REPUBLIC BANCORP INC /KY/
Form 10-Q
October 28, 2008
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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 September 30, 2008

or

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

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky	**61-0862051**
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

601 West Market Street, Louisville, Kentucky **40202**

(Address of principal executive offices)	(Zip Code)

(502) 584-3600

(Registrant s telephone number, including area code)

Not Applicable

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

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

x Yes o No

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

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

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

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

The number of shares outstanding of the registrant s Class A Common Stock and Class B Common Stock, as of October 28, 2008, was 18,283,170 and 2,321,949, respectively.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	September 30, 2008	December 31, 2007
ASSETS:		
Cash and cash equivalents	$ 72,735	$ 86,177
Securities available for sale	495,340	528,750
Securities to be held to maturity (fair value of $51,218 in 2008 and $52,794 in 2007)	50,988	51,886
Mortgage loans held for sale	6,758	4,278
Loans, net of allowance for loan losses of $14,247 and $12,735 (2008 and 2007)	2,304,126	2,384,338
Federal Home Loan Bank stock, at cost	25,082	23,955
Premises and equipment, net	42,225	39,706
Goodwill	10,168	10,168
Other assets and accrued interest receivable	37,632	36,101
TOTAL ASSETS	$ 3,045,054	$ 3,165,359
LIABILITIES:		
Deposits:		
Non-interest-bearing	$ 279,260	$ 279,457
Interest-bearing	1,521,607	1,689,355
Total deposits	1,800,867	1,968,812
Securities sold under agreements to repurchase and other short-term borrowings	322,608	398,296
Federal Home Loan Bank advances	577,294	478,550
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	25,808	29,601
Total liabilities	2,767,817	2,916,499
STOCKHOLDERS EQUITY:		
Preferred stock, no par value		
Class A Common Stock and Class B Common Stock, no par value	4,875	4,821
Additional paid in capital	122,989	119,761
Retained earnings	148,907	124,616
Unearned shares in Employee Stock Ownership Plan	(126)	(519)
Accumulated other comprehensive income	592	181
Total stockholders equity	277,237	248,860
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 3,045,054	$ 3,165,359

See accompanying footnotes to consolidated financial statements.

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

(*in thousands, except per share data*)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
INTEREST INCOME:				
Loans, including fees	$ 37,380	$ 40,702	$ 133,922	$ 125,701
Taxable securities	6,150	7,809	19,642	21,606
Tax exempt securities	6	23	51	76
Federal Home Loan Bank stock and other	391	499	3,745	2,009
Total interest income	43,927	49,033	157,360	149,392
INTEREST EXPENSE:				
Deposits	7,931	14,257	30,241	40,254
Securities sold under agreements to repurchase and other short-term borrowings	1,439	4,799	5,622	14,942
Federal Home Loan Bank advances	6,077	7,678	17,862	21,392
Subordinated note	634	634	1,888	1,881
Total interest expense	16,081	27,368	55,613	78,469
NET INTEREST INCOME	27,846	21,665	101,747	70,923
Provision for loan losses	324	1,376	14,452	5,203
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	27,522	20,289	87,295	65,720
NON INTEREST INCOME:				
Service charges on deposit accounts	5,117	4,870	14,595	13,680
Electronic refund check fees	738	77	17,668	4,189
Net RAL securitization income	157	11	13,030	3,713
Mortgage banking income	1,071	905	3,806	2,051
Debit card interchange fee income	1,194	1,105	3,589	3,216
Net loss on sales, calls and impairment of securities	(5,273)		(8,880)	
Other	410	538	1,086	1,599
Total non interest income	3,414	7,506	44,894	28,448
NON INTEREST EXPENSES:				
Salaries and employee benefits	12,611	11,051	39,726	34,703
Occupancy and equipment, net	4,878	4,461	14,304	12,795
Communication and transportation	1,024	859	3,246	2,561
Marketing and development	853	815	8,342	2,482
Bank franchise tax expense	599	629	2,025	1,922
Data processing	646	679	2,032	1,907
Debit card interchange expense	624	591	1,812	1,681
Supplies	328	391	1,257	1,299
Other	2,420	1,802	8,546	6,428
Total non interest expenses	23,983	21,278	81,290	65,778

INCOME BEFORE INCOME TAX EXPENSE		6,953		6,517		50,899		28,390
INCOME TAX EXPENSE		2,451		2,285		17,851		9,883
NET INCOME	$	4,502	$	4,232	$	33,048	$	18,507

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	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
OTHER COMPREHENSIVE INCOME, NET OF TAX				
Unrealized loss on securities available for sale	$ 93	$ 1,898	$ (5,661)	$ 1,293
Realized impairment loss on securities, net	3,428		6,072	
Other comprehensive loss, net	3,521	1,898	411	1,293
COMPREHENISVE INCOME	$ 8,023	$ 6,130	$ 33,459	$ 19,800
BASIC EARNINGS PER SHARE:				
Class A Commons Stock	$ 0.22	$ 0.21	$ 1.62	$ 0.91
Class B Common Stock	0.21	0.20	1.59	0.88
DILUTED EARNINGS PER SHARE:				
Class A Commons Stock	$ 0.22	$ 0.21	$ 1.59	$ 0.88
Class B Common Stock	0.20	0.20	1.56	0.86

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY *(UNAUDITED)*

(in thousands, except per share data)	Class A Shares Outstanding	Common Stock Class B Shares Outstanding	Amount	Additional Paid In Capital	Retained Earnings	Unearned Shares in Empl. Stock Ownership Plan	Accumulated Other Comprehensive Income / (Loss)	Total Stockholders Equity
Balance, January 1, 2008	17,958	2,344	$ 4,821	$ 119,761	$ 124,616	$ (519)	$ 181	$ 248,860
Net income					33,048			33,048
Net change in accumulated other comprehensive loss							411	411
Dividend declared Common Stock:								
Class A ($0.352 per share)					(6,404)			(6,404)
Class B ($0.320 per share)					(746)			(746)
Stock options exercised, net of shares redeemed	284		58	2,695	(1,280)			1,473
Repurchase of Class A Common Stock	(19)		(4)	(112)	(327)			(443)
Conversion of Class B Common Stock to Class A Common Stock	22	(22)						
Shares committed to be released under the Employee Stock Ownership Plan	37			458		393		851
Notes receivable on Common Stock, net of cash payments				(377)				(377)
Deferred director compensation expense - Company Stock	1			111				111
Stock based compensation expense				453				453
Balance, September 30, 2008	18,283	2,322	$ 4,875	$ 122,989	$ 148,907	$ (126)	$ 592	$ 277,237

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (*UNAUDITED*)

NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (*in thousands*)

	2008	2007
OPERATING ACTIVITIES		
Net income	$ 33,048	$ 18,507
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	5,535	1,163
Federal Home Loan Bank stock dividends	(956)	(342)
Provision for loan losses	14,452	5,203
Net gain on sale of mortgage loans held for sale	(3,572)	(1,483)
Origination of mortgage loans held for sale	(196,150)	(169,124)
Proceeds from sale of mortgage loans held for sale	197,242	171,901
Net gain on sale of RALs	(8,313)	(2,261)
Increase in RAL securitization residual	(4,717)	(1,452)
Origination of RALs sold	(1,098,717)	(350,414)
Proceeds from sale of RALs	1,009,698	321,407
Paydown of securitization residual	106,776	33,701
Net realized loss on sales, calls and impairment of securities	8,880	
Net (gain)/loss on sale of other real estate owned	5	(21)
Net gain on sale of premises and equipment	(43)	
Deferred director compensation expense Company Stock	111	118
Employee Stock Ownership Plan compensation expense	851	657
Stock based compensation expense	453	727
Net change in other assets and liabilities:		
Accrued interest receivable	(3,160)	(3,228)
Accrued interest payable	(3,399)	(1,211)
Other assets	(3,657)	2,761
Other liabilities	(874)	1,737
Net cash provided by operating activities	53,493	28,346
INVESTING ACTIVITIES:		
Purchases of securities available for sale	(1,891,435)	(2,987,657)
Purchases of Federal Home Loan Bank stock	(531)	(502)
Proceeds from calls, maturities, sales and paydowns of securities available for sale	1,916,724	2,953,259
Proceeds from calls, maturities and paydowns of securities to be held to maturity	865	2,434
Proceeds from the sale of Federal Home Loan Bank stock	360	
Proceeds from sales of other real estate owned	3,103	1,243
Net (increase) decrease in loans	61,143	(100,645)
Purchases of premises and equipment	(7,259)	(6,376)
Proceeds from sale of premises and equipment	848	
Net cash provided by/(used in) investing activities	83,818	(138,244)
FINANCING ACTIVITIES:		
Net change in deposits	(167,948)	41,584
Net change in securities sold under agreements to repurchase and other short-term borrowings	(75,688)	(48,603)
Payments on Federal Home Loan Bank advances	(123,256)	(293,135)
Proceeds from Federal Home Loan Bank advances	222,000	416,200
Repurchase of Common Stock	(443)	(9,299)
Net proceeds from Common Stock options exercised	1,473	1,284
Cash dividends paid	(6,891)	(6,072)
Net cash (used in)/provided by financing activities	(150,753)	101,959

NET CHANGE IN CASH AND CASH EQUIVALENTS		(13,442)		(7,939)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		86,177		81,613
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	72,735	$	73,674

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		2008		2007
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$	59,012	$	79,681
Income taxes		20,055		9,711
SUPPLEMENTAL NONCASH DISCLOSURES:				
Transfers from loans to real estate acquired in settlement of loans	$	4,330	$	777
Retained securitization residual		102,059		32,314

See accompanying footnotes to consolidated financial statements.

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation The consolidated financial statements include the accounts of Republic Bancorp, Inc. (the Parent Company) and its wholly-owned subsidiaries: Republic Bank & Trust Company (RB&T) and Republic Bank (collectively referred together with RB&T as the Bank), Republic Funding Company and Republic Invest Co. On August 15, 2008, the Company filed applications with the Office of Thrift Supervision to merge Republic Bank & Trust Company, a state chartered commercial bank, and Republic Bank, a federally chartered savings bank, into one federally chartered savings bank. Republic Invest Co. includes its subsidiary, Republic Capital LLC. The consolidated financial statements also include the wholly-owned subsidiaries of RB&T: Republic Financial Services, LLC, TRS RAL Funding, LLC and Republic Insurance Agency, LLC. Republic Bancorp Capital Trust (RBCT) is a Delaware statutory business trust that is a wholly-owned, unconsolidated finance subsidiary of Republic Bancorp, Inc. All companies are collectively referred to as Republic or the Company. All significant intercompany balances and transactions are eliminated in consolidation.

Republic operates 45 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 and through an Internet banking delivery channel. Republic s consolidated 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 assets represent securities and real estate mortgage, commercial and consumer loans. Interest-bearing liabilities primarily consist of interest-bearing deposit accounts, as well as short-term and long-term borrowing sources.

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

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

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

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

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

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

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three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the consolidated financial statements and footnotes thereto included in Republic s Form 10-K for the year ended December 31, 2007.

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

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

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

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

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

In October, 2008, the FASB issued FSP No. 157-3 *Determining the Fair Value of a Financial Asset When the Market for that Asset Is Not Active*. The FSP clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key consideration in determining the fair value of a financial asset with the market for that financial asset is not active.

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

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2. SECURITIES

Trading securities:

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

Securities available for sale:

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

September 30, 2008 (in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Treasury securities and U.S. Government agencies	$ 89,522	$ 578	$	$ 90,100
Non agency mortgage backed and other non agency mortgage-related securities	22,657		(1,538)	21,119
Mortgage backed securities	306,918	2,734	(894)	308,758
Collateralized mortgage obligations	75,333	154	(124)	75,363
Total securities available for sale	$ 494,430	$ 3,466	$ (2,556)	$ 495,340

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

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Securities to be held to maturity:

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

September 30, 2008 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 4,666	$ 5	$	$ 4,671
Obligations of states and political subdivisions	384	15		399
Mortgage backed securities	3,691	18	(70)	3,639
Collateralized mortgage obligations	42,247	338	(76)	42,509
Total securities to be held to maturity	$ 50,988	$ 376	$ (146)	$ 51,218

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

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Market Loss Analysis

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

	Less than 12 months		12 months or more		Total	
September 30, 2008 (in thousands)	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Non agency mortgage backed and other non agency mortgage-related securities	$ 7,947	$ (277)	$ 7,508	$ (1,261)	$ 15,455	$ (1,538)
Mortgage backed securities, including CMOs	137,315	(1,076)	2,832	(88)	140,147	(1,164)
Total	$ 145,262	$ (1,353)	$ 10,340	$ (1,349)	$ 155,602	$ (2,702)

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

Other-than-temporary Impairment (OTTI) Analysis

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 Company evaluates a number of factors including, but not limited to:

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

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

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

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Nationally, residential real estate values declined significantly during 2007 and 2008. 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 non agency mortgage backed or other non agency mortgage-related securities. The Company currently owns five non agency mortgage backed and other non agency mortgage-related securities with a fair value of $21.1 million at September 30, 2008. These securities are not guaranteed by government agencies. Approximately $14.4 million (*Securities 1 through 4 in the table below*) of these securities are mostly backed by Alternative A first lien mortgage loans. The remaining $6.7 million (*Security 5 in the table below*) represents an asset backed security with an insurance wrap or guarantee. The average life of these securities is currently estimated to be approximately five years. Due to current market conditions, all of these assets are extremely illiquid, and as such, the Company determined that these securities are Level 3 securities in accordance with FSP No. 157-3 *Determining the Fair Value of a Financial Asset When the Market for that Asset Is Not Active,* which was issued in October 2008. Based on this determination, the Company utilized an income valuation model as of September 30, 2008, as opposed to a market valuation approach, in determining the fair value of these securities. The income valuation model (present value model) maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Management believes the income valuation model is more representative of the fair value for these securities than the market valuation technique used at prior measurement dates.

Prior to the second quarter of 2008, unrealized losses on the Company s non agency mortgage backed securities and other non agency mortgage related securities were not recognized into income because the bonds were deemed to be of sufficient credit quality (rated A+, Aa1 or higher) and the Company had the intent and ability to hold the securities until maturity. The Company evaluated the performance of the loans underlying these securities and concluded it would likely continue to receive the future expected cash flows of these securities in accordance with their original terms. As such, prior to the second quarter of 2008, the Company concluded that the fair value of all non agency mortgage backed securities and other non agency mortgage related securities would recover as the securities approached maturity.

During the second quarter of 2008, the Company recorded a non cash OTTI charge of $3.4 million for two of its available for sale non agency mortgage backed securities and other non agency mortgage related securities (*Security 2 and Security 5 in the table below*). In determining that *Security 2* was other-than-temporarily impaired, the Company gave considerable weight to the significance of the downgrade of the security by Standard and Poor s (S&P) in June of 2008. The downgrade raised doubt about the ability of the Company to continue to collect future principal and interest payments from the security in accordance with its original terms. In evaluating *Security 5*, the Company gave considerable weight to the rating downgrade and subsequent withdrawal of the security s rating by Fitch in June of 2008. In addition, the Company also gave consideration to the deterioration of the financial condition of the insurer providing the insurance wrap on the security.

During the third quarter of 2008, the Company recorded a non cash OTTI charge totaling $3.9 million for one of its available for sale non-agency mortgage related securities *(Security 1 in the table below*). This security was downgraded in August by Moody s from a rating of Aa1 to a rating of Baa2. In evaluating *Security 1*, the Company gave considerable weight to the significant downgrade of this security by Moody s. The downgrade raised doubt about the ability of the Company to continue to collect the future principal and interest payments from the security in accordance with its original terms.

As a result of the three impairment charges noted above, all unrealized losses were transferred from accumulated other comprehensive loss to an immediate reduction of earnings classified as net loss on sales, calls and impairments of securities in the consolidated statement of income and comprehensive income.

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

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Detail for non agency mortgage backed and other non agency mortgage-related securities as of September 30, 2008 follows:

(in thousands)	Amortized Cost	Estimated Fair Value	Unrealized Loss	Ratings S&P	Fitch	Moody s
Security 1	$ 7,202	$ 7,202	$	AAA		Baa2
Security 2	1,168	956	(212)	BB		B3
Security 3	5,222	4,323	(899)	AAA	AAA	
Security 4	2,286	1,924	(362)	AAA	AAA	
Security 5	6,779	6,714	(65)	AA		
Total	$ 22,657	$ 21,119	$ (1,538)			

During the first quarter of 2008, the Company determined that its Freddie Mac (FHLMC) preferred stock investment, with an aggregate carrying value at the time of $2 million, was other-than-temporarily impaired and recorded an impairment charge of $680,000. During September 2008, the U.S. Treasury, the Federal Reserve, and the Federal Housing Finance Agency (FHFA) announced that the FHFA was placing FHLMC under conservatorship, giving management control to the FHFA. As a result, during the third quarter of 2008, the fair market value of the security declined significantly and the Company recorded another impairment charge of $1.4 million. With the third quarter impairment charge, the Company completely wrote down the value of the investment to $0.

Pledged Securities

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

(in thousands)	September 30, 2008	December 31, 2007
Amortized cost	$ 424,823	$ 518,947
Fair value	425,035	519,834

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3. LOANS AND ALLOWANCE FOR LOAN LOSSES

(in thousands)	September 30, 2008	December 31, 2007
Residential real estate	$ 1,118,254	$ 1,168,591
Commercial real estate	650,213	658,987
Real estate construction	117,606	163,700
Commercial	101,643	90,741
Consumer	28,543	33,310
Overdrafts	1,501	1,238
Home equity	300,613	280,506
Total loans	2,318,373	2,397,073
Less: Allowance for loan losses	14,247	12,735
Loans, net	$ 2,304,126	$ 2,384,338

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2008	2007	2008	2007
Allowance for loan losses at beginning of period	$ 17,995	$ 11,157	$ 12,735	$ 11,218
Provision for loan losses	324	1,376	14,452	5,203
Charge offs Banking	(3,331)	(756)	(5,325)	(1,709)
Charge offs Tax Refund Solutions	(1,335)	(6)	(9,208)	(4,246)
Recoveries Banking	356	171	743	683
Recoveries Tax Refund Solutions	238	160	850	953
Allowance for loan losses at end of period	$ 14,247	$ 12,102	$ 14,247	$ 12,102

Information regarding Republic s impaired loans follows:

(in thousands)	September 30, 2008	December 31, 2007
Loans with no allocated allowance for loan losses	$	$
Loans with allocated allowance for loan losses	12,525	6,412
Total	$ 12,525	$ 6,412
Amount of the allowance for loan losses allocated	$ 1,862	$ 1,498
Average investment in impaired loans	13,771	9,425

Interest income recognized during impairment	
Interest income recognized on a cash basis on impaired loans	

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Detail of non performing loans and non performing assets follows:

(dollars in thousands)	September 30, 2008	December 31, 2007
Loans on non-accrual status	$ 14,763	$ 8,303
Loans past due 90 days or more and still on accrual	1,217	1,318
Total non-performing loans	15,980	9,621
Other real estate owned	2,017	795
Total non-performing assets	$ 17,997	$ 10,416
Non-performing loans to total loans	0.69%	0.40%
Non-performing assets to total loans	0.78	0.43

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

(in thousands)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Originations:				
RALs originated and retained on balance sheet	$ 773	$ 580	$ 682,877	$ 226,783
RALs originated and securitized			1,098,717	350,414
Total RALs originated	$ 773	$ 580	$ 1,781,594	$ 577,197
Estimated RAL losses:				
Estimated losses for retained RALs, net	$ 133	$ (154)	$ 8,358	$ 3,293
Net reduction to estimated future expected cash flows for securitized RALs	(132)	(6)	6,697	2,010
Total Estimated RALs losses, net	$ 1	$ (160)	$ 15,055	$ 5,303

RAL Loss Reserves and Provision for Loan Losses:

Substantially all RALs issued by the Company each year are made during the first quarter. Losses associated with RALs result from the IRS not remitting 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. At March 31st of each year, with adjustments each quarter end thereafter, the Company reserves for its estimated RAL losses based on current year and historical funding patterns and information received from the IRS regarding current year payment processing. The Company applies its loss estimates to both RALs retained on balance sheet and to securitized RALs. The Company applies loss estimates to securitized RALs because the securitization residual is valued based on the future expected cash flows of the securitization, which is significantly influenced by the anticipated credit losses of the underlying RALs. Estimated losses related to securitized RALs are recorded in non interest income as a reduction to Net RAL securitization income.

As of September 30, 2008, $9.2 million of total RALs retained on balance sheet remained uncollected compared to $3.9 million at September 30, 2007, representing 1.35% and 1.72% of total gross RALs originated and retained on balance sheet during the respective tax years by the Company. As a result, the Company recorded a net provision for loan losses of $8.4 million during the first nine months of 2008 compared to $3.3 million during the first nine months of 2007. The Company recorded an additional provision for loan losses of $133,000 during the third quarter of 2008 compared to a net credit to the provision of $154,000 during the same period in 2007. The decrease in RAL losses as a percent of total RALs retained on balance sheet from year to year is attributable primarily to revised underwriting standards and a reduction in known fraud resulting from improved fraud detection techniques utilized by the Company.

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As of September 30, 2008, $7.0 million of securitized RALs remained uncollected compared to $2.3 million at September 30, 2007, representing 0.64% and 0.67% of total gross RALs securitized by the Company during the respective tax years. As a result, the Company recorded a net reduction to Net RAL securitization income of $6.7 million for the first nine months of 2008 compared to $2.0 million for the first nine months of 2007. The Company recorded a net credit to Net RAL securitization income of $132,000 and $6,000 during the third quarters of 2008 and 2007. As with the RALs retained on balance sheet, the decrease in securitized RAL losses as a percent of total RALs securitized from year to year is attributable primarily to revised underwriting standards and a reduction in known fraud resulting from improved fraud detection techniques utilized by the Company.

The overall earnings of the TRS segment are highly dependent upon the Company s loss estimates for RALs retained on balance sheet and securitized RALs. The Company believes that based on information currently available, it has provided the appropriate amount of reserves for losses associated with RALs. At September 30, 2008, the Company had effectively fully reserved for all uncollected RALs, both securitized and retained on balance sheet. The possibility remains, however, that additional payments could be received from the IRS during the fourth quarter of 2008 resulting in an adjustment to the Company s previous allowance for loan losses and residual interest, or trading security. The Company believes that any payments received from the IRS during the fourth quarter of 2008 will be immaterial and recorded as an adjustment to income if received.

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

4. DEPOSITS

(in thousands)		September 30, 2008		December 31, 2007
Demand (NOW and SuperNOW)	$	204,071	$	197,949
Money market accounts		596,667		635,590
Internet money market accounts		8,204		10,521
Savings		31,446		30,362
Individual retirement accounts		39,106		37,865
Certificates of deposit, $100,000 and over		190,874		174,538
Other certificates of deposit		240,580		231,143
Brokered deposits		210,659		371,387
Total interest-bearing deposits		1,521,607		1,689,355
Total non interest-bearing deposits		279,260		279,457
Total	$	1,800,867	$	1,968,812

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5. FEDERAL HOME LOAN BANK (FHLB) ADVANCES

(in thousands)	September 30, 2008	December 31, 2007
FHLB putable fixed interest rate advances with a weighted average interest rate of 4.51%*(1)*	$ 150,000	$ 150,000
Overnight FHLB advances with an interest rate of 3.20%	11,000	35,000
FHLB fixed interest rate advances with a weighted average interest rate of 3.84% due through 2035	416,294	293,550
Total FHLB advances	$ 577,294	$ 478,550

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

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances paid off earlier than maturity. FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At September 30, 2008, Republic had available collateral to borrow an additional $375 million from the FHLB. In addition to its borrowing line with the FHLB, Republic also had unsecured lines of credit totaling $207 million available through various other financial institutions.

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

Year	(in thousands)
2008	$ 72,000
2009	107,000
2010	92,370
2011	100,000
2012	70,000
Thereafter	135,924
Total	$ 577,294

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

(in thousands)	September 30, 2008	December 31, 2007

First lien, single family residential	$	819,424	$	853,642
Home equity lines of credit		120,062		113,971
Multi-family, commercial real estate		25,353		29,342

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6. FAIR VALUE

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

In October, 2008, the FASB issued FSP No. 157-3 *Determining the Fair Value of a Financial Asset When the Market for that Asset Is Not Active*. The FSP clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key consideration in determining the fair value of a financial asset with the market for that financial asset is not active.

SFAS 157 describes three levels of inputs that may be used to measure fair value:

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

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

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

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

Trading securities: The Company s residual interest for securitized RALs is classified as a trading security. The fair value of the trading security is determined by analyzing expected future cashflows and is significantly influenced by the anticipated credit losses of the underlying RALs. Factors that the Company applies in determining the fair value include current year and historical funding patterns, as well as, information received from the IRS regarding current year payment processing. These securities are classified as Level 3 in the fair value hierarchy.

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

The Company currently owns five non agency mortgage backed and other non agency mortgage-related securities with a carrying value of $22.7 million at September 30, 2008. These securities are not guaranteed by government agencies. Approximately $14.4 million of these securities are backed by Alternative A first lien mortgage loans. The remaining $6.7 million represents an asset backed security with an insurance wrap or guarantee. Due to current market conditions, all of these assets are extremely illiquid based on guidance outlined in FSP 157-3, and as such, the Company has classified them in the Level 3 hierarchy for fair value reporting. The average life of these securities is currently estimated to be approximately five years. The Company utilized an income valuation model

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(present value model) approach, in determining the fair value of these securities. This approach maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

Derivative instruments: Mortgage Banking derivatives used in the ordinary course of business consist of mandatory forward sales contracts (forward contracts) and rate lock loan commitments. Forward contracts represent future commitments to deliver loans at a specified price and date and are used to manage interest rate risk on loan commitments and mortgage loans held for sale. Rate lock commitments represent commitments to fund loans at a specific rate. These derivatives involve underlying items, such as interest rates, and are designed to transfer risk. Substantially all of these instruments expire within 90 days from the date of issuance. Notional amounts are amounts on which calculations and payments are based, but which do not represent credit exposure, as credit exposure is limited to the amounts required to be received or paid. The fair value of our derivative instruments is primarily measured by obtaining pricing from broker-dealers recognized to be market participants. The pricing is derived from market observable inputs that can generally be verified and do not typically involve significant judgment by the Company. Forward contracts and loan commitments are classified as Level 2 in the fair value hierarchy.

Mortgage loans held for sale: The fair value of mortgage loans held for sale is determined using quoted secondary-market prices. The purchaser provides the Company with a commitment to purchase the loan at the origination price. This commitment qualifies as an exit price under SFAS 157 and therefore mortgage loans held for sale are classified as Level 2 in the fair value hierarchy. If no such quoted price exists, the fair value of a loan would be determined using quoted prices for a similar asset or assets, adjusted for the specific attributes of that loan.

Impaired Loans: Impairment is evaluated at the time a loan is identified as impaired and the loan is recorded at the lower of cost or market value. Market value is measured based on the value of the collateral securing these loans generally determined based on appraisals by qualified licensed appraisers. If an appraisal is not available, the fair value of the collateral may be determined by using a cash flow analysis, a broker s opinion of value, the net present value of future cash flows, or an observable market price from an active market. Fair value on non-real estate collateral loans is determined using similar methods. In addition, business equipment may be valued by using the net book value from the business financial statements. Impaired loans are evaluated quarterly for impairment. Impaired loans are classified as Level 3 in the fair value hierarchy.

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

(in thousands)	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2008
Trading securities	$	$	$	$

Securities available for sale	474,221	21,119	495,340
Forward contracts	15,666		15,666
Rate lock loan commitments	10,157		10,157
Mortgage loans held for sale	6,758		6,758

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

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Trading Securities - Residual interest in the RAL securitization

(in thousands)	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Balance, beginning of period	$ 177	$
Increase in RAL securitization residual		4,560
Retained securitization residual		102,059
Paydown of securitization residual	(177)	(106,619)
Balance, end of period	$	$

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

(in thousands)	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Balance, beginning of period	$ 20,554	$
Transfer into Level 3		22,085
Net unrealized gain	1,968	2,037
Premium amortization	(14)	(47)
Principal paydowns	(1,389)	(2,956)
Balance, end of period	$ 21,119	$ 21,119

The Company recorded a realized impairment loss in the Level 3 non agency mortgage backed and other non agency mortgage related securities totaling $3.9 million and $3.4 during the third and second quarters of 2008, respectively. The Company recorded a realized impairment loss in the Level 3 non agency mortgage backed and other non agency mortgage related securities totaling $7.3 million for the nine months ended September 2008. There were no impairment losses recorded in 2007.

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

(in thousands)	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2008
Impaired loans	$	$	$ 10,663	$ 10,663

Impaired loans had a carrying amount of $12.5 million, with a valuation allowance of $1.9 million, resulting in an additional credit to the provision for loan losses of $154,000 for the first nine months of 2008.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard was effective for the

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Company on January 1, 2008. The Company elected the fair value option for all loans held for sale originated after December 31, 2007.

7. OFF BALANCE SHEET RISKS, COMMITMENTS AND CONTINGENT LIABILITIES

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

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

As of September 30, 2008, exclusive of Mortgage Banking loan commitments discussed below, Republic had outstanding loan commitments of $471 million, which included unfunded home equity lines of credit totaling $330 million. At December 31, 2007, Republic had outstanding loan commitments of $487 million, which included unfunded home equity lines of credit totaling $326 million. These commitments generally have variable rates.

Standby letters of credit are conditional commitments issued by Republic to guarantee the performance of a customer to a third party. The terms and risk of loss involved in issuing standby letters of credit are similar to those involved in issuing loan commitments and extending credit. Commitments outstanding under standby letters of credit totaled $24 million and $38 million at September 30, 2008 and December 31, 2007.

At September 30, 2008 and December 31, 2007, Republic had a $12 million letter of credit from the FHLB issued on behalf of one RB&T client. This letter of credit was used as a credit enhancement for a client bond offering and reduced RB&T s available borrowing line at the FHLB. The Company uses a blanket pledge of eligible real estate loans to secure the letter of credit.

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

With the adoption of SAB 109 and SFAS 159 during 2008, the Company recognized $178,000 in additional Mortgage Banking income related to the Company s mandatory forward sales contracts and rate lock loan commitments.

Mortgage Banking derivatives used in the ordinary course of business consist of mandatory forward sales contracts and rate lock loan commitments. Forward contracts represent future commitments to deliver loans at a specified price and date and are used to manage interest rate risk on loan commitments and mortgage loans held for sale. Rate lock

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commitments represent commitments to fund loans at a specific rate. These derivatives involve underlying items, such as interest rates, and are designed to transfer risk. Substantially all of these instruments expire within 90 days from the date of issuance. Notional amounts are amounts on which calculations and payments are based, but which do not represent credit exposure, as credit exposure is limited to the amounts required to be received or paid. The approximate notional amounts and realized gain/(loss) for Mortgage Banking derivatives recognized in Mortgage Banking income for the period end September 30, 2008 and December 31, 2007 follows:

(in thousands)	**September 30, 2008**	**December 31, 2007**
Forward contracts:		
Notional amount	$ 15,700	$ 10,700
Gain / (loss) on change in market value of forward contracts	(34)	(41)
Rate lock loan commitments:		
Notional amount	$ 10,077	$ 9,635
Gain on change in market value of rate lock commitments	80	24

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 parties to deliver commitments are unable to fulfill their obligations, the Company could potentially incur significant additional costs by replacing the positions at then current market rates. The Company manages its risk of exposure by limiting counterparties to those banks and institutions deemed appropriate by management and the Board of Directors. The Company does not expect any counterparty to default on their obligations and therefore, the Company does not expect to incur any cost related to counterparty default.

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

8. EARNINGS PER SHARE

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

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

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(in thousands, except per share data)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Net income	$ 4,502	$ 4,232	$ 33,048	$ 18,507
Weighted average shares outstanding	20,591	20,336	20,485	20,516
Effect of dilutive securities	387	281	314	420
Average shares outstanding including dilutive securities	20,978	20,617	20,799	20,936
Basic earnings per share:				
Class A Common Share	$ 0.22	$ 0.21	$ 1.62	$ 0.91
Class B Common Share	0.21	0.20	1.59	0.88
Diluted earnings per share:				
Class A Common Share	$ 0.22	$ 0.21	$ 1.59	$ 0.88
Class B Common Share	0.20	0.20	1.56	0.86

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Antidilutive stock options	10,500	848,359	301,697	376,210

9. SEGMENT INFORMATION

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

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

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

Segment information for the three and nine months ended September 30, 2008 and 2007 follows:

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	Three Months Ended September 30, 2008			
(dollars in thousands)	Banking	Tax Refund Solutions	Mortgage Banking	Total Company
Net interest income	$ 27,520	$ 229	$ 97	$ 27,846
Provision for loan losses	191	133		324
Electronic Refund Check fees		738		738
Net RAL securitization income		157		157
Mortgage banking income			1,071	1,071
Other revenue	1,867	25	(444)	1,448
Total non interest income	1,867	920	627	3,414
Total non interest expenses	21,250	2,574	159	23,983
Gross operating profit	7,946	(1,558)	565	6,953
Income tax expense / (benefit)	2,840	(591)	202	2,451
Net income / (loss)	$ 5,106	$ (967)	$ 363	$ 4,502
Segment assets	$ 2,981,809	$ 56,428	$ 6,817	$ 3,045,054
Net interest margin	3.83%	NM	NM	3.86%

	Three Months Ended September 30, 2007			
(dollars in thousands)	Banking	Tax Refund Solutions	Mortgage Banking	Total Company
Net interest income	$ 21,517	$ 52	$ 96	$ 21,665
Provision for loan losses	1,530	(154)		1,376
Electronic Refund Check fees		77		77
Net RAL securitization income		11		11
Mortgage banking income			905	905
Other revenue	6,689	32	(208)	6,513
Total non interest income	6,689	120	697	7,506
Total non interest expenses	19,436	1,637	205	21,278
Gross operating profit	7,240	(1,311)	588	6,517
Income tax expense / (benefit)	2,467	(387)	205	2,285
Net income / (loss)	$ 4,773	$ (924)	$ 383	$ 4,232
Segment assets	$ 3,162,834	$ 3,570	$ 4,513	$ 3,170,917
Net interest margin	2.87%	NM	NM	2.88%

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	Nine Months Ended September 30, 2008			
(dollars in thousands)	**Banking**	**Tax Refund Solutions**	**Mortgage Banking**	**Total Company**
Net interest income	$ 81,086	$ 20,373	$ 288	$ 101,747
Provision for loan losses	6,094	8,358		14,452
Electronic Refund Check fees		17,668		17,668
Net RAL securitization income		13,030		13,030
Mortgage banking income			3,806	3,806
Other revenue	11,663	29	(1,302)	10,390
Total non interest income	11,663	30,727	2,504	44,894
Total non interest expenses	63,127	17,545	618	81,290
Gross operating profit	23,528	25,197	2,174	50,899
Income tax expense	8,135	8,966	750	17,851
Net income	$ 15,393	$ 16,231	$ 1,424	$ 33,048
Segment assets	$ 2,981,809	$ 56,428	$ 6,817	$ 3,045,054
Net interest margin	3.65%	NM	NM	4.51%

	Nine Months Ended September 30, 2007			
(dollars in thousands)	**Banking**	**Tax Refund Solutions**	**Mortgage Banking**	**Total Company**
Net interest income	$ 63,669	$ 6,948	$ 306	$ 70,923
Provision for loan losses	1,910	3,293		5,203
Electronic Refund Check fees		4,189		4,189
Net RAL securitization income		3,713		3,713
Mortgage banking income			2,051	2,051
Other revenue	19,069	138	(712)	18,495
Total non interest income	19,069	8,040	1,339	28,448
Total non interest expenses	60,484	4,635	659	65,778
Gross operating profit	20,344	7,060	986	28,390
Income tax expense	6,877	2,663	343	9,883
Net income	$ 13,467	$ 4,397	$ 643	$ 18,507
Segment assets	$ 3,162,834	$ 3,570	$ 4,513	$ 3,170,917
Net interest margin	2.91%	NM	NM	3.21%

NM - Not meaningful

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10. SECURITIZATION

In January 2006, the Company established TRS RAL Funding, LLC (TRS RAL, LLC), a qualified special purpose entity (QSPE) and wholly-owned subsidiary corporation of RB&T. The QSPE securitized and sold a portion of the RAL portfolio to an independent third party during the first quarters of 2008 and 2007. The purpose of the securitization was to provide a funding source for the Company s RAL portfolio and also reduce the impact of the RAL program on the Company s regulatory capital.

As part of the securitization, the Company established a two step structure to handle the sale of the assets to third party investors. In the first step, a sale provided for TRS RAL, LLC to purchase the assets from RB&T as Originator and Servicer. In the second step, a sale and administration agreement was entered into by and among TRS RAL, LLC and various other third parties, with TRS RAL, LLC retaining a residual interest in an over-collateralization.

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

During the first quarters of 2008 and 2007, respectively, the securitization consisted of $1.1 billion and $350 million of loans originated and sold. The Company s continuing involvement in loans sold into the securitization was limited to only servicing the RALs. Compensation for servicing the securitized RALs was not contingent upon the performance of the securitized RALs.

The residual value related to the securitization is presented as a trading security on the balance sheet and was $0 at September 30, 2008 and December 31, 2007. At September 30, 2008, in estimating the Company s residual interest for securitized RALs, the Company estimated that 0.64% of RALs securitized by the Company were uncollectible compared to 0.67% at September 30, 2007. As a result, the Company recorded a net reduction to Net RAL securitization income of $6.7 million for the first nine months of 2008 and $2.0 million for the first nine months of 2007**.**

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

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Detail of Net RAL securitization income follows:

(in thousands)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Net gain on sale of RALs	$	$ 5	$ 8,313	$ 2,261
Increase in securitization residual	157	6	4,717	1,452
Net RAL securitization income	$ 157	$ 11	$ 13,030	$ 3,713

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

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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 (collectively referred together with RB&T as the Bank), Republic Funding Company and Republic Invest Co. On August 15, 2008, the Company filed applications with the Office of Thrift Supervision to merge Republic Bank & Trust Company, a state chartered commercial bank, and Republic Bank, a federally chartered savings bank, into one federally chartered savings bank. 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.*

This discussion includes various forward-looking statements with respect to credit quality, including but not limited to, delinquency trends and the adequacy of the allowance for loan losses, business segments, corporate objectives, the Company s interest rate sensitivity model and other financial and business matters. Broadly speaking, forward-looking statements may include:

- projections of revenue, 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:

- future credit losses and non-performing assets;
- the adequacy of the allowance for loans losses;
- the anticipated future cash flows of Refund Anticipation Loans (RALs); including those securitized and retained on balance sheet;
- Anticipated future funding sources for TRS;
- the future value of mortgage servicing rights;
- the impact of new accounting pronouncements;
- future short-term and long-term interest rate levels and the respective impact on net interest margin, net interest spread, net income, liquidity and capital;
- legal and regulatory matters; and
- future capital expenditures.