REPUBLIC BANCORP INC /KY/
Form 10-Q
August 09, 2012

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, 2012

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 (State of other jurisdiction of incorporation or organization)	61-0862051 (I.R.S. Employer Identification No.)
601 West Market Street, Louisville, Kentucky (Address of principal executive offices)	40202 (Zip Code)

(502) 584-3600
(Registrant's telephone number, including area code)

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.
þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
þ 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 þ	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 þ 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, 2012, was 18,656,621 and 2,298,803, respectively.

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS (in thousands) (unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$124,357	$362,971
Securities available for sale	582,321	645,948
Securities to be held to maturity (fair value of $26,287 in 2012 and $28,342 in 2011)	25,769	28,074
Mortgage loans held for sale	4,093	4,392
Loans, net of allowance for loan losses of $22,510 and $24,063 (2012 and 2011)	2,417,884	2,261,232
Federal Home Loan Bank stock, at cost	28,391	25,980
Premises and equipment, net	32,962	34,681
Goodwill	10,168	10,168
Other assets and accrued interest receivable	52,855	46,545
TOTAL ASSETS	$3,278,800	$3,419,991
LIABILITIES		
Deposits		
Non interest-bearing	$513,136	$408,483
Interest-bearing	1,392,155	1,325,495
Total deposits	1,905,291	1,733,978
Securities sold under agreements to repurchase and other short-term borrowings	194,412	230,231
Federal Home Loan Bank advances	538,555	934,630
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	59,589	27,545
Total liabilities	2,739,087	2,967,624
STOCKHOLDERS' EQUITY		
Preferred stock, no par value	-	-
Class A Common Stock and Class B Common Stock, no par value	4,948	4,947
Additional paid in capital	132,491	131,482
Retained earnings	397,058	311,799
Accumulated other comprehensive income	5,216	4,139
Total stockholders' equity	539,713	452,367
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,278,800	$3,419,991

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(in thousands, except per share data)1

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
INTEREST INCOME:				
Loans, including fees	$ 30,534	$ 29,843	$ 105,826	$ 118,004
Taxable investment securities	2,904	4,093	6,171	7,685
Federal Home Loan Bank stock and other	376	523	1,404	1,393
Total interest income	33,814	34,459	113,401	127,082
INTEREST EXPENSE:				
Deposits	1,213	2,272	2,752	5,210
Securities sold under agreements to repurchase and other short-term borrowings	118	173	230	424
Federal Home Loan Bank advances	3,540	4,556	7,626	9,390
Subordinated note	631	629	1,261	1,258
Total interest expense	5,502	7,630	11,869	16,282
NET INTEREST INCOME	28,312	26,829	101,532	110,800
Provision for loan losses	466	(439)	11,636	17,643
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	27,846	27,268	89,896	93,157
NON INTEREST INCOME:				
Service charges on deposit accounts	3,286	3,736	6,589	7,160
Electronic refund check fees	6,147	6,584	77,896	87,646
Mortgage banking income	1,963	924	3,317	1,740
Debit card interchange fee income	1,441	1,493	2,997	2,977
Bargain purchase gain	(96)	-	27,803	-
Gain on sale of securities available for sale	-	1,907	56	1,907
Total impairment losses on investment securities	-	-	-	(279)
Gain recognized in other comprehensive income	-	-	-	-
Net impairment loss recognized in earnings	-	-	-	(279)
Other	1,345	724	2,237	1,529
Total non interest income	14,086	15,368	120,895	102,680
NON INTEREST EXPENSES:				
Salaries and employee benefits	14,313	13,250	31,284	30,489
Occupancy and equipment, net	5,144	5,001	11,218	11,298
Communication and transportation	961	878	3,622	3,387
Marketing and development	904	868	1,842	1,772

FDIC insurance expense	291	1,165	721	2,800
Bank franchise tax expense	703	714	2,634	2,279
Data processing	1,195	817	2,416	1,565
Debit card interchange expense	660	601	1,261	1,124
Supplies	529	314	1,478	1,208
Other real estate owned expense	555	378	1,160	859
Charitable contributions	200	234	2,878	5,532
Legal expense	527	979	895	2,339
FDIC civil money penalty	-	2,000	-	2,000
FHLB advance prepayment expense	-	-	2,436	-
Other	1,469	1,327	4,759	4,692
Total non interest expenses	27,451	28,526	68,604	71,344
INCOME BEFORE INCOME TAX EXPENSE	14,481	14,110	142,187	124,493
INCOME TAX EXPENSE	4,903	5,447	50,137	44,418
NET INCOME	$ 9,578	$ 8,663	$92,050	$ 80,075
BASIC EARNINGS PER SHARE:				
Class A Common Stock	$ 0.46	$ 0.42	$4.40	$ 3.83
Class B Common Stock	0.44	0.40	4.37	3.80
DILUTED EARNINGS PER SHARE:				
Class A Common Stock	$ 0.46	$ 0.41	$4.38	$ 3.82
Class B Common Stock	0.44	0.40	4.35	3.79

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	$9,578	$8,663	$92,050	$80,075
OTHER COMPREHENSIVE INCOME				
Unrealized gain (loss) on securities available for sale	(63)	1,158	1,675	1,888
Change in unrealized losses on securities available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings	58	37	37	(218)
Realized amount on securities sold	-	(1,908)	(55)	(1,908)
Reclassification adjustment for gains/losses realized in income	-	-	-	(278)
Net unrealized gains (losses)	(5)	(713)	1,657	(516)
Tax effect	2	249	(580)	181
Net of tax amount	(3)	(464)	1,077	(335)
COMPREHENSIVE INCOME	$9,575	$8,199	$93,127	$79,740

See accompanying footnotes to consolidated financial statements.

5

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2012

(in thousands, except per share data)	Common Stock Class A Shares Outstanding	Common Stock Class B Shares Outstanding	Common Stock Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, January 1, 2012	18,652	2,300	$4,947	$ 131,482	$311,799	$ 4,139	$ 452,367
Net income	-	-	-	-	92,050	-	92,050
Net change in accumulated other comprehensive income	-	-	-	-	-	1,077	1,077
Dividend declared Common Stock:							
Class A ($0.319 per share)	-	-	-	-	(5,952)	-	(5,952)
Class B ($0.290 per share)	-	-	-	-	(666)	-	(666)
Stock options exercised, net of shares redeemed	8	-	2	213	(68)	-	147
Repurchase of Class A Common Stock	(6)	-	(1)	(41)	(105)	-	(147)
Conversion of Class B Common Stock to Class A Common Stock	1	(1)	-	-	-	-	-
Notes receivable on Common Stock, net of cash payments	-	-	-	210	-	-	210
Deferred director compensation expense - Company Stock	3	-	-	90	-	-	90
Stock based compensation expense	-	-	-	537	-	-	537
Balance, June 30, 2012	18,658	2,299	$4,948	$ 132,491	$397,058	$ 5,216	$ 539,713

See accompanying footnotes to consolidated financial statements.

6

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2012 AND 2011 (in thousands)

	2012	2011
OPERATING ACTIVITIES:		
Net income	$92,050	$80,075
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	5,197	3,748
Provision for loan losses	11,636	17,643
Net gain on sale of mortgage loans held for sale	(3,722)	(1,465)
Origination of mortgage loans held for sale	(97,132)	(52,558)
Proceeds from sale of mortgage loans held for sale	101,153	62,084
Proceeds from loans repurchased by the FDIC	17,003	-
Net realized impairment of mortgage servicing rights	31	-
Net realized gain on sales, calls and impairment of securities	(56)	(1,628)
Net gain on sale of other real estate owned	(419)	(244)
Writedowns of other real estate owned	341	227
Deferred director compensation expense - Company Stock	90	86
Stock based compensation expense	537	180
Bargain purchase gain on acquisition	(27,803)	-
Net change in other assets and liabilities:		
Accrued interest receivable	224	(163)
Accrued interest payable	(319)	(437)
Other assets	18,327	1,479
Other liabilities	11,231	30,127
Net cash provided by operating activities	128,369	139,154
INVESTING ACTIVITIES:		
Net cash proceeds received in FDIC-assisted transaction	846,390	-
Purchases of securities available for sale	(58,552)	(348,236)
Purchases of Federal Home Loan Bank stock	-	(1)
Proceeds from calls, maturities and paydowns of securities available for sale	131,216	122,668
Proceeds from calls, maturities and paydowns of securities to be held to maturity	2,295	2,927
Proceeds from sales of securities available for sale	35,225	133,813
Proceeds from sale of Federal Home Loan Bank stock	48	60
Proceeds from sales of other real estate owned	14,597	6,552
Purchase of commercial real estate loans	-	(32,650)
Net change in loans	(122,704)	(49,871)
Net purchases of premises and equipment	(1,078)	(1,780)
Net cash provided by/(used in) investing activities	847,437	(166,518)
FINANCING ACTIVITIES:		
Net change in deposits	(776,136)	(477,579)
Net change in securities sold under agreements to repurchase and other short-term borrowings	(35,819)	(100,088)
Payments on Federal Home Loan Bank advances	(566,075)	(45,078)
Proceeds from Federal Home Loan Bank advances	170,000	-

Repurchase of Common Stock	(147)	(148)
Net proceeds from Common Stock options exercised	147	76
Cash dividends paid	(6,390)	(5,928)
Net cash used in financing activities	(1,214,420)	(628,745)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(238,614)	(656,109)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	362,971	786,371
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$124,357	$130,262
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$12,188	$16,719
Income taxes	24,512	22,116
SUPPLEMENTAL NONCASH DISCLOSURES		
Transfers from loans to real estate acquired in settlement of loans	$12,078	$6,574
Loans provided for sales of other real estate owned	564	1,454

See accompanying footnotes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2012 AND 2011 (UNAUDITED) AND DECEMBER 31, 2011

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 ("RB") (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.

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 ("GAAP") 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 the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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, 2011.

As of June 30, 2012, the Company was divided into three distinct business operating segments: Traditional Banking, Mortgage Banking and Republic Processing Group ("RPG"). During the second quarter of 2012, the Company realigned the previously reported Tax Refund Solutions ("TRS") segment as a division of the newly formed RPG segment. Along with the TRS division, Republic Payment Solutions ("RPS") was newly created to operate as a second division of the RPG segment.

Traditional Banking and Mortgage Banking (collectively "Core Banking")

Republic operates 43 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; metropolitan Cincinnati, Ohio; metropolitan Nashville, Tennessee and through an Internet banking delivery channel.

Effective January 27, 2012, RB&T assumed substantially all of the deposits and certain other liabilities and acquired certain assets of Tennessee Commerce Bank ("TCB"), headquartered in Franklin (Nashville Metropolitan Statistical Area ("MSA")), Tennessee from the FDIC, as receiver for TCB. This acquisition represents a single banking center located in the Nashville MSA and represents RB&T's initial entrance into the Tennessee market. See additional discussion under Footnote 2 "Bank Acquisition" of Part I Item 1 "Financial Statements."

Core Banking results of operations are primarily 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 Core Banking assets represent investment securities and real estate mortgage, commercial and consumer loans. Interest-bearing liabilities primarily consist of interest-bearing deposit accounts, securities sold under agreements to repurchase, as well as short-term and long-term borrowing sources.

Other sources of Core Banking income include service charges on deposit accounts, debit card interchange fee income, title insurance commissions, fees charged to customers for trust services and revenue generated from Mortgage Banking activities. Mortgage Banking activities represent both the origination and sale of loans in the secondary market and the servicing of loans for others. Additionally, in June 2011, the Bank commenced business in its newly established warehouse lending division. Through this division, the Bank provides short-term, revolving credit facilities to mortgage bankers across the nation. These credit facilities are secured by single family residential real estate loans.

Core Banking operating expenses consist primarily of salaries and employee benefits, occupancy and equipment expenses, communication and transportation costs, marketing and development expenses, Federal Deposit Insurance Corporation ("FDIC") insurance expense, and various general and administrative costs. Core Banking results of operations are significantly impacted by general economic and competitive conditions, particularly changes in market interest rates, government laws and policies and actions of regulatory agencies.

Republic Processing Group (“RPG”)

Nationally, through RB&T, RPG facilitates the receipt and payment of federal and state tax refund products under the TRS division. Nationally, through RB, the RPS division is preparing to become an issuing bank to offer general purpose reloadable prepaid debit, payroll, gift and incentive cards through third party program managers.

TRS division:

Republic, through its TRS division, is one of a limited number of financial institutions that facilitates the payment of federal and state tax refund products through third-party tax preparers located throughout the U.S., as well as tax-preparation software providers. The TRS division’s three primary tax-related products have historically included: Electronic Refund Checks (“ERCs” or “ARs”), Electronic Refund Deposits (“ERDs” or “ARDs”) and Refund Anticipation Loans (“RALs”). Substantially all of the business generated by the TRS division occurs in the first quarter of the year. The TRS division traditionally operates at a loss during the second half of the year, during which the division incurs costs preparing for the upcoming year’s first quarter tax season.

As previously disclosed, effective December 8, 2011, RB&T entered into an agreement with the FDIC resolving its differences regarding the TRS division. RB&T’s resolution with the FDIC was in the form of a Stipulation Agreement and a Consent Order (collectively, the “Agreement”). As part of the Agreement, RB&T and the FDIC settled all matters set out in the FDIC’s Amended Notice of Charges dated May 3, 2011 and the lawsuit filed against the FDIC by RB&T. As required by this settlement, RB&T discontinued its offering of the RAL product by April 30, 2012.

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. There is no credit risk or borrowing cost for RB&T associated with these products because they are only delivered to the taxpayer upon receipt of the refund directly from the Internal Revenue Service (“IRS”). Fees earned on ERCs/ERDs are reported as non interest income under the line item “Electronic Refund Check fees.”

RALs were short-term consumer loans offered to taxpayers that were secured by the customer’s anticipated tax refund, which represented the source of repayment. The fees earned on RALs are reported as interest income under the line item “Loans, including fees.”

RB&T’s discontinuance of RALs beyond 2012 is expected to have a material adverse impact on net income in 2013 and beyond, as the RAL product accounted for approximately 34% of the TRS division’s net income for the six months ended June 30, 2012 and 2011, respectively. In addition, RB&T’s loss of the RAL product is expected to negatively impact the revenue it receives on its ERC/ERD products due to competitive pricing pressures. It is expected that the TRS division will continue to be a material contributor to the Company’s overall net income in 2013 and beyond. The Company cannot, however, currently predict a precise contribution from the TRS division going forward, as many of its pricing and potential revenue sharing arrangements for the upcoming first quarter 2013 tax season and beyond remain subject to discussions. Actual TRS division net income for 2012 and beyond will be impacted by a number of factors, including those factors disclosed from time to time in the Company’s filings with the SEC and set forth under Part I Item 1A “Risk Factors” of the Company’s 2011 Form 10-K.

For additional discussion regarding the Agreement, see the Company’s Form 8-K filed with the SEC on December 9, 2011, including Exhibits 10.1 and 10.2.

For additional discussion regarding TRS, a division of RPG, see the following sections:

Part I Item 1 “Financial Statements:”

- o Footnote 4 “Loans and Allowance for Loan Losses”

- Footnote 6 “Federal Home Loan Bank Advances”
- Footnote 11 “Segment Information”

RPS division:

Nationally, through RB, the RPS division is preparing to become an issuing bank to offer general purpose reloadable prepaid debit, payroll, gift and incentive cards through third party program managers. If successful, this program is expected to:

- Generate a low-cost deposit source;
- Generate float revenue from the previously mentioned low cost deposit source;
- Serve as a source of fee income; and
- Generate debit card interchange revenue.

For the projected near-term, as the prepaid card program is being established, the operating results of the RPS division are expected to be immaterial to the Company's overall results of operations and will be reported as part of the RPG business segment. The RPS division will not be reported as a separate business segment until such time, if any, that it becomes material.

The Company divides prepaid cards into two general categories: reloadable and non-reloadable cards.

Reloadable Cards: These types of cards are generally payroll or considered general purpose reloadable ("GPR") cards. Payroll cards are issued to an employee by an employer to receive the direct deposit of their payroll. GPR cards can also be issued to a consumer at a retail location or mailed to a consumer after completing an on-line application. GPR cards can be reloaded multiple times with a consumer's payroll, government benefit, a federal or state tax refund or through cash reload networks located at retail locations. Reloadable cards are generally open loop cards as described below.

Non-Reloadable Cards: These are generally one-time use cards that are only active until the funds initially loaded to the card are spent. These types of cards are gift or incentive cards. These cards may be open loop or closed loop. Normally these types of cards are used for purchase of goods or services at retail locations and cannot be used to receive cash.

These prepaid cards may be open loop, closed loop or semi-closed loop. Open loop cards can be used to receive cash at ATM locations or purchase goods or services by PIN or signature at retail locations. These cards can be used virtually anywhere that Visa® or MasterCard® is accepted. Closed loop cards can only be used at a specific merchant. Semi-closed loop cards can be used at several merchants such as a shopping mall.

The prepaid card market is one of the fastest growing segments of the payments industry in the U.S. This market has experienced significant growth in recent years due to consumers and merchants embracing improved technology, greater convenience, more product choices and greater flexibility. Prepaid cards have also proven to be an attractive alternative to traditional bank accounts for certain segments of the population, particularly those without, or who could not qualify for, a checking or savings account.

The RPS division will work with various third parties to distribute prepaid cards to consumers throughout the U.S. The Company will also likely work with these third parties to develop additional financial services for consumers to increase the functionality of the program and prepaid card usage.

Summary of New Significant Accounting Policies:

Purchased Credit Impaired Loans – Purchased credit impaired loans acquired in a business combination are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan losses. In determining the estimated fair value of these loans, management considers a number of factors including, the remaining life of the acquired loans, estimated prepayments, estimated future credit losses, estimated value of the underlying collateral, estimated holding periods and the net present value of the cash flows expected to be received. To the extent that any smaller dollar purchased credit impaired loan is not specifically reviewed, when evaluating the net present value of the future estimated cash flows, management applies a loss estimate to that loan based on the average expected loss rates for the loans that were individually reviewed in that loan portfolio, adjusted for other factors, as applicable.

For the TCB transaction, the Company elected to account for purchased credit impaired loans individually, as opposed to aggregating the loans into pools based on common risk characteristics such as loan type.

The non-accretable difference on purchased credit impaired loans represents the difference between the contractually required payments and the cash flows expected to be collected in accordance with management's determination of the day one fair values. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows will result in a reversal of the provision for loan losses to the extent of prior charges with any additional increases resulting in an adjustment to the accretable yield, which would have a positive impact in interest income.

The accretable difference on purchased credit impaired loans represents the difference between the expected cash flows and the net present value of expected cash flows. Such difference is accreted into earnings using the level-yield method over the expected cash flow periods of the loans. In determining the net present value of the expected cash flows, the Bank used discount rates depending on loan risk characteristics.

As provided for under GAAP, management has up to twelve months following the date of the acquisition to finalize the fair values of acquired assets and assumed liabilities. Material events that occur during the measurement period will be analyzed to determine if the new information reflected facts and circumstances that existed as of the acquisition date that if known, would have affected the measurement of fair value of the amounts recognized as of the acquisition date. The measurement period ends as soon as the Bank receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns more information is not obtainable. The measurement period is limited to one year from the acquisition date. Once management has finalized the fair values of acquired assets and assumed liabilities within this twelve month period, management considers such values to be the "day one fair values."

Management separately monitors the purchased credit impaired loan portfolio and on a quarterly basis reviews loans contained within this portfolio against the factors and assumptions used in determining the day one fair values. In addition to its quarterly evaluation, a loan is typically reviewed (i) when it is modified or extended, (ii) when material information becomes available to the Bank that provides additional insight regarding the loan's performance, the status of the borrower, or the quality or value of the underlying collateral, or (iii) in conjunction with the quarterly review of projected cash flows which include a substantial portion of the acquired loans.

Reclassifications and recasts – Certain amounts presented in prior periods have been reclassified to conform to the current period presentation. These reclassifications had no impact on prior years' net income. Additionally, as discussed above and in Footnote 2 "Bank Acquisition," during the second quarter of 2012 the Bank posted adjustments to the acquired assets for its FDIC-assisted acquisition in the determination of day one fair values.

2. BANK ACQUISITION

On January 27, 2012 (the "Acquisition Date"), RB&T assumed substantially all of the deposits and specific other liabilities and acquired specific assets of Tennessee Commerce Bank ("TCB"), headquartered in Franklin (Nashville MSA), Tennessee from the FDIC, as receiver for TCB, pursuant to the terms of a Purchase and Assumption Agreement — Whole Bank; All Deposits (the "P&A Agreement"), entered into among RB&T, the FDIC as receiver of TCB and the FDIC. On January 30, 2012, TCB's sole location re-opened as a division of RB&T. No capital was raised to complete this transaction, as the Company has grown capital through the retention of earnings.

RB&T has determined that the acquisition constitutes a business acquisition as defined by the FASB Accounting Standards Codification ("ASC") Topic 805, Business Combinations. Accordingly, the assets acquired and liabilities assumed are presented at their estimated fair values as required. Fair values were determined based on the requirements of ASC Topic 820, Fair Value Measurements and Disclosures. In many cases, the determination of these fair values required management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change.

RB&T acquired approximately $221 million in notional assets from the FDIC as receiver for TCB. In addition, RB&T also recorded a receivable from the FDIC for approximately $785 million, which represented the net difference between the assets acquired and the liabilities assumed adjusted for the discount RB&T received for the transaction. The FDIC paid approximately $771 million of this receivable on January 30, 2012 with the remaining $14 million paid on February 15, 2012.

Detail of the assets acquired and liabilities assumed as of the Acquisition Date follows:

	January 27, 2012			
	As Previously Reported		As Recasted	
(in thousands)	Contractual Amount	Fair Value Adjustments	Recast Adjustments	Fair Value
ASSETS				
Cash and cash equivalents	$61,943	$ (89)	$(102)	$61,752
Securities available for sale	42,646	-	-	42,646
Loans to be repurchased by the FDIC, net of discount	19,800	(2,797)	-	17,003
Loans	79,112	(22,666)	1,006	57,452
Federal Home Loan Bank stock, at cost	2,491	-	-	2,491
Other assets and accrued interest receivable	945	(60)	-	885
Other real estate owned	14,189	(3,359)	(1,000)	9,830
Core deposit intangible	-	64	-	64
Discount	(56,970)	56,970	-	-
FDIC settlement receivable	784,545	-	-	784,545
TOTAL ASSETS ACQUIRED	$948,701	$ 28,063	$(96)	$976,668
LIABILITIES				
Deposits				
Non interest-bearing	$19,754	$ -	$-	$19,754
Interest-bearing	927,641	54	-	927,695
Total deposits	947,395	54	-	947,449
Accrued income taxes payable	-	9,988	(35)	9,953
Other liabilities and accrued interest payable	1,306	110	-	1,416
TOTAL LIABILITIES ASSUMED	$948,701	$ 10,152	$(35)	$958,818
EQUITY				
Bargain purchase gain, net of taxes	-	17,911	(61)	17,850
Other operating loss, net of taxes	-	-	-	-
Accumulated other comprehensive loss	-	-	-	-
TOTAL LIABILITIES ASSUMED AND EQUITY	$948,701	$ 28,063	$(96)	$976,668

Information obtained subsequent to January 27, 2012 through July 26, 2012 was considered in forming estimates of cash flows and collateral values as of the Acquisition Date.

A summary of the net assets acquired from the FDIC and the estimated fair value adjustments as of the Acquisition Date follows:

	January 27, 2012		
(in thousands)	As Previously Reported	Recast Adjustments	As Recasted
Assets acquired, at contractual amount	$ 221,126	$ -	$ 221,126
Liabilities assumed, at contractual amount	(948,701)	-	(948,701)
Net liabilities assumed per the P&A Agreement	(727,575)	-	(727,575)
Contractual Discount	(56,970)	-	(56,970)
Net receivable from the FDIC	$ (784,545)	$ -	$ (784,545)
Fair value adjustments:			
Loans	$ (22,666)	$ 1,006	$ (21,660)
Discount for loans to be repurchased by the FDIC	(2,797)	-	(2,797)
Other real estate owned	(3,359)	(1,000)	(4,359)
Other assets and accrued interest receivable	(60)	-	(60)
Core deposit intangible	64	-	64
Deposits	(54)	-	(54)
All other	(199)	(102)	(301)
Total fair value adjustments	(29,071)	(96)	(29,167)
Discount	56,970	-	56,970
Bargain purchase gain, pre-tax	$ 27,899	$ (96)	$ 27,803

The assets acquired and liabilities assumed in the transaction are presented at estimated fair value on the Acquisition Date. These fair value estimates are considered preliminary, and are subject to change for up to one year after the closing date of the acquisition, as additional information relative to Acquisition Date fair values becomes available. More specifically, fair value adjustments for loans and other real estate owned may be made as market value data, such as appraisals, is received by the Bank. Due to the compressed due diligence period of a FDIC acquisition, the measurement period analysis of information that may be reflective of conditions existing as of the acquisition date generally extends longer within the one year measurement period compared to non-assisted transactions. The difference is attributable to the fact that FDIC assisted transactions are marketed for two to four weeks with on-site due diligence limited to two to three days while traditional non-assisted transactions generally have a three to six month due diligence and regulatory approval period prior to the acquisition. In addition, the tax treatment of FDIC assisted acquisitions is complex and subject to interpretations that may result in future adjustments of deferred taxes as of the Acquisition Date.

During the first quarter of 2012, the Company recorded an initial bargain purchase gain of $27.9 million as a result of the TCB acquisition. The bargain purchase gain was realized because the overall price paid by RB&T was substantially less than the fair value of the TCB assets acquired and liabilities assumed in the transaction. During the second quarter of 2012 the Bank posted adjustments to the acquired assets for its FDIC-assisted acquisition in the determination of day one fair values and recorded a slight decrease to the bargain purchase gain of $96,000, as additional information relative to the Acquisition Date fair values became available.

On the Acquisition Date, as part of the P&A Agreement, RB&T did not immediately acquire the TCB banking facility, including outstanding lease agreements and furniture, fixtures and equipment. Subsequent to the Acquisition Date, RB&T renegotiated a new lease with the landlord related to the sole banking facility and is in process of acquiring all data processing equipment and fixed assets totaling approximately $288,000.

The following is a description of the methods used to determine the fair values of significant assets and liabilities at Acquisition Date presented above.

Cash and Due from Banks and Interest-bearing Deposits in Banks – RB&T acquired $62 million in cash and cash equivalents. The carrying amount of these assets, adjusted for any cash items deemed uncollectible by management, was determined to be a reasonable estimate of fair value based on their short-term nature.

Investment Securities – RB&T acquired $43 million in securities at fair value. The majority of the securities acquired were subsequently sold during the first quarter of 2012 with RB&T realizing a net gain on the corresponding sales of approximately $56,000. Investment securities were acquired at their fair values from the FDIC. The fair values provided by the FDIC were reviewed and considered reasonable based on RB&T's understanding of the marketplace. Federal Home Loan Bank ("FHLB") stock was acquired at cost. It is not practicable to determine its fair value given restrictions on its marketability.

Loans – RB&T purchased approximately $99 million in loans with a fair value of approximately $74 million. The loans acquired by RB&T consist of residential real estate, commercial real estate, real estate construction, commercial and consumer loans. Subsequent to the Acquisition Date, the FDIC repurchased approximately $21 million of TCB loans at a price of par less the original discount that RB&T received when it purchased the loans on the Acquisition Date of $3 million.

Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and a discount rate reflecting current market rates for new originations of comparable loans adjusted for the risk inherent in the cash flow estimates.

Certain loans that were deemed to be collateral dependent were valued based on the fair value of the underlying collateral. These estimates were based on the most recently available real estate appraisals with certain adjustments made based on the type of property, age of appraisal, current status of the property and other related factors to estimate the current value of the collateral.

Overall, the contractual amount of the loans purchased in the TCB transaction reduced from $79 million as of January 27, 2012 to $52 million as of June 30, 2012. The carrying value of the loans purchased in the TCB transaction was $56 million as of March 31, 2012 compared to $39 million as of June 30, 2012.

The composition of acquired loans as of the Acquisition Date follows:

	January 27, 2012			
	As Previously Reported		As Recasted	
(in thousands)	Contractual Amount	Fair Value Adjustments	Recast Adjustments	Fair Value
Residential real estate	$ 22,693	$ (4,076)	$ 243	$ 18,860
Commercial real estate	18,646	(6,971)	2,074	13,749
Real estate construction	14,877	(2,681)	(1,837)	10,359
Commercial	13,224	(6,939)	418	6,703
Home equity	6,220	(606)	8	5,622
Consumer:				
Credit cards	608	(22)	-	586
Overdrafts	672	(621)	-	51
Other consumer	2,172	(750)	100	1,522
Total loans	$ 79,112	$ (22,666)	$ 1,006	$ 57,452

Loans purchased in the TCB acquisition are accounted for using one of the two following accounting standards:

ASC Topic 310-20, Non refundable Fees and Other Costs, is used to value loans that have not demonstrated post origination credit quality deterioration and the acquirer expects to collect all contractually required payments from the borrower. For these loans, the difference between the fair value of the loan at acquisition and the amortized cost of the loan would be amortized or accreted into income using the interest method.

ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, is used to value loans with post origination credit quality deterioration. For these loans, it is probable the acquirer will be unable to collect all contractually required payments from the borrower. Under ASC Topic 310-30, the expected cash flows that exceed the initial investment in the loan (fair value) represent the "accretable yield," which is recognized as interest income on a level-yield basis over the expected cash flow periods of the loans.

The following table presents the purchased loans that are included within the scope of ASC Topic 310-30 as of the Acquisition Date:

(in thousands)	January 27, 2012 As Previously Reported	June 30, 2012 Recast Adjustments	As Recasted
Contractually-required principal and interest payments	$ 52,278	$ -	$ 52,278
Non-accretable difference	(21,308)	903	(20,405)
Accretable yield	(425)	(105)	(530)
Fair value of loans	$ 30,545	$ 798	$ 31,343

Loans to be repurchased by the FDIC were valued at the contractual amount reduced by the applicable discount.

In addition to the loans acquired by RB&T as part of the Agreement, RB&T is required to service TCB loans retained by the FDIC. The balance of these loans totaled $491 million at June 30, 2012. RB&T shall service these loans on behalf of the FDIC for a period of one year from the Acquisition Date, unless they are sold or transferred at an earlier time by the FDIC. Also, as part of the Agreement, the FDIC will reimburse RB&T for servicing the loans based upon an agreed upon fee, which approximates the servicing costs. Since the FDIC is reimbursing RB&T for its approximate costs to service the loans, a servicing asset/liability was not recorded as of the Acquisition Date, nor is one expected to be recorded in the future.

Core Deposit Intangible – In its assumption of the deposit liabilities, RB&T believed that the customer relationships associated with these deposits had intangible value, although this value was anticipated to be modest given the nature of the deposit accounts and the anticipated rapid account run-off since realized. RB&T recorded a core deposit intangible asset of $64,000. This intangible asset represents the value of the relationships that TCB had with their deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to type of deposit, deposit retention, cost of the deposit base, and net maintenance cost attributable to customer deposits.

OREO – RB&T acquired $14 million in OREO related to the TCB acquisition, which was reduced by a $3 million fair value adjustment as of the Acquisition Date. During the second quarter of 2012, the Company posted a recast adjustment of $1 million to OREO to mark several properties to market based on appraisals received. OREO is presented at fair value, which is the estimated value that management expects to receive when the property is sold, net of related costs to sell. These estimates were based on the most recently available real estate appraisals, with certain adjustments made based on the type of property, age of appraisal, current status of the property and other related factors to estimate the current value of the property. Information obtained subsequent to January 27, 2012 through July 26, 2012 was considered in forming the estimates of the fair value of the OREO acquired.

Deposits – RB&T assumed $947 million in deposits at estimated fair value. As permitted by the FDIC, RB&T had the option to re-price the acquired deposit portfolios within seven days of the Acquisition Date. In addition, depositors had the option to withdraw funds without penalty. RB&T chose to re-price all of the acquired interest-bearing deposits, including transaction, time and brokered deposits. This re-pricing triggered time and brokered deposit run-off consistent with management's expectations. Through June 30, 2012, approximately 93% of the assumed interest bearing deposit account balances had exited RB&T, with no penalty on the applicable time and brokered deposits. At June 30, 2012, RB&T had $75 million of deposits remaining from the TCB acquisition. The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition, equal the amount payable on demand at the Acquisition Date. The fair values for time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered to the interest rates embedded on such time deposits. Information obtained subsequent to January 27, 2012 through July 26, 2012, was considered in forming estimates of cash flows for the deposit liabilities assumed as of the Acquisition Date.

The composition of deposits assumed at fair value as of the Acquisition Date follows:

	January 27, 2012			
(in thousands)	Contractual Amount	Fair Value Adjustments	Recast Adjustments	Fair Value
Non Interest Bearing	$ 19,754	$ -	$ -	$ 19,754
Demand (NOW)	3,190	-	-	3,190
Money market accounts	11,338	-	-	11,338
Savings	91,859	-	-	91,859
Individual retirement accounts*	33,063	-	-	33,063
Certificates of deposit*	369,251	14	-	369,265
Brokered deposits*	418,940	40	-	418,980
Total deposits	$ 947,395	$ 54	$ -	$ 947,449

* - denotes a time deposit

TCB Results of Operations

On the Acquisition Date, RB&T assumed substantially all of the deposits and specific other liabilities and acquired specific assets of TCB. A significant portion of the former TCB operations, including the majority of TCB's loan portfolio, were not retained by RB&T. Therefore, disclosure of supplemental pro forma financial information, especially prior period comparison is deemed neither practical nor meaningful given the troubled nature of TCB prior to the Acquisition Date. Additionally, the acquired operation was not considered significant, as defined by the rules of the Securities and Exchange Commission.

Results of operations for the TCB franchise included in the consolidated results follows:

(in thousands)	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
INTEREST INCOME:		
Loans, including fees	$ 885	$ 1,643
Taxable investment securities	194	443
Total interest income	1,079	2,086
INTEREST EXPENSE:		
Deposits	12	47
Total interest expense	12	47
NET INTEREST INCOME	1,067	2,039
Provision for loan losses	-	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	1,067	2,039
NON INTEREST INCOME:		
Service charges on deposit accounts	10	24
Bargain purchase gain	(96)	27,803
Gain on sale of securities available for sale	-	56
Other	471	626
Total non interest income	385	28,509
NON INTEREST EXPENSES:		
Salaries and employee benefits	1,015	2,009
Occupancy and equipment, net	378	586
Communication and transportation	95	160
Marketing and development	18	19
FDIC insurance expense	15	52
Data processing	301	607
Supplies	10	21
Other real estate owned expense	82	103

Other		338		780
Total non interest expenses		2,252		4,337
INCOME BEFORE INCOME TAX EXPENSE	$	(800	) $	26,211

RB&T has accrued acquisition and integration costs of approximately $1.4 million through June 30, 2012. Included in the total integration costs is $574,000 for estimated short-term retention bonuses for certain former TCB employees and short-term incentive bonuses for existing RB&T employees related to the successful branch consolidation and core system conversion completed in July 2012. In addition, the total also includes $574,000 for estimated professional and consulting fees, as well as $197,000 for a long-term incentive program for RB&T employees based upon a 2-year profitability target for the overall TCB operation.

Management believes that RB&T will achieve on-going direct operating expenses for the one-location TCB franchise that are more in-line with a normal banking center's operating costs subsequent to the July 13, 2012 system conversion.

3. INVESTMENT SECURITIES

Securities available for sale:

The gross 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, 2012 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$96,526	$864	$-	$97,390
Private label mortgage backed security	5,818	-	(1,239)	4,579
Mortgage backed securities - residential	247,791	7,199	-	254,990
Collateralized mortgage obligations	224,161	1,201	-	225,362
Total securities available for sale	$574,296	$9,264	$(1,239)	$582,321

December 31, 2011 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$152,085	$814	$(225)	$152,674
Private label mortgage backed security	5,818	-	(1,276)	4,542
Mortgage backed securities - residential	287,013	6,343	(27)	293,329
Collateralized mortgage obligations	194,663	1,281	(541)	195,403
Total securities available for sale	$639,579	$8,438	$(2,069)	$645,948

Mortgage backed Securities

At June 30, 2012, with the exception of the $4.6 million private label mortgage backed security, all other mortgage backed securities held by the Bank were issued by U.S. government-sponsored entities and agencies, primarily Federal Home Loan Mortgage Corporation ("Freddie Mac" or "FHLMC") and Fannie Mae ("FNMA"), institutions that the government has affirmed its commitment to support. At June 30, 2012 and December 31, 2011, there were gross unrealized/unrecognized losses of $0 and $568,000 related to available for sale and held to maturity mortgage backed securities other than the private label mortgage backed security. Because the decline in fair value of these mortgage backed securities is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these mortgage backed securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired.

As mentioned throughout this filing, the Bank's mortgage backed securities portfolio includes one private label mortgage backed security with a fair value of $4.6 million that had gross unrealized losses of approximately $1.2 million at June 30, 2012 and $1.3 million at December 31, 2011. As of June 30, 2012, the Bank believes there is no further credit loss component of OTTI in addition to that which has already been recorded. Additionally, the Bank does not have the intent to sell this security and it is likely that it will not be required to sell the security before its anticipated recovery.

19

Securities to be held to maturity:

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

June 30, 2012 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$4,223	$ 8	$ -	$4,231
Mortgage backed securities - residential	1,134	92	-	1,226
Collateralized mortgage obligations	20,412	418	-	20,830
Total securities to be held to maturity	$25,769	$ 518	$ -	$26,287

December 31, 2011 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$4,233	$ 18	$ (10)	$4,241
Mortgage backed securities - residential	1,376	101	-	1,477
Collateralized mortgage obligations	22,465	159	-	22,624
Total securities to be held to maturity	$28,074	$ 278	$ (10)	$28,342

During the six months ended June 30, 2012, the Bank recognized net securities gains in earnings for securities available for sale as follows:

The Bank sold six available for sale securities acquired in the TCB acquisition with an amortized cost of $35 million, resulting in a pre-tax gain of $53,000 during the first quarter of 2012.
The Bank realized $3,000 in pre-tax gains related to unamortized discount accretion on $10 million of callable U.S. Government agencies that were called during the first quarter of 2012 before their maturity.
There were no sales of securities available for sale during the second quarter of 2012.

During the six months ended June 30, 2011, the Bank recognized net securities gains in earnings for securities available for sale as follows:

During the second quarter of 2011, the Bank sold available for sale mortgage backed securities with an amortized cost of $132 million, resulting in a pre-tax gain of $1.9 million.

The tax provision related to the Bank’s realized gains totaled $20,000 and $667,000 for the six months ended June 30, 2012 and 2011, respectively.

See additional discussion regarding the TCB acquisition under Footnote 2 “Bank Acquisition” of Part I Item 1 “Financial Statements.”

The amortized cost and fair value of the investment securities portfolio by contractual maturity at June 30, 2012 follows. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are detailed separately.

June 30, 2012 (in thousands)	Securities available for sale Amortized Cost	Securities available for sale Fair Value	Securities held to maturity Carrying Value	Securities held to maturity Fair Value
Due in one year or less	$-	$-	$3,187	$3,188
Due from one year to five years	96,526	97,390	1,036	1,043
Due from five years to ten years	-	-	-	-
Due beyond ten years	-	-	-	-
Private label mortgage backed security	5,818	4,579	-	-
Mortgage backed securities - residential	247,791	254,990	1,134	1,226
Collateralized mortgage obligations	224,161	225,362	20,412	20,830
Total securities	$574,296	$582,321	$25,769	$26,287

At June 30, 2012 and December 31, 2011, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

Market Loss Analysis

Securities with unrealized losses at June 30, 2012 and December 31, 2011, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

June 30, 2012 (in thousands)	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or more Fair Value	12 months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
U.S. Treasury securities and U.S. Government agencies	$-	$ -	$-	$ -	$-	$ -
Private label mortgage backed security	-	-	4,579	(1,239)	4,579	(1,239)
Mortgage backed securities - residential, including Collateralized mortgage obligations	-	-	-	-	-	-
Total	$-	$ -	$4,579	$ (1,239)	$4,579	$ (1,239)

December 31, 2011 (in thousands)	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or more Fair Value	12 months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
U.S. Treasury securities and U.S. Government agencies	$60,547	$ (235)	$-	$ -	$60,547	$ (235)
Private label mortgage backed security	-	-	4,542	(1,276)	4,542	(1,276)
Mortgage backed securities - residential,						
	136,775	(568)	-	-	136,775	(568)

including Collateralized mortgage obligations						
Total	$197,322	$ (803)	$4,542	$ (1,276)	$201,864	$ (2,079)

At June 30, 2012, the Bank's security portfolio consisted of 155 securities, one of which was in an unrealized loss position. All of the unrealized losses at June 30, 2012 were related to the Bank's private label mortgage backed security, as discussed throughout this section of the filing.

Other-than-temporary impairment (“OTTI”)

Unrealized losses for all investment securities are reviewed to determine whether the losses are “other-than-temporary.” Investment securities are evaluated for OTTI 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 Bank evaluates a number of factors including, but not limited to:

- The length of time and the extent to which fair value has been less than the amortized cost basis;
- The Bank’s intent to hold until maturity or sell the debt security prior to maturity;
- An analysis of whether it is more likely than not that the Bank will be required to sell the debt security before its anticipated recovery;
- Adverse conditions specifically related to the security, an industry, or a geographic area;
- The historical and implied volatility of the fair value of the security;
- The payment structure of the security and the likelihood of the issuer being able to make payments;
- Failure of the issuer to make scheduled interest or principal payments;
- Any rating changes by a rating agency; and
- Recoveries or additional decline in fair value subsequent to the balance sheet date.

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 general lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized for the anticipated credit losses.

Nationally, residential real estate values have declined significantly since 2007. These declines in value, coupled with the reduced ability of certain 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 private label mortgage backed securities. The Bank owns one private label mortgage backed security with a total carrying value of $5.8 million at June 30, 2012. This security is mostly backed by “Alternative A” first lien mortgage loans and is backed with a insurance “wrap” or guarantee with an average life currently estimated at four years. Due to current market conditions, this asset remains extremely illiquid, and as such, the Bank determined it to be a Level 3 security in accordance with FASB ASC Topic 820, Fair Value Measurements and Disclosures. Based on this determination, the Bank utilized an income valuation model (present value model) approach, in determining the fair value of these securities. This approach is beneficial for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management’s best estimate is used. Management’s best estimate consists of both internal and external support for these investments. See Footnote 7, “Fair Value” for additional discussion.

Further deterioration in economic conditions could cause the Bank to record additional impairment charges related to credit losses of up to $5.8 million, which is the current gross amortized cost of the Bank’s one private label mortgage backed security.

Pledged Investment Securities

Investment 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, 2012	December 31, 2011
Carrying amount	$ 494,246	$ 613,927
Fair value	503,361	620,922

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the loan portfolio follows:

(in thousands)	June 30, 2012	December 31, 2011
Residential real estate:		
Owner occupied	$ 1,096,352	$ 985,735
Non owner occupied	86,864	99,161
Commercial real estate	647,431	639,966
Commercial real estate - purchased whole loans	33,222	32,741
Real estate construction	75,691	67,406
Commercial	128,207	119,117
Warehouse lines of credit	89,206	41,496
Home equity	260,371	280,235
Consumer:		
Credit cards	8,405	8,580
Overdrafts	623	950
Other consumer	14,022	9,908
Total loans	2,440,394	2,285,295
Less: Allowance for loan losses	22,510	24,063
Total loans, net	$ 2,417,884	$ 2,261,232

As discussed under Footnote 2 "Bank Acquisition," the above loan balances at June 30, 2012, contain $39 million related to the TCB acquisition.

Overall, the contractual amount of the loans purchased in the TCB transaction reduced from $79 million as of March 31, 2012 to $52 million as of June 30, 2012. The carrying value of the loans purchased in the TCB transaction was $56 million as of March 31, 2012 compared to $39 million as of June 30, 2012.

The composition of loans acquired in the TCB transaction outstanding at June 30, 2012 follows:

(in thousands)	June 30, 2012
Residential real estate	$ 14,670
Commercial real estate	8,682
Real estate construction	5,798
Commercial	2,811
Home equity	4,996
Consumer:	
Credit cards	515
Overdrafts	2
Other consumer	1,069
Total loans	$ 38,543

23

Credit Quality Indicators

Bank procedures for assessing and maintaining credit gradings differs slightly depending on whether a new or renewed loan is being underwritten, or whether an existing loan is being re-evaluated for potential credit quality concerns. The latter usually occurs upon receipt of updated financial information, or other pertinent data, that would potentially cause a change in the loan grade. Specific Bank procedures follow:

For new and renewed commercial and commercial real estate loans, the Bank's Commercial Credit Administration Department ("CCAD"), which acts independently of the loan officer, assigns the credit quality grade to the loan. Loan grades for new commercial and commercial real estate loans with an aggregate credit exposure of $1.5 million or greater are validated by the Senior Loan Committee ("SLC"). Loan grades for renewed commercial and commercial real estate loans with an aggregate credit exposure of $2 million or greater, are also validated by the SLC.

The SLC is chaired by the Chief Operating Officer of Commercial Banking ("COO") and includes the Bank's Chief Commercial Credit Officer ("CCCO") and is attended by the Bank's Chief Risk Management Officer ("CRMO").

Commercial loan officers are responsible for reviewing their loan portfolios and reporting any adverse material changes to the CCCO. When circumstances warrant a review and possible change in the credit quality grade, loan officers are required to notify the Bank's CCAD.

The COO meets monthly with commercial loan officers to discuss the status of past due loans and possible classified loans. These meetings are also designed to give the loan officers an opportunity to identify an existing loan that should be downgraded.

Monthly, members of senior management along with managers of Commercial Lending, CCAD, Special Assets and Retail Collections attend a Special Asset Committee ("SAC") meeting. The SAC reviews all commercial and commercial real estate past due, classified, and impaired loans in excess of $100,000 and discusses the relative trends and current status of these assets. In addition, the SAC reviews all retail residential real estate loans exceeding $750,000 and all home equity loans exceeding $100,000 that are 80-days or more past due or that are on non-accrual status. SAC also reviews the actions taken by management regarding foreclosure mitigation, loan extensions, troubled debt restructures and collateral repossessions. Based on the information reviewed in this meeting, the SAC approves all specific loan loss allocations to be recognized by the Bank within its Allowance for Loan Loss analysis.

On at least an annual basis, the Bank's internal loan review department analyzes all aggregate lending relationships with outstanding balances greater than $1 million that are internally classified as "Special Mention/Watch," "Substandard," "Doubtful" or "Loss." In addition, for all "Pass" rated loans, the Bank analyzes, on at least an annual basis, al aggregate lending relationships with outstanding balances exceeding $4 million.

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, public information, and current economic trends. The Bank also considers the fair value of the underlying collateral and the strength and willingness of the guarantor(s). The Bank analyzes loans individually and based on this analysis, establishes a credit risk rating. The Bank uses the following definitions for risk ratings:

Risk Grade 1 – Excellent (Pass): Loans fully secured by liquid collateral, such as certificates of deposit, reputable bank letters of credit, or other cash equivalents; loans fully secured by publicly traded marketable securities where there is no impediment to liquidation; or loans to any publicly held company with a current long-term debt rating of A or better.

Risk Grade 2 – Good (Pass): Loans to businesses that have strong financial statements containing an unqualified opinion from a Certified Public Accounting firm and at least three consecutive years of profits; loans supported by unaudited financial statements containing strong balance sheets, five consecutive years of profits, a five-year satisfactory relationship with the Bank, and key balance sheet and income statement trends that are either stable or positive; loans that are guaranteed or otherwise backed by the full faith and credit of the U.S. government or an agency thereof, such as the Small Business Administration; or loans to publicly held companies with current long-term debt ratings of Baa or better.

Risk Grade 3 – Satisfactory (Pass): Loans supported by financial statements (audited or unaudited) that indicate average or slightly below average risk and having some deficiency or vulnerability to changing economic conditions; loans with some weakness but offsetting features of other support are readily available; loans that are meeting the terms of repayment, but which may be susceptible to deterioration if adverse factors are encountered.

Loans may be graded Satisfactory when there is no recent information on which to base a current risk evaluation and the following conditions apply:

At inception, the loan was properly underwritten, did not possess an unwarranted level of credit risk, and the loan met the above criteria for a risk grade of Excellent, Good, or Satisfactory;

At inception, the loan was secured with collateral possessing a loan value within Loan Policy guidelines to protect the Bank from loss.

The loan has exhibited two or more years of satisfactory repayment with a reasonable reduction of the principal balance.

During the period that the loan has been outstanding, there has been no evidence of any credit weakness. Some examples of weakness include slow payment, lack of cooperation by the borrower, breach of loan covenants, or the borrower is in an industry known to be experiencing problems. If any of these credit weaknesses is observed, a lower risk grade may be warranted.

Risk Grade 4 – Satisfactory/Monitored (Pass): Loans in this category are considered to be of acceptable credit quality, but contain greater credit risk than Satisfactory loans due to weak balance sheets, marginal earnings or cash flow, or other uncertainties. These loans warrant a higher than average level of monitoring to ensure that weaknesses do not advance. The level of risk in a Satisfactory/Monitored loan is within acceptable underwriting guidelines so long as the loan is given the proper level of management supervision.

Risk Grade 5 – Special Mention/Watch: Loans that possess some credit deficiency or potential weakness that deserves close attention. Such loans pose an unwarranted financial risk that, if not corrected, could weaken the loan by adversely impacting the future repayment ability of the borrower. The key distinctions of a Special Mention/Watch classification are that (1) it is indicative of an unwarranted level of risk and (2) credit weaknesses are not defined impairments to the primary source of repayment and are consider potential.

Risk Grade 6 – Substandard: One or more of the following characteristics may be exhibited in loans classified Substandard:

Loans that possess a defined credit weakness. The likelihood that a loan will be paid from the primary source of repayment is uncertain. Financial deterioration is under way and very close attention is warranted to ensure that the loan is collected without loss.

Loans are inadequately protected by the current net worth and paying capacity of the obligor.

The primary source of repayment is gone, and the Bank is forced to rely on a secondary source of repayment, such as collateral liquidation or guarantees.

Loans have a distinct possibility that the Bank will sustain some loss if deficiencies are not corrected.

Unusual courses of action are needed to maintain a high probability of repayment.

The borrower is not generating enough cash flow to repay loan principal, however, it continues to make interest payments.

The Bank is forced into a subordinated or unsecured position due to flaws in documentation.

Loans have been restructured so that payment schedules, terms and collateral represent concessions to the borrower when compared to the normal loan terms.

The Bank is seriously contemplating foreclosure or legal action due to the apparent deterioration in the loan.

There is significant deterioration in market conditions to which the borrower is highly vulnerable.

Risk Grade 7 – Doubtful: One or more of the following characteristics may be present in loans classified Doubtful:

Loans have all of the weaknesses of those classified as Substandard. However, based on existing conditions, these weaknesses make full collection of principal highly improbable.

The primary source of repayment is gone, and there is considerable doubt as to the quality of the secondary source of repayment.

The possibility of loss is high but because of certain important pending factors which may strengthen the loan, loss classification is deferred until the exact status of repayment is known.

Risk Grade 8 – Loss: Loans are considered uncollectible and of such little value that continuing to carry them as assets is not feasible. Loans will be classified Loss when it is neither practical nor desirable to defer writing off or reserving all or a portion of a basically worthless asset, even though partial recovery may be possible at some time in the future. These loans will be either written off or a specific valuation allowance established.

For all real estate and consumer loans that do not meet the scope above, the Bank uses a grading system based on delinquency. Loans that are 80 days or more past due, on non-accrual, or are troubled debt restructurings are graded “Substandard.” Occasionally a real estate loan below scope may be graded as “Special Mention/Watch” or “Substandard” if the loan is cross collateralized with a classified commercial or commercial real estate loan.

Based on the Bank's most recent analysis performed, the risk category of loans by class of loans follows:

June 30, 2012 (in thousands)	Pass	Special Mention / Watch	Substandard	Doubtful / Loss	Total Rated Loans
Residential real estate:					
Owner occupied	$ -	$ 6,421	$ 11,291	$ 110	$ 17,822
Non owner occupied	-	6,414	2,525	-	8,939
Commercial real estate	595,117	34,991	17,323	-	647,431
Commercial real estate - Purchased whole loans	33,222	-	-	-	33,222
Real estate construction	69,867	975	4,849	-	75,691
Commercial	124,653	3,112	442	-	128,207
Warehouse lines of credit	89,206	-	-	-	89,206
Home equity	-	204	3,011	121	3,336
Consumer:					
Credit cards	-	-	-	-	-
Overdrafts	-	-	-	-	-
Other consumer	-	255	57	-	312
Total	$ 912,065	$ 52,372	$ 39,498	$ 231	$ 1,004,166

Approximately $16 million and $7 million of loans acquired from the TCB acquisition were classified above as Special Mention/Watch and Substandard, respectively, at June 30, 2012. Because acquired loans are recorded at their estimated fair values at the Acquisition Date, an allowance for loan losses is not carried over or recorded for acquired loans as of the Acquisition Date. See additional discussion regarding the TCB acquisition under Footnote 2 "Bank Acquisition" of Part I Item 1 "Financial Statements."

December 31, 2011 (in thousands)	Pass	Special Mention / Watch	Substandard	Doubtful / Loss	Total Rated Loans
Residential real estate:					
Owner occupied	$ -	$ 1,180	$ 14,002	$ -	$ 15,182
Non owner occupied	-	2,470	2,295	-	4,765
Commercial real estate	600,338	27,158	12,470	-	639,966
Commercial real estate - Purchased whole loans	32,741	-	-	-	32,741
Real estate construction	54,963	2,353	10,090	-	67,406
Commercial	116,450	2,294	373	-	119,117
Warehouse lines of credit	41,496	-	-	-	41,496
Home equity	-	-	3,856	-	3,856
Consumer:					
Credit cards	-	-	-	-	-
Overdrafts	-	-	-	-	-
Other consumer	-	-	2	-	2
Total	$ 845,988	$ 35,455	$ 43,088	$ -	$ 924,531

27

Allowance for Loan Losses

Activity in the allowance for loan losses follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2012	2011	2012	2011
Allowance for loan losses at beginning of period	$ 23,732	$ 29,144	$ 24,063	$ 23,079
Charge offs - Traditional Banking	(1,957)	(1,493)	(6,224)	(3,167)
Charge offs - Refund Anticipation Loans	(343)	(2,037)	(11,097)	(15,478)
Total charge offs	(2,300)	(3,530)	(17,321)	(18,645)
Recoveries - Traditional Banking	274	566	709	1,112
Recoveries - Refund Anticipation Loans	338	190	3,423	2,742
Total recoveries	612	756	4,132	3,854
Net loan charge offs - Traditional Banking	(1,683)	(927)	(5,515)	(2,055)
Net loan charge offs - Refund Anticipation Loans	(5)	(1,847)	(7,674)	(12,736)
Net loan charge offs	(1,688)	(2,774)	(13,189)	(14,791)
Provision for loan losses - Traditional Banking	831	585	3,962	4,907
Provision for loan losses - Refund Anticipation Loans	(365)	(1,024)	7,674	12,736
Total provision for loan losses	466	(439)	11,636	17,643
Allowance for loan losses at end of period	$ 22,510	$ 25,931	$ 22,510	$ 25,931

The Bank’s allowance calculation has historically included specific allowance allocations for qualitative factors such as:

- Concentrations of credit;
- Nature, volume and seasoning of particular loan portfolios;
- Experience, ability and depth of lending staff;
- Effects of any changes in risk selection and underwriting standards, and other changes in lending policies, procedures and practices;
- Trends that could impact collateral values;
- Expectations regarding business cycles;
- Credit quality trends (including trends in classified, past due and nonperforming loans);
- Competition, legal and regulatory requirements;
- General national and local economic and business conditions;
- Offering of new loan products; and
- Expansion into new markets

Prior to January 1, 2012, the Bank's allowance for loan losses calculation was supported with qualitative factors, as described above, which contributed to a nominal "unallocated" component that totaled $1.9 million as of December 31, 2011. The Bank believes that historically the "unallocated" allowance properly reflected estimated credit losses determined in accordance with GAAP. The unallocated allowance was primarily related to RB&T's loan portfolio, which is highly concentrated in the Kentucky and Southern Indiana real estate markets. These markets have remained relatively stable during the current economic downturn, as compared to other parts of the U.S.. With the Bank's recent expansion into the Nashville MSA, Tennessee market, its plans to pursue future acquisitions into potentially new markets through FDIC-assisted transactions and its offering of new loan products, such as mortgage warehouse lines of credit, the Bank elected to revise its methodology to provide a more detailed calculation when estimating the impact of qualitative factors over the Bank's various loan categories.

In executing this methodology change, the Bank primarily focused on large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment and are generally not included in the scope of ASC Topic 310-10-35 Accounting by Creditors for Impairment of a Loan. These portfolios are typically not graded and not subject to annual review. Such groups of loans include:

Residential real estate – Owner Occupied
Residential real estate – Non Owner Occupied
Home Equity
Consumer
Overdrafts
Credit Cards

See the table below for the quantification of the unallocated allowance methodology change among the loan segments. This methodology change had no impact on the Bank's net provision for loan losses for the three and six months ended June 30, 2012.

The following tables present the activity in the allowance for loan losses by portfolio class for the six months ended June 30, 2012 and 2011:

Six Months Ended June 30, 2012 (in thousands)	Residential Real Estate Owner Occupied	Residential Real Estate Non Owner Occupied	Commercial Real Estate	Commercial Real Estate - Purchased Whole Loans	Real Estate Construction	Commercial	Warehouse Lines of Credit
Beginning balance	$5,212	$ 1,142	$7,724	$ -	$ 3,042	$ 1,025	$104
Allocation of previously unallocated allowance	1,117	146	47	-	-	-	-
Provision for loan losses	2,046	(367)	770	40	1,796	(433)	119
Loans charged off	(2,074)	(298)	(316)	-	(1,796)	(7)	-
Recoveries	151	12	46	-	55	18	-
Ending balance	$6,452	$ 635	$8,271	$ 40	$ 3,097	$ 603	$223

(continued)	Home Equity	Refund Anticipation Loans	Credit Cards	Consumer Overdrafts	Other Consumer	Unallocated	Total
Beginning balance	$2,984	$ -	$503	$ 135	$ 227	$ 1,965	$24,063
Allocation of previously unallocated allowance	536	-	47	17	55	(1,965)	-
Provision for loan losses	424	7,674	(304)	(40)	(89)	-	11,636
Loans charged off	(1,314)	(11,097)	(78)	(218)	(123)	-	(17,321)
Recoveries	61	3,423	24	231	111	-	4,132
Ending balance	$2,691	$ -	$192	$ 125	$ 181	$ -	$22,510

Six Months Ended June 30, 2011 (in thousands)	Residential Real Estate Owner Occupied	Residential Real Estate Non Owner Occupied	Commercial Real Estate	Commercial Real Estate - Purchased Whole Loans	Real Estate Construction	Commercial	Warehouse Lines of Credit
Beginning balance	$ 3,775	$ 1,507	$ 7,214	$ -	$ 2,612	$ 1,347	$ -
Provision for loan losses	2,303	(127)	1,716	-	1,239	(226)	15

Loans charged off	(1,079)	(55)	(719)	-	(53)	(100)	-
Recoveries	114	3	242	-	105	119	-
Ending balance	$ 5,113	$ 1,328	$ 8,453	$ -	$ 3,903	$ 1,140	$ 15

(continued)	Home Equity	Refund Anticipation Loans	Credit Cards	Consumer Overdrafts	Other Consumer	Unallocated	Total
Beginning balance	$ 3,581	$ -	$ 492	$ 125	$ 461	$ 1,965	$ 23,079
Provision for loan losses	29	12,736	65	72	(179)	-	17,643
Loans charged off	(624)	(15,478)	(103)	(288)	(146)	-	(18,645)
Recoveries	76	2,742	17	298	138	-	3,854
Ending balance	$ 3,062	$ -	$ 471	$ 207	$ 274	$ 1,965	$ 25,931

Non-performing Loans and Non-performing Assets

Detail of non-performing loans and non-performing assets follows:

(in thousands)	June 30, 2012		December 31, 2011	
Loans on non-accrual status(1)	$ 22,578		$ 23,306	
Loans past due 90 days or more and still on accrual	-		-	
Total non-performing loans	22,578		23,306	
Other real estate owned	18,345		10,956	
Total non-performing assets	$ 40,923		$ 34,262	
Total Company Credit Quality Ratios:				
Non-performing loans to total loans	0.93	%	1.02	%
Non-performing assets to total loans (including OREO)	1.66	%	1.49	%
Non-performing assets to total assets	1.25	%	1.00	%
Traditional Banking Credit Quality Ratios:				
Non-performing loans to total loans	0.93	%	1.02	%
Non-performing assets to total loans (including OREO)	1.66	%	1.49	%
Non-performing assets to total assets	1.26	%	1.10	%

(1) Loans on non-accrual status include impaired loans.

The OREO balance at June 30, 2012 includes $3 million related to the TCB acquisition. See additional discussion regarding the TCB acquisition under Footnote 2 “Bank Acquisition” of Part I Item 1 “Financial Statements.”

The following table presents the recorded investment in non-accrual loans and loans past due over 90 days still on accrual by class of loans:

	Non-Accrual Loans		Loans Past Due 90 Days or More and Still Accruing Interest	
in thousands)	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Residential real estate:				
Owner occupied	$ 12,398	$ 12,183	$ -	$ -
Non owner occupied	864	1,565	-	-
Commercial real estate	2,284	3,032	-	-
Commercial real estate - purchased whole loans	-	-	-	-
Real estate construction	3,912	2,521	-	-
Commercial	351	373	-	-
Warehouse lines of credit	-	-	-	-
Home equity	2,677	3,603	-	-

Consumer:				
Credit cards	-	-	-	-
Overdrafts	-	-	-	-
Other consumer	92	29	-	-
Total	$22,578	$23,306	$-	$-

Non-accrual loans and loans past due 90-days-or-more and still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Non-accrual loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and held current for six consecutive months and future payments are reasonably assured. Non-accrual troubled debt restructurings ("TDRs") are reviewed for return to accrual status on an individual basis, with additional consideration given to the modification terms.

Delinquent Loans

The following tables present the aging of the recorded investment in past due loans by class of loans:

June 30, 2012 (in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due *	Total Loans Past Due	Total Loans Not Past Due	Total Loans
Residential real estate:						
Owner occupied	$2,397	$685	$6,459	$9,541	$1,086,811	$1,096,352
Non owner occupied	360	137	569	1,066	85,798	86,864
Commercial real estate	708	111	1,655	2,474	644,957	647,431
Commercial real estate - purchased whole loans	-	-	-	-	33,222	33,222
Real estate construction	-	-	1,688	1,688	74,003	75,691
Commercial	-	18	77	95	128,112	128,207
Warehouse lines of credit	-	-	-	-	89,206	89,206
Home equity	909	135	1,802	2,846	257,525	260,371
Consumer:						
Credit cards	98	16	-	114	8,291	8,405
Overdrafts	86	-	-	86	537	623
Other consumer	160	50	-	210	13,812	14,022
Total past due loans	$4,718	$1,152	$12,250	$18,120	$2,422,274	$2,440,394

The Bank had $39 million in loans outstanding related to the TCB acquisition at June 30, 2012, with approximately $672,000 of these loans past due 30 or more days. See additional discussion regarding the TCB acquisition under Footnote 2 “Bank Acquisition” of Part I Item 1 “Financial Statements.”

December 31, 2011 (in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due *	Total Loans Past Due	Total Loans Not Past Due	Total Loans
Residential real estate:						
Owner occupied	$4,275	$1,850	$7,083	$13,208	$972,527	$985,735
Non owner occupied	51	71	969	1,091	98,070	99,161
Commercial real estate	2,094	-	3,032	5,126	634,840	639,966
Commercial real estate - purchased whole loans	-	-	-	-	32,741	32,741
Real estate construction	-	-	541	541	66,865	67,406
Commercial	-	16	89	105	119,012	119,117
Warehouse lines of credit	-	-	-	-	41,496	41,496
Home equity	582	773	2,686	4,041	276,194	280,235
Consumer:						

Credit cards	40	13	-	53	8,527	8,580
Overdrafts	129	-	-	129	821	950
Other consumer	60	79	-	139	9,769	9,908
Total past due loans	$7,231	$2,802	$14,400	$24,433	$2,260,862	$2,285,295

* - All loans greater than 90 days past due or more as of June 30, 2012 and December 31, 2011 were on non-accrual status.

32

Impaired Loans

The Bank defines impaired loans as follows:

- All loans internally classified as "Substandard," "Doubtful" or "Loss;"
- All loans internally classified as "Special Mention/Watch" on non-accrual status,
- All retail and commercial TDRs;
- Purchased credit impaired loans whereby current projected cash flows have deteriorated since acquisition, or cash flows cannot be reasonably estimated in terms of timing and amounts; and
- Any other situation where the collection of total amount due for a loan is improbable or otherwise meets the definition of impaired.

See the section titled "Credit Quality Indicators" in this section of the document for additional discussion regarding the Bank's loan classification structure.

Information regarding the Bank's impaired loans follows:

(in thousands)		June 30, 2012		December 31, 2011
Loans with no allocated allowance for loan losses	$	45,874	$	32,171
Loans with allocated allowance for loan losses		46,335		45,022
Total impaired loans	$	92,209	$	77,193
Amount of the allowance for loan losses allocated	$	5,842	$	7,086

Approximately $11 million in impaired loans were added during the first six months of 2012 in connection with the TCB acquisition. Substantially all of these loans became classified as "impaired" through a modification of the original loan, which the Bank deemed to be a TDR. See additional discussion regarding the TCB acquisition under Footnote 2 "Bank Acquisition" of Part I Item 1 "Financial Statements."

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio class based on impairment method as of June 30, 2012 and December 31, 2011:

June 30, 2012 (in thousands)	Residential Real Estate Owner Occupied	Residential Real Estate Non Owner Occupied	Commercial Real Estate	Commercial Real Estate - Purchased Whole Loans	Real Estate Construction	Commercial	Warehouse Lines of Credit
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 1,022	$ 341	$ 2,144	$ -	$ 1,629	$ 277	$ -
Collectively evaluated for impairment	5,430	294	6,127	40	1,468	326	223
Acquired with deteriorated credit quality	-	-	-	-	-	-	-
Total ending allowance for loan losses	$ 6,452	$ 635	$ 8,271	$ 40	$ 3,097	$ 603	$ 223
Loans:							
Impaired loans individually evaluated	$ 32,358	$ 3,461	$ 39,184	$ -	$ 9,625	$ 4,663	$ -
Loans collectively evaluated for impairment	1,063,994	83,403	608,247	33,222	66,066	123,544	89,206
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Total ending loan balance	$ 1,096,352	$ 86,864	$ 647,431	$ 33,222	$ 75,691	$ 128,207	$ 89,206

(continued)	Home Equity	Consumer Credit Cards	Overdrafts	Other Consumer	Total

Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 429	$ -	$ -	$ -	$ 5,842
Collectively evaluated for impairment	2,262	192	125	181	16,668
Acquired with deteriorated credit quality	-	-	-	-	-
Total ending allowance for loan losses	$ 2,691	$ 192	$ 125	$ 181	$ 22,510
Loans:					
Impaired loans individually evaluated	$ 2,857	$ -	$ -	$ 61	$ 92,209
Loans collectively evaluated for impairment	257,514	8,405	623	13,961	2,348,185
Loans acquired with deteriorated credit quality	-	-	-	-	-
Total ending loan balance	$ 260,371	$ 8,405	$ 623	$ 14,022	$ 2,440,394

December 31, 2011 (in thousands)	Residential Real Estate Owner Occupied	Non Owner Occupied	Commercial Real Estate	Commercial Real Estate - Purchased Whole Loans	Real Estate Construction	Commercial	Warehouse Lines of Credit
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 1,350	$ 437	$ 1,782	$ -	$ 2,298	$ 237	$ -
Collectively evaluated for impairment	3,862	705	5,942	-	744	788	104
Total ending allowance for loan losses	$ 5,212	$ 1,142	$ 7,724	$ -	$ 3,042	$ 1,025	$ 104
Loans:							
Impaired loans individually evaluated	$ 25,803	$ 2,777	$ 28,046	$ -	$ 12,968	$ 4,492	$ -
Loans collectively evaluated for impairment	959,932	96,384	611,920	32,741	54,438	114,625	41,496
Total ending loan balance	$ 985,735	$ 99,161	$ 639,966	$ 32,741	$ 67,406	$ 119,117	$ 41,496

(continued)	Home Equity	Consumer Credit Cards	Overdrafts	Other Consumer	Unallocated	Total
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 982	$ -	$ -	$ -	$ -	$ 7,086
Collectively evaluated for						

impairment	2,002	503	135	227	1,965	16,977
Total ending allowance for loan losses	$ 2,984	$ 503	$ 135	$ 227	$ 1,965	$ 24,063
Loans:						
Impaired loans individually evaluated	$ 3,107	$ -	$ -	$ -	$ -	$ 77,193
Loans collectively evaluated for impairment	277,128	8,580	950	9,908	-	2,208,102
Total ending loan balance	$ 280,235	$ 8,580	$ 950	$ 9,908	$ -	$ 2,285,295

The following tables present loans individually evaluated for impairment by class of loans as of June 30, 2012 and December 31, 2011. The difference between the "Unpaid Principal Balance" and "Recorded Investment" columns represents life-to-date partial write downs/charge offs taken on individual impaired credits.

				Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
June 30, 2012 (in thousands)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:							
Residential real estate:							
Owner occupied	$ 25,621	$ 25,618	$ -	$ 24,800	$ 23	$ 21,775	$ 23
Non owner occupied	1,636	1,636	-	1,636	37	967	37
Commercial real estate	11,575	11,575	-	10,486	545	6,854	574
Commercial real estate - purchased whole loans	-	-	-	-	-	-	-
Real estate construction	3,480	3,480	-	3,827	72	2,746	72
Commercial	2,109	2,109	-	2,208	69	1,910	69
Warehouse lines of credit	-	-	-	-	-	-	-
Home equity	1,395	1,395	-	859	4	726	4
Consumer:							
Credit cards	-	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-	-
Other consumer	61	61	-	63	-	31	-
Impaired loans with an allowance recorded:							
Residential real estate:							
Owner occupied	6,804	6,740	1,022	5,829	43	4,805	244
Non owner occupied	1,828	1,825	341	1,916	35	2,040	49
Commercial real estate	28,017	27,609	2,144	27,610	217	23,497	318
Commercial real estate - purchased whole loans	-	-	-	-	-	-	-
Real estate construction	7,711	6,145	1,629	4,953	-	7,496	-
Commercial	2,554	2,554	277	2,494	22	2,619	45
Warehouse lines of credit	-	-	-	-	-	-	-
Home equity	1,462	1,462	429	1,582	11	1,898	11
Consumer:							
Credit cards	-	-	-	-	-	-	-

Overdrafts	-	-	-	-	-	-	-
Other consumer	-	-	-	-	-	-	-
Total impaired loans	94,253	92,209	5,842	88,263	1,078	77,364	1,446

December 31, 2011 (in thousands)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Twelve Months Ended December 31, 2011 Average Recorded Investment	Twelve Months Ended December 31, 2011 Interest Income Recognized
Impaired loans with no related allowance recorded:					
Residential real estate:					
Owner occupied	$21,033	$21,033	$-	$15,272	$296
Non owner occupied	757	329	-	312	-
Commercial real estate	5,468	5,468	-	3,735	84
Commercial real estate - purchased whole loans	-	-	-	-	-
Real estate construction	2,824	2,625	-	1,589	72
Commercial	2,011	2,011	-	1,413	4
Warehouse lines of credit	-	-	-	-	-
Home equity	841	705	-	492	16
Consumer:					
Credit cards	-	-	-	-	-
Overdrafts	-	-	-	-	-
Other consumer	-	-	-	-	-
Impaired loans with an allowance recorded:					
Residential real estate:					
Owner occupied	4,864	4,770	1,350	3,137	22
Non owner occupied	2,451	2,448	437	1,983	52
Commercial real estate	23,052	22,578	1,782	17,916	723
Commercial real estate - purchased whole loans	-	-	-	-	-
Real estate construction	11,323	10,343	2,298	9,291	179
Commercial	2,481	2,481	237	3,137	16
Warehouse lines of credit	-	-	-	-	-
Home equity	2,402	2,402	982	1,434	-
Consumer:					
Credit cards	-	-	-	-	-
Overdrafts	-	-	-	-	-
Other consumer	-	-	-	-	-
Total impaired loans	79,507	77,193	7,086	59,711	1,464

Troubled Debt Restructurings

A TDR is the situation where the Bank grants a concession to the borrower that the Bank would not otherwise have considered due to a borrower's financial difficulties. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank's internal underwriting policy.

All TDRs are considered "Impaired" loans. The substantial majority of the Bank's residential real estate TDRs involve reducing the client's loan payment through a rate reduction for a set period of time based on the borrower's ability to service the modified loan payment. The majority of the Bank's commercial related and construction TDRs involve a restructuring of loan terms such as a reduction in the payment amount to require only interest and escrow (if required) and/or extending the maturity date of the loan.

Management determines whether to classify a TDR as non-performing based on its accrual status prior to modification. Non-accrual loans modified as TDRs remain on non-accrual status and continue to be reported as non-performing loans. Accruing loans modified as TDRs are evaluated for non-accrual status based on a current evaluation of the borrower's financial condition and ability and willingness to service the modified debt. At June 30, 2012 and December 31, 2011, $11 million and $6 million of TDRs were classified as non-performing loans.

Detail of TDRs differentiated by loan type and accrual status follows:

June 30, 2012 (in thousands)	Troubled Debt Restructurings on Non-Accrual Status	Troubled Debt Restructurings on Accrual Status	Total Troubled Debt Restructurings
Residential real estate	$4,934	$26,513	$31,447
Commercial real estate	2,172	33,278	35,450
Real estate construction	3,449	3,689	7,138
Commercial	249	4,396	4,645
Total troubled debt restructurings	$10,804	$67,876	$78,680

Approximately $8 million in TDRs were added during the first six months of 2012 in connection with the TCB acquisition. See additional discussion regarding the TCB acquisition under Footnote 2 "Bank Acquisition" of Part I Item 1 "Financial Statements."

December 31, 2011 (in thousands)	Troubled Debt Restructurings on Non-Accrual Status	Troubled Debt Restructurings on Accrual Status	Total Troubled Debt Restructurings
Residential real estate	$2,573	$24,557	$27,130
Commercial real estate	1,294	22,246	23,540
Real estate construction	2,521	9,598	12,119
Commercial	-	4,233	4,233

Total troubled debt restructurings	$6,388	$60,634	$67,022

The Bank considers a TDR to be performing to its modified terms if the loan is not past due 30 days or more as of the reporting date.

A summary of the types of TDR loan modifications outstanding and respective performance under modified terms at June 30, 2012 and December 31, 2011 follows:

June 30, 2012 (in thousands)	Troubled Debt Restructurings Performing to Modified Terms	Troubled Debt Restructurings Not Performing to Modified Terms	Total Troubled Debt Restructurings
Residential real estate loans (including home equity loans):			
Interest only payments for 6-24 months	$ 1,751	$ 1,103	$ 2,854
Rate reduction	18,846	1,009	19,855
Forbearance for 3-6 months	2,377	342	2,719
First modification extension	1,151	-	1,151
Subsequent modification extension	4,396	472	4,868
Total residential TDRs	28,521	2,926	31,447
Commercial related and construction loans:			
Interest only payments for 6-24 months	9,936	1,415	11,351
Rate reduction	7,796	-	7,796
Forbearance for 3-6 months	752	271	1,023
First modification extension	12,785	855	13,640
Subsequent modification extension	11,903	1,520	13,423
Total commercial TDRs	43,172	4,061	47,233
Total troubled debt restructurings	$ 71,693	$ 6,987	$ 78,680

December 31, 2011 (in thousands)	Troubled Debt Restructurings Performing to Modified Terms	Troubled Debt Restructurings Not Performing to Modified Terms	Total Troubled Debt Restructurings
Residential real estate loans (including home equity loans):			
Interest only payments for 6-24 months	$ 5,990	$ 373	$ 6,363
Rate reduction	13,037	2,690	15,727
Forbearance for 3-6 months	-	-	-
First modification extension	849	728	1,577
Subsequent modification extension	3,358	105	3,463
Total residential TDRs	23,234	3,896	27,130
Commercial related and construction loans:			
Interest only payments for 6-24 months	9,643	1,752	11,395
Rate reduction	1,221	624	1,845
Forbearance for 3-6 months	160	855	1,015
First modification extension	15,526	541	16,067
Subsequent modification extension	9,535	35	9,570

Total commercial TDRs	36,085	3,807	39,892
Total troubled debt restructurings	$ 59,319	$ 7,703	$ 67,022

As of June 30, 2012 and December 31, 2011, 91% and 89% of the Bank's TDRs were performing according to their modified terms. The Bank had provided $5 million and $5 million of specific reserve allocations to customers whose loan terms have been modified in TDRs as of June 30, 2012 and December 31, 2011. Specific reserve allocations are generally assessed prior to loans being modified as a TDR, as most of these loans migrate from the Bank's internal watch list and have been specifically provided for or reserved for as part of the Bank's normal loan loss provisioning methodology. The Bank has not committed to lend any additional material amounts to its existing TDR relationships at June 30, 2012.

A summary of the types of TDR loan modifications that occurred during the six months ended June 30, 2012 follows:

June 30, 2012 (in thousands)	Troubled Debt Restructurings Performing to Modified Terms	Troubled Debt Restructurings Not Performing to Modified Terms	Total Troubled Debt Restructurings
Residential real estate loans (including home equity loans):			
Interest only payments for 6-24 months	$ 624	$ -	$ 624
Rate reduction	5,267	82	5,349
Forbearance for 3-6 months	2,377	342	2,719
First modification extension	427	-	427
Subsequent modification extension	1,081	472	1,553
Total residential TDRs	9,776	896	10,672
Commercial related and construction loans:			
Interest only payments for 6 - 12 months	4,125	886	5,011
Rate reduction	2,519	-	2,519
Forbearance for 3-6 months	596	-	596
First modification extension	10,563	1,146	11,709
Subsequent modification extension	7,327	-	7,327
Total commercial TDRs	25,130	2,032	27,162
Total troubled debt restructurings	$ 34,906	$ 2,928	$ 37,834

As of June 30, 2012, 92% of the Bank's TDRs that occurred during 2012 were performing according to their modified terms. The Bank provided $3 million in specific reserve allocations to customers whose loan terms were modified in TDRs during 2012. As stated above, specific reserves are generally assessed prior to loans being modified as a TDR, as most of these loans migrate from the Bank's internal watch list and have been specifically reserved for as part of the Bank's normal reserving methodology.

There was no change between the pre and post modification loan balances at June 30, 2012 and December 31, 2011.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification:

Troubled Debt Restructurings That Subsequently Defaulted: ($'s in thousands)	Number of Loans		Recorded Investment
Residential real estate:			
Owner occupied	10	$	1,943
Non owner occupied	2		256
Commercial real estate	5		1,686
Commercial real estate - purchased whole loans	-		-
Real estate construction	-		-
Commercial	-		-
Warehouse lines of credit	-		-
Home equity	1		41
Consumer:			
Credit cards	-		-
Overdrafts	-		-
Other consumer	-		-
Total	18	$	3,926

Refund Anticipation Loans

RAL Loss Reserves and Provision for Loan Losses:

Substantially all RALs issued by RB&T each year were made during the first quarter. RALs were generally repaid by the IRS or applicable taxing authority within two weeks of origination. Losses associated with RALs resulted from the IRS not remitting taxpayer refunds to RB&T associated with a particular tax return. This occurred for a number of reasons, including errors in the tax return and tax return fraud which are identified through IRS audits resulting from revenue protection strategies. In addition, RB&T also incurred losses as a result of tax debts not previously disclosed during its underwriting process.

At March 31st of each year, RB&T has reserved for its estimated RAL losses for the year based on current and prior-year funding patterns, information received from the IRS on current year payment processing, projections using RB&T's internal RAL underwriting criteria applied against prior years' customer data, and the subjective experience of RB&T management. RALs outstanding 30 days or longer were charged off at the end of each quarter with subsequent collections recorded as recoveries. Since the RAL season is over by the end of April of each year, substantially all uncollected RALs are charged off by June 30th of each year, except for those RALs management deems certain of collection.

As of June 30, 2012 and 2011, $11.1 million and $15.5 million of total RALs originated remained uncollected (outstanding past their expected funding date from the IRS), representing 1.39% and 1.49% of total gross RALs originated during the respective tax years. Substantially all of these RALs were charged off as of June 30, 2012 and 2011. Management expects the actual 2012 loan loss rate realized for the TRS division will be less than the $11.1 million of RALs outstanding beyond their expected funding date, because the TRS division will continue to receive payments from the IRS throughout the year and make other collection efforts to obtain repayment on the RALs.

Management's estimate of current year losses combined with recoveries of previous years' RALs, resulted in a net provision for loan loss expense of $7.7 million and $12.7 million for the TRS division during the first six months of 2012 and 2011. For the quarter ended June 30, 2011 and 2010, the TRS division provision for loan losses was a net credit of $365,000 and a net credit of $1.0 million. The net credit in both periods resulted from better than previously projected paydowns within RB&T's RAL portfolio.

For additional discussion regarding TRS, a division of RPG, see the following sections:

Part I Item 1 "Financial Statements:"

- o Footnote 1 "Basis of Presentation and Summary of Significant Accounting Policies"
- o Footnote 6 "Federal Home Loan Bank Advances"
- o Footnote 11 "Segment Information"

Discontinuance of the RAL Product:

As previously disclosed, effective December 8, 2011, RB&T entered into an agreement with the FDIC resolving its differences regarding the TRS division. RB&T's resolution with the FDIC was in the form of a Stipulation Agreement and a Consent Order (collectively, the "Agreement"). As part of the Agreement, RB&T and the FDIC settled all matters set out in the FDIC's Amended Notice of Charges dated May 3, 2011 and the lawsuit filed against the FDIC by RB&T. As required by this settlement, RB&T discontinued its offering the RAL product by April 30, 2012, subsequent to the first quarter 2012 tax season.

RB&T's discontinuance of RALs beyond 2012 is expected to have a material adverse impact on net income in 2013 and beyond, as the RAL product accounted for approximately 34% of the TRS division's net income for the six months ended June 30, 2012 and 2011, respectively. In addition, RB&T's loss of the RAL product is expected to negatively impact the revenue it receives on its ERC/ERD products due to competitive pricing pressures. It is expected that the TRS division will continue to be a material contributor to the Company's overall net income in 2013 and beyond. The Company cannot, however, currently predict a precise contribution from the TRS division going forward, as many of its pricing and potential revenue sharing arrangements for the upcoming first quarter 2013 tax season and beyond remain subject to discussions. Actual TRS division net income for 2012 and beyond will be impacted by a number of factors, including those factors disclosed from time to time in the Company's filings with the SEC and set forth under Part I Item 1A "Risk Factors" of the Company's 2011 Form 10-K.

For additional discussion regarding the Agreement, see the Company's Form 8-K filed with the SEC on December 9, 2011, including Exhibits 10.1 and 10.2.

5. DEPOSITS

Ending deposit balances at June 30, 2012 and December 31, 2011 were as follows:

(in thousands)	June 30, 2012	December 31, 2011
Demand	$ 538,183	$ 523,708
Money market accounts	465,158	433,508
Brokered money market accounts	14,386	18,121
Savings	65,820	44,472
Individual retirement accounts*	32,594	31,201
Time deposits, $100,000 and over*	67,567	82,970
Other certificates of deposit*	114,659	103,230
Brokered certificates of deposit*	93,788	88,285
Total interest-bearing deposits	1,392,155	1,325,495
Total non interest-bearing deposits	513,136	408,483
Total deposits	$ 1,905,291	$ 1,733,978

(*) - Represents a time deposit.

As discussed under Footnote 2 "Bank Acquisition," the above deposit balances contain $15 million in interest-bearing deposits and $60 million in non interest-bearing deposits related to the TCB transaction as of June 30, 2012.

The composition of deposits assumed in the TCB transaction outstanding at June 30, 2012 follows:

(in thousands)	June 30, 2012
Non Interest Bearing	$ 14,645
Demand	1,862
Money market accounts	2,499
Savings	14,456
Individual retirement accounts*	2,199
Certificates of deposit*	27,534
Brokered deposits*	11,396
Total deposits	$ 74,591

(*) - Represents a time deposit

43

6. FEDERAL HOME LOAN BANK ("FHLB") ADVANCES

At June 30, 2012 and December 31, 2011, FHLB advances were as follows:

(in thousands)	June 30, 2012	December 31, 2011
Overnight FHLB borrowings	$ 30,000	$ 145,000
Fixed interest rate advances with a weighted average interest rate of 2.38% due through 2035	388,555	669,630
Putable fixed interest rate advances with a weighted average interest rate of 4.36% due through 2017(1)	120,000	120,000
Total FHLB advances	$ 538,555	$ 934,630

(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 Bank 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 Bank at no penalty. Based on market conditions at this time, the Bank does not believe that any of its putable advances are likely to be "put back" to the Bank in the short-term by the FHLB.

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At June 30, 2012, Republic had available collateral to borrow an additional $448 million from the FHLB. In addition to its borrowing line with the FHLB, Republic also had unsecured lines of credit totaling $216 million available through various other financial institutions.

During the first quarter of 2012, RB&T prepaid $81 million in FHLB advances. These advances had a weighted average cost of 3.56% and were all scheduled to mature between October 2012 and May 2013. The Bank incurred a $2.4 million early termination penalty in connection with this transaction.

During the fourth quarter of 2011, RB&T obtained $300 million in FHLB advances to partially fund the first quarter 2012 RAL program. These liabilities had a weighted average life of three months with a weighted average interest rate of 0.10%. Excluding this advance, the weighted average interest rate of all fixed rate advances was 3.11% at December 31, 2011.

For additional discussion regarding TRS, a division of RPG, see the following sections:

Part I Item 1 "Financial Statements:"

- o Footnote 1 "Basis of Presentation and Summary of Significant Accounting Policies"
- o Footnote 4 "Loans and Allowance for Loan Losses"
- o Footnote 11 "Segment Information"

Aggregate future principal payments on FHLB advances as of June 30, 2012, based on contractual maturity dates, are detailed below:

Year		(in thousands)
2012	$	50,000
2013		35,000
2014		178,000
2015		25,000
2016		72,000
Thereafter		178,555
Total	$	538,555

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

(in thousands)	June 30, 2012	December 31, 2011
First lien, single family residential real estate	$ 782,959	$ 670,819
Home equity lines of credit	51,681	60,211
Multi-family commercial real estate	6,864	14,697

7. FAIR VALUE

Fair value represents the exchange price that would be received for an asset or paid to transfer a liability (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. There are three levels of inputs that may be used to measure fair values:

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

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; or other inputs that are observable or can be corroborated by observable market data.

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

The Bank used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Securities available for sale: For all securities available for sale, excluding the Bank's private label mortgage backed security, fair value is typically determined by 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 (Level 2 inputs). With the exception of the private label mortgage backed security, all securities available for sale are classified as Level 2 in the fair value hierarchy.

The Bank's private label mortgage backed security remains extremely illiquid, and as such, the Bank classifies this security as a Level 3 security in accordance with FASB ASC Topic 820, Fair Value Measurements and Disclosures. Based on this determination, the Bank utilized an income valuation model (present value model) approach, in determining the fair value of this security.

See Footnote 3 "Investment Securities" for additional discussion regarding the Bank's private label mortgage backed security.

Mortgage loans held for sale: The fair value of mortgage loans held for sale is determined using quoted secondary market prices. Mortgage loans held for sale are classified as Level 2 in the fair value hierarchy.

Derivative instruments: Mortgage Banking derivatives used in the ordinary course of business primarily consist of mandatory forward sales contracts ("forward contracts") and rate lock loan commitments. The fair value of the Bank's 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 Bank. Forward contracts and rate lock loan commitments are classified as Level 2 in the fair value hierarchy.

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Bank. Once received, a member of the CCAD reviews the assumptions and approaches utilized in the appraisal, as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On an annual basis, the Bank compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment, if any, should be made to the appraisal value to arrive at a fair value.

Mortgage Servicing Rights: On a monthly basis, mortgage servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. If the carrying amount of an individual tranche exceeds fair value, impairment is recorded on that tranche so that the servicing asset is carried at fair value. The valuation model utilizes assumptions that market participants would use in estimating future net servicing income and that can be validated against available market data (Level 2).

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Bank has elected the fair value option, are summarized below:

	Fair Value Measurements at June 30, 2012 Using:			
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Securities available for sale:				
U.S. Treasury securities and U.S. Government agencies	$ -	$ 97,390	$ -	$ 97,390
Private label mortgage backed security	-	-	4,579	4,579
Mortgage backed securities - residential	-	254,990	-	254,990
Collateralized mortgage obligations	-	225,362	-	225,362
Total securities available for sale	$ -	$ 577,742	$ 4,579	$ 582,321
Mandatory forward contracts	$ -	$ 30,379	$ -	$ 30,379
Rate lock loan commitments	-	27,782	-	27,782
Mortgage loans held for sale	-	4,093	-	4,093

	Fair Value Measurements at December 31, 2011 Using:			
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Securities available for sale:				
U.S. Treasury securities and U.S. Government agencies	$ -	$ 152,674	$ -	$ 152,674
Private label mortgage backed security	-	-	4,542	4,542
Mortgage backed securities - residential	-	293,329	-	293,329
Collateralized mortgage obligations	-	195,403	-	195,403
Total securities available for sale	$ -	$ 641,406	$ 4,542	$ 645,948
Mandatory forward contracts	$ -	$ 20,394	$ -	$ 20,394
Rate lock loan commitments	-	15,639	-	15,639

Mortgage loans held for sale	-	4,392	-	4,392

There were no transfers into or out of Level 1, 2 or 3 assets during the three and six months ended June 30, 2012 and 2011.

The table below presents a reconciliation the Bank's private label mortgage backed security. This is the only asset that is measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six month periods ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2012	2011	2012	2011
Balance, beginning of period	$ 4,520	$ 4,874	$ 4,542	$ 5,124
Total gains or losses included in earnings:				
Net impairment loss recognized in earnings	-	-	-	(279)
Net change in unrealized gain/(loss)	59	1,194	37	1,967
Realized pass through of actual losses	-	(1,506)	-	(2,052)
Principal paydowns	-	(160)	-	(358)
Balance, end of period	$ 4,579	$ 4,402	$ 4,579	$ 4,402

The Bank's single private label mortgage backed security is supported by analysis prepared by an independent third party. The third party's approach to determining fair value involved several steps: 1) detailed collateral analysis of the underlying mortgages, including consideration of geographic location, original loan-to-value and the weighted average FICO score of the borrowers; 2) collateral performance projections for each pool of mortgages underlying the security (probability of default, severity of default, and prepayment probabilities) and 3) discounted cash flow modeling.

The following table presents quantitative information about recurring Level 3 fair value measurements at June 30, 2012:

	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Range
Private label mortgage backed security	$ 4,579	Discounted cash flow	(1) Constant prepayment rate	2% - 6 %
			(2) Probability of default	5% - 41.25 %
			(2) Loss severity	60% - 70 %

The significant unobservable inputs in the fair value measurement of the Bank's single private label mortgage backed security are prepayment rates, probability of default and loss severity in the event of default. Significant fluctuations in any of those inputs in isolation would result in a significantly lower/higher fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for loss severity and a directionally opposite change in the assumption used for prepayment rate.

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

	Fair Value Measurements at June 30, 2012 Using:			
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Impaired loans:				
Residential real estate:				
Owner occupied	$ -	$ -	$ 908	$ 908
Non owner occupied	-	-	258	258
Commercial real estate	-	-	2,369	2,369
Real estate construction	-	-	431	431
Commercial	-	-	-	-
Home equity	-	-	1,711	1,711
Total impaired loans *	$ -	$ -	$ 5,677	$ 5,677
Other real estate owned:				
Residential real estate:				
Owner occupied	$ -	$ -	$ 1,034	$ 1,034
Non owner occupied	-	-	133	133
Commercial real estate	-	-	855	855
Real estate construction	-	-	1,141	1,141
Total other real estate owned	$ -	$ -	$ 3,163	$ 3,163
Mortgage servicing rights	$ -	$ -	$ 1,954	$ 1,954

	Fair Value Measurements at December 31, 2011 Using:			
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Impaired loans:				
Residential real estate:				
Owner occupied	$ -	$ -	$ 885	$ 885
Non owner occupied	-	-	545	545
Commercial real estate	-	-	4,520	4,520
Real estate construction	-	-	285	285
Commercial	-	-	60	60

Home equity	-	-	1,721	1,721
Total impaired loans *	$ -	$ -	$ 8,016	$ 8,016
Other real estate owned:				
Residential real estate:				
Owner occupied	$ -	$ -	$ 3,477	$ 3,477
Non owner occupied	-	-	417	417
Commercial real estate	-	-	1,418	1,418
Real estate construction	-	-	1,000	1,000
Total other real estate owned	$ -	$ -	$ 6,312	$ 6,312
Mortgage servicing rights	$ -	$ -	$ 3,412	$ 3,412

* - The impaired loan balances in the preceding two tables excludes TDRs. The difference between the carrying value and the fair value represents loss reserves recorded within the allowance for loan losses in accordance with FASB ASC Topic 310-10-35, Accounting by Creditors for Impairment of a Loan.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at June 30, 2012:

	Fair Value (in thousands)		Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans - commercial real estate	$	1,041	(1) Sales comparison approach	(1) Adjustments determined by Management for differences between the comparable sales	13% - 19% (17%)
	$	1,846	(2) Income approach	(2) Adjustments for differences between net operating income expectations	6% - 6% (6%)
Impaired loans - residential real estate	$	2,790	Sales comparison approach	Adjustments determined by Management for differences between the comparable sales	3% - 48% (15%)
Other real estate owned - residential	$	1,167	Sales comparison approach	Adjustments determined by Management for differences between the comparable sales	10% - 50% (12%)
Other real estate owned - commercial real estate	$	1,996	Sales comparison approach	Adjustments determined by Management for differences between the comparable sales	6% - 50% (40%)
Mortgage servicing rights	$	1,954	Third party valuation pricing	Prepayment speeds, default rate and discount rate	0.01% - 0.10% (0.04%)

The following section details impairment charges recognized during the period:

The Bank recorded realized impairment losses related to its single Level 3 private label mortgage backed security as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2012	2011	2012	2011
Net impairment loss recognized in earnings	$ -	$ -	$ -	$ 279

See Footnote 3 "Investment Securities" for additional detail regarding impairment losses.

Collateral dependent impaired loans are generally measured for impairment using the fair market value for reasonable disposition of the underlying collateral. The Bank's practice is to obtain new or updated appraisals on the loans subject to the initial impairment review and then to evaluate the need for an update to this value on an as necessary or possibly annual basis thereafter (depending on the market conditions impacting the value of the collateral). The Bank may discount the appraisal amount as necessary for selling costs and past due real estate taxes. If a new or updated appraisal is not available at the time of a loan's impairment review, the Bank may apply a discount to the existing value of an old appraisal to reflect the property's current estimated value if it is believed to have deteriorated in either: (i) the physical or economic aspects of the subject property or (ii) material changes in market conditions. The results of the impairment review results in an increase in the allowance for loan loss or in a partial charge-off of the loan, if warranted. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount and valuation allowance as follows:

(in thousands)	June 30, 2012	December 31, 2011
Carrying amount of loans with a valuation allowance	$ 3,574	$ 5,391
Valuation allowance	693	1,717

Other real estate owned, which is carried at the lower of cost or fair value, is periodically assessed for impairment based on fair value at the reporting date. Fair value is determined from external appraisals using judgments and estimates of external professionals. Many of these inputs are not observable and, accordingly, these measurements are classified as Level 3. At June 30, 2012 and December 31, 2011, the carrying value of other real estate owned was $18 million and $11 million, respectively. The fair value of the Bank's individual other real estate owned properties exceeded their carrying value at June 30, 2012 and December 31, 2011.

Mortgage servicing rights, carried at fair value totaled $2.0 million, which is made up of the outstanding balance of $2.2, net of a valuation allowance of $172,000 at June 30, 2012, resulting in a net recovery of $30,000 for the six months ended June 30, 2012. At December 31, 2011, mortgage servicing rights carried at fair value totaled $3 million, made up of the outstanding balance of $3.2, net of a valuation allowance of $203,000, resulting in a charge of $203,000 for the year ended December 31, 2011.

Detail of other real estate owned write downs follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2012	2011	2012	2011
Other real estate owned write-downs	$ 115	$ 41	$ 341	$ 227

Mortgage servicing rights ("MSR"s) are carried at lower of cost or fair value. The Bank recorded a MSR valuation allowance as of June 30, 2012 and December 31, 2011 of $172,000 and $203,000 respectively. No MSR valuation allowance existed at June 30, 2011.

The carrying amounts and estimated fair values of financial instruments, at June 30, 2012 and December 31, 2011 follows:

(in thousands)	Carrying Value	Fair Value Measurements at June 30, 2012 Using: Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash and cash equivalents	$ 124,357	$ 124,357	$ -	$ -	$ 124,357
Securities available for sale	582,321	-	577,742	4,579	582,321
Securities to be held to maturity	25,769	-	26,287	-	26,287
Mortgage loans held for sale	4,093	-	4,093	-	4,093
Loans, net	2,417,884	-	-	2,563,013	2,563,013
Federal Home Loan Bank stock	28,391	-	-	-	N/A
Accrued interest receivable	9,455	-	9,455	-	9,455
Liabilities:					
Non interest-bearing deposits	513,136	513,136	-	-	513,136
Transaction deposits	1,083,547	1,083,547	-	-	1,083,547
Time deposits	308,608	-	314,037	-	314,037
Securities sold under agreements to repurchase and other short-term borrowings	194,412	-	194,412	-	194,412
Federal Home Loan Bank advances	538,555	-	560,871	-	560,871
Subordinated note	41,240	-	41,160	-	41,160
Accrued interest payable	1,405	-	1,405	-	1,405

(in thousands)	December 31, 2011 Carrying Value	Fair Value
Assets:		
Cash and cash equivalents	$ 362,971	$ 362,971
Securities available for sale	645,948	645,948
Securities to be held to maturity	28,074	28,342
Mortgage loans held for sale	4,392	4,392
Loans, net	2,261,232	2,305,208
Federal Home Loan Bank stock	25,980	25,980
Accrued interest receivable	9,679	9,679
Liabilities:		

Non interest-bearing deposits	408,483	408,483
Transaction deposits	1,019,809	1,019,809
Time deposits	305,686	308,049
Securities sold under agreements to repurchase and other short-term borrowings	230,231	230,231
Federal Home Loan Bank advances	934,630	960,671
Subordinated note	41,240	41,158
Accrued interest payable	1,724	1,724

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

The assumptions used in the estimation of the fair value of the Company's financial instruments are explained below. Where quoted market prices are not available, fair values are based on estimates using discounted cash flow and other valuation techniques. Discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following fair value estimates cannot be substantiated by comparison to independent markets and should not be considered representative of the liquidation value of the Company's financial instruments, but rather a good-faith estimate of the fair value of financial instruments held by the Company. Certain financial instruments and all nonfinancial instruments are excluded from disclosure requirements.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and cash equivalents – The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Mortgage loans held for sale – The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a Level 2 classification.

Loans, net – The fair value of loans is calculated using discounted cash flows by loan type resulting in a Level 3 classification. The discount rate used to determine the present value of the loan portfolio is an estimated market rate that reflects the credit and interest rate risk inherent in the loan portfolio without considering widening credit spreads due to market illiquidity. The estimated maturity is based on the Bank's historical experience with repayments adjusted to estimate the effect of current market conditions. The allowance for loan losses is considered a reasonable discount for credit risk. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Federal Home Loan Bank stock – It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Accrued interest receivable/payable – The carrying amounts of accrued interest, due to their short-term nature, approximates fair value resulting in a Level 2 classification.

Deposits – Fair values for certificates of deposit have been determined using discounted cash flows. The discount rate used is based on estimated market rates for deposits of similar remaining maturities and are classified as Level 2. The carrying amounts of all other deposits, due to their short-term nature, approximate their fair values and are classified as Level 1.

Securities sold under agreements to repurchase – The carrying amount for securities sold under agreements to repurchase generally maturing within ninety days approximates its fair value resulting in a Level 2 classification.

Federal Home Loan Bank advances – The fair value of the FHLB advances is obtained from the FHLB and is calculated by discounting contractual cash flows using an estimated interest rate based on the current rates available to the Company for debt of similar remaining maturities and collateral terms resulting in a Level 2 classification.

Subordinated note – The fair value for subordinated debentures is calculated using discounted cash flows based upon current market spreads to LIBOR for debt of similar remaining maturities and collateral terms resulting in a Level 2 classification.

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2012 and December 31, 2011. Although management is not aware of any factors that would dramatically affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, estimates of fair value may differ significantly from the amounts presented.

8. MORTGAGE BANKING ACTIVITIES

Activity for mortgage loans held for sale was as follows:

June 30, (in thousands)	2012	2011
Balance, January 1	$ 4,392	$ 15,228
Origination of mortgage loans held for sale	97,132	52,558
Proceeds from the sale of mortgage loans held for sale	(101,153)	(62,084)
Net gain on sale of mortgage loans held for sale	3,722	1,465
Balance, June 30	$ 4,093	$ 7,167

Mortgage Banking activities primarily include residential mortgage originations and servicing. The following table presents the components of Mortgage Banking income:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2012	2011	2012	2011
Net gain on sale of mortgage loans held for sale	$2,034	$757	$3,722	$1,465
Change in mortgage servicing rights valuation allowance	42	-	31	-
Loan servicing income, net of amortization	(113)	167	(436)	275
Total mortgage banking income	$1,963	$924	$3,317	$1,740

Activity for capitalized mortgage servicing rights was as follows:

June 30, (in thousands)	2012	2011
Balance, January 1	$ 6,087	$ 7,800
Additions	904	538
Amortized to expense	(1,671)	(1,169)
Change in valuation allowance	31	-
Balance, June 30	$ 5,351	$ 7,169

Activity for the valuation allowance for capitalized mortgage servicing rights was as follows:

June 30, (in thousands)	2012	2011
Balance, January 1	$ (203)	$ -
Additions	(11)	-
Reductions credited to operations	42	-
Direct write downs	-	-
Balance, June 30	$ (172)	$ -

Other information relating to mortgage servicing rights follows:

(in thousands)	June 30, 2012		December 31, 2011	
Fair value of mortgage servicing rights portfolio	$ 6,260		$ 7,120	
Discount rate	9	%	9	%
Prepayment speed range	220% - 550	%	221% - 550%	
Weighted average default rate	1.50	%	1.50	%

Mortgage Banking derivatives used in the ordinary course of business primarily consist of mandatory forward sales contracts and rate lock loan commitments. Mandatory 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 loan 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 following tables include the notional amounts and realized gain (loss) for Mortgage Banking derivatives recognized in Mortgage Banking income as of June 30, 2012 and December 31, 2011:

(in thousands)	June 30, 2012	December 31, 2011
Mandatory forward contracts:		
Notional amount	$ 30,510	$ 20,490
Change in fair value of mandatory forward contracts	(131)	(96)
Rate lock loan commitments:		
Notional amount	$ 27,529	$ 15,623
Change in fair value of rate lock loan commitments	253	16

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

The Bank is exposed to interest rate risk on loans held for sale and rate lock loan commitments. As market interest rates fluctuate, the fair value of mortgage loans held for sale and rate lock commitments will decline or increase. To offset this interest rate risk, the Bank enters into derivatives such as mandatory forward contracts to sell loans. The fair value of these mandatory forward contracts will fluctuate as market interest rates fluctuate, 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 loan 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.

9. OFF BALANCE SHEET RISKS, COMMITMENTS AND CONTINGENT LIABILITIES

The Bank, in the normal course of business, is party to financial instruments with off balance sheet risk. 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 the Bank pursuant to those financial instruments. Creditworthiness for all instruments is evaluated on a case by case basis in accordance with the Bank's credit policies. Collateral from the customer may be required based on the Bank'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.

The Bank 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 the Bank under such loan commitments is limited by the terms of the contracts. For example, the Bank 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, 2012, exclusive of Mortgage Banking loan commitments, the Bank had outstanding loan commitments of $516 million, which included unfunded home equity lines of credit totaling $232 million. As of December 31, 2011, exclusive of Mortgage Banking loan commitments, the Bank had outstanding loan commitments of $486 million, which included unfunded home equity lines of credit totaling $238 million. These commitments generally have open-ended maturities and variable rates.

Standby letters of credit are conditional commitments issued by the Bank 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 $18 million and $19 million at June 30, 2012 and December 31, 2011. In addition to credit risk, the Bank also has liquidity risk associated with standby letters of credit because funding for these obligations could be required immediately. The Bank does not deem this risk to be material.

At June 30, 2012 and December 31, 2011 the Bank had $11 million in letters of credit from the FHLB issued on behalf of two RB&T clients. These letters of credit were used as credit enhancements for client bond offerings and reduced RB&T's available borrowing line at the FHLB. The Bank uses a blanket pledge of eligible real estate loans to secure these letters of credit.

On August 1, 2011, a lawsuit was filed in the United States District Court for the Western District of Kentucky styled Brenda Webb vs. Republic Bank & Trust Company d/b/a Republic Bank, Civil Action No. 3:11-CV-00423-TBR. The Complaint was brought as a putative class action and seeks monetary damages, restitution and declaratory relief allegedly arising from the manner in which RB&T assessed overdraft fees. In the Complaint, the Plaintiff pleads six claims against RB&T alleging: breach of contract and breach of the covenant of good faith and fair dealing (Count I), unconscionability (Count II), conversion (Count III), unjust enrichment (Count IV), violation of the Electronic Funds Transfer Act and Regulation E (Count V), and violations of the Kentucky Consumer Protection Act, KRS §367, et seq. (Count VI). RB&T filed a Motion to Dismiss the case on January 12, 2012. In response, Plaintiff filed its Motion to Amend the Complaint on February 23, 2012. In Plaintiff's proposed Amended Complaint, Plaintiff acknowledges disclosure of the Overdraft Honor Policy and does not seek to add any claims to the Amended Complaint. However, Plaintiff divided the breach of contract and breach of the covenant of good faith and fair dealing claims into two counts (Counts One and Two). In the original Complaint, those claims were combined in Count One. RB&T filed its objection to Plaintiff's Motion to Amend. On June 16, 2012, the District Court denied the Plaintiff's Motion to Amend concluding that she lacked the ability to automatically amend the complaint as of right. However, the Court held that she could be permitted to amend if she could first demonstrate that her amendment would not be futile and the she had standing to sue despite RB&T's offer of judgment. The Court declined to rule on that issue at this time and ordered the case stayed pending a decision by the United States Court of Appeals for the Sixth Circuit in a case on appeal with the same standing issue. RB&T intends to vigorously defend its case. Management continues to closely monitor this case, but is unable to estimate, at this time, the possible loss or range of possible loss, if any, that may result from this lawsuit.

10. 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)	2012	2011	2012	2011
Net income	$ 9,578	$ 8,663	$ 92,050	$ 80,075
Weighted average shares outstanding	20,958	20,936	20,957	20,937
Effect of dilutive securities	59	58	77	55
Average shares outstanding including dilutive securities	21,017	20,994	21,034	20,992
Basic earnings per share:				
Class A Common Share	$ 0.46	$ 0.42	$ 4.40	$ 3.83
Class B Common Share	0.44	0.40	4.37	3.80
Diluted earnings per share:				
Class A Common Share	$ 0.46	$ 0.41	$ 4.38	$ 3.82
Class B Common Share	0.44	0.40	4.35	3.79

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,	
	2012	2011	2012	2011
Antidilutive stock options	232,550	598,120	220,550	607,120

11. SEGMENT INFORMATION

Reportable segments are determined by the type of products and services offered and the level of information provided to the chief operating decision maker, who uses such information to review performance of various components of the business (such as branches and subsidiary banks), which are then aggregated if operating performance, products/services, and customers are similar.

As of June 30, 2012, the Company was divided into three distinct segments: Traditional Banking, Mortgage Banking and Republic Processing Group ("RPG"). During the second quarter of 2012, the Company realigned the previously reported Tax Refund Solutions ("TRS") segment as a division of the newly formed RPG segment. Along with the TRS division, Republic Payment Solutions ("RPS") was newly created to operate as a second division of the RPG segment.

Nationally, through RB&T, RPG facilitates the receipt and payment of federal and state tax refund products under the TRS division. Nationally, through RB, the RPS division is preparing to become an issuing bank to offer general purpose reloadable prepaid debit, payroll, gift and incentive cards through third party program managers.

For the projected near-term, as the prepaid card program is being established, the operating results of the RPS division are expected to be immaterial to the Company's overall results of operations and will be reported as part of the RPG business segment. The RPS division will not be reported as a separate business segment until such time, if any, that it becomes material.

Loans, investments and deposits provide the majority of the net revenue from Traditional Banking operations; servicing fees and loan sales provide the majority of revenue from Mortgage Banking operations; RAL fees and ERC/ERD fees provide the majority of the revenue for the TRS division. All Company operations are domestic.

The accounting policies used for Republic's reportable segments are the same as those described in the summary of significant accounting policies. Segment performance is evaluated using operating income. Goodwill is not allocated. Income taxes which are not segment specific are allocated based on income before income tax expense. Transactions among reportable segments are made at fair value.

For additional discussion regarding TRS, a division of RPG, see the following sections:

Part I Item 1 "Financial Statements:"

- o Footnote 1 "Basis of Presentation and Summary of Significant Accounting Policies"
- o Footnote 4 "Loans and Allowance for Loan Losses"
- o Footnote 6 "Federal Home Loan Bank Advances"

Segment information for the three and six months ended June 30, 2012 and 2011 follows:

	Three Months Ended June 30, 2012			
(dollars in thousands)	Traditional Banking	Mortgage Banking	Republic Processing Group	Total Company
Net interest income	$ 28,090	$ 53	$ 169	$ 28,312
Provision for loan losses	831	-	(365)	466
Electronic refund check fees	-	-	6,147	6,147
Mortgage banking income	-	1,963	-	1,963
Bargain purchase gain	(96)	-	-	(96)
Other non interest income	6,036	11	25	6,072
Total non interest income	5,940	1,974	6,172	14,086
Total non interest expenses	23,590	923	2,938	27,451
Gross operating profit	9,609	1,104	3,768	14,481
Income tax expense	3,129	386	1,388	4,903
Net income	$ 6,480	$ 718	$ 2,380	$ 9,578
Segment end of period assets	$ 3,248,453	$ 9,847	$ 20,500	$ 3,278,800
Net interest margin	3.57 %	NM	NM	3.53 %

	Three Months Ended June 30, 2011			
(dollars in thousands)	Traditional Banking	Mortgage Banking	Republic Processing Group	Total Company
Net interest income	$ 26,393	$ 69	$ 367	$ 26,829
Provision for loan losses	585	-	(1,024)	(439)
Electronic refund check fees	-	-	6,584	6,584
Mortgage banking income	-	924	-	924
Net gain on sales, calls and impairment of securities	1,907	-	-	1,907
Other non interest income	5,893	23	37	5,953
Total non interest income	7,800	947	6,621	15,368
Total non interest expenses	22,679	947	4,900	28,526
Gross operating profit (loss)	10,929	69	3,112	14,110
Income tax expense (benefit)	3,612	24	1,811	5,447
Net income (loss)	$ 7,317	$ 45	$ 1,301	$ 8,663
Segment end of period assets	$ 3,067,290	$ 14,695	$ 22,585	$ 3,104,570

Net interest margin	3.50	%	NM	NM	3.50	%

59

	Six Months Ended June 30, 2012			
(dollars in thousands)	Traditional Banking	Mortgage Banking	Republic Processing Group	Total Company
Net interest income	$ 55,962	$ 173	$ 45,397	$ 101,532
Provision for loan losses	3,962	-	7,674	11,636
Electronic refund check fees	-	-	77,896	77,896
Mortgage banking income	-	3,317	-	3,317
Net gain on sales, calls and impairment of securities	56	-	-	56
Bargain purchase gain	27,803	-	-	27,803
Other non interest income	11,618	16	189	11,823
Total non interest income	39,477	3,333	78,085	120,895
Total non interest expenses	50,634	2,077	15,893	68,604
Gross operating profit	40,843	1,429	99,915	142,187
Income tax expense	14,005	500	35,632	50,137
Net income	$ 26,838	$ 929	$ 64,283	$ 92,050
Segment end of period assets	$ 3,248,453	$ 9,847	$ 20,500	$ 3,278,800
Net interest margin	3.58 %	NM	NM	5.73 %

	Six Months Ended June 30, 2011			
(dollars in thousands)	Traditional Banking	Mortgage Banking	Republic Processing Group	Total Company
Net interest income	$ 51,521	$ 191	$ 59,088	$ 110,800
Provision for loan losses	4,907	-	12,736	17,643
Electronic refund check fees	-	-	87,646	87,646
Mortgage banking income	-	1,740	-	1,740
Net gain on sales, calls and impairment of securities	1,628	-	-	1,628
Other non interest income	11,296	25	345	11,666
Total non interest income	12,924	1,765	87,991	102,680
Total non interest expenses	45,775	2,050	23,519	71,344
Gross operating profit (loss)	13,763	(94)	110,824	124,493
Income tax expense (benefit)	3,970	(33)	40,481	44,418

Net income (loss)	$	9,793		$	(61	)	$	70,343	$	80,075	
Segment end of period assets	$	3,067,290		$	14,695		$	22,585	$	3,104,570	
Net interest margin		3.42	%		NM			NM		6.48	%

NM – Not Meaningful

60

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations of Republic Bancorp, Inc. ("Republic" or the "Company") analyzes the major elements of Republic's consolidated balance sheets and statements of income. Republic, a bank holding company headquartered in Louisville, Kentucky, is the parent company of Republic Bank & Trust Company, ("RB&T"), Republic Bank ("RB") (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 is a Delaware statutory business trust that is a 100%-owned unconsolidated finance subsidiary of Republic Bancorp, Inc. Management's Discussion and Analysis of Financial Condition and Results of Operations of Republic should be read in conjunction with Part I Item 1 "Financial Statements."

As used in this filing, the terms "Republic," the "Company," "we," "our" and "us" refer to Republic Bancorp, Inc., and, wh the context requires, Republic Bancorp, Inc. and its subsidiaries; and the term the "Bank" refers to the Company's subsidiary banks: RB&T and Republic Bank.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by the forward-looking statements. Actual results may differ materially from those expressed or implied as a result of certain risks and uncertainties, including, but not limited to, changes in political and economic conditions, interest rate fluctuations, competitive product and pricing pressures, equity and fixed income market fluctuations, personal and corporate customers' bankruptcies, inflation, recession, acquisitions and integrations of acquired businesses, technological changes, changes in law and regulations or the interpretation and enforcement thereof, changes in fiscal, monetary, regulatory and tax policies, monetary fluctuations, success in gaining regulatory approvals when required, as well as other risks and uncertainties reported from time to time in the Company's filings with the Securities and Exchange Commission ("SEC") including under Part 1 Item 1A "Risk Factors" in the Company's 2011 Annual Report on Form 10-K.

Broadly speaking, forward-looking statements include:

- projections of revenue, expenses, income, losses, earnings per share, capital expenditures, dividends, capital structure or other financial items;
- descriptions of plans or objectives for future operations, products or services;
- forecasts of future economic performance; and
- descriptions of assumptions underlying or relating to any of the foregoing.

The Company may make forward-looking statements discussing management's expectations about various matters, including:

- loan delinquencies, future credit losses, non-performing loans and non-performing assets;
- further developments in the Bank's ongoing review of and efforts to resolve possible problem credit relationships, which could result in, among other things, additional provision for loans losses;
- deteriorating credit quality, including changes in the interest rate environment and reducing interest margins;
- the overall adequacy of the allowance for loans losses;
- future short-term and long-term interest rates and the respective impact on net interest margin, net interest spread, net income, liquidity and capital;
- the future performance of assets, including loans, acquired in the Tennessee Commerce Bank ("TCB") acquisition;

the future operating performance of the Republic Payment Solutions (“RPS”) division;
the future regulatory viability of the Tax Refund Solutions (“TRS”) division;
the future operating performance of the TRS division, including the impact of the cessation of Refund Anticipation Loans (“RALs”);
future Electronic Refund Check/Electronic Refund Deposit (“ERC/ERD” or “AR/ARD”) volume for the TRS division;
future revenues associated with ERCs/ERDs at the TRS division;
future recoveries associated with RALs originated during 2012 and prior;
potential impairment of investment securities;

- the future value of mortgage servicing rights;
- the impact of new accounting pronouncements;
- legal and regulatory matters including results and consequences of regulatory guidance, litigation, administrative proceedings, rule-making, interpretations, actions and examinations;
- the extent to which regulations written and implemented by the Federal Bureau of Consumer Financial Protection, and other federal, state and local governmental regulation of consumer lending and related financial products and services may limit or prohibit the operation of the Company's business;
- financial services reform and other current, pending or future legislation or regulation that could have a negative effect on the Company's revenue and businesses, including the Dodd-Frank Act and legislation and regulation relating to overdraft fees (and changes to the Bank's overdraft practices as a result thereof), debit card interchange fees, credit cards, and other bank services;
- future capital expenditures;
- the strength of the U.S. economy in general and the strength of the local economies in which the Company conducts operations;
- the Bank's ability to maintain current deposit and loan levels at current interest rates and
- the Company's ability to successfully implement future growth plans, including growth through future acquisitions.

Forward-looking statements discuss matters that are not historical facts. As forward-looking statements discuss future events or conditions, the statements often include words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "target," "can," "could," "may," "should," "will," "would," or similar expressions. Do not rely on forward-looking statements. Forward-looking statements detail management's expectations regarding the future and are not guarantees. Forward-looking statements are assumptions based on information known to management only as of the date the statements are made and management may not update them to reflect changes that occur subsequent to the date the statements are made. See additional discussion under Part I Item 1A "Risk Factors" in the Company's 2011 Annual Report on Form 10-K.

BUSINESS SEGMENT COMPOSITION

As of June 30, 2012, the Company was divided into three distinct segments: Traditional Banking, Mortgage Banking and Republic Processing Group ("RPG"). During the second quarter of 2012, the Company realigned the previously reported Tax Refund Solutions ("TRS") segment as a division of the newly formed RPG segment. Along with the TRS division, Republic Payment Solutions ("RPS") was newly created to operate as a second division of the RPG segment.

Nationally, through RB&T, RPG facilitates the receipt and payment of federal and state tax refund products under the TRS division. Nationally, through RB, the RPS division is preparing to become an issuing bank to offer general purpose reloadable prepaid debit, payroll, gift and incentive cards through third party program managers.

For the projected near-term, as the prepaid card program is being established, the operating results of the RPS division are expected to be immaterial to the Company's overall results of operations and will be reported as part of the RPG business segment. The RPS division will not be reported as a separate business segment until such time, if any, that it becomes material.

Net income, total assets and net interest margin by segment for the three and six months ended June 30, 2012 and 2011 are presented below:

Three Months Ended June 30, 2012				
(in thousands)	Traditional Banking	Mortgage Banking	Republic Processing Group	Total Company
Net income	$ 6,480	$ 718	$ 2,380	$ 9,578
Segment assets	3,248,453	9,847	20,500	3,278,800
Net interest margin	3.57 %	NM	NM	3.53 %

Three Months Ended June 30, 2011				
(in thousands)	Traditional Banking	Mortgage Banking	Republic Processing Group	Total Company
Net income (loss)	$ 7,317	$ 45	$ 1,301	$ 8,663
Segment assets	3,067,290	14,695	22,585	3,104,570
Net interest margin	3.50 %	NM	NM	3.50 %

Six Months Ended June 30, 2012				
(in thousands)	Traditional Banking	Mortgage Banking	Republic Processing Group	Total Company
Net income	$ 26,838	$ 929	$ 64,283	$ 92,050
	3,248,453	9,847	20,500	3,278,800

Segment assets				
Net interest margin	3.58 %	NM	NM	5.73 %

(in thousands)	Six Months Ended June 30, 2011 Traditional Banking	Mortgage Banking	Republic Processing Group	Total Company
Net income (loss)	$ 9,793	$ (61)	$ 70,343	$ 80,075
Segment assets	3,067,290	14,695	22,585	3,104,570
Net interest margin	3.42 %	NM	NM	6.48 %

NM – Not Meaningful

For expanded segment financial data see Footnote 11 “Segment Information” of Part I Item 1 “Financial Statements.

(I) Traditional Banking segment

As of June 30, 2012, Republic had 43 full-service banking centers with 34 located in Kentucky, four located in metropolitan Tampa, Florida, three located in southern Indiana and one located each in metropolitan Cincinnati, Ohio and metropolitan Nashville, Tennessee. RB&T's primary market areas are located in metropolitan Louisville, Kentucky, central Kentucky, northern Kentucky and southern Indiana. Louisville, the largest city in Kentucky, is the location of Republic's headquarters, as well as 20 banking centers. RB&T's central Kentucky market includes 11 banking centers in the following Kentucky cities: Elizabethtown (1); Frankfort (1); Georgetown (1); Lexington, the second largest city in Kentucky (5); Owensboro (2); and Shelbyville (1). RB&T's northern Kentucky market includes banking centers in Covington, Florence and Independence. RB&T also has banking centers located in Floyds Knobs, Jeffersonville and New Albany, Indiana, and Franklin (Nashville), Tennessee. Republic Bank has locations in Hudson, Palm Harbor, Port Richey and Temple Terrace, Florida, as well as Blue Ash (Cincinnati), Ohio.

Effective January 27, 2012, RB&T assumed substantially all of the deposits and certain other liabilities and acquired certain assets of Tennessee Commerce Bank ("TCB"), headquartered in Franklin, Tennessee from the FDIC, as receiver for TCB. This acquisition represents a single banking center located in metropolitan Nashville and represents RB&T's initial entrance into the Tennessee market. See additional discussion regarding the TCB acquisition under Footnote 2 "Bank Acquisition" of Part I Item 1 "Financial Statements."

In June 2011, the Bank commenced business in its newly established warehouse lending division. Through this division, the Bank provides short-term, revolving credit facilities to mortgage bankers secured by single 1-4 family real estate loans. These advances enable the mortgage company customer to close single 1-4 family real estate loans in their own name and temporarily fund their inventory of these closed loans until the loans are sold to investors approved by the Bank. These individual loans are expected to remain on the warehouse line for an average of 15 to 30 days. Interest income and loan fees are accrued for each individual loan during the time the loan remains on the warehouse line and collected when the loan is sold to the secondary market investor. The Bank receives the sale proceeds of each loan directly from the investor and applies the funds to payoff the warehouse advance and related accrued interest and fees. The remaining proceeds are credited to the mortgage banking customer. As of June 30, 2012, the Bank had outstanding loans of $89 million and eight committed lines totaling $171 million within its warehouse lending division.

As a result of the historically low interest rate environment over the last several years, the Bank has been challenged in its efforts to grow its residential real estate portfolio, as consumer demand shifted to 15 and 30 year fixed rate loan products that the Bank has historically sold into the secondary market. In addition to retaining a portion of longer-fixed rate loan originations, the Bank also created a fixed rate Home Equity Amortizing Loan ("HEAL") product during the second half of 2010 in an effort to grow its residential real estate portfolio. The HEAL product is a first mortgage or a junior lien mortgage product with amortization periods of 20 years or less. Features of the HEAL include $199 fixed closing costs; no requirement for the client to escrow insurance and property taxes; and as with the Bank's traditional ARM products, no requirement for private mortgage insurance. The overall features of the HEAL have made it an attractive alternative to long-term fixed rate secondary market products. As of June 30, 2012 and December 31, 2011, the Bank had $161 million and $58 million of HEALs outstanding.

(II) Mortgage Banking segment

Mortgage Banking activities primarily include 15, 20 and 30 year fixed-term single family first lien residential rate real estate loans that are sold into the secondary market, primarily to FHLMC. The Bank typically retains servicing on loans sold into the secondary market. Administration of loans with servicing retained by the Bank includes collecting principal and interest payments, escrowing funds for property taxes and insurance and remitting payments to secondary market investors. A fee is received by the Bank for performing these standard servicing functions.

As part of the sale of loans with servicing retained, the Bank records a MSR. MSRs represent an estimate of the present value of future cash servicing income, net of estimated costs, which the Bank expects to receive on loans sold with servicing retained by the Bank. MSRs are capitalized as separate assets. This transaction is posted to net gain on sale of loans, a component of "Mortgage Banking income" in the income statement. Management considers all relevant factors, in addition to pricing considerations from other servicers, to estimate the fair value of the MSRs to be recorded when the loans are initially sold with servicing retained by the Bank. The carrying value of MSRs is initially amortized in proportion to and over the estimated period of net servicing income and subsequently adjusted quarterly based on the weighted average remaining life of the underlying loans. The amortization is recorded as a reduction to Mortgage Banking income.

The carrying value of the MSRs asset is reviewed monthly for impairment based on the fair value of the MSRs, using groupings of the underlying loans by interest rates. Any impairment of a grouping is reported as a valuation allowance. A primary factor influencing the fair value is the estimated life of the underlying loans serviced. The estimated life of the loans serviced is significantly influenced by market interest rates. During a period of declining interest rates, the fair value of the MSRs is expected to decline due to increased anticipated prepayment speed assumptions within the portfolio. Alternatively, during a period of rising interest rates, the fair value of MSRs is expected to increase, as prepayment speed assumptions on the underlying loans would be anticipated to decline. Management utilizes an independent third party on a monthly basis to assist with the fair value estimate of the MSRs.

See additional detail regarding Mortgage Banking under Footnote 8 “Mortgage Banking Activities” and Footnote 11 “Segment Information” of Part I Item 1 “Financial Statements.”

(III) Republic Processing Group segment

Republic Processing Group is comprised of two distinct divisions: Tax Refund Solutions (“TRS”) and Republic Payment Solutions (“RPS”).

TRS division:

Republic, through its TRS division, is one of a limited number of financial institutions that facilitates the payment of federal and state tax refund products through third-party tax preparers located throughout the U.S., as well as tax-preparation software providers. The TRS division’s three primary tax-related products have historically included: Electronic Refund Checks (“ERCs” or “ARs”), Electronic Refund Deposits (“ERDs” or “ARDs”) and Refund Anticipation Loans (“RALs”). Substantially all of the business generated by the TRS division occurs in the first quarter of the year. The TRS division traditionally operates at a loss during the second half of the year, during which the division incurs costs preparing for the upcoming year’s first quarter tax season.

During the six months ended June 30, 2012 and 2011, net income from the TRS division accounted for approximately 70% and 88% of the Company’s total net income. Net income associated with RALs represented approximately 34% of the TRS division’s net income for the same respective periods. As discussed below, RB&T discontinued its offering of the RAL product by April 30, 2012.

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. There is no credit risk or borrowing cost for RB&T associated with these products because they are only delivered to the taxpayer upon receipt of the refund directly from the Internal Revenue Service (“IRS”). Fees earned on ERCs/ERDs are reported as non interest income under the line item “Electronic Refund Check fees.”

RALs were short-term consumer loans offered to taxpayers that were secured by the customer’s anticipated tax refund, which represented the source of repayment. The fees earned on RALs are reported as interest income under the line item “Loans, including fees.”

RB&T has agreements with Jackson Hewitt Inc. (“JHI”), a subsidiary of Jackson Hewitt Tax Service Inc. (“JH”), and Liberty Tax Service (“Liberty”) to offer RAL and ERC/ERD products. JH and Liberty provide preparation services of federal, state and local individual income tax returns in the U.S. through a nationwide network of franchised and company-owned tax-preparers offices. Approximately 40% of the TRS division’s gross revenue was derived from JH tax offices for the six months ended as of June 30, 2012 and 2011, respectively, with another 19% and 20% from Liberty tax offices for the same respective periods.

Substantially all RALs issued by RB&T each year were made during the first quarter. RALs were generally repaid by the IRS or applicable taxing authority within two weeks of origination. Losses associated with RALs resulted from the IRS not remitting taxpayer refunds to RB&T associated with a particular tax return. This occurred for a number of reasons, including errors in the tax return and tax return fraud which are identified through IRS audits resulting from revenue protection strategies. In addition, RB&T also incurred losses as a result of tax debts not previously disclosed during its underwriting process.

At March 31st of each year, RB&T reserved for its estimated RAL losses for the year based on current and prior year funding patterns, information received from the IRS on current year payment processing, projections using RB&T's internal RAL underwriting criteria applied against prior years' customer data, and the subjective experience of RB&T management. RALs outstanding 30 days or longer were charged off at the end of each quarter, with subsequent collections recorded as recoveries. Since the RAL season is over by the end of April of each year, substantially all uncollected RALs are charged off by June 30th of each year, except for those RALs management deems certain of collection.

Discontinuance of the RAL Product and Future Competition

As previously disclosed, effective December 8, 2011, RB&T entered into an agreement with the FDIC resolving its differences regarding the TRS division. RB&T's resolution with the FDIC was in the form of a Stipulation Agreement and a Consent Order (collectively, the "Agreement"). As part of the Agreement, RB&T and the FDIC settled all matters set out in the FDIC's Amended Notice of Charges dated May 3, 2011 and the lawsuit filed against the FDIC by RB&T. As required by this settlement, RB&T discontinued its offering the RAL product by April 30, 2012, subsequent to the first quarter 2012 tax season.

RB&T's discontinuance of RALs beyond 2012 is expected to have a material adverse impact on net income in 2013 and beyond, as the RAL product accounted for approximately 34% of the TRS division's net income for the six months ended June 30, 2012 and 2011, respectively. In addition, RB&T's loss of the RAL product is expected to negatively impact the revenue it receives on its ERC/ERD products due to competitive pricing pressures. It is expected that the TRS division will continue to be a material contributor to the Company's overall net income in 2013 and beyond. The Company cannot, however, currently predict a precise contribution from the TRS division going forward, as many of its pricing and potential revenue sharing arrangements for the upcoming first quarter 2013 tax season and beyond remain subject to discussions. Actual TRS division net income for 2012 and beyond will be impacted by a number of factors, including those factors disclosed from time to time in the Company's filings with the SEC and set forth under Part I Item 1A "Risk Factors" of the Company's 2011 Form 10-K.

For additional discussion regarding the Agreement, see the Company's Form 8-K filed with the SEC on December 9, 2011, including Exhibits 10.1 and 10.2.

As set forth under Part I Item 1A "Risk Factors" of the Company's 2011 Form 10-K filed on March 7, 2012, discontinuance of the RAL product after April 30, 2012, is expected to have a material adverse impact on the profitability of RB&T's ERC and ERD products. The TRS division faces direct competition for ERC/ERD market share from independently-owned processing groups partnered with banks. Independent processing groups that were unable to offer RAL products have historically been at a competitive disadvantage to banks who could offer RALs. Without the ability to originate RALs after the 2012 tax season, RB&T will face increased competition in the ERC/ERD marketplace. In addition to a potential loss of volume resulting from additional competitors, RB&T will also likely incur substantial pressure on its profit margin for its ERC/ERD products as it will be forced to compete with existing rebate and pricing incentives in the ERC/ERD marketplace.

In addition, as a result of RB&T's Agreement with the FDIC, the TRS division is subject to additional oversight requirements not currently imposed on its competitors. These additional requirements could make attracting new relationships and retaining existing relationships more difficult for RB&T. The Agreement contains a provision for an Electronic Return Originator ("ERO") Plan to be implemented by RB&T. The ERO Plan places additional oversight and training requirements on RB&T and its tax preparation partners that are not currently required by the regulators for RB&T's competitors in the tax business. These additional requirements could make attracting new relationships and retaining existing relationships more difficult for RB&T, once it is no longer able to offer RALs.

TRS Division Funding – First Quarter 2012 Tax Season

During the fourth quarter of 2011, in anticipation of first quarter 2012 RAL program, RB&T obtained $300 million in FHLB advances with a weighted average life of three months with a weighted average interest rate of 0.10%. In January 2012, the Company obtained $252 million of short-term brokered deposits to complete its funding needs for the first quarter 2012 tax season. These brokered deposits had a weighted average maturity of 44 days with a weighted average cost of approximately 0.39%. The total weighted average funding cost for the first quarter 2012 tax season was 0.23%.

TRS Division Funding – First Quarter 2011 Tax Season

Due to RB&T's reduction to its maximum RAL offering amount and its revised underwriting guidelines in response to the elimination of the DI by the IRS, RB&T's funding needs for the first quarter 2011 tax season were significantly reduced compared to prior years. During the fourth quarter of 2010, RB&T obtained $562 million in brokered certificates of deposits to be utilized to fund the first quarter 2011 RAL program. These brokered certificates of deposits had a weighted average life of three months with a weighted average interest rate of 0.42%.

For additional discussion regarding TRS, a division of RPG, see the following sections of this filing:

Part I Item 1 “Financial Statements:”

- o Footnote 1 “Basis of Presentation and Summary of Significant Accounting Policies”
- o Footnote 4 “Loans and Allowance for Loan Losses”
- o Footnote 6 “Federal Home Loan Bank Advances”
- o Footnote 11 “Segment Information”

Part I Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations:”

- o “Overview”
- o “Results of Operations”
- o “Comparison of Financial Condition”

RPS division:

Nationally, through RB, the RPS division is preparing to become an issuing bank to offer general purpose reloadable prepaid debit, payroll, gift and incentive cards through third party program managers. If successful, this program is expected to:

- o Generate a low-cost deposit source;
- o Generate float revenue from the previously mentioned low cost deposit source;
- o Serve as a source of fee income; and
- o Generate debit card interchange revenue.

For the projected near-term, as the prepaid card program is being established, the operating results of the RPS division are expected to be immaterial to the Company’s overall results of operations and will be reported as part of the RPG business segment. The RPS division will not be reported as a separate business segment until such time, if any, that it becomes material.

The Company divides prepaid cards into two general categories: reloadable and non-reloadable cards.

Reloadable Cards: These types of cards are generally payroll or considered general purpose reloadable (“GPR”) cards. Payroll cards are issued to an employee by an employer to receive the direct deposit of their payroll. GPR cards can also be issued to a consumer at a retail location or mailed to a consumer after completing an on-line application. GPR cards can be reloaded multiple times with a consumer’s payroll, government benefit, a federal or state tax refund or through cash reload networks located at retail locations. Reloadable cards are generally open loop cards as described below.

Non-Reloadable Cards: These are generally one-time use cards that are only active until the funds initially loaded to the card are spent. These types of cards are gift or incentive cards. These cards may be open loop or closed loop. Normally these types of cards are used for purchase of goods or services at retail locations and cannot be used to receive cash.

These prepaid cards may be open loop, closed loop or semi-closed loop. Open loop cards can be used to receive cash at ATM locations or purchase goods or services by PIN or signature at retail locations. These cards can be used virtually anywhere that Visa® or MasterCard® is accepted. Closed loop cards can only be used at a specific merchant. Semi-closed loop cards can be used at several merchants such as a shopping mall.

The prepaid card market is one of the fastest growing segments of the payments industry in the U.S. This market has experienced significant growth in recent years due to consumers and merchants embracing improved technology, greater convenience, more product choices and greater flexibility. Prepaid cards have also proven to be an attractive alternative to traditional bank accounts for certain segments of the population, particularly those without, or who could not qualify for, a checking or savings account.

The RPS division will work with various third parties to distribute prepaid cards to consumers throughout the U.S. The Company will also likely work with these third parties to develop additional financial services for consumers to increase the functionality of the program and prepaid card usage.

OVERVIEW (Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011)

Net income for the three months ended June 30, 2012 was $9.6 million, representing an increase of $915,000, or 11%, compared to the same period in 2011. Diluted earnings per Class A Common Share increased to $0.46 for the quarter ended June 30, 2012 compared to $0.41 for the same period in 2011.

General highlights by segment for the quarter ended June 30, 2012 consisted of the following:

Traditional Banking segment (Second Quarter Highlights)

- Net income decreased $830,000 for the second quarter of 2012 compared to the same period in 2011. The decrease was generally related to the operating loss of the recently acquired TCB franchise and a $1.9 million pre-tax security gain recorded during the second quarter of 2011.

- Net interest income increased $1.7 million, or 6%, for the second quarter of 2012 to $28.1 million. The Traditional Banking segment net interest margin increased 7 basis points for the quarter ended June 30, 2012 to 3.57%.

- Provision for loan losses was $831,000 for the quarter ended June 30, 2012 compared to $585,000 for the same period in 2011.

- Total non interest income decreased $1.9 million for the second quarter of 2011 compared to the same period in 2011 primarily due to security gains recorded during the second quarter of 2011.

- Total non interest expense increased $911,000, or 4%, during the second quarter of 2012 compared to the second quarter of 2011 due primarily to pre-conversion overhead costs associated with the TCB acquisition.

- Total non-performing loans to total loans for the Traditional Banking segment was 0.93% at June 30, 2012, compared to 1.02% at December 31, 2011 and 1.28% at June 30, 2011.

- During the second quarter of 2011, the Bank purchased commercial real estate loans with a face amount of approximately $37 million at a 13% discount to par.

- During the second quarter of 2011, the Bank sold available for sale mortgage backed securities with an amortized cost of $132 million, resulting in a pre-tax gain of $1.9 million.

- The Bank launched its Warehouse Lending division during the second quarter of 2011 and had $89 million in loans outstanding at June 30, 2012 compared to $41 million and $6 million at December 31, 2011 and June 30, 2011, respectively.

Mortgage Banking segment (Second Quarter Highlights)

- Within the Mortgage Banking segment, mortgage banking income increased $1.0 million during the second quarter of 2012 compared to the same period in 2011.

- Mortgage banking income was positively impacted by an increase in secondary market loan volume during the second quarter of 2012.

RPG segment - (Second Quarter Highlights)

Net income increased $1.1 million, or 83%, for the second quarter of 2012 compared to the same period in 2011. The increase in quarter-over-quarter earnings was generally attributable to a Civil Money Penalty assessed by the FDIC against RB&T during the second quarter of 2011 at a non-tax deductible $2 million level as part of the Amended Notice. The actual penalty paid during the fourth quarter of 2011 in connection with the settlement was $900,000, resulting in a $1.1 million credit to pre-tax income recorded during the fourth quarter of 2011.

Net interest income decreased $198,000, or 54%, for the second quarter of 2012 compared to the same period in 2011.

RPG recorded a net credit to provision for loan losses of $365,000 for the second quarter of 2012, compared to a net credit of $1.0 million for the same period in 2011.

RPG posted non-interest income of $6.2 million for the second quarter of 2012 compared to $6.6 million for the same period in 2011.

The current year tax season represents the last season that RB&T will originate RALs. RB&T will continue to offer ERC/ERD products in the future.

For additional discussion regarding TRS, a division of RPG, see the following sections of this filing:

Part I Item 1 "Financial Statements:"

- o Footnote 1 "Basis of Presentation and Summary of Significant Accounting Policies"
- o Footnote 4 "Loans and Allowance for Loan Losses"
- o Footnote 6 "Federal Home Loan Bank Advances"
- o Footnote 11 "Segment Information"

Part I Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations:"

- o "Business Segment Composition"
- o "Results of Operations"
- o "Comparison of Financial Condition"

RESULTS OF OPERATIONS (Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011)

Net Interest Income

Banking results of operations are primarily dependent upon net interest income. Net interest income is the difference between interest income on interest-earning assets, such as loans and investment securities and the interest expense on liabilities used to fund those assets, such as interest-bearing deposits, securities sold under agreements to repurchase and Federal Home Loan Bank ("FHLB") advances. Net interest income is impacted by both changes in the amount and composition of interest-earning assets and interest-bearing liabilities, as well as market interest rates.

Total Company net interest income increased $1.5 million, or 6%, for the second quarter of 2012 compared to the same period in 2011. The total Company net interest margin increased 3 basis points to 3.53% for the same period. The most significant components impacting the total Company's net interest income were as follows:

Traditional Banking segment

Net interest income within the Traditional Banking segment increased $1.7 million, or 6%, for the second quarter of 2012 compared to 2011. The Traditional Banking net interest margin increased 7 basis points for the same period to 3.57%. The increase in net interest income during the second quarter of 2012 was directly attributable to an increase in the average balance of loans outstanding, as well as an increase in the average investment portfolio resulting from the strategies discussed below.

Regarding the increase in the investment portfolio, prior to the first quarter of 2011, the Bank's general investment strategy was largely to not reinvest the cash it had been receiving from its loan and investment paydowns and pay-offs into assets with longer-term repricing horizons due to market projections of interest rate increases in the future. As a result, much of the cash the Bank received from paydowns during the years previous to 2011 had been reinvested into short-term, lower yielding investments, which had improved the Bank's risk position from future interest rate increases, while negatively impacting then-current earnings. This conservative investment strategy, which involved minimal credit risk and minimal interest rate risk, led the Bank to hold a significant sum of cash at the Federal Reserve Bank ("FRB") for much of the previous two years.

In February 2011, the Bank modified its conservative investment strategy, taking on more interest rate risk by reinvesting a portion of its excess cash into longer-term investment securities, thus increasing its projected net interest income and net interest margin for the near-term. The Bank made this revision to its conservative strategy, in large part, due to the on-going contraction of its net interest margin resulting from continued paydowns in its loan portfolio and the large amount of cash on hand earning 0.25%. While the Bank has slightly revised this strategy from time to time since the first quarter of 2011, in general, it has maintained the same strategic direction of extending the maturities within its investment portfolio in order to increase its yield on interest-earning assets. Although the Bank has taken on more interest rate risk as a result of this strategy, the overall interest rate risk position of the Bank continues to remain within limits set by its board of directors.

In addition to the activity noted within its securities portfolio, the Bank implemented various other strategies during the past several months to positively impact net interest income. Specifically within the loan portfolio, four distinguishable circumstances occurred positively impacting the size of its loan portfolio and correspondingly providing a positive impact to net interest income.

As disclosed in previous filings, the first of these circumstances occurred in June 2011 when the Bank purchased approximately $37 million of performing commercial real estate loans at a 13% discount. The Bank made this purchase as one of its strategies to reverse an on-going contraction in its net interest margin. At the time of purchase, these loans had a weighted average life of approximately seven years with an expected yield of 8.28%.

Secondly, as discussed in more detail within the "Loan Portfolio" section of this filing, the Bank started its Mortgage Warehouse Lending Division during June of 2011. During the second quarter of 2012, the Mortgage Warehouse Lending Division had average loans outstanding of $55 million achieving an average yield of 4.60%.

The third circumstance occurred on January 27, 2012 when RB&T, acquired TCB. The Bank acquired loans, net of loans put back to the FDIC, with a fair value of approximately $56 million and an initial projected effective yield of 7.94%. At June 30, 2012 TCB loans with a carrying value of $39 million were still outstanding. See additional discussion regarding the TCB acquisition under Footnote 2 "Bank Acquisition" of Part I Item 1 "Financial Statements."

Lastly, the average balance of the Bank's residential real estate loans increased $131 million compared to the second quarter of 2011 due primarily to growth in the Bank's Home Equity Amortizing Loan ("HEAL") product. The HEAL product is described in more detail within the "Loan Portfolio" section of this filing.

Within the liabilities section of the balance sheet, the Bank continued to reprice its interest-bearing deposits lower to partially offset declining asset yields. In addition, due to the steepness of the yield curve and the FRB's pledge to keep the Federal Funds Target Rate ("FFTR") low for an extended period of time. The Bank prepaid $81 million in FHLB advances during the first quarter of 2012 that were originally scheduled to mature between October 2012 and May 2013. These advances had a weighted average cost of 3.56%. The Bank incurred a $2.4 million early termination penalty in connection with these prepayments, which will save the Bank approximately $2.6 million in interest expense during the remainder of 2012 and the first five months of 2013.

The interest savings realized by the Bank as a result of these prepayments have been and will continue to be reduced by the Bank's on-going interest rate risk mitigation practices, which often includes strategies utilizing long term advances from the FHLB. In particular, the Bank took advantage of declining interest rates during the second quarter of 2012 to borrow $120 million of long-term advances with a weighted average life of 5.5 years and a weighted average cost of 1.45%. The Bank borrowed these funds on a long-term basis to mitigate its interest rate risk position in the event of an increasing rate environment.

Management expects to continue to experience downward repricing in its loan and investment portfolios resulting from on-going paydowns and early payoffs. This downward repricing will continue to cause compression in Republic's net interest income and net interest margin. Additionally, because the FFTR (the index which many of the Bank's short-term deposit rates track) has remained at a target range between 0.00% and 0.25%, no future FFTR decreases from the Federal Open Markets Committee of the FRB are possible, exacerbating the compression to the Bank's net interest income and net interest margin caused by its repricing loans and investments. The Bank is unable to precisely determine the ultimate negative impact to the Bank's net interest spread and margin in the future because several factors remain unknown at this time, such as future demand for financial products and the overall future need for liquidity, among many other factors.

RPG segment

Net interest income within the RPG segment decreased $198,000, or 54%, for the second quarter of 2012 compared to the same period in 2011. The decrease in RPG net interest income was primarily due to a $321,000 decline in RAL fee income resulting from a corresponding 23% decrease in RAL volume. The overall decline in the volume of RALs originated during 2012 resulted from a general decrease in consumer demand for the product. Management believes the decrease in RAL volume, which is generated through retail locations, is the result of a shift in consumer demand toward lower priced on-line tax preparation services and increased competition within the retail market based on free products and services from competitors.

For additional discussion regarding TRS, a division of RPG, see the following sections of this filing:

- Part I Item 1 “Financial Statements:”
  - o Footnote 1 “Basis of Presentation and Summary of Significant Accounting Policies”
  - o Footnote 4 “Loans and Allowance for Loan Losses”
  - o Footnote 6 “Federal Home Loan Bank Advances”
  - o Footnote 11 “Segment Information”
- Part I Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations:”
  - o “Business Segment Composition”
  - o “Overview”
  - o “Comparison of Financial Condition”

Table 1 provides detailed total Company information as to average balances, interest income/expense and rates by major balance sheet category for the three month periods ended June 30, 2012 and 2011. Table 2 provides an analysis of total Company changes in net interest income attributable to changes in rates and changes in volume of interest-earning assets and interest-bearing liabilities for the same periods.

For additional information on the potential future effect of changes in short-term interest rates on Republic’s net interest income, see the table titled “Traditional Banking Interest Rate Sensitivity for 2012” in this section of the filing.

Table 1 – Total Company Average Balance Sheets and Interest Rates for the Three Months Ended June 30, 2012 and 2011

	Three Months Ended June 30, 2012			Three Months Ended June 30, 2011		
(dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-earning assets:						
Taxable investment securities, including FHLB stock(1)	$ 680,134	$ 3,217	1.89 %	$ 652,693	$ 4,400	2.70 %
Federal funds sold and other interest-earning deposits	117,497	63	0.21 %	221,695	216	0.39 %
Refund Anticipation Loan fees(2)	1,026	135	52.63 %	3,548	454	51.18 %
Traditional Bank loans and fees(2)(3)	2,405,154	30,399	5.06 %	2,189,271	29,389	5.37 %
Total interest-earning assets	3,203,811	33,814	4.22 %	3,067,207	34,459	4.49 %
Less: Allowance for loan losses	23,694			29,255		
Non interest-earning assets:						
Non interest-earning cash and cash equivalents	35,922			75,614		
Premises and equipment, net	33,674			36,690		
Other assets(1)	53,274			58,680		
Total assets	$ 3,302,987			$ 3,208,936		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Transaction accounts	$ 602,613	$ 108	0.07 %	$ 357,268	$ 132	0.15 %
Money market accounts	464,325	193	0.17 %	716,227	614	0.34 %
Time deposits	231,104	512	0.89 %	249,804	1,043	1.67 %
Brokered money market and brokered CD's	116,385	400	1.37 %	130,707	483	1.48 %
Total deposits	1,414,427	1,213	0.34 %	1,454,006	2,272	0.63 %

Securities sold under agreements to repurchase and other short-term borrowings	250,515	118	0.19 %	274,074	173	0.25 %
Federal Home Loan Bank advances	479,064	3,540	2.96 %	527,669	4,556	3.45 %
Subordinated note	41,240	631	6.12 %	41,240	629	6.10 %
Total interest-bearing liabilities	2,185,246	5,502	1.01 %	2,296,989	7,630	1.33 %
Non interest-bearing liabilities and Stockholders' equity						
Non interest-bearing deposits	533,649			409,391		
Other liabilities	49,516			56,424		
Stockholders' equity	534,576			446,132		
Total liabilities and stockholders' equity	$ 3,302,987			$ 3,208,936		
Net interest income		$ 28,312			$ 26,829	
Net interest spread			3.21 %			3.16 %
Net interest margin			3.53 %			3.50 %

(1) For the purpose of this calculation, the fair market value adjustment on investment securities resulting from FASB ASC Topic 320, Investments – Debt and Equity Securities, is included as a component of other assets.
(2) The amount of loan fee income included in total interest income was $1.3 million and $1.1 million for the three months ended June 30, 2012 and 2011.
(3) Average balances for loans include the principal balance of non accrual loans and loans held for sale.

Table 2 illustrates the extent to which changes in interest rates and changes in the volume of total Company interest-earning assets and interest-bearing liabilities impacted Republic's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume) and (iii) net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

Table 2 – Total Company Volume/Rate Variance Analysis for the Three Months Ended June 30, 2012 and 2011

	Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011 Increase / (Decrease) Due to		
(in thousands)	Total Net Change	Volume	Rate
Interest income:			
Taxable investment securities, including FHLB stock	$ (1,183)	$ 178	$ (1,361)
Federal funds sold and other interest-earning deposits	(153)	(78)	(75)
Refund Anticipation Loan fees	(319)	(332)	13
Traditional Bank loans and fees	1,010	2,792	(1,782)
Net change in interest income	(645)	2,560	(3,205)
Interest expense:			
Transaction accounts	(24)	64	(88)
Money market accounts	(421)	(171)	(250)
Time deposits	(531)	(73)	(458)
Brokered money market and brokered CDs	(83)	(51)	(32)
Securities sold under agreements to repurchase and other short-term borrowings	(55)	(14)	(41)
Federal Home Loan Bank advances	(1,016)	(396)	(620)
Subordinated note	2	-	2
Net change in interest expense	(2,128)	(641)	(1,487)
Net change in net interest income	$ 1,483	$ 3,201	$ (1,718)

73

Provision for Loan Losses (Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011)

The Company recorded a provision for loan losses of $466,000 for the second quarter 2012, compared to a net credit provision of $439,000 for the same period in 2011. The significant components comprising the Company's increased provision for loan losses were as follows:

Traditional Banking segment

The Traditional Banking provision for loan losses during the second quarter of 2012 was $831,000, a $246,000 increase from the $585,000 recorded during the second quarter of 2011.

The increase in the provision was generally attributable to an increase in the Company's loan loss reserves for its pass-rated credits due to a general increase in historical loss percentages combined with growth in the loan portfolio. While the Company's delinquency and nonperforming loan ratios continue to trend favorably, the Company's charge offs in the second quarter of 2012 remained elevated as compared to historical amounts. These charge offs were mostly reserved for in prior periods. While the Company continues to see signs of improvement in many of its credit quality indicators, the Company's management remains cautious in its outlook, as there remains concurrent negative indications within the economic, regulatory and political sectors that could impact the Bank's customers ability to repay.

See the section titled "Asset Quality" in this section of the filing under "Comparison of Financial Condition at June 30, 2012 and December 31, 2011" for additional discussion regarding the Company's provision for loan losses, classified assets, allowance for loan losses, non-performing loans, delinquent loans, impaired loans and TDRs.

RPG segment

Substantially all RALs issued by the Company each year are made during the first quarter. RALs are generally repaid by the IRS or applicable taxing authority within two weeks of origination. Losses associated with RALs result from the IRS not remitting taxpayer refunds to the Company associated with a particular tax return. This occurs for a number of reasons, including errors in the tax return and tax return fraud which are identified through IRS audits resulting from revenue protection strategies. In addition, the Company also incurs losses as a result of tax debts not previously disclosed during its underwriting process.

For the three months ended June 30, 2012, the TRS division provision for loan losses was a net credit of $365,000 compared to a net credit of $1.0 million for the same period in 2011. The net credit in both periods resulted from better than previously projected paydowns within the RB&T's RAL portfolio.

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

Table 3 – Summary of Loan Loss Experience for the Three Months Ended June 30, 2012 and 2011

	Three Months Ended June 30,	
(dollars in thousands)	2012	2011
Allowance for loan losses at beginning of period	$ 23,732	$ 29,144
Charge offs:		
Residential real estate:		
Owner occupied	(491)	(544)
Non owner occupied	(262)	(41)
Commercial real estate	(295)	(161)
Commercial real estate - purchased whole loans	-	-
Real estate construction	(501)	(53)
Commercial	(7)	(100)
Warehouse lines of credit	-	-
Home equity	(199)	(347)
Consumer:		
Credit cards	(50)	(29)
Overdrafts	(100)	(141)
Other consumer	(52)	(77)
Refund Anticipation Loans	(343)	(2,037)
Total charge offs	(2,300)	(3,530)
Recoveries:		
Residential real estate:		
Owner occupied	34	53
Non owner occupied	-	-
Commercial real estate	13	225
Commercial real estate - purchased whole loans	-	-
Real estate construction	27	4
Commercial	10	5
Warehouse lines of credit	-	-
Home equity	55	63
Consumer:		
Credit cards	4	3
Overdrafts	87	151
Other consumer	44	62
Refund Anticipation Loans	338	190
Total recoveries	612	756
Net loan charge offs	(1,688)	(2,774)
Provision for loan losses - Traditional Banking	831	585
Provision for loan losses - Refund Anticipation Loans	(365)	(1,024)
Total provision for loan losses	466	(439)
Allowance for loan losses at end of period	$ 22,510	$ 25,931

Total Company Credit Quality Ratios:				
Allowance for loan losses to total loans	0.92	%	1.17	%
Allowance for loan losses to non performing loans	100	%	91	%
Annualized net loan charge offs to average loans outstanding	0.28	%	0.51	%
Traditional Banking Credit Quality Ratios:				
Allowance for loan losses to total loans	0.92	%	1.17	%
Allowance for loan losses to non performing loans	100	%	91	%
Annualized net loan charge offs to average loans outstanding	0.28	%	0.17	%

Non interest Income (Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011)

Total Company non interest income decreased $1.3 million, or 8%, for the second quarter of 2012 compared to the same period in 2011. The most significant components comprising the total Company's non interest income were as follows:

Traditional Banking segment

Traditional Banking segment non interest income decreased $1.9 million for the second quarter of 2012 compared to the same period in 2011.

Service charges on deposit accounts decreased $450,000, or 12%, during the second quarter of 2012 compared to the same period in 2011. The decrease was primarily the result of the continued general decline in consumer overdraft activity that the Company, and the banking industry as a whole, has experienced the past several years. In addition, further contributing to this general decline in consumer overdraft activity, was the additional FDIC guidelines in relation to overdraft honor programs, which took effect in July 2011. These guidelines have continued to have a negative impact on the Bank's net income since their implementation in 2011 and will continue so in the future.

The Bank earns a substantial majority of its fee income related to its overdraft service program from the per item fee it assesses its customers for each insufficient funds check or electronic debit presented for payment. In addition, the Bank estimates that it has historically earned more than 60% of its overdraft related fees on the electronic debits presented for payment. Both the per item fee and the daily fee assessed to the account resulting from its overdraft status, if computed as a percentage of the amount overdrawn, results in a high rate of interest when annualized and are thus considered excessive by some consumer groups. The total net per item fees included in service charges on deposits for the second quarters of 2012 and 2011 were $1.8 million and $2.6 million. The total net daily overdraft charges included in interest income for the second quarter of 2012 and 2011 was $401,000 and $467,000, respectively.

As a result of the continued decline in service charges on deposits and a further anticipated decline as a result of the new FDIC guidelines, the Bank instituted a new fee structure for its retail checking account products during the third quarter of 2011. The new product design was implemented on July 1, 2011 for all newly opened retail accounts. On August 1, 2011 the Bank converted the substantial majority of its existing retail checking accounts into new product types with new fee structures. The goal of the new fee structure, in the short-term, was to reverse the trend of declining service charges on deposits. In the long-term, the Bank's goal is that the new fee structure, combined with growth in the Bank's retail checking account base, will allow the service charges on deposits category to increase once again. Revenue generated during the second quarter of 2012 as a result of these new fees was approximately $386,000, partially offsetting the decrease in overdraft-related fees for the same period.

During the second quarter of 2011, the Bank sold securities with an amortized cost of $132 million as the Bank repositioned a portion of its portfolio into securities with a shorter duration than those sold. As a result of market conditions at the time of sale, the Bank recorded a pre-tax gain on sale of $1.9 million.

Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income increased $1.0 million during the second quarter of 2012 compared to the same period in 2011. Mortgage banking income was positively impacted by an increase in secondary market loan volume during the second quarter of 2012, which resulted from the continued low long-term interest rate environment. During the second quarter of 2012, Republic received application volume for long-term fixed rate mortgages of $143 million compared to $78 million during the second quarter of 2011. In addition, secondary market pricing has generally improved across the industry during 2012 compared to the prior year.

RPG segment

RPG non interest income decreased $449,000, or 7%, during the second quarter of 2012 compared to the same period in 2011 consistent with the decline in volume of net ERC/ERD's.

For additional discussion regarding TRS, a division of RPG, see the following sections of this filing:

Part I Item 1 "Financial Statements:"

- Footnote 1 "Basis of Presentation and Summary of Significant Accounting Policies"
- Footnote 4 "Loans and Allowance for Loan Losses"
- Footnote 6 "Federal Home Loan Bank Advances"
- Footnote 11 "Segment Information"

Part I Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations:"

- "Business Segment Composition"
- "Overview"
- "Comparison of Financial Condition"

Non interest Expenses (Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011)

Total Company non interest expenses decreased $1.1 million, or 4%, during the second quarter of 2012 compared to the same period in 2011. TRS division non interest expenses decreased $2.0 million while the Traditional Banking segment increased $911,000 for the second quarter of 2012 compared to the same period in 2011. The most significant components comprising the increase in total Company non interest expense were as follows:

Traditional Banking segment

Salaries and benefits increased $260,000 for the second quarter of 2012. The Company incurred $1.0 million in salaries and benefit expenses associated with the TCB acquisition during the second quarter of 2012. Approximately $473,000 of the second quarter TCB expense was related to incentive compensation accruals related to the TCB acquisition. Approximately $61,000 of these accruals were for retention bonuses payable to former TCB employees if they remain with the Bank through various dates up through the system conversion date in July 2012. Approximately $270,000 of these accruals were for short-term incentive bonuses for Bank employees related to a successful system conversion within six months of the Acquisition Date, with $118,000 of the accruals for Bank associates related to a two-year profitability goal for the TCB transaction. The increase in salary and benefits related to the TCB acquisition was partially offset by a reduction in salaries and bonus accruals associated with the Bank’s traditional operations.

Occupancy and equipment expense increased $197,000 during the second quarter of 2012. The majority of the increase is attributable to the TCB acquisition for expense items such as rent expense, leased and rented equipment and equipment service. Management believes that the TCB related expense will decrease significantly subsequent to the branch consolidation and core system conversion which occurred mid July 2012.

Data processing expense increased $423,000 during the second quarter of 2012 compared to the same period in 2011 primarily due to $301,000 in TCB-related data processing costs and internet banking enhancements. Management believes that the TCB related expense will decrease significantly subsequent to the branch consolidation and core system conversion which occurred mid July 2012.

Communication and transportation expense increased $122,000 during the second quarter of 2012. Approximately $95,000 of the fluctuation was attributable to the TCB acquisition and respective phone, freight and postage costs.

FDIC insurance expense declined $349,000 during the second quarter of 2012. In February 2011, as required by the Dodd-Frank Act, the FDIC approved a rule that changed the FDIC insurance assessment base from adjusted domestic deposits to a bank’s average consolidated total assets minus average tangible equity, defined as Tier 1 capital. While the new rule expanded the assessment base, it lowered the assessment rate for banks in the lowest risk category. The change was effective for the second quarter of 2011.

Other expense increased $365,000 during the second quarter of 2012. Approximately $421,000 of the fluctuation is attributable to the TCB acquisition.

See additional discussion regarding the TCB acquisition under Footnote 2 “Bank Acquisition” of Part I Item 1 “Financial Statements.”

RPG segment

Salaries and employee benefits increased $807,000, or 67%, for the second quarter of 2012 compared to the second quarter of 2011. The second quarter of 2011 reflected a bonus expense credit adjustment of $453,000 as the segment failed to achieve its gross operating profit goals. While the segment did not achieve its gross operating profit goals in 2012 as well, the Company was able to definitively determine this during the first quarter of 2012 and therefore recorded less bonus expense. The remaining increase in salary expense is primarily attributable to the RPS division which was started during the second quarter of 2012.

FDIC insurance expense decreased $441,000 during the second quarter of 2012 related primarily to the elimination of a higher assessment rate levied against the Bank for its deposit insurance during 2011 resulting from facts and circumstances specific to the Bank and RPG.

Legal expense at RPG was $33,000 for the second quarter of 2012 compared to $652,000 for the second quarter of 2011. The decrease in legal expense was directly related to the December 2011 resolution of RB&T's on-going regulatory actions with the FDIC as described in the Agreement.

During the second quarter of 2011, the FDIC assessed a Civil Money Penalty against RB&T at a $2 million level as part of the Amended Notice. The actual penalty paid during the fourth quarter of 2011 in connection with the settlement was $900,000, resulting in a $1.1 million credit to pre-tax income recorded during the fourth quarter of 2011.

For additional discussion regarding TRS, a division of RPG, see the following sections of this filing:

Part I Item 1 "Financial Statements:"

- o Footnote 1 "Basis of Presentation and Summary of Significant Accounting Policies"
- o Footnote 4 "Loans and Allowance for Loan Losses"
- o Footnote 6 "Federal Home Loan Bank Advances"
- o Footnote 11 "Segment Information"

Part I Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations:"

- o "Business Segment Composition"
- o "Overview"
- o "Comparison of Financial Condition"

OVERVIEW (Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011)

Net income for the six months ended June 30, 2012 was $92.1 million, representing an increase of $12.0 million, or 15%, compared to the same period in 2011. Diluted earnings per Class A Common Share increased to $4.38 for the six months ended June 30, 2012 compared to $3.82 for the same period in 2011.

General highlights by segment for the six months ended June 30, 2012 consisted of the following:

Traditional Banking segment (First Six Months Highlights)

Republic acquired loans with a fair value of $56 million and deposits with a fair value of $947 million from TCB in a failed bank acquisition from the FDIC on January 27, 2012. The transaction resulted in a pre-tax bargain purchase gain of $27.8 million primarily recorded during the first quarter of 2012. See additional discussion regarding the TCB acquisition under Footnote 2 “Bank Acquisition” of Part I Item 1 “Financial Statements.”

As expected, approximately $873 million of the deposit liabilities assumed in the TCB transaction exited RB&T by June 30, 2012 due to the substantial reduction in the rates paid to the former TCB depositors by RB&T.

Net income increased $17.0 million for the first six months of 2012 compared to the same period in 2011.

Net interest income increased $4.4 million, or 9%, for the first six months of 2012 to $56.0 million. The Traditional Banking segment net interest margin increased 16 basis points for the six months ended June 30, 2012 to 3.58%.

Provision for loan losses was $4.0 million for the six months ended June 30, 2012 compared to $4.9 million for the same period in 2011.

Total non interest income increased $26.6 million for the first six months of 2012 compared to the same period in 2011 primarily due to the bargain purchase gain detailed above.

Total non interest expense increased $4.9 million, or 11%, during the first six months of 2012 compared to the same period in 2011.

Total non-performing loans to total loans for the Traditional Banking segment was 0.93% at June 30, 2012, compared to 1.02% at December 31, 2011 and 1.28% at June 30, 2011.

The Bank’s Warehouse Lending division had $89 million in loans outstanding at June 30, 2012.

Mortgage Banking segment (First Six Months Highlights)

Within the Mortgage Banking segment, mortgage banking income increased $1.6 million, or 91%, during the first six months of 2012 compares to the same period in 2011.

Mortgage banking income was positively impacted by an increase in secondary market loan volume during the first six months of 2012.

RPG segment (First Six Months Highlights)

The total dollar volume of tax refunds processed during the 2012 tax season decreased $1.1 billion, or 9%, from the 2011 tax season.

Total RAL dollar volume decreased from $1.0 billion during the 2011 tax season to $796 million during the 2012 tax season.

Total ERC dollar volume declined $1.1 billion, or 17%, during the 2012 tax season compared to the 2011 tax season. The decline in ERC volume was partially offset by a $258 million, or 6%, increase in the lower margin ERD product. Revenue from both products is included in the income statement line item “Electronic Refund Check Fees.”

Net income decreased $6.1 million, or 9%, for the first six months of 2012 compared to the same period in 2011.

Net interest income decreased $13.7 million, or 23%, for the first six months of 2012 compared to the same period in 2011.

RPG recorded a provision for loan losses of $7.7 million for the first six months of 2012, compared to $12.7 million for the same period in 2011.

RPG posted non interest income of $78.1 million for the first six months of 2012 compared to $88.0 million for the same period in 2011.

RB&T obtained $300 million of FHLB advances during the fourth quarter of 2011 to fund projected RAL volume during the first quarter 2012 tax season. In addition, during the first quarter of 2012, RB&T obtained $252 million of brokered deposits to complete its required funding for the first quarter 2012 tax season.

The current year tax season represents the last season that RB&T will originate RALs. RB&T will continue to offer ERC/ERD products in the future.

For additional discussion regarding TRS, a division of RPG, see the following sections of this filing:

Part I Item 1 "Financial Statements:"

- o Footnote 1 "Basis of Presentation and Summary of Significant Accounting Policies"
- o Footnote 4 "Loans and Allowance for Loan Losses"
- o Footnote 6 "Federal Home Loan Bank Advances"
- o Footnote 11 "Segment Information"

Part I Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations:"

- o "Business Segment Composition"
- o "Overview"
- o "Comparison of Financial Condition"

RESULTS OF OPERATIONS (Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011)

Net Interest Income

Banking results of operations are primarily dependent upon net interest income. Net interest income is the difference between interest income on interest-earning assets, such as loans and investment securities and the interest expense on liabilities used to fund those assets, such as interest-bearing deposits, securities sold under agreements to repurchase and Federal Home Loan Bank ("FHLB") advances. Net interest income is impacted by both changes in the amount and composition of interest-earning assets and interest-bearing liabilities, as well as market interest rates.

Total Company net interest income decreased $9.3 million, or 8%, for the first six months of 2012 compared to the same period in 2011. The total Company net interest margin decreased 75 basis points to 5.73% for the same period. The most significant components affecting the total Company's net interest income were as follows:

Traditional Banking segment

Net interest income within the Traditional Banking segment increased $4.4 million, or 9%, for the first six months of 2012 compared to 2011. The Traditional Banking net interest margin increased 16 basis points for the same period to 3.58%. The increase in net interest income during the first six months of 2012 was directly attributable to an increase in the average balance of loans outstanding, as well as an increase in the average investment portfolio resulting from the strategies discussed below.

Regarding the increase in the investment portfolio, prior to the first quarter of 2011, the Bank's general investment strategy was largely to not reinvest the cash it had been receiving from its loan and investment paydowns and pay-offs into assets with longer-term repricing horizons due to market projections of interest rate increases in the future. As a result, much of the cash the Bank received from paydowns during the years previous to 2011 had been reinvested into short-term, lower yielding investments, which had improved the Bank's risk position from future interest rate increases, while negatively impacting then-current earnings. This conservative investment strategy, which involved minimal credit risk and minimal interest rate risk, led the Bank to hold a significant sum of cash at the FRB for much of the previous two years.

In February 2011, the Bank modified its conservative investment strategy, taking on more interest rate risk by reinvesting a portion of its excess cash into longer-term investment securities, thus increasing its projected net interest income and net interest margin for the near-term. The Bank made this revision to its conservative strategy, in large part, due to the on-going contraction of its net interest margin resulting from continued paydowns in its loan portfolio and the large amount of cash on hand earning 0.25%. While the Bank has slightly revised this strategy from time to time since the first quarter of 2011, in general, it has maintained the same strategic direction of extending the maturities within its investment portfolio in order to increase its yield on interest-earning assets. Although the Bank has taken on more interest rate risk as a result of this strategy, the overall interest rate risk position of the Bank continues to remain within limits set by its board of directors.

In addition to the activity noted within its securities portfolio, the Bank implemented various other strategies during the past several months to positively impact net interest income. Specifically within the loan portfolio, four distinguishable circumstances occurred positively impacting the size of its loan portfolio and correspondingly providing a positive impact to net interest income.

As disclosed in previous filings, the first of these circumstances occurred in June 2011 when the Bank purchased approximately $37 million of performing commercial real estate loans at a 13% discount. The Bank made this purchase as one of its strategies to reverse an on-going contraction in its net interest margin. At the time of purchase, these loans had a weighted average life of approximately seven years with an expected yield of 8.28%.

Secondly, as discussed in more detail within the "Loan Portfolio" section of this filing, the Bank started its Mortgage Warehouse Lending Division during June of 2011. During the six months ended June 30, 2012, the Mortgage Warehouse Lending Division had average loans outstanding of $48 million achieving an average yield of 4.45%.

The third circumstance occurred on January 27, 2012 when RB&T, acquired TCB. The Bank acquired loans, net of loans put back to the FDIC, with a fair value of approximately $56 million and an initial projected effective yield of 7.94%. At June 30, 2012 TCB loans with a carrying value of $39 million were still outstanding. See additional discussion regarding the TCB acquisition under Footnote 2 "Bank Acquisition" of Part I Item 1 "Financial Statements."

Lastly, the average balance of the Bank's residential real estate loans increased $137 million compared to the first six months of 2011 due primarily to growth in the Bank's Home Equity Amortizing Loan ("HEAL") product. The HEAL product is described in more detail within the "Loan Portfolio" section of this filing.

Within the liabilities section of the balance sheet, the Bank continued to reprice its interest-bearing deposits lower to partially offset declining asset yields. In addition, due to the steepness of the yield curve and the FRB's pledge to keep the FFTR low for an extended period of time. The Bank prepaid $81 million in FHLB advances during the first quarter of 2012 that were originally scheduled to mature between October 2012 and May 2013. These advances had a weighted average cost of 3.56%. The Bank incurred a $2.4 million early termination penalty in connection with these prepayments, which will save the Bank approximately $2.6 million in interest expense during the remainder of 2012 and the first five months of 2013.

The interest savings realized by the Bank as a result of these prepayments have been and will continue to be reduced by the Bank's on-going interest rate risk mitigation practices, which often includes strategies utilizing long term advances from the FHLB. In particular, the Bank took advantage of declining interest rates during 2012 (primarily the second quarter) to borrow $140 million of long-term advances with a weighted average life of 4 years and a weighted average cost of 1.40%. The Bank borrowed these funds on a long-term basis to mitigate its interest rate risk position in the event of an increasing rate environment.

Management expects to continue to experience downward repricing in its loan and investment portfolios resulting from on-going paydowns and early payoffs. This downward repricing will continue to cause compression in Republic's net interest income and net interest margin. Additionally, because the FFTR (the index which many of the Bank's short-term deposit rates track) has remained at a target range between 0.00% and 0.25%, no future FFTR decreases from the Federal Open Markets Committee of the FRB are possible, exacerbating the compression to the Bank's net interest income and net interest margin caused by its repricing loans and investments. The Bank is unable to precisely determine the ultimate negative impact to the Bank's net interest spread and margin in the future because several factors remain unknown at this time, such as future demand for financial products and the overall future need for liquidity, among many other factors.

RPG segment

Net interest income within the TRS division decreased $13.7 million, or 23%, for the first six months 2012 compared to the same period in 2011. The decrease in the TRS division net interest income was primarily due to a $13.9 million, or 24%, decline in RAL fee income resulting from a corresponding 23% decrease in RAL volume. The overall decline in the volume of RALs originated during the 2012 tax season resulted from a general decrease in consumer demand for the product. Management believes the decrease in RAL volume, which is generated through retail locations, is the result of a shift in consumer demand toward lower priced on-line tax preparation services and increased competition within the retail market based on free products and services from competitors.

The TRS division net interest income continued to benefit from low funding costs during the 2012 tax season. Average interest bearing liabilities, including brokered deposits and/or FHLB advances, utilized to fund RALs during the first six months 2012 and 2011 were $161 million and $212 million with a weighted average cost of 0.23% and 0.41%, respectively. As a result, interest expense for the TRS division was $149,000 for the first six months of 2012, compared to $412,000 for the same period in 2011.

For additional discussion regarding TRS, a division of RPG, see the following sections of this filing:

Part I Item 1 “Financial Statements:”

o Footnote 1 “Basis of Presentation and Summary of Significant Accounting Policies”
o Footnote 4 “Loans and Allowance for Loan Losses”
o Footnote 6 “Federal Home Loan Bank Advances”
o Footnote 11 “Segment Information”

Part I Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations:”

o “Business Segment Composition”
o “Overview”
o “Comparison of Financial Condition”

Table 4 provides detailed total Company information as to average balances, interest income/expense and rates by major balance sheet category for the six month periods ended June 30, 2012 and 2011. Table 5 provides an analysis of total Company changes in net interest income attributable to changes in rates and changes in volume of interest-earning assets and interest-bearing liabilities for the same periods.

For additional information on the potential future effect of changes in short-term interest rates on Republic’s net interest income, see the table titled “Traditional Banking Interest Rate Sensitivity for 2012” in this section of the filing.

Table 4 – Total Company Average Balance Sheets and Interest Rates for the Six Months Ended June 30, 2012 and 2011

	Six Months Ended June 30, 2012			Six Months Ended June 30, 2011		
(dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-earning assets:						
Taxable investment securities, including FHLB stock(1)	$ 685,230	$ 7,104	2.07 %	$ 633,679	$ 8,305	2.62 %
Federal funds sold and other interest-earning deposits	434,542	471	0.22 %	537,611	773	0.29 %
Refund Anticipation Loan fees(2)	48,665	45,215	185.82 %	59,730	59,131	197.99 %
Traditional Bank loans and fees(2)(3)	2,374,091	60,611	5.11 %	2,186,124	58,873	5.39 %
Total interest-earning assets	3,542,528	113,401	6.40 %	3,417,144	127,082	7.44 %
Less: Allowance for loan losses	27,384			32,694		
Non interest-earning assets:						
Non interest-earning cash and cash equivalents	111,818			160,847		
Premises and equipment, net	34,120			36,899		
Other assets(1)	66,009			58,575		
Total assets	$ 3,727,091			$ 3,640,771		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Transaction accounts	$ 602,704	$ 228	0.08 %	$ 348,386	$ 260	0.15 %
Money market accounts	455,728	395	0.17 %	695,733	1,225	0.35 %
Time deposits	280,697	1,201	0.86 %	274,444	2,231	1.63 %
Brokered money market and brokered CD's	203,167	928	0.91 %	352,937	1,494	0.85 %
Total deposits	1,542,296	2,752	0.36 %	1,671,500	5,210	0.62 %

Securities sold under agreements to repurchase and other short-term borrowings	260,919	230	0.18	%	295,957	424	0.29	%
Federal Home Loan Bank advances	580,291	7,626	2.63	%	544,886	9,390	3.45	%
Subordinated note	41,240	1,261	6.12	%	41,240	1,258	6.10	%
Total interest-bearing liabilities	2,424,746	11,869	0.98	%	2,553,583	16,282	1.28	%
Non interest-bearing liabilities and Stockholders' equity								
Non interest-bearing deposits	727,546				606,906			
Other liabilities	51,664				52,948			
Stockholders' equity	523,135				427,334			
Total liabilities and stockholders' equity	$ 3,727,091				$ 3,640,771			
Net interest income		$ 101,532				$ 110,800		
Net interest spread			5.42	%			6.16	%
Net interest margin			5.73	%			6.48	%

(4) For the purpose of this calculation, the fair market value adjustment on investment securities resulting from FASB ASC Topic 320, Investments – Debt and Equity Securities, is included as a component of other assets.

(5) The amount of loan fee income included in total interest income was $47.3 million and $60.4 million for the three months ended June 30, 2012 and 2011.

(6) Average balances for loans include the principal balance of non accrual loans and loans held for sale.

Table 5 illustrates the extent to which changes in interest rates and changes in the volume of total Company interest-earning assets and interest-bearing liabilities impacted Republic's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume) and (iii) net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

Table 5 – Total Company Volume/Rate Variance Analysis for the Six Months Ended June 30, 2012 and 2011

		Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011 Increase / (Decrease) Due to	
(in thousands)	Total Net Change	Volume	Rate
Interest income:			
Taxable investment securities, including FHLB stock	$ (1,201)	$ 636	$ (1,837)
Federal funds sold and other interest-earning deposits	(302)	(132)	(170)
Refund Anticipation Loan fees	(13,916)	(10,449)	(3,467)
Traditional Bank loans and fees	1,738	4,898	(3,160)
Net change in interest income	(13,681)	(5,047)	(8,634)
Interest expense:			
Transaction accounts	(32)	134	(166)
Money market accounts	(830)	(336)	(494)
Time deposits	(1,030)	50	(1,080)
Brokered money market and brokered CDs	(566)	(676)	110
Securities sold under agreements to repurchase and other short-term borrowings	(194)	(46)	(148)
Federal Home Loan Bank advances	(1,764)	579	(2,343)
Subordinated note	3	-	3
Net change in interest expense	(4,413)	(295)	(4,118)
Net change in net interest income	$ (9,268)	$ (4,752)	$ (4,516)

Provision for Loan Losses (Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011)

The Company recorded a provision for loan losses of $11.6 million for the first six months 2012, compared to a provision of $17.6 million for the same period in 2011. The significant components comprising the Company's decreased provision for loan losses were as follows:

Traditional Banking segment

The Traditional Banking provision for loan losses during the first six months of 2012 was $4.0 million, a $945,000 decline from the $4.9 million recorded during the first six months of 2011.

The decrease in the provision was generally attributable to an overall improvement in the Company's large classified loans. In particular, the Bank experienced a meaningful reduction in provision expense associated with its large dollar commercial and retail relationships that are individually reviewed for impairment. Included in provision expense for the first six months of 2012 and 2011 was $2.9 million and $4.7 million related to classified credits (Substandard and Special Mention / Watch). Approximately $1.2 million of the 2012 provision expense related to two large classified real estate secured credits while approximately $2.7 million of the 2011 provision expense related to three different large classified real estate secured credits.

The improvement noted above was partially offset during the respective periods by an increase in provision associated with the Company's loan loss reserves for its pass-rated credits due to a general increase in historical loss percentages combined with growth in the loan portfolio.

See the section titled "Asset Quality" in this section of the filing under "Comparison of Financial Condition at June 30, 2012 and December 31, 2011" for additional discussion regarding the Company's provision for loan losses, classified assets, allowance for loan losses, non-performing loans, delinquent loans, impaired loans and TDRs.

RPG segment

Substantially all RALs issued by the Company each year are made during the first quarter. RALs are generally repaid by the IRS or applicable taxing authority within two weeks of origination. Losses associated with RALs result from the IRS not remitting taxpayer refunds to the Company associated with a particular tax return. This occurs for a number of reasons, including errors in the tax return and tax return fraud which are identified through IRS audits resulting from revenue protection strategies. In addition, the Company also incurs losses as a result of tax debts not previously disclosed during its underwriting process.

At March 31st of each year, the Company reserves for its estimated RAL losses for the year based on current and prior year funding patterns, information received from the IRS on current year payment processing, projections using the Company's internal RAL underwriting criteria applied against prior years' customer data, and the subjective experience of Company management. RALs outstanding 30 days or longer are charged off at the end of each quarter with subsequent collections recorded as recoveries. Since the RAL season is over by the end of April of each year, substantially all uncollected RALs are charged off by June 30th of each year, except for those RALs management deems certain of collection.

As of June 30, 2012, $11.1 million of total RALs were outstanding past their expected funding date from the IRS compared to $15.5 million at June 30, 2011, representing 1.39% and 1.49% of total gross RALs originated during the respective tax years. Management expects the actual loan loss rate realized for the TRS division will be less than the current RALs outstanding beyond their expected funding date from the IRS because the Company will continue to receive payments from the IRS throughout the year and make other collection efforts to obtain repayment on the

RALs. Management's estimate of current year losses combined with recoveries of previous years' RALs, resulted in a net provision for loan loss expense of $7.7 million and $12.7 million for the TRS division during the first six months of 2012 and 2011.

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

Table 6 – Summary of Loan Loss Experience the Six Months Ended June 30, 2012 and 2011

	Six Months Ended June 30,	
(dollars in thousands)	2012	2011
Allowance for loan losses at beginning of period	$ 24,063	$ 23,079
Charge offs:		
Residential real estate:		
Owner occupied	(2,074)	(1,079)
Non owner occupied	(298)	(55)
Commercial real estate	(316)	(719)
Commercial real estate - purchased whole loans	-	-
Real estate construction	(1,796)	(53)
Commercial	(7)	(100)
Warehouse lines of credit	-	-
Home equity	(1,314)	(624)
Consumer:		
Credit cards	(78)	(103)
Overdrafts	(218)	(288)
Other consumer	(123)	(146)
Refund Anticipation Loans	(11,097)	(15,478)
Total charge offs	(17,321)	(18,645)
Recoveries:		
Residential real estate:		
Owner occupied	151	114
Non owner occupied	12	3
Commercial real estate	46	242
Commercial real estate - purchased whole loans	-	-
Real estate construction	55	105
Commercial	18	119
Warehouse lines of credit	-	-
Home equity	61	76
Consumer:		
Credit cards	24	17
Overdrafts	231	298
Other consumer	111	138
Refund Anticipation Loans	3,423	2,742
Total recoveries	4,132	3,854
Net loan charge offs	(13,189)	(14,791)
Provision for loan losses - Traditional Banking	3,962	4,907
Provision for loan losses - Refund Anticipation Loans	7,674	12,736
Total provision for loan losses	11,636	17,643
Allowance for loan losses at end of period	$ 22,510	$ 25,931

Total Company Credit Quality Ratios:				
Allowance for loan losses to total loans	0.92	%	1.17	%
Allowance for loan losses to non performing loans	100	%	91	%
Annualized net loan charge offs to average loans outstanding	1.09	%	1.32	%
Traditional Banking Credit Quality Ratios:				
Allowance for loan losses to total loans	0.92	%	1.17	%
Allowance for loan losses to non performing loans	100	%	91	%
Annualized net loan charge offs to average loans outstanding	0.46	%	0.19	%

Non interest Income (Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011)

Total Company non interest income increased $18.2 million, or 18%, for the first six months of 2012 compared to the same period in 2011. The most significant components comprising the total Company's non interest income were as follows:

Traditional Banking segment

Traditional Banking segment non interest income increased $26.6 million for the first six months of 2012 compared to the same period in 2011.

Service charges on deposit accounts decreased $571,000, or 8%, during the first six months of 2012 compared to the same period in 2011. The decrease was primarily the result of the continued general decline in consumer overdraft activity that the Bank, and the banking industry as a whole, has experienced the past several years. In addition, further contributing to this general decline in consumer overdraft activity, was the amended FDIC guidelines, which took effect in July 2011. These guidelines have continued to have a negative impact on the Bank's net income since their implementation in 2011 and will continue so in the future.

The Bank earns a substantial majority of its fee income related to its overdraft service program from the per item fee it assesses its customers for each insufficient funds check or electronic debit presented for payment. In addition, the Bank estimates that it has historically earned more than 60% of its overdraft related fees on the electronic debits presented for payment. Both the per item fee and the daily fee assessed to the account resulting from its overdraft status, if computed as a percentage of the amount overdrawn, results in a high rate of interest when annualized and are thus considered excessive by some consumer groups. The total net per item fees included in service charges on deposits for the first six months of 2012 and 2011 were $3.6 million and $4.9 million. The total net daily overdraft charges included in interest income for the first six months of 2012 and 2011 was $804,000 and $827,000, respectively.

As a result of the continued decline in service charges on deposits and a further anticipated decline as a result of the new FDIC guidelines, the Bank instituted a new fee structure for its retail checking account products during the third quarter of 2011. The new product design was implemented on July 1, 2011 for all newly opened retail accounts. On August 1, 2011 the Bank converted the substantial majority of its existing retail checking accounts into new product types with new fee structures. The goal of the new fee structure, in the short-term, was to reverse the trend of declining service charges on deposits. In the long-term, the Bank's goal is that the new fee structure, combined with growth in the Bank's retail checking account base, will allow the service charges on deposits category to increase once again. Revenue generated during the first six months of 2012 as a result of these new fees was approximately $802,000, partially offsetting the decrease in overdraft-related fees for the same period.

During the first quarter of 2012, the Company recorded an initial bargain purchase gain of $27.9 million as a result of the TCB acquisition. The bargain purchase gain was realized because the overall price paid by RB&T for was substantially less than the fair value of the TCB assets acquired and liabilities assumed in the transaction. During the second quarter of 2012 the Bank posted adjustments to the acquired assets for its FDIC-assisted acquisition in the determination of day one fair values and recorded a slight decrease to the bargain purchase gain of $96,000, as additional information relative to the Acquisition Date fair values became available.

During the first quarter of 2012, the Company recognized net securities gains/losses in earnings for securities available of $56,000. All of the securities sold were purchased in the TCB acquisition. Upon further analysis subsequent to the acquisition of TCB, management concluded that these securities did not fit the profile of securities traditionally purchased by the Company and thus sold them during the quarter. During the second quarter of 2011, the

Bank sold securities with an amortized cost of $132 million as the Bank repositioned a portion of its portfolio into securities with a shorter duration than those sold. As a result of market conditions at the time of sale, the Bank recorded a pre-tax gain on sale of $1.9 million.

See additional discussion regarding the TCB acquisition under Footnote 2 “Bank Acquisition” of Part I Item 1 “Financial Statements.”

Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income increased $1.6 million, or 91%, during the first six months of 2012 compared to the same period in 2011. Mortgage banking income was positively impacted by an increase in secondary market loan volume during the first six months of 2012, which resulted from the continued low long-term interest rate environment. During the first six months of 2012, the Bank received application volume for long-term fixed rate mortgages of $268 million compared to $147 million during the same period in 2011. In addition, secondary market pricing has generally improved across the industry during 2012 compared to the prior year.

RPG segment

RPG non interest income decreased $9.9 million, or 11%, during the first six months of 2012 compared to the same period in 2011. Net ERC/ERD fees decreased $9.8 million for the first six months of 2012 primarily attributable to the overall decrease in volume at the TRS division during the tax season. More specifically within the ERC/ERD category, ERC fees decreased 12% consistent with a 12% decrease in volume. The decline in ERC fees was partially offset by a 9% increase in online ERD fees driven by a 10% increase in the lower-margin ERD product. As with the decrease RPG experienced in RAL volume, management believes the decrease in ERC volume, which is generated through store-front locations, was a direct result of a shift in consumer demand toward lower priced on-line tax preparation services and increased competition within the retail market based on free products and services from competitors.

With regard to the TRS division of RPG, TRS faces direct competition for ERC/ERD market share from independently-owned processing groups partnered with banks. Independent processing groups that are unable to offer RAL products have historically been at a competitive disadvantage to banks who could offer RALs. With RB&T's resolution of its differences with the FDIC through the Agreement, RB&T will not originate RALs beyond April 30, 2012. Without the ability to originate RALs, RB&T will face increased competition in the ERC/ERD marketplace. In addition to a potential loss of volume resulting from additional competitors, RB&T will also likely incur substantial pressure on its profit margin for its ERC/ERD products as well.

In addition to the potential impact to ERCs and ERDS resulting from a loss of the RAL product, the Agreement could also negatively impact RB&T's ability to originate ERC and ERD products. As previously disclosed, the Agreement contains a provision for an ERO Plan to be implemented by RB&T. The ERO Plan places additional oversight and training requirements on RB&T and its tax preparation partners that is not currently required by the regulators for RB&T's competitors in the tax business. These additional requirements could make attracting new relationships, retaining existing relationships, and maintaining profit margin for ERCs and ERDs more difficult for RB&T once it is no longer able to offer RALs. At this time, management is unable to determine what the ultimate impact of the Agreement to ERC and ERD products will be in the future, but it does anticipate the impact to be negative to the overall profitability of the business segment.

For additional discussion regarding TRS, a division of RPG, see the following sections of this filing:

Part I Item 1 "Financial Statements:"

- o Footnote 1 "Basis of Presentation and Summary of Significant Accounting Policies"
- o Footnote 4 "Loans and Allowance for Loan Losses"
- o Footnote 6 "Federal Home Loan Bank Advances"
- o Footnote 11 "Segment Information"

Part I Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations:"

- o "Business Segment Composition"
- o "Overview"
- o "Comparison of Financial Condition"

Non interest Expenses (Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011)

Total Company non interest expenses declined $2.7 million, or 4%, during the first six months of 2012 compared to the same period in 2011. TRS division non interest expenses declined $7.6 million while the Traditional Banking segment increased $4.9 million for the first six months of 2012 compared to the same period in 2011. The most significant components comprising the increase in total Company non interest expense were as follows:

Traditional Banking segment

Salaries and benefits increased $959,000 during the first six months of 2012 compared to the same period in 2011. The Company incurred $2.0 million in salaries and benefit expense associated with the TCB acquisition during the first six months of 2012. Approximately $794,000 of the 2012 TCB expense was related to incentive compensation accruals related to the TCB acquisition. Approximately $124,000 of these accruals were for retention bonuses payable to former TCB employees if they remain with the Bank through various dates up through the system conversion date in July 2012. Approximately $450,000 of these accruals were for short-term incentive bonuses for Bank employees related to a successful system conversion within six months of the Acquisition Date, with $197,000 of the accruals for Bank associates related to a two-year profitability goal for the TCB transaction. The increase in salary and benefits related to the TCB acquisition was partially offset by a reduction in salaries and bonus accruals associated with the Bank’s traditional operations.

Occupancy and equipment expense increased $291,000 during the first six months of 2012 compared to the same period in 2011. Approximately $586,000 of the fluctuation is attributable to the TCB acquisition for expense items such as rent expense, leased and rented equipment and equipment service. Management believes that the TCB related expense will decrease significantly subsequent to the branch consolidation and core system conversion which occurred mid July 2012.

Data processing expense increased $826,000 during the first six months of 2012 compared to the same period in 2011 primarily due to $607,000 in TCB-related data processing costs and internet banking enhancements. Management believes that the TCB related expense will decrease significantly subsequent to the branch consolidation and core system conversion which occurred mid July 2012.

During the first quarter of 2012, the Bank prepaid $81 million in FHLB advances that were originally scheduled to mature between October 2012 and May 2013. These advances had a weighted average cost of 3.56%. The Bank recognized a $2.4 million early termination penalty during the first quarter of 2012 in connection with this prepayment. For further discussion regarding the early payoff of FHLB advances, see section titled “Net interest Income” within this section of the document.

Contributions expense increased $411,000 during the first six months of 2012 compared to the same period in 2011due to the first quarter contribution to the Republic Bank Foundation. See additional discussion below under “RPG segment - TRS division.”

Banking center and ATM service promotional expense during the first six months of 2012 decreased by $378,000. The decline was the direct result of the Bank’s new fee structure for retail checking accounts implemented during the third quarter of 2011. The new fee structure significantly reduced the number of client foreign ATM reimbursements paid by the Bank.

FDIC insurance expense decreased $752,000 during the first six months of 2012. In February 2011, as required by the Dodd-Frank Act, the FDIC approved a rule that changed the FDIC insurance assessment base from adjusted domestic deposits to a bank’s average consolidated total assets minus average tangible equity, defined as Tier 1 capital. While the new rule expanded the assessment base, it lowered the assessment rate for banks in the lowest risk category. The change was effective for the second quarter of 2011.

Audit and professional fees increased $297,000 during the first six months of 2012 compared to 2011 primarily due to the TCB acquisition and the respective external audit, valuation and tax consulting services required as part of the acquisition.

OREO expense increased $301,000 during the six months of 2012 compared to the same period in 2011 consistent with the increase in foreclosures associated with the TCB acquisition.

See additional discussion regarding the TCB acquisition under Footnote 2 “Bank Acquisition” of Part I Item 1 “Financial Statements.”

RPG segment

Salaries and employee benefits decreased $160,000, or 3%, for the first six months of 2012 compared to the same period in 2011. The first six months of 2012 reflected lower contract labor staffing costs and reduced bonus accruals tied to the expected achievement of the TRS division gross operating profit goals.

FDIC insurance expense decreased $1.2 million during the first six months of 2012 related primarily the new insurance calculation noted in the "Traditional Banking" discussion above and to the elimination of a higher assessment rate levied against the Bank for its deposit insurance during 2011 resulting from facts and circumstances specific to the Bank and the TRS division.

Bank Franchise tax expense represents taxes paid to different state taxing authorities based on capital. The substantial majority of the Company's Bank Franchise expense is paid to the commonwealth of Kentucky. Bank Franchise expense related to the TRS division increased $348,000 during the first six months of 2012 compared to 2011 primarily due to an increase in capital associated with continued strong earnings and the higher capital base at the TRS division.

Legal expense at the TRS division was $33,000 for the first six month of 2012 compared to $1.5 million for the same period in 2011. The decrease in legal expense was directly related to the December 2011 resolution of RB&T's on-going regulatory actions with the FDIC as described in the Agreement.

Charitable contribution expense totaled $1.9 million at the TRS division for the first six months of 2012, as RB&T made a $2.5 million contribution to the Republic Bank Foundation, which was allocated between the Company's business operating segments using a formula based on pre-tax profits for the quarter. Charitable contribution expense totaled $4.9 million at the TRS division for the first six months of 2011, as RB&T made a $5 million contribution to the Republic Bank Foundation. The Republic Bank Foundation was formed in 2010 to support charitable, educational, scientific and religious organizations throughout communities in Kentucky, Indiana, Ohio, Tennessee and Florida.

During the second quarter of 2011, the FDIC assessed a Civil Money Penalty against RB&T at a $2.0 million level as part of the Amended Notice. The actual penalty paid during the fourth quarter of 2011 in connection with the settlement was $900,000, resulting in a $1.1 million credit to pre-tax income during the fourth quarter of 2011.

For additional discussion regarding TRS, a division of RPG, see the following sections of this filing:

Part I Item 1 "Financial Statements:"

- o Footnote 1 "Basis of Presentation and Summary of Significant Accounting Policies"
- o Footnote 4 "Loans and Allowance for Loan Losses"
- o Footnote 6 "Federal Home Loan Bank Advances"
- o Footnote 11 "Segment Information"

Part I Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations:"

- o "Business Segment Composition"
- o "Overview"
- o "Comparison of Financial Condition"

COMPARISON OF FINANCIAL CONDITION AT JUNE 30, 2012 AND DECEMBER 31, 2011

Cash and Cash Equivalents

Cash and cash equivalents include cash, deposits with other financial institutions with original maturities less than 90 days and federal funds sold. Republic had $124 million in cash and cash equivalents at June 30, 2012 compared to $363 million at December 31, 2011.

During the fourth quarter of 2011, RB&T accumulated cash via Federal Home Loan Bank ("FHLB") advances totaling $300 million in preparation for the first quarter 2012 tax season. These advances matured during the first quarter of 2012 thereby reducing cash by the amount borrowed.

The Company experienced a nominal net increase in cash as a result of the TCB acquisition. As part of the TCB transaction, RB&T originally acquired total cash of $877 million. This cash was reduced subsequent to the Acquisition Date to $60 million at June 30, 2012. The strategic reduction in cash originally obtained through the TCB acquisition was a direct result of the significant decrease in deposit rates, which was implemented the day after the Acquisition Date. See additional discussion regarding the TCB acquisition under Footnote 2 "Bank Acquisition" of Part I Item 1 "Financial Statements."

For cash held at the FRB, the Bank earns a yield of 0.25%. For all other cash held within the Bank's branch and ATM networks, the Bank does not earn interest.

Securities Available for Sale

Securities available for sale primarily consists of U.S. Treasury securities and U.S. Government agency obligations, including agency mortgage backed securities ("MBSs") and agency collateralized mortgage obligations ("CMOs"). The agency MBSs primarily consist of hybrid mortgage investment securities, as well as other adjustable rate mortgage investment securities, underwritten and guaranteed by Ginnie Mae ("GNMA"), Freddie Mac ("FHLMC") and Fannie Mae ("FNMA"). Agency CMOs held in the investment portfolio are substantially all floating rate securities that adjust monthly. The Bank uses a portion of the investment securities portfolio as collateral to Bank clients for securities sold under agreements to repurchase ("repurchase agreements"). The remaining eligible securities that are not pledged to secure client repurchase agreements are pledged to the Federal Home Loan Bank as collateral for the Bank's borrowing line. Strategies for the investment securities portfolio may be influenced by economic and market conditions, loan demand, deposit mix and liquidity needs.

Securities available for sale decreased by $64 million during 2012 to $582 million at June 30, 2012. The decrease in the security portfolio was due to primarily to pay-downs and pay-offs of existing securities. In general, the Bank utilized the excess cash from these securities to fund growth within the loan portfolio.

In addition, during the first quarter, RB&T acquired $43 million in available for sale investment securities through the TCB acquisition. RB&T subsequently sold all but $4 million of these securities, realizing a pre-tax net gain of $56,000. The Bank sold these securities because management determined that the acquired securities did not fit within the Bank's traditional investment strategies.

See additional discussion regarding the TCB acquisition under Footnote 2 "Bank Acquisition" of Part I Item 1 "Financial Statements."

For discussion of the Company's private label mortgage backed securities, see Footnote 3 "Investment Securities" of Part I Item 1 "Financial Statements."

Loan Portfolio

Net loans, primarily consisting of secured real estate loans, increased by $157 million during the first six months of 2012 to $2.4 billion at June 30, 2012. Approximately $39 million of this growth was the direct result of the TCB acquisition. See additional discussion regarding the TCB acquisition under Footnote 2 “Bank Acquisition” of Part I Item 1 “Financial Statements.”

Within specific loan categories, residential real estate loans increased $98 million during 2012 to $1.2 billion at June 30, 2012. Approximately $19 million of this increase was from the TCB acquisition with the remaining increase primarily concentrated within Home Equity Amortizing Loan (“HEAL”) product. The HEAL product is a first mortgage or a junior-lien mortgage product with amortization periods of 20 years or less. Features of the HEAL include $199 fixed closing costs; no requirement for the client to escrow insurance and property taxes; and as with the Bank’s traditional ARM products, no requirement for private mortgage insurance. The overall features of the HEAL have made it an attractive alternative to long-term fixed rate secondary market products. As of June 30, 2012, the Bank had $160 million of HEALs outstanding compared to $58 million outstanding at December 31, 2011.

In June 2011, the Bank commenced business in its newly established warehouse lending division and had $41 million outstanding at December 31, 2011. Through this division, the Bank provides short-term, revolving credit facilities to mortgage bankers across the nation. These credit facilities are secured by single family first lien residential real estate loans. The credit facility enables the mortgage banking customers to close single family first lien residential real estate loans in their own name and temporarily fund their inventory of these closed loans until the loans are sold to investors approved by the Bank. These individual loans are expected to remain on the warehouse line for an average of 15 to 30 days. Interest income and loan fees are accrued for each individual loan during the time the loan remains on the warehouse line and collected when the loan is sold to the secondary market investor. The Bank receives the sale proceeds of each loan directly from the investor and applies the funds to payoff the warehouse advance and related accrued interest and fees. The remaining proceeds are credited to the mortgage banking customer. As of June 30, 2012, the Bank had eight warehouse loan clients with $89 million of outstanding loans from total credit lines of $171 million.

Asset Quality

The composition of loans classified within the allowance for loan losses follows:

Table 7 – Classified Assets

(in thousands)	June 30, 2012	December 31, 2011
Loss	$ 231	$ -
Doubtful	-	-
Substandard	39,498	43,088
Special Mention/Watch	52,372	35,455
Total	$ 92,101	$ 78,543

Approximately $16 million and $7 million of loans acquired from the TCB acquisition were classified above as Substandard and Special Mention/Watch, respectively at June 30, 2012. Because acquired loans are recorded at their estimated fair values at Acquisition Date, a loss allocation is not carried over or recorded for acquired loans as of the Acquisition Date. See additional discussion regarding the TCB acquisition under Footnote 2 “Bank Acquisition” of Part I Item 1 “Financial Statements.”

The Bank maintains a “watch list” of commercial, commercial real estate loans and large single family residential and home equity loans. The Bank reviews and monitors these loans on a regular basis. Generally, assets are designated as watch list loans to ensure more frequent monitoring. Watch list loans are reviewed to ensure proper earning status and management strategy. If it is determined that there is serious doubt as to performance in accordance with original terms of the contract, then the loan is generally downgraded and often placed on non-accrual status.

For “Pass” rated loans, management evaluates the loan portfolio by reviewing the historical loss rate for each respective loan type. Management evaluates the following historical loss rate scenarios:

- Rolling four quarters
- Rolling eight quarters average
- Rolling twelve quarters average
- Rolling sixteen quarters average
- Current year to date historical loss factor (average)
- Prior annual three year historical loss factors
- Peer group data

Currently, management has assigned a greater emphasis to the rolling eight quarter average and rolling twelve quarter average when determining its historical loss factors for its “Pass” rated loans.

Historical loss rates for non-accrual loans and loans that are past due 90 days or more and that are not specifically classified are analyzed using loss migration analysis by loan type of prior year loss results.

Loan categories are evaluated utilizing subjective factors in addition to the historical loss calculations to determine a loss allocation for each of those types. Management assigns risk multiples to certain categories to account for qualitative factors such as:

- Concentrations of credit;
- Nature, volume and seasoning of particular loan portfolios;
- Experience, ability and depth of lending staff;
- Effects of any changes in risk selection and underwriting standards, and other changes in lending policies, procedures and practices;
- Trends that could impact collateral values;
- Expectations regarding business cycles;
- Credit quality trends (including trends in classified, past due and nonperforming loans);
- Competition, legal and regulatory requirements;
- General national and local economic and business conditions;
- Offering of new loan products; and
- Expansion into new markets.

As this analysis, or any similar analysis, is an imprecise measure of loss, the allowance is subject to ongoing adjustments. Therefore, management will often take into account other significant factors that may be necessary or prudent in order to reflect probable incurred losses in the total loan portfolio

Loans, including impaired loans under FASB ASC Topic 310-10-35, Accounting by Creditors for Impairment of a Loan, but excluding consumer loans, are typically placed on non-accrual status when the loans become past due 80 days or more as to principal or interest, unless the loans are adequately secured and in the process of collection. Past due status is based on how recently payments have been received. When loans are placed on non-accrual status, all unpaid interest is reversed from interest income and accrued interest receivable. These loans remain on non-accrual status until the borrower demonstrates the ability to become and remain current or the loan or a portion of the loan is deemed uncollectible and is charged off.

Consumer loans are reviewed periodically and generally charged off when the loans reach 120 days past due or at any earlier point the loan is deemed uncollectible. RALs originated by RB&T are generally repaid by the IRS within two weeks. RALs outstanding 30 days or longer are charged off at the end of the first quarter each year with substantially all other RALs, except for those RALs management deems certain of collection, charged off by June 30th of each year. Subsequent collections of RALs are recorded as recoveries.

Allowance for Loan Losses

The Bank’s allowance for loan losses decreased $2 million during the first six months of 2012 to $23 million at June 30, 2012. As a percent of total loans, the traditional banking allowance for loans losses decreased to 0.92% at June 30, 2012 compared to 1.05% at December 31, 2011 and 1.17% at June 30, 2011.

Notable fluctuations in the allowance for loan losses were as follows:

- The Bank decreased its “Substandard” rated loan loss allowance by a net $2.1 million during the first six months of 2012. Charge-offs within the Company’s Substandard loan category totaled $4.4 million for the first six months of 2012. A significant portion of these charge-offs were for loans previously reserved for in prior quarters. The charge-offs were offset by approximately $2.3 million in additional allocations recorded for Substandard loans during the first six months of 2012.

The Bank increased its “Special Mention/Watch” rated loan loss allowance by a net $522,000 during the first six months of 2012 due primarily to an updated loss migration analysis in combination with an increase in this portfolio balance.

Primarily as a result of a decline in balances associated with the Bank's 90-day delinquent and/or non-accrual retail and small dollar commercial relationships not specifically evaluated as part of the Bank's large-dollar commercial classified asset review process, the Bank decreased its loan loss allowance by a net $600,000 during the first six months of 2012 for this category.

The Bank increased its overall allowance for its "Pass" rated credits by a net $600,000 during the first six months of 2012 attributable primarily to loan portfolio growth and an increase the Bank's average historical loss rates during the period.

Prior to January 1, 2012, the Bank's allowance for loan losses calculation was supported with qualitative factors, as described above, which contributed to a nominal "unallocated" component that totaled $1.9 million as of December 31, 2011. The Bank believes that historically the "unallocated" allowance properly reflected estimated credit losses determined in accordance with GAAP. The unallocated allowance was primarily related to RB&T's loan portfolio, which is highly concentrated in the Kentucky and Southern Indiana real estate markets. These markets have remained relatively stable during the current economic downturn, as compared to other parts of the U.S.. With the Bank's recent expansion into the Nashville MSA, Tennessee market, its plans to pursue future acquisitions into potentially new markets through FDIC-assisted transactions and its offering of new loan products, such as mortgage warehouse lines of credit, the Bank elected to revise its methodology to provide a more detailed calculation when estimating the impact of qualitative factors over the Bank's various loan categories.

In executing this methodology change, the Bank focused primarily on large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment and are generally not included in the scope of ASC Topic 310-10-35 Accounting by Creditors for Impairment of a Loan. These portfolios are typically not graded and not subject to annual review. Such groups of loans include:

Residential real estate – Owner Occupied
Residential real estate – Non Owner Occupied
Home Equity
Consumer
Overdrafts
Credit Cards

This methodology change had no material impact on the Bank's provision for loan losses for the three and six months ended June 30, 2012. Management believes, based on information presently available, that it has adequately provided for loan losses at June 30, 2012 and December 31, 2011.

Non-performing Loans

Non-performing loans include loans on non-accrual status and loans 90 days or more past due and still accruing. Impaired loans that are not placed on non-accrual status are not included in non-performing loans. The non-performing loan category includes impaired loans totaling approximately $16 million at June 30, 2012.

Non-performing loans to total loans decreased to 0.93% at June 30, 2012, from 1.02% at December 31, 2011, as the total balance of non-performing loans decreased by $728,000 for the same period.

The following table details the Bank's non-performing loans and non performing assets and select credit quality ratios:

Table 8 – Non-performing Loans and Non-performing Assets

(in thousands)	June 30, 2012		December 31, 2011	
Loans on non-accrual status	$ 22,578		$ 23,306	
Loans past due 90 days or more and still on accrual	-		-	
Total non-performing loans	22,578		23,306	
Other real estate owned	18,345		10,956	
Total non-performing assets	$ 40,923		$ 34,262	
Total Company Credit Quality Ratios:				
Non-performing loans to total loans	0.93	%	1.02	%
Non-performing assets to total loans (including OREO)	1.66	%	1.49	%
Non-performing assets to total assets	1.25	%	1.00	%
Traditional Banking Credit Quality Ratios:				
Non-performing loans to total loans	0.93	%	1.02	%
Non-performing assets to total loans (including OREO)	1.66	%	1.49	%
Non-performing assets to total assets	1.26	%	1.10	%

(1) Loans on non-accrual status include impaired loans. See Footnote 4 "Loans and Allowance for Loan Losses" of Part I Item 1 "Financial Statements" for additional discussion regarding impaired loans.

Approximately $13 million of the Bank's total non-performing loans at June 30, 2012 are in the residential real estate category with the underlying collateral predominantly located in the Bank's primary market area of Kentucky. The Bank does not consider any of these loans to be "sub-prime."

Approximately $935,000 of the non accrual loans at June 30, 2012 related to the TCB acquisition. See additional discussion regarding the TCB acquisition under Footnote 2 "Bank Acquisition" of Part I Item 1 "Financial Statements."

The composition of the Company's non-performing loans follows:

Table 9 – Non-performing Loan Composition

(in thousands)	June 30, 2012	December 31, 2011
Residential real estate:		
Owner occupied	$ 12,398	$ 12,183
Non owner occupied	864	1,565
Commercial real estate	2,284	3,032
Commercial real estate - purchased whole loans	-	-

Real estate construction		3,912		2,521
Commercial		351		373
Warehouse lines of credit		-		-
Home equity		2,677		3,603
Consumer:				
Credit cards		-		-
Overdrafts		-		-
Other consumer		92		29
Total non-performing loans	$	22,578	$	23,306

95

Table 10 – Non-performing Loans to Total Loans by Loan type

(in thousands)	June 30, 2012		December 31, 2011	
Residential real estate:				
Owner occupied	1.13	%	1.24	%
Non owner occupied	0.99	%	1.58	%
Commercial real estate	0.35	%	0.47	%
Commercial real estate - purchased whole loans	0.00	%	0.00	%
Real estate construction	5.17	%	3.74	%
Commercial	0.27	%	0.31	%
Warehouse lines of credit	0.00	%	0.00	%
Home equity	1.03	%	1.29	%
Consumer:				
Credit cards	0.00	%	0.00	%
Overdrafts	0.00	%	0.00	%
Other consumer	0.66	%	0.29	%
Total non performing loans to total loans	0.93	%	1.02	%

Based on the Bank’s review of the large individual non-performing commercial credits, management believes that its reserves as of June 30, 2012, are adequate to absorb probable losses on these non-performing loans.

The following tables detail the Bank’s non-performing loan activity for 2012:

Table 11 – Non-performing Loan Activity During 2012

(in thousands)

Non-performing loans at January 1, 2012	$	23,306	
Loans added to non-performing status		9,175	
Non-performing loans purchased		936	
Loans removed from non-performing status		(10,468	)
Principal paydowns		(371	)
Non-performing loans at June 30, 2012	$	22,578	

Table 12 – Detail of Loans Removed from Non-Performing Status During 2012

(in thousands)

Loans charged off	$	1,799
Loans transferred to OREO		4,082
Loans refinanced at other institutions		1,909
Loans returned to accrual status		2,678
	$	10,468

Total loans removed from non-performing status

96

Delinquent Loans

The composition of the Bank's past due loans follows:

Table 13 – Delinquent Loan Composition

(in thousands)		June 30, 2012		December 31, 2011
Residential real estate:				
Owner occupied	$	9,541	$	13,208
Non owner occupied		1,066		1,091
Commercial real estate		2,474		5,126
Commercial real estate - purchased whole loans		-		-
Real estate construction		1,688		541
Commercial		95		105
Warehouse lines of credit		-		-
Home equity		2,846		4,041
Consumer:				
Credit cards		114		53
Overdrafts		86		129
Other consumer		210		139
Total delinquent loans	$	18,120	$	24,433

The Bank had $39 million in loans outstanding related to the TCB acquisition at June 30, 2012, with approximately $672,000 of these loans past due greater than 30 days. See additional discussion regarding the TCB acquisition under Footnote 2 "Bank Acquisition" of Part I Item 1 "Financial Statements."

All loans greater than 90 days past due or more as of June 30, 2012 and December 31, 2011 were on non-accrual status.

Table 14 – Delinquent Loans to Total Loans by Loan Type (1)

(in thousands)	June 30, 2012		December 31, 2011	
Residential real estate:				
Owner occupied	0.87	%	1.34	%
Non owner occupied	1.23	%	1.10	%
Commercial real estate	0.38	%	0.80	%
Commercial real estate - purchased whole loans	0.00	%	0.00	%
Real estate construction	2.23	%	0.80	%
Commercial	0.07	%	0.09	%
Warehouse lines of credit	0.00	%	0.00	%
Home equity	1.09	%	1.44	%
Consumer:				
Credit cards	1.36	%	0.62	%
Overdrafts	13.80	%	13.58	%

Other consumer	1.50	%	1.40	%
Total delinquent loans to total loans	0.74	%	1.07	%

(1) – Represents total loans over 30 days past due divided by total loans.

Impaired Loans and TDRs

The Bank defines impaired loans as follows:

- All loans internally classified as “Substandard,” “Doubtful” or “Loss;”
- All loans internally classified as “Special Mention/Watch” on non-accrual status;
- All non-classified retail and commercial loan TDRs;
- Purchased credit impaired loans whereby current projected cash flows have deteriorated since acquisition, or cash flows cannot be reasonably estimated in terms of timing and amounts; and
- Any other situation where the collection of total amount due for a loan is improbable or otherwise meets the definition of impaired.

The Bank’s policy is to charge off all or that portion of its investment in an impaired loan upon a determination that it is probable the full amount will not be collected. Impaired loans totaled $92 million at June 30, 2012 compared to $77 million at December 31, 2011. Approximately $11 million in impaired loans were added during 2012 in connection with the TCB acquisition. There was no allowance for loan loss allocation related to this portfolio as of June 30, 2012. See additional discussion regarding the TCB acquisition under Footnote 2 “Bank Acquisition” of Part I Item 1 “Financial Statements.”

A TDR is the situation where, due to a borrower’s financial difficulties, the Bank grants a concession to the borrower that the Bank would not otherwise have considered. The majority of the Bank’s TDRs involve a restructuring of loan terms such as a temporary reduction in the payment amount to require only interest and escrow (if required) and/or extending the maturity date of the loan. Non-accrual loans modified as TDRs remain on non-accrual status and continue to be reported as non-performing loans. Accruing loans modified as TDRs are evaluated for non-accrual status based on a current evaluation of the borrower’s financial condition and ability and willingness to service the modified debt. As of June 30, 2012, the Bank had $84 million in TDRs, of which $11 million were also on non-accrual status. As of December 31, 2011, the Bank had $67 million in TDRs, of which $6 million were also on non-accrual status.

The composition of the Bank’s impaired loans follows:

Table 15 – Impaired Loan Composition

(in thousands)	June 30, 2012	December 31, 2011
Troubled debt restructurings	$ 83,628	$ 67,022
Classifed loans (which are not TDRs)	8,581	10,171
Total impaired loans	$ 92,209	$ 77,193

Approximately $11 million in impaired loans were added during 2012 in connection with the TCB acquisition. Substantially all of these loans became classified as “impaired” through a modification of the original loan, which the Bank deemed to be a TDR. See additional discussion under Footnote 2 “Bank Acquisition” of Part I Item 1 “Financial Statements.”

See Footnote 4 “Loans and Allowance for Loan Losses” of Part I Item 1 “Financial Statements” for additional discussion regarding impaired loans and TDRs.

OREO

Table 16 – OREO Composition

(in thousands)	June 30, 2012	December 31, 2011
Residential real estate:		
Owner occupied	$ 7,382	$ 4,337
Non owner occupied	279	417
Commercial real estate	2,361	2,030
Real estate construction	8,323	4,172
Total OREO	$ 18,345	$ 10,956

Table 17 – Rollforward of OREO Activity

(in thousands)	2012	2011
Balance, January 1	$ 10,956	$ 11,973
OREO acquired from TCB acquisition at fair value	9,830	-
Transfer from loans to OREO	12,078	6,574
Proceeds from sale	(14,597)	(6,552)
Net gain on sale	419	244
Writedowns	(341)	(227)
Balance, June 30	$ 18,345	$ 12,012

On January 27, 2012, the Bank acquired $14 million in OREO related to the TCB acquisition which was reduced by a $5 million fair value adjustment as of the Acquisition Date. The fair value represents the estimated value that management expects to receive when the property is sold, net of related costs to sell. These estimates were based on the most recently available real estate appraisals, with certain adjustments made based on the type of property, age of appraisal, current status of the property and other related factors to estimate the current value of the property. Subsequent to the Acquisition Date, the Bank sold $6 million in TCB related OREO, ending the period with $3 million in OREO outstanding related to the TCB acquisition. See additional discussion regarding the TCB acquisition under Footnote 2 “Bank Acquisition” of Part I Item 1 “Financial Statements.”

Approximately $5.1 million of the ending OREO balance related to one land development property added during the first quarter of 2012 located in the Bank’s greater Louisville, Kentucky market. Also during the first quarter of 2012, the Company foreclosed on a $1.6 million owner occupied residential real estate property located in central Kentucky.

Deposits

Total Company deposits increased $171 million from December 31, 2011 to $1.9 billion at June 30, 2012. Total Company interest-bearing deposits increased $66 million, or 5% and total Company non interest-bearing deposits increased $105 million, or 26%. Deposits related to the TCB acquisition totaled $75 million at June 30, 2012, consisting of $60 million in interest-bearing deposits and $15 million in non interest-bearing deposits.

Excluding non interest-bearing deposits associated with TCB, non interest-bearing deposits increased $97 million, or 24% during the first six months of 2012. Within the Traditional Banking segment, the Bank experienced growth of approximately $55 million in its Analysis Checking and Money Manager Free Checking accounts, which are the Bank's key products offered to small and medium sized businesses.

Non-interest bearing accounts, in general, remain an attractive product offering to clients due to the unlimited FDIC insurance associated with non-interest bearing accounts. This unlimited guaranty by the FDIC is currently set to expire on December 31, 2012. Management believes that the expiration of the unlimited FDIC insurance guaranty will have a negative impact on the Bank's non-interest bearing deposit balances, however, at this time, management cannot precisely predict how large an impact it may be.

Excluding interest-bearing deposits associated with TCB, interest-bearing deposits increased only $7 million, or 1%, during the first six months of 2012.

See additional discussion regarding the TCB acquisition under Footnote 2 “Bank Acquisition” of Part I Item 1 “Financial Statements.”

Federal Home Loan Bank Advances

FHLB advances decreased $396 million from December 31, 2011 to $539 million at June 30, 2012. During the first quarter of 2012, the Bank paid off $300 million in FHLB advances which were acquired in the fourth quarter of 2011 to fund RALs during the first quarter of 2012. These 90 day advances had a weighted average interest rate of 0.10%. Also, as discussed in the “Non interest Expense” section of this filing, during the first quarter of 2012, the Bank prepaid $81 million in FHLB advances that were originally scheduled to mature between October 2012 and May 2013 The Bank incurred a $2.4 million early termination penalty in connection with this transaction.

In addition to using FHLB advances as a funding source, the Bank also utilizes longer-term FHLB advances as an interest rate risk management tool. Overall use of these advances during a given year are dependent upon many factors including asset growth, deposit growth, current earnings, and expectations of future interest rates, among others. With many of the Bank’s loan originations during 2011 and 2012 having repricing terms longer than five years, management elected to borrow $140 million during 2012 (primarily during the second quarter) to mitigate its risk of future increases in market interest rates. The overall weighted average life of these borrowings was 4 years with a weighted average cost of funds of 1.40%.

Management also projects that it could utilize additional long-term advances during the remainder of 2012 to further mitigate its risk from future increases in interest rates. Whether the Bank ultimately does so, and how much in advances it extends out, will be dependent upon circumstances at that time. If the Bank does obtain longer-term FHLB advances for interest rate risk mitigation, it will have a negative impact on then current earnings. The amount of the negative impact will be dependent upon the dollar amount, coupon and final maturity of the advances obtained.

Liquidity

The Bank has a loan to deposit ratio (excluding brokered deposits) of 136% at June 30, 2012 and 140% at December 31, 2011. Historically, the Company has utilized secured and unsecured borrowing lines to supplement its funding requirements. At June 30, 2012 and December 31, 2011, the Bank had cash and cash equivalents on-hand of $124 million and $363 million. In addition, the Bank had available collateral to borrow an additional $448 million and $38 million, respectively from the FHLB at June 30, 2012 and December 31, 2011. In addition to its borrowing line with the FHLB, the Bank also had unsecured lines of credit totaling $196 million available through various other financial institutions as of March, 31 2012, while the holding company had available $20 million through its own borrowing line.

During the fourth quarter of 2011, the Bank chose to utilize a portion of its traditional borrowing lines from the FHLB to partially fund RALs for the first quarter 2012 tax season at the TRS division. As a result, the Bank obtained $300 million of cash from the FHLB via advances with a 3-month life. In recent years the Bank has traditionally utilized brokered deposits for its RAL funding. The change in strategy for the first quarter 2012 tax season to partially fund RALs with FHLB advances was made due to the relatively low all-in cost of the advances as compared to brokered deposits, including the impact to the cost of FDIC insurance. The Bank also obtained additional funding for RALs during the first quarter of 2012 through brokered deposits, all of which matured prior to the end of the first quarter of 2012. The weighted average cost of these brokered deposits was 0.32% for the first six months of 2012.

The Bank maintains sufficient liquidity to fund routine loan demand and routine deposit withdrawal activity. Liquidity is managed by maintaining sufficient liquid assets in the form of investment securities. Funding and cash flows can also be realized by the sale of securities available for sale, principal paydowns on loans and MBSs and proceeds realized from loans held for sale. The Bank's liquidity is impacted by its ability to sell certain investment securities, which is limited due to the level of investment securities that are needed to secure public deposits, securities sold under agreements to repurchase, FHLB borrowings, and for other purposes, as required by law. At June 30, 2012 and December 31, 2011, these pledged investment securities had a fair value of $503 million and $621 million, respectively. Republic's banking centers and its website, www.republicbank.com, provide access to retail deposit markets. These retail deposit products, if offered at attractive rates, have historically been a source of additional funding when needed. If the Bank were to lose a significant funding source, such as a few major depositors, or if any of its lines of credit were canceled, or if the Bank cannot obtain brokered deposits, the Bank would be forced to offer market leading deposit interest rates to meet its funding and liquidity needs.

At June 30, 2012, the Bank had approximately $255 million from 39 large non-sweep deposit relationships where the individual relationship individually exceeded $2 million. These accounts do not require collateral; therefore, cash from these accounts can generally be utilized to fund the loan portfolio. The 10 largest non-sweep deposit relationships represented approximately $167 million of the total balance. If any of these balances are moved from the Bank, the Bank would likely utilize overnight borrowing lines in the short-term to replace the balances. On a longer-term basis, the Bank would likely utilize brokered deposits to replace withdrawn balances. Based on past experience utilizing brokered deposits, the Bank believes it can quickly obtain brokered deposits if needed. The overall cost of gathering brokered deposits, however, could be substantially higher than the Traditional Bank deposits they replace, potentially decreasing the Bank's earnings.

Management does not believe that the Bank's liquidity position was significantly impacted as a result of TCB acquisition. As previously disclosed regarding the TCB acquisition, RB&T acquired $62 million in cash and cash equivalents as well as $43 million of investment securities at fair value. In addition, subsequent to the Acquisition Date, RB&T received approximately $785 million in cash from the FDIC representing the net difference between the assets acquired and the liabilities assumed adjusted for the discount RB&T received for the transaction. Approximately $35 million and $5 million of the acquired TCB securities were sold and called subsequent to the acquisition. The remaining securities provide monthly cash flows in the form of principal and interest payments. See additional discussion regarding the TCB acquisition under Footnote 2 "Bank Acquisition" of Part I Item 1 "Financial Statements."

As permitted by the FDIC, RB&T had the option to re-price the acquired deposit portfolios to current market rates within seven days of the Acquisition Date. In addition, depositors had the option to withdraw funds without penalty. RB&T chose to re-price all of the acquired interest-bearing deposits, including transaction, time and brokered deposits. This re-pricing triggered time and brokered deposit run-off in-line with management's expectations. Through June 30, 2012, approximately 94% of the assumed interest bearing deposit account balances had exited RB&T, with no penalty on the applicable time and brokered deposits. At June 30, 2012, RB&T had $75 million of deposits remaining from the TCB acquisition.

For additional discussion regarding TRS, see the following sections:

Part I Item 1 "Financial Statements:"
- o Footnote 1 "Summary of Significant Accounting Policies"
- o Footnote 4 "Loans and Allowance for Loan Losses"
- o Footnote 5 "Deposits"
- o Footnote 6 "Off Balance Sheet Risks, Commitments and Contingent Liabilities"
- o Footnote 11 "Segment Information"

Part I Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations:"
- o "Business Segment Composition"
- o "Overview"
- o "Results of Operations"

For additional discussion regarding RAL Provision for Loan Losses see Footnote 4 "Loans and Allowance for Loans Losses."

Capital

Total stockholders' equity increased from $452 million at December 31, 2011 to $540 million at June 30, 2012. The increase in stockholders' equity was primarily attributable to net income earned during 2012 reduced by cash dividends declared. In addition, stockholders' equity also increased to a lesser extent from stock option exercises.

See Part II, Item 2. “Unregistered Sales of Equity Securities and Use of Proceeds” for additional detail regarding stock repurchases and stock buyback programs.

Common Stock – The Class A Common shares are entitled to cash dividends equal to 110% of the cash dividend paid per share on Class B Common Stock. Class A Common shares have one vote per share and Class B Common shares have ten votes per share. Class B Common shares may be converted, at the option of the holder, to Class A Common shares on a share for share basis. The Class A Common shares are not convertible into any other class of Republic’s capital stock.

Dividend Restrictions – The Parent Company’s principal source of funds for dividend payments are dividends received from RB&T. Banking regulations limit the amount of dividends that may be paid to the Parent Company by the Bank without prior approval of the respective states’ banking regulators. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year’s net profits, combined with the retained net profits of the preceding two years. At June 30, 2012, RB&T could, without prior approval, declare dividends of approximately $197 million. The Company does not plan to pay dividends from its Florida subsidiary, Republic Bank, in the foreseeable future.

Regulatory Capital Requirements – The Parent Company and the Bank are subject to various regulatory capital requirements administered by banking regulators. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on Republic’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Parent Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company’s assets, liabilities and certain off balance sheet items, as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Banking regulators have categorized the Bank as well-capitalized. To be categorized as well-capitalized, the Bank must maintain minimum Total Risk Based, Tier I Capital and Tier I Leverage Capital ratios. Regulatory agencies measure capital adequacy within a framework that makes capital requirements, in part, dependent on the individual risk profiles of financial institutions. Republic continues to exceed the regulatory requirements for Total Risk Based Capital, Tier I Capital and Tier I Leverage Capital. Republic and the Bank intend to maintain a capital position that meets or exceeds the “well-capitalized” requirements as defined by the FRB, FDIC and the OCC. Republic’s average stockholders’ equity to average assets ratio was 14.04% at June 30, 2012 compared to 14.00% at December 31, 2011. Formal measurements of the capital ratios for Republic and the Bank are performed by the Company at each quarter end.

In 2004, the Bank executed an intragroup trust preferred transaction, with the purpose of providing RB&T access to additional capital markets, if needed, in the future. The subordinated debentures held by RB&T, as a result of this transaction, however, are treated as Tier 2 Capital based on requirements administered by the Bank’s federal banking agency. If RB&T’s Tier I Capital ratios should not meet the minimum requirement to be well-capitalized, the Bank could immediately modify the transaction in order to maintain its well-capitalized status.

In 2005, Republic Bancorp Capital Trust (“RBCT”), an unconsolidated trust subsidiary of Republic Bancorp, Inc., was formed and issued $40 million in Trust Preferred Securities (“TPS”). The TPS pay a fixed interest rate for ten years and adjust with LIBOR + 1.42% thereafter. The TPS mature on September 30, 2035 and are redeemable at the Bank’s option after ten years. The subordinated debentures are treated as Tier I Capital for regulatory purposes. The sole asset of RBCT represents the proceeds of the offering loaned to Republic Bancorp, Inc. in exchange for subordinated debentures which have terms that are similar to the TPS. The subordinated debentures and the related interest expense, which are payable quarterly at the annual rate of 6.015%, are included in the consolidated financial statements. The proceeds obtained from the TPS offering have been utilized to fund loan growth (in prior years), support an existing stock repurchase program and for other general business purposes such as the acquisition of GulfStream Community Bank in 2006.

The following table sets forth the Company's risk based capital amounts and ratios as of June 30, 2012 and December 31, 2011:

Table 18 – Capital Ratios

	As of June 30, 2012 Actual		As of December 31, 2011 Actual	
(dollars in thousands)	Amount	Ratio	Amount	Ratio
Total Risk Based Capital (to Risk Weighted Assets)				
Republic Bancorp, Inc.	$ 579,216	27.50 %	$ 501,188	24.74 %
Republic Bank & Trust Co.	530,788	26.24	447,143	22.97
Republic Bank	15,029	18.24	16,441	20.34
Tier I Capital (to Risk Weighted Assets)				
Republic Bancorp, Inc.	$ 557,822	26.49 %	$ 478,003	23.59 %
Republic Bank & Trust Co.	486,988	24.07	401,529	20.63
Republic Bank	13,985	16.98	15,420	19.08
Tier I Leverage Capital (to Average Assets)				
Republic Bancorp, Inc.	$ 557,822	16.94 %	$ 478,003	14.77 %
Republic Bank & Trust Co.	486,988	15.01	401,529	12.78
Republic Bank	13,985	13.36	15,420	14.44

Asset/Liability Management and Market Risk

Asset/liability management control is designed to ensure safety and soundness, maintain liquidity and regulatory capital standards and achieve acceptable net interest income. Interest rate risk is the exposure to adverse changes in net interest income as a result of market fluctuations in interest rates. The Bank, on an ongoing basis, monitors interest rate and liquidity risk in order to implement appropriate funding and balance sheet strategies. Management considers interest rate risk to be Bank's most significant market risk.

The interest sensitivity profile of Republic at any point in time will be impacted by a number of factors. These factors include the mix of interest sensitive assets and liabilities, as well as their relative pricing schedules. It is also influenced by market interest rates, deposit growth, loan growth and other factors.

Republic utilized an earnings simulation model to analyze net interest income sensitivity. Potential changes in market interest rates and their subsequent effects on net interest income were evaluated with the model. The model projects the effect of instantaneous movements in interest rates of between 100 and 300 basis point increments equally across all points on the yield curve. These projections are computed based on various assumptions, which are used to determine the range between 100 and 300 basis point increments, as well as the base case (which is a twelve month projected amount) scenario. Assumptions based on growth expectations and on the historical behavior of Republic's deposit and loan rates and their related balances in relation to changes in interest rates are also incorporated into the model. These assumptions are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes, as well as changes in market conditions and the application and timing of various management strategies. Additionally, actual results could differ materially from the model if interest rates do not move equally across all points on the yield curve.

The Company did not run a model simulation for declining interest rates as of June 30, 2012 and December 31, 2011, because the Federal Open Market Committee effectively lowered the Fed Funds Target Rate between 0.00% to 0.25% in December 2008 and therefore, no further short-term rate reductions can occur. Overall, the indicated change in net interest income as of June 30, 2012 was worse than the indicated change as of December 31, 2011 in an "up" interest rate scenario.

The reason for the improvement in the Company's position in an "up" interest rate environment was primarily from the previously discussed increase in long-term FHLB advances during the second quarter of 2012. Because the interest rate sensitivity model measures the impact of changing interest rates to net interest income for the next twelve month period, assets with a repricing duration of greater than one year will negatively impact net interest income in an "up" rate scenario. While this growth in advances positively impacted the Company's interest rate risk position in a rising rate environment, it negatively impacted the Company's current earnings, in the near-term, due to an increase in its cost of funds.

Management also projects that it will utilize additional long-term advances during the remainder of 2012 to further mitigate its risk from future increases in interest rates. How much in advances it extends out, will be dependent upon circumstances at that time. When the Bank obtains longer-term FHLB advances for interest rate risk mitigation, it will have a negative impact on then-current earnings. The amount of the negative impact will be dependent upon the dollar amount, coupon and final maturity of the advances obtained.

The following table illustrates Republic's projected net interest income sensitivity profile based on the asset/liability model as of June 30, 2012 and December 31, 2011. The Company's interest rate sensitivity model does not include loan fees within interest income. In addition, management does not believe that the net interest income associated with RPG, which was substantially driven by RAL fee income, is interest rate sensitive. As a result, the following interest rate sensitivity analysis does not include the impact of the RPG division. During the 12 months from July 1, 2011 through June 30, 2012, loan fees (excluding RAL fees) included in interest income were $3.6 million.

Table 19 – Traditional Banking Interest Rate Sensitivity for 2012

(dollars in thousands)	Previous Twelve Months	Base	Increase in Rates 100 Basis Points	200 Basis Points	300 Basis Points
Projected interest income:					
Short-term investments	$-	$8	$32	$57	$82
Investment securities	16,954	12,471	15,216	17,572	19,810
Loans, excluding loan fees (1)	119,326	115,728	123,485	131,807	140,750
Total interest income, excluding loan fees	136,280	128,207	138,733	149,436	160,642
Projected interest expense:					
Deposits	7,418	4,534	13,092	21,401	29,409
Securities sold under agreements to repurchase	506	311	2,255	4,200	6,143
Federal Home Loan Bank advances and other long-term borrowings	19,872	16,583	17,515	18,462	18,464
Total interest expense	27,796	21,428	32,862	44,063	54,016
Net interest income, excluding loan fees	$108,484	$106,779	$105,871	$105,373	$106,626
Change from base			$(908)	$(1,406)	$(153)
% Change from base			-0.85%	-1.32%	-0.14%

(1) – Consideration was not given to the impact of increasing and decreasing interest rates on RALs, which are fee based and occur substantially all in the first quarter of the year. RB&T agreed to no longer offer RALs subsequent to April 30, 2012.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Information required by this item is included under Part I, Item 2., "Management's Discussion and Analysis of Financial Condition and Results of Operation."

Item 4. Controls and Procedures.

As of the end of the period covered by this report, an evaluation was carried out by Republic Bancorp, Inc.'s management, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

In the ordinary course of operations, Republic and the Bank are defendants in various legal proceedings. There is no proceeding pending or threatened litigation, to the knowledge of management, in which an adverse decision could result in a material adverse change in the business or consolidated financial position of Republic or the Bank, except as set forth below.

Overdraft Litigation

On August 1, 2011, a lawsuit was filed in the United States District Court for the Western District of Kentucky styled Brenda Webb vs. Republic Bank & Trust Company d/b/a Republic Bank, Civil Action No. 3:11-CV-00423-TBR. The Complaint was brought as a putative class action and seeks monetary damages, restitution and declaratory relief allegedly arising from the manner in which RB&T assessed overdraft fees. In the Complaint, the Plaintiff pleads six claims against RB&T alleging: breach of contract and breach of the covenant of good faith and fair dealing (Count I), unconscionability (Count II), conversion (Count III), unjust enrichment (Count IV), violation of the Electronic Funds Transfer Act and Regulation E (Count V), and violations of the Kentucky Consumer Protection Act, KRS §367, et seq. (Count VI). RB&T filed a Motion to Dismiss the case on January 12, 2012. In response, Plaintiff filed its Motion to Amend the Complaint on February 23, 2012. In Plaintiff's proposed Amended Complaint, Plaintiff acknowledges disclosure of the Overdraft Honor Policy and does not seek to add any claims to the Amended Complaint. However, Plaintiff divided the breach of contract and breach of the covenant of good faith and fair dealing claims into two counts (Counts One and Two). In the original Complaint, those claims were combined in Count One. RB&T filed its objection to Plaintiff's Motion to Amend. On June 16, 2012, the District Court denied the Plaintiff's Motion to Amend concluding that she lacked the ability to automatically amend the complaint as of right. However, the Court held that she could be permitted to amend if she could first demonstrate that her amendment would not be futile and the she had standing to sue despite RB&T's offer of judgment. The Court declined to rule on that issue at this time and ordered the case stayed pending a decision by the United States Court of Appeals for the Sixth Circuit in a case on appeal with the same standing issue. RB&T intends to vigorously defend its case. Management continues to closely monitor this case, but is unable to estimate, at this time, the possible loss or range of possible loss, if any, that may result from this lawsuit.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Details of Republic's Class A Common Stock purchases during the second quarter of 2012 are included in the following table:

Period	Total Number of Shares Purchased		Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs
April 1 - April 30	3,015	$	23.30	3,015	
May 1 - May 31	3,147		20.08	3,147	
June 1 - June 30	245		20.69	245	
Total	6,407	$	21.62	6,407	596,782

During 2012, the Company repurchased 6,407 shares and there were 5,460 shares exchanged for stock option exercises. During November of 2011, the Company's Board of Directors amended its existing share repurchase program by approving the repurchase of 300,000 additional shares from time to time, as market conditions are deemed attractive to the Company. The repurchase program will remain effective until the total number of shares authorized is repurchased or until Republic's Board of Directors terminates the program. As of June 30, 2012, the Company had 596,782 shares which could be repurchased under its current share repurchase programs.

During 2012, there were approximately 1,000 shares of Class A Common Stock issued upon conversion of shares of Class B Common Stock by stockholders of Republic in accordance with the share-for-share conversion provision option of the Class B Common Stock. The exemption from registration of the newly issued Class A Common Stock relied upon was Section (3)(a)(9) of the Securities Act of 1933.

There were no equity securities of the registrant sold without registration during the quarter covered by this report.

Item 6. Exhibits.

(a) Exhibits

The following exhibits are filed or furnished as a part of this report:

Exhibit Number	Description of Exhibit
31.1	Certification of Principal Executive Officer pursuant to the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to the Sarbanes-Oxley Act of 2002.
32*	Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	Interactive data files: (i) Consolidated Balance Sheets at June 30, 2012 and December 31, 2011, (ii) Consolidated Statements of Income and Comprehensive Income for the three months ended June 30, 2012 and 2011, (iii) Consolidated Statement of Stockholders' Equity for the three months ended June 30, 2012, (iv) Consolidated Statements of Cash Flows for the three months ended June 30, 2012 and 2011 and (v) Notes to Consolidated Financial Statements.

* - This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

** - Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	REPUBLIC BANCORP, INC. (Registrant)	
	Principal Executive Officer:	
August 9, 2012	By:	Steven E. Trager Chairman and Chief Executive Officer
	Principal Financial Officer:	
August 9, 2012	By:	Kevin Sipes Executive Vice President, Chief Financial Officer and Chief Accounting Officer

108