Assets	4	875
Mandatory forward loan sales commitments	Other Assets	2	288
Liability derivatives:			
IRLC’s	Other Liabilities	$ -	$ -
Best efforts forward loan sales commitments	Other Liabilities	133	13,711
Mandatory forward loan sales commitments	Other Liabilities	83	9,614

The following table summarizes the amounts recorded in Republic's statement of income for derivative instruments not designated as hedging instruments for the twelve months ended December 31, 2020, 2019, and 2018 (in thousands):

Twelve Months Ended December 31, 2020	Income Statement Presentation	Gain/(Loss)
Asset derivatives:		
IRLC's	Mortgage banking income	$ 1,218
Best efforts forward loan sales commitments	Mortgage banking income	(2)
Mandatory forward loan sales commitments	Mortgage banking income	(2)
Liability derivatives:		
IRLC's	Mortgage banking income	$ -
Best efforts forward loan sales commitments	Mortgage banking income	(479)
Mandatory forward loan sales commitments	Mortgage banking income	(717)

Twelve Months Ended December 31, 2019	Income Statement Presentation	Gain/(Loss)
Asset derivatives:		
IRLC's	Mortgage banking income	$ (48)
Best efforts forward loan sales commitments	Mortgage banking income	(1)
Mandatory forward loan sales commitments	Mortgage banking income	(8)
Liability derivatives:		
IRLC's	Mortgage banking income	$ -
Best efforts forward loan sales commitments	Mortgage banking income	5
Mandatory forward loan sales commitments	Mortgage banking income	147

Twelve Months Ended December 31, 2018	Income Statement Presentation	Gain/(Loss)
Asset derivatives:		
IRLC's	Mortgage banking income	$ 47
Best efforts forward loan sales commitments	Mortgage banking income	-
Mandatory forward loan sales commitments	Mortgage banking income	(9)
Liability derivatives:		
IRLC's	Mortgage banking income	$ 1
Best efforts forward loan sales commitments	Mortgage banking income	(45)
Mandatory forward loan sales commitments	Mortgage banking income	(35)

The fair value of Republic's IRLCs, best efforts forward loan sales commitments, and mandatory forward loan sales commitments are based upon the estimated value of the underlying mortgage loan (determined consistent with "Loans Held for Sale"), adjusted for (1) estimated costs to complete and originate the loan, and (2) the estimated percentage of IRLCs that will result in a closed mortgage loan. The valuation of the IRLCs issued by Republic includes the value of the servicing released premium. Republic sells loans servicing released, and the servicing released premium is included in the market price.

24. Revenue Recognition

On January 1, 2018, the Company adopted ASU 2014-09 "*Revenue from Contracts with Customers*" *(Topic 606)* and all subsequent ASUs that modified Topic 606. Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and investments. In addition, certain non-interest income streams such as gains on sales of residential mortgage and SBA loans, income associated with servicing assets, and loan fees, including residential mortgage originations to be sold and prepayment and late fees charged across all loan categories are also not in scope of the new guidance. Topic 606 is applicable to non-interest revenue streams such as service charges on deposit accounts. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Non-interest revenue streams in-scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), ATM fees, NSF fees, interchange fees, and other deposit related fees.

The Company's performance obligation for account analysis fees and monthly services fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided, which is typically one month. Revenue is recognized at month end after the completion of the service period and payment for these service charges on deposit accounts is primarily received through a direct charge to customers' accounts.

ATM fees, NSF fees, interchange fees, and other deposit related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and the related revenue recognized, at a point in time. Payment for these service charges are received immediately through a direct charge to customers' accounts.

For the Company, there are no other material revenue streams within the scope of Topic 606.

The following tables present non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the twelve months ended December 31, 2020, 2019, and 2018.

	Twelve Months Ended December 31,		
(dollars in thousands)	**2020**	**2019**	**2018**
Non-interest income			
In-scope of Topic 606			
Service charges on deposit accounts	$ 11,058	$ 7,541	$ 5,476
Other non-interest income	168	214	174
Non-interest income (in-scope of Topic 606)	11,226	7,755	5,650
Non-interest income (out-of-scope of Topic 606)	25,009	15,983	14,672
Total non-interest income	$ 36,235	$ 23,738	$ 20,322

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's non-interest

revenue streams are largely based on transaction activity, or standard month-end revenue accruals. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2020, 2019, and 2018, the Company did not have any significant contract balances.

Contract Acquisition Costs

In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize as an expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the assets that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Company did not capitalize any contract acquisition cost.

25. Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The new standard was adopted by the Company on January 1, 2019. ASU 2016-02 provides for a modified retrospective transition approach requiring lessees to recognize and measure leases on the balance sheet at the beginning of either the earliest period presented or as of the beginning of the period of adoption. The Company elected to apply ASU 2016-02 as of the beginning of the period of adoption (January 1, 2019) and will not restate comparative periods. Adoption of ASU 2016-02 resulted in the recognition of total operating lease liability obligations totaling $35.1 million and the recognition of operating lease right-of-use assets totaling $34.2 million at the date of adoption. The initial balance sheet gross up upon adoption was related to operating leases on land and buildings for twenty-three lease agreements. The Company has no finance leases or material subleases for which it is the lessor of property. The Company has elected to apply the package of practical expedients allowed by the new standard under which the Company need not reassess whether any expired or existing contracts are leases or contain leases, the Company need not reassess the lease classification for any expired or existing lease, and the Company need not reassess initial direct costs for any existing leases.

At December 31, 2020, the Company had forty-two operating lease agreements, which include operating leases for twenty branch locations, seven offices that are used for general office space, and fifteen operating leases for equipment. Two of the real property operating leases did not include one or more options to extend the lease term. Eight of the operating leases for branch locations are land leases where the Company is responsible for the construction of the building on the property. The forty-two operating leases have maturity dates ranging from August 2021 to August 2059 most of which include options for multiple five and ten year extensions which the Company is reasonably certain to exercise. No operating leases include variable lease payments that are based on an index or rate, such as the CPI. The weighted average remaining operating lease term for these leases is 21.04 years as of December 31, 2020.

At December 31, 2019, the Company had thirty-seven operating lease agreements, which include operating leases for seventeen branch locations, seven offices that are used for general office space, and thirteen operating leases for equipment. Two of the real property operating leases did not include one or more options to extend the lease term. Five of the operating leases for branch locations are land leases

where the Company is responsible for the construction of the building on the property. The thirty-seven operating leases have maturity dates ranging from January 2020 to December 2058 most of which include options for multiple five and ten year extensions which the Company is reasonably certain to exercise. No operating leases include variable lease payments that are based on an index or rate, such as the CPI. The weighted average remaining operating lease term for these leases is 19.75 years as of December 31, 2019.

The discount rate used in determining the operating lease liability obligation for each individual lease was the assumed incremental borrowing rate for the Company that corresponded with the remaining lease term as of January 1, 2019 for leases that existed at adoption and as of the lease commencement date for leases subsequently entered in to. The weighted average operating lease discount rate was 3.33% and 3.58% as of December 31, 2020 and 2019, respectively.

The following table presents operating lease costs net of sublease income for the twelve months ended December 31, 2020 and 2019.

(dollars in thousands)	**Twelve Months Ended December 31, 2020**	**Twelve Months Ended December 31, 2019**
Operating lease cost	$ 7,915	$ 6,817
Sublease income	-	(302)
Total lease cost	$ 7,915	$ 6,515

Rent expense was approximately $4.4 million for the year ended December 31, 2018.

The following table presents a maturity analysis of total operating lease liability obligations and reconciliation of the undiscounted cash flows to total operating lease liability obligations at December 31, 2020 and 2019.

(dollars in thousands)	**December 31, 2020**	**December 31, 2019**
Operating lease payments due:		
Within one year	$ 8,260	$ 7,221
One to three years	15,719	11,385
Three to five years	14,938	10,028
More than five years	85,176	70,721
Total undiscounted cash flows	124,093	99,355
Discount on cash flows	(46,517)	(30,499)
Total operating lease liability obligations	$ 77,576	$ 68,856

The following table presents cash and non-cash activities for the twelve months ended December 31, 2020 and 2019.

	Twelve Months Ended December 31, 2020		Twelve Months Ended December 31, 2019	
(dollars in thousands)				
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash flows from operating leases	$	7,383	$	5,387
Non-cash investing and financing activities				
Additions to Operating leases – right of use asset				
New operating lease liability obligation	$	10,973	$	72,648

Note 26 – Preferred Stock

On August 26, 2020, the Company completed an offering of an aggregate of 2,000,000 shares of 7.00% Non-Cumulative Perpetual Preferred Stock, Series A, par value $0.01 per share (the “Series A Preferred Stock”), at a price of $25.00 per share. The Company will pay dividends on the Series A Preferred Stock when and if declared by its board of directors or an authorized committee thereof. If declared, dividends will be due and payable at a rate of 7.00% per annum, payable quarterly in arrears on March 1, June 1, September 1, and December 1 of each year, beginning with the first dividend payment on December 1, 2020. The Company received net proceeds of $48.3 million from the offering, after deducting offering costs. Preferred stock dividends of $923,000 were paid for the year ended December 31, 2020.

Holders of shares of Series A Preferred Stock may convert such shares at any time and from time to time into shares of the Company’s common stock at a conversion price of $3.00 per share of our common stock, subject to adjustment upon certain events. At any time after August 26, 2025, the Company may cause the outstanding shares of Series A Preferred Stock to convert into shares of common stock if the price of the common stock exceeds 125% of the Conversion Price then applicable to the Series A Preferred Stock for at least 20 trading days in a period of 30 consecutive trading days.

Tel: 215-564-1900
Fax: 215-564-3940
www.bdo.com

Ten Penn Center
1801 Market Street, Suite 1700
Philadelphia, PA 19103

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited Republic First Bancorp, Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and our report dated March 11, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Controls. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Definition and Limitations of Internal Control over Financial Reporting

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

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

BDO USA, LLP

Philadelphia, Pennsylvania
March 11, 2021

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

None.

Item 9A: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Controls

The principal executive officer and principal financial officer also conducted an evaluation of the Company's internal control over financial reporting ("Internal Control") to determine whether any changes in Internal Control occurred during the quarter ended December 31, 2020 that have materially affected or which are reasonably likely to materially affect Internal Control. Based on that evaluation, there has been no such change during the quarter ended December 31, 2020.

Management's Report on Internal Controls

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

The Company's management, under the supervision and with the participation of the principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of internal control over financial reporting, as of December 31, 2020, based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the framework in Internal Control – Integrated Framework 2013, management of the Company has concluded the Company maintained effective internal control over financial reporting, as such term is defined in Securities Exchange Act of 1934 Rules 13a-15(f), as of December 31, 2020.

Limitations on the Effectiveness of Controls

Control systems, no matter how well designed and operated, can provide only reasonable, not an absolute, level of assurance that the objectives of the control system are met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of

controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

BDO, an independent registered public accounting firm, has audited the Company's consolidated financial statements as of and for the years ended December 31, 2020 and 2019, and the effectiveness of the Company's internal control over financial reporting as of December 31, 2020, as stated in their reports, which are included herein.

Item 9B: Other Information

None

PART III

Item 10: Directors, Executive Officers and Corporate Governance

Except as set forth below, the information required by this Item is incorporated by reference from the definitive proxy materials of the Company to be filed with the Securities and Exchange Commission in connection with the Company's 2021 annual meeting of shareholders, including, but not necessarily limited to, the sections entitled "Board of Directors and Committees" and "Executive Officers and Compensation."

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

Item 11: Executive Compensation

The information required by this Item is incorporated by reference from the definitive proxy materials of the Company to be filed with the Securities and Exchange Commission in connection with the Company's 2021 annual meeting of shareholders, including, but not necessarily limited to, the section entitled "Executive Officers and Compensation."

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

Except as set forth below, the information required by this Item is incorporated by reference from the definitive proxy materials of the Company to be filed with the Securities and Exchange Commission in connection with the Company's 2020 annual meeting of shareholders, including, but not necessarily limited to, the section entitled "Security Ownership of Certain Beneficial Owners and Management."

The following table sets forth information as of December 31, 2020, with respect to the shares of common stock that may be issued under the Company's existing equity compensation plans.

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column)
Equity compensation plans approved by security holders	5,899,426	$5.44	1,043,275 (1) (2)
Equity compensation plans not approved by security holders	-	-	-
Total	5,899,426	$5.44	1,043,275 (1) (2)

(1) Pursuant to the terms of the Stock Option and Restricted Stock Plan, as amended and restated in 2005, no additional equity awards were issuable after November 14, 2015.

(2) The 2014 Republic First Bancorp, Inc. Equity Incentive Plan provides for 2,600,000 shares of common stock plus an annual adjustment to be no less than 10% of the outstanding shares or such lower number as the Board of Directors may determine, to be available for such grants.

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

The information required by this Item is incorporated by reference from the definitive proxy materials of the Company to be filed with the Securities and Exchange Commission in connection with the Company's 2021 annual meeting of shareholders, including, but not necessarily limited to, the sections entitled "Certain Relationships and Related Transactions" and "Board of Directors and Committees."

Item 14: Principal Accountant Fees and Services

The information required by this Item is incorporated by reference from the definitive proxy materials of the Company to be filed with the Securities and Exchange Commission in connection with the Company's 2021 annual meeting of shareholders, including, but not necessarily limited to, the section entitled "Information Regarding Independent Registered Public Accounting Firm".

PART IV

Item 15: Exhibits, Financial Statement Schedules

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

a. Consolidated Balance Sheets as of December 31, 2020 and 2019;
b. Consolidated Statements of Operations for the years ended December 31, 2020, 2019, and 2018;
c. Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2020, 2019, and 2018;
d. Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019, and 2018;
e. Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2020, 2019, and 2018; and
f. Notes to Consolidated Financial Statements.

(a) (2) None

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

(b) Exhibits

The following Exhibits are filed as part of this report.

Exhibit Number	Description	Location
3.1	Amended and Restated Articles of Incorporation of Republic First Bancorp, Inc.	Incorporated by reference to Form 10-K filed March 10, 2017
3.2	Statement with Respect to Shares regarding 7.0% Perpetual Non-Cumulative Preferred Stock, Series A of Republic First Bancorp, Inc.	Incorporated by reference to Form 8-K filed August 21, 2020
3.3	Amended and Restated By-Laws of Republic First Bancorp, Inc.	Incorporated by reference to Form 10-Q filed May 11, 2020
4.1	The Company will furnish to the SEC upon request copies of the following documents relating to the Company's Floating Rate Junior Subordinated Debt Securities due 2037: (i) Indenture dated as of December 27, 2006, between the Company and Wilmington Trust Company, as trustee; (ii) Amended and Restated Declaration of Trust of Republic Capital Trust II, dated as of December 27, 2006; and (iii) Guarantee Agreement dated as of December 27, 2006, between the Company and Wilmington Trust Company, as trustee, for the benefit of the holders of the capital securities of Republic Capital Trust II	

Exhibit Number	Description	Location
4.2	The Company will furnish to the SEC upon request copies of the following documents relating to the Company's Floating Rate Junior Subordinated Debt Securities due 2037: (i) Indenture dated as of June 28, 2007, between the Company and Wilmington Trust Company, as trustee; (ii) Amended and Restated Declaration of Trust of Republic Capital Trust III, dated as of June 28, 2007; and (iii) Guarantee Agreement dated as of June 28, 2007, between the Company and Wilmington Trust Company, as trustee, for the benefit of the holders of the capital securities of Republic Capital Trust III	
4.3	Description of Capital Securities	Incorporated by reference to Form 10-K filed March 16, 2020
10.1	Form of Employment Agreement, dated July 1, 2015, by and among, certain named Executive Officers, Republic First Bancorp, Inc. and Republic First Bank*	Incorporated by reference to Form 8-K filed July 14, 2015
10.2	Amended and Restated Stock Option Plan and Restricted Stock Plan*	Incorporated by reference to Form 10-K filed March 10, 2008
10.3	Deferred Compensation Plan*	Incorporated by reference to Form 10-K filed March 16, 2010
10.4	Amended and Restated Supplemental Retirement Plan Agreements between Republic First Bank and Certain Directors*	Incorporated by reference to Form 10-Q filed November 7, 2008
10.5	Agreement, dated March 9, 2017, between Republic First Bancorp, Inc. and Vernon W. Hill II	Incorporated by reference to Form 10-K filed March 10, 2017
10.6	Employment Agreement, dated May 10, 2013, by and among Harry D. Madonna, Republic First Bancorp, Inc., and Republic First Bank*	Incorporated by reference to Form 10-Q filed May 10, 2013
10.7	First Amendment to Employment Agreement, dated March 18, 2015, by and among Harry D. Madonna, Republic First Bancorp, Inc. and Republic First Bank*	Incorporated by reference to Form 8-K filed March 20, 2015
10.8	Form of Option Award*	Incorporated by reference to Form S-1 filed April 23, 2010 (333-166286)

Exhibit Number	Description	Location
10.9	Republic First Bancorp, Inc. 2014 Equity Incentive Plan*	Incorporated by reference to the definitive proxy statement on Schedule 14A filed March 26, 2014
10.10	Form of Incentive Stock Option Award – 2014 Equity Incentive Plan*	Incorporated by reference to Form 10-K filed March 13, 2015
10.11	Form of Nonqualified Stock Option Award – 2014 Equity Incentive Plan*	Incorporated by reference to Form 10-K filed March 13, 2015
10.12	Form of Investment Agreement	Incorporated by reference to Form 8-K filed April 22, 2014
21.1	Subsidiaries of the Company	Filed Herewith
23.1	Consent of BDO USA, LLP	Filed Herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer of Republic First Bancorp, Inc.	Filed Herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Republic First Bancorp, Inc.	Filed Herewith
32.1	Section 1350 Certification of Vernon W. Hill, II	Furnished Herewith
32.2	Section 1350 Certification of Frank A. Cavallaro	Furnished Herewith
101	The following materials from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020, formatted in Inline XBRL; (i) Consolidated Balance Sheets as of December 31, 2020 and December 31, 2019, (ii) Consolidated Statements of Operations for the years ended December 31, 2020, 2019, and 2018, (iii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2020, 2019, and 2018, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019, and 2018, (v) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2020, 2019, and 2018, and (vi) Notes to Consolidated Financial Statements.	
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	

* Constitutes a management compensation agreement or arrangement.

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

SIGNATURES

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

REPUBLIC FIRST BANCORP, INC.

Date: March 11, 2021 By: /s/ Vernon W. Hill, II
Vernon W. Hill, II
Chief Executive Officer
(principal executive officer)

Date: March 11, 2021 By: /s/ Frank A. Cavallaro
Frank A. Cavallaro
Executive Vice President and Chief Financial Officer
(principal financial and accounting officer)

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

Date: March 11, 2021 By: /s/ Vernon W. Hill, II
Vernon W. Hill, II, Chairman of the Board

Date: March 11, 2021 By: /s/ Andrew B. Cohen
Andrew B. Cohen, Director

Date: March 11, 2021 By: /s/ Theodore J. Flocco, Jr.
Theodore J. Flocco, Jr., Director

Date: March 11, 2021 By: /s/ Lisa R. Jacobs
Lisa R. Jacobs, Director

Date: March 11, 2021 By: /s/ Harry D. Madonna
Harry D. Madonna, Director

Date: March 11, 2021 By: /s/ Barry L. Spevak
Barry L. Spevak, Director

Date: March 11, 2021 By: /s/ Brian P. Tierney
Brian P. Tierney, Director

Date: March 11, 2021 By: /s/ Harris Wildstein, Esq.
Harris Wildstein, Esq., Director

Exhibit 21.1

SUBSIDIARIES OF THE COMPANY

Subsidiary Name	Jurisdiction of Organization
Subsidiaries of Republic First Bancorp, Inc.	
Republic First Bank (dba Republic Bank)	Pennsylvania
Republic Capital Trust II	Delaware
Republic Capital Trust III	Delaware

Tel: 215-564-1900
Fax: 215-564-3940
www.bdo.com

Ten Penn Center
1801 Market Street, Suite 1700
Philadelphia, PA 19103

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

Republic First Bancorp, Inc
Philadelphia, Pennsylvania

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-196024 and No. 333-228279) and Form S-8 (No. 333-200868) of Republic First Bancorp, Inc. and subsidiaries of our reports dated March 11, 2021, relating to the consolidated financial statements, and the effectiveness of Republic First Bancorp, Inc.'s internal control over financial reporting, which appear in this Form 10-K.

BDO USA, LLP

Philadelphia, Pennsylvania
March 11, 2021

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Exhibit 31.1

REPUBLIC FIRST BANCORP, INC.
CERTIFICATIONS PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Vernon W. Hill II, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2020 of Republic First Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2021 /s/ Vernon W. Hill II
Chief Executive Officer

Exhibit 31.2

REPUBLIC FIRST BANCORP, INC.
CERTIFICATIONS PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Frank A. Cavallaro, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2020 of Republic First Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2021

/s/ Frank A. Cavallaro
Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K for the fiscal year ended December 31, 2020, as filed with the Securities and Exchange Commission by Republic First Bancorp, Inc. (the "Company") on the date hereof (the "Report"), I, Vernon W. Hill II, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 11, 2021 /s/ Vernon W. Hill II
Chief Executive Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K for the fiscal year ended December 31, 2020, as filed with the Securities and Exchange Commission by Republic First Bancorp, Inc. (the "Company") on the date hereof (the "Report"), I, Frank A. Cavallaro, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 11, 2021 /s/ Frank A. Cavallaro
Executive Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.

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CORPORATE INFORMATION

Headquarters

Republic First Bancorp, Inc.
Two Liberty Place
50 S. 16th Street, Suite 2400
Philadelphia, PA 19102
888.875.2265

Annual Shareholders' Meeting

Tuesday, April 27, 2021 at 5pm EST
The Union League of Philadelphia
140 South Broad Street
Philadelphia, PA 19102

And virtual at:
www.virtualshareholdermeeting.com/FRBK2021

Certified Public Accountants

BDO USA, LLP
1801 Market Street
Ten Penn Center, Suite 1700
Philadelphia, PA 19103

Transfer Agent/Registrar

Computershare
P.O. Box 43078
Providence, RI 02940-3078
800.368.5948

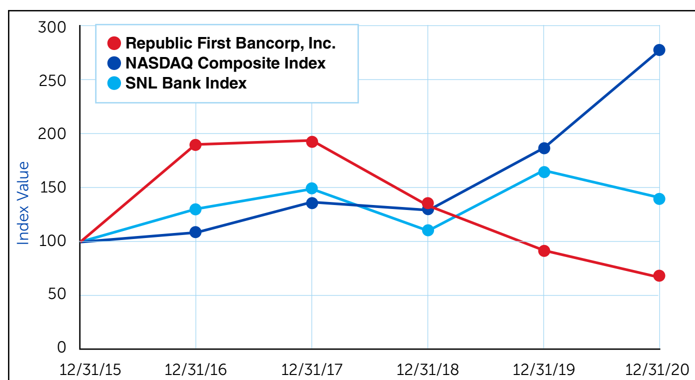
Stock Exchange Listing

National NASDAQ Symbol: FRBK

Shareholder Information

For a copy of the Report filed on Form 10K with the Securities and Exchange Commission and for all other shareholder related information, please contact Investor Relations or visit our website at: my**republic**bank.com

TOTAL RETURN PERFORMANCE



REPUBLIC BANK

America's #1 Bank for Service

Member FDIC

EQUAL HOUSING LENDER