REPUBLIC BANCORP INC /KY/
Form 10-Q
April 23, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

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 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). o 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 April 23, 2010, was 18,509,995 and 2,308,974, respectively.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 2010	December 31, 2009
ASSETS:		
Cash and cash equivalents	$ 322,291	$ 1,068,179
Securities available for sale	410,935	416,311
Securities to be held to maturity (fair value of $49,731 in 2010 and $51,135 in 2009)	49,296	50,924
Mortgage loans held for sale	5,801	5,445
Loans, net of allowance for loan losses of $25,640 and $22,879 (2010 and 2009)	2,247,548	2,245,353
Federal Home Loan Bank stock, at cost	26,274	26,248
Premises and equipment, net	38,300	39,380
Goodwill	10,168	10,168
Other assets and accrued interest receivable	70,382	56,760
TOTAL ASSETS	$ 3,180,995	$ 3,918,768
LIABILITIES		
Deposits		
Non interest-bearing	$ 473,221	$ 318,275
Interest-bearing	1,425,909	2,284,206
Total deposits	1,899,130	2,602,481
Securities sold under agreements to repurchase and other short-term borrowings	275,111	299,580
Federal Home Loan Bank advances	545,564	637,607
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	62,736	21,840
Total liabilities	2,823,781	3,602,748
STOCKHOLDERS EQUITY		
Preferred stock, no par value		
Class A Common Stock and Class B Common Stock, no par value	4,917	4,917
Additional paid in capital	126,627	126,376
Retailed earnings	220,783	178,944
Accumulated other comprehensive income	4,887	5,783
Total stockholders equity	357,214	316,020
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 3,180,995	$ 3,918,768

See accompanying footnotes to consolidated financial statements.

Table of Contents

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

(*in thousands, except per share data*)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
INTEREST INCOME:		
Loans, including fees	$ 82,483	$ 91,326
Taxable investment securities	3,745	5,154
Tax exempt investment securities	6	6
Federal Home Loan Bank stock and other	995	871
Total interest income	87,229	97,357
INTEREST EXPENSE:		
Deposits	4,319	10,338
Securities sold under agreements to repurchase and other short-term borrowings	240	339
Federal Home Loan Bank advances	5,178	5,244
Subordinated note	620	620
Total interest expense	10,357	16,541
NET INTEREST INCOME	76,872	80,816
Provision for loan losses	16,790	25,665
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	60,082	55,151
NON INTEREST INCOME:		
Service charges on deposit accounts	3,872	4,422
Electronic refund check fees	53,168	22,905
Net RAL securitization income	195	412
Mortgage banking income	1,012	4,174
Debit card interchange fee income	1,220	1,159
Total impairment losses on investment securities	(69)	(3,125)
Loss recognized in other comprehensive income		
Net impairment loss recognized in earnings	(69)	(3,125)
Other	479	555
Total non interest income	59,877	30,502
NON INTEREST EXPENSES:		
Salaries and employee benefits	17,378	14,516
Occupancy and equipment, net	6,418	5,909
Communication and transportation	2,469	1,923
Marketing and development	8,592	10,977
FDIC insurance expense	1,117	1,050
Bank franchise tax expense	1,145	635
Data processing	720	770
Debit card processing expense	649	674

Supplies		1,032		878
Other real estate owned expense		301		1,711
Charitable contributions		5,486		421
FHLB advance prepayment expense		1,531		
Other		4,301		4,178
Total non interest expenses		51,139		43,642
INCOME BEFORE INCOME TAX EXPENSE		68,820		42,011
INCOME TAX EXPENSE		24,192		16,252
NET INCOME	$	44,628	$	25,759

(continued)

Table of Contents

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

(*in thousands, except per share data*)

	Three Months Ended March 31, 2010		Three Months Ended March 31, 2009	
OTHER COMPREHENSIVE INCOME, NET OF TAX				
Unrealized gain (loss) on securities available for sale, net	$	(1,055)	$	1,624
Change in unrealized losses on securities available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings		203		
Reclassification adjustment for losses (gains) realized in income		(45)		2,031
Other comprehensive income (loss)		(897)		3,655
COMPREHENISVE INCOME	$	43,732	$	29,414
BASIC EARNINGS PER SHARE:				
Class A Common Stock	$	2.15	$	1.25
Class B Common Stock		2.13		1.24
DILUTED EARNINGS PER SHARE:				
Class A Common Stock	$	2.14	$	1.24
Class B Common Stock		2.13		1.23

See accompanying footnotes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY *(UNAUDITED)*

(in thousands, except per share data)	Class A Shares Outstanding	Common Stock Class B Shares Outstanding	Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance, January 1, 2010	18,499	2,309	$ 4,917	$ 126,376	$ 178,944	$ 5,783	$ 316,020
Net income					44,628		44,628
Net change in accumulated other comprehensive income						(896)	(896)
Dividend declared Common Stock:							
Class A ($0.132 per share)					(2,444)		(2,444)
Class B ($0.121 per share)					(277)		(277)
Stock options exercised, net of shares redeemed	5		1	93	(28)		66
Repurchase of Class A Common Stock	(3)		(1)	(21)	(40)		(62)
Conversion of Class B Common Stock to Class A Common Stock							
Notes receivable on Common Stock, net of cash payments				(42)			(42)
Deferred director compensation expense - Company Stock	1			46			46
Stock based compensation expense				175			175
Balance, March 31, 2010	18,502	2,309	$ 4,917	$ 126,627	$ 220,783	$ 4,887	$ 357,214

See accompanying footnotes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS (*UNAUDITED*)

THREE MONTHS ENDED MARCH 31, 2010 AND 2009 (*in thousands*)

	2010	2009
OPERATING ACTIVITIES:		
Net income	$ 44,628	$ 25,759
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	4,465	3,017
Provision for loan losses	16,790	25,665
Net gain on sale of mortgage loans held for sale	(868)	(3,974)
Origination of mortgage loans held for sale	(49,109)	(183,563)
Proceeds from sale of mortgage loans held for sale	49,621	187,336
Net realized recovery of mortgage servicing rights		(1,133)
Increase in RAL securitization residual	195	412
Paydown of trading securities	(195)	(412)
Net realized loss on sales, calls and impairment of securities	69	3,125
Net gain on sale of other real estate owned	(7)	(20)
Writedowns of other real estate owned	220	1,663
Deferred director compensation expense - Company Stock	46	65
Stock based compensation expense	175	183
Net change in other assets and liabilities:		
Accrued interest receivable	453	2,042
Accrued interest payable	(468)	(2,749)
Other assets	(13,290)	(19,352)
Other liabilities	40,009	39,800
Net cash provided by operating activities	92,734	77,864
INVESTING ACTIVITIES		
Purchases of securities available for sale	(277,787)	(300,114)
Purchases of securities to be held to maturity		(1,166)
Purchases of Federal Home Loan Bank stock	(26)	
Proceeds from calls, maturities and paydowns of securities available for sale	281,772	754,338
Proceeds from calls, maturities and paydowns of securities to be held to maturity	1,621	188
Proceeds from sales of other real estate owned	1,672	473
Net increase in loans	(22,343)	(34,210)
Purchases of premises and equipment	(952)	(1,320)
Net cash provided by/(used in) investing activities	(16,043)	418,189
FINANCING ACTIVITIES		
Net change in deposits	(703,351)	(774,574)
Net change in securities sold under agreements to repurchase and other short-term borrowings	(24,469)	(13,798)
Payments on Federal Home Loan Bank advances	(117,043)	(5,043)
Proceeds from Federal Home Loan Bank advances	25,000	125,000
Repurchase of Common Stock	(62)	(146)
Net proceeds from Common Stock options exercised	66	714
Cash dividends paid	(2,720)	(2,470)
Net cash used in financing activities	(822,579)	(670,317)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(745,888)	(174,264)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,068,179	616,303
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 322,291	$ 442,039

(continued)

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS (*UNAUDITED*) *(Continued)*

THREE MONTHS ENDED MARCH 31, 2010 AND 2009 (*in thousands*)

	2010	2009
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the quarter for:		
Interest	$ 10,825	$ 19,290
Income taxes	781	63
SUPPLEMENTAL NONCASH DISCLOSURES		
Transfers from loans to real estate acquired in settlement of loans	$ 3,316	$ 669

See accompanying footnotes to consolidated financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2010 AND 2009 (UNAUDITED) AND DECEMBER 31, 2009

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Republic operates 44 banking centers, primarily in the retail banking industry, and conducts its operations predominately in metropolitan Louisville, Kentucky, central Kentucky, northern Kentucky, southern Indiana, metropolitan Tampa, Florida, 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 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 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.

Republic s 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, bank franchise tax expense, data processing, debit card processing 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.

Republic, through its Tax Refund Solutions (TRS) segment, is one of a limited number of financial institutions which facilitates the payment of federal and state tax refunds through third party tax-preparers located throughout the U.S., as well as tax-preparation software providers. The Company facilitates the payment of these tax refunds through three primary products: Electronic Refund Checks (ERCs), Electronic Refund Deposits (ERDs) and Refund Anticipation Loans (RALs). Substantially all of the business generated by TRS occurs in the first quarter of the year. TRS traditionally operates at a loss during the second half of the year, during which the segment incurs costs preparing for the upcoming tax season.

ERCs/ERDs are products whereby a tax refund is issued to the taxpayer after the Company has received the refund from the federal or state government. There is no credit risk or borrowing cost for the Company 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 are short-term consumer loans offered to taxpayers that are secured by the customer s anticipated tax refund, which represents the source of repayment. The Company underwrites the RAL application through an automated credit review process utilizing information contained in the taxpayer s tax return and the tax-preparer s history. If the application is approved, the Company advances the amount of the refund due on the taxpayer s return up to specified amounts less the loan fee due to the Company and, if requested by the taxpayer, the fees due for preparation of the return to the tax-preparer. As part of the RAL application process, each taxpayer signs an agreement directing the IRS to send the taxpayer s refund directly to the Company. The refund received from the IRS is used by the Company to pay off the RAL. Any amount due the taxpayer above the amount of the RAL is remitted to the taxpayer once the refund is received

Table of Contents

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.

For additional discussion regarding TRS, see the following sections:

- *Part I Item 1 Financial Statements:*
- *Footnote 3 Loans and Allowance for Loan Losses*
- *Footnote 10 Segment Information*
- *Footnote 11 Regulatory Matters*
- *Part I Item 1A Risk Factors of the Company s 2009 Annual Report on Form 10-K*

Recently Issued Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) amended previous guidance relating to transfers of financial assets and eliminates the concept of a qualifying special purpose entity. This guidance must be applied as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. This guidance must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. The disclosure provisions were also amended and apply to transfers that occurred both before and after the effective date of this guidance. The adoption of this guidance did not have a material impact on the Company s results of operations or financial position.

In June 2009, the FASB amended guidance for consolidation of variable interest entity guidance by replacing the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. Additional disclosures about an enterprise s involvement in variable interest entities are also required. This guidance is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The adoption of this guidance did not have a material impact on the Company s results of operations or financial position.

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. 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, 2009.

Table of Contents

2. 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:

March 31, 2010 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 66,077	$ 28	$ (328)	$ 65,777
Private label mortgage backed and other private label mortgage-related securities	7,663	164	(2,035)	5,792
Mortgage backed securities	202,771	8,945		211,716
Collateralized mortgage obligations	126,907	880	(137)	127,650
Total securities available for sale	$ 403,418	$ 10,017	$ (2,500)	$ 410,935

December 31, 2009 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 48,000	$ 82	$	$ 48,082
Private label mortgage backed and other private label mortgage-related securities	8,085		(2,184)	5,901
Mortgage backed securities	227,792	10,362		238,154
Collateralized mortgage obligations	123,536	765	(127)	124,174
Total securities available for sale	$ 407,413	$ 11,209	$ (2,311)	$ 416,311

Mortgage backed Securities

At March 31, 2010, with the exception of the $5.8 million private label mortgage backed and other private label mortgage-related securities, substantially all of the mortgage backed securities held by the Company 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 which the government has affirmed its commitment to support. Because the decline in fair value of the mortgage backed securities is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company 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, the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2010.

As mentioned throughout this filing, the Company s mortgage backed securities portfolio includes private label mortgage backed and other private label mortgage-related securities with a fair value of $5.8 million which had net unrealized losses of approximately $2.1 million at March 31, 2010. As of March 31, 2010, the Company believes there is no further credit loss component of other-than-temporary impairment

(OTTI) in addition to that which has already been recorded. Additionally, the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery.

The mortgage backed securities portfolio is predominantly backed by residential properties.

Table of Contents

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:

March 31, 2010 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 9,183	$ 211	$	$ 9,394
Obligations of states and political subdivisions	384	38		422
Mortgage backed securities	2,606	127		2,733
Collateralized mortgage obligations	37,123	126	(67)	37,182
Total securities to be held to maturity	$ 49,296	$ 502	$ (67)	$ 49,731

December 31, 2009 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 9,187	$ 90	$	$ 9,277
Obligations of states and political subdivisions	384	38		422
Mortgage backed securities	2,748	108	(1)	2,855
Collateralized mortgage obligations	38,605	84	(108)	38,581
Total securities to be held to maturity	$ 50,924	$ 320	$ (109)	$ 51,135

Sales of Securities Available for Sale

During the three months ended March 31, 2010 and 2009, there were no sales or calls of securities available for sale.

Table of Contents

Market Loss Analysis

Securities with unrealized losses at March 31, 2010 and December 31, 2009, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

March 31, 2010 (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	$ 35,263	$ (328)	$	$	$ 35,263	$ (328)
Private label mortgage backed and other private label mortgage-related securities	5,134	(2,035)			5,134	(2,035)
Mortgage backed securities, including Collateralized mortgage obligations	22,912	(75)	11,740	(129)	34,652	(204)
Total	$ 63,309	$ (2,438)	$ 11,740	$ (129)	$ 75,049	$ (2,567)

December 31, 2009 (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 and other private label mortgage-related securities	5,901	(2,184)			5,901	(2,184)
Mortgage backed securities, including Collateralized mortgage obligations	19,738	(64)	12,093	(172)	31,831	(236)
Total	$ 25,639	$ (2,248)	$ 12,093	$ (172)	$ 37,732	$ (2,420)

As of March 31, 2010, the Company s security portfolio consisted of 136 securities, 16 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company s mortgage-backed and other securities, as discussed below:

Table of Contents

The amortized cost and fair value of the investment securities portfolio by contractual maturity at March 31, 2010 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.

March 31 2010, (in thousands)	Securities available for sale Amortized Cost	Securities available for sale Fair Value	Securities to be held to maturity Carrying Value	Securities to be held to maturity Fair Value
Due in one year or less	$ 2,000	$ 2,021	$ 3,184	$ 3,387
Due from one year to five years			5,878	5,924
Due from five years to ten years	64,077	63,756	505	505
Private label mortgage backed and other private label mortgage-related securities	7,663	5,792		
Mortgage backed securities	202,771	211,716	2,606	2,733
Collateralized mortgage obligations	126,907	127,650	37,123	37,182
Total	$ 403,418	$ 410,935	$ 49,296	$ 49,731

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 Company 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 Company 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 Company 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 and other private label mortgage-related securities. The Company owned and continues to own four private label mortgage backed and other private label mortgage-related securities with an amortized cost of $7.7 million at March 31, 2010. All principal was written off for a fifth security previously owned by the Company, as losses on this security equaling Republic s principal ownership was passed through to the Company by the servicer/trustee. None of these private label securities are guaranteed by government agencies. Approximately $1.9 million (*Securities 1 through 3 in the table below*) of these securities are mostly backed by Alternative A first lien mortgage loans. The remaining $5.8 million (*Security 4 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 two years.

14

Table of Contents

Due to current market conditions, all of these assets remain extremely illiquid, and as such, the Company determined that these securities are Level 3 securities in accordance with FASB ASC topic 820, *Fair Value Measurements and Disclosures.* Based on this determination, the Company 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 6, Fair Value for additional discussion.*

In April 2009, the FASB finalized three ASCs regarding the accounting treatment for investments including mortgage backed securities. These ASCs changed the method for determining if an OTTI exists and the amount of OTTI to be recorded through an entity s income statement. The changes brought about by the ASCs reflect a more accurate representation of the credit and noncredit components of an OTTI event. These ASCs were effective for financial statements issued for periods ending after June 15, 2009.

Prior to the second quarter of 2009, all unrealized losses related to the private label mortgage backed and other private label mortgage-related securities were transferred from accumulated other comprehensive loss to an immediate reduction of earnings classified as net impairment losses on investment securities in the consolidated statement of income and comprehensive income. With the adoption of the above mentioned ASCs as of April 1, 2009, the Company recorded a cumulative effect adjustment to retained earnings for all unrealized losses in the Company s private label mortgage backed and other private label mortgage-related securities which were deemed to be non-credit in nature with a corresponding adjustment to accumulated other comprehensive loss.

During the first quarter of 2009, prior to the adoption of the ASCs, the Company recognized total non cash OTTI charges to the income statement of $3.1 million for its private label mortgage backed securities and other private label mortgage-related securities.

The following table presents a rollforward of the credit losses recognized in earnings for the period ended March 31, 2010:

(in thousands)

Beginning balance, January 1, 2010	$	17,266
Pass through of actual losses		(1,836)
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized		69
Additions/Subtractions:		
Increases to the amount related to the credit loss for which other-than-temporary impairment was previously recognized		
Ending balance, March 31, 2010	$	15,499

Further deterioration in economic conditions could cause the Company to record additional impairment charges related to credit losses of up to $7.7 million, which is the current gross amortized cost of the Company s private label mortgage backed securities and other private label mortgage-related securities.

The following table details the credit ratings and the total impairment loss related to all other factors recorded as a component of accumulated other comprehensive income for the Company s private label mortgage backed and other private label mortgage-related securities as of March 31, 2010:

15

Table of Contents

(in thousands)	Amortized Cost	Fair Value	Gross Unrealized Gains / (Losses)	Cumulative Credit OTTI Losses	Ratings as of March 31, 2010 S&P	Fitch	Moody s
Security 1	$ 494	$ 658	$ 164	$ (8,446)	CC		Ca
Security 2	1,094	1,079	(15)	(3,272)	CC	C	
Security 3	257	250	(7)	(1,766)	CCC	C	
Security 4	5,818	3,805	(2,013)	(2,015)	BB		
Total	$ 7,663	$ 5,792	$ (1,871)	$ (15,499)			

The ratings above range from imminent default (Fitch C) to speculative (S&P BB).

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)	March 31, 2010	December 31, 2009
Amortized cost	$ 371,989	$ 427,444
Fair value	372,067	427,444

16

Table of Contents

3. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the loan portfolio follows:

(in thousands)	March 31, 2010	December 31, 2009
Residential real estate	$ 1,076,748	$ 1,097,311
Commercial real estate	647,005	641,451
Real estate construction	78,556	83,090
Commercial	101,119	104,274
Consumer	51,999	21,651
Overdrafts	1,468	2,006
Home equity	316,293	318,449
Total loans	2,273,188	2,268,232
Less: Allowance for loan losses	25,640	22,879
Loans, net	$ 2,247,548	$ 2,245,353

Activity in the allowance for loan losses follows:

	Three Months Ended March 31,	
(in thousands)	2010	2009
Allowance for loan losses at beginning of period	$ 22,879	$ 14,832
Charge offs - Banking	(1,993)	(895)
Charge offs - Tax Refund Solutions	(14,584)	(27,054)
Total charge offs	(16,577)	(27,949)
Recoveries - Banking	239	155
Recoveries - Tax Refund Solutions	2,309	5,175
Total recoveries	2,548	5,330
Net loan charge offs/recoveries - Banking	(1,754)	(740)
Net loan charge offs/recoveries - Tax Refund Solutions	(12,275)	(21,879)
Net loan charge offs/recoveries - Total Company	(14,029)	(22,619)
Provision for loan losses - Banking	2,777	22,008
Provision for loan losses - TRS	14,013	3,657
Provision for loan losses- Total Company	16,790	25,665
Allowance for loan losses at end of period	$ 25,640	$ 17,878

Table of Contents

Information regarding Republic s impaired loans follows:

(in thousands)	**March 31, 2010**	**December 31, 2009**
Loans with no allocated allowance for loan losses	$ 10,316	$ 10,995
Loans with allocated allowance for loan losses	38,761	37,851
Total impaired loans	$ 49,077	$ 48,846
Amount of the allowance for loan losses allocated	$ 4,510	$ 4,718
Average of individually impaired loans during the year	42,176	35,930
Interest income recognized during impairment		
Cash basis interest income recognized		

Republic defines impaired loans to be those commercial related loans that the Company has classified as doubtful (collection of total amount due is improbable) or loss (all or a portion of the loan has been written off or a specific allowance for loss has been provided) or otherwise meet the definition of impaired. Impaired loans also include loans accounted for as troubled debt restructurings (TDRs). As of March 31, 2010, the Company had allocated $3.1 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings. The Company had outstanding $38 million to customers whose loans were classified as a troubled debt restructuring, of which $11 million were on non-accrual status, as of March 31, 2010.

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

(in thousands)	**March 31, 2010**	**December 31, 2009**
Loans on non-accrual status	$ 39,955	$ 43,136
Loans past due 90 days or more and still on accrual	4	8
Total non-performing loans	39,959	43,144
Other real estate owned	6,203	4,772
Total non-performing assets	$ 46,162	$ 47,916
Non-performing loans to total loans - Total Company	1.76%	1.90%
Non-performing loans to total loans - Banking Segment	1.78%	1.90%
Non-performing assets to total loans (including OREO)	2.03%	2.11%

The composition of non-performing loans by loan type follows:

(in thousands)	**March 31, 2010**	**December 31, 2009**
Residential real estate	$ 15,796	$ 14,832
Commercial real estate	12,540	16,850
Real estate construction	9,177	9,500
Commercial	481	647

Consumer		77		71
Home equity		1,888		1,244
Total non-performing loans	$	39,959	$	43,144

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.

Table of Contents

RAL Loss Reserves and Provision for Loan Losses:

At March 31st of each year the Company reserves for its estimated RAL losses for the year based on current year and historical funding patterns and based on information received from the IRS on current year payment processing. The Company charges off substantially all outstanding RALs by June 30th each year with subsequent collections recorded as recoveries.

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, tax return fraud and tax debts not previously disclosed to the Company during its underwriting process. While the RAL application form is completed by the taxpayer in the tax-preparer s office, the credit approval criteria is established by TRS and the underwriting decision is made by TRS. TRS reviews and evaluates all tax returns to determine the likelihood of IRS payment. If any attribute of the tax return appears to fall outside of predetermined parameters, TRS will not originate the RAL.

Annually, TRS goal for RAL losses is to be below 1.0% of total RALs originated for a given calendar year. As of March 31, 2010, $18.5 million of total RALs originated were outstanding past their expected funding date from the IRS compared to $33.9 million at March 31, 2009, representing 0.63% and 1.38% of total gross RALs originated during the respective tax years. As a result, TRS recorded a net provision for loan loss expense of $14.0 million and $22.0 million during the first quarter of 2010 and 2009. Included as a reduction to the first quarter 2009 TRS provision for loan losses was $2.8 million representing a limited preparer-provided guarantee for RAL product performance. Despite the increase in origination volume, the decrease in the Company s provision for loan losses was largely due to improved underwriting criteria developed from the Company s 2009 tax season funding history from the IRS.

The Company s gross loss reserves for RALs equated to 0.55% and 1.01% of total RALs originated during the first quarter of each year. Based on the Company s 2010 RAL volume, each 0.10% increase in the loss rate for RALs represents approximately $3.0 million in additional provision for loan loss expense. The Company expects the actual loss rate realized will be less than the current uncollected amount, as the Company will continue to receive payments from the IRS throughout the year and make other collection efforts to obtain repayment on the RALs.

The following table illustrates the effect on the second quarter 2010 provision for loan losses of TRS if final losses of RALs differ from management s current estimate by as much as 5 basis points higher or 20 basis points lower:

As of March 31, 2010 (dollars in thousands)

Total RALs originated during the current year tax season:	$	2,967,798

If % of RALs That Do Not Payoff Changes		Provision for Loan Losses		Increase / (Decrease) In Provision For Loan Losses From Current Estimate
Increase 5 basis points	$	15,497	$	1,484
Current Estimate (Base)		14,013		

Decrease 5 basis points	12,529	(1,484)
Decrease 10 basis points	11,045	(2,968)
Decrease 15 basis points	9,561	(4,452)
Decrease 20 basis points	8,077	(5,936)

For additional discussion regarding TRS, see the following sections:

- *Part I Item 1 Financial Statements:*
- *Footnote 1 Basis of Presentation and Summary of Significant Accounting Policies*
- *Footnote 10 Segment Information*
- *Footnote 11 Regulatory Matters*
- *Part I Item 1A Risk Factors of the Company s 2009 Annual Report on Form 10-K*

Table of Contents

4. DEPOSITS

Ending deposit balances were as follows at March 31, 2010 and December 31, 2009:

(in thousands)		**March 31, 2010**		**December 31, 2009**
Demand (NOW and SuperNOW)	$	257,835	$	245,502
Money market accounts		607,177		590,134
Brokered money market accounts		65,400		64,608
Internet money market accounts		6,002		6,236
Savings		37,265		33,691
Individual retirement accounts*		34,909		34,651
Time deposits, $100,000 and over*		174,462		169,548
Other certificates of deposit*		131,542		135,171
Brokered certificates of deposit*		111,317		1,004,665
Total interest-bearing deposits		1,425,909		2,284,206
Total non interest-bearing deposits		473,221		318,275
Total	$	1,899,130	$	2,602,481

* - Represents time deposits

During the fourth quarter of 2009, the Company obtained $921 million in brokered certificates of deposits to be utilized to fund the first quarter 2010 RAL program. These brokered certificates of deposits had a weighted average life of three months with a weighted average interest rate of 0.51%. Also, during January of 2010, the Company obtained an additional $542 million in brokered certificates of deposits to fund additional RAL demand. These brokered certificates of deposits acquired in January had a weighted average life of 55 days and a weighted average interest rate of 0.56%. There were no brokered certificates outstanding at March 31, 2010 related to the RAL program

During March 2010, the Company obtained $25 million in brokered deposits to be utilized by the Traditional Bank for on-going funding needs. These deposits had a weighted average maturity of five years and a weighted average cost of 2.90%.

5. FEDERAL HOME LOAN BANK (FHLB) ADVANCES

At March 31, 2010 and December 31, 2009, FHLB advances outstanding were as follows:

(in thousands)	**March 31, 2010**	**December 31, 2009**

Putable fixed interest rate advances with a weighted average interest rate of 4.51%*(1)*	$	150,000	$	150,000
Fixed interest rate advances with a weighted average interest rate of 3.19% due through 2035		395,564		487,607
Total FHLB advances	$	545,564	$	637,607

(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.

Table of Contents

During the first quarter of 2010, the Company prepaid $87 million in FHLB advances. These advances had a weighted average cost of 3.48% and were all scheduled to mature between April 2010 and January 2011. The Company incurred a $1.5 million prepayment penalty in connection with this transaction.

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 March 31, 2010, Republic had available collateral to borrow an additional $215 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.

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

Year		**(in thousands)**
2010	$	
2011		75,000
2012		110,000
2013		66,000
2014		168,000
Thereafter		126,564
Total	$	545,564

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

(in thousands)		**March 31, 2010**		**December 31, 2009**
First lien, single family residential real estate	$	658,431	$	733,511
Home equity lines of credit		70,181		91,014
Multi-family commercial real estate		19,664		38,526

Table of Contents

6. FAIR VALUE

Fair value is 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 Company 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 private label mortgage backed and other private label mortgage-related securities, 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 private label mortgage backed and other private label mortgage-related securities securities, all securities available for sale are classified as Level 2 in the fair value hierarchy.

In April 2009, the FASB finalized three ASCs regarding the accounting treatment for investments including mortgage backed securities. These ASCs changed the method for determining if an OTTI exists and the amount of OTTI to be recorded through an entity s income statement. The changes brought about by the ASCs reflect a more accurate representation of the credit and noncredit components of an OTTI event. These ASCs were effective for financial statements issued for periods ending after June 15, 2009. The Company recognized a $1.8 million cumulative effect of initially applying FASB ASC topic 320 *Investments Debt and Equity Securities*, as an adjustment to retained earnings at April 1, 2009, with a corresponding adjustment to accumulated other comprehensive income. 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 FASB ASC topic 820, *Fair Value Measurements and Disclosures.* Based on this determination, the Company utilized an income valuation model (present value model) approach, in determining the fair value of these securities.

See Footnote 2 Investment Securities for additional discussion regarding the Company s private label mortgage backed and other private label mortgage-related securities.

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. The fair value of the Company 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 Company. Forward contracts and rate lock 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. Mortgage loans held for sale are classified as Level 2 in the fair value hierarchy.

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally 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

Table of Contents

process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Other Real Estate Owned: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Mortgage Servicing Rights: The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. The Company is able to compare the valuation model inputs and results to widely available published industry data for reasonableness. Mortgage servicing rights are classified as Level 2 in the fair value hierarchy.

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

		Fair Value Measurements at March 31, 2010 Using:			
(in thousands)	**Carrying Value**	**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	$ 65,777	$	$ 65,777	$	$ 65,777
Private label mortgage backed and other private label mortgage-related securities	5,792			5,792	5,792
Mortgage backed securities	211,716		211,716		211,716
Collateralized mortgage obligations	127,650		127,650		127,650
Total securities available for sale	$ 410,935	$	$ 405,143	$ 5,792	$ 410,935
Mandatory forward contracts	$	$	$ 47	$	$ 47
Rate lock loan commitments			338		338
Mortgage loans held for sale	5,801		5,801		5,801

Table of Contents

(in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements at December 31, 2009 Using: 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	$ 48,082	$	$ 48,082	$	$ 48,082
Private label mortgage backed and other private label mortgage-related securities	5,901			5,901	5,901
Mortgage backed securities	238,154		238,154		238,154
Collateralized mortgage obligations	124,174		124,174		124,174
Total securities available for sale	$ 416,311	$	$ 410,410	$ 5,901	$ 416,311
Mandatory forward contracts	$	$	$ 616	$	$ 616
Rate lock loan commitments			53		53
Mortgage loans held for sale	5,445		5,445		5,445

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods ended March 31, 2010 and 2009:

Securities available for Sale - Private label mortgage backed and other private label mortgage-related securities

(in thousands)	Three Months Ended March 31, 2010	2009
Balance, beginning of period	$ 5,901	$ 14,678
Total gains or losses included in earnings:		
Net realized OTTI loss	(69)	(3,125)
Net change in unrealized gain / loss	313	106
Principle paydowns	(353)	(930)
Balance, end of period	$ 5,792	$ 10,729

Table of Contents

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

		Fair Value Measurements at March 31, 2010 Using:			
(in thousands)	**Carrying Value**	**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	$ 38,761	$	$	$ 34,251	$ 34,251
Other real estate owned	1,270			1,270	1,270
Mortgage servicing rights	8,292		10,435		10,435

		Fair Value Measurements at December 31, 2009 Using:			
(in thousands)	**Carrying Value**	**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	$ 37,851	$	$	$ 33,133	$ 33,133
Other real estate owned	1,276			1,276	1,276
Mortgage servicing rights	8,430		10,475		10,475

The following section details impairment charges recognized during the period:

The Company recorded realized impairment losses related to its Level 3 private label mortgage backed and other private label mortgage-related securities totaling $0 and $3.1 million for the three months ended March 31, 2010 and 2009. *See Footnote 2 Investment Securities for additional detail.*

At March 31, 2010 and December 31, 2009, impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $49 million, with a valuation allowance of $5 million.

At March 31, 2010 and December 31, 2009, other real estate owned, which is measured at the lower of carrying or fair value less costs to sell, had a net had a carrying amount of $1.3 million and $1.3 million, which is comprised of the outstanding balance of $6.1 million and $2.1 million, net of valuation allowances of $4.8 million and $799,000, respectively.

Mortgage servicing rights (MSR s), which are carried at lower of cost or fair value, were written down $1.3 million during the fourth quarter of 2008 related to the impairment of six of the 24 tranches within the portfolio. Due primarily to a decline in the expected prepayment speed of the Company s sold loan portfolio with servicing retained, the fair value of the Company s MSRs increased during 2009. As a result of this increase, the Company reduced its corresponding valuation allowance by $1.1 million during the first quarter of 2009 and an additional $122,000 during the second quarter of 2009. No MSR valuation allowance existed at December 31, 2009 and March 31, 2010.

Table of Contents

The carrying amounts and estimated fair values of financial instruments, at March 31, 2010 and December 31, 2009 follows:

(in thousands)	March 31, 2010 Carrying Amount	March 31, 2010 Fair Value	December 31, 2009 Carrying Amount	December 31, 2009 Fair Value
Assets:				
Cash and cash equivalents	$ 322,291	$ 322,291	$ 1,068,179	$ 1,068,179
Securities available for sale	410,935	410,935	416,311	416,311
Securities to be held to maturity	49,296	49,731	50,924	51,135
Mortgage loans held for sale	5,801	5,801	5,445	5,445
Loans, net	2,247,548	2,472,078	2,245,353	2,259,654
Federal Home Loan Bank stock	26,274	26,274	26,248	26,248
Accrued interest receivable	9,596	9,596	10,049	10,049
Liabilities:				
Deposits:				
Non interest-bearing accounts	473,221	473,221	318,275	318,275
Transaction accounts	973,679	973,679	940,171	940,171
Time deposits	452,230	456,895	1,344,035	1,349,268
Securities sold under agreements to repurchase and other short-term borrowings	275,111	275,111	299,580	299,580
Subordinated note	41,240	41,148	41,240	41,148
Federal Home Loan Bank advances	545,564	540,343	637,607	636,600
Accrued interest payable	2,420	2,420	2,888	2,888

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. The methods for determining the fair values for securities and mortgage loans held for sale were described previously. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. The fair value of off balance sheet items is not considered material.

The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2010 and December 31, 2009. Although management is not aware of any factors that would significantly 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.

Table of Contents

7. MORTGAGE BANKING ACTIVITIES

Activity for mortgage loans held for sale was as follows:

(in thousands)	March 31, 2010	March 31, 2009
Balance, beginning of period	$ 5,445	$ 11,298
Origination of mortgage loans held for sale	49,109	183,563
Proceeds from the sale of mortgage loans held for sale	(49,621)	(187,336)
Net gain in sale of mortgage loans held for sale	868	3,974
Balance, end of period	$ 5,801	$ 11,499

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

(in thousands)	March 31, 2010	March 31, 2009
Net gain on sale of mortgage loans held for sale	$ 868	$ 3,974
Change in mortgage servcing rights valuation allowance		1,133
Loan servicing income, net of amortization	144	(933)
Mortgage banking income	$ 1,012	$ 4,174

Activity for capitalized mortgage servicing rights was as follows:

(in thousands)	March 31, 2010	March 31, 2009
Balance, beginning of period	$ 8,430	$ 5,809
Additions	489	1,604
Amortized to expense	(627)	(1,601)
Change in valuation allowance		1,133
Balance, end of period	$ 8,292	$ 6,945

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

(in thousands)	March 31, 2010	March 31, 2009
Balance, beginning of period	$	$ (1,255)
Additions to expense		

Reductions credited to operations			1,133
Direct write downs			
Balance, end of period	$	$	(122)

The fair value of MSRs was $10.4 million and $10.5 million at March 31, 2010 and December 31, 2009. The fair value at March 31, 2010 was calculated using a discount rate of 9% with prepayment speeds ranging from 191% to 374%, depending on the stratification of the specific MSR, and a weighted average default rate of 1.50%. The fair value for year end 2009 was calculated using a discount rate of 9% with prepayment speeds ranging from 170% to 379%, depending on the stratification of the specific MSR, and a weighted average default rate of 1.50%.

Mortgage Banking derivatives used in the ordinary course of business consist of mandatory forward sales contracts and rate lock loan commitments. Mandatory forward contracts represent future commitments to deliver loans at a specified

27

Table of Contents

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 Company adopted FASB ASC topic 815, *Derivative and Hedging* at the beginning of the first quarter of 2009, and has included the expanded disclosures required by that statement.

The following tables include the notional amounts and realized gain (loss) for Mortgage Banking derivatives recognized in Mortgage Banking income as of March 31, 2010 and December 31, 2009:

(in thousands)	**March 31, 2010**	**December 31, 2009**
Mandatory forward contracts:		
Notional amount	$ 31,200	$ 32,270
Change in fair value of mandatory forward contracts	47	616
Rate lock loan commitments:		
Notional amount	$ 31,522	$ 28,734
Change in fair value of rate lock loan commitments	63	(338)

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 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 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 Company 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.

Table of Contents

8. OFF BALANCE SHEET RISKS, COMMITMENTS AND CONTINGENT LIABILITIES

Republic, 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 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 March 31, 2010, exclusive of Mortgage Banking loan commitments, Republic had outstanding loan commitments of $570 million, which included unfunded home equity lines of credit totaling $305 million. As of December 31, 2009, exclusive of Mortgage Banking loan commitments, Republic had outstanding loan commitments of $479 million, which included unfunded home equity lines of credit totaling $301 million. These commitments generally have open ended maturities and variable rates. At March 31, 2010 rates primarily ranged from 3.00% to 7.50% with a weighted average rate of 4.84%.

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 $10 million and $12 million at March 31, 2010 and December 31, 2009. In addition to credit risk, the Company also has liquidity risk associated with standby letters of credit because funding for these obligations could be required immediately. The Company does not deem this risk to be material.

At March 31, 2010 and December 31, 2009, Republic had a $10 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.

Table of Contents

9. 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. 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.

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 March 31,	
(in thousands, except per share data)	**2010**	**2009**
Net income	$ 44,628	$ 25,759
Weighted average shares outstanding	20,814	20,662
Effect of dilutive securities	58	170
Average shares outstanding including dilutive securities	20,872	20,832
Basic earnings per share:		
Class A Common Share	$ 2.15	$ 1.25
Class B Common Share	2.13	1.24
Diluted earnings per share:		
Class A Common Share	$ 2.14	$ 1.24
Class B Common Share	2.13	1.23

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

	Three Months Ended March 31,	
	2010	**2009**
Antidilutive stock options	673,444	665,644

Table of Contents

10. SEGMENT INFORMATION

The reportable segments are determined by the type of products and services offered, distinguished between Traditional Banking, Mortgage Banking and Tax Refund Solutions (TRS). They are also distinguished by 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. 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 from TRS. 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 are allocated based on income before income tax expense. Transactions among reportable segments are made at fair value.

For additional discussion regarding TRS, see the following sections:

- *Part I Item 1 Financial Statements:*
- *Footnote 1 Basis of Presentation and Summary of Significant Accounting Policies*
- *Footnote 3 Loans and Allowance for Loan Losses*
- *Footnote 11 Regulatory Matters*
- *Part I Item 1A Risk Factors of the Company s 2009 Annual Report on Form 10-K*

Segment information for the three months ended March 31, 2010 and 2009 follows:

Table of Contents

(dollars in thousands)	Three Months Ended March 31, 2010 Traditional Banking	Tax Refund Solutions	Mortgage Banking	Total Company
Net interest income	$ 27,261	$ 49,534	$ 77	$ 76,872
Provision for loan losses	2,777	14,013		16,790
Electronic Refund Check fees		53,168		53,168
Net RAL securitization income		195		195
Mortgage banking income			1,012	1,012
Net gain on sales, calls and impairment of securities	(69)			(69)
Other non interest income	5,563	8		5,571
Total non interest income	5,494	53,371	1,012	59,877
Total non interest expenses	25,853	24,502	828	51,139
Gross operating profit	4,169	64,390	261	68,820
Income tax expense	1,394	22,677	121	24,192
Net income	$ 2,775	$ 41,713	$ 140	$ 44,628
Segment assets	$ 3,019,385	$ 147,209	$ 14,401	$ 3,180,995
Net interest margin	3.78%	NM	NM	7.27%

(dollars in thousands)	Three Months Ended March 31, 2009 Traditional Banking	Tax Refund Solutions	Mortgage Banking	Total Company
Net interest income	$ 27,958	$ 52,574	$ 284	$ 80,816
Provision for loan losses	3,657	22,008		25,665
Electronic Refund Check fees		22,905		22,905
Net RAL securitization income		412		412
Mortgage banking income			4,174	4,174
Net loss on sales, calls and impairment of securities	(3,125)			(3,125)
Other non interest income	5,959	15	162	6,136
Total non interest income	2,834	23,332	4,336	30,502
Total non interest expenses	24,307	18,901	434	43,642
Gross operating profit	2,828	34,997	4,186	42,011
Income tax expense	697	14,112	1,443	16,252
Net income	$ 2,131	$ 20,885	$ 2,743	$ 25,759
Segment assets	$ 3,180,121	$ 137,555	$ 19,969	$ 3,337,645
Net interest margin	3.85%	NM	NM	8.12%

Table of Contents

11. REGULATORY MATTERS

During the first quarter of 2009, RB&T made public its Community Reinvestment Act Performance Evaluation (the CRA Evaluation). The CRA Evaluation assesses RB&T s initiatives and performance that are designed to help meet the credit needs of the areas it serves, including low and moderate-income individuals, neighborhoods and businesses. The CRA Evaluation also includes a review of RB&T s community development services and investments in RB&T s assessment areas.

RB&T received High Satisfactory ratings on the Investment Test component and the Service Test component evaluated as part of the CRA Evaluation. Based on issues identified within RB&T s Refund Anticipation Loan (RAL) program, RB&T received a Needs to Improve rating on the Lending Test component, and as a result, a Needs to Improve rating on its overall rating.

Effective February 25, 2009, RB&T entered into a Stipulation and Consent Agreement with the FDIC agreeing to the issuance of a Cease and Desist Order (the Order) predominately related to required improvements and increased oversight of RB&T s compliance management system. The Company filed the final Order as Exhibit 10.62 of its 2008 Annual Report on Form 10-K.

As stated in the CRA Evaluation, the FDIC concluded that RB&T violated Regulation B (Reg B), which implements the Equal Credit Opportunity Act (ECOA), specifically related to RB&T s tax refund business and its RAL program. The Reg B issues involved RB&T s requirement that both spouses who file a joint tax return sign a RAL proceeds check, even if one spouse opted out of the RAL transaction. The RAL is ultimately repaid to RB&T by the IRS with funds made payable to both spouses. The Reg B issues also involved a claim that in 2008 one electronic return originator (ERO) did not allow spouses to opt out of RAL transactions. In 2008, which is the period covered by the FDIC s CRA Evaluation, RB&T offered its tax related products through over 8,000 EROs nationwide.

In response to the CRA Evaluation, RB&T changed certain procedures and processes to address the Reg B issues raised by the FDIC. By statute, a financial holding company, such as the Company, that controls a Bank with a Needs to Improve CRA rating has limitations on certain future business activities, including the ability to branch and to make acquisitions, until its CRA rating improves. As also required by statute, the FDIC referred their conclusions regarding the alleged Reg B violations to the Department of Justice (DOJ). During the second quarter of 2009, the Company was notified that the DOJ had referred the Reg B issue back to the FDIC for administrative handling with no further corrective action required by the DOJ. At this time, the FDIC has not required any further corrective actions by RB&T above and beyond those listed in the Order.

The Order cites insufficient oversight of RB&T s consumer compliance programs, most notably in RB&T s RAL program. The Order requires increased compliance oversight of the RAL program by RB&T s management and board of directors, which is subject to review and approval by the FDIC. Under the Order, RB&T must increase its training and audits of its ERO partners, who make RB&T s tax products available to taxpayers across the nation. In addition, various components of the Order require RB&T to meet certain implementation, completion and reporting timelines, including the establishment of a compliance management system to appropriately assess, measure, monitor and control third party risk and ensure compliance with consumer laws.

In addition to the compliance issues cited in regard to the RAL program, the Order also required RB&T to correct Home Mortgage Disclosure Act (HMDA) reporting errors. As part of the Order, RB&T made corrections to its 2007 and 2006 HMDA reporting, in December of 2008. As a result of the errors in its 2007 and 2006 HMDA reporting, RB&T paid a $22,000 civil money penalty during the first quarter of 2009.

The Order also reflected other alleged consumer compliance violations. RB&T has addressed these other alleged violations and management believes it has implemented all necessary and required corrective actions regarding these items in accordance with the expectations of its regulator.

Table of Contents

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. 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, 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, 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:

- delinquencies, future credit losses, non-performing loans and non-performing assets;
- further developments in the Company s ongoing review of and efforts to resolve possible problem credit relationships, which could result in, among other things, additional provisions to the allowance 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 regulatory viability of the Tax Refund Solutions (TRS) business operating segment;

- anticipated future funding sources for TRS;
- 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 actions and examinations;
- 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; and
- inflation, interest rate, market and monetary fluctuations and the Bank s ability to maintain current deposit and loan levels at current interest rates.

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, 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* of the Company 2009 Annual Report on Form 10-K.

As used in this report, the terms Republic, the Company, we, our and us refer to Republic Bancorp, Inc., and, where the context requires, Republic Bancorp, Inc. and its subsidiaries; and the term the Bank refers to the Company s subsidiary banks: Republic Bank & Trust Company and Republic Bank.

Table of Contents

BUSINESS SEGMENT COMPOSITION

As of March 31, 2010, the Company was divided into three distinct segments: Traditional Banking, Tax Refund Solutions and Mortgage Banking.

Net income, total assets and net interest margin by segment for the three months ended March 31, 2010 and 2009 are presented below:

	Three Months Ended March 31, 2010			
(in thousands)	**Traditional Banking**	**Tax Refund Solutions**	**Mortgage Banking**	**Total Company**
Net income	$ 2,775	$ 41,713	$ 140	$ 44,628
Segment assets	3,019,385	147,209	14,401	3,180,995
Net interest margin	3.78%	NM	NM	7.27%

	Three Months Ended March 31, 2009			
(in thousands)	**Traditional Banking**	**Tax Refund Solutions**	**Mortgage Banking**	**Total Company**
Net income	$ 2,131	$ 20,885	$ 2,743	$ 25,759
Segment assets	3,180,121	137,555	19,969	3,337,645
Net interest margin	3.85%	NM	NM	8.12%

NM Not Meaningful

(I) Traditional Banking

As of March 31, 2010, Republic had 44 full-service banking centers with 35 located in Kentucky, five located in metropolitan Tampa, Florida, three located in southern Indiana and one located in metropolitan Cincinnati, Ohio. 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 12 banking centers in the following Kentucky cities: Bowling Green (1); 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. Republic Bank has locations in Hudson, New Port Richey, Palm Harbor, Port Richey and Temple Terrace, Florida, as well as metropolitan Cincinnati, Ohio.

(II) Tax Refund Solutions (TRS)

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

ERCs/ERDs are products whereby a tax refund is issued to the taxpayer after the Company has received the refund from the federal or state government. There is generally no credit risk or borrowing cost for the Company 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 are short-term consumer loans offered to taxpayers that are secured by the customer s anticipated tax refund, which

Table of Contents

represents the source of repayment. The Company underwrites the RAL application through an automated credit review process utilizing information contained in the taxpayer s tax return and the tax-preparer s history. If the application is approved, the Company advances the amount of the refund due on the taxpayer s return up to specified amounts less the loan fee due to the Company and, if requested by the taxpayer, the fees due for preparation of the return to the tax-preparer. As part of the RAL application process, each taxpayer signs an agreement directing the IRS to send the taxpayer s refund directly to the Company. The refund received from the IRS is used by the Company to pay off the RAL. Any amount due the taxpayer above the amount of the RAL is remitted to the taxpayer once the refund is received 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.

The Company has agreements with Jackson Hewitt Inc. (JHI) and Jackson Hewitt Technology Services LLC (JHTSL), both subsidiaries of Jackson Hewitt Tax Service Inc. (referred to collectively as 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 35% and 23% of the Company s first quarter 2010 and 2009 TRS revenue was derived from JH with another 27% and 5% from Liberty for the same periods. See *Results of Operations Tax Refund Solutions* for additional discussion of JH and Liberty agreements.

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, tax return fraud and tax debts not previously disclosed to the Company during its underwriting process. While the RAL application form is completed by the taxpayer in the tax-preparer s office, the credit approval criteria is established by TRS and the underwriting decision is made by TRS. TRS reviews and evaluates all tax returns to determine the likelihood of IRS payment. If any attribute of the tax return appears to fall outside of predetermined parameters, TRS will not originate the RAL.

At March 31st of each year the Company reserves for its estimated RAL losses for the year based on current year and historical funding patterns and based on information received from the IRS on current year payment processing. The Company charges off substantially all outstanding RALs by June 30th each year with subsequent collections recorded as recoveries.

Subsequent to the first quarter, the results of operations for the TRS business operating segment consist primarily of fixed overhead expenses and adjustments to the segment s estimated provision for loan losses, as estimated results became final. However, as was the case in 2009, the fourth quarter can be impacted by the funding strategy for the upcoming tax season. As detailed in the section titled *TRS Funding First Quarter 2010 Tax Season* below, the TRS business operating segment incurred a fourth quarter net loss of $1.5 million with approximately $200,000 attributable to the negative spread the segment earned on brokered deposits obtained for the upcoming first quarter 2010 tax season.

TRS Rebate Accruals

During September 2009, the Company announced a new pricing model reducing the fees the Bank charges consumers for RALs beginning with the first quarter 2010 tax season. With respect to new contracts entered into for the first quarter 2010 tax season, TRS substantially reduced rebates paid to individual technology and tax preparation service providers in connection with the delivery of tax refund products.

TRS Funding First Quarter 2010 Tax Season

Due to the on-going excessive costs of securitization structures, the Company elected not to obtain funding from a securitization structure for the first quarter 2010 tax season. Instead, the Company utilized brokered certificates of deposits and to a lesser extent its traditional borrowing lines of credit as its primary RAL funding source for the first quarter 2010 tax season. During the fourth quarter of 2009, the Company obtained $921 million in brokered certificates of deposits to be utilized to fund the first quarter 2010 RAL program. These brokered certificates of deposits had a weighted average life of three months with a weighted average interest rate of 0.51%. Also, during January of 2010, the Company obtained an additional $542 million in brokered certificates of deposits to fund additional RAL demand. These brokered certificates of deposits acquired in January had a weighted average life of 55 days and a weighted average interest rate of 0.56%.

Table of Contents

TRS Funding First Quarter 2009 Tax Season

Due to the same reasons mentioned under *TRS Funding First Quarter 2010 Tax Season,* the Company utilized brokered certificates of deposits as its primary RAL funding source for the first quarter 2009 tax season. During the fourth quarter of 2008, the Company obtained $918 million in brokered certificates of deposits to be utilized to fund the first quarter 2010 RAL program. These brokered certificates of deposits had a weighted average life of three months with a weighted average interest rate of 2.71%. Also, during January of 2009, the Company obtained an additional $375 million in brokered certificates of deposits to fund additional RAL demand. These brokered certificates of deposits acquired in January had a weighted average life of 45 days and a weighted average interest rate of 1.27%.

For additional discussion regarding TRS, see the following sections:

- *Part I Item 1 Financial Statements:*
- *Footnote 1 Summary of Significant Accounting Policies*
- *Footnote 3 Loans and Allowance for Loan Losses*
- *Footnote 10 Segment Information*
- *Footnote 11 Regulatory Matters*
- *Part I Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations:*
- *Overview*
- *Results of Operations*
- *Comparison of Financial Condition*
- *Part I Item 1A Risk Factors of the Company s 2009 Annual Report on Form 10-K*

For additional discussion regarding RAL Provision for Loan Losses see Footnote 3 Loans and Allowance for Loans Losses.

(III) Mortgage Banking

Mortgage Banking activities primarily include 15, 20 and 30-year fixed-term single family residential rate real estate loans that are sold into the secondary market, primarily to Freddie Mac. From 2003 through mid 2009, the Bank historically retained servicing on substantially all loans sold into the secondary market. In order to take advantage of the steep yield curve, during the second quarter of 2009, the Company borrowed from the FHLB to fund a pool of 15 year fixed rate residential real estate loans. 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 Company records an MSR. MSRs represent an estimate of the present value of future cash servicing income, net of estimated costs, which Republic expects to receive on loans sold with servicing retained by the Company. MSRs are capitalized as separate assets when loans are sold and servicing is retained. 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 Company. 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 would be 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 prepayments within the portfolio. Alternatively, during a period of rising interest rates, the fair value of MSRs is expected to increase, as prepayment 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.

Table of Contents

Due to the significant reduction in long-term interest rates during December of 2008, the fair value of the MSR portfolio declined as prepayment speed assumptions were adjusted upwards resulting in an impairment charge of $1.3 million for the fourth quarter and year ended December 31, 2008. During the first quarter of 2009, prepayment speed assumptions stabilized to levels similar to those assumed in the third quarter of 2008 and the Company reversed $1.1 million from the valuation allowance. There were no impairment charges recorded prior to the fourth quarter of 2008 and no MSR valuation allowance existed at December 31, 2009 and March 31, 2010.

See additional detail regarding Mortgage Banking under Footnote 10 Segment Information of Part I Item 1 Financial Statements.

OVERVIEW

Net income for the three months ended March 31, 2010 was $44.6 million, representing an increase of $18.9 million, or 73%, compared to the same period in 2009. Diluted earnings per Class A Common Share increased 73% to $2.14 for the quarter ended March 31, 2010 compared to $1.24 for the same period in 2009. General highlights for the three months ended March 31, 2010 by business segment consist of the following:

Traditional Banking

- Net income increased $664,000, or 30%, for the first quarter of 2010 compared to the same period in 2009.

- Net interest income within the Traditional Banking segment decreased $697,000 or 2%, for the quarter first quarter of 2010 to $27.3 million. The net interest margin declined 7 basis points for the quarter ended March 31, 2010 compared to the fourth quarter of 2009 decreasing to 3.78%.

- The provision for loan losses was $2.8 million for the quarter ended March 31, 2010 compared to $3.7 million for the same period in 2009, due primarily to improved credit metrics.

- Non interest income increased $2.7 million, for the first quarter of 2010 compared to the same period in 2009 due primarily to the decline in impairment charges associated with the Company s small private label mortgage backed and other mortgage-related securities.

- Total non interest expense increased $1.5 million, or 7%, during the first quarter of 2010 compared to the first quarter of 2009 primarily due to an early termination penalty paid on FHLB advance prepayments.

• Total non-performing loans to total loans for the Traditional Banking segment decreased to 1.78% at March 31, 2010, from 1.90% at December 31, 2009, as the total balance of non-performing loans decreased by over $3 million for the same period.

<u>Tax Refund Solutions (TRS)</u>

• Net income increased $20.8 million for the first quarter of 2010 compared to the same period in 2009 primarily due to the following:

• A reduction in third party rebates resulting from the change in pricing model announced in September 2009;

• Growth in volume of tax refunds processed ; and

• A reduction in the RAL loan loss provision due largely to improved underwriting criteria developed from the Company s 2009 tax season funding history from the IRS.

• The total dollar volume of tax refunds processed during the first quarter 2010 tax season increased $2.5 billion, or 32%, over the first quarter 2009 tax season. Total RAL dollar volume increased from $2.5 billion during the first quarter 2009 tax season to $3.0 billion during the first quarter 2010 tax season.

• The Company obtained $921 million in brokered deposits during the fourth quarter of 2009 and an additional $542 million in brokered certificates of deposits during the first quarter of 2010 to fund anticipated RAL demand.

Table of Contents

For additional discussion regarding TRS, see the following sections:

- *Part I Item 1 Financial Statements:*
- *Footnote 1 Summary of Significant Accounting Policies*
- *Footnote 3 Loans and Allowance for Loan Losses*
- *Footnote 10 Segment Information*
- *Footnote 11 Regulatory Matters*
- *Part I Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations:*
- *Business Segment Composition*
- *Results of Operations*
- *Comparison of Financial Condition*
- *Part I Item 1A Risk Factors of the Company s 2009 Annual Report on Form 10-K*

For additional discussion regarding RAL Provision for Loan Losses see Footnote 3 Loans and Allowance for Loans Losses.

Mortgage Banking

- Within the Mortgage Banking segment, mortgage banking income decreased $3.2 million during the first quarter of 2010 compared to the same period in 2009. The majority of this decline was in the gain on sale of loan category, as a meaningful decline in short-term interest rates during the first quarter of 2009 contributed to a dramatic prior year increase in demand for 15 and 30 year fixed rate loans, which the Company sold into the secondary market.

- Mortgage banking income during the first quarter of 2009 was positively impacted by the reversal of $1.1 million of the valuation allowance related to the MSR portfolio.

RESULTS OF OPERATIONS

Tax Refund Solutions (TRS)

TRS entered the first quarter of the 2010 tax season with a plan that, among other things, reduced prices on its Refund Anticipation Loan (RAL) and Electronic Refund Check (ERC)/Electronic Refund Deposit (ERD) products, eliminated some products such as instant RALs, limited the number of locations that could offer the RAL product, focused on the consistent delivery of products to its customers and emphasized asset quality through improved loan underwriting. This led to net income at TRS of $41.7 million for the first quarter of 2010 compared to $20.9 million for the first quarter of 2009.

The Company was able to achieve its strong growth in net income at TRS despite an 11% decline in RAL fees and a reduction in the number of tax preparations offices that originated Republic RALs during the first quarter 2010 tax season. The increase in net income from TRS was driven by lower losses on RALs, growth in demand for TRS non-loan ERC/ERD product, lower funding costs compared to the first quarter of 2009 and an increase in the average number of bank products per active location.

The 11% decline in RAL fees for the first quarter of 2010 was driven by the Company s new pricing model for the 2010 tax season, which substantially reduced Republic s pricing to the customer on its RAL product. In conjunction with the new pricing model, Republic significantly reduced third party rebates to technology and service providers, partially offsetting the reduction in price. TRS was also able to partially offset the decline in RAL fees through an increase in volume, as the total number of RALs processed increased 14% over the first quarter of 2009 while the dollar volume of RALs processed increased 21%.

While the Company experienced a decline in RAL revenue during the quarter, ERC/ERD fee income increased 132% over the first quarter of 2009. ERC/ERD fees are included as a component of non interest income on the income statement. ERC/ERD fee income was positively impacted by a 28% increase in the number of ERCs/ERDs processed. In addition, the Company increased ERC/ERD fee income significantly through the previously mentioned reduction in third party payments.

Table of Contents

TRS net income also benefited significantly from lower funding costs in 2010 as compared to 2009. Average brokered deposits outstanding utilized to fund RALs during the first quarter of 2010 and 2009 were $1.0 billion and $857 million with a weighted average cost of 0.55% and 2.29%, respectively. As a result, interest expense for the TRS segment was $1.4 million for the first quarter of 2010, a decrease of $3.3 million from the first quarter of 2009.

At March 31st of each year the Company reserves for its estimated RAL losses for the year based on current year and historical funding patterns and based on information received from the IRS on current year payment processing. The Company charges off substantially all outstanding RALs by June 30th each year with subsequent collections recorded as recoveries. RALs outstanding past their expected due date at March 31, 2010 and 2009 were $18.5 million, or 0.63% of total RALs originated during the first quarter 2010 season, compared to $33.9 million, or 1.38% of RALs originated during the first quarter 2009 season. As a result, TRS provision for loan losses was $14.0 million for the first quarter of 2010 compared to $22.0 million during the first quarter of 2009. The decrease in the Company s provision for loan losses was due to improved underwriting criteria developed from the Company s 2009 tax season funding history from the IRS.

As previously disclosed, the Company met with the FDIC in March of 2010 to discuss the future viability of the TRS program. The Company expects to have future discussions related to this and other regulatory matters.

For additional discussion regarding TRS, see the following sections:

- *Part I Item 1 Financial Statements:*
- *Footnote 1 Summary of Significant Accounting Policies*
- *Footnote 3 Loans and Allowance for Loan Losses*
- *Footnote 10 Segment Information*
- *Footnote 11 Regulatory Matters*
- *Part I Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations:*
- *Business Segment Composition*
- *Overview*
- *Comparison of Financial Condition*
- *Part I Item 1A Risk Factors of the Company s 2009 Annual Report on Form 10-K*

For additional discussion regarding RAL Provision for Loan Losses see Footnote 3 Loans and Allowance for Loans Losses.

Net Interest Income

The largest source of Republic s revenue is 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 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 $3.9 million, or 5%, for the first quarter of 2010 compared to the same period in 2009. The total Company net interest margin decreased 85 basis points to 7.27% for the same period. The most significant components comprising the total Company decrease in net interest income were as follows:

Traditional Banking segment

Net interest income decreased $697,000, or 2%, for the first quarter of 2010 compared to 2009. The traditional Bank s net interest margin declined 7 basis points for the same period to 3.78%. The decrease in net interest income was due primarily to a decrease in interest income resulting from the continued paydowns and downward repricing of loans and investments. Generally, the Company s strategy has largely been not to extend expected maturities on a significant portion of the paydowns it has received due to market projections of interest rate increases in the future. As a result, much of the cash the Company received from paydowns over the past several months has been reinvested into short-term lower yielding investments, which has greatly improved the Company s risk position from future interest rate increases, while negatively impacting current earnings. The Company has been unable offset this reduction in interest income during the first quarter of 2010 by lowering its cost of funds.

Table of Contents

The Company expects to continue to receive paydowns in its loan and investment portfolios. These paydowns will continue to cause compression in Republic s net interest income and net interest margin, as the cash received from these paydowns is reinvested at lower yields. Additionally, because the Federal Funds Target rate (FFTR) (the index which many of the Company 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 (FOMC) of the FRB are possible, exacerbating the compression to the Company s net interest income and net interest margin caused by its repricing loans and investments. The Company is unable to precisely determine the ultimate negative impact to the Company 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.

For additional information on the potential future effect of changes in short-term interest rates on Republic s net interest income, see Table 10, Interest Rate Sensitivity for 2010 in this section of the document.

TRS segment

Net interest income within the TRS segment decreased $3.0 million, or 6%, for the first quarter of 2010 compared to the same period in 2009. The decrease in net interest income within the TRS segment was primarily due to a reduction in RAL fee income resulting from the Company s new pricing model, which substantially lowered RB&T s RAL fee to its customers. In conjunction with the new pricing model, Republic significantly reduced third party rebates to its technology and service providers, partially offsetting the reduction in price. As also previously discussed, TRS was also able to partially offset the decline in RAL fees through an increase in the volume of RALs processed.

For additional discussion regarding TRS, see the following sections:

- *Part I Item 1 Financial Statements:*
- *Footnote 1 Summary of Significant Accounting Policies*
- *Footnote 3 Loans and Allowance for Loan Losses*
- *Footnote 10 Segment Information*
- *Footnote 11 Regulatory Matters*
- *Part I Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations:*
- *Business Segment Composition*
- *Overview*
- *Comparison of Financial Condition*

- *Part I Item 1A Risk Factors of the Company s 2009 Annual Report on Form 10-K*

For additional discussion regarding RAL Provision for Loan Losses see Footnote 3 Loans and Allowance for Loans Losses.

Table 1 provides detailed information as to average balances, interest income/expense and rates by major balance sheet category for the three month periods ended March 31, 2010 and 2009. Table 2 provides an analysis of the 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.

Table of Contents

Table 1 Average Balance Sheets and Interest Rates for the Three Months Ended March 31, 2010 and 2009

(dollars in thousands)	Three Months Ended March 31, 2010 Average Balance	Interest	Average Rate	Three Months Ended March 31, 2009 Average Balance	Interest	Average Rate
ASSETS						
Interest-earning assets:						
Taxable investment securities(1)	$ 472,960	$ 4,039	3.42%	$ 570,862	$ 5,434	3.81%
Tax exempt investment securities(1)(4)	1,832	6	2.02%	1,832	6	2.02%
Federal funds sold and other interest-earning deposits	1,093,433	701	0.26%	795,834	591	0.30%
Loans and fees(2)(3)	2,658,713	82,483	12.41%	2,612,313	91,326	13.98%
Total interest-earning assets	4,226,938	87,229	8.25%	3,980,841	97,357	9.78%
Less: Allowance for loan losses	35,700			29,605		
Non interest-earning assets:						
Non interest-earning cash and cash equivalents	145,765			147,611		
Premises and equipment, net	39,293			43,069		
Other assets(1)	47,622			32,867		
Total assets	$ 4,423,918			$ 4,174,783		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
Transaction accounts	$ 276,136	$ 125	0.18%	$ 239,703	$ 35	0.06%
Money market accounts	583,801	737	0.50%	560,101	728	0.52%
Time deposits	342,757	1,609	1.88%	447,223	3,521	3.15%
Brokered deposits	1,203,632	1,848	0.61%	1,108,720	6,054	2.18%
Total deposits	2,406,326	4,319	0.72%	2,355,747	10,338	1.76%