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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

or

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

Commission File Number: 0-24649

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
þ Yes o No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes þ No

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

The number of shares outstanding of the registrant's Class A Common Stock and Class B Common Stock, as of July 31, 2012, was 18,656,621 and 2,298,803, respectively.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS (in thousands) (unaudited)

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

See accompanying footnotes to consolidated financial statements.

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

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

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

See accompanying footnotes to consolidated financial statements.

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

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

See accompanying footnotes to consolidated financial statements.

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

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

See accompanying footnotes to consolidated financial statements.

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

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

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

See accompanying footnotes to consolidated financial statements.

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. For further information, refer to the consolidated financial statements and footnotes thereto included in Republic's Form 10-K for the year ended December 31, 2011.

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

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

Republic operates 43 banking centers, primarily in the retail banking industry, and conducts its operations predominately in metropolitan Louisville, Kentucky; central Kentucky; northern Kentucky; southern Indiana; metropolitan Tampa, Florida; metropolitan Cincinnati, Ohio; metropolitan Nashville, Tennessee and through an Internet banking delivery channel.

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

Core Banking results of operations are primarily dependent upon net interest income, which represents the difference between the interest income and fees on interest-earning assets and the interest expense on interest-bearing liabilities. Principal interest-earning Core Banking assets represent investment securities and real estate mortgage, commercial and consumer loans. Interest-bearing liabilities primarily consist of interest-bearing deposit accounts, securities sold under agreements to repurchase, as well as short-term and long-term borrowing sources.

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

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

Republic Processing Group ("RPG")

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

TRS division:

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

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

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

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

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

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

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

Part I Item 1 "Financial Statements:"

o Footnote 4 "Loans and Allowance for Loan Losses"

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

RPS division:

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

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

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

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

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

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

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

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

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

Summary of New Significant Accounting Policies:

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

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

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

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

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

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

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

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2. BANK ACQUISITION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

* - denotes a time deposit

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TCB Results of Operations

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

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

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

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

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

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

3. INVESTMENT SECURITIES

Securities available for sale:

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

June 30, 2012 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$96,526	$864	$-	$97,390
Private label mortgage backed security	5,818	-	(1,239)	4,579
Mortgage backed securities - residential	247,791	7,199	-	254,990
Collateralized mortgage obligations	224,161	1,201	-	225,362
Total securities available for sale	$574,296	$9,264	$(1,239)	$582,321

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

Mortgage backed Securities

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

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

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Securities to be held to maturity:

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

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

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

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

The Bank sold six available for sale securities acquired in the TCB acquisition with an amortized cost of $35 million, resulting in a pre-tax gain of $53,000 during the first quarter of 2012.

The Bank realized $3,000 in pre-tax gains related to unamortized discount accretion on $10 million of callable U.S. Government agencies that were called during the first quarter of 2012 before their maturity.

There were no sales of securities available for sale during the second quarter of 2012.

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

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

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

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

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

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

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

Market Loss Analysis

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

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

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

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

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

Other-than-temporary impairment (“OTTI”)

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

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

The term “other-than-temporary” is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a general lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized for the anticipated credit losses.

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

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

Pledged Investment Securities

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

(in thousands)	June 30, 2012	December 31, 2011
Carrying amount	$ 494,246	$ 613,927
Fair value	503,361	620,922

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the loan portfolio follows:

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

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

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

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

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

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Credit Quality Indicators

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Allowance for Loan Losses

Activity in the allowance for loan losses follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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Non-performing Loans and Non-performing Assets

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

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

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

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

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

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

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

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

Delinquent Loans

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

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

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

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

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

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

Impaired Loans

The Bank defines impaired loans as follows:

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

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

Information regarding the Bank’s impaired loans follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

Troubled Debt Restructurings

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Refund Anticipation Loans

RAL Loss Reserves and Provision for Loan Losses:

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

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

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

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

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

Part I Item 1 "Financial Statements:"

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

Discontinuance of the RAL Product:

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

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

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

5. DEPOSITS

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

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

(*) - Represents a time deposit.

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

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

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

(*) - Represents a time deposit

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

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

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

(1) - Represents putable advances with the FHLB. These advances have original fixed rate periods ranging from one to five years with original maturities ranging from three to ten years if not put back to the Bank earlier by the FHLB. At the end of their respective fixed rate periods and on a quarterly basis thereafter, the FHLB has the right to require payoff of the advances by the Bank at no penalty. Based on market conditions at this time, the Bank does not believe that any of its putable advances are likely to be "put back" to the Bank in the short-term by the FHLB.

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

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

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

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

Part I Item 1 "Financial Statements:"

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

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

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

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

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

7. FAIR VALUE

Fair value represents the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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

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

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

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

Securities available for sale: For all securities available for sale, excluding the Bank's private label mortgage backed security, fair value is typically determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). With the exception of the private label mortgage backed security, all securities available for sale are classified as Level 2 in the fair value hierarchy.

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

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

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

Derivative instruments: Mortgage Banking derivatives used in the ordinary course of business primarily consist of mandatory forward sales contracts ("forward contracts") and rate lock loan commitments. The fair value of the Bank's derivative instruments is primarily measured by obtaining pricing from broker-dealers recognized to be market participants. The pricing is derived from market observable inputs that can generally be verified and do not typically involve significant judgment by the Bank. Forward contracts and rate lock loan commitments are classified as Level 2 in the fair value hierarchy.

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

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

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

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

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

	Fair Value Measurements at June 30, 2012 Using:	
	Quoted Prices in Active Markets	Significant