REPUBLIC BANCORP INC /KY/
Form 10-Q
August 05, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2008

or

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky	**61-0862051**

(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

601 West Market Street, Louisville, Kentucky **40202**
(Address of principal executive offices) (Zip Code)

(502) 584-3600

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

x Yes o No

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

The number of shares outstanding of the registrant s Class A Common Stock and Class B Common Stock, as of July 31, 2008, was 18,234,064 and 2,338,725, respectively.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS *(in thousands) (unaudited)*

	June 30, 2008	December 31, 2007
ASSETS:		
Cash and cash equivalents	$ 88,565	$ 86,177
Trading securities	177	
Securities available for sale	459,274	528,750
Securities to be held to maturity (fair value of $50,606 in 2008 and $52,794 in 2007)	51,210	51,886
Mortgage loans held for sale	11,621	4,278
Loans, net of allowance for loan losses of $17,995 and $12,735 (2008 and 2007)	2,330,514	2,384,338
Federal Home Loan Bank stock, at cost	24,754	23,955
Premises and equipment, net	39,859	39,706
Goodwill	10,168	10,168
Other assets and accrued interest receivable	37,067	36,101
TOTAL ASSETS	$ 3,053,209	$ 3,165,359
LIABILITIES:		
Deposits:		
Non-interest-bearing	$ 293,210	$ 279,457
Interest-bearing	1,335,743	1,689,355
Total deposits	1,628,953	1,968,812
Securities sold under agreements to repurchase and other short-term borrowings	330,730	398,296
Federal Home Loan Bank advances	749,837	478,550
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	31,461	29,601
Total liabilities	2,782,221	2,916,499
STOCKHOLDERS EQUITY:		
Preferred stock, no par value		
Class A Common Stock and Class B Common Stock, no par value	4,867	4,821
Additional paid in capital	122,252	119,761
Retained earnings	147,058	124,616
Unearned shares in Employee Stock Ownership Plan	(260)	(519)
Accumulated other comprehensive income (loss)	(2,929)	181
Total stockholders equity	270,988	248,860

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	3,053,209	$	3,165,359

See accompanying footnotes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (*UNAUDITED*)

(*in thousands, except per share data*)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
INTEREST INCOME:				
Loans, including fees	$ 38,762	$ 40,377	$ 96,542	$ 84,999
Taxable securities	6,496	7,023	13,492	13,797
Tax exempt securities	21	27	45	53
Federal Home Loan Bank stock and other	394	506	3,354	1,510
Total interest income	45,673	47,933	113,433	100,359
INTEREST EXPENSE:				
Deposits	8,009	13,146	22,310	25,997
Securities sold under agreements to repurchase and other short-term borrowings	1,416	5,233	4,183	10,143
Federal Home Loan Bank advances	6,348	6,918	11,785	13,714
Subordinated note	627	627	1,254	1,247
Total interest expense	16,400	25,924	39,532	51,101
NET INTEREST INCOME	29,273	22,009	73,901	49,258
Provision for loan losses	3,629	147	14,128	3,827
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	25,644	21,862	59,773	45,431
NON INTEREST INCOME:				
Service charges on deposit accounts	4,933	4,658	9,478	8,810
Electronic refund check fees	2,970	683	16,930	4,112
Net RAL securitization income	286	1,095	12,873	3,702
Mortgage banking income	1,133	604	2,735	1,146
Debit card interchange fee income	1,246	1,107	2,395	2,111
Net loss on sales, calls and impairment of securities	(3,388)		(3,607)	
Other	356	661	676	1,061
Total non interest income	7,536	8,808	41,480	20,942
NON INTEREST EXPENSES:				
Salaries and employee benefits	12,615	11,309	27,115	23,652
Occupancy and equipment, net	4,754	4,287	9,426	8,334
Communication and transportation	884	754	2,222	1,702
Marketing and development	730	846	7,489	1,667
Bank franchise tax expense	703	630	1,426	1,293
Data processing	669	642	1,386	1,228
Debit card interchange expense	612	573	1,188	1,090
Supplies	373	450	929	908
Other	2,287	2,039	6,126	4,626
Total non interest expenses	23,627	21,530	57,307	44,500

INCOME BEFORE INCOME TAX EXPENSE	9,553	9,140	43,946	21,873
INCOME TAX EXPENSE	3,130	3,171	15,400	7,598
NET INCOME	$ 6,423	$ 5,969	$ 28,546	$ 14,275

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Table of Contents

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
OTHER COMPREHENSIVE INCOME, NET OF TAX				
Unrealized loss on securities available for sale	$ (1,243)	$ (1,124)	$ (5,455)	$ (605)
Realized impairment loss on securities, net	2,202		2,644	
Realized gain on sale of securities included in income, net			(300)	
Other comprehensive loss, net	959	(1,124)	(3,110)	(605)
COMPREHENISVE INCOME	$ 7,382	$ 4,845	$ 25,436	$ 13,670
BASIC EARNINGS PER SHARE:				
Class A Commons Stock	$ 0.31	$ 0.29	$ 1.40	$ 0.69
Class B Common Stock	0.30	0.28	1.38	0.68
DILUTED EARNINGS PER SHARE:				
Class A Commons Stock	$ 0.31	$ 0.28	$ 1.38	$ 0.67
Class B Common Stock	0.30	0.28	1.36	0.66

See accompanying footnotes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (*UNAUDITED*)

(in thousands, except per share data)	Class A Shares Outstanding	Common Stock Class B Shares Outstanding	Amount	Additional Paid In Capital	Retained Earnings	Unearned Shares in Empl. Stock Ownership Plan	Accumulated Other Comprehensive Income / (Loss)	Total Stockholders Equity
Balance, January 1, 2008	17,958	2,344	$ 4,821	$ 119,761	$ 124,616	$ (519)	$ 181	$ 248,860
Net income					28,546			28,546
Net change in accumulated other comprehensive loss							(3,110)	(3,110)
Dividend declared Common Stock:								
Class A ($0.231 per share)					(4,173)			(4,173)
Class B ($0.210 per share)					(468)			(468)
Stock options exercised, net of shares redeemed	252		50	2,396	(1,136)			1,310
Repurchase of Class A Common Stock	(19)		(4)	(112)	(327)			(443)
Conversion of Class B Common Stock to Class A Common Stock	5	(5)						
Shares committed to be released under the Employee Stock Ownership Plan	24			218		259		477
Notes receivable on Common Stock, net of cash payments				(371)				(371)
Deferred director compensation expense - Company Stock	1			66				66
Stock based compensation expense				294				294
BALANCE, June 30, 2008	18,221	2,339	$ 4,867	$ 122,252	$ 147,058	$ (260)	$ (2,929)	$ 270,988

See accompanying footnotes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS (*UNAUDITED*)

SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (*in thousands*)

	2008	2007
OPERATING ACTIVITIES		
Net income	$ 28,546	$ 14,275
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	3,793	1,062
Federal Home Loan Bank stock dividends	(628)	(343)
Provision for loan losses	14,128	3,827
Net gain on sale of mortgage loans held for sale	(2,676)	(786)
Origination of mortgage loans held for sale	(145,928)	(121,913)
Proceeds from sale of mortgage loans held for sale	141,261	111,993
Net gain on sale of RALs	(8,313)	(2,256)
Increase in RAL securitization residual	(4,560)	(1,446)
Origination of RALs sold	(1,098,717)	(350,414)
Proceeds from sale of RALs	1,009,698	321,407
Paydown of securitization residual	106,442	33,598
Net realized loss on sales, calls and impairment of securities	3,607	
Net gain on sale of other real estate owned	(1)	(45)
Net gain on sale of premises and equipment	(43)	
Deferred director compensation expense Company Stock	66	70
Employee Stock Ownership Plan compensation expense	477	470
Stock based compensation expense	294	511
Net change in other assets and liabilities:		
Accrued interest receivable	(3,000)	(71)
Accrued interest payable	(3,438)	(943)
Other assets	(2,597)	(23)
Other liabilities	7,162	861
Net cash provided by operating activities	45,573	9,834
INVESTING ACTIVITIES:		
Purchases of securities available for sale	(1,277,422)	(1,993,338)
Purchases of Federal Home Loan Bank stock	(531)	(501)
Proceeds from calls, maturities and paydowns of securities available for sale	1,338,152	1,970,548
Proceeds from calls, maturities and paydowns of securities to be held to maturity	654	1,955
Proceeds from the sale of Federal Home Loan Bank stock	360	
Proceeds from sales of other real estate owned	1,614	837
Net (increase) decrease in loans	36,407	(39,700)
Purchases of premises and equipment	(3,566)	(3,068)
Proceeds from sale of premises and equipment	848	
Net cash provided by/(used in) investing activities	96,516	(63,267)
FINANCING ACTIVITIES:		
Net change in deposits	(339,860)	(17,403)
Net change in securities sold under agreements to repurchase and other short-term borrowings	(67,566)	32,390
Payments on Federal Home Loan Bank advances	(83,213)	(238,089)
Proceeds from Federal Home Loan Bank advances	354,500	276,200
Repurchase of Common Stock	(443)	(5,999)
Net proceeds from Common Stock options exercised	1,310	1,148
Cash dividends paid	(4,429)	(3,842)

Net cash (used in)/provided by financing activities		(139,701)		44,405
NET CHANGE IN CASH AND CASH EQUIVALENTS		2,388		(9,028)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		86,177		81,613
CASH AND CASH EQUIVALENTS AT END OF QUARTER	$	88,565	$	72,585

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Table of Contents

	2008	2007
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 42,971	$ 52,045
Income taxes	13,935	5,848
SUPPLEMENTAL NONCASH DISCLOSURES:		
Transfers from loans to real estate acquired in settlement of loans	$ 2,978	$ 651
Retained securitization residual	102,059	32,314

See accompanying footnotes to consolidated financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007 (UNAUDITED) AND DECEMBER 31, 2007

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation The consolidated financial statements include the accounts of Republic Bancorp, Inc. (the Parent Company) and its wholly-owned subsidiaries: Republic Bank & Trust Company (RB&T) and Republic Bank (collectively referred together with RB&T as the Bank), Republic Funding Company and Republic Invest Co. Republic Invest Co. includes its subsidiary, Republic Capital LLC. The consolidated financial statements also include the wholly-owned subsidiaries of RB&T: Republic Financial Services, LLC, TRS RAL Funding, LLC and Republic Insurance Agency, LLC. Republic Bancorp Capital Trust (RBCT) is a Delaware statutory business trust that is a wholly-owned, unconsolidated finance subsidiary of Republic Bancorp, Inc. All companies are collectively referred to as Republic or the Company. All significant intercompany balances and transactions are eliminated in consolidation.

Republic currently operates 44 banking centers, primarily in the retail banking industry, and conducts its operations predominately in metropolitan Louisville, Kentucky, central Kentucky, northern Kentucky, southern Indiana, metropolitan Tampa, Florida and through an Internet banking delivery channel. Republic s consolidated results of operations are dependent upon net interest income, which represents the difference between the interest income and fees on interest-earning assets and the interest expense on interest-bearing liabilities. Principal interest-earning assets represent securities and real estate mortgage, commercial and consumer loans. Interest-bearing liabilities primarily consist of interest-bearing deposit accounts, as well as short-term and long-term borrowing sources.

Other sources of banking income include service charges on deposit accounts, debit card interchange income, title insurance commissions, fees charged to customers for trust services and revenue generated from Mortgage Banking activities, which represents both the origination and sale of loans in the secondary market and the servicing of loans for others.

Republic s operating expenses consist primarily of salaries and employee benefits, occupancy and equipment expenses, communication and transportation costs, marketing and development expenses, bank franchise tax expense, data processing, debit card interchange expense and other general and administrative costs. Republic s results of operations are significantly impacted by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory agencies.

RB&T, though its Tax Refund Solutions (TRS) business segment, is one of a limited number of financial institutions which facilitate the payment of federal and state tax refunds through tax-preparers located throughout the U.S. Substantially all of the business generated by TRS occurs in the first quarter of the year. The Company facilitates the payment of these tax refunds through three primary products: Refund Anticipation Loans (RALs), Electronic Refund Checks (ERCs) and Electronic Refund Deposits (ERDs).

RALs are short-term consumer loans offered to taxpayers, secured by their anticipated tax refund, which represents the source of repayment. At the request of the taxpayer, the refund claim is paid by the Internal Revenue Service (IRS) to the Company once the tax return has been processed. Funds received from the IRS above the sum of the RAL less associated fees are remitted to the taxpayer by the Company. The funds advanced by the Company are generally repaid by the IRS within two weeks. The fees earned on RALs are reported in interest income under the line item Loans, including fees.

ERCs/ERDs are products whereby a tax refund is issued to the taxpayer after RB&T has received the refund from the federal or state government. Fees earned on ERCs/ERDs are reported in non interest income under the line item Electronic Refund Check fees.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for three and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year

Table of Contents

ending December 31, 2008. For further information, refer to the consolidated financial statements and footnotes thereto included in Republic s Form 10-K for the year ended December 31, 2007.

Securitization The Company utilized a securitization structure to fund, over a four week period, a portion of the RALs originated during the first quarters of 2008 and 2007. The securitization consisted of $1.1 billion and $350 million of loans originated and sold during January and February of 2008 and 2007, respectively. The Company s continuing involvement in loans sold into the securitization was limited to only servicing of the RALs. Compensation for servicing of the RALs securitized was not contingent upon performance of the RALs securitized.

Generally, from mid January to the end of February of each year, RALs which upon origination meet certain underwriting criteria related to refund amount and Earned Income Tax Credit amount are classified as loans held for sale and sold into the securitization. All other RALs originated are retained by the Company. There are no RALs held for sale as of any quarter end. The Company retains a related residual value in the securitization, which is classified on the balance sheet as a trading security. The initial residual interest has a weighted average life of approximately one month, and as such, substantially all of its cash flows are received by the end of the first quarter. The disposition of the remaining anticipated cash flows is expected to occur within the remainder of the calendar year. At its initial valuation, and on a quarterly basis thereafter, the Company adjusts the carrying amount of the residual value to its fair value, which is determined based on expected future cash flows and is significantly influenced by the estimated credit losses of the underlying RALs.

The Company concluded that the transaction was a sale as defined in Statement of Financial Accounting Standards (SFAS) 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities-a replacement of FASB Statement No. 125.* This conclusion was based on, among other things, legal isolation of assets, the ability of the purchaser to pledge or sell the assets, and the absence of a right or obligation of the Company to repurchase the financial assets.

See the sections titled Business Segment Composition and Results of Operations in Part I Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as Footnote 3 Loans and Allowance for Loans Losses, Footnote 9 Segment Information and Footnote 10 Securitization of Part I Item 1 Financial Statements and Part II Item 1A Risk Factors for additional discussion regarding TRS and the securitization.

Recently Issued Accounting Pronouncements In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS 161 requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related items are accounted for under SFAS 133 and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The new standard is effective for the Company on January 1, 2009. The Company is currently evaluating the impact of adopting SFAS 161 on the consolidated financial statements.

Reclassifications Certain amounts presented in prior periods have been reclassified to conform to the current period presentation.

Table of Contents

2 SECURITIES

Trading securities:

Trading securities consisting of residual interest in the RAL securitization totaled $177,000 and $0 at June 30, 2008 and December 31, 2007.

Securities available for sale:

The amortized cost and fair value of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

June 30, 2008 (in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Treasury securities and U.S. Government agencies	$ 84,078	$ 704	$	$ 84,782
Freddie Mac preferred stock	1,389	124		1,513
Non agency mortgage backed and other non agency mortgage-related securities	27,945		(7,391)	20,554
Mortgage backed securities	318,375	3,108	(817)	320,666
Collateralized mortgage obligations	31,994	11	(246)	31,759
Total securities available for sale	$ 463,781	$ 3,947	$ (8,454)	$ 459,274

December 31, 2007 (in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Treasury securities and U.S. Government agencies	$ 159,524	$ 841	$ (90)	$ 160,275
Freddie Mac preferred stock	2,000		(459)	1,541
Non agency mortgage backed and other non agency mortgage-related securities	34,644		(2,169)	32,475
Mortgage backed securities	318,041	2,484	(452)	320,073
Collateralized mortgage obligations	14,262	136	(12)	14,386
Total securities available for sale	$ 528,471	$ 3,461	$ (3,182)	$ 528,750

Table of Contents

Securities to be held to maturity:

The carrying value, unrecognized gains and losses, and fair value of securities to be held to maturity were as follows:

June 30, 2008 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 4,666	$ 8	$	$ 4,674
Obligations of states and political subdivisions	383	12		395
Mortgage backed securities	3,872		(149)	3,723
Collateralized mortgage obligations	42,289	3	(478)	41,814
Total securities to be held to maturity	$ 51,210	$ 23	$ (627)	$ 50,606

December 31, 2007 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 4,672	$ 7	$	$ 4,679
Obligations of states and political subdivisions	383	25		408
Mortgage backed securities	4,448	4	(80)	4,372
Collateralized mortgage obligations	42,383	970	(18)	43,335
Total securities to be held to maturity	$ 51,886	$ 1,006	$ (98)	$ 52,794

Table of Contents

Market Loss Analysis

Securities with unrealized losses at June 30, 2008 and December 31, 2007, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 months		12 months or more		Total	
June 30, 2008 (in thousands)	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Non agency mortgage backed and other non agency mortgage-related securities	$ 4,036	$ (1,397)	$ 7,857	$ (5,994)	$ 11,893	$ (7,391)
Mortgage backed securities, including CMOs	18,880	(1,560)	3,357	(130)	22,237	(1,690)
Total	$ 22,916	$ (2,957)	$ 11,214	$ (6,124)	$ 34,130	$ (9,081)

	Less than 12 months		12 months or more		Total	
December 31, 2007 (in thousands)	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury securities and U.S. Government agencies	$ 63,438	$ (55)	$ 19,959	$ (35)	$ 83,397	$ (90)
Freddie Mac preferred stock	1,541	(459)			1,541	(459)
Obligations of states and political subdivisions						
Non agency mortgage backed and other non agency mortgage-related securities	29,719	(2,132)	2,756	(37)	32,475	(2,169)
Mortgage backed securities, including CMOs	26,313	(126)	43,067	(436)	69,380	(562)
Total	$ 121,011	$ (2,772)	$ 65,782	$ (508)	$ 186,793	$ (3,280)

Other-than-temporary Impairment Analysis

Unrealized losses for all investment securities are reviewed to determine whether the losses are other-than-temporary. Investment securities are evaluated for other-than-temporary impairment on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value below amortized cost is other-than-temporary. In conducting this assessment, the Company evaluates a number of factors including, but not limited to:

- How much fair value has declined below amortized cost;
- How long the decline in fair value has existed;

- The financial condition of the issuer;
- Significant rating agency changes on the issuer; and
- The Company s intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

The term other-than-temporary is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a lack of evidence to support a realizable

Table of Contents

value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than- temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

Nationally, residential real estate values declined significantly during the first six months of 2008. These declines in value, coupled with the reduced ability of homeowners to refinance or repay their residential real estate obligations, have led to elevated delinquencies and losses in residential real estate loans. Many of these loans have previously been securitized and sold to investors as non agency mortgage backed or other non agency mortgage-related securities. The Company currently owns five non agency mortgage backed and other non agency mortgage-related securities with a carrying value of $28 million at June 30, 2008. These securities are not guaranteed by government agencies. Approximately $21 million (*Securities 1 through 4 in the table below*) of these securities are backed by Alternative A first lien mortgage loans. The remaining $7 million (*Security 5 in the table below*) represents an asset backed security with an insurance wrap or guarantee. Due to current market conditions, all of these assets are extremely illiquid, and as such, the fair value is difficult to estimate due to the volatility in the mortgage industry. The average life of these securities is currently estimated to be approximately five years.

Prior to the second quarter of 2008, unrealized losses on the Company s non agency mortgage backed securities and other non agency mortgage related securities were not recognized into income because the bonds were deemed to be of sufficient credit quality (rated A+, Aa1 or higher) and the Company had the intent and ability to hold them for the foreseeable future. The Company had evaluated the performance of the loans underlying these securities and concluded it would continue to receive the future expected cash flows of these securities in accordance with their original terms. As such, prior to the second quarter of 2008, the Company concluded that the fair value of all non agency mortgage backed securities and other non agency mortgage related securities would recover as the securities approach maturity. During the second quarter of 2008, however, the Company recorded an other-than-temporary-impairment totaling $3.4 million for two of its available for sale non agency mortgage related securities. These securities are listed as Security 2 and Security 5 in the table below.

As a result of the impairment charges noted above, an unrealized loss totaling $3.4 million for Security 2 and Security 5 was transferred from accumulated other comprehensive loss to an immediate reduction of earnings classified in net loss on sales, calls and impairments of securities in the consolidated statements of operations.

In determining that Security 2 was other-than-temporarily impaired, the Company gave considerable weight to the significance of the downgrade in the security by S&P in June. The significance of the downgrade raised doubt about the ability of the Company to continue to collect the principal and interest of the security in accordance with its original terms. In evaluating Security 5, the Company gave considerable weight to the rating downgrade and subsequent withdrawal of the security s rating by Fitch in June. In addition, the Company also gave consideration to the continued deterioration in the financial condition of the insurer providing the insurance wrap on the security.

For securities 1, 3 and 4 in the table below, unrealized losses were not recognized into income because the bonds were of sufficient credit quality (Aa1 or higher) and the Company has the intent and ability to hold for the foreseeable future. The Company also evaluated the performance of the loans underlying these securities and concluded it would continue to receive the future expected cash flows of these securities in accordance with their original terms. As such, the Company concluded that the fair value of securities 1, 3 and 4 in the table below would recover as the securities approach maturity.

Table of Contents

Additional detail for non agency mortgage backed and other non agency mortgage-related securities as of June 30, 2008 follows:

(in thousands)	Carrying Amount	Estimated Fair Value	Unrealized Loss	Ratings S&P	Fitch	Moodys
Security 1	$ 11,380	$ 6,280	$ (5,100)	AAA		Aa1*(1)(2)*
Security 2	1,296	1,296		BBB-		Aaa*(1)(2)*
Security 3	5,433	4,036	(1,397)	AAA	AAA	*(2)*
Security 4	2,473	1,579	(894)	AAA	AAA	*(2)*
Security 5	7,363	7,363		AA	(3)	
Total	$ 27,945	$ 20,554	$ (7,391)			

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(1) -Rating is currently under review by Moodys.

(2) - Security is backed by Alternative A first lien mortgage loans.

(3) -Rating was downgraded to A+ by Fitch in April 2008 and withdrawn in June 2008.

During the first quarter of 2008, the Company determined that its Federal Home Loan Mortgage Corporation (FHLMC) preferred stock investment, with an aggregate carrying value at the time of $2 million, was other-than-temporarily impaired and recorded an impairment charge of $680,000. This investment represents approximately 40,000 shares of adjustable rate investment grade preferred stock with a variable coupon rate of 4.00% and tax equivalent investment yield of 5.51%. While the Company s intent is to hold the FHLMC preferred stock indefinitely for interest rate risk protection, in accordance with SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, the Company wrote the security down to its market value through the income statement because it has no final maturity and the Company cannot estimate if and when it will recover in market value. At June 30, 2008 the market value of the FHLMC preferred stock approximated its carrying value. Subsequent to June 30, 2008, however, the fair market value of the security declined significantly below the Company s carrying value. The significant decline in value was due to the uncertainty surrounding the on-going viability of FHLMC. If the fair value does not recover significantly prior to September 30, 2008, the Company will record another impairment charge during the third quarter. The Company believes this impairment charge could range from $400,000 to $800,000 based on current market conditions. The overall magnitude of the impairment charge could be significantly influenced positively or negatively by the outcome of new or potential legislation.

Pledged Securities

Securities pledged to secure public deposits, securities sold under agreements to repurchase and securities held for other purposes, as required or permitted by law are as follows:

(in thousands)	June 30, 2008	December 31, 2007
Carrying value	$ 458,879	$ 518,947
Fair value	458,299	519,834

Table of Contents

3 LOANS AND ALLOWANCE FOR LOAN LOSSES

(in thousands)	June 30, 2008	December 31, 2007
Residential real estate	$ 1,137,649	$ 1,168,591
Commercial real estate	642,703	658,987
Real estate construction	138,793	163,700
Commercial	104,754	90,741
Consumer	30,221	33,310
Overdrafts	4,921	1,238
Home equity	289,468	280,506
Total loans	2,348,509	2,397,073
Less: Allowance for loan losses	17,995	12,735
Loans, net	$ 2,330,514	$ 2,384,338

An analysis of the changes in the allowance for loan losses follows:

(in thousands)	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Allowance for loan losses at beginning of period	$ 15,025	$ 11,487	$ 12,735	$ 11,218
Provision for loan losses	3,629	147	14,128	3,827
Charge offs Banking	(934)	(687)	(1,994)	(953)
Charge offs Tax Refund Solutions		(409)	(7,873)	(4,240)
Recoveries Banking	201	186	387	512
Recoveries Tax Refund Solutions	74	433	612	793
Allowance for loan losses at end of period	$ 17,995	$ 11,157	$ 17,995	$ 11,157

Information regarding Republic s impaired loans follows:

(in thousands)	June 30, 2008	December 31, 2007
Loans with no allocated allowance for loan losses	$	$
Loans with allocated allowance for loan losses	15,062	6,412
Total	$ 15,062	$ 6,412
Amount of the allowance for loan losses allocated	$ 4,366	$ 1,498
Average investment in impaired loans	14,394	9,425
Interest income recognized during impairment		

Interest income recognized on a cash basis on impaired loans

Table of Contents

Detail of non performing loans and non performing assets follows:

(dollars in thousands)	June 30, 2008	December 31, 2007
Loans on non-accrual status	$ 17,688	$ 8,303
Loans past due 90 days or more and still on accrual	1,476	1,318
Total non-performing loans	19,164	9,621
Other real estate owned	2,160	795
Total non-performing assets	$ 21,324	$ 10,416
Non-performing loans to total loans	0.82%	0.40%
Non-performing assets to total loans	0.91	0.43

The following table details RAL originations and loss reserves for three and six months ended June 30, 2008 and 2007:

(in thousands)	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Originations:				
RALs originated and retained on balance sheet	$ 18,091	$ 13,281	$ 682,104	$ 226,203
RALs originated and securitized			1,098,717	350,414
Total RALs originated	$ 18,091	$ 13,281	$ 1,780,821	$ 576,617
Estimated RAL losses:				
Estimated losses for retained RALs, net	$ 772	$ (24)	$ 8,225	$ 3,447
Net reduction to estimated future expected cash flows for securitized RALs	(343)	(621)	6,830	2,016
Total Estimated RALs losses, net	$ 429	$ (645)	$ 15,055	$ 5,463

RAL Loss Reserves and Provision for Loan Losses:

Substantially all RALs issued by the Company each year are made during the first quarter. Losses associated with RALs result from the IRS not remitting funds associated with a particular tax return. This occurs for a number of reasons, including errors in the tax return and tax return fraud. At March 31st of each year, with adjustments each quarter end thereafter, the Company reserves for its estimated RAL losses for the year based on current year and historical funding patterns and based on information received from the IRS on current year payment processing. The Company applies its loss estimates to both RALs retained on balance sheet and to securitized RALs. During both 2008 and 2007, a significant portion of these loss reserves were included as a reduction to Net RAL securitization income because they represented the loss of future expected cash flows from the Company s residual interest.

As of June 30, 2008, $9.4 million of total RALs retained on balance sheet remained uncollected compared to $6.3 million at June 30, 2007, representing 1.38% and 2.76% of total RALs originated and retained on balance sheet during the respective tax years by the Company. At June 30, 2008, the Company estimated that 1.31% of RALs originated and retained on balance sheet by the Company during the current tax season were uncollectible compared to 1.61% during 2007. As a result of these estimates, the Company recorded a net provision for loan losses of $8.2 million during the first six months of 2008 compared to $3.4 million during the first six months of 2007. Approximately $772,000 of these loan loss provisions were recorded during the second quarter of 2008 compared to a credit of $24,000 during the second quarter of 2007. The decrease in RAL losses as a percent of total RALs retained on balance sheet from year to year is attributable primarily to revised underwriting standards and a reduction in known fraud resulting from improved fraud detection techniques utilized by the Company.

Table of Contents

As of June 30, 2008, $7.2 million of securitized RALs remained uncollected compared to $2.5 million at June 30, 2007, representing 0.65% and 0.72% of total securitized RALs during the respective tax years by the Company. At June 30, 2008 in estimating the Company s residual interest for securitized RALs, which is classified as a trading security on the Company s balance sheet, the Company estimated that 0.64% of total RALs securitized by the Company during the current year tax season were uncollectible compared to 0.70% during 2007. As a result of this estimate, the Company recorded a net reduction to Net RAL securitization income of $6.8 million for the first six months of 2008 compared to $2.0 million for the first six months of 2007. The Company recorded a net credit to Net RAL securitization income of $343,000 and $644,000 during the second quarters of 2008 and 2007. As with the RALs retained on balance sheet, the decrease in securitized RAL losses as a percent of total loans securitized from year to year is attributable primarily to revised underwriting standards and a reduction in known fraud resulting from improved fraud detection techniques utilized by the Company.

The overall earnings of the TRS segment are highly dependent upon the Company s loss estimates for RALs retained on balance sheet and securitized RALs. The Company believes that based on information currently available, it has provided the appropriate amount of reserves for losses associated with RALs. The possibility remains, however, that payments from the IRS throughout the remainder of the year could differ from what the Company estimated during the first six months of the year causing an adjustment to the Company s previous allowance for loan losses and residual interest trading security. The following tables illustrates the effect on the 2008 provision for loan losses of TRS and the 2008 net RAL securitization income of TRS if final losses of RALs retained on balance sheet and RALs securitized by the Company differ from the Company s current estimates by as much as 25 basis points higher or lower (not exceeding the current uncollected percentage):

As of June 30, 2008 (dollars in thousands)

Total RALs retained on balance sheet during the current year tax season:	$	682,104

If % of RALs That Do Not Payoff Equals		**Provision for Loan Losses as Revised**		**Increase / (Decrease) In Provision For Loan Losses From Current Estimate**
1.36%	$	8,566	$	341
1.35%		8,498		273
1.34%		8,430		205
1.33%		8,361		136
1.32%		8,293		68
Current Estimate (Base): 1.31%		8,225		
1.26%		7,884		(341)
1.21%		7,543		(682)
1.16%		7,202		(1,023)
1.11%		6,861		(1,364)
1.06%		6,520		(1,705)

Table of Contents

As of June 30, 2008 (dollars in thousands)

Total RALs sold into the securitization during the current year tax season:	$	1,098,717

If % of RALs That Do Not Payoff Equals		Net RAL Securitization Income As Revised		Increase / (Decrease) In Net RAL Securitization Income From Current Estimate
0.66%	$	12,653	$	(220)
0.65%		12,763		(110)
Current Estimate (Base): 0.64%		12,873		
0.59%		13,422		549
0.54%		13,972		1,099
0.49%		14,521		1,648
0.44%		15,070		2,197
0.39%		15,620		2,747

See the sections titled Business Segment Composition and Results of Operations in Part I Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as Footnote 9 Segment Information and Footnote 10 Securitization of Part I Item 1 Financial Statements and Part II Item 1A Risk Factors for additional discussion regarding TRS and the securitization.

4 DEPOSITS

(in thousands)		June 30, 2008		December 31, 2007
Demand (NOW and SuperNOW)	$	205,732	$	197,949
Money market accounts		568,490		635,590
Internet money market accounts		8,978		10,521
Savings		32,929		30,362
Individual retirement accounts		51,105		51,338
Certificates of deposit, $100,000 and over		169,492		174,538
Other certificates of deposit		219,447		217,670
Brokered deposits		79,570		371,387
Total interest-bearing deposits		1,335,743		1,689,355
Total non interest-bearing deposits		293,210		279,457
Total	$	1,628,953	$	1,968,812

Table of Contents

5 FEDERAL HOME LOAN BANK (FHLB) ADVANCES

(in thousands)	June 30, 2008	December 31, 2007
FHLB convertible fixed interest rate advances with a weighted average interest rate of 4.51%(1)	$ 150,000	$ 150,000
Overnight FHLB advances with an interest rate of 2.16%	153,500	35,000
FHLB fixed interest rate advances with a weighted average interest rate of 3.91% due through 2035	446,337	293,550
Total FHLB advances	$ 749,837	$ 478,550

(1) Represents putable advances with the FHLB. These advances have original fixed rate periods ranging from one to five years with original maturities ranging from three to ten years if not put back to the Company earlier by the FHLB. At the end of their respective fixed rate periods and on a quarterly basis thereafter, the FHLB has the right to require payoff of the advances by the Company at no penalty. During the first quarter of 2007, the Company entered into $100 million of putable advances with a final maturity of 10 years and a fixed rate period of 3 years. Based on market conditions at this time, the Company does not believe that any of its putable advances are likely to be put back to the Company in the short-term by the FHLB.

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances paid off earlier than maturity. FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At June 30, 2008, Republic had available collateral to borrow an additional $200 million from the FHLB. In addition to its borrowing line with the FHLB, Republic also had unsecured lines of credit totaling $227 million available through various other financial institutions.

Table of Contents

Aggregate future principal payments on FHLB advances, based on contractual maturity dates are detailed below:

Year		(in thousands)
2008	$	254,500
2009		107,000
2010		92,370
2011		100,000
2012		70,000
Thereafter		125,967
Total	$	749,837

The following table illustrates real estate loans pledged to collateralize advances and letters of credit from the FHLB:

(in thousands)		June 30, 2008		December 31, 2007
First lien, single family residential	$	829,000	$	854,000
Home equity lines of credit		116,000		114,000
Multi-family, commercial real estate		17,000		29,000

6 FAIR VALUE

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 157, *Fair Value Measurements.* SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. SFAS 157 describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that an entity has the ability to access as of the measurement date, or observable inputs.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. When that occurs, the Company classifies the fair value hierarchy on the lowest level of input that is significant to the fair value measurement. The Company uses the following methods and significant assumptions to estimate fair value:

Trading securities: The Company s residual interest for securitized RALs is classified as a trading security. The fair value of the trading security is determined by analyzing expected future cashflows and is significantly influenced by the anticipated credit losses of the underlying RALs. Factors that the Company applies in determining the fair value include current year and historical funding patterns, as well as, information received from the IRS on current year payment processing.

Securities available for sale: For all securities available for sale, excluding non agency mortgage backed and other non agency mortgage related securities, fair value is typically determined by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities. Matrix pricing relies on the securities relationship to similarly traded securities, benchmark curves, and the benchmarking of like securities. Matrix pricing utilizes observable market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. In instances where broker quotes are used, these quotes are obtained from market makers or broker-dealers recognized to be market participants. These securities are classified as Level 2 in the fair value hierarchy.

The Company currently owns five non agency mortgage backed and other non agency mortgage-related securities with a carrying value of $28 million and a fair value of $21 million at June 30, 2008. These securities are not guaranteed by government agencies. Approximately $21 million of these securities are backed by Alternative A first lien mortgage loans. The remaining $7 million represents an asset backed security with an insurance wrap or guarantee. Due to current market conditions, all of these assets are extremely illiquid, and as such, the fair value is difficult to estimate due to the volatility in the mortgage industry. The average life of these securities is currently estimated to be approximately five years. These securities are classified as Level 3 in the fair value hierarchy.

Derivative instruments: Mortgage Banking derivatives used in the ordinary course of business consist of mandatory forward sales contracts (forward contracts) and rate lock loan commitments. Forward contracts represent future commitments to deliver loans at a specified price and date and are used to manage interest rate risk on loan commitments and mortgage loans held for sale. Rate lock commitments represent commitments to fund loans at a specific rate. These derivatives involve underlying items, such as interest rates, and are designed to transfer risk. Substantially all of these instruments expire within 90 days from the date of issuance. Notional amounts are amounts on which calculations and payments are based, but which do not represent credit exposure, as credit exposure is limited to the amounts required to be received or paid. The fair value of our derivative instruments is primarily measured by obtaining pricing from broker-dealers recognized to be market participants. The pricing is derived from market observable inputs that can generally be verified and do not typically involve significant judgment by the Company.

Mortgage loans held for sale: The fair value of mortgage loans held for sale is determined using quoted secondary-market prices. The purchaser provides the Company with a commitment to purchase the loan at the origination price. This commitment qualifies as an exit price under SFAS 157 and therefore is classified as Level 1 in the fair value hierarchy. If no such quoted price exists, the fair value of a loan would be determined using quoted prices for a similar asset or assets, adjusted for the specific attributes of that loan.

Impaired Loans: Impaired loans are evaluated at the time the loan is identified as impaired and are recorded at the lower of cost or market value. Market value is measured based on the value of the collateral securing these loans generally determined based on appraisals by qualified licensed appraisers. If an appraisal is not available, the fair value of the collateral may be determined by using a cash flow analysis, a broker s opinion of value, the net present value of future cash flows, or an observable market price from an active market. Fair value on non-real estate collateral loans is determined using similar methods. In addition, business equipment may be valued by using the net book value from the business financial statements. Impaired loans are evaluated quarterly for impairment.

22

Table of Contents

Items measured at fair value on a recurring basis, for which the Company has elected the fair value option, are summarized below:

(in thousands)	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2008
Trading securities	$	$	$ 177	$ 177
Securities available for sale		438,720	20,554	459,274
Forward contracts	15,640			15,640
Rate lock loan commitments		23,214		23,214
Mortgage loans held for sale	11,621			11,621

Rollforwards of activity for the Company s Significant Unobservable Inputs (Level 3), follows:

Trading Securities - Residual interest in the RAL securitization

(in thousands)	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Balance, beginning of period	$ 2,074	$
Increase in RAL securitization residual	343	4,560
Retained securitization residual		102,059
Paydown of securitization residual	(2,240)	(106,442)
Balance, end of period	$ 177	$ 177

Securities available for Sale - Non agency mortgage backed and other non agency mortgage-related securities

(in thousands)	Three and Six Months Ended June 30, 2008
Balance, beginning of period	$
Transfer into level 3	22,085
Net unrealized gain / (loss)	70
Premium amortization	(33)
Principal paydowns	(1,568)
Balance, end of period	$ 20,554

The Company recorded a realized impairment loss in the level 3 non agency mortgage backed and other non agency mortgage related securities totaling $3.4 during the second quarter of 2008.

Table of Contents

Items measured at fair value on a non-recurring basis are summarized below:

(in thousands)	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2008
Impaired loans	$	$	$ 10,696	$ 10,696

Impaired loans had a carrying amount of $15.1 million, with a valuation allowance of $4.4 million, resulting in an additional provision for loan losses of $4.4 million for the first six months of 2008.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard was effective for the Company on January 1, 2008. The Company elected the fair value option for all loans held for sale originated after December 31, 2007.

7 OFF BALANCE SHEET RISKS, COMMITMENTS AND CONTINGENT LIABILITIES

Republic is a party to financial instruments with off balance sheet risk in the normal course of business in order to meet the financing needs of its customers. These financial instruments primarily include commitments to extend credit and standby letters of credit. The contract or notional amounts of these instruments reflect the potential future obligations of Republic pursuant to those financial instruments. Creditworthiness for all instruments is evaluated on a case by case basis in accordance with Republic s credit policies. Collateral from the customer may be required based on the Company s credit evaluation of the customer and may include business assets of commercial customers, as well as personal property and real estate of individual customers or guarantors.

Republic also extends binding commitments to customers and prospective customers. Such commitments assure the borrower of financing for a specified period of time at a specified rate. The risk to Republic under such loan commitments is limited by the terms of the contracts. For example, Republic may not be obligated to advance funds if the customer s financial condition deteriorates or if the customer fails to meet specific covenants. An approved but unfunded loan commitment represents a potential credit risk once the funds are advanced to the customer. Unfunded loan commitments also represent liquidity risk since the customer may demand immediate cash that would require funding and interest rate risk as market interest rates may rise above the rate committed. In addition, since a portion of these loan commitments normally expire unused, the total amount of outstanding commitments at any point in time may not require future funding.

As of June 30, 2008, exclusive of Mortgage Banking loan commitments discussed below, Republic had outstanding loan commitments of $444 million, which included unfunded home equity lines of credit totaling $328 million. At December 31, 2007, Republic had outstanding loan commitments of $487 million, which included unfunded home equity lines of credit totaling $326 million. These commitments generally have variable rates.

Standby letters of credit are conditional commitments issued by Republic to guarantee the performance of a customer to a third party. The terms and risk of loss involved in issuing standby letters of credit are similar to those involved in issuing loan commitments and extending credit. Commitments outstanding under standby letters of credit totaled \$23 million and \$38 million at June 30, 2008 and December 31, 2007.

At June 30, 2008 and December 31, 2007, Republic had a \$12 million letter of credit from the FHLB issued on behalf of one RB&T client. This letter of credit was used as a credit enhancement for a client bond offering and reduced RB&T s

Table of Contents

available borrowing line at the FHLB. The Company uses a blanket pledge of eligible real estate loans to secure the letter of credit.

On November 5, 2007, the SEC issued Staff Accounting Bulletin (SAB) No. 109, *Written Loan Commitments Recorded at Fair Value through Earnings*. Previously, SAB 105, *Application of Accounting Principles to Loan Commitments*, stated that in measuring the fair value of a derivative loan commitment, a company should not incorporate the expected net future cash flows related to the associated servicing of the loan. SAB 109 supersedes SAB 105 and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in measuring fair value for all written loan commitments that are accounted for at fair value through earnings. SAB 105 also indicated that internally-developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment, and SAB 109 retains that view. The Company also elected to adopt Staff Accounting Bulletin SAB 109 which effectively causes Mortgage Banking revenue to be recognized on the date the Company enters into the rate lock commitment with the customer.

With the adoption of SAB 109 and SFAS 159 during 2008, the Company recognized $300,000 in additional Mortgage Banking income related to the Company s mandatory forward sales contracts and rate lock loan commitments.

Mortgage Banking derivatives used in the ordinary course of business consist of mandatory forward sales contracts and rate lock loan commitments. Forward contracts represent future commitments to deliver loans at a specified price and date and are used to manage interest rate risk on loan commitments and mortgage loans held for sale. Rate lock commitments represent commitments to fund loans at a specific rate. These derivatives involve underlying items, such as interest rates, and are designed to transfer risk. Substantially all of these instruments expire within 90 days from the date of issuance. Notional amounts are amounts on which calculations and payments are based, but which do not represent credit exposure, as credit exposure is limited to the amounts required to be received or paid. The approximate notional amounts and realized gain/(loss) for Mortgage Banking derivatives recognized in Mortgage Banking income for the period end June 30, 2008 and December 31, 2007 follows:

(in thousands)	**June 30, 2008**	**December 31, 2007**
Forward contracts:		
Notional amount	$ 15,483	$ 10,700
Gain / (loss) on change in market value of forward contracts	157	(41)
Rate lock loan commitments:		
Notional amount	$ 23,150	$ 9,635
Gain on change in market value of rate lock commitments	64	24

Forward contracts also contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. In the event the parties to deliver commitments are unable to fulfill their obligations, the Company could potentially incur significant additional costs by replacing the positions at then current market rates. The Company manages its risk of exposure by limiting counterparties to those major banks and financial institutions deemed appropriate by management and the Board of Directors. The Company does not expect any counterparty to default on their obligations and therefore, the Company does not expect to incur any cost related to counterparty default.

The Company is exposed to interest rate risk on loans held for sale and rate lock loan commitments. As market interest rates increase or decrease, the fair value of mortgage loans held for sale and rate lock commitments will decline or increase. To offset this interest rate risk, the Company enters into derivatives such as forward contracts to sell loans. The fair value of these forward contracts will change as market interest rates change, and the change in the value of these instruments is expected to largely, though not entirely, offset the change in fair value of loans held for sale and rate lock commitments. The objective of this activity is to minimize the exposure to losses on rate lock commitments and loans held for sale due to market interest rate fluctuations. The net effect of derivatives on earnings will depend on risk management activities and a variety of other factors, including market interest rate volatility, the amount of rate lock commitments that close, the ability to fill the forward contracts before expiration, and the time period required to close and sell loans.

Table of Contents

8 EARNINGS PER SHARE

Class A and Class B shares participate equally in undistributed earnings. The difference in earnings per share between the two classes of common stock results solely from the 10% per share cash dividend premium paid on Class A Common Stock over that paid on Class B Common Stock**.**

A reconciliation of the combined Class A and Class B Common Stock numerators and denominators of the earnings per share and diluted earnings per share computations is presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	**2008**	**2007**	**2008**	**2007**
Net income	$ 6,423	$ 5,969	$ 28,546	$ 14,275
Weighted average shares outstanding	20,525	20,617	20,432	20,609
Effect of dilutive securities	314	396	265	498
Average shares outstanding including dilutive securities	20,839	21,013	20,697	21,107
Basic earnings per share:				
Class A Common Share	$ 0.31	$ 0.29	$ 1.40	$ 0.69
Class B Common Share	0.30	0.28	1.38	0.68
Diluted earnings per share:				
Class A Common Share	$ 0.31	$ 0.28	$ 1.38	$ 0.67
Class B Common Share	0.30	0.28	1.36	0.66

Stock options excluded from the detailed earnings per share calculation because their impact was antidilutive are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Antidilutive stock options	303,283	378,310	319,930	378,310

Table of Contents

9 SEGMENT INFORMATION

The reportable segments are determined by the type of products and services offered, distinguished between Banking operations, Mortgage Banking operations and Tax Refund Solutions (TRS). Loans, investments and deposits provide the majority of revenue from banking operations; servicing fees and loan sales provide the majority of revenue from mortgage banking operations; RAL fees, ERC fees and Net RAL securitization income provide the majority of the revenue from TRS. The overall earnings of the TRS segment is highly dependent upon the Company s loss estimates for RALs retained on balance sheet and RALs securitized *(for further discussion of these loss estimates see Footnote 3 Loans and Allowance for Loan Losses in this document).* All Company segments are domestic.

The accounting policies used for Republic s reportable segments are the same as those described in the summary of significant accounting policies. Income taxes are allocated based on income before income tax expense. Transactions among reportable segments are made at fair value.

See the sections titled Business Segment Composition and Results of Operations in Part I Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as Footnote 3 Loans and Allowance for Loans Losses and Footnote 10 Securitization of Part I Item 1 Financial Statements and Part II Item 1A Risk Factors for additional discussion regarding TRS and the securitization.

Table of Contents

Segment information for the three and six months ended June 30, 2008 and 2007 follows:

	Three Months Ended June 30, 2008			
(dollars in thousands)	Banking	Tax Refund Solutions	Mortgage Banking	Total Company
Net interest income	$ 28,436	$ 748	$ 89	$ 29,273
Provision for loan losses	2,857	772		3,629
Electronic Refund Check fees		2,970		2,970
Net RAL securitization income		286		286
Mortgage banking income			1,133	1,133
Other revenue	3,675	(5)	(523)	3,147
Total non interest income	3,675	3,251	610	7,536
Total non interest expenses	21,000	2,407	220	23,627
Gross operating profit	8,254	820	479	9,553
Income tax expense	2,796	172	162	3,130
Net income	$ 5,458	$ 648	$ 317	$ 6,423
Segment assets	$ 3,032,078	$ 9,445	$ 11,686	$ 3,053,209
Net interest margin	3.91%	NM	NM	3.99%

	Three Months Ended June 30, 2007			
(dollars in thousands)	Banking	Tax Refund Solutions	Mortgage Banking	Total Company