REPUBLIC FIRST BANCORP INC
Form 10-K/A
March 23, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

(Mark One)
[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 *(fee required)*

For the fiscal year ended December 31, 2005

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 *(no fee required)*

For the transition period from __________________________ to ____________________________

Commission file number: 000-17007

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

Pennsylvania	**23-2486815**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1608 Walnut Street, Suite 1000, Philadelphia, PA	**19103**
(Address of Principal Executive offices)	(Zip Code)

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

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

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

Common Stock, $0.01 par value
(Title of class)

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K [X]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ___ Accelerated filer X Non-accelerated filer ____
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES ____ NO X

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2005. The aggregate market value of $84,470,525 was based on the average of the bid and asked prices on the National Association of Securities Dealers Automated Quotation System on June 30, 2005.

APPLICABLE ONLY TO CORPORATE REGISTRANTS

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

Common Stock $0.01 Par Value	**8,756,462**
Title of Class	Number of Shares Outstanding as of March 1, 2006

Documents incorporated by reference

Part III incorporates certain information by reference from the registrant's Proxy Statement for the 2006 Annual Meeting of Shareholders to be held on April 25, 2006.

EXPLANATION

This Form 10K-A is being filed for Form 10K for the year ended December 31, 2005, originally filed on March 16, 2006. It is being filed solely to correct typographical errors in the signing dates of Grant Thornton's Report of Independent Registered Public Accounting Firm and of Exhibit 23.1 - Consent of Beard Miller Company LLP, as well as the wording of Exhibits 31.1 and 31.2 - Certifications pursuant to Commission Rule 13a-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002.

PART IV

Item 15: Exhibits and Financial Statements

A. Financial Statements

(1) Management's Report on Internal Control Over Financial Reporting

(2) Reports of Independent Registered Public Accounting Firms

(3) Consolidated Balance Sheets as of December 31, 2005 and 2004

(4) Consolidated Statements of Income for the years ended December 31, 2005, 2004 and 2003

(5) Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003

(6) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2005, 2004 and 2003

(7) Notes to Consolidated Financial Statements

B. Exhibits

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

All other schedules and exhibits are omitted because they are not applicable or because the required information is set out in the financial statements or the notes thereto.

Exhibit Number	Description	Manner of Filing
3.1	Amended and Restated Articles of Incorporation of Republic First Bancorp, Inc.	Incorporated by reference to Form 10-K Filed March 30, 2005
3.2	Amended and Restated By-Laws of Republic First Bancorp, Inc.	Incorporated by reference to Form 10-K Filed March 30, 2005
10.1	Employment Contract Between the Company and Harry D. Madonna*	Incorporated by reference to Form 10-Q/A Filed February 7,

		2005
10.2	Amended and Restated Stock Option Plan and Restricted Stock Plan*	Incorporated by reference to Form S-8 Filed March 26, 2001
10.3	Deferred Compensation Plan*	Incorporated by reference to Form 10-Q Filed November 15, 2004
10.4	Human Resources and Payroll Services Agreement between Republic First Bank and BSC Services Corp. dated January 1, 2005	Incorporated by reference to Form 10-K Filed March 30, 2005
10.5	Operation and Data Processing Services Agreement between Republic First Bank and BSC Services Corp. dated January 1, 2005	Incorporated by reference to Form 10-K Filed March 30, 2005
10.6	Compliance Services Agreement between Republic First Bank and BSC Services Corp. dated January 1, 2005	Incorporated by reference to Form 10-K Filed March 30, 2005

10.7	Financial Accounting and Reporting Services Agreement between Republic First Bank and BSC Services Corp. dated January 1, 2005	Incorporated by reference to Form 10-K Filed March 30, 2005
21.1	Subsidiaries of the Company	Filed Herewith
23.1	Consent of Beard Miller Company LLP	Filed Herewith
23.2	Consent of Grant Thornton LLP	Filed Herewith
31.1	Certification of Chairman and Chief Executive Officer of Republic First Bancorp, Inc. pursuant to Commission Rule 13a-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
31.2	Certification of Executive Vice President and Chief Financial Officer of Republic First Bancorp, Inc. pursuant to Commission Rule 13a-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
32.1	Certification under Section 906 of the Sarbanes Oxley Act of Harry D. Madonna.	Filed Herewith
32.2	Certification under Section 906 of the Sarbanes Oxley Act of Paul Frenkiel.	Filed Herewith

* Constitutes a compensation agreement or arrangement.

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, in the City of Philadelphia, Commonwealth of Pennsylvania.

REPUBLIC FIRST BANCORP, INC. [registrant]

Date: March 14, 2006

By: /s/ Harry D. Madonna
Harry D. Madonna
Chairman, President and
Chief Executive Officer

Date: March 14, 2006

By: /s/ Paul Frenkiel
Paul Frenkiel,
Executive Vice President and
Chief Financial 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 in the capacities and on the dates indicated.

Date: March 14, 2006

/s/ Harris Wildstein, Esq.
Harris Wildstein, Esq.,
Director

/s/ Neal I. Rodin
Neal I. Rodin, Director

/s/ Steven J. Shotz
Steven J. Shotz, Director

/s/ Harry D. Madonna
Harry D. Madonna,
Director and Chairman of
the Board

/s/ Louis J. DeCesare, Jr.
Louis J. DeCesare, Jr.,
Director

/s/ William Batoff
William Batoff, Director

/s/ Robert Coleman
Robert Coleman, Director

/s/ Barry L. Spevak
Barry L. Spevak, Director

/s/ Lyle W. Hall
Lyle W. Hall, Director

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OF

REPUBLIC FIRST BANCORP, INC.

Management's Report on Internal Control Over Financial Reporting

Management of Republic First Bancorp, Inc. (the "Company") is responsible for establishing and maintaining effective internal control over financial reporting. 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 U.S. generally accepted accounting principles.

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the framework in Internal Control - Integrated Framework, management of the Company has concluded the Company maintained effective internal control over financial reporting, as such term is defined in Securities Exchange Act of 1934 Rules 13a-15(f), as of December 31, 2005.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management is also responsible for the preparation and fair presentation of the consolidated financial statements and other financial information contained in this report. The accompanying consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles and include, as necessary, best estimates and judgments by management.

The consolidated financial statements of the Company have been audited by Beard Miller Company LLP, an independent registered public accounting firm, who was engaged to express an opinion as to the fairness of presentation of such financial statements. In connection therewith, Beard Miller Company LLP is required to issue an attestation report on management's assessment of internal control over financial reporting and, in addition, is required to form its own opinion as to the effectiveness of those controls. Their opinion on the fairness of the financial statement presentation, and their attestation and opinion on internal controls over financial reporting are included herein.

Date: March 14, 2006

By:/s/ Harry D. Madonna
Harry D. Madonna
Chairman, President and
Chief Executive Officer

Date: March 14, 2006

By:/s/ Paul Frenkiel
Paul Frenkiel,
Executive Vice President and
Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Republic First Bancorp, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Republic First Bancorp, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Republic First Bancorp, Inc.'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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Republic First Bancorp, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, Republic First Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Republic First Bancorp, Inc. and subsidiary as of December 31, 2005 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year ended December 31, 2005 and our report dated March 14, 2006 expressed an unqualified opinion.

/s/ Beard Miller Company LLP
Reading, Pennsylvania
March 14, 2006

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Republic First Bancorp, Inc.

We have audited the accompanying consolidated balance sheet of Republic First Bancorp, Inc., and subsidiary as of December 31, 2005, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Republic First Bancorp, Inc., and subsidiary as of December 31, 2005, and the results of their operations and their cash flows for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Republic First Bancorp, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 14, 2006, expressed an unqualified opinion on management's assessment of internal control over financial reporting and an unqualified opinion on the effectiveness of internal control over financial reporting.

/s/ Beard Miller Company LLP
Reading, Pennsylvania
March 14, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Republic First Bancorp, Inc. and Subsidiaries (the Company) as of December 31, 2004, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the two years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Republic First Bancorp, Inc. and Subsidiaries as of December 31, 2004, and the consolidated results of their operations and their consolidated cash flows for each of the two years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP
Philadelphia, Pennsylvania
March 24, 2005 (except for Note 20, as to which the date is March 14, 2006)*

* Adjusted for typographical error

REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2005 and 2004
(Dollars in thousands, except per share data)

	2005	2004
ASSETS:		
Cash and due from banks	$ 19,985	$ 15,900
Interest bearing deposits with banks	768	3,641
Federal funds sold	86,221	17,162
Total cash and cash equivalents	106,974	36,703
Other interest-earning restricted cash	-	2,923
Investment securities available for sale, at fair value	37,283	43,733
Investment securities held to maturity, at amortized cost (fair value of $570 and $813 respectively)	559	792
Federal Home Loan Bank stock, at cost	6,319	4,635
Loans receivable, (net of allowance for loan losses of $7,617 and $6,684 respectively)	670,469	543,005
Premises and equipment, net	3,598	3,625
Other real estate owned, net	137	137
Accrued interest receivable	3,784	3,390
Bank owned life insurance	10,926	10,595
Other assets	10,806	15,266
Assets of First Bank of Delaware discontinued operations	-	55,608
Total Assets	$ 850,855	$ 720,412
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Deposits:		
Demand — non-interest-bearing	$ 88,862	$ 97,790
Demand — interest-bearing	69,940	54,762
Money market and savings	223,129	170,980
Time less than $100,000	128,022	99,690
Time over $100,000	137,890	87,462
Total Deposits	647,843	510,684
Short-term borrowings	123,867	61,090
FHLB advances	-	25,000
Accrued interest payable	1,813	2,126
Other liabilities	7,469	5,890
Subordinated debt	6,186	6,186
Liabilities of First Bank of Delaware discontinued operations	-	44,212
Total Liabilities	787,178	655,188
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock, par value $0.01 per share; 10,000,000 shares authorized; no shares issued as of December 31, 2005 and 2004	-	-
Common stock, par value $0.01 per share; 20,000,000 shares authorized; shares issued 8,753,998 as of December 31, 2005 and 7,429,078 as of December 31, 2004	88	74
Additional paid in capital	50,203	42,494
Retained earnings	15,566	23,867
Treasury stock at cost (227,778 shares and 192,689 respectively)	(1,688)	(1,541)

Stock held by deferred compensation plan		(573)		-
Accumulated other comprehensive income		81		330
Total Shareholders' Equity		63,677		65,224
Total Liabilities and Shareholders' Equity	$	850,855	$	720,412

(See notes to consolidated financial statements)

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REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31, 2005, 2004 and 2003
(Dollars in thousands, except per share data)

	2005	2004	2003
Interest income:			
Interest and fees on loans	$ 42,331	$ 31,006	$ 34,144
Interest on federal funds sold and other interest-earning assets	1,078	563	863
Interest and dividends on investment securities	1,972	2,030	2,735
	45,381	33,599	37,742
Interest expense:			
Demand - interest bearing	332	350	445
Money market and savings	6,026	2,135	1,583
Time less than $100,000	3,181	2,999	3,806
Time over $100,000	3,608	2,003	2,114
Other borrowings	3,076	7,261	8,248
	16,223	14,748	16,196
Net interest income	29,158	18,851	21,546
Provision (recovery) for loan losses	1,186	(314)	5,827
Net interest income after provision (recovery) for loan losses	27,972	19,165	15,719
Non-interest income:			
Loan advisory and servicing fees	573	491	463
Service fees on deposit accounts	2,000	1,662	1,335
Gains on sales and calls of investment securities	97	5	-
Gain on sale of other real estate owned	-	-	224
Lawsuit damage award	-	1,337	-
Other income	944	971	831
	3,614	4,466	2,853
Non-interest expenses:			
Salaries and employee benefits	9,569	7,647	7,481
Occupancy	1,566	1,400	1,347
Depreciation	991	947	1,101
Legal	673	812	773
Other real estate	44	81	240
Advertising	192	139	161
Data processing	504	88	114
Taxes, other	688	567	500
Other operating expenses	3,980	3,665	2,897
	18,207	15,346	14,614
Income from continuing operations before income taxes	13,379	8,285	3,958
Provision for income taxes	4,486	2,694	1,267
Income from continuing operations	8,893	5,591	2,691
Income from discontinued operations	-	5,060	3,440
Income tax on discontinued operations	-	1,711	1,217
Income from discontinued operations, net of tax	-	3,349	2,223

Net Income	$	8,893	$	8,940	$	4,914
Income per share from continuing operations:						
Basic	$	1.06	$	0.69	$	0.34
Diluted	$	1.02	$	0.66	$	0.32
Income per share from discontinued operations:						
Basic	$	-	$	0.41	$	0.28
Diluted	$	-	$	0.39	$	0.27
Net income per share:						
Basic	$	1.06	$	1.10	$	0.62
Diluted	$	1.02	$	1.05	$	0.59

(See notes to consolidated financial statements)

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REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS of CASH FLOWS
For the years ended December 31, 2005, 2004 and 2003
(Dollars in thousands)

	2005	2004	2003
Cash flows from operating activities:			
Net income	$ 8,893	$ 8,940	$ 4,914
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,186	1,149	6,764
Write down or loss of other real estate owned	-	70	56
Gain on sale of other real estate owned	-	-	(224)
Depreciation	991	1,338	1,416
Tax benefit of stock option exercises	624	-	-
Stock purchases for deferred compensation plan	(573)	-	-
Gains on sales and call of securities	(97)	(5)	-
Amortization of discounts on investment securities	189	252	192
Increase in value of bank owned life insurance	(331)	(422)	(263)
Decrease (increase) in accrued interest receivable and other assets	4,066	(6,505)	(3,190)
Increase in accrued expenses and other liabilities	1,266	6,764	1,845
Net cash provided by operating activities	16,214	11,581	11,510
Cash flows from investing activities:			
Purchase of investment securities:			
Available for sale	(18,665)	(7,500)	(31,894)
Held to maturity	-	-	(2,160)
Proceeds from maturities and calls of securities:			
Available for sale	20,671	11,500	6,500
Held to maturity	183	-	35
Proceeds from sale of investment securities:			
Available for sale	-	1,500	1,003
Principal collected on investment securities:			
Available for sale	4,126	10,039	48,429
Held to maturity	49	251	3,546
Purchase of FHLB stock	(1,684)	-	(411)
Proceeds from sale of FHLB stock	-	2,583	-
Net increase in loans	(128,650)	(104,545)	(29,447)
Net proceeds from sale of other real estate owned	-	-	1,015
Purchase of treasury shares	(143)	-	
Purchase of bank owned life insurance	-	-	(11,500)
Decrease in other interest-earning restricted cash	2,923	560	745
Premises and equipment expenditures	(964)	(1,952)	(828)
Net cash used in investing activities	(122,154)	(87,564)	(14,967)
Cash flows from financing activities:			
Net proceeds from exercise of stock options	1,275	358	1,094
Net increase in demand, money market and savings	58,399	88,392	32,955
Net increase (decrease) in time deposits	78,760	3,399	(35,652)
Net increase in short term borrowings	62,777	58,238	2,852

Repayment of FHLB advances		(25,000)		(100,000)		-
Net cash provided by financing activities		176,211		50,387		1,249
Discontinued operations:						
Net cash from discontinued operating activities		-		(10,531)		(1,727)
Net cash from discontinued investing activities		-		14,188		291
Net cash from discontinued financing activities		-		(11,494)		9,360
Net cash from discontinued activities		-		(7,837)		7,924
Increase (decrease) in cash and cash equivalents		70,271		(33,433)		5,716
Cash and cash equivalents, beginning of year		36,703		70,136		64,420
Cash and cash equivalents, end of year	$	106,974	$	36,703	$	70,136
Supplemental disclosures:						
Interest paid	$	16,535	$	15,826	$	17,408
Income taxes paid		3,885		3,300		2,650
Non-monetary transfers from loans to other real estate owned		-		1,500		207

(See notes to consolidated financial statements)

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REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2005, 2004 and 2003
(Dollars in thousands)

	Comprehensive Income	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income	Shareholders' Equity
Balance January 1, 2003		$ 64	$ 32,305	$ 18,760	$ (1,541)	$ -	$ 1,688	$ 51,276
Total other comprehensive loss, net of reclassification adjustments and taxes:								
From continuing operations	(881)						(881)	(881)
From discontinued operations	(27)						(27)	(27)
Income from continuing operations, net of taxes	2,691			2,691				2,691
Income from discontinued operations, net of taxes	2,223			2,223				2,223
Net income for the year	4,914	-	-	4,914	-		-	4,914
Total comprehensive income	$ 4,006	-	-	-	-		-	-
Options exercised (292,068 shares)		3	1,091	-	-		-	1,094
Balance December 31, 2003		67	33,396	23,674	(1,541)	-	780	56,376
Total other comprehensive loss, net of reclassification adjustments and taxes:								
From continuing operations	(436)						(436)	(436)
From discontinued operations	(14)						(14)	(14)
Income from continuing operations, net of taxes	5,591			5,591				5,591

Income from discontinued operations, net of taxes	3,349			3,349				3,349
Net income for the year	8,940	-	-	8,940	-		-	8,940
Total comprehensive income	$ 8,490	-	-	-	-		-	-
Stock dividend (659,225 shares)		7	8,740	(8,747)				
Options exercised (105,185 shares)			358		-		-	358
Balance December 31, 2004		74	42,494	23,867	(1,541)	-	330	65,224
First Bank of Delaware spin-off	-	-	-	-	-		-	-
Total other comprehensive loss, net of reclassification adjustments and taxes	(227)	-	-	-	-		(227)	(227)
Net income for the year	8,893	-	-	8,893	-		-	8,893
Total comprehensive income	$ 8,666	-	-	-	-		-	-
Stock dividend (924,022 shares)		10	10,968	(10,978)	-		-	-
First Bank of Delaware spin-off		-	(5,158)	(6,216)	-		(22)	(11,396)
Options exercised (400,898 shares)		4	1,271	-	-		-	1,275
Purchase of Treasury shares (11,961 shares)			4		(147)			(143)
Tax benefit of stock option exercises			624					624
Stock purchases for deferred compensation plan (44,893 shares)						(573)		(573)
Balance December 31, 2005		$ 88	$ 50,203	$ 15,566	$ (1,688)	$ (573)	$ 81	$ 63,677

(See notes to consolidated financial statements)

REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization:

Republic First Bancorp, Inc. ("the Company") spun off its former subsidiary, the First Bank of Delaware, through a pro-rata distribution of one share of the common stock of the First Bank of Delaware ("FBD") for every share of the Company's common stock outstanding on January 31, 2005. The Company's financial statements are presented herein with an effective date of the spin off as of January 1, 2005. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, the Company has presented the spin-off of the First Bank of Delaware as a discontinued operation (Note 20). The Company is now 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 ("Republic"), a Pennsylvania state chartered bank. Republic offers a variety of banking services to individuals and businesses throughout the Greater Philadelphia and South Jersey area through its offices and branches in Philadelphia, Montgomery, and Delaware Counties.

Both Republic and FBD share data processing, accounting, human resources and compliance services through BSC Services Corp. ("BSC"), which is a subsidiary of FBD. BSC allocates its costs, on the basis of usage, to Republic and FBD, which classify such costs to the appropriate non-interest expense categories.

At December 31, 2004, the Company was a two-bank holding company organized and incorporated under the laws of the Commonwealth of Pennsylvania. Its other wholly-owned subsidiary, until the January 31, 2005 spin off, was First Bank of Delaware; a Delaware State chartered Bank, located at Brandywine Commons II, Concord Pike and Rocky Run Parkway in Brandywine, New Castle County, Delaware. First Bank of Delaware offered many of the same services and financial products as Republic, and additionally offered nationally, short-term consumer loans and other loan products not offered by Republic.

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

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

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. Such statements have been presented in accordance with accounting principles generally accepted in the United States of America or applicable to the banking industry. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements.

Risks and Uncertainties and Certain Significant Estimates:

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

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

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

Significant estimates are made by management in determining the allowance for loan losses, carrying values of other real estate owned and income taxes. Consideration is given to a variety of factors in establishing these estimates. In estimating the allowance for loan losses, management considers current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' perceived financial and managerial strengths, the adequacy of underlying collateral, if collateral dependent, or present value of future cash flows and other relevant factors. Since the allowance for loan losses and carrying value of other real estate owned are dependent, to a great extent, on the general economy and other conditions that may be beyond Republic's control, it is at least reasonably possible that the estimates of the allowance for loan losses and the carrying values of other real estate owned could differ materially in the near term.

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.

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 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. The amounts of those balances for the reserve computation periods that include December 31, 2005 and 2004 were $0.3 million and $11.4 million, respectively. These requirements were satisfied through the restriction of vault cash and a balance at the Federal Reserve Bank of Philadelphia.

Other Interest-Earning Restricted Cash:

Other interest-earning restricted cash represented funds provided to fund an offsite ATM network for which the Company was compensated. These funds were not considered cash equivalents because the Company was contractually obligated to provide these funds and were not immediately able to withdraw the funds. The relationship with the ATM network ended in the fourth quarter of 2005.

Investment Securities:

Debt and equity investment securities are classified in one of three categories, as applicable, and accounted for as follows: debt securities which the Company has the positive intent and ability to hold to maturity are classified as "securities held to maturity" and are reported at amortized cost; debt and equity securities that are bought and sold in the near term are classified as "trading" and are reported at fair market value with unrealized gains and losses included in earnings; and debt and equity securities not classified as either held to maturity and/or trading securities are classified as "investment securities available for sale" and are reported at fair market value with net unrealized gains and losses, net of tax, reported as a separate component of shareholders' equity. Gains or losses on disposition are based on the net proceeds and cost of securities sold, adjusted for amortization of premiums and accretion of discounts, using the specific identification method. The Company does not have any investment securities designated as trading as of December 31, 2005 and 2004.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans and Allowance for Loan Losses:

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 and investment securities 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.

The allowance for loan losses is established through a provision for loan losses charged to operations. Loans are charged against the allowance when management believes that the collectibility of the loan principal is unlikely. Recoveries on loans previously charged off are credited to the allowance.

The allowance is an amount that represents management's best estimate of known and inherent loan losses. Management's evaluations of the allowance for loan losses consider such factors as an examination of the portfolio, past loss experience, the results of the most recent regulatory examination, current economic conditions and other relevant factors.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

The Company accounts for the transfers and servicing financial assets in accordance with SFAS No. 140*, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. SFAS No. 140 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 Corporation, (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 Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The Company accounts for guarantees in accordance with FIN 45 *Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others*. FIN 45 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 obligation. The maximum potential undiscounted amount of future payments of these letters of credit as of December 31, 2005 is $5.8 million and they expire as follows $5.3 million in 2006 and $0.5 million in 2007. 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.

The Company accounts for loan commitments in accordance with SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 clarifies and amends SFAS No. 133 for implementation issues raised by constituents or includes the conclusions reached by the FASB on certain FASB Staff Implementation Issues. SFAS No. 149 also amends SFAS No. 133 to require a lender to account for loan commitments related to mortgage loans that will be held for sale as derivatives. The Company periodically enters into commitments with its customers, which it intends to sell in the future.

Premises and Equipment:

Premises and equipment 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. Leasehold improvements are amortized over the shorter of their estimated useful lives or terms of their respective leases, using the straight-line method. Repairs and maintenance are charged to current operations as incurred, and renewals and betterments are capitalized.

Other Real Estate Owned:

Other real estate owned consists of assets acquired through, or in lieu of, loan foreclosure. They are held for sale and are initially recorded at fair value 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 foreclosed assets. At December 31, 2005 and 2004, the Company had retail stores classified as other real estate owned with a value of $137,000.

Bank Owned Life Insurance:

The Company invests in bank owned life insurance (“BOLI”) as a source of funding to purchase life insurance on certain employees. The Company is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the increase in cash surrender value of the policies is included in other income on the income statement. At December 31, 2005 and 2004, the Company owned $10.9 million and $10.6 million, respectively in BOLI. In 2005, 2004 and 2003 the Company recognized $331,000, $367,000 and $230,000, respectively in related income.

Advertising Costs:

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

Income Taxes:

The Company accounts for income taxes under the liability method of accounting. Deferred tax assets and liabilities are established for the temporary differences between the financial reporting basis and the tax basis of the Company’s assets and liabilities at the tax rates expected to be in effect when the temporary differences are realized or settled. In addition, a deferred tax asset is recorded to reflect the future benefit of net operating loss carryforwards. The deferred tax assets may be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

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 ("CSE"). Common stock equivalents consist of dilutive stock options granted through the Company's stock option plan. The following table is a reconciliation of the numerator and denominator used in calculating basic and diluted EPS. Common stock equivalents, which are antidilutive are not included for purposes of this calculation. At December 31, 2005, 2004 and 2003, there were no stock options excluded from the computation of earnings per share because the option price was greater than the average market price, respectively.

(In thousands, except per share data)	**2005**	**2004**	**2003**
Income from continuing operations (numerator for basic and diluted earnings per share)	$ 8,893	$ 5,591	$ 2,691

	2005		**2004**		**2003**	
	Shares	**Per Share**	**Shares**	**Per Share**	**Shares**	**Per Share**
Weighted average shares outstanding for the period (denominator for basic earnings per share)	8,360,949		8,081,995		7,924,951	
Earnings per share — basic		$ 1.06		$ 0.69		$ 0.34
Effect of dilutive stock options	345,082		399,203		364,722	
Effect on basic earnings per share of CSE		(0.04)		(0.03)		(0.02)
Weighted average shares outstanding- diluted	8,706,031		8,481,198		8,289,673	
Earnings per share — diluted		$ 1.02		$ 0.66		$ 0.32

(In thousands, except per share data)	**2005**	**2004**	**2003**
Income from discontinued operations, net of taxes (numerator for basic and diluted earnings per share)	$ -	$ 3,349	$ 2,223

	2005		**2004**		**2003**	
	Shares	**Per Share**	**Shares**	**Per Share**	**Shares**	**Per Share**
Weighted average shares outstanding for the period (denominator for basic earnings per share)	-		8,081,995		7,924,951	
Earnings per share — basic		$ -		$ 0.41		$ 0.28
Effect of dilutive stock options	-		399,203		364,722	
		-		(0.02)		(0.01)

Effect on basic earnings per share of CSE						
Weighted average shares outstanding- diluted	-		8,481,198		8,289,673	
Earnings per share — diluted		$ -		$ 0.39		$ 0.27

(In thousands, except per share data)	**2005**	**2004**	**2003**
Net income (numerator for basic and diluted earnings per share)	$ 8,893	$ 8,940	$ 4,914

	2005		**2004**		**2003**	
	Shares	**Per Share**	**Shares**	**Per Share**	**Shares**	**Per Share**
Weighted average shares outstanding for the period (denominator for basic earnings per share)	8,360,949		8,081,995		7,924,951	
Earnings per share — basic		$ 1.06		$ 1.10		$ 0.62
Effect of dilutive stock options	345,082		399,203		364,722	
Effect on basic earnings per share of CSE		(0.04)		(0.05)		(0.03)
Weighted average shares outstanding- diluted	8,706,031		8,481,198		8,289,673	
Earnings per share — diluted		$ 1.02		$ 1.05		$ 0.59

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Stock Based Compensation:

The Company accounts for stock options under the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, which contains a fair valued-based method for valuing stock-based compensation that entities may use, which measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period. Alternatively, SFAS No. 123 permits entities to continue accounting for employee stock options and similar equity instruments under Accounting Principles Board (APB) Opinion 25, *Accounting for Stock Issued to Employees*. Entities that continue to account for stock options using APB Opinion 25 are required to make pro forma disclosures of net income and earnings per share, as if the fair value-based method of accounting defined in SFAS No. 123 had been applied.

At December 31, 2005, the Company had a stock-based employee compensation plan, which is more fully described in Note 15. The Company accounts for that plan under the recognition and measurement principles of APB No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Stock-based employee compensation costs are not reflected in net income, as all options granted under the plan had an exercise price equal to the market vale of the underlying common stock on the date of grant

In accordance with FAS 123, the following table shows pro forma net income and earnings per share assuming stock options had been expensed based on their fair value of the options granted along with the significant assumptions used in the Black-Scholes option valuation model (dollars in thousands, except per share data):

	Year Ended December 31					
	2005		**2004**		**2003**	
Income from continuing operations	$	8,893	$	5,591	$	2,691
Stock-based employee compensation costs determined if the fair value method had been applied to all awards, net of tax		(603)		(159)		(277)
		8,290		5,432		2,414
Income from discontinued operations		-		3,349		2,223
Stock-based employee compensation costs determined if the fair value method had been applied to all awards, net of tax, for discounted operations		-		(51)		(89)
-				3,298		2,134
Pro forma net income	$	8,290	$	8,730	$	4,548
Basic Earnings per Common Share:						
As reported:						
From continuing operations	$	1.06	$	0.69	$	0.34
From discontinued operations		-		0.41		0.28
	$	1.06	$	1.10	$	0.62
Pro forma:						
From continuing operations	$	0.99	$	0.67	$	0.30
From discontinued operations		-		0.41		0.27
	$	0.99	$	1.08	$	0.57
Diluted Earnings per Common Share:						
As reported:						

From continuing operations	$	1.02	$	0.66	$	0.32
From discontinued operations		-		0.39		0.27
	$	1.02	$	1.05	$	0.59
Pro forma:						
From continuing operations	$	0.95	$	0.64	$	0.29
From discontinued operations		-		0.39		0.26
	$	0.95	$	1.03	$	0.55

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The proforma compensation expense is based upon the fair value of the option at grant date. The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2005, 2004 and 2003, respectively; dividend yields of 0% for all three periods; expected volatility of 21% for 2005, 35% for 2004, and 34% for 2003; risk-free interest rates of 4.08%, 3.48% and 3.48% respectively and an expected life of 9.0 years for 2005 and 5.0 years for 2004 and 2003. As a result of the spin-off of First Bank of Delaware, related stock option expense for 2004 and 2003 was allocated between those two entities on the basis of stock prices as of the date of the spin-off.

Restatement for Stock Dividends:

All applicable amounts in these financial statements have been restated for a 12% stock dividend paid on June 7, 2005.

Comprehensive Income:

The components of comprehensive income, net of related tax, are as follows (in thousands):

	Year Ended December 31		
	2005	**2004**	**2003**
Income from continuing operations	$ 8,893	$ 5,591	$ 2,691
Income from discontinued operations	-	3,349	2,223
Other comprehensive loss from continuing operations:			
Unrealized losses on securities:			
Arising during the period, net of tax benefit of $86, $222 and $453	(163)	(433)	(881)
Less: reclassification adjustment for gains included in net income, net of tax expense of $33, $2, and $-	(64)	(3)	-
Other comprehensive loss from continuing operations	(227)	(436)	(881)
Other comprehensive loss from discontinued operations:			
Unrealized losses on securities:			
Arising during the period, net of tax benefit of $-, $7 and $13	-	(14)	(27)
Other comprehensive loss from discontinued operations	-	(14)	(27)
Comprehensive income	$ 8,666	$ 8,490	$ 4,006

The accumulated balances related to each component of other comprehensive income (loss) are as follows (in thousands):

	December 31		
	2005	**2004**	**2003**
Continuing operations:			
Unrealized gains on securities	$ 81	$ 308	$ 744
Discontinued operations:			

Unrealized gains on securities		-		22		36
Accumulated other comprehensive income	$	81	$	330	$	780

Variable Interest Entity:

Management previously determined that Republic First Capital Trust I ("RFCT"), utilized for the Company's $6,000,000 of pooled preferred securities issuance, qualified as a variable interest entity under FIN 46, as revised. RFCT issued mandatorily redeemable preferred stock to investors and loaned the proceeds to the Company. RFCT is included in the Company's consolidated balance sheet and statements of income as of and for the year ended December 31, 2003. Subsequent to the issuance of FIN 46 in January 2003, the FASB issued a revised interpretation, FIN 46(R) Consolidation of Variable Interest Entities, the provisions of which were required to be applied to certain variable interest entities by March 31, 2004.

The Company adopted the provisions under the revised interpretation in the first quarter of 2004. Accordingly, the Company no longer consolidates RFCT as of March 31, 2004. FIN 46(R) precludes consideration of the call option embedded in the preferred stock when determining if the Company has the right to a majority of RFCT's expected residual returns. The deconsolidation resulted in the investment in the common stock of RFCT to be included in other assets and the corresponding increase in outstanding debt of $186,000. In addition, the income received on the Company's common stock investment is included in other income. The adoption of FIN 46R did not have a material impact on the financial position or results of operations. The Federal Reserve has issued final guidance on the regulatory capital treatment for the trust-preferred securities issued by RFCT as a result of the adoption of FIN 46(R). The final rule would retain the current maximum percentage of total capital permitted for trust preferred securities at 25%, but would enact other changes to the rules governing trust preferred securities that affect their use as part of the collection of entities known as “restricted core capital elements.” The rule would take effect March 31, 2009; however, a five-year transition period starting March 31, 2004 and leading up to that date would allow bank holding companies to continue to count trust preferred securities as Tier 1 Capital after applying FIN-46(R). Management has evaluated the effects of the final rule and does not anticipate a material impact on its capital ratios.

Recent Accounting Pronouncements:

In March 2004, the EITF reached a consensus on Issue No. 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.” EITF 03-1 provides guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under SFAS 115 and non-marketable equity securities accounted for under the cost method. The EITF developed a basic three-step model to evaluate whether an investment is other-than-temporarily impaired. In November 2005, the FASB approved the issuance of FASB Staff Position FAS No. 115-1 and FAS 124-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.” The FSP addresses when an investment is considered impaired, whether the impairment is other-than-temporary and the measurement of an impairment loss. The FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary. The FSP is effective for reporting periods beginning after December 15, 2005 with earlier application permitted. For the Company, the effective date will be the first quarter of fiscal 2006. The adoption of this accounting principle is not expected to have a significant impact on out consolidated financial position or results of operations.

In June 2005, the SEC issued Staff Accounting Bulletin No. 107 (“SAB No. 107”), *Share-Based Payment*, providing guidance on option valuation methods, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS No. 123R, and the disclosures in MD&A subsequent to the adoption.

The FASB published SFAS No. 123 (Revised 2004), Share-Based Payment (“SFAS 123R”). SFAS 123R is effective January 1, 2006 and requires that compensation cost related to share-based payment transactions, including stock options, be recognized in the consolidated financial statements. In 2005, the Company vested all previously issued, unvested options. The impact on operations in future periods will be the value imputed on future option grants using the methods prescribed in SFAS No. 123 (R). There is no impact on cash flow.

Reclassifications:

Certain reclassifications have been made to 2004 and 2003 information to conform to the current year’s presentation. The Consolidated Statements of Income, Consolidated Statements of Cash Flows, and Consolidated Statements of Change in Shareholders’ Equity were revised to reflect the effects of discontinued operations. As well, the Consolidated Balance Sheets were revised to separately show assets of the FBD spin-off and the liabilities associated with those assets. Segment information presented in Note 16 was also revised from prior year’s presentation to reflect discontinued operations. See Note 20 for more detail regarding the spin-off.

3. Investment Securities:

Investment securities available for sale as of December 31, 2005 are as follows:

(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Government Agencies	$ 18,717	$ -	$ (160)	$ 18,557
Mortgage Backed Securities	8,691	247	(6)	8,932
Other Debt Securities	9,752	50	(8)	9,794
Total	$ 37,160	$ 297	$ (174)	$ 37,283

Investment securities held to maturity as of December 31, 2005 are as follows:

(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Government Agencies	$ 3	$ -	$ -	$ 3
Mortgage Backed Securities	59	3	-	62
Other Securities	497	8	-	505
Total	$ 559	$ 11	$ -	$ 570

Investment securities available for sale as of December 31, 2004 are as follows:

(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Government Agencies	$ 20,258	$ -	$ (156)	$ 20,102
Mortgage Backed Securities	12,500	567	(9)	13,058
Other Debt Securities	10,506	101	(34)	10,573
Total	$ 43,264	$ 668	$ (199)	$ 43,733

Investment securities held to maturity as of December 31, 2004 are as follows:

(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Government Agencies	$ 3	$ -	$ -	$ 3
Mortgage Backed Securities	108	7	-	115
Other Securities	681	14	-	695
Total	$ 792	$ 21	$ -	$ 813

The securities portfolio consists primarily of U.S government agency securities, mortgage backed securities, corporate bonds and trust preferred securities. The Company's Asset/Liability Committee reviews all security purchases to ensure compliance with security policy guidelines.

The maturity distribution of the amortized cost and estimated market value of investment securities by contractual maturity at December 31, 2005, is as follows:

	Available for Sale		Held to Maturity	
(Dollars in thousands)	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
Due in 1 year or less	$ --	$ --	$ 75	$ 75
After 1 year to 5 years	18,867	18,705	80	80
After 5 years to 10 years	510	521	105	107
After 10 years	17,783	18,057	117	126
No stated maturity	-	-	182	182
Total	$ 37,160	$ 37,283	$ 559	$ 570

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

The Company realized gains on the sale of securities of $97,000 in 2005; $5,000 in 2004 and $0 in 2003. No securities were sold at a loss in 2005, 2004, or 2003.

At December 31, 2005 and 2004, investment securities in the amount of approximately $185,000 and $4.0 million respectively, were pledged as collateral for public deposits and certain other deposits as required by law.

Temporarily impaired securities as of December 31, 2005 are as follows:

(Dollars in thousands)	Less than 12 months		12 Months or more		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Government Agencies	$ -	$ -	$ 18,557	$ 160	$ 18,557	$ 160
Mortgage Backed Securities	-	-	261	6	261	6
Other Debt Securities	-	-	1,147	8	1,147	8
Total Temporarily Impaired Securities	$ -	$ -	$ 19,965	$ 174	$ 19,965	$ 174

The impairment of the investment portfolio at December 31, 2005 totaled $174,000 in 9 securities with a total fair value of $20 million at December 31, 2005. The unrealized loss is due to changes in market value resulting from changes in market interest rates and is considered temporary.

Temporarily impaired securities as of December 31, 2004 are as follows:

(Dollars in thousands)	Less than 12 months	12 Months or more	Total
	Fair	Fair	Fair

Description of Securities	Value	Unrealized Losses	Value	Unrealized Losses	Value	Unrealized Losses
US Government Agencies						
Mortgage Backed Securities	3,086	24	16,864	132	19,950	156
Other Debt	993	7	2,996	27	3,989	34
Securities	$ 132	$ 1	$ 268	$ 8	$ 400	$ 9
Total Temporarily Impaired Securities	$ 4,211	$ 32	$ 20,128	$ 167	$ 24,339	$ 199

The impairment of the investment portfolio at December 31, 2004 totaled $199,000 in 13 securities with a total fair value of $24.3 million at December 31, 2004. The unrealized loss is due to changes in market value resulting from changes in market interest rates and is considered temporary.

4. Loans Receivable:

Loans receivable consist of the following at December 31,

(Dollars in thousands)	**2005**	**2004**
Commercial and Industrial	$ 60,135	$ 66,278
Real Estate - commercial	447,673	351,314
Construction and land development	141,461	107,462
Real Estate - residential (1)	7,057	8,219
Consumer and other	23,050	17,048
Loans receivable	679,376	550,321
Less deferred loan fees	(1,290)	(632)
Less allowance for loan losses	(7,617)	(6,684)
Total loans receivable, net	$ 670,469	$ 543,005

(1) Real estate - residential is comprised of jumbo residential first mortgage loans for both years presented.

The recorded investment in loans which are impaired in accordance with SFAS No. 114, totaled $3.4 million and $4.9 million at December 31, 2005 and 2004 respectively. The amounts of related valuation allowances were $1.6 million, $1.2 million and $1.4 million respectively at those dates. For the years ended December 31, 2005, 2004 and 2003, the average recorded investment in impaired loans was approximately $3.5 million, $4.7 million and $3.4 million respectively. Republic did not realize any interest on impaired loans during 2005, 2004 or 2003. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

As of December 31, 2005 and 2004, there were loans of approximately $3.4 million and $4.9 million respectively, which were classified as non-accrual. If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately $165,000, $391,000 and $253,000 for 2005, 2004 and 2003 respectively. There were no loans past due 90 days and accruing at December 31, 2005 and December 31, 2004.

The majority of loans outstanding are with borrowers in the Company’s marketplace, Philadelphia and surrounding suburbs, including southern New Jersey. In addition the Company has loans to customers whose assets and businesses are concentrated in real estate. Repayment of the Company’s loans is in part dependent upon general economic conditions affecting the Company’s market place and specific industries. The Company evaluates 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, 2005, the Company had no foreign loans and no loan concentrations exceeding 10% of total loans except for credits extended to real estate operators and lessors in the aggregate amount of $187.7 million, which represented 27.6% of gross loans receivable at December 31, 2005. Various types of real estate are included in this category, including industrial, retail shopping centers, office space, residential multi-family and others. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities that management believes would cause them to be similarly impacted by economic or other conditions.

Included in loans are loans due from directors and other related parties of $25.1 million and $20.8 million at December 31, 2005 and 2004, respectively. All loans made to directors have substantially the same terms and interest rates as other bank borrowers. The Board of Directors approves loans to individual directors to confirm that collateral requirements, terms and rates are comparable to other borrowers and are in compliance with underwriting policies. The following presents the activity in amounts due from directors and other related parties for the years ended December 31, 2005 and 2004.

(Dollars in thousands)	2005	2004
Balance at beginning of year	$ 20,817	$ 8,013
Additions	12,312	13,760
Repayments	(8,075)	(956)
Balance at end of year	$ 25,054	$ 20,817

The Company's CEO is of counsel to a law firm effective January 2, 2002 until June 30, 2005. In 2005, 2004 and 2003 the Company paid $272,000, $1,200,000 and $1,044,000, respectively, in legal fees to that firm which were primarily for loan workout and collection matters.

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5. Allowance for Loan Losses:

Changes in the allowance for loan losses for the years ended December 31, are as follows:

(Dollars in thousands)	**2005**	**2004**	**2003**
Balance at beginning of year	$ 6,684	$ 7,333	$ 6,076
Charge-offs	(1,163)	(1,922)	(5,965)
Recoveries	910	1,587	1,395
Provision (recovery) for loan losses	1,186	(314)	5,827
Balance at end of year	$ 7,617	$ 6,684	$ 7,333

6. Premises and Equipment:

A summary of premises and equipment is as follows:

(Dollars in thousands)	**Useful lives**	**2005**	**2004**
Furniture and equipment	3 to 10 years	$ 7,520	$ 6,581
Bank building	40 years	1,009	1,009
Leasehold improvements	20 years	2,470	2,449
		10,999	10,039
Less accumulated depreciation		(7,401)	(6,414)
Net premises and equipment		$ 3,598	$ 3,625

Depreciation expense on premises, equipment and leasehold improvements amounted to $991,000, $947,000 and $1.1 million in 2005, 2004 and 2003 respectively.

7. Borrowings:

Republic has a line of credit for $15.0 million available for the purchase of federal funds from a correspondent bank. At December 31, 2005 and 2004, Republic had $0 outstanding on this line.

Republic has a collateralized line of credit with the Federal Home Loan Bank of Pittsburgh with a maximum borrowing capacity of $193.4 million as of December 31, 2005. This maximum borrowing capacity is subject to change on a monthly basis. As of December 31, 2005 and 2004, there were $0 and $25.0 million respectively of term advances, outstanding on these lines of credit. The term advances matured in February 2005. The interest rate on the term advances at December 31, 2004 was 6.71%. As of December 31, 2005 and 2004, there were $123.9 million and $61.1 million of overnight advances outstanding against these lines. The interest rates on overnight advances at December 31, 2005 and 2004 were 4.23% and 2.21%, respectively. The maximum amount of term advances outstanding at any month-end was $25.0 million in 2005 and $125.0 million in 2004. The maximum amount of overnight borrowings outstanding at any month-end was $160.8 million in 2005 and $61.1 million in 2004. Average amounts outstanding of term advances for 2005, 2004 and 2003 were $3.8 million, $107.7 million and $125.0 million, respectively; and the related weighted average interest rates for 2005, 2004 and 2003 were 6.80%, 6.34% and 6.27%, respectively. Average amounts outstanding of overnight borrowings for 2005, 2004 and 2003 were $65.7 million, $5.2 million and $2.3 million, respectively; and the related weighted average interest rates for 2005, 2004 and 2003 were

3.61%, 2.06% and 1.38%, respectively.

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

In 2001, the Company, through a pooled offering, issued $6.2 million of corporation-obligated mandatorily redeemable capital securities of the subsidiary trust holding solely junior subordinated debentures of the corporation more commonly known as Trust Preferred Securities. The purpose of the issuance was to increase capital as a result of the Company's continued loan and core deposit growth. The trust preferred securities qualify as Tier 1 capital for regulatory purposes in amounts up to 25% of total Tier 1 capital. The Company may call the securities on any interest payment date after five years, without a prepayment penalty, notwithstanding their final 30 year maturity. The interest rate is variable and adjustable semi-annually at 3.75% over the 6 month London Interbank Offered Rate (“Libor”). The interest rates at December 31, 2005 and 2004 were 8.42% and 5.61%, respectively. The interest rate cap of 11% is effective through the initial 5-year call date.

8. Deposits:

The following is a breakdown, by contractual maturities of the Company's time certificate of deposits for the years 2006 through 2010 and beyond, which includes brokered certificates of deposit of approximately $ 85.9 million with original terms of three months.

(Dollars in thousands)	**2006**	**2007**	**2008**	**2009**	**2010**	**Thereafter**	**Total**
Time Certificates of Deposit	$ 180,995	$ 52,776	$ 16,231	$ 10,521	$ 5,385	$ 4	$ 265,912

9. Income Taxes:

The following represents the components of income tax expense (benefit) for the years ended December 31, 2005, 2004 and 2003, respectively.

(Dollars in thousands)	**2005**	**2004**	**2003**
Current provision			
Federal:			
Current	$ 4,808	$ 2,459	$ 2,099
Deferred	(322)	235	(832)
Total provision for income taxes to continuing operations	$ 4,486	$ 2,694	$ 1,267

The following table accounts for the difference between the actual tax provision and the amount obtained by applying the statutory federal income tax rate of 34.0% to income before income taxes for the years ended December 31, 2005, 2004 and 2003.

(Dollars in thousands)	**2005**	**2004**	**2003**
Tax provision computed at statutory rate	$ 4,549	$ 2,817	$ 1,346
Other	(63)	(123)	(79)
Total provision for income taxes relating to continuing operations	$ 4,486	$ 2,694	$ 1,267

The approximate tax effect of each type of temporary difference that gives rise to net deferred tax assets included in the accrued income and other assets in the accompanying consolidated balance sheets at December 31, 2005 and 2004 are as follows:

	2005	**2004**
Allowance for loan losses	$ 2,563	$ 2,246
Deferred compensation	818	642
Unrealized gain on securities available for sale	(42)	(161)
Deferred loan costs	(561)	(546)
Other	(220)	(64)
Net deferred tax asset	$ 2,558	$ 2,117

The realizability of the deferred tax asset is dependent upon a variety of factors, including the generation of future taxable income, the existence of taxes paid and recoverable, the reversal of deferred tax liabilities and tax planning strategies. Based upon these and other factors, management believes that it is more likely than not that the Company will realize the benefits of these deferred tax assets.

10. Financial Instruments with Off-Balance Sheet Risk:

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

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

Financial instruments whose contract amounts represent potential credit risk are commitments to extend credit of approximately $203.0 million and $147.5 million and standby letters of credit of approximately $5.8 million and $7.6 million at December 31, 2005 and 2004, respectively. The increase in commitments reflects increases in commercial lending. However, commitments may often expire without being drawn upon. Of the $203.0 million of commitments to extend credit at December 31, 2005, 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, 2005 and 2004 for guarantees under standby letters of credit issued is not material.

11. Commitments:

Lease Arrangements:

As of December 31, 2005, the Company had entered into non-cancelable leases expiring through October 31, 2029, including renewal options. The leases are accounted for as operating leases. The minimum annual rental payments required under these leases are as follows:

(Dollars in thousands) **Year Ended**		**Amount**
2006	$	959
2007		967
2008		953
2009		853
2010		859
Thereafter		4,671
Total	$	9,262

The Company incurred rent expense of $922,000, $855,000 and $815,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

Employment Agreements:

The Company has entered into an employment agreement with the CEO of the Company which provides for the payment of base salary and certain benefits through the year 2007. The aggregate commitment for future salaries and benefits under this employment agreement at December 31, 2005, is approximately $700,000.

Other:

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

12. Regulatory Capital:

Dividend payments by Republic to the Company are subject to the Pennsylvania Banking Code of 1965 (the “Banking Code and the Federal Deposit Insurance Act (the “FDIA”). Under the Banking Code, no dividends may be paid except from “accumulated net earnings” (generally, undivided profits). Under the FDIA, an insured bank may pay no dividends if the bank is in arrears in the payment of any insurance assessment due to the FDIC. Under current banking laws, Republic would be limited to $41.1 million of dividends plus an additional amount equal to its net profit for 2006, up to the date of any such dividend declaration. However, dividends would be further limited in order to maintain capital ratios. The Company may consider dividend payments in 2006.

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

Management believes that Republic meets, as of December 31, 2005, all capital adequacy requirements to which it is subject. As of December 31, 2005, 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.

The following table presents the Company's and Republic's capital regulatory ratios at December 31, 2005 and 2004[1]:

	Actual		For Capital Adequacy Purposes		To be well capitalized under regulatory capital guidelines	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
At December 31, 2005						
Total risk based capital						
Republic	$ 76,537	11.72%	$ 52,234	8.00%	$ 65,292	10.00%
Company.	77,213	11.81%	52,299	8.00%	-	-
Tier one risk based capital						
Republic	68,920	10.56%	26,117	4.00%	39,175	6.00%
Company.	69,596	10.65%	26,149	4.00%	-	-
Tier one leverage capital						
Republic	68,920	8.81%	39,102	5.00%	39,102	5.00%
Company.	69,596	8.89%	39,152	5.00%	-	-
At December 31, 2004						
Total risk based capital						
Republic	$ 64,251	12.09%	$ 42,526	8.00%	$ 53,158	10.00%
FBD	11,948	26.27%	3,638	8.00%	4,548	10.00%
Company.	78,120	13.53%	46,203	8.00%	-	-
Tier one risk based capital						
Republic	57,606	10.84%	21,263	4.00%	31,895	6.00%
FBD	11,374	25.01%	1,819	4.00%	2,729	6.00%
Company.	70,894	12.28%	23,102	4.00%	-	-
Tier one leverage capital						
Republic	57,606	9.25%	31,143	5.00%	31,143	5.00%
FBD	11,374	20.56%	2,766	5.00%	2,766	5.00%
Company.	70,894	10.43%	33,982	5.00%	-	-

(1) Spin-off of FBD effective January 1, 2005

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13. Benefit Plans:

Supplemental Retirement Plan:

The Company maintains a Supplemental Retirement Plan for its former Chief Executive Officer which provides for payments of approximately $100,000 a year. At December 31, 2005, approximately $300,000 remained to be paid. A life insurance contract has been purchased to insure against all of the payments.

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 BSC Services Corp. limited to 4%. The total expense charged to Republic, and included in salaries and employee benefits relating to the plan was $245,000 in 2005, $135,000 in 2004 and $142,000 in 2003.

Directors' and Officers' Plans:

The Company has an agreement with an insurance company to 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 plan was modified for most participants in 2001, to establish a minimum age of 65 to qualify for the payments. All participants are fully vested. The accrued benefits under the plan at December 31, 2005, 2004 and 2003 totaled $1.5 million, $942,000, and $886,000, respectively. The expense for the years ended December 31, 2005, 2004 and 2003, was $172,000 in each of those years. The Company funded the plan through the purchase of certain life insurance contracts. The cash surrender value of these contracts (owned by the Company) aggregated $2.0 million, $1.9 million, and $1.8 million at December 31, 2005, 2004 and 2003, respectively, which is included in other assets. The Company maintains a deferred compensation plan for certain officers, wherein a percentage of base salary is contributed to the plan, and utilized to buy stock of the Company. To promote officer retention, a three year vesting period applies for each contribution. As of December 31, 2005 no amounts were vested. Expense for 2005, 2004, and 2003 was $187,000, $205,000 and $0, respectively.

14. Fair Value of Financial Instruments:

The disclosure of the fair value of all financial instruments is required, whether or not recognized on the balance sheet, for which it is practical to estimate fair value. In cases where quoted market prices are not available, fair values are based on assumptions including future cash flows and discount rates. Accordingly, the fair value estimates cannot be substantiated, may not be realized, and do not represent the underlying value of the Company.

The Company uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash, Cash Equivalents, Other Interest-Earning Restricted Cash, Accrued Interest Receivable and Payable:

The carrying value is a reasonable estimate of fair value.

Investment Securities Held to Maturity and Available for Sale:

For investment securities with a quoted market price, fair value is equal to quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans:

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair value is the carrying value. For other categories of loans such as commercial and industrial loans, real estate mortgage and consumer loans, fair value is estimated based on the present value of the estimated future cash flows using the current rates at which similar loans would be made to borrowers with similar collateral and credit ratings and for similar remaining maturities.

Bank Owned Life insurance:

The fair value of bank owned life insurance is based on the estimated realizable market value of the underlying investments and insurance reserves.

Deposit Liabilities:

For checking, savings and money market accounts, fair value is the amount payable on demand at the reporting date. For time deposits, fair value is estimated using the rates currently offered for deposits of similar remaining maturities.

Borrowings:

Fair values of borrowings are based on the present value of estimated cash flows, using current rates, at which similar borrowings could be obtained by Republic or the Company with similar maturities.

Commitments to Extend Credit and Standby Letters of Credit:

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparts. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar arrangements.

At December 31, 2005 and December 31, 2004, the carrying amount and the estimated fair value of the Company’s financial instruments are as follows:

	December 31, 2005		December 31, 2004	
(Dollars in Thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Balance Sheet Data:				
Financial Assets:				
Cash and cash equivalents	$ 106,974	$ 106,974	$ 36,703	$ 36,703
Other interest-earning restricted cash	-	-	2,923	2,923
Investment securities available for sale	37,283	37,283	43,733	43,733
Investment securities held to maturity	559	570	792	813
FHLB stock	6,319	6,319	4,635	4,635
Loans receivable, net	670,469	664,676	543,005	543,936
Bank owned life insurance	10,926	10,926	10,595	10,595
Accrued interest receivable	3,784	3,784	3,390	3,390
Financial Liabilities:				
Deposits:				
Demand, savings and money market	$ 381,931	$ 381,931	$ 323,532	$ 323,532
Time	265,912	262,173	187,152	183,921
Subordinated debt	6,186	6,186	6,186	6,186
Short-term borrowings	123,867	123,867	61,090	61,090
FHLB advances	-	-	25,000	25,165
Accrued interest payable	1,813	1,813	2,126	2,126

	December 31, 2005	December 31, 2004

(Dollars in Thousands)		Notional Amount	Fair Value		Notional Amount	Fair Value
Off Balance Sheet financial instruments:						
Commitments to extend credit	$	203,044	-	$	147,546	-
Standby letters-of-credit		5,795	-		7,624	-

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15. Stock Based Compensation:

The Company maintains a Stock Option Plan (the "Plan") under which the Company grants options to its employees and directors. Under the terms of the plan, 1.5 million shares of common stock, plus an annual increase equal to the number of shares needed to restore the maximum number of shares that may be available for grant under the plan to 1.5 million shares, are reserved for such options. The Plan provides that the exercise price of each option granted equals the market price of the Company's stock on the date of grant. Any option granted vests within one to five years and has a maximum term of ten years.

	For the Years Ended December 31, (Dollars in thousands)			
	2005		2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	926,014	$ 5.15	973,446	$ 4.87	1,106,722	$ 3.59
Granted	157,819	12.27	34,496	9.85	223,813	8.39
Exercised	(433,508)	2.94	(66,220)	4.78	(353,000)	3.10
Forfeited	(5,441)	7.78	(15,708)	5.25	(4,089)	4.88
Outstanding, end of year	644,884	6.57	926,014	5.15	973,446	4.87
Options exercisable at year-end	644,884	6.57	888,488	4.96	927,555	4.71
Weighted average fair value of options granted during the year		$ 4.94		$ 3.59		$ 3.02

The following table summarizes information about options outstanding at December 31, 2005.

	Options outstanding			Options exercisable	
Range of exercise Prices	Number outstanding at December 31, 2005	Weighted Average remaining contractual life (years)	Weighted Average exercise price	Shares	Weighted Average Exercise Price
$2.19	111,496	5.0	$ 2.19	111,496	$ 2.19
$3.29 to $4.30	175,560	6.3	3.55	175,560	3.55
$4.55 to $5.59	27,529	5.6	4.84	27,529	4.84
$7.29 to $8.15	172,480	8.1	7.53	172,480	7.53
$12.02 to $13.15	157,819	9.4	12.27	157,819	12.27
	644,884		$ 6.57	644,884	$6.57

16. Segment Reporting:

As a result of the spin off of the FBD, the tax refund products and short-term consumer loan segments were also spun off as they were divisions of that bank. In the normal course of business, tax refund loans may continue to be purchased from FBD. After the spin off, the Company has one reportable segment: community banking. The community bank segments primarily encompasses the commercial loan and deposit activities of Republic, as well as consumer loan products in the area surrounding its branches.

Segment information for the years ended December 31, 2004 and 2003 is as follows:

December 31, 2004

(Dollars in thousands)

	Republic First Bank	Tax Refund Products	Short-term Consumer Loans	Discontinued Operations	Total
Net interest income	$ 17,933	$ 918	$ -	$ -	$ 18,851
Provision for loan losses	(1,014)	700	-	-	(314)
Non-interest income	4,466	-	-	-	4,466
Non-interest expenses	15,346	-	-	-	15,346
Income from continuing operations	5,405	186	-	-	5,591
Income from discontinued operations, net of taxes…	-	-	-	3,349	3,349
Net income	$ 5,405	$ 186	$ -	$ 3,349	$ 8,940
Selected Balance Sheet Amounts:					
Total assets	$ 664,804	$ -	$ -	$ 55,608	$ 720,412
Total loans, net	543,005	-	-	39,914	582,919
Total deposits	510,684	-	-	34,712	545,396

December 31, 2003
(Dollars in thousands)

	Republic First Bank	Tax Refund Products	Short-term Consumer Loans	Discontinued Operations	Total
Net interest income	$ 14,852	$ 1,150	$ 5,544	$ -	$ 21,546
Provision for loan losses	360	1,042	4,425	-	5,827
Non-interest income	2,853	-	-	-	2,853
Non-interest expenses	14,614	-	-	-	14,614
Income from continuing operations	1,931	67	693	-	2,691
Income from discontinued operations, net of taxes…	-	-	-	2,223	2,223
Net income	$ 1,931	$ 67	$ 693	$ 2,223	$ 4,914

Selected Balance Sheet Amounts:					
Total assets	$	620,284 $	- $	- $	34,508 $	654,792
Total loans, net		452,491	-	-	27,032	479,523
Total deposits		425,497	-	-	28,108	453,605

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17. Transactions with Affiliate:

Prior to January 1, 2005, FBD was a wholly owned subsidiary of the Company.

At December 31, 2005 and 2004, Republic had outstanding balances of $41.1 million and $25.4 million, respectively, of commercial loans, which had been participated to FBD. FBD also sold its tax refund loans to Republic. Such loans are repaid by U.S. Treasury-issued tax refunds paid directly to FBD in the first and second quarters of the year. Accordingly, there were no such loans outstanding at December 31, 2005 and 2004. As of December 31, 2005 and 2004 Republic had outstanding balances of $67.8 and $54.5 million of commercial loan balances it had purchased from FBD. The above loan participations and sales were made at arms length. They are made as a result of lending limit and other regulatory requirements. FBD also maintained a correspondent bank deposit account with Republic. At December 31, 2005 and 2004, balances amounted to $0 and $0 respectively.

18. Parent Company Financial Information

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

BALANCE SHEETS
December 31, 2005 and 2004
(Dollars in thousands)

		2005		2004
ASSETS:				
Cash	$	438	$	962
Corporation-obligated mandatorily redeemable capital securities of subsidiary trust holding junior obligations of the corporation		186		186
Investment in subsidiaries		69,001		69,311
Other assets		1,106		973
Total Assets	$	70,731	$	71,432
LIABILITIES AND SHAREHOLDERS' EQUITY:				
Liabilities:				
Accrued expenses	$	868	$	22
Corporation-obligated mandatorily redeemable securities of subsidiary trust holding solely junior subordinated debentures of the corporation		6,186		6,186
Total Liabilities		7,054		6,208
Shareholders' Equity:				
Preferred stock		-		-
Common stock		88		74
Additional paid in capital		50,203		42,494
Retained earnings		15,566		23,867
Treasury stock at cost (227,778 shares and 192,689 respectively)		(1,688)		(1,541)
Stock held by deferred compensation plan		(573)		-
Accumulated other comprehensive income		81		330
Total Shareholders' Equity		63,677		65,224
Total Liabilities and Shareholders' Equity	$	70,731	$	71,432

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STATEMENTS OF INCOME AND CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2005, 2004 and 2003

(Dollars in thousands)

	2005	2004	2003
Interest income	$ 13	$ 12	$ 3
Dividend income from subsidiaries	444	324	372
Total income	457	336	375
Trust preferred interest expense	444	324	372
Expenses	8	128	11
Total expenses	452	452	383
Net income (loss) before taxes	5	(116)	(8)
Federal income tax (benefit)	2	(39)	(3)
Income (loss) before undistributed income of subsidiaries	3	(77)	(5)
Total equity in undistributed income of continuing operations	8,890	5,668	2,696
Total equity in undistributed income of discontinued operations	-	3,349	2,223
Total equity in undistributed income of subsidiaries	8,890	9,017	4,919
Net income	$ 8,893	$ 8,940	$ 4,914
Shareholders' equity, beginning of year	$ 65,224	$ 56,376	$ 51,276
First Bank of Delaware spin-off	(11,396)	-	-
Exercise of stock options	1,275	358	1,094
Purchase of treasury shares	(143)	-	-
Tax benefits of stock options exercises	624	-	-
Stock purchase for deferred compensation plan	(573)	-	-
Income from continuing operations	8,893	5,591	2,691
Income from discontinued operations	-	3,349	2,223
Net income	8,893	8,940	4,914
Change in unrealized gain (loss) on securities available for sale	(227)	(450)	(908)
Shareholders' equity, end of year	$ 63,677	$ 65,224	$ 56,376

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2005, 2004 and 2003
(Dollars in thousands)

	2005	2004	2003
Cash flows from operating activities:			
Net income	$ 8,893	$ 8,940	$ 4,914
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Tax benefits of stock option exercises	624	-	-
Stock purchases for deferred compensation place	(573)	-	-
Decrease (increase) in other assets	(757)	(11)	61
Increase (decrease) in other liabilities	847	(145)	106

Equity in undistributed income of continuing operations	(8,890)	(5,668)	(2,696)
Equity in undistributed income of discontinued operations	-	(3,349)	(2,223)
Net cash provided by (used in) operating activities	144	(233)	162
Cash flows from investing activities:			
Investment in subsidiary - continuing operations	(1,800)	-	(1,500)
Purchase of treasury shares	(143)	-	-
Net cash used in investing activities	(1,943)	-	(1,500)
Cash from Financing Activities:			
Exercise of stock options	1,275	358	1,094
Net cash provided by financing activities	1,275	358	1,094
Increase/(decrease) in cash	(524)	125	(244)
Cash, beginning of period	962	837	1,081
Cash, end of period	$ 438	$ 962	$ 837

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19. Quarterly Financial Data (Unaudited):

The following tables are summary unaudited income statement information for each of the quarters ended during 2005 and 2004.

Summary of Selected Quarterly Consolidated Financial Data

	For the Quarter Ended, 2005			
(Dollars in thousands, except per share data)	**Fourth**	**Third**	**Second**	**First**
Income Statement Data:				
Total interest income	$ 12,821	$ 11,233	$ 10,495	$ 10,832
Total interest expense	5,049	3,976	3,564	3,634
Net interest income	7,772	7,257	6,931	7,198
Provision for loan losses	49	315	119	703
Non-interest income	808	904	759	1,143
Non-interest expense	4,593	4,603	4,540	4,471
Provision for income taxes	1,342	1,102	997	1,045
Net income	$ 2,596	$ 2,141	$ 2,034	$ 2,122
Per Share Data:				
Basic:				
Net income	$ 0.31	$ 0.25	$ 0.24	$ 0.26
Diluted**:**				
Net income	$ 0.30	$ 0.24	$ 0.23	$ 0.25

	For the Quarter Ended, 2004			
(Dollars in thousands, except per share data)	**Fourth**	**Third**	**Second**	**First**
Income Statement Data:				
Total interest income	$ 9,247	$ 8,243	$ 7,626	$ 8,483
Total interest expense	3,278	3,734	3,794	3,942
Net interest income	5,969	4,509	3,832	4,541
Provision (recovery) for loan losses	550	(1,363)	(200)	699
Non-interest income	1,034	2,021	690	721
Non-interest expense	4,099	4,048	3,472	3,727
Provision for income taxes	774	1,265	401	254
Income from continuing operations	1,580	2,580	849	582
Income from discontinued operations	1,547	776	1,298	1,439
Income tax on discontinued operations	464	273	464	510
Net income	$ 2,663	$ 3,083	$ 1,683	$ 1,511
Per Share Data:				
Basic:				
Income from continuing operations	$ 0.20	$ 0.31	$ 0.11	$ 0.07
Income from discontinued operations	0.13	0.06	0.10	0.12
Net income	$ 0.33	$ 0.37	$ 0.21	$ 0.19

Diluted:								
Income from continuing operations	$	0.19	$	0.30	$	0.10	$	0.07
Income from discontinued operations		0.12		0.06		0.10		0.11
Net income	$	0.31	$	0.36	$	0.20	$	0.18

20. Discontinued Operations - First Bank of Delaware Spin-off:

The Company spun off its former subsidiary, the First Bank of Delaware, on January 31, 2005. In accordance with SFAS No. 144, the spin-off is being presented as a discontinued operation (See Note 1).

The major classes of assets and liabilities at December 31, 2004 included in the Company's Consolidated Balance Sheet were as follows:

(Dollars in thousands)

Assets associated with spin-off:		
Total cash and cash equivalents	$	11,304
Investment securities available for sale, at fair value		1,207
Loans receivable (net of allowance for loan losses of $1,050)		39,914
Other, net		3,183
Total assets of First Bank of Delaware	$	55,608
Liabilities associated with spin-off:		
Total deposits	$	37,713
Other, net		6,499
Total liabilities of First Bank of Delaware	$	44,212

The major classes of income and expense for the years ended December 31, 2004 and 2003 included in the Company's Consolidated Statements of Income were as follows:

(Dollars in thousands)

		2004		**2003**
Total interest income	$	4,192	$	4,709
Total interest expense		444		504
Net interest income		3,748		4,205
Provision for loan losses		1,463		937
Non-interest income		7,986		4,781
Non-interest expense		5,211		4,609
Provision for income taxes		1,711		1,217
Income from discontinued operations, net of tax	$	3,349	$	2,223