

REPUBLIC BANCORP INC /KY/
Form 10-Q
April 20, 2011

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

FORM 10-Q

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

For the quarterly period ended March 31, 2011

or

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)

Not Applicable

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

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

Yes 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).

Yes 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 Accelerated filer Non-accelerated filer Smaller reporting company

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

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

The number of shares outstanding of the registrant’s Class A Common Stock and Class B Common Stock, as of April 19, 2011, was 18,633,015 and 2,304,859, respectively.

1

TABLE OF CONTENTS

| | | Page |
|---------------------------------------|-----------------------------------------------------------------------------------------------|------|
| <u>PART I – FINANCIAL INFORMATION</u> | | |
| <u>Item 1.</u> | <u>Financial Statements.</u> | 3 |
| <u>Item 2.</u> | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u> | 41 |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures about Market Risk.</u> | 68 |
| <u>Item 4.</u> | <u>Controls and Procedures.</u> | 68 |
| <u>PART II – OTHER INFORMATION</u> | | |
| <u>Item 1.</u> | <u>Legal Proceedings.</u> | 68 |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u> | 69 |
| <u>Item 4.</u> | <u>(Removed and Reserved)</u> | 69 |
| <u>Item 6.</u> | <u>Exhibits.</u> | 70 |
| | <u>SIGNATURES</u> | 70 |

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS (in thousands) (unaudited)

| | March 31, 2011 | December 31, 2010 |
|-----------------------------------------------------------------------------------------|--------------------|----------------------|
| ASSETS: | | |
| Cash and cash equivalents | \$472,315 | \$786,371 |
| Securities available for sale | 615,169 | 509,755 |
| Securities to be held to maturity (fair value of \$31,255 in 2011 and \$33,824 in 2010) | 30,467 | 32,939 |
| Mortgage loans held for sale | 1,381 | 15,228 |
| Loans, net of allowance for loan losses of \$29,144 and \$23,079 (2011 and 2010) | 2,149,742 | 2,152,161 |
| Federal Home Loan Bank stock, at cost | 26,213 | 26,212 |
| Premises and equipment, net | 36,734 | 37,770 |
| Goodwill | 10,168 | 10,168 |
| Other assets and accrued interest receivable | 53,555 | 52,099 |
| TOTAL ASSETS | \$3,395,744 | \$3,622,703 |
| LIABILITIES | | |
| Deposits | | |
| Non interest-bearing | \$561,095 | \$325,375 |
| Interest-bearing | 1,463,616 | 1,977,317 |
| Total deposits | 2,024,711 | 2,302,692 |
| Securities sold under agreements to repurchase and other short-term borrowings | 259,722 | 319,246 |
| Federal Home Loan Bank advances | 554,837 | 564,877 |
| Subordinated note | 41,240 | 41,240 |
| Other liabilities and accrued interest payable | 74,799 | 23,272 |
| Total liabilities | 2,955,309 | 3,251,327 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, no par value | - | - |
| Class A Common Stock and Class B Common Stock, no par value | 4,944 | 4,944 |
| Additional paid in capital | 129,811 | 129,327 |
| Retained earnings | 299,435 | 230,987 |
| Accumulated other comprehensive income | 6,245 | 6,118 |
| Total stockholders' equity | 440,435 | 371,376 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$3,395,744 | \$3,622,703 |

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

(in thousands, except per share data)

| | Three Months Ended March 31, | |
|--------------------------------------------------------------------------------|---------------------------------|---------------|
| | 2011 | 2010 |
| INTEREST INCOME: | | |
| Loans, including fees | \$88,161 | \$82,483 |
| Taxable investment securities | 3,592 | 3,745 |
| Tax exempt investment securities | - | 6 |
| Federal Home Loan Bank stock and other | 870 | 995 |
| Total interest income | 92,623 | 87,229 |
| INTEREST EXPENSE: | | |
| Deposits | 2,938 | 4,319 |
| Securities sold under agreements to repurchase and other short-term borrowings | 251 | 240 |
| Federal Home Loan Bank advances | 4,834 | 5,178 |
| Subordinated note | 629 | 620 |
| Total interest expense | 8,652 | 10,357 |
| NET INTEREST INCOME | 83,971 | 76,872 |
| Provision for loan losses | 18,082 | 16,790 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 65,889 | 60,082 |
| NON INTEREST INCOME: | | |
| Service charges on deposit accounts | 3,424 | 3,872 |
| Electronic refund check fees | 81,062 | 53,168 |
| Net RAL securitization income | 179 | 195 |
| Mortgage banking income | 816 | 1,012 |
| Debit card interchange fee income | 1,484 | 1,220 |
| Total impairment losses on investment securities | (279 |) (69 |
| Loss recognized in other comprehensive income | - | - |
| Net impairment loss recognized in earnings | (279 |) (69 |
| Other | 626 | 479 |
| Total non interest income | 87,312 | 59,877 |
| NON INTEREST EXPENSES: | | |
| Salaries and employee benefits | 17,239 | 17,378 |
| Occupancy and equipment, net | 6,297 | 6,418 |
| Communication and transportation | 2,509 | 2,469 |

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

| | | |
|----------------------------------|----------|----------|
| Marketing and development | 904 | 8,592 |
| FDIC insurance expense | 1,635 | 1,117 |
| Bank franchise tax expense | 1,565 | 1,145 |
| Data processing | 748 | 720 |
| Debit card interchange expense | 523 | 649 |
| Supplies | 894 | 1,032 |
| Other real estate owned expense | 481 | 301 |
| Charitable contributions | 5,298 | 5,486 |
| FHLB advance prepayment expense | - | 1,531 |
| Other | 4,725 | 4,301 |
| Total non interest expenses | 42,818 | 51,139 |
| | | |
| INCOME BEFORE INCOME TAX EXPENSE | 110,383 | 68,820 |
| INCOME TAX EXPENSE | 38,971 | 24,192 |
| NET INCOME | \$71,412 | \$44,628 |

(continued)

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

| | Three Months Ended March 31, | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|-----------------|
| | 2011 | 2010 |
| OTHER COMPREHENSIVE INCOME, NET OF TAX | | |
| Unrealized gain (loss) on securities available for sale, net of tax | \$474 | \$(1,055) |
| Change in unrealized losses on securities available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings, net of tax | (166) | 203 |
| Reclassification adjustment for losses or gains realized in income, net of tax | (181) | (45) |
| Other comprehensive income (loss) | 127 | (897) |
| COMPREHENSIVE INCOME | \$71,539 | \$43,731 |

BASIC EARNINGS PER SHARE:

| | | |
|----------------------|--------|--------|
| Class A Common Stock | \$3.41 | \$2.15 |
| Class B Common Stock | 3.40 | 2.13 |

DILUTED EARNINGS PER SHARE:

| | | |
|----------------------|--------|--------|
| Class A Common Stock | \$3.40 | \$2.14 |
| Class B Common Stock | 3.39 | 2.13 |

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

| (in thousands, except per share data) | Common Stock | | Additional Paid In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total Stockholders' Equity | |
|------------------------------------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------|-------------------------------------------------|----------------------------------|------------|
| | Class A Shares Outstanding | Class B Shares Outstanding | | | | | |
| Balance, January 1, 2011 | 18,628 | 2,307 | \$4,944 | \$ 129,327 | \$ 230,987 | \$ 6,118 | \$ 371,376 |
| Net income | - | - | - | - | 71,412 | - | 71,412 |
| Net change in accumulated other comprehensive income | - | - | - | - | - | 127 | 127 |
| Dividend declared Common Stock: | | | | | | | |
| Class A (\$0.143 per share) | - | - | - | - | (2,664) | - | (2,664) |
| Class B (\$0.130 per share) | - | - | - | - | (300) | - | (300) |
| Stock options exercised, net of shares redeemed | - | - | - | - | - | - | - |
| Repurchase of Class A Common Stock | - | - | - | - | - | - | - |
| Conversion of Class B Common Stock to Class A Common Stock | 3 | (3) | - | - | - | - | - |
| Notes receivable on Common Stock, net of cash payments | - | - | - | 328 | - | - | 328 |
| Deferred director compensation expense - Company Stock | 2 | - | - | 51 | - | - | 51 |
| Stock based compensation expense | - | - | - | 105 | - | - | 105 |
| Balance, March 31, 2011 | 18,633 | 2,304 | \$4,944 | \$ 129,811 | \$ 299,435 | \$ 6,245 | \$ 440,435 |

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (in thousands)

| | 2011 | 2010 |
|----------------------------------------------------------------------------------------------|-----------|-----------|
| OPERATING ACTIVITIES: | | |
| Net income | \$71,412 | \$44,628 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, amortization and accretion, net | 2,583 | 4,465 |
| Provision for loan losses | 18,082 | 16,790 |
| Net gain on sale of mortgage loans held for sale | (708) | (868) |
| Origination of mortgage loans held for sale | (26,255) | (49,109) |
| Proceeds from sale of mortgage loans held for sale | 40,810 | 49,621 |
| Increase in RAL securitization residual | 179 | 195 |
| Paydown of trading securities | (179) | (195) |
| Net realized loss on sales, calls and impairment of securities | 279 | 69 |
| Net gain on sale of other real estate owned | (151) | (7) |
| Writedowns of other real estate owned | 186 | 220 |
| Deferred director compensation expense - Company Stock | 51 | 46 |
| Stock based compensation expense | 105 | 175 |
| Net change in other assets and liabilities: | | |
| Accrued interest receivable | (269) | 453 |
| Accrued interest payable | (225) | (468) |
| Other assets | 967 | (13,290) |
| Other liabilities | 51,516 | 40,009 |
| Net cash provided by operating activities | 158,383 | 92,734 |
| INVESTING ACTIVITIES | | |
| Purchases of securities available for sale | (149,221) | (277,787) |
| Purchases of Federal Home Loan Bank stock | (1) | (26) |
| Proceeds from calls, maturities and paydowns of securities available for sale | 44,044 | 281,772 |
| Proceeds from calls, maturities and paydowns of securities to be held to maturity | 2,469 | 1,621 |
| Proceeds from sales of other real estate owned | 2,613 | 1,672 |
| Net change in loans | (20,771) | (22,343) |
| Purchases of premises and equipment | (1,063) | (952) |
| Net cash provided by/(used in) investing activities | (121,930) | (16,043) |
| FINANCING ACTIVITIES | | |
| Net change in deposits | (277,981) | (703,351) |
| Net change in securities sold under agreements to repurchase and other short-term borrowings | (59,524) | (24,469) |
| Payments on Federal Home Loan Bank advances | (55,040) | (117,043) |
| Proceeds from Federal Home Loan Bank advances | 45,000 | 25,000 |
| Repurchase of Common Stock | - | (62) |
| Net proceeds from Common Stock options exercised | - | 66 |
| Cash dividends paid | (2,964) | (2,720) |
| Net cash used in financing activities | (350,509) | (822,579) |

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

| | | | | |
|--------------------------------------------------|-----------|---|-----------|---|
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (314,056 |) | (745,888 |) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 786,371 | | 1,068,179 | |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$472,315 | | \$322,291 | |

(continued)

7

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)
 THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (in thousands)

| | 2011 | 2010 |
|---------------------------------------------------------------------|---------|----------|
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid during the period for: | | |
| Interest | \$8,877 | \$10,825 |
| Income taxes | 64 | 781 |
| SUPPLEMENTAL NONCASH DISCLOSURES | | |
| Transfers from loans to real estate acquired in settlement of loans | \$5,436 | \$3,316 |

See accompanying footnotes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – MARCH 31, 2011 AND 2010 (UNAUDITED) AND DECEMBER 31, 2010

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

As of March 31, 2011, the Company was divided into three distinct business operating segments: Traditional Banking, Tax Refund Solutions and Mortgage Banking.

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 and through an Internet banking delivery channel. 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.

Republic’s 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, bank franchise tax expense, data processing, debit card interchange expense and other general and administrative costs. Republic’s results of operations are significantly impacted by general economic and competitive conditions, particularly changes in market interest rates, government laws and policies and actions of regulatory agencies.

Tax Refund Solutions

Republic, through its Tax Refund Solutions (“TRS”) segment, 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 Company’s three primary tax-related products include: Electronic Refund Checks (“ERCs” or “ARs”), Electronic Refund Deposits (“ERDs” or “ARDs”) and Refund Anticipation Loans (“RALs”). Substantially all of the business generated by TRS occurs in the first quarter of the year. TRS traditionally operates at a loss during the second half of the year, during which the segment incurs costs preparing for

the following year's first quarter tax season.

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

RALs are short-term consumer loans offered to taxpayers that are secured by the customer's anticipated tax refund, which represents the source of repayment. Prior to 2011, the Company historically underwrote the RAL application utilizing the Debt Indicator (the "DI") from the IRS, in combination with an automated underwriting model utilizing information contained in the taxpayer's tax return. The DI, which typically indicates whether an individual taxpayer will have any portion of the refund offset for delinquent tax or other debts, such as unpaid child support or federally funded student loans, has historically been a significant underwriting component. On August 5, 2010, the IRS issued a news release stating that it would no longer provide tax preparers and associated financial institutions with the DI beginning with the first quarter 2011 tax season. The Company modified its underwriting and application requirement criteria for the first quarter 2011 tax season to adjust for the loss of access to the DI.

If a consumer's RAL application is approved, the Company advances \$1,500 of the taxpayer's refund. As part of the RAL application process, each taxpayer signs an agreement directing the applicable taxing authority to send the taxpayer's refund directly to the Company. The refund received from the IRS or state taxing authority, if applicable, is used by the Company to pay off the RAL. Any amount due the taxpayer above the amount of the RAL is remitted to the taxpayer once the refund is received by the Company. The funds advanced by the Company are generally repaid by the applicable taxing authority within two weeks. The fees earned on RALs are reported as interest income under the line item "Loans, including fees."

For additional discussion regarding TRS, see the following sections:

- Part I Item 1 "Financial Statements:"
- o Footnote 3 "Loans and Allowance for Loan Losses"
- o Footnote 4 "Deposits"
- o Footnote 8 "Off Balance Sheet Risks, Commitments and Contingent Liabilities"
- o Footnote 10 "Segment Information"
- o Footnote 11 "Regulatory Matters"

Recently Issued Accounting Pronouncements

In January 2011, the FASB issued ASU No. 2011-01, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20." The provisions of ASU No. 2010-20 required the disclosure of more granular information on the nature and extent of troubled debt restructurings and their effect on the allowance for loan and lease losses effective for the Company's reporting period ended March 31, 2011. The amendments in ASU No. 2011-01 defer the effective date related to these disclosures, enabling creditors to provide such disclosures after the FASB completes their project clarifying the guidance for determining what constitutes a troubled debt restructuring. As the provisions of this ASU only defer the effective date of disclosure requirements related to troubled debt restructurings, the adoption of this ASU will have no impact on the Company's statements of income and condition.

In April 2011, the FASB issued ASU No. 2011-02, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring." The provisions of ASU No. 2011-02 provide additional guidance related to determining whether a creditor has granted a concession, include factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant, prohibit creditors from using the borrower's effective rate test to evaluate whether a concession has been granted to the borrower, and add factors for creditors to use in determining whether a borrower is experiencing financial difficulties. A provision in ASU No. 2011-02 also ends the FASB's deferral of the additional disclosures about troubled debt restructurings as required by ASU No. 2010-20. The provisions of ASU No. 2011-02 are effective for the Company's reporting period ending September 30, 2011. The adoption of ASU No. 2011-02 is not expected to have a material impact on the Company's statements of income and condition.

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. 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, 2010.

2. INVESTMENT SECURITIES

Securities available for sale:

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

| March 31, 2011 (in thousands) | Gross Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--------------------------------------------------------------------------------------|----------------------------|------------------------------|-------------------------------|---------------|
| U.S. Treasury securities and U.S. Government agencies | \$ 140,168 | \$ 608 | \$(190) |) \$ 140,586 |
| Private label mortgage backed and other private label mortgage-related securities | 5,818 | 360 | (1,304) |) 4,874 |
| Mortgage backed securities - residential Collateralized mortgage obligations | 252,202 | 8,954 | - |) 261,156 |
| | 207,373 | 1,353 | (173) |) 208,553 |
| Total securities available for sale | \$ 605,561 | \$ 11,275 | \$(1,667) |) \$ 615,169 |

| December 31, 2010 (in thousands) | Gross Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--------------------------------------------------------------------------------------|----------------------------|------------------------------|-------------------------------|---------------|
| U.S. Treasury securities and U.S. Government agencies | \$ 119,894 | \$ 668 | \$(265) |) \$ 120,297 |
| Private label mortgage backed and other private label mortgage-related securities | 6,323 | 211 | (1,410) |) 5,124 |
| Mortgage backed securities - residential Collateralized mortgage obligations | 150,460 | 8,217 | - |) 158,677 |
| | 223,665 | 2,144 | (152) |) 225,657 |
| Total securities available for sale | \$ 500,342 | \$ 11,240 | \$(1,827) |) \$ 509,755 |

Mortgage backed Securities

At March 31, 2011, with the exception of the \$4.9 million private label mortgage backed and other private label mortgage-related securities, all other mortgage backed securities held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Federal Home Loan Mortgage Corporation (“Freddie Mac” or “FHLMC”) and Fannie Mae (“FNMA”), institutions which the government has affirmed its commitment to support. At March 31, 2011 and December 31, 2010, there were gross unrealized losses of \$173,000 and \$152,000 related to available for sale and held to maturity mortgage backed securities other than the private label mortgage backed and other private label mortgage-related securities. 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 Company does not have the intent to sell these mortgage backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired.

As mentioned throughout this filing, the Company’s mortgage backed securities portfolio includes private label mortgage backed and other private label mortgage-related securities with a fair value of \$4.9 million which had gross unrealized losses of approximately \$1.3 million at March 31, 2011. As of March 31, 2011, the Company believes there is no further material credit loss component of other-than-temporary impairment (“OTTI”) in addition to that

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

Securities to be held to maturity:

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

| March 31, 2011 (in thousands) | Carrying Value | Gross Unrecognized Gains | Gross Unrecognized Losses | Fair Value |
|-------------------------------------------------------|----------------|--------------------------|---------------------------|------------|
| U.S. Treasury securities and U.S. Government agencies | \$4,189 | \$24 | \$- | \$4,213 |
| Mortgage backed securities - residential | 1,827 | 108 | - | 1,935 |
| Collateralized mortgage obligations | 24,451 | 626 | - | 25,077 |
| Total securities to be held to maturity | \$30,467 | \$758 | \$- | \$31,225 |

| December 31, 2010 (in thousands) | Carrying Value | Gross Unrecognized Gains | Gross Unrecognized Losses | Fair Value |
|-------------------------------------------------------|----------------|--------------------------|---------------------------|------------|
| U.S. Treasury securities and U.S. Government agencies | \$4,191 | \$10 | \$(4) | \$4,197 |
| Mortgage backed securities - residential | 1,930 | 109 | - | 2,039 |
| Collateralized mortgage obligations | 26,818 | 770 | - | 27,588 |
| Total securities to be held to maturity | \$32,939 | \$889 | \$(4) | \$33,824 |

During the three month periods ended March 31, 2011 and 2010, there were no sales of securities available for sale.

The amortized cost and fair value of the investment securities portfolio by contractual maturity at March 31, 2011 follows. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are detailed separately.

| March 31 2011, (in thousands) | Securities available for sale | | Securities held to maturity | |
|-----------------------------------------------------------------------------------|-------------------------------|------------|-----------------------------|------------|
| | Amortized Cost | Fair Value | Carrying Value | Fair Value |
| Due in one year or less | \$100,504 | \$100,783 | \$495 | \$505 |
| Due from one year to five years | 15,989 | 15,917 | 3,694 | 3,708 |
| Due from five years to ten years | 23,675 | 23,886 | - | - |
| Private label mortgage backed and other private label mortgage-related securities | 5,818 | 4,874 | - | - |
| Mortgage backed securities - residential | 252,202 | 261,156 | 1,827 | 1,935 |
| Collateralized mortgage obligations | 207,373 | 208,553 | 24,451 | 25,077 |
| Total | \$605,561 | \$615,169 | \$30,467 | \$31,225 |

Market Loss Analysis

Securities with unrealized losses at March 31, 2011 and December 31, 2010, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

| March 31, 2011 (in thousands) | Less than 12 months | | 12 months or more | | Total | |
|-----------------------------------------------------------------------------------------|---------------------|-------------------|-------------------|-------------------|------------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury securities and U.S. Government agencies | \$32,806 | \$(190) | \$- | \$- | \$32,806 | \$(190) |
| Private label mortgage backed and other private label mortgage-related securities | - | - | 4,514 | (1,304) | 4,514 | (1,304) |
| Mortgage backed securities - residential, including Collateralized mortgage obligations | 85,447 | (173) | - | - | 85,447 | (173) |
| Total | \$118,253 | \$(363) | \$4,514 | \$(1,304) | \$122,767 | \$(1,667) |

| December 31, 2010 (in thousands) | Less than 12 months | | 12 months or more | | Total | |
|-----------------------------------------------------------------------------------------|---------------------|-------------------|-------------------|-------------------|-----------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury securities and U.S. Government agencies | \$23,235 | \$(269) | \$- | \$- | \$23,235 | \$(269) |
| Private label mortgage backed and other private label mortgage-related securities | - | - | 4,409 | (1,410) | 4,409 | (1,410) |
| Mortgage backed securities - residential, including Collateralized mortgage obligations | 49,477 | (152) | - | - | 49,477 | (152) |
| Total | \$72,712 | \$(421) | \$4,409 | \$(1,410) | \$77,121 | \$(1,831) |

As of March 31, 2011, the Company's security portfolio consisted of 159 securities, 20 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company's mortgage-backed and other securities, as discussed below.

Other-than-temporary impairment ("OTTI")

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

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

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

Nationally, residential real estate values have declined significantly since 2007. These declines in value, coupled with the reduced ability of certain homeowners to refinance or repay their residential real estate obligations, have led to elevated delinquencies and losses in residential real estate loans. Many of these loans have previously been securitized and sold to investors as private label mortgage backed and other private label mortgage-related securities. As detailed in the table below, the Company owns four private label mortgage backed and other private label mortgage-related securities with a carrying value of \$5.8 million at March 31, 2011. For three of these securities (Securities 1 through three), the Company has recorded all projected losses through OTTI charges. The Company has permanently written off a portion of the principal associated with these securities, as a portion of its losses were passed through by the servicer/trustee.

None of these private label securities are guaranteed by government agencies. Securities 1 through 3 in the table below are mostly backed by "Alternative A" first lien mortgage loans. Security 4 in the table below represents an asset backed security with an insurance "wrap" or guarantee. The average life of security 4 is currently estimated to be five years. Due to current market conditions, all of these assets remain extremely illiquid, and as such, the Company determined that these securities are Level 3 securities in accordance with FASB ASC topic 820, "Fair Value Measurements and Disclosures." Based on this determination, the Company utilized an income valuation model (present value model) approach, in determining the fair value of these securities. This approach is beneficial for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support for these investments. See Footnote 6, "Fair Value" for additional discussion.

The following table contains details regarding the Company's private label securities as of March 31, 2011:

| (in thousands) | Amortized Cost | Cumulative OTTI Credit Losses | Amortized Cost, Net of OTTI Reserves | Fair Value | Gross Unrealized Gains / (Losses) |
|----------------|-------------------|----------------------------------------|-----------------------------------------------|---------------|--------------------------------------------|
| Security 1 | \$ 2,006 | \$ (2,006) | \$ - | \$ - | \$ - |
| Security 2 | 3,607 | (3,607) | - | 267 | 267 |
| Security 3 | 1,861 | (1,861) | - | 93 | 93 |
| Security 4 | 7,834 | (2,016) | 5,818 | 4,514 | (1,304) |
| Total | \$ 15,308 | \$ (9,490) | \$ 5,818 | \$ 4,874 | \$ (944) |

The credit ratings for the Company's private label mortgage backed and other private label mortgage-related securities range from "imminent default" to "speculative" at March 31, 2011.

The following table presents a rollforward of the credit losses recognized in earnings:

| (in thousands) | Three Months Ended March 31, 2011 | Three Months Ended March 31, 2010 |
|-----------------------------------------------------------------------------------------------------------|-----------------------------------------|-----------------------------------------|
| Beginning balance, January 1 | \$ 9,757 | \$ 17,266 |
| Realized pass through of actual losses | (546) | (1,836) |
| Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized | 279 | 69 |
| Ending balance, March 31 | \$ 9,490 | \$ 15,499 |

Further deterioration in economic conditions could cause the Company to record additional impairment charges related to credit losses of up to \$5.8 million, which is the current carrying value of the Company's private label mortgage backed securities and other private label mortgage-related securities.

Pledged Investment Securities

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

| (in thousands) | March 31, 2011 | December 31, 2010 |
|-----------------|----------------|----------------------|
| Carrying amount | \$ 408,391 | \$ 430,445 |
| Fair value | 409,024 | 431,223 |

3. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the loan portfolio follows:

| December 31, (in thousands) | March 31, 2011 | December 31, 2010 |
|---------------------------------|----------------|----------------------|
| Residential real estate: | | |
| Owner Occupied | \$ 922,517 | \$ 913,856 |
| Non Owner Occupied | 115,837 | 126,404 |
| Commercial real estate | 653,637 | 646,417 |
| Real estate construction | 62,147 | 69,068 |
| Commercial | 108,915 | 107,647 |
| Home equity | 288,499 | 290,492 |
| Consumer: | | |
| Credit Cards | 8,061 | 8,206 |
| Overdrafts | 838 | 901 |
| Other Consumer | 18,435 | 12,249 |
| Total loans | 2,178,886 | 2,175,240 |
| Less: Allowance for loan losses | 29,144 | 23,079 |
| Loans, net | \$ 2,149,742 | \$ 2,152,161 |

Activity in the allowance for loan losses follows:

| (in thousands) | Three Months Ended | |
|--------------------------------------------------------|--------------------|-----------|
| | 2011 | 2010 |
| Allowance for loan losses at beginning of period | \$ 23,079 | \$ 22,879 |
| Charge offs - Traditional Banking | (1,674) | (1,993) |
| Charge offs - Tax Refund Solutions | (13,441) | (14,584) |
| Total charge offs | (15,115) | (16,577) |
| Recoveries - Traditional Banking | 546 | 239 |
| Recoveries - Tax Refund Solutions | 2,552 | 2,309 |
| Total recoveries | 3,098 | 2,548 |
| Net loan charge offs/recoveries - Traditional Banking | (1,128) | (1,754) |
| Net loan charge offs/recoveries - Tax Refund Solutions | (10,889) | (12,275) |
| Net loan charge offs/recoveries | (12,017) | (14,029) |
| Provision for loan losses - Traditional Banking | 4,322 | 2,777 |
| Provision for loan losses - Tax Refund Solutions | 13,760 | 14,013 |
| Total provision for loan losses | 18,082 | 16,790 |
| Allowance for loan losses at end of period | \$ 29,144 | \$ 25,640 |

Approximately \$2.9 million of the ending allowance for loan loss balance at March 31, 2011 was associated with RALs outstanding.

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2011:

| March 31, 2011 (in thousands) | Residential Real | | Commercial Real | | Home | Tax | | Credit | Other | Unallocated | Total | |
|-------------------------------------|------------------|-----------|-----------------|--------------|---------|------------|----------|--------|-------|-------------|---------|-----------|
| | Owner | Non Owner | Estate | Construction | | Commercial | Equity | | | | | Solutions |
| Beginning balance | \$3,775 | \$1,507 | \$7,214 | \$2,612 | \$1,347 | \$3,581 | \$- | \$492 | \$125 | \$461 | \$1,965 | \$23,079 |
| Provision for loan losses | 1,334 | (284) | 1,367 | 1,297 | (196) | 755 | 13,760 | 52 | (10) | 7 | - | 18,082 |
| Loans charged off | (535) | (14) | (558) | - | - | (277) | (13,441) | (75) | (147) | (68) | - | (15,115) |
| Recoveries | 62 | 2 | 17 | 101 | 114 | 13 | 2,552 | 15 | 148 | 74 | - | 3,098 |

Ending

| | | | | | | | | | | | | |
|---------|---------|---------|---------|---------|---------|---------|---------|-------|-------|-------|---------|----------|
| Balance | \$4,636 | \$1,211 | \$8,040 | \$4,010 | \$1,265 | \$4,072 | \$2,871 | \$484 | \$116 | \$474 | \$1,965 | \$29,144 |
|---------|---------|---------|---------|---------|---------|---------|---------|-------|-------|-------|---------|----------|

Republic defines impaired loans as follows:

All commercial or commercial real estate loans classified internally as “doubtful” or “loss;”

All commercial or commercial real estate loan relationships on accrual status classified internally as “substandard” exceeding \$499,999 in aggregate;

All commercial or commercial real estate loans classified internally as “substandard” or “special mention” on nonaccrual status, regardless of the size of the credit;

All retail and commercial loans classified as troubled debt restructurings (“TDRs”); and

Any other situation where the collection of total amount due for a loan is improbable or otherwise meet the definition of impaired.

Information regarding Republic's impaired loans follows:

| (in thousands) | March 31, 2011 | December 31, 2010 |
|---------------------------------------------------|----------------|-------------------|
| Loans with no allocated allowance for loan losses | \$ 16,637 | \$ 14,141 |
| Loans with allocated allowance for loan losses | 35,131 | 30,945 |
| Total impaired loans | \$ 51,768 | \$ 45,086 |
| Amount of the allowance for loan losses allocated | \$ 7,560 | \$ 4,284 |

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. All TDRs are considered "Impaired." The substantial majority of the Company'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 Company's commercial related and construction TDRs involve a restructuring of loan terms such as a temporary forbearance or reduction in the payment amount to require only interest and escrow (if required) and/or extending the maturity date of the loan.

Detail of TDRs differentiated by loan type and accrual or nonaccrual classification follows:

| March 31, 2011 (in thousands) | TDRs on Non-Accrual Status | TDRs on Accrual Status | Total TDRs |
|-------------------------------|----------------------------------|------------------------------|---------------|
| Residential real estate | \$ 1,980 | \$ 13,831 | \$ 15,811 |
| Commercial real estate | 3,069 | 8,622 | 11,691 |
| Real estate construction | 3,065 | 1,571 | 4,636 |
| Commercial | - | 4,644 | 4,644 |
| Total TDRs | \$ 8,114 | \$ 28,668 | \$ 36,782 |

| December 31, 2010 (in thousands) | TDRs on Non-Accrual Status | TDRs on Accrual Status | Total TDRs |
|----------------------------------|----------------------------------|------------------------------|---------------|
| Residential real estate | \$ 1,272 | \$ 9,191 | \$ 10,463 |
| Commercial real estate | 2,703 | 11,425 | 14,128 |
| Real estate construction | 640 | 2,719 | 3,359 |
| Commercial | - | 4,281 | 4,281 |
| Total TDRs | \$ 4,615 | \$ 27,616 | \$ 32,231 |

The following tables present loans individually evaluated for impairment by class of loans. The difference between the unpaid principal balance and recorded investment represents partial write downs/charge offs taken on individual impaired credits.

| March 31, 2011 (in thousands) | Unpaid | Recorded Investment | Allowance | Average |
|-------------------------------|-------------------|---------------------|---------------------------|---------------------|
| | Principal Balance | | for Loan Losses Allocated | Recorded Investment |

Impaired loans with no related allowance recorded:

Residential Real Estate:

| | | | | |
|--------------------------|-----------|-----------|------|-----------|
| Owner Occupied | \$ 12,203 | \$ 12,203 | \$ - | \$ 10,471 |
| Non Owner Occupied | 393 | 393 | - | 395 |
| Commercial Real Estate | 1,307 | 1,270 | - | 1,422 |
| Real Estate Construction | 1,757 | 1,558 | - | 1,889 |
| Commercial | 1,213 | 1,213 | - | 1,213 |
| Home Equity | - | - | - | - |
| Consumer: | | | | |
| Credit Cards | - | - | - | - |
| Overdrafts | - | - | - | - |
| Other Consumer | - | - | - | - |

Impaired loans with an allowance recorded:

Residential Real Estate:

| | | | | |
|-----------------------------|---------------|---------------|--------------|---------------|
| Owner Occupied | 3,996 | 2,661 | 1,006 | 1,403 |
| Non Owner Occupied | 130 | 1,335 | 515 | 1,851 |
| Commercial Real Estate | 17,407 | 16,999 | 2,573 | 18,734 |
| Real Estate Construction | 11,252 | 10,329 | 3,001 | 7,261 |
| Commercial | 3,807 | 3,807 | 465 | 3,791 |
| Home Equity | - | - | - | - |
| Consumer: | | | | |
| Credit Cards | - | - | - | - |
| Overdrafts | - | - | - | - |
| Other Consumer | - | - | - | - |
| Total impaired loans | 53,465 | 51,768 | 7,560 | 48,430 |

Loans collectively evaluated for impairment:

Residential Real Estate:

| | | | |
|--------------------------|---------|---------|-------|
| Owner Occupied | 907,653 | 905,925 | 3,762 |
| Non Owner Occupied | 114,109 | 115,837 | 494 |
| Commercial Real Estate | 635,368 | 635,368 | 5,470 |
| Real Estate Construction | 50,260 | 50,260 | 1,010 |
| Commercial | 103,895 | 103,895 | 799 |
| Home Equity | 288,499 | 288,499 | 4,138 |
| Consumer: | | | |
| Credit Cards | 8,061 | 8,061 | 484 |
| Overdrafts | 838 | 838 | 116 |
| Other Consumer | 18,435 | 18,435 | 3,346 |
| | - | - | 1,965 |

| | | | | |
|---------------------------------------|----|-----------|--------------|-----------|
| Unallocated allowance for loan losses | | | | |
| Total non impaired loans | | 2,127,118 | 2,127,118 | 21,584 |
| Grand total | \$ | 2,180,583 | \$ 2,178,886 | \$ 29,144 |

Interest income recognized for impaired loans on accrual status and cash basis interest recognized for impaired loans on non accrual status totaled \$441,000 and \$34,000 for the three months ended March 31, 2011.

| December 31, 2010 (in thousands) | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated |
|----------------------------------------------------|--------------------------------|------------------------|----------------------------------------------|
| Impaired loans with no related allowance recorded: | | | |
| Residential Real Estate: | | | |
| Owner Occupied | \$ 8,739 | \$ 8,739 | \$ - |
| Non Owner Occupied | 396 | 396 | - |
| Commercial Real Estate | 1,611 | 1,574 | - |
| Real Estate Construction | 2,878 | 2,219 | - |
| Commercial | 1,213 | 1,213 | - |
| Home Equity | - | - | - |
| Consumer: | | | |
| Credit Cards | - | - | - |
| Overdrafts | - | - | - |
| Other Consumer | - | - | - |
| Impaired loans with an allowance recorded: | | | |
| Residential Real Estate: | | | |
| Owner Occupied | 145 | 145 | 27 |
| Non Owner Occupied | 2,496 | 2,366 | 520 |
| Commercial Real Estate | 21,038 | 20,468 | 1,979 |
| Real Estate Construction | 5,115 | 4,192 | 1,311 |
| Commercial | 3,774 | 3,774 | 447 |
| Home Equity | - | - | - |
| Consumer: | | | |
| Credit Cards | - | - | - |
| Overdrafts | - | - | - |
| Other Consumer | - | - | - |
| Total impaired loans | 47,405 | 45,086 | 4,284 |
| Loans collectively evaluated for impairment: | | | |
| Residential Real Estate: | | | |
| Owner Occupied | 904,972 | 904,972 | 4,724 |
| Non Owner Occupied | 123,642 | 123,642 | 11 |
| Commercial Real Estate | 624,375 | 624,375 | 5,241 |
| Real Estate Construction | 62,657 | 62,657 | 1,294 |
| Commercial | 102,660 | 102,660 | 900 |
| Home Equity | 290,492 | 290,492 | 3,581 |
| Consumer: | | | |
| Credit Cards | 8,206 | 8,206 | 492 |
| Overdrafts | 901 | 901 | 126 |
| Other Consumer | 12,249 | 12,249 | 461 |
| Unallocated allowance for loan losses | - | - | 1,965 |
| Total non impaired loans | 2,130,154 | 2,130,154 | 18,795 |
| Grand total | \$ 2,177,559 | \$ 2,175,240 | \$ 23,079 |

A summary of the types of TDR loan modifications outstanding follows:

| | TDRs Performing to Modified Terms | TDRs Not Performing to Modified Terms | Total TDRs |
|---------------------------------------------|-----------------------------------------|---------------------------------------------------|---------------|
| March 31, 2011 (in thousands) | | | |
| Residential real estate loans: | | | |
| Rate reduction | \$ 8,090 | \$ 762 | \$ 8,852 |
| Interest only payments for 6-12 months | 5,814 | 584 | 6,398 |
| Forbearance for 3-6 months | 158 | 299 | 457 |
| Extension or other modification | 104 | - | 104 |
| Total residential TDRs | 14,166 | 1,645 | 15,811 |
| Commerical related and construction loans: | | | |
| Interest only payments for 6 - 12 months | 6,910 | 468 | 7,378 |
| Interest only payments for 36 months | 4,208 | - | 4,208 |
| Rate reduction | 2,966 | - | 2,966 |
| Forbearance for 3-6 months | 1,892 | 1,012 | 2,904 |
| Extension or other modification | 3,515 | - | 3,515 |
| Total commercial TDRs | 19,491 | 1,480 | 20,971 |
| Total TDRs | \$ 33,657 | \$ 3,125 | \$ 36,782 |

| | TDRs Performing to Modified Terms | TDRs Not Performing to Modified Terms | Total TDRs |
|---------------------------------------------|-----------------------------------------|---------------------------------------------------|---------------|
| December 31, 2010 (in thousands) | | | |
| Residential real estate loans: | | | |
| Rate reduction | \$ 6,568 | \$ 549 | \$ 7,117 |
| Interest only payments for 6-12 months | 2,783 | - | 2,783 |
| Forbearance for 3-6 months | 458 | - | 458 |
| Extension or other modification | 105 | - | 105 |
| Total residential TDRs | 9,914 | 549 | 10,463 |
| Commerical related and construction loans: | | | |
| Interest only payments for 6 - 12 months | 5,876 | 310 | 6,186 |
| Interest only payments for 36 months | 4,208 | - | 4,208 |
| Rate reduction | 3,028 | - | 3,028 |
| Forbearance for 3-6 months | 3,813 | 855 | 4,668 |
| Extension or other modification | 3,678 | - | 3,678 |
| Total commercial TDRs | 20,603 | 1,165 | 21,768 |
| Total TDRs | \$ 30,517 | \$ 1,714 | \$ 32,231 |

As of March 31, 2011 and December 31, 2010, 92% and 95% of the Company's TDRs were performing according to their modified terms. The Company allocated \$4.8 million and \$1.5 million of specific reserves to customers whose loan terms have been modified in TDRs as of March 31, 2011 and December 31, 2010. Specific reserves are generally assessed prior to loans being modified as a TDR, as most of these loans migrate from Republic's internal watch list and have been specifically reserved for as part of the Company's normal reserving methodology.

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 March 31, 2011 and December 31, 2010 \$8 million and \$5 million, respectively of TDRs were classified as non-performing loans.

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

| (in thousands) | March 31, 2011 | December 31, 2010 | | |
|-----------------------------------------------------------|----------------|----------------------|--------|---|
| Loans on non-accrual status | \$ 26,668 | \$ | 28,317 | |
| Loans past due 90 days or more and still on accrual | - | - | - | |
| Total non-performing loans | 26,668 | 28,317 | 28,317 | |
| Other real estate owned | 14,761 | 11,969 | 11,969 | |
| Total non-performing assets | \$ 41,429 | \$ | 40,286 | |
| Non-performing loans to total loans - Total Company | 1.22 | % | 1.30 | % |
| Non-performing loans to total loans - Traditional Banking | 1.23 | % | 1.30 | % |
| Non-performing assets to total loans (including OREO) | 1.89 | % | 1.84 | % |

The following table presents non accrual loans and loans past due over 90 days still on accrual by class of loans:

| (in thousands) | March 31, 2011 | | December 31, 2010 | |
|--------------------------|----------------|---------------------------------------------------|-------------------|---------------------------------------------------|
| | Non accrual | Loans Past Due 90 Days Still Accruing | Non accrual | Loans Past Due 90 Days Still Accruing |
| Residential real estate | \$ 13,477 | \$ - | \$ 15,236 | \$ - |
| Commercial real estate | 5,271 | - | 6,265 | - |
| Real estate construction | 4,066 | - | 3,682 | - |
| Commercial | 404 | - | 323 | - |
| Home equity | 3,323 | - | 2,734 | - |
| Consumer: | | | | |
| Credit Cards | - | - | - | - |
| Overdrafts | - | - | - | - |
| Other Consumer | 127 | - | 77 | - |
| Total | \$ 26,668 | \$ - | \$ 28,317 | \$ - |

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 TDRs are reviewed for return to accrual status on an individual basis, with additional consideration given to the modification terms.

The following table presents the aging of the recorded investment in past due loans by class of loans:

| | 30 - 59 Days Past Due | 60 - 89 Days Past Due | Greater than 90 Days Past Due | Total Loans Past Due |
|----------------------------------|-----------------------------|-----------------------------|-------------------------------------|----------------------------|
| March 31, 2011 (in thousands) | | | | |
| Residential real estate: | | | | |
| Owner Occupied | \$ 1,896 | \$ 1,534 | \$ 8,721 | \$ 12,151 |
| Non Owner Occupied | 941 | - | 1,700 | 2,641 |
| Commercial real estate | 51 | 600 | 2,941 | 3,592 |
| Real estate construction | - | - | 1,901 | 1,901 |
| Commercial | - | 24 | 100 | 124 |
| Home equity | 1,585 | 387 | 5 | 1,977 |
| Consumer: | | | | |
| Credit Cards | 16 | 9 | - | 25 |
| Overdrafts | - | - | - | - |
| Other Consumer | 194 | 49 | - | 243 |
| Total | \$ 4,683 | \$ 2,603 | \$ 15,368 | \$ 22,654 |
| | 30 - 59 Days Past Due | 60 - 89 Days Past Due | Greater than 90 Days Past Due | Total Loans Past Due |
| December 31, 2010 (in thousands) | | | | |
| Residential real estate: | | | | |
| Owner Occupied | \$ 4,540 | \$ 1,049 | \$ 9,425 | \$ 15,014 |
| Non Owner Occupied | 185 | 95 | 737 | 1,017 |
| Commercial real estate | 1,323 | - | 4,377 | 5,700 |
| Real estate construction | 71 | 333 | 1,918 | 2,322 |
| Commercial | 3 | 26 | 38 | 67 |
| Home equity | 1,097 | 518 | 829 | 2,444 |
| Consumer: | | | | |
| Credit Cards | 57 | 4 | - | 61 |
| Overdrafts | 158 | - | - | 158 |
| Other Consumer | 108 | 32 | 4 | 144 |
| Total | \$ 7,542 | \$ 2,057 | \$ 17,328 | \$ 26,927 |

Credit Quality Indicators:

The Company 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, credit documentation, public information, and current economic trends, among other factors such as the fair value of collateral. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes aggregate lending relationships with an outstanding balance greater than \$4 million and non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on an annual basis. The Company uses the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be Pass rated loans.

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

| March 31, 2011 (in thousands) | Pass | Special Mention | Substandard | Doubtful | Not Rated | Total Loans |
|----------------------------------|------------------|--------------------|------------------|------------|--------------------|--------------------|
| Residential real estate: | | | | | | |
| Owner Occupied | \$- | \$2,866 | \$ 14,502 | \$- | \$911,169 | \$928,537 |
| Non Owner Occupied | - | 1,003 | 1,708 | - | 107,106 | 109,817 |
| Commercial real estate | 610,048 | 29,541 | 14,048 | - | - | 653,637 |
| Real estate construction | 45,407 | 5,191 | 11,549 | - | - | 62,147 |
| Commercial | 103,769 | 4,742 | 404 | - | - | 108,915 |
| Home equity | - | - | 3,067 | - | 285,432 | 288,499 |
| Consumer: | | | | | | |
| Credit Cards | - | - | - | - | 8,061 | 8,061 |
| Overdrafts | - | - | - | - | 838 | 838 |
| Other Consumer | - | - | 47 | - | 18,388 | 18,435 |
| Total | \$759,224 | \$43,343 | \$ 45,325 | \$- | \$1,330,994 | \$2,178,886 |
| December 31, 2010 (in thousands) | | | | | | |
| | Pass | Special Mention | Substandard | Doubtful | Not Rated | Total Loans |
| Residential real estate: | | | | | | |
| Owner Occupied | \$- | \$1,017 | \$ 11,925 | \$- | \$900,914 | \$913,856 |
| Non Owner Occupied | - | 3,288 | 1,095 | - | 122,021 | 126,404 |
| Commercial real estate | 598,502 | 33,802 | 14,113 | - | - | 646,417 |
| Real estate construction | 51,540 | 11,340 | 6,188 | - | - | 69,068 |
| Commercial | 102,416 | 4,807 | 424 | - | - | 107,647 |
| Home equity | - | - | 4,495 | - | 285,997 | 290,492 |
| Consumer: | | | | | | |
| Credit Cards | - | - | - | - | 8,206 | 8,206 |
| Overdrafts | - | - | - | - | 901 | 901 |
| Other Consumer | - | - | 5 | - | 12,244 | 12,249 |
| Total | \$752,458 | \$54,254 | \$ 38,245 | \$- | \$1,330,283 | \$2,175,240 |

RAL Loss Reserves and Provision for Loan Losses:

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

At March 31st of each year, the Company has historically 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 the Company's internal RAL underwriting criteria applied against prior years' customer data, and the subjective experience of Company management. RALs outstanding 30 days or longer are charged off at the end of each quarter with subsequent collections recorded as recoveries. Since the RAL season is over by the end of April of each year, essentially all uncollected RALs are charged off by June 30th of each year, except for those RALs management deems certain of collection.

On August 5, 2010, the IRS issued a news release stating that it would no longer provide tax preparers and associated financial institutions with the Debt Indicator ("DI") beginning with the first quarter 2011 tax season. The DI indicated whether an individual taxpayer would have any portion of the refund offset for delinquent tax or other debts, such as unpaid child support or federally-funded student loans.

While underwriting for RALs involves several individual components, the DI has historically represented a significant part of the overall underwriting for the product. Without the DI, RB&T will experience a higher provision for loan losses as a percentage of RALs originated during 2011 as compared to 2010. Due to the elimination of the DI, more of the Company's RAL losses in 2011 will result from refunds being retained by the IRS to satisfy eligible state or federal delinquent debts as compared to prior years when the vast majority of its RAL losses were the result of revenue protection strategies by the IRS. As a result, management believes that the final provision for loan losses related to RALs for 2011 will be much closer to the RALs outstanding past their expected funding date from the IRS as of the end of the first quarter as compared to previous years. If the projected payments received subsequent to the first quarter for delinquent RALs as of March 31st differ significantly from those assumptions used by management in making its determination of its first quarter provision for loan losses related to RALs, an adjustment to the allowance for loan losses and the resulting effect on the income statement could be material.

As of March 31, 2011, \$18.1 million of total RALs were outstanding past their expected funding date from the IRS compared to \$18.5 million at March 31, 2010, representing 1.75% and 0.63% of total gross RALs originated during the respective tax years. Management estimates that the final loss rate for RALs originated during 2011 will be 1.58% of the total RALs originated during the year as compared to 0.36% for 2010. Management expects the actual loan loss rate realized for TRS will be less than the current "RALs outstanding beyond their expected funding date from the IRS" because the Company will continue to receive payments from the IRS throughout the year and make other collection efforts to obtain repayment on the RALs. Management's estimate of current year losses combined with recoveries of previous years' RALs during the quarter, resulted in a net provision for loan loss expense of \$13.8 million and \$14.0 million for TRS during the first quarters of 2011 and 2010. Based on the Company's 2011 RAL volume, each 0.10% increase in the loss rate for RALs represents approximately \$1.0 million in additional provision for loan loss expense.

The following table illustrates the effect on the subsequent quarters' provision(s) for loan losses for TRS if final losses on RALs differ from management's current estimate by as much as 10 basis points higher or 20 basis points lower:

As of March 31, 2011 (dollars in thousands)

Total RALs originated during the current year through March 31, 2011: \$ 1,031,607

| If % of RALs That Do | Provision for | Increase / (Decrease) In Provision For Loan Losses From Current Estimate |
|--------------------------|---------------|--------------------------------------------------------------------------------------|
| Not Payoff Changes | Loan Losses | |
| Increase 10 basis points | \$ 14,792 | \$ 1,032 |
| Increase 5 basis points | 14,276 | 516 |
| Current Estimate (Base) | 13,760 | - |
| Decrease 5 basis points | 13,244 | (516) |
| Decrease 10 basis points | 12,728 | (1,032) |
| Decrease 15 basis points | 12,213 | (1,547) |
| Decrease 20 basis points | 11,697 | (2,063) |

For additional discussion regarding TRS, 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 "Deposits"
- o Footnote 8 "Off Balance Sheet Risks, Commitments and Contingent Liabilities"
- o Footnote 10 "Segment Information"
- o Footnote 11 "Regulatory Matters"

4. DEPOSITS

Ending deposit balances were as follows at March 31, 2011 and December 31, 2010:

| (in thousands) | March 31, 2011 | December 31, 2010 |
|-------------------------------------|----------------|-------------------|
| Demand (NOW and SuperNOW) | \$ 311,341 | \$ 298,452 |
| Money market accounts | 715,221 | 637,557 |
| Brokered money market accounts | 2,269 | 513 |
| Savings | 43,290 | 38,661 |
| Individual retirement accounts* | 33,976 | 34,129 |
| Time deposits, \$100,000 and over* | 99,463 | 152,891 |
| Other certificates of deposit* | 122,745 | 127,156 |
| Brokered certificates of deposit* | 135,311 | 687,958 |
| Total interest-bearing deposits | 1,463,616 | 1,977,317 |
| Total non interest-bearing deposits | 561,095 | 325,375 |
| Total deposits | \$ 2,024,711 | \$ 2,302,692 |

* - Represents a time deposit

During the fourth quarter of 2010, the Company obtained \$562 million in brokered certificates of deposit to be utilized to fund the first quarter 2011 RAL program. These brokered certificates of deposit had a weighted average life of three months with a weighted average interest rate of 0.42%. During January of 2011, the Company obtained an additional \$7 million in brokered deposits with a life of 3 months and interest rate of 0.30%.

For additional discussion regarding TRS, 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 “Deposits”
- o Footnote 8 “Off Balance Sheet Risks, Commitments and Contingent Liabilities”
- o Footnote 10 “Segment Information”
- o Footnote 11 “Regulatory Matters”

5. FEDERAL HOME LOAN BANK (“FHLB”) ADVANCES

At March 31, 2011 and December 31, 2010, FHLB advances outstanding were as follows:

| (in thousands) | March 31, 2011 | December 31, 2010 |
|----------------------------------------------------------------------------------------------|----------------|----------------------|
| Putable fixed interest rate advances with a weighted average interest rate of 4.46%(1) | \$ 140,000 | \$ 150,000 |
| Fixed interest rate advances with a weighted average interest rate of 3.13% due through 2018 | 414,837 | 414,877 |
| Total FHLB advances | \$ 554,837 | \$ 564,877 |

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

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At March 31, 2011, Republic had available collateral to borrow an additional \$242 million from the FHLB. In addition to its borrowing line with the FHLB, Republic also had unsecured lines of credit totaling \$216 million available through various other financial institutions.

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

| Year | (in thousands) |
|------------|----------------|
| 2011 | \$ 65,000 |
| 2012 | 85,000 |
| 2013 | 91,000 |
| 2014 | 178,000 |
| 2015 | 10,000 |
| Thereafter | 125,837 |
| Total | \$ 554,837 |

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

| (in thousands) | March 31, 2011 | December 31, 2010 |
|---------------------------------------------------|----------------|----------------------|
| First lien, single family residential real estate | \$ 658,752 | \$ 697,535 |
| Home equity lines of credit | 67,574 | 36,106 |

| | | |
|-------------------------------------|--------|--------|
| Multi-family commercial real estate | 12,977 | 14,332 |
|-------------------------------------|--------|--------|

27

6. FAIR VALUE

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

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

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

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

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

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

The Company's private label mortgage backed and other private label mortgage-related securities remain extremely illiquid, and as such, the Company classifies these securities as Level 3 securities in accordance with FASB ASC topic 820, "Fair Value Measurements and Disclosures." Based on this determination, the Company utilized an income valuation model (present value model) approach, in determining the fair value of these securities.

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

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

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

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

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

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

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

| (in thousands) | Carrying Value | Fair Value Measurements at March 31, 2011 Using: | | | | Total Fair Value |
|-----------------------------------------------------------------------------------|----------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|------------|------------------|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | | |
| Securities available for sale: | | | | | | |
| U.S. Treasury securities and U.S. Government agencies | \$ 140,168 | \$ - | \$ 140,586 | \$ - | \$ 140,586 | |
| Private label mortgage backed and other private label mortgage-related securities | 5,818 | - | - | 4,874 | 4,874 | |
| Mortgage backed securities - residential | 252,202 | - | 261,156 | - | 261,156 | |
| Collateralized mortgage obligations | 207,373 | - | 208,553 | - | 208,553 | |
| Total securities available for sale | \$ 605,561 | \$ - | \$ 610,295 | \$ 4,874 | \$ 615,169 | |
| Mandatory forward contracts | \$ - | \$ - | \$ (6) | \$ - | \$ (6) | |
| Rate lock loan commitments | - | - | 154 | - | 154 | |
| Mortgage loans held for sale | 1,381 | - | 1,381 | - | 1,381 | |

| (in thousands) | Carrying Value | Fair Value Measurements at December 31, 2010 Using: | | | | Total Fair Value |
|-----------------------------------------------------------------------------------|----------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|------------|------------------|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | | |
| Securities available for sale: | | | | | | |
| U.S. Treasury securities and U.S. Government agencies | \$ 119,894 | \$ - | \$ 120,297 | \$ - | \$ 120,297 | |
| Private label mortgage backed and other private label mortgage-related securities | 6,323 | - | - | 5,124 | 5,124 | |
| Mortgage backed securities - residential | 150,460 | - | 158,677 | - | 158,677 | |

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

| | | | | | |
|-------------------------------------|------------|------|------------|----------|------------|
| Collateralized mortgage obligations | 223,665 | - | 225,657 | - | 225,657 |
| Total securities available for sale | \$ 500,342 | \$ - | \$ 504,631 | \$ 5,124 | \$ 509,755 |
| Mandatory forward contracts | \$ - | \$ - | \$ 277 | \$ - | \$ 277 |
| Rate lock loan commitments | - | - | 108 | - | 108 |
| Mortgage loans held for sale | 15,228 | - | 15,228 | - | 15,228 |

The tables below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods ended March 31, 2011 and December 31, 2010:

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

| (in thousands) | Three Months Ended | |
|---------------------------------------------|--------------------|----------|
| | 2011 | 2010 |
| Balance, beginning of period | \$ 5,124 | \$ 5,901 |
| Total gains or losses included in earnings: | | |
| Net impairment loss recognized in earnings | (279) | (69) |
| Net change in unrealized gain / (loss) | 773 | 313 |
| Realized pass through of actual losses | (546) | - |
| Principal paydowns | (198) | (353) |
| Balance, end of period | \$ 4,874 | \$ 5,792 |

There were no transfers into or out of Level 3 assets during the three months ended March 31, 2011 and 2010.

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

| (in thousands) | Carrying Value | Fair Value Measurements at March 31, 2011 Using: | | | | Total Fair Value |
|-------------------------------|----------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|--|------------------|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | | |
| Impaired loans: | | | | | | |
| Residential Real Estate: | | | | | | |
| Owner Occupied | \$79 | \$- | \$- | \$ 79 | | \$79 |
| Non Owner Occupied | 511 | - | - | 511 | | 511 |
| Commercial Real Estate | 5,676 | - | - | 5,676 | | 5,676 |
| Real Estate Construction | 5,882 | - | - | 5,882 | | 5,882 |
| Commercial | 76 | - | - | 76 | | 76 |
| Total impaired loans | \$12,224 | \$- | \$- | \$ 12,224 | | \$12,224 |
| Other real estate owned: | | | | | | |
| Residential Real Estate: | | | | | | |
| Owner Occupied | \$3,762 | \$- | \$- | \$ 3,762 | | \$3,762 |
| Non Owner Occupied | 809 | - | - | 809 | | 809 |
| Commercial Real Estate | 6,013 | - | - | 6,013 | | 6,013 |
| Real Estate Construction | 4,177 | - | - | 4,177 | | 4,177 |
| Total other real estate owned | \$14,761 | \$- | \$- | \$ 14,761 | | \$14,761 |

Fair Value Measurements at
December 31, 2010 Using:

| (in thousands) | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | | | Significant Other Observable Inputs (Level 2) | | Significant Unobservable Inputs (Level 3) | | Total Fair Value |
|-------------------------------|-------------------|----------------------------------------------------------------------------------|-----|----------|-----------------------------------------------------------|----------|----------------------------------------------------|----------|------------------------|
| | | | | | | | | | |
| Impaired loans: | | | | | | | | | |
| Residential Real Estate: | | | | | | | | | |
| Owner Occupied | \$25 | \$- | \$- | \$25 | \$25 | \$25 | \$25 | \$25 | \$25 |
| Non Owner Occupied | 941 | - | - | 941 | 941 | 941 | 941 | 941 | 941 |
| Commercial Real Estate | 7,533 | - | - | 7,533 | 7,533 | 7,533 | 7,533 | 7,533 | 7,533 |
| Real Estate Construction | 2,767 | - | - | 2,767 | 2,767 | 2,767 | 2,767 | 2,767 | 2,767 |
| Commercial | 82 | - | - | 82 | 82 | 82 | 82 | 82 | 82 |
| Total impaired loans | \$11,348 | \$- | \$- | \$11,348 | \$11,348 | \$11,348 | \$11,348 | \$11,348 | \$11,348 |
| Other real estate owned: | | | | | | | | | |
| Residential Real Estate: | | | | | | | | | |
| Owner Occupied | \$2,832 | \$- | \$- | \$2,832 | \$2,832 | \$2,832 | \$2,832 | \$2,832 | \$2,832 |
| Non Owner Occupied | 1,101 | - | - | 1,101 | 1,101 | 1,101 | 1,101 | 1,101 | 1,101 |
| Commercial Real Estate | 3,735 | - | - | 3,735 | 3,735 | 3,735 | 3,735 | 3,735 | 3,735 |
| Real Estate Construction | 4,301 | - | - | 4,301 | 4,301 | 4,301 | 4,301 | 4,301 | 4,301 |
| Total other real estate owned | \$11,969 | \$- | \$- | \$11,969 | \$11,969 | \$11,969 | \$11,969 | \$11,969 | \$11,969 |

The following section details impairment charges recognized during the period:

The Company recorded realized impairment losses related to its Level 3 private label mortgage backed and other private label mortgage-related securities as follows:

| (in thousands) | Three Months Ended March 31, | |
|--------------------------------------------|---------------------------------|-------|
| | 2011 | 2010 |
| Net impairment loss recognized in earnings | \$ 279 | \$ 69 |

See Footnote 2 "Investment Securities" for additional detail regarding impairment losses.

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

| (in thousands) | December 31, | |
|-----------------------------------------------------|----------------|----------|
| | March 31, 2011 | 2010 |
| Carrying amount of loans with a valuation allowance | \$ 11,091 | \$ 9,472 |

| | | |
|---------------------|-------|-------|
| Valuation allowance | 2,763 | 1,506 |
|---------------------|-------|-------|

Other real estate owned, which is carried at the lower of cost or fair value, is periodically assessed for impairment based on fair value at the reporting date. Fair value is determined from external appraisals using judgments and estimates of external professionals. Many of these inputs are not observable and, accordingly, these measurements are classified as Level 3. At March 31, 2011 and December 31, 2010, the carrying value of other real estate owned was \$15 million and \$12 million, respectively. The fair value of the Company's other real estate owned properties exceeded their carrying value at March 31, 2011 and December 31, 2010.

Detail of other real estate owned write downs follows:

| (in thousands) | Three Months Ended March 31, | |
|-------------------------------------|---------------------------------|--------|
| | 2011 | 2010 |
| Other real estate owned write-downs | \$ 187 | \$ 220 |

Mortgage servicing rights (“MSR”s) are carried at lower of cost or fair value. No MSR valuation allowance existed at March 31, 2011 and December 31, 2010.

The carrying amounts and estimated fair values of financial instruments, at March 31, 2011 and December 31, 2010 follows:

| (in thousands) | March 31, 2011 | | December 31, 2010 | |
|-----------------------------------------------------------------------------------|--------------------|---------------|--------------------|---------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets: | | | | |
| Cash and cash equivalents | \$472,315 | \$472,315 | \$786,371 | \$786,371 |
| Securities available for sale | 615,169 | 615,169 | 509,755 | 509,755 |
| Securities to be held to maturity | 30,467 | 31,225 | 32,939 | 33,824 |
| Mortgage loans held for sale | 1,381 | 1,381 | 15,228 | 15,228 |
| Loans, net | 2,149,742 | 2,193,387 | 2,152,161 | 2,209,717 |
| Federal Home Loan Bank stock | 26,213 | 26,213 | 26,212 | 26,212 |
| Accrued interest receivable | 9,741 | 9,741 | 9,472 | 9,472 |
| Liabilities: | | | | |
| Deposits: | | | | |
| Non interest-bearing accounts | 561,095 | 561,095 | 325,375 | 325,375 |
| Transaction accounts | 1,072,121 | 1,072,121 | 975,183 | 975,183 |
| Time deposits | 391,495 | 395,713 | 1,002,134 | 1,004,511 |
| Securities sold under agreements to repurchase and other short-term borrowings | 259,722 | 259,722 | 319,246 | 319,246 |
| Federal Home Loan Bank advances | 554,837 | 574,327 | 564,877 | 586,737 |
| Subordinated note | 41,240 | 41,150 | 41,240 | 41,150 |
| Accrued interest payable | 2,152 | 2,152 | 2,377 | 2,377 |

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

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

The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2011 and December 31, 2010. Although management is not aware of any factors that would dramatically affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, estimates of fair value may differ significantly from the amounts presented.

7. MORTGAGE BANKING ACTIVITIES

Activity for mortgage loans held for sale was as follows:

| March 31, (in thousands) | 2011 | 2010 |
|--------------------------------------------------------|-----------|-----------|
| Balance, January 1 | \$ 15,228 | \$ 5,445 |
| Origination of mortgage loans held for sale | 26,255 | 49,109 |
| Proceeds from the sale of mortgage loans held for sale | (40,810) | (49,621) |
| Net gain in sale of mortgage loans held for sale | 708 | 868 |
| Balance, March 31 | \$ 1,381 | \$ 5,801 |

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

| (in thousands) | Three Months Ended March 31 | |
|---------------------------------------------------------|--------------------------------|---------|
| | 2011 | 2010 |
| Net gain on sale of mortgage loans held for sale | \$708 | \$868 |
| Change in mortgage servicing rights valuation allowance | - | - |
| Loan servicing income, net of amortization | 108 | 144 |
| Total mortgage banking income | \$816 | \$1,012 |

Activity for capitalized mortgage servicing rights was as follows:

| March 31, (in thousands) | 2011 | 2010 |
|-------------------------------|----------|----------|
| Balance, January 1 | \$ 7,800 | \$ 8,430 |
| Additions | 392 | 489 |
| Amortized to expense | (619) | (627) |
| Change in valuation allowance | - | - |
| Balance, March 31 | \$ 7,573 | \$ 8,292 |

Other information relating to mortgage servicing rights follows:

| (in thousands) | March 31, 2011 | December 31, 2010 |
|---------------------------------------------------|-------------------|----------------------|
| Fair value of mortgage servicing rights portfolio | \$ 9,803 | \$ 9,967 |
| Discount rate | 9 % | 9 % |
| Prepayment speed range | 128% - | 137% - |
| Weighted average default rate | 550 % | 550 % |
| | 1.50 % | 1.50 % |

Mortgage Banking derivatives used in the ordinary course of business consist of mandatory forward sales contracts and rate lock loan commitments. Mandatory forward contracts represent future commitments to deliver loans at a specified price and date and are used to manage interest rate risk on loan commitments and mortgage loans held for sale. Rate lock loan commitments represent commitments to fund loans at a specific rate. These derivatives involve underlying items, such as interest rates, and are designed to transfer risk. Substantially all of these instruments expire within 90 days from the date of issuance. Notional amounts are amounts on which calculations and payments are based, but which do not represent credit exposure, as credit exposure is limited to the amounts required to be received or paid.

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

The following tables include the notional amounts and realized gain (loss) for Mortgage Banking derivatives recognized in Mortgage Banking income as of March 31, 2011 and December 31, 2010:

| (in thousands) | March 31, 2011 | December 31, 2010 |
|-----------------------------------------------------|----------------|----------------------|
| Mandatory forward contracts: | | |
| Notional amount | \$ 7,110 | \$ 25,591 |
| Change in fair value of mandatory forward contracts | (6) | 277 |
| Rate lock loan commitments: | | |
| Notional amount | \$ 8,277 | \$ 8,699 |
| Change in fair value of rate lock loan commitments | 11 | (197) |

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

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

8. OFF BALANCE SHEET RISKS, COMMITMENTS AND CONTINGENT LIABILITIES

In the ordinary course of business, the Company's bank subsidiaries are required to make certain disclosures to their loan and deposit clients in accordance with applicable law. Under certain circumstances, errors in those required disclosures could cause previously-recognized Company revenue to be subject to reimbursement to clients. In addition, errors in required disclosures could also subject the Company's bank subsidiaries to fines and penalties.

RB&T's tax-related products include several fees, which we believe have been disclosed in accordance with applicable law. RB&T's regulators may disagree with our view regarding the proper disclosure of one of the fees charged in connection with RB&T's tax-related products. If the regulators were to disagree with our interpretation of applicable law, and elected to order RB&T to refund such amounts, approximately \$19 million of revenue recognized in the TRS segment during the first quarter of 2011 would be potentially subject to refund. RB&T's regulators could also impose fines and penalties.

We continue to believe that all elements of our TRS-related fee structures were properly characterized and disclosed in accordance with applicable law. In the event of a disagreement with its regulators on this subject, RB&T would be prepared to defend its position.

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

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

As of March 31, 2011, exclusive of Mortgage Banking loan commitments, the Bank had outstanding loan commitments of \$466 million, which included unfunded home equity lines of credit totaling \$251 million. As of December 31, 2010, exclusive of Mortgage Banking loan commitments, the Bank had outstanding loan commitments of \$453 million, which included unfunded home equity lines of credit totaling \$254 million. These commitments generally have open-ended maturities and variable rates.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The terms and risk of loss involved in issuing standby letters of credit are similar to those involved in issuing loan commitments and extending credit. Commitments outstanding under standby letters of credit totaled \$18 million and \$11 million at March 31, 2011 and December 31, 2010. In addition to credit risk, the Bank also has liquidity risk associated with standby letters of credit because funding for these obligations could be required immediately. The Bank does not deem this risk to be material.

At March 31, 2011 and December 31, 2010, the Bank had a \$10 million letter of credit from the FHLB issued on behalf of one RB&T client. This letter of credit was used as a credit enhancement for a client bond offering and reduced RB&T's available borrowing line at the FHLB. The Bank uses a blanket pledge of eligible real estate loans to secure the letter of credit.

For additional discussion regarding TRS, 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 "Deposits"
- o Footnote 10 "Segment Information"

- o Footnote 11 “Regulatory Matters”

9. EARNINGS PER SHARE

Class A and Class B shares participate equally in undistributed earnings. The difference in earnings per share between the two classes of common stock results solely from the 10% per share cash dividend premium paid on Class A Common Stock over that paid on Class B Common Stock. The Class A Common shares are entitled to cash dividends equal to 110% of the cash dividend paid per share on Class B Common Stock. Class A Common shares have one vote per share and Class B Common shares have ten votes per share. Class B Common shares may be converted, at the option of the holder, to Class A Common shares on a share for share basis. The Class A Common shares are not convertible into any other class of Republic’s capital stock.

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

| (in thousands, except per share data) | Three Months Ended | |
|----------------------------------------------------------|--------------------|-----------|
| | 2011 | 2010 |
| | March 31, | |
| Net income | \$ 71,412 | \$ 44,628 |
| Weighted average shares outstanding | 20,938 | 20,814 |
| Effect of dilutive securities | 53 | 58 |
| Average shares outstanding including dilutive securities | 20,991 | 20,872 |
| Basic earnings per share: | | |
| Class A Common Share | \$ 3.41 | \$ 2.15 |
| Class B Common Share | 3.40 | 2.13 |
| Diluted earnings per share: | | |
| Class A Common Share | \$ 3.40 | \$ 2.14 |
| Class B Common Share | 3.39 | 2.13 |

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

| | Three Months Ended | |
|----------------------------|--------------------|---------|
| | 2011 | 2010 |
| | March 31, | |
| Antidilutive stock options | 630,140 | 673,444 |

10. SEGMENT INFORMATION

The reportable segments are determined by the type of products and services offered, distinguished among Traditional Banking, Mortgage Banking and Tax Refund Solutions (“TRS”). They are also distinguished by the level of information provided to the chief operating decision maker, who uses such information to review performance of various components of the business (such as branches and subsidiary banks), which are then aggregated if operating performance, products/services, and customers are similar. Loans, investments and deposits provide the majority of the net revenue from Traditional Banking operations; servicing fees and loan sales provide the majority of revenue from Mortgage Banking operations; RAL fees and ERC/ERD fees provide the majority of the revenue from TRS. All Company operations are domestic.

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

For additional discussion regarding TRS, see the following sections:

Part I Item 1 “Financial Statements:”

- o Footnote 1 “Basis of Presentation and Summary of Significant Accounting Policies”
- o Footnote 3 “Loans and Allowance for Loan Losses”
- o Footnote 4 “Deposits”
- o Footnote 8 “Off Balance Sheet Risks, Commitments and Contingent Liabilities”
- o Footnote 11 “Regulatory Matters”

Segment information for the three months ended March 31, 2011 and 2010 follows:

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

| (dollars in thousands) | Three Months Ended March 31, 2011 | | | | | |
|-------------------------------------------------------|-----------------------------------|----------------------|------------------|---------------|------|---|
| | Traditional Banking | Tax Refund Solutions | Mortgage Banking | Total Company | | |
| Net interest income | \$25,128 | \$58,721 | \$122 | \$83,971 | | |
| Provision for loan losses | 4,322 | 13,760 | - | 18,082 | | |
| Electronic refund check fees | - | 81,062 | - | 81,062 | | |
| Net RAL securitization income | - | 179 | - | 179 | | |
| Mortgage banking income | - | - | 816 | 816 | | |
| Net loss on sales, calls and impairment of securities | (279) | - | - | (279) | | |
| Other non interest income | 5,403 | 129 | 2 | 5,534 | | |
| Total non interest income | 5,124 | 81,370 | 818 | 87,312 | | |
| Total non interest expenses | 23,096 | 18,619 | 1,103 | 42,818 | | |
| Gross operating profit / (loss) | 2,834 | 107,712 | (163) | 110,383 | | |
| Income tax expense / (benefit) | 351 | 38,670 | (50) | 38,971 | | |
| Net income | \$2,483 | \$69,042 | \$(113) | \$71,412 | | |
| Segment end of period assets | \$3,147,697 | \$238,707 | \$9,340 | \$3,395,744 | | |
| Net interest margin | 3.33 | % | NM | NM | 8.91 | % |
| (dollars in thousands) | Three Months Ended March 31, 2010 | | | | | |
| | Traditional Banking | Tax Refund Solutions | Mortgage Banking | Total Company | | |
| Net interest income | \$27,261 | \$49,534 | \$77 | \$76,872 | | |
| Provision for loan losses | 2,777 | 14,013 | - | 16,790 | | |
| Electronic refund check fees | - | 53,168 | - | 53,168 | | |
| Net RAL securitization income | - | 195 | - | 195 | | |
| Mortgage banking income | - | - | 1,012 | 1,012 | | |
| Net loss on sales, calls and impairment of securities | (69) | - | - | (69) | | |
| Other non interest income | 5,563 | 8 | - | 5,571 | | |
| Total non interest income | 5,494 | 53,371 | 1,012 | 59,877 | | |
| Total non interest expenses | 25,809 | 24,502 | 828 | 51,139 | | |
| Gross operating profit | 4,169 | 64,390 | 261 | 68,820 | | |
| Income tax expense | 910 | 23,161 | 121 | 24,192 | | |
| Net income | \$3,259 | \$41,229 | \$140 | \$44,628 | | |

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

| | | | | | | |
|------------------------------|-------------|-----------|----------|-------------|------|---|
| Segment end of period assets | \$2,890,284 | \$276,310 | \$14,401 | \$3,180,995 | | |
| Net interest margin | 3.78 | % | NM | NM | 7.27 | % |

38

11. REGULATORY MATTERS

On a recurring basis, the FDIC performs a Community Reinvestment Act Performance Evaluation of RB&T. Among other things, the purpose of this evaluation is to assess RB&T's performance and initiatives that are designed to help meet the credit needs of the areas it serves, including low and moderate-income individuals, neighborhoods and businesses. The evaluation also includes a review of RB&T's community development services and investments in RB&T's assessment areas.

Effective February 25, 2009, RB&T entered into a Stipulation and Consent Agreement with the FDIC agreeing to the issuance of a Cease and Desist Order (the "Order") predominately related to required improvements and increased oversight of RB&T's compliance management system. The Company filed the final Order as Exhibit 10.62 of its 2008 Annual Report on Form 10-K.

The Order cited insufficient oversight of RB&T's consumer compliance programs, most notably in RB&T's RAL program. The Order required increased compliance oversight of the RAL program by RB&T's management and board of directors, subject to review and approval by the FDIC. Under the Order, RB&T increased its training and audits of its Electronic Return Originator ("ERO") partners, who make RB&T's tax products available to taxpayers across the nation. In addition, various components of the Order required RB&T to meet certain implementation, completion and reporting timelines, including the establishment of a compliance management system to appropriately assess, measure, monitor and control third party risk and ensure compliance with consumer laws.

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

During the fourth quarter of 2009, the FDIC began the process for the 2009 Community Reinvestment Act Performance Evaluation (the "2009 CRA Evaluation"). During the third quarter of 2010, the FDIC notified RB&T of its 2009 CRA Evaluation performance rating. RB&T received "High Satisfactory" ratings on the Investment Test component and the Service Test component evaluated as part of the 2009 CRA Evaluation. Based on alleged Regulation B ("Reg B") violations regarding documentation of spousal obligations on a limited number of loans identified within RB&T's commercial lending area, RB&T received a "Needs to Improve" rating on the Lending Test component, and as a result, a "Needs to Improve" rating on its overall rating. By statute, the FDIC referred these alleged Reg B violations to the DOJ. The FDIC subsequently notified RB&T that the DOJ had referred this matter back to the FDIC for administrative handling.

Prior to the FDIC's notification to RB&T of the 2009 CRA Evaluation results, RB&T changed certain procedures and processes to better document its commercial loan origination process as it relates to the intent of both spouses to become obligated to repay certain commercial loans. The FDIC did notify RB&T of certain additional corrective actions to be undertaken in response to the alleged Reg B violations. At this time, management is uncertain if and when the FDIC may issue further corrective actions with respect to the alleged Reg B violations from the 2009 CRA Evaluation.

On February 10, 2011, RB&T received a Notice of Charges for an Order to Cease and Desist and Notice of Hearing from the FDIC (the "Notice") regarding its RAL program. A copy of the Notice is set forth as Exhibit 10.1 of the Form 8-K filed with the SEC on February 10, 2011. The Notice contends that RB&T's practice of originating RALs without the benefit of the Debt Indicator ("DI") from the Internal Revenue Service ("IRS") is unsafe and unsound. The Notice does not address RB&T's ERC and ERD products. The Notice initiated an agency adjudication proceeding, In Republic Bank & Trust Company, to determine whether the FDIC should issue a cease and desist order to restrain RB&T's RAL

program. Under the current ruling, the FDIC has until May 3, 2011 to amend the Notice if it elects to do so.

As part of the process initiated by the Notice, RB&T is entitled to a hearing before an Administrative Law Judge (“ALJ”) appointed by the FDIC. During the first quarter of 2011, RB&T’s hearing date was set for September 19, 2011, in Louisville, Kentucky. As part of the hearing process, the ALJ will take evidence on the items specified in the Notice and make a recommendation of findings of fact to the FDIC Board of Directors, which may accept or reject the ALJ’s recommendation. There is no statutory timeline in which the ALJ must make a recommendation to the FDIC. The FDIC Board of Directors would have 90 days after the date of the ALJ’s recommendation, or argument before the FDIC Board of Directors, to render a decision. In the case of an adverse decision, RB&T would have the right to appeal the resulting order to the U.S. Court of Appeals for the Sixth Circuit. Filing an appeal would not operate as a stay of the order.

The Board and management believe the charges in the Notice from the FDIC to be without merit and intend to vigorously defend RB&T's right to offer a legal product to those who wish to purchase the product.

On February 28, 2011, RB&T filed a complaint in the United States District Court for the Western District of Kentucky (the "Court") against the FDIC and various officers of the FDIC in their official capacities, entitled Republic Bank and Trust Company v. Federal Deposit Insurance Corporation, et al. The complaint states that the FDIC's actions to prohibit RB&T from offering RALs constitute a generally applicable change in law that must be administered through the traditional notice and comment rulemaking required by the Administrative Procedure Act (the "APA") or otherwise in a fashion permitted by law that is separate and apart from the adjudicatory process initiated by the Notice. The complaint also states that the FDIC has unlawfully ignored its procedural rules regarding discovery in the proceedings initiated by the Notice by conducting a series of unscheduled "visitations." The complaint seeks declaratory and injunctive relief. On March 31, 2011, the FDIC filed a Motion to Dismiss (the "Motion") RB&T's complaint with the Court. RB&T intends to oppose the Motion with its response due to the Court by April 25, 2011. No responsive pleadings to RB&T's complaint have been or will be required to be filed in the action while the Motion is pending. If RB&T is successful in its objection to the Motion, the defendants will have an additional fourteen days to file their respective answers to RB&T's complaint.

In the ordinary course of business, the Company's bank subsidiaries are required to make certain disclosures to their loan and deposit clients in accordance with applicable law. Under certain circumstances, errors in those required disclosures could cause previously-recognized Company revenue to be subject to reimbursement to clients. In addition, errors in required disclosures could also subject the Company's bank subsidiaries to fines and penalties.

RB&T's tax-related products include several fees, which we believe have been disclosed in accordance with applicable law. RB&T's regulators may disagree with our view regarding the proper disclosure of one of the fees charged in connection with RB&T's tax-related products. If the regulators were to disagree with our interpretation of applicable law, and elected to order RB&T to refund such amounts, approximately \$19 million of revenue recognized in the TRS segment during the first quarter of 2011 would be potentially subject to refund. RB&T's regulators could also impose fines and penalties.

We continue to believe that all elements of our TRS-related fee structures were properly characterized and disclosed in accordance with applicable law. In the event of a disagreement with its regulators on this subject, RB&T would be prepared to defend its position.

See Exhibit 10.1 of the Form 8-K filed with the SEC on February 10, 2011 for additional detail regarding the Notice.

For additional discussion regarding TRS, see the following sections:

Part I Item 1 "Financial Statements:"

- o Footnote 1 "Summary of Significant Accounting Policies"
- o Footnote 3 "Loans and Allowance for Loan Losses"
- o Footnote 4 "Deposits"
- o Footnote 8 "Off Balance Sheet Risks, Commitments and Contingent Liabilities"
- o Footnote 10 "Segment Information"

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

Management's Discussion and Analysis of Financial Condition and Results of Operations of Republic Bancorp, Inc. ("Republic" or the "Company") analyzes the major elements of Republic's consolidated balance sheets and statements of income. Republic, a bank holding company headquartered in Louisville, Kentucky, is the parent company of Republic Bank & Trust Company, ("RB&T"), Republic Bank (collectively referred together with RB&T as the "Bank"), Republic Funding Company and Republic Invest Co. Republic Invest Co. includes its subsidiary, Republic Capital LLC. The consolidated financial statements also include the wholly-owned subsidiaries of RB&T: Republic Financial Services, LLC, TRS RAL Funding, LLC and Republic Insurance Agency, LLC. Republic Bancorp Capital Trust is a Delaware statutory business trust that is a 100%-owned unconsolidated finance subsidiary of Republic Bancorp, Inc. Management's Discussion and Analysis of Financial Condition and Results of Operations of Republic should be read in conjunction with Part I Item 1 "Financial Statements."

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

Republic Bancorp and its subsidiaries operate in a heavily regulated industry. These regulatory requirements can and do affect the Company's results of operations and financial condition. For an update on regulatory matters affecting the Company and its subsidiaries, see Footnote 11 "Regulatory Matters" in Part I Item 1 "Financial Statements."

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

Broadly speaking, forward-looking statements include:

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

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

- delinquencies, future credit losses, non-performing loans and non-performing assets;
- further developments in the Company's ongoing review of and efforts to resolve possible problem credit relationships, which could result in, among other things, additional provision for loans losses;
- deteriorating credit quality, including changes in the interest rate environment and reducing interest margins;
- the overall adequacy of the allowance for loans losses;
- future short-term and long-term interest rates and the respective impact on net interest margin, net interest spread, net income, liquidity and capital;
- the future regulatory viability of the Tax Refund Solutions ("TRS") business operating segment;

anticipated future funding sources for TRS;
potential impairment of investment securities;
the future value of mortgage servicing rights;
the impact of new accounting pronouncements;
legal and regulatory matters including results and consequences of regulatory guidance, litigation,
administrative proceedings, rule-making, interpretations, actions and examinations;

the extent to which regulations written and implemented by the newly created federal Bureau of Consumer Financial Protection, and other federal, state, local, governmental regulation of consumer lending, and related financial products and services may limit or prohibit the operation of the Company's business;
future capital expenditures;
the strength of the U.S. economy in general and the strength of the local economies in which the Company conducts operations; and
the Bank's ability to maintain current deposit and loan levels at current interest rates.

Forward-looking statements discuss matters that are not historical facts. As forward-looking statements discuss future events or conditions, the statements often include words such as "anticipate," "believe," "estimate," "expect," "intend," "project," "target," "can," "could," "may," "should," "will," "would," or similar expressions. Do not rely on forward-looking statements. Forward-looking statements detail management's expectations regarding the future and are not guarantees. Forward-looking statements are assumptions based on information known to management only as of the date the statements are made and management may not update them to reflect changes that occur subsequent to the date the statements are made. See additional discussion under the sections titled Part I Item 1 "Business" and Part I Item 1A "Risk Factors" in the Company's 2010 Annual Report on Form 10-K.

RECENT DEVELOPMENTS

Regulatory Developments

As disclosed in Footnote 11 "Regulatory Matters," the Federal Deposit Insurance Corporation ("FDIC") concluded as part of its 2009 CRA Evaluation that RB&T violated Regulation B ("Reg B") regarding documentation of spousal obligations on a limited number of loans identified within RB&T's commercial lending area.

Prior to the FDIC's notification to RB&T of the 2009 CRA Evaluation results, RB&T changed certain procedures and processes to better document its commercial loan origination process as it relates to the intent of both spouses to become obligated to repay certain commercial loans. The FDIC has notified RB&T of certain additional corrective actions to be undertaken in response to the alleged Reg B violations. At this time, management is uncertain if and when the FDIC may issue further corrective actions with respect to the alleged Reg B violations from the 2009 CRA Evaluation.

On February 10, 2011, RB&T received a Notice of Charges for an Order to Cease and Desist and Notice of Hearing from the FDIC (the "Notice") regarding its Refund Anticipation Loan ("RAL") program. A copy of the Notice is set forth as Exhibit 10.1 of the Form 8-K filed with the SEC on February 10, 2011. The Notice contends that RB&T's practice of originating RALs without the benefit of the Debt Indicator ("DI") from the Internal Revenue Service ("IRS") is unsafe and unsound. The Notice does not address RB&T's Electronic Refund Check/Electronic Refund Deposit ("ERC/ERD") products. The Notice initiated an agency adjudication proceeding, In Republic Bank & Trust Company, to determine whether the FDIC should issue a cease and desist order to restrain RB&T's RAL program. Under the current ruling, the FDIC has until May 3, 2011 to amend the Notice if it elects to do so.

As part of the process initiated by the Notice, RB&T is entitled to a hearing before an Administrative Law Judge ("ALJ") appointed by the FDIC. During the first quarter of 2011, RB&T's hearing date was set for September 19, 2011, in Louisville, Kentucky. As part of the hearing process, the ALJ will take evidence on the items specified in the Notice and make a recommendation of findings of fact to the FDIC Board of Directors, which may accept or reject the Administrative Law Judge's ("ALJ's") recommendation. There is no statutory timeline in which the ALJ must make a recommendation to the FDIC. The FDIC Board of Directors would have 90 days after the date of the ALJ's recommendation, or argument before the FDIC Board of Directors, to render a decision. In the case of an adverse decision, RB&T would have the right to appeal the resulting order to the U.S. Court of Appeals for the Sixth Circuit.

Filing an appeal would not operate as a stay of the order.

The Board and management believe the charges in the Notice from the FDIC to be without merit and intend to vigorously defend RB&T's right to offer a legal product to those who wish to purchase the product.

On February 28, 2011, RB&T filed a complaint in the United States District Court for the Western District of Kentucky against the FDIC and various officers of the FDIC in their official capacities, entitled Republic Bank and Trust Company v. Federal Deposit Insurance Corporation, et al. The complaint states that the FDIC's actions to prohibit RB&T from offering RALs constitute a generally applicable change in law that must be administered through the traditional notice and comment rulemaking required by the Administrative Procedure Act (the "APA") or otherwise in a fashion permitted by law that is separate and apart from the adjudicatory process initiated by the Notice. The complaint also states that the FDIC has unlawfully ignored its procedural rules regarding discovery in the proceedings initiated by the Notice by conducting a series of unscheduled "visitations." The complaint seeks declaratory and injunctive relief. On March 31, 2011, the FDIC filed a Motion to Dismiss (the "Motion") RB&T's complaint with the Court. RB&T intends to oppose the Motion with its response due to the Court by April 25, 2011. No responsive pleadings to RB&T's complaint have been or will be required to be filed in the action while the Motion is pending. If RB&T is successful in its objection to the Motion, the defendants will have an additional fourteen days to file their respective answers to RB&T's complaint.

In the ordinary course of business, the Company's bank subsidiaries are required to make certain disclosures to their loan and deposit clients in accordance with applicable law. Under certain circumstances, errors in those required disclosures could cause previously-recognized Company revenue to be subject to reimbursement to clients. In addition, errors in required disclosures could also subject the Company's bank subsidiaries to fines and penalties.

RB&T's tax-related products include several fees, which we believe have been disclosed in accordance with applicable law. RB&T's regulators may disagree with our view regarding the proper disclosure of one of the fees charged in connection with RB&T's tax-related products. If the regulators were to disagree with our interpretation of applicable law, and elected to order RB&T to refund such amounts, approximately \$19 million of revenue recognized in the TRS segment during the first quarter of 2011 would be potentially subject to refund. RB&T's regulators could also impose fines and penalties.

We continue to believe that all elements of our TRS-related fee structures were properly characterized and disclosed in accordance with applicable law. In the event of a disagreement with its regulators on this subject, RB&T would be prepared to defend its position.

See Exhibit 10.1 of the Form 8-K filed with the SEC on February 10, 2011 for additional detail regarding the Notice.

For additional discussion regarding TRS, see the following sections:

Part I Item 1 "Financial Statements:"

- o Footnote 1 "Summary of Significant Accounting Policies"
- o Footnote 3 "Loans and Allowance for Loan Losses"
- o Footnote 4 "Deposits"
- o Footnote 8 "Off Balance Sheet Risks, Commitments and Contingent Liabilities"
- o Footnote 10 "Segment Information"
- o Footnote 11 "Regulatory Matters"

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

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

BUSINESS SEGMENT COMPOSITION

As of March 31, 2011, the Company was divided into three distinct business operating segments: Traditional Banking, Tax Refund Solutions and Mortgage Banking. Net income, total assets and net interest margin by segment for the three months ended March 31, 2011 and 2010 are presented below:

Three Months Ended March 31, 2011

| (in thousands) | Traditional Banking | Tax Refund Solutions | Mortgage Banking | Total Company |
|---------------------|------------------------|-------------------------|---------------------|------------------|
| Net income | \$ 2,483 | \$ 69,042 | \$ (113) | \$ 71,412 |
| Segment assets | 3,147,697 | 238,707 | 9,340 | 3,395,744 |
| Net interest margin | 3.33 % | NM | NM | 8.91 % |

Three Months Ended March 31, 2010

| (in thousands) | Traditional Banking | Tax Refund Solutions | Mortgage Banking | Total Company |
|---------------------|------------------------|-------------------------|---------------------|------------------|
| Net income | \$ 3,259 | \$ 41,229 | \$ 140 | \$ 44,628 |
| Segment assets | 2,890,284 | 276,310 | 14,401 | 3,180,995 |
| Net interest margin | 3.78 % | NM | NM | 7.27 % |

NM – Not Meaningful

For expanded segment financial data see Footnote 10 “Segment Information” of Part I Item 1 “Financial Statements.

(I) Traditional Banking segment

As of March 31, 2011, Republic had 43 full-service banking centers with 35 located in Kentucky, four located in metropolitan Tampa, Florida, three located in southern Indiana and one located in metropolitan Cincinnati, Ohio. RB&T's primary market areas are located in metropolitan Louisville, Kentucky, central Kentucky, northern Kentucky and southern Indiana. Louisville, the largest city in Kentucky, is the location of Republic's headquarters, as well as 20 banking centers. RB&T's central Kentucky market includes 12 banking centers in the following Kentucky cities: Bowling Green (1); Elizabethtown (1); Frankfort (1); Georgetown (1); Lexington, the second largest city in Kentucky (5); Owensboro (2); and Shelbyville (1). RB&T's northern Kentucky market includes banking centers in Covington, Florence and Independence. RB&T also has banking centers located in Floyds Knobs, Jeffersonville and New Albany, Indiana. Republic Bank has locations in Hudson, Palm Harbor, Port Richey and Temple Terrace, Florida, as well as Cincinnati, Ohio.

(II) Tax Refund Solutions ("TRS") segment

Republic, through its TRS segment, is one of a limited number of financial institutions which 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 Company's three primary tax-related products include: Electronic Refund Checks ("ERCs" or "ARs"), Electronic Refund Deposits ("ERDs" or "ARDs") and Refund Anticipation Loans ("RALs"). Substantially all of the business generated by TRS occurs in the first quarter of the year. TRS traditionally operates at a loss during the second half of the year, during which the segment incurs costs preparing for the upcoming year's first quarter tax season.

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

RALs are short-term consumer loans offered to taxpayers that are secured by the customer's anticipated tax refund, which represents the source of repayment. Prior to 2011, the Company historically underwrote the RAL application utilizing the Debt Indicator (the "DI") from the IRS, in combination with an automated underwriting model utilizing information contained in the taxpayer's tax return. The DI, which typically indicates whether an individual taxpayer will have any portion of the refund offset for delinquent tax or other debts, such as unpaid child support or federally funded student loans, has historically been a significant underwriting component. On August 5, 2010, the IRS issued a news release stating that it would no longer provide tax preparers and associated financial institutions with the DI beginning with the first quarter 2011 tax season. The Company modified its underwriting and application requirement criteria for the first quarter 2011 tax season to adjust for the loss of access to the DI. See the section titled "IRS Decision to Withhold the DI" in this section of the filing.

If a consumer's RAL application is approved, the Company advances \$1,500 of the taxpayer's refund. As part of the RAL application process, each taxpayer signs an agreement directing the applicable taxing authority to send the taxpayer's refund directly to the Company. The refund received from the IRS or state taxing authority, if applicable, is used by the Company to pay off the RAL. Any amount due the taxpayer above the amount of the RAL is remitted to the taxpayer once the refund is received by the Company. The funds advanced by the Company are generally repaid by the applicable taxing authority within two weeks. The fees earned on RALs are reported as interest income under the line item "Loans, including fees."

The Company has agreements with Jackson Hewitt Inc. (“JHI”), a subsidiary of Jackson Hewitt Tax Service Inc. (“JH”), and Liberty Tax Service (“Liberty”) to offer RAL and ERC/ERD products. JH and Liberty provide preparation services of federal, state and local individual income tax returns in the U.S. through a nationwide network of franchised and company-owned tax-preparers offices. Approximately 41% and 35% of the Company’s three months ended March 31, 2011 and 2010 TRS gross revenue was derived from JH with another 20% and 27% from Liberty for the same respective periods.

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

At March 31st of each year, the Company has historically 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 the Company's internal RAL underwriting criteria applied against prior years' customer data, and the subjective experience of Company management. RALs outstanding 30 days or longer are charged off at the end of each quarter, with subsequent collections recorded as recoveries. Since the RAL season is over by the end of April of each year, essentially all uncollected RALs are charged off by June 30th of each year, except for those RALs management deems certain of collection.

Subsequent to the first quarter, the results of operations for the TRS business operating segment consist primarily of fixed overhead expenses and adjustments to the segment's estimated provision for loan losses, as estimated results became final. However, as was the case in 2010, the fourth quarter can be impacted by the funding strategy for the following first quarter's tax season.

IRS Decision to Withhold the DI

On August 5, 2010, the IRS issued a news release stating that it would no longer provide tax preparers and associated financial institutions with the DI beginning with the first quarter 2011 tax season. The DI indicates whether an individual taxpayer will have any portion of the refund offset for delinquent tax or other debts, such as unpaid child support or federally funded student loans.

While underwriting for RALs involves several individual components, the DI has historically represented a significant part of the overall underwriting for the product. To mitigate the loss of the DI in 2011, RB&T modified its underwriting and application requirements to approve fewer RALs, significantly reduced the maximum RAL amount to \$1,500 for individual customers and raised its offering price to the consumer. RB&T estimated a higher provision for loan losses related to its RAL portfolio during the first quarter of 2011, primarily as a result of the loss of the DI.

RB&T's revised underwriting standards and application requirements combined with its reduced maximum RAL offering amount resulted in an approximate 65% reduction in the aggregate dollar volume of RALs originated by the RB&T during the first quarter of 2011 compared to the first quarter of 2010. Based on these factors, the Company's funding needs for the first quarter 2011 tax season were reduced significantly as well compared to its first quarter 2010 funding needs.

TRS Funding – First Quarter 2011 Tax Season

Due to the on-going excessive costs of securitization structures, the Company elected not to obtain funding from a securitization structure for the first quarter 2011 and 2010 tax seasons. Instead, the Company utilized brokered certificates of deposits and, to a lesser extent, its traditional borrowing lines of credit as its primary RAL funding source.

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

TRS Funding – First Quarter 2010 Tax Season

During the fourth quarter of 2009, the Company obtained \$921 million in brokered certificates of deposits to be utilized to fund the first quarter 2010 RAL program. These brokered certificates of deposits had a weighted average

life of three months with a weighted average interest rate of 0.51%. Also, during January of 2010, the Company obtained an additional \$542 million in brokered certificates of deposits to fund additional RAL demand. These brokered certificates of deposits acquired in January 2010 had a weighted average life of 55 days and a weighted average interest rate of 0.56%.

TRS Rebate Accruals

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

As a result of contracts entered into during 2010 for the first quarter 2011 tax season, the Company experienced additional substantial declines in rebates. The additional decrease in rebates did not impact the overall financial results of operations for the Company, as this decrease was offset by the elimination of certain fees charged by the Company, which substantially offset the rebates.

The Company accrued \$3.2 million and \$11.3 million in total rebates for the three months ended March 31, 2011 and 2010.

TRS Material Contracts

During 2010, RB&T amended its Program Agreement (the “Program Agreement”) with JHI to, among other things:

- incorporate certain terms of the Technology Agreement into the Program Agreement to provide that JHI assumes responsibility for provision of certain technology services, including personnel and support, and training previously provided by Jackson Hewitt Technology Services LLC (“JHTSL”);
- eliminate the fees payable by RB&T to JHI and JHTSL;
- extend the term of the agreement to October 31, 2015, unless terminated earlier;
- name RB&T as the exclusive provider of all RAL and/or AR products for a mutually agreed upon list of locations through the term of the contract;
- give RB&T the right of first refusal to be a financial product provider if a location is not served by another RAL provider;
- provide that in the event RB&T is no longer a RAL provider, RB&T shall remain JHI’s AR provider; and
- provide RB&T with the right to terminate the agreement and receive payment of certain monies if RB&T experiences RAL delinquency in excess of a designated level.

As a result of this amendment, a greater percentage of RB&T’s tax product volume in 2011 was originated through JH tax preparation offices; however, the total number of tax preparation offices offering RB&T’s tax products remained below the total number of tax preparation offices offering RB&T’s tax products in 2010.

See Exhibit 10.1 of the Form 8-K filed with the SEC on February 10, 2011 for additional detail regarding the Notice.

For additional discussion regarding TRS, see the following sections:

Part I Item 1 “Financial Statements:”

- o Footnote 1 “Summary of Significant Accounting Policies”
- o Footnote 3 “Loans and Allowance for Loan Losses”
- o Footnote 4 “Deposits”
- o Footnote 8 “Off Balance Sheet Risks, Commitments and Contingent Liabilities”
- o Footnote 10 “Segment Information”
- o Footnote 11 “Regulatory Matters”

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

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

(III) Mortgage Banking segment

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

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

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

See additional detail regarding Mortgage Banking under Footnote 7 “Mortgage Banking Activities” and Footnote 10 “Segment Information” of Part I Item 1 “Financial Statements.”

OVERVIEW

Net income for the three months ended March 31, 2011 was \$71.4 million, representing an increase of \$26.8 million, or 60%, compared to the same period in 2010. Diluted earnings per Class A Common Share increased to \$3.40 for the quarter ended March 31, 2011 compared to \$2.14 for the same period in 2010. General highlights for the three months ended March 31, 2011 by business operating segment are detailed below. Additional discussion follows under the section titled “Results of Operations.”

Traditional Banking segment

Net income decreased \$776,000, or 24%, for the first quarter of 2011 compared to the same period in 2010.

Net interest income decreased \$2.1 million, or 8%, for the first quarter of 2011 to \$25.1 million. The Traditional Banking segment net interest margin declined 45 basis points for the quarter ended March 31, 2011 compared to the first quarter of 2010 to 3.33%.

Provision for loan losses was \$4.3 million for the quarter ended March 31, 2011 compared to \$2.8 million for the same period in 2010.

Total non-interest income decreased \$370,000, or 7%, for the first quarter of 2011 compared to the same period in 2010.

Total non-interest expense decreased \$2.7 million, or 11%, during the first quarter of 2011 compared to the first quarter of 2010.

Total non-performing loans to total loans for the Traditional Banking segment decreased to 1.23% at March 31, 2011, from 1.30% at December 31, 2010, as the total balance of non-performing loans decreased by nearly \$2 million for the same period.

Tax Refund Solutions (“TRS”) segment

The total dollar volume of tax refunds processed during the first quarter 2011 tax season increased \$1.6 billion, or 16%, over the first quarter 2010 tax season.

Total RAL dollar volume decreased from \$3.0 billion during the first quarter 2010 tax season to \$1.0 billion during the first quarter 2011 tax season.

Net income increased \$27.8 million, or 67%, for the first quarter of 2011 compared to the same period in 2010.

Net interest income increased \$9.2 million, or 19%, for the first quarter of 2011 compared to the same period in 2010.

TRS recorded a provision for loan losses of \$13.8 million for the first quarter of 2011, compared to \$14.0 million for the same period in 2010.

TRS posted non-interest income of \$81.4 million for the first quarter of 2011 compared to \$53.4 million for the same period in 2010.

The Company obtained \$562 million in brokered deposits during the fourth quarter of 2010 to fund projected RAL volume during the first quarter 2011 tax season.

For additional discussion regarding TRS, see the following sections:

Part I Item 1 “Financial Statements:”

- o Footnote 1 “Summary of Significant Accounting Policies”
- o Footnote 3 “Loans and Allowance for Loan Losses”
- o Footnote 4 “Deposits”
- o Footnote 8 “Off Balance Sheet Risks, Commitments and Contingent Liabilities”
- o Footnote 10 “Segment Information”
- o Footnote 11 “Regulatory Matters”

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

- o “Recent Developments”
- o “Business Segment Composition”
- o “Results of Operations”
- o “Comparison of Financial Condition”

Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income decreased \$196,000 during the first quarter of 2011 compared to the same period in 2010.

Mortgage banking income was negatively impacted by a decline in secondary market loan volume during the first quarter of 2011. During the first quarter of 2011, Republic originated for sale \$26 million of fixed rate residential real estate secondary market loans compared to \$49 million during the same period in 2010.

RESULTS OF OPERATIONS

Net Interest Income

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

Total Company net interest income increased \$7.1 million, or 9%, for the first quarter of 2011 compared to the same period in 2010. The total Company net interest margin increased 164 basis points to 8.91% for the same period. The most significant components affecting the total Company's net interest income were as follows:

Traditional Banking segment

Net interest income within the Traditional Banking segment decreased \$2.1 million, or 8%, for the first quarter of 2011 compared to 2010. The Traditional Banking net interest margin declined 45 basis points for the same period to 3.33%. The decrease in net interest income was due primarily to a downward further repricing of loans and investments combined with a decrease in higher-yielding earning asset balances, as paydowns on loans and investments continued to outpace new loan originations and investment purchases.

Prior to the first quarter of 2011, the Company's general investment strategy was largely to not reinvest the cash it had been receiving from its loan and investment paydowns and pay-offs into assets with longer-term repricing horizons due to market projections of interest rate increases in the future. As a result, much of the cash the Company received from paydowns during the previous two years had been reinvested into short-term, lower yielding investments, which had greatly improved the Company's risk position from future interest rate increases, while negatively impacting then-current earnings. This conservative investment strategy, which involved minimal credit risk and minimal interest rate risk, led the Company to hold a significant sum of cash at the Federal Reserve Bank ("FRB") for much of the previous two years. In February 2011, the Company modified its conservative investment strategy, taking on more interest rate risk by reinvesting a portion of its excess cash into longer-term investment securities, thus increasing its projected net interest income and net interest margin for the near term. The Company made this revision to its conservative strategy, in large part, due to the on-going contraction of its net interest margin resulting from continued paydowns in its loan portfolio and the large amount of cash on hand earning 0.25%. Altogether, the Company purchased approximately \$150 million of agency notes and mortgage-backed securities during the first quarter of 2011 with an initial average yield of 3.61% and an average duration of 6.5 years. While this strategy is expected to improve the Company's near-term outlook for its net interest margin and net interest income, it will negatively impact the Company's interest rate risk position in a rising rate environment.

The Company expects to continue to receive paydowns in its loan and investment portfolios. These paydowns will continue to cause compression in Republic's net interest income and net interest margin, as the cash received from these paydowns is reinvested at lower yields. Additionally, because the Federal Funds Target rate ("FFTR") (the index which many of the Company's short-term deposit rates track) has remained at a target range between 0.00% and 0.25%, no future FFTR decreases from the Federal Open Markets Committee ("FOMC") of the FRB are possible, exacerbating the compression to the Company's net interest income and net interest margin caused by its repricing loans and investments. The Company is unable to precisely determine the ultimate negative impact to the Company's net interest spread and margin in the future because several factors remain unknown at this time, such as future demand for financial products and the overall future need for liquidity, among many other factors.

TRS segment

Net interest income within the TRS segment increased \$9.2 million, or 19%, for the first quarter of 2011 compared to the same period in 2010. The increase in TRS net interest income was primarily due to an \$8.3 million, or 16%, increase in RAL fee income. As stated previously in this filing, RB&T, among other things, increased its RAL pricing to mitigate the anticipated increase in provision for loan losses for RALs resulting from the loss of the DI from the IRS. The revised pricing resulted in an increase in yield for the RAL product. Partially offsetting the increase in interest income from the higher yield on RALs was a reduction to interest income resulting from a decline in the total dollar amount of RALs originated. The decline in the dollar volume of RALs originated occurred as a result of the Company's maximum individual RAL offering amount being lowered to \$1,500.

TRS net interest income continued to benefit from low funding costs during the first quarter of 2011. Average brokered deposits outstanding utilized to fund RALs during the first quarters of 2011 and 2010 were \$426 million and \$1 billion with a weighted average cost of 0.43% and 0.55%, respectively. As a result, interest expense for the TRS segment was \$457,000 for the first quarter of 2011, a decrease of \$934,000, or 67%, from the same period in 2010.

For additional information on the potential future effect of changes in short-term interest rates on Republic's net interest income, see the table titled "Interest Rate Sensitivity for 2011" in this section of the filing.

Table 1 provides detailed total Company information as to average balances, interest income/expense and rates by major balance sheet category for the three month periods ended March 31, 2011 and 2010. Table 2 provides an analysis of total Company changes in net interest income attributable to changes in rates and changes in volume of interest-earning assets and interest-bearing liabilities for the same periods.

Table 1 – Total Company Average Balance Sheets and Interest Rates for the Three Months Ended March 31, 2011 and 2010

| (dollars in thousands) | Three Months Ended March 31, 2011 | | | Three Months Ended March 31, 2010 | | |
|--------------------------------------------------------|-----------------------------------|----------|--------------|-----------------------------------|----------|--------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| ASSETS | | | | | | |
| Interest-earning assets: | | | | | | |
| Taxable investment securities, including FHLB stock(1) | \$ 614,454 | \$ 3,905 | 2.54 % | \$ 472,960 | \$ 4,039 | 3.42 % |
| Tax exempt investment securities(1)(4) | - | - | - | 1,832 | 6 | 2.02 % |
| Federal funds sold and other interest-earning deposits | 856,579 | 557 | 0.26 % | 1,093,433 | 701 | 0.26 % |
| Refund Anticipation Loan fees(2) | 116,537 | 58,677 | 201.40 % | 395,296 | 50,378 | 50.98 % |
| Traditional Bank loans and fees(2)(3) | 2,182,942 | 29,484 | 5.40 % | 2,263,417 | 32,105 | 5.67 % |
| Total interest-earning assets | 3,770,512 | 92,623 | 9.83 % | 4,226,938 | 87,229 | 8.25 % |
| Less: Allowance for loan losses | 36,171 | | | 35,700 | | |
| Non interest-earning assets: | | | | | | |
| Non interest-earning cash and cash equivalents | 247,400 | | | 145,765 | | |
| Premises and equipment, net | 37,110 | | | 39,293 | | |
| Other assets(1) | 58,467 | | | 47,622 | | |
| Total assets | \$ 4,077,318 | | | \$ 4,423,918 | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Transaction accounts | \$ 339,405 | \$ 129 | 0.15 % | \$ 276,136 | \$ 125 | 0.18 % |
| Money market accounts | 675,012 | 612 | 0.36 % | 583,801 | 737 | 0.50 % |
| Time deposits | 299,357 | 1,186 | 1.58 % | 342,757 | 1,609 | 1.88 % |
| Brokered money market and brokered CD's | 577,219 | 1,011 | 0.70 % | 1,203,632 | 1,848 | 0.61 % |
| Total deposits | 1,890,993 | 2,938 | 0.62 % | 2,406,326 | 4,319 | 0.72 % |

| | | | | | | | | |
|--------------------------------------------------------------------------------|--------------|-----------|------|---|--------------|-----------|------|---|
| Securities sold under agreements to repurchase and other short-term borrowings | 318,083 | 251 | 0.32 | % | 324,149 | 240 | 0.30 | % |
| Federal Home Loan Bank advances | 562,294 | 4,834 | 3.44 | % | 612,379 | 5,178 | 3.38 | % |
| Subordinated note | 41,240 | 629 | 6.10 | % | 41,240 | 620 | 6.01 | % |
| Total interest-bearing liabilities | 2,812,610 | 8,652 | 1.23 | % | 3,384,094 | 10,357 | 1.22 | % |
| Non interest-bearing liabilities and Stockholders' equity | | | | | | | | |
| Non interest-bearing deposits | 806,532 | | | | 635,587 | | | |
| Other liabilities | 49,848 | | | | 71,378 | | | |
| Stockholders' equity | 408,328 | | | | 332,859 | | | |
| Total liabilities and stock-holders' equity | \$ 4,077,318 | | | | \$ 4,423,918 | | | |
| Net interest income | | \$ 83,971 | | | | \$ 76,872 | | |
| Net interest spread | | | 8.60 | % | | | 7.03 | % |
| Net interest margin | | | 8.91 | % | | | 7.27 | % |

-
- (1) For the purpose of this calculation, the fair market value adjustment on investment securities resulting from FASB ASC topic 320 "Investments – Debt and Equity Securities" is included as a component of other assets.
 - (2) The amount of loan fee income included in total interest income was \$59.3 million and \$51.2 million for the three months ended March 31, 2011 and 2010.
 - (3) Average balances for loans include the principal balance of non accrual loans and loans held for sale.
 - (4) Yields on tax exempt securities have been computed based on a fully tax-equivalent basis using the federal income tax rate of 35%.

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

Table 2 – Total Company Volume/Rate Variance Analysis for the Three Months Ended March 31, 2011 and 2010

| (in thousands) | Total Net Change | Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010 Increase / (Decrease) Due to | |
|--------------------------------------------------------------------------------|---------------------|-----------------------------------------------------------------------------------------------------------------------|-------------|
| | | Volume | Rate |
| Interest income: | | | |
| Taxable investment securities | \$ (134) | \$ 1,042 | \$ (1,176) |
| Tax exempt investment securities | (6) | (6) | - |
| Federal funds sold and other interest-earning deposits | (144) | (154) | 10 |
| Refund Anticipation Loan fees | 8,299 | (55,747) | 64,046 |
| Traditional Bank loans and fees | (2,621) | (1,118) | (1,503) |
| Net change in interest income | 5,394 | (55,983) | 61,377 |
| Interest expense: | | | |
| Transaction accounts | 4 | 26 | (22) |
| Money market accounts | (125) | 104 | (229) |
| Time deposits | (424) | (190) | (234) |
| Brokered money market and brokered CDs | (836) | (1,068) | 232 |
| Securities sold under agreements to repurchase and other short-term borrowings | 11 | (5) | 16 |
| Federal Home Loan Bank advances | (344) | (430) | 86 |
| Subordinated note | 9 | - | 9 |
| Net change in interest expense | (1,705) | (1,563) | (142) |
| Net change in net interest income | \$ 7,099 | \$ (54,420) | \$ 61,519 |

Provision for Loan Losses

The Company recorded a provision for loan losses of \$18.1 million for the first quarter 2011, compared to a provision of \$16.8 million for the same period in 2010. The significant components comprising the Company's increased provision for loan losses were as follows:

Traditional Banking segment

The Traditional Banking provision for loan losses during the first quarter of 2011 was \$4.3 million, a \$1.5 million increase from the first quarter of 2010. Annualized net charge-offs as a percentage of average loans within the Traditional Banking segment were 0.21% for the first quarter of 2011 compared to 0.31% for the same period in 2010. Included in the first quarter 2011 and 2010 Traditional Bank's net charge-offs was \$297,000 and \$265,000 associated with commercial real estate relationships, which had been fully reserved for in prior quarters. These charge-offs represented 6 basis points and 5 basis points of the Traditional Bank's annualized net charge-offs as a percentage of average loans for the same respective periods.

Approximately \$1.1 million of the increase in the Traditional Banking segment provision for loan losses related to a specific loss allocation associated with one large classified commercial loan relationship in the Company's local market. Large commercial relationships are individually reviewed for classification and loan loss allocations when they have displayed an identified credit weakness. This specific reserve allocation, in particular, resulted from a continuing decline in the borrower's ability to pay in combination with an updated appraisal, which indicated a shortfall in the Company's underlying collateral.

The Company also incurred a \$1 million specific loss allocation associated with one residential real estate loan relationship totaling \$2.9 million in the Company's local market. This relationship became delinquent during the first quarter of 2011 and was modified as a TDR to lower the borrower's monthly payment, thus allowing the borrower time to market the property via a more manageable monthly payment. The Company received an updated appraisal for the property during the quarter indicating a potential shortfall of up to \$1 million.

In addition to the two large specific loan loss reserve allocation in the preceding paragraphs, the Company increased its specific loan loss reserve allocations an additional \$1.1 million for a total of six commercial real estate relationships in its Kentucky markets. These specific reserve allocations were increased as a continued deterioration in the borrowers' ability to repay, combined with a decline in the loans' underlying collateral values, further decreased management's outlook that the Company will be fully repaid on these transactions.

As a percentage of total loans, the Traditional Banking allowance for loan losses increased to 1.21% at March 31, 2011 compared to 1.06% at December 31, 2010. The Company believes, based on information presently available, that it has adequately provided for loan losses at March 31, 2011. See section titled "Asset Quality" for additional discussion of the Company's delinquent and non-performing loans.

TRS segment

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

At March 31st of each year, the Company has historically 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 the Company's internal RAL underwriting criteria applied against prior years' customer data, and the subjective experience of Company management. RALs outstanding 30 days or longer are charged off at the end of each quarter with subsequent collections recorded as recoveries. Since the RAL season is over by the end of April of each year, essentially all uncollected RALs are charged off by June 30th of each year, except for those RALs management deems certain of collection.

On August 5, 2010, the IRS issued a news release stating that it would no longer provide tax preparers and associated financial institutions with the Debt Indicator ("DI") beginning with the first quarter 2011 tax season. The DI indicated whether an individual taxpayer would have any portion of the refund offset for delinquent tax or other debts, such as unpaid child support or federally-funded student loans.

While underwriting for RALs involves several individual components, the DI has historically represented a significant part of the overall underwriting for the product. To mitigate the loss of the DI in 2011, RB&T modified its underwriting and application requirements to approve fewer RALs, significantly reduced the maximum RAL amount to \$1,500 for individual customers and raised its offering price to the consumer. As compared to prior years, during the first quarter of 2011, RB&T estimated a higher provision for loan losses as a percentage of total RALs originated, primarily as a result of the loss of the DI. Due to the elimination of the DI, more of the Company's estimated RAL losses in 2011 resulted from refunds being retained by the IRS to satisfy federal delinquent debts as compared to prior years when the vast majority of its RAL losses were the result of revenue protection strategies by the IRS. As a result, management believes that the final provision for loan losses related to RALs for 2011 will be much closer to the RALs outstanding past their expected funding date from the IRS as of the end of the first quarter as compared to previous years. If the projected payments received subsequent to the first quarter for delinquent RALs as of March 31st differ significantly from those assumptions used by management in making its determination of its first quarter provision for loan losses related to RALs, an adjustment to the allowance for loan losses and the resulting effect on the income statement could be material.

As of March 31, 2011, \$18.1 million of total RALs were outstanding past their expected funding date from the IRS compared to \$18.5 million at March 31, 2010, representing 1.75% and 0.63% of total gross RALs originated during the respective tax years. Management estimates that the final loss rate for RALs originated during 2011 will be 1.58% of the total RALs originated during the year as compared to 0.36% for 2010. Management expects the actual loan loss rate realized for TRS will be less than the current RALs outstanding beyond their expected funding date from the IRS because the Company will continue to receive payments from the IRS throughout the year and make other collection efforts to obtain repayment on the RALs. Management's estimate of current year losses combined with recoveries of previous years' RALs during the quarter, resulted in a net provision for loan loss expense of \$13.8 million and \$14.0 million for TRS during the first quarters of 2011 and 2010. Based on the Company's 2011 RAL volume, each 0.10% increase in the loss rate for RALs represents approximately \$1.0 million in additional provision for loan loss expense.

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

Table 3 – Summary of Loan Loss Experience

| (dollars in thousands) | Three Months Ended | | | |
|--------------------------------------------------------------------------------------------|--------------------|-----------|------|---|
| | March 31, | | | |
| | 2011 | 2010 | | |
| Allowance for loan losses at beginning of period | \$23,079 | \$22,879 | | |
| Charge offs: | | | | |
| Real Estate: | | | | |
| Residential | (549) | (236) | | |
| Commercial | (558) | (857) | | |
| Construction | - | (81) | | |
| Commercial | - | (23) | | |
| Consumer | (290) | (284) | | |
| Home Equity | (277) | (512) | | |
| Tax Refund Solutions | (13,441) | (14,584) | | |
| Total | (15,115) | (16,577) | | |
| Recoveries: | | | | |
| Real Estate: | | | | |
| Residential | 64 | 24 | | |
| Commercial | 17 | 28 | | |
| Construction | 101 | - | | |
| Commercial | 114 | 18 | | |
| Consumer | 237 | 161 | | |
| Home Equity | 13 | 8 | | |
| Tax Refund Solutions | 2,552 | 2,309 | | |
| Total | 3,098 | 2,548 | | |
| Net loan charge offs/recoveries | (12,017) | (14,029) | | |
| Provision for loan losses | 18,082 | 16,790 | | |
| Allowance for loan losses at end of period | \$29,144 | \$25,640 | | |
| Ratios: | | | | |
| Allowance for loan losses to total loans | 1.34 | % | 1.13 | % |
| Allowance for loan losses to total loans - Traditional Banking segment | 1.21 | % | 1.07 | % |
| Allowance for loan losses to non performing loans | 109 | % | 64 | % |
| Allowance for loan losses to non performing assets | 70 | % | 55 | % |
| Annualized net loan charge offs to average loans outstanding | 2.09 | % | 2.11 | % |
| Annualized net loan charge offs to average loans outstanding - Traditional Banking segment | 0.21 | % | 0.31 | % |

Non-interest Income

Non interest income increased \$27.4 million for the first quarter of 2011 compared to the same period in 2010. The most significant components comprising the total Company's non interest income were as follows:

Traditional Banking segment

Traditional Banking segment non-interest income decreased \$370,000, or 7%, for the first quarter of 2011 compared to the same period in 2010.

Service charges on deposit accounts decreased \$448,000, or 12%, during the first quarter of 2011 compared to the same period in 2010. Approximately \$207,000 of this decrease was related to the discontinuation of the Company's Currency Connection card product, which was substantially completed by the end of the first quarter of 2010. The remaining decrease is the result of the continued general decline in consumer overdraft activity that the Company, and the banking industry as a whole, has experienced the past several years. In addition, further contributing to this general decline in consumer overdraft activity, were the amended Regulation E ("Reg E") guidelines which took effect on August 15, 2010. The amended Reg E guidelines prohibit financial institutions from charging consumers fees for paying overdrafts on automated teller machine ("ATM") and one-time debit card transactions, unless a consumer affirmatively consents, or opts in, to the overdraft service for those types of transactions.

The Company earns a substantial majority of its fee income related to its overdraft service program from the per item fee it assesses its customers for each insufficient funds check or electronic debit presented for payment. In addition, the Company estimates that it has historically earned more than 60% of its overdraft related fees on the electronic debits presented for payment. Both the per item fee and the daily fee assessed to the account resulting from its overdraft status, if computed as a percentage of the amount overdrawn, results in a high rate of interest when annualized and are thus considered excessive by some consumer groups. The total net per item fees included in service charges on deposits for the first quarters of 2011 and 2010 were \$2.3 million and \$2.6 million. The total net daily overdraft charges included in interest income for the first quarter of 2011 and 2010 was \$361,000 and \$501,000, respectively.

In November 2010, the FDIC issued its final guidance on Automated Overdraft payment programs which will require FDIC regulated banks to implement and maintain robust oversight of these programs. The new guidance, as interpreted, will have a material adverse effect on the Company's net income. This guidance states, "the FDIC expects institutions to implement effective compliance and risk management systems, policies, and procedures to ensure that institutions manage any overdraft payment programs in accordance with the 2005 Joint Guidance on Overdraft Protection Programs (FIL-11-2005) and the FRB November 12, 2009 amendments to Regulation E, to avoid harming consumers or creating other compliance, operational, financial, reputational or other risks. As changes are made to overdraft payment programs in response to regulatory developments or to implement additional recommendations, institutions are reminded to ensure that customer communications (e.g. agreements, correspondence, marketing materials, etc.) are updated accordingly, present information accurately and are not misleading."

Highlights of the guidance are as follows:

"The FDIC expects financial institutions boards of directors and management to ensure that the institution mitigates the risks associated with offering automated overdraft payment programs and complies with all consumer protection laws and regulations, including providing clear and meaningful disclosures and other communications about overdraft payment programs, fees, and other features and options, and demonstrating compliance with new opt-in requirements for automated teller machine (ATM) withdrawals and one-time point-of-sale debit card transactions. In addition, the FDIC expects financial institutions to:

- Promptly honor customers' requests to decline coverage of overdrafts (i.e., opt-out) resulting from non-electronic transactions;
- Give consumers the opportunity to affirmatively choose the overdraft payment product that overall best meets their needs;
- Monitor accounts and take meaningful and effective action to limit use by customers as a form of short-term, high-cost credit, including, for example, giving customers who overdraw their accounts on more than six occasions where a fee is charged in a rolling twelve-month period a reasonable opportunity to choose a less costly alternative and decide whether to continue with fee-based overdraft coverage;
- Institute appropriate daily limits on overdraft fees; and consider eliminating overdraft fees for transactions that overdraw an account by a de minimis amount; and
- Not process transactions in a manner designed to maximize the cost to consumers.

Institutions using a third-party vendor for their overdraft payment programs must exercise careful oversight, as discussed in the FDIC's 2008 Guidance for Managing Third-Party Risk. The FDIC will take supervisory action where overdraft payment programs pose unacceptable safety and soundness or compliance management system risks or result in violations of laws or regulations, including unfair or deceptive acts or practices and fair lending laws.

Positive CRA consideration will continue to be provided for responsible transaction accounts, and affordable small-dollar loan programs or other lower cost credit alternatives, particularly for low- and moderate-income

consumers.

In order to allow sufficient time for institutions to review, consider and respond to the expectations in the final guidance, the FDIC expects that any additional efforts to mitigate risk would be in place by July 1, 2011.”

Management believes these guidelines will have a material negative impact on the Company’s net income in 2011 and beyond. Because of the large number of changes required by the guidelines, management is unable to determine precisely how negative the impact will be. The Company is evaluating all of the fees it charges for its deposit products to determine if and when it will revise those fees in an effort to partially mitigate the anticipated loss of overdraft related income.

TRS segment

TRS non interest income increased \$28.0 million, or 52%, during the first quarter of 2011 compared to the same period in 2010. Net ERC/ERD fees increased \$27.9 million for the first quarter of 2011 primarily attributable to the overall increase in volume at TRS during the tax season. ERC/ERD fee income was positively impacted by a 65% increase in the number of ERCs/ERDs processed resulting from a shift in business to higher volume tax preparation offices. Each year, the Company performs an annual review of its third-party tax preparation offices looking to replace stores which may display any of the following characteristics: low overall product volume, RAL loan loss rates above an acceptable threshold or lower than acceptable scores for RB&T's audit and compliance reviews. During the first quarter 2011 tax season, the Company shifted a large number of its lower volume JH offices into higher volume JH offices, keeping its overall office count with JH the same as the previous year, while significantly increasing ERC/ERD volume.

For additional discussion regarding TRS, see the following sections:

Part I Item 1 "Financial Statements:"

- o Footnote 1 "Summary of Significant Accounting Policies"
- o Footnote 3 "Loans and Allowance for Loan Losses"
- o Footnote 4 "Deposits"
- o Footnote 8 "Off Balance Sheet Risks, Commitments and Contingent Liabilities"
- o Footnote 10 "Segment Information"
- o Footnote 11 "Regulatory Matters"

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

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

Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income decreased \$196,000 during the first quarter of 2011 compared to the same period in 2010. Mortgage banking income was negatively impacted by a decline in secondary market loan volume during the first quarter of 2011 which resulted from a general increase in long-term interest rates. During the first quarter of 2011, Republic originated for sale \$26 million of fixed rate residential real estate secondary market loans compared to \$49 million originated for sale during the same period in 2010.

Non-interest Expenses

Non-interest expenses decreased \$8.3 million, or 16%, during the first quarter of 2011 compared to the same period in 2010. Approximately \$5.9 million of the decrease related to TRS while \$2.4 million related to the Company's other business operating segments. The most significant components comprising the increase in non-interest expense were as follows:

Traditional Banking segment

Salaries and benefits decreased \$403,000 for the first quarter of 2011. The primary driver of the decrease was a \$450,000 charge the Company incurred during the first quarter of 2010 for one-time payments to associates to cover shortfalls in their take-home pay, as the Company switched their payroll cycle from a "current earned, semi-monthly

pay cycle” to a “payment in arrears, bi-weekly pay cycle”.

Other real estate owned (“OREO”) expense increased \$180,000 during the first quarter of 2011 primarily due to the write downs experienced for two commercial real estate relationships.

Debit card interchange expense decreased \$126,000 during the first quarter of 2011 compared to 2010, as the Company entered into a new contract with a third party provider at significantly reduced rates.

During the first quarter of 2010, the Company prepaid \$87 million in FHLB advances that were originally scheduled to mature between April 2010 and January 2011. These advances had a weighted average cost of 3.48%. The Company incurred \$1.5 million in early termination penalties in connection with this transaction but saved approximately \$1.6 million in interest expense on its FHLB borrowings during 2010 and the first quarter of 2011, netting the Company a combined overall savings of approximately \$91,000 as a result of the transaction with a net \$46,000 of that savings occurring during 2010.

TRS segment

Salaries and employee benefits increased \$279,000, or 6%, for the first quarter of 2011 compared to the first quarter of 2010. The first quarter of 2011 was impacted by a slight increase due to annual merit increases, additional staffing and increased employee benefits expense.

Occupancy and equipment expense increased \$141,000 during the first quarter of 2011 due primarily to expanded infrastructure and technology costs to accommodate the increased volume of the business.

FDIC insurance expense increased \$515,000 during the first quarter of 2011 compared to 2010 related primarily to a higher assessment rate levied against the Company for its deposit insurance resulting from its on-going regulatory actions with the FDIC. Partially offsetting the higher assessments was a “volume” decline in premiums resulting from the lower average balance of brokered deposits acquired by the Company to fund the first quarter 2011 tax season.

Bank Franchise tax expense represents taxes paid to different state taxing authorities based on capital. The substantial majority of the Company’s Bank Franchise expense is paid to the commonwealth of Kentucky. Bank Franchise expense related to the TRS segment increased \$398,000 compared to the first quarter of 2010, primarily due to an increase in capital associated with higher earnings at TRS.

Marketing expense at TRS decreased \$7.6 million due to the modification of RB&T’s contracts with JH, which eliminated a large fixed fee for marketing that RB&T was charged as part of the contracts. The elimination of this fee overall did not impact the overall financial results of operations for the Company as this decrease was offset by the elimination of certain fees charged by RB&T, which substantially offset the fixed fee.

Legal expense at TRS was \$791,000 for the first quarter of 2011 compared to \$157,000 for the first quarter of 2010. The increase in legal expense was directly related to the Company’s on-going regulatory actions with the FDIC. Management estimates that legal expenses for the Company in 2011 related to the FDIC’s on-going regulatory action could be between \$1 million and \$2 million if the legal proceedings continue throughout the year. If these actions continue into 2012, management believes that the overall legal fees particular to these issues could approach \$5 million. At this time, management is uncertain how long the overall proceedings will take to be resolved.

Charitable contribution expense totaled \$4.9 million and \$4.7 million at TRS for the first quarters of 2011 and 2010, respectively. Due to the financial success the Company achieved in the first quarter of 2011 and 2010, Republic made a \$5 million contribution in each year to the Republic Bank Foundation, which was formed in 2010 to support charitable, educational, scientific and religious organizations throughout communities in Kentucky, Indiana, Ohio and Florida. The Company allocated the cost of this contribution to its operating segments using a formula based on pre-tax profits for each respective quarter.

COMPARISON OF FINANCIAL CONDITION AT MARCH 31, 2011 AND DECEMBER 31, 2010

Cash and Cash Equivalents

Cash and cash equivalents include cash, deposits with other financial institutions with original maturities less than 90 days and federal funds sold. Republic had \$472 million in cash and cash equivalents at March 31, 2011 compared to \$786 million at December 31, 2010. During the fourth quarter of 2010, the Company accumulated cash via brokered certificates of deposits totaling \$562 million in preparation for the first quarter 2011 tax season.

During 2010 the Company employed a conservative investment strategy, which involved minimal credit risk and minimal interest rate risk, leading the Company to hold a significant sum of cash at the Federal Reserve Bank for much of the previous two years. In February and March of 2011, the Company modified this conservative investment strategy, taking on more interest rate risk by reinvesting a portion of its excess cash into longer-term investment securities, thus increasing its projected net interest income and net interest margin in the near term. The Company made this revision to its conservative strategy, in large part, due to the on-going contraction of its net interest margin resulting from continued paydowns in its loan portfolio and the large amount of cash on hand earning 0.25%. Altogether, the Company purchased approximately \$150 million of agency notes and mortgage-backed securities with an initial average yield of 3.61% and an average duration of 6.5 years. While this strategy will improve the Company's near-term outlook for its net interest margin and net interest income, it will also negatively impact the Company's interest rate risk position in a rising rate environment.

Loan Portfolio

Net loans, primarily consisting of secured real estate loans, decreased by \$2.4 million during 2011 to \$2.1 billion at March 31, 2011. The Company continued to experience a decline in most loan categories during the first quarter of 2011 due to several factors, including the current economic environment, strict underwriting guidelines, continued lack of borrower demand for adjustable rate loan products and high pricing requirements for portfolio level loans. The Company currently expects to maintain these pricing and underwriting strategies until it sees further improvement in economic conditions.

Allowance for Loan Losses

The Traditional Bank's allowance for loan losses as a percent of total loans increased to 1.21% at March 31, 2011 compared to 1.06% at December 31, 2010. In general, the fluctuation in the allowance for loan losses as a percentage of total loans was due primarily to the following:

A continued emphasis on qualitative factors, such as a general decline in home values, utilized by the Company in recognition of the current economic environment.

The Company increased its loan loss allowance by a net \$3.3 million during the quarter for specific loss allocations related to large commercial credits, with \$1.1 million attributable to one large credit. In addition, the Company increased its specific loss allocations by \$1.0 million for one large residential real estate relationship.

The Company believes, based on information presently available, that it has adequately provided for loan losses at March 31, 2011.

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

Table 4 – Classified Assets

| (in thousands) | March 31, 2011 | December 31, 2010 |
|-----------------|----------------|-------------------|
| Loss | \$ - | \$ - |
| Doubtful | - | - |
| Substandard | 45,325 | 38,245 |
| Special mention | 43,343 | 54,254 |
| Total | \$ 88,668 | \$ 92,499 |

Asset Quality

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

Management evaluates the loan portfolio by reviewing the historical loss rate for each respective loan type and assigns risk multiples to certain categories to account for qualitative factors including current economic conditions. The average five year, two year and current year loss rates are reviewed in the analysis, as well as comparisons to peer group loss rates. Currently, management has assigned a greater emphasis on the two year and current year loss rates when determining its allowance for loan losses. Management makes allocations within the allowance for loan losses for specifically classified loans regardless of loan amount, collateral or loan type. In addition, historical loss rates for non-accrual loans and loans that are past due 90 days or more and that are not specifically classified are analyzed and applied based on respective balances and loan types.

Loan categories are evaluated utilizing subjective factors in addition to the historical loss calculations to determine a loss allocation for each of those types. As this analysis, or any similar analysis, is an imprecise measure of loss, the allowance is subject to ongoing adjustments. Therefore, management will often take into account other significant factors that may be necessary or prudent in order to reflect probable incurred losses in the total loan portfolio.

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

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

The following table details the Company's non-performing assets and select non-performing loan ratios:

Table 5 – Non-performing Loans and Non-performing Assets

| (dollars in thousands) | March 31, 2011 | | December 31, 2010 | | |
|-----------------------------------------------------------|----------------|--------|-------------------|--------|---|
| Loans on non-accrual status (1) | \$ | 26,668 | \$ | 28,317 | |
| Loans past due 90 days or more and still on accrual | | - | | - | |
| Total non-performing loans | | 26,668 | | 28,317 | |
| Other real estate owned | | 14,761 | | 11,969 | |
| Total non-performing assets | \$ | 41,429 | \$ | 40,286 | |
| Non-performing loans to total loans | | 1.22 | % | 1.30 | % |
| Non-performing loans to total loans - Traditional Banking | | 1.23 | % | 1.30 | % |
| Non-performing assets to total loans (including OREO) | | 1.89 | % | 1.84 | % |

(1) Loans on non-accrual status include impaired loans. See Footnote 3 “Loans and Allowance for Loan Losses” of Part I Item 1 “Financial Statements” for additional discussion regarding impaired loans.

Approximately \$13 million of Republic's total non-performing loans are in the residential real estate category with the underlying collateral located in the Company's primary market area of Kentucky. The Company does not consider any of these loans to be “sub-prime.” Residential real estate values in Kentucky have generally performed better than the national average, and as a result, losses from these loans have been minimal in relation to the size of the Company's residential real estate portfolio.

Approximately \$9 million of Republic's total non-performing loans are in the commercial real estate and real estate construction loan portfolios as of March 31, 2011. These loans are secured primarily by commercial properties. In addition to the primary collateral, the Company also obtained in many cases, at the time of origination, personal guarantees from the principal borrowers and secured liens on the guarantors' primary residences.

The composition of non-performing loans follows:

Table 6 – Non-performing Loan Composition

| (in thousands) | March 31, 2011 | | December 31, 2010 | |
|----------------------------|----------------|--------|-------------------|--------|
| Residential real estate | \$ | 13,477 | \$ | 15,236 |
| Commercial real estate | | 5,271 | | 6,265 |
| Real estate construction | | 4,066 | | 3,682 |
| Commercial | | 404 | | 323 |
| Home equity | | 3,323 | | 2,734 |
| Consumer | | 127 | | 77 |
| Total non-performing loans | \$ | 26,668 | \$ | 28,317 |

Based on the Company's review of the large individual non-performing commercial credits, as well as its migration analysis for its single 1-4 family residential real estate non-performing portfolio, management believes that its reserves as of March 31, 2011, are adequate to absorb probable losses on these loans.

Approximately \$9.7 million in non-performing loans at December 31, 2010, were removed from the non-performing loan classification during the first quarter of 2011. Approximately \$956,000, or 10%, of these loans were removed from the non-performing category because they were charged-off. Approximately \$3.5 million, or 36%, in loan balances were transferred to other real estate owned ("OREO") with \$4.0 million refinanced at other financial institutions. The remaining \$1.2 million was returned to accrual status for performance reasons.

The following table details the activity of the Company's non-performing loans:

Table 7 – Rollforward of 2011 Non-performing Loan Activity

(in thousands)

| | | | |
|------------------------------------------|----|--------|---|
| Non-performing loans at January 1, 2011 | \$ | 28,317 | |
| Loans added to non-performing status | | 8,306 | |
| Loans removed from non-performing status | | (9,739 |) |
| Principal paydowns | | (216 |) |
| Non-performing loans at March 31, 2011 | \$ | 26,668 | |

Delinquent Loans

As detailed in the table below, at March 31, 2011 the heaviest concentration of past due loans was in the real estate construction category which was primarily comprised of three commercial land development relationships.

Table 8 – Past Due Loans to Total Loans by Loan Type (1)

| | March 31, 2011 | | December 31, 2010 | |
|--------------------------|----------------|---|-------------------|---|
| Residential real estate | 1.28 | % | 1.54 | % |
| Commercial real estate | 0.55 | % | 0.88 | % |
| Real estate construction | 3.06 | % | 3.36 | % |
| Commercial | 0.11 | % | 0.06 | % |
| Consumer | 1.00 | % | 1.70 | % |
| Home equity | 1.20 | % | 0.84 | % |
| Total portfolio | 1.04 | % | 1.24 | % |

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

Impaired Loans and TDRs

Republic's policy is to charge off all or that portion of its investment in an impaired loan upon a determination that it is probable the full amount will not be collected. Impaired loans totaled \$52 million at March 31, 2011 compared to \$45 million at December 31, 2010.

A TDR is the situation where, due to a borrower's financial difficulties, the Bank grants a concession to the borrower that the Bank would not otherwise have considered. The majority of the Bank's TDRs involve a restructuring of loan terms such as a temporary reduction in the payment amount to require only interest and escrow (if required) and/or extending the maturity date of the loan. Non-accrual loans modified as TDRs remain on non-accrual status and continue to be reported as non-performing loans. Accruing loans modified as TDRs are evaluated for non-accrual status based on a current evaluation of the borrower's financial condition and ability and willingness to service the modified debt. As of March 31, 2011, the Company had \$37 million in TDRs, of which \$8 million were on nonaccrual status. As of December 31, 2010, the Company had \$32 million in TDRs, of which \$5 million were on nonaccrual status.

See Footnote 3 “Loans and Allowance for Loan Losses” of Part I Item 1 “Financial Statements” for additional discussion regarding impaired loans and TDRs.

Deposits

Total deposits decreased \$278 million from December 31, 2010 to \$2.0 billion at March 31, 2011. Interest-bearing deposits decreased \$514 million, or 26%, while non-interest bearing deposits increased \$236 million, or 72%, from December 31, 2010 to March 31, 2011.

The increase in non-interest bearing deposits was substantially related to short-term float for deposits associated with tax refunds at TRS.

The decline in interest-bearing accounts was heavily concentrated in the brokered certificates deposit category. Brokered certificates of deposit decreased \$553 million during 2011 to \$135 million at March 31, 2011. During the fourth quarter of 2010, the Company acquired approximately \$562 million in brokered certificates of deposits to be utilized in the first quarter of 2011 to fund RALs. These deposits had a weighted average cost of 0.42% with an average life of three months.

The Company also experienced an increase in its “core” interest bearing deposits of \$65 million during the quarter. This increase was concentrated within the Demand (NOW and SuperNOW) category and was primarily from the addition of several new large treasury management commercial relationships and approximately \$26 million of growth in one large existing relationship. The growth from the one large existing relationship could be short-term in nature.

Securities Sold Under Agreements to Repurchase and Other Short-term Borrowings

Securities sold under agreements to repurchase and other short-term borrowings decreased \$60 million, or 19%, during 2011. The majority of the repurchase accounts are large treasury management transaction relationships with normal recurring large fluctuations in account balances. Approximately \$50 million of the decline for the quarter was related to one large commercial account which moved approximately one half of its balances outside of the Bank. All of these accounts require security collateral on behalf of Republic. The substantial majority of these accounts are indexed to immediately repricing indices such as the FFTR. Based on the transactional nature of the Company’s treasury management accounts, repurchase agreement balances are subject to large fluctuations on a daily basis.

Liquidity

The Company is significantly leveraged with a loan to deposit ratio (excluding brokered deposits) of 115% at March 31, 2011 and 134% at December 31, 2010. Historically, the Company has utilized secured and unsecured borrowing lines to supplement its funding requirements. At March 31, 2011 and December 31, 2010, Republic had available collateral to borrow an additional \$242 million and \$192 million, respectively 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 as of March 31, 2011. If the Company were to lose a significant funding source, such as a few major depositors, or if any of its lines of credit were canceled, or if the Company cannot obtain brokered deposits, the Company would be forced to offer market leading deposit interest rates to meet its funding and liquidity needs.

Republic maintains sufficient liquidity to fund routine loan demand and routine deposit withdrawal activity. Liquidity is managed by maintaining sufficient liquid assets in the form of investment securities. Funding and cash flows can also be realized by the sale of securities available for sale, principal paydowns on loans and MBSs and proceeds realized from loans held for sale. The Company’s liquidity is impacted by its ability to sell certain investment securities, which is limited due to the level of investment securities that are needed to secure public deposits, securities sold under agreements to repurchase and for other purposes, as required by law. At March 31, 2011 and December 31, 2010, these pledged investment securities had a fair value of \$409 million and \$431 million, respectively. Republic’s banking centers and its website, www.republicbank.com, provide access to retail deposit markets. These retail deposit products, if offered at attractive rates, have historically been a source of additional funding when needed.

At March 31, 2011, the Company had approximately \$400 million in large non-sweep deposit relationships. These accounts do not require collateral; therefore, cash from these accounts can generally be utilized to fund the loan

portfolio. The ten largest non sweep deposit relationships represent approximately \$184 million of the total balance. If any of these balances are moved from the Bank, the Company would likely utilize overnight FHLB advances in the short-term to replace the balances. On a longer-term basis, the Company would likely utilize brokered deposits to replace withdrawn balances. Based on past experience utilizing brokered deposits, the Company believes it can quickly obtain brokered deposits if needed. The overall cost of gathering brokered deposits, however, could be substantially higher than the Traditional Bank deposits they replace, potentially decreasing the Company's earnings.

The Company's liquidity risk increases significantly during the first quarter of each year due to the RAL program. The Company has committed to its electronic filer and tax-preparer base that it will make RALs available to their customers under the terms of its contracts with them. This requires the Company to estimate liquidity, or funding needs for the RAL program, well in advance of the tax season. If management materially overestimates the need for funding during the tax season, a significant expense could be incurred without an offsetting revenue stream. If management materially underestimates its funding needs during the tax season, the Company could experience a significant shortfall of cash needed to fund RALs and could potentially be required to stop or reduce its RAL originations.

For additional discussion regarding TRS, see the following sections:

Part I Item 1 “Financial Statements:”

- o Footnote 1 “Summary of Significant Accounting Policies”
- o Footnote 3 “Loans and Allowance for Loan Losses”
- o Footnote 4 “Deposits”
- o Footnote 8 “Off Balance Sheet Risks, Commitments and Contingent Liabilities”
- o Footnote 10 “Segment Information”
- o Footnote 11 “Regulatory Matters”

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

- o “Recent Developments”
- o “Business Segment Composition”
- o “Results of Operations”

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

The Parent Company’s principal source of funds for dividend payments are dividends received from RB&T. Federal and state regulations limit the amount of dividends that may be paid to the Parent Company by the Bank without prior approval of the respective banking regulators. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year’s net profits, combined with the retained net profits of the preceding two years. At March 31, 2011, RB&T could, without prior approval, declare dividends of approximately \$103 million.

Capital

Total stockholders’ equity increased from \$371 million at December 31, 2010 to \$440 million at March 31, 2011. The increase in stockholders’ equity was primarily attributable to net income earned during 2011 reduced by cash dividends declared. In addition, stockholders’ equity also increased to a lesser extent from stock option exercises during the period ended March 31, 2011.

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

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

Banking regulators have categorized the Bank as well-capitalized. To be categorized as well-capitalized, the Bank must maintain minimum Total Risk Based, Tier I Capital and Tier I Leverage Capital ratios. Regulatory agencies measure capital adequacy within a framework that makes capital requirements, in part, dependent on the individual risk profiles of financial institutions. Republic continues to exceed the regulatory requirements for Total Risk Based Capital, Tier I Capital and Tier I Leverage Capital. Republic and the Bank intend to maintain a capital position that meets or exceeds the “well-capitalized” requirements as defined by the FRB, FDIC and the OTS. Republic’s average capital to average assets ratio was 10.01% at March 31, 2011 compared to 10.31% at December 31, 2010. Formal

measurements of the capital ratios for Republic and the Bank are performed by the Company at each quarter end.

In 2004, the Company executed an intragroup trust preferred transaction, with the purpose of providing RB&T access to additional capital markets, if needed, in the future. On a consolidated basis, this transaction has had no impact on the capital levels and ratios of the Company. The subordinated debentures held by RB&T, as a result of this transaction, however, are treated as Tier 2 Capital based on requirements administered by the Bank's federal banking agency. If RB&T's Tier I Capital ratios should not meet the minimum requirement to be well-capitalized, the Company could immediately modify the transaction in order to maintain its well-capitalized status.

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

The following table sets forth the Company’s risk based capital amounts and ratios as of March 31, 2011 and December 31, 2010:

Table 9 – Capital Ratios

| (dollars in thousands) | As of March 31, 2011 | | As of December 31, 2010 | | | |
|-----------------------------------------------------------|----------------------|-------|-------------------------|-------|---|--|
| | Actual Amount | Ratio | Actual Amount | Ratio | | |
| Total Risk Based Capital (to Risk Weighted Assets) | | | | | | |
| Republic Bancorp, Inc. | \$ 487,408 | 25.12 | % \$ 415,992 | 22.04 | % | |
| Republic Bank & Trust Co. | 435,894 | 23.42 | 385,433 | 21.18 | | |
| Republic Bank | 16,073 | 21.46 | 16,160 | 22.67 | | |
| Tier I Capital (to Risk Weighted Assets) | | | | | | |
| Republic Bancorp, Inc. | \$ 463,162 | 23.87 | % \$ 394,194 | 20.89 | % | |
| Republic Bank & Trust Co. | 389,134 | 20.91 | 341,077 | 18.74 | | |
| Republic Bank | 15,137 | 20.21 | 15,269 | 21.42 | | |
| Tier I Leverage Capital (to Average Assets) | | | | | | |
| Republic Bancorp, Inc. | \$ 463,162 | 11.39 | % \$ 394,194 | 12.05 | % | |
| Republic Bank & Trust Co. | 389,134 | 10.78 | 341,077 | 10.75 | | |
| Republic Bank | 15,137 | 13.10 | 15,269 | 14.76 | | |

Asset/Liability Management and Market Risk

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

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

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

The Company did not run a model simulation for declining interest rates as of March 31, 2011 and December 31, 2010, because the FOMC effectively lowered the FFTR between 0.00% to 0.25% in December 2008 and therefore, no further short-term rate reductions can occur. Overall, the indicated change in net interest income as of March 31, 2011 was substantially worse than the indicated change as of December 31, 2010 in an “up” interest rate scenario. The reason for the deterioration in the Company’s position in an “up” interest rate environment was primarily from the \$150 million purchase of securities that was made during the first quarter of 2011. While this purchase negatively impacted the Company’s interest rate risk position in a rising rate environment, it positively impacted the Company’s current earnings in the near-term due to substantial increase in yield for the assets.

The following tables illustrate Republic’s projected net interest income sensitivity profile based on the asset/liability model as of March 31, 2011. The Company’s interest rate sensitivity model does not include loan fees within interest income. During the three months ended March 31, 2011 and 2010, loan fees included in interest income were \$59.3 million and \$51.2 million, respectively.

Table 10 – Interest Rate Sensitivity for 2011

| (dollars in thousands) | Base | Increase in Rates | | |
|------------------------------------------------|------------|---------------------|---------------------|---------------------|
| | | 100 Basis Points | 200 Basis Points | 300 Basis Points |
| Projected interest income: | | | | |
| Short-term investments | \$ 137 | \$ 670 | \$ 833 | \$ 548 |
| Investment securities | 20,443 | 24,200 | 27,545 | 30,491 |
| Loans, excluding loan fees(1) | 115,224 | 120,899 | 127,888 | 136,010 |
| Total interest income, excluding loan fees | 135,804 | 145,769 | 156,266 | 167,049 |
| Projected interest expense: | | | | |
| Deposits | 9,108 | 18,421 | 27,588 | 36,699 |
| Securities sold under agreements to repurchase | 677 | 3,381 | 6,086 | 8,800 |
| Federal Home Loan Bank advances and other | | | | |
| long-term borrowings | 19,090 | 19,090 | 17,882 | 16,835 |
| Total interest expense | 28,875 | 40,892 | 51,556 | 62,334 |
| Net interest income, excluding loan fees | \$ 106,929 | \$ 104,877 | \$ 104,710 | \$ 104,715 |
| Change from base | | \$ (2,052) | \$ (2,219) | \$ (2,214) |
| % Change from base | | -1.92 % | -2.08 % | -2.07 % |

(1) – Consideration was not given to the impact of increasing and decreasing interest rates on RALs, which are fee based and occur substantially all in the first quarter of the year.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

Item 4. Controls and Procedures.

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

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

Notice of Charges for an Order to Cease and Desist and Notice of Hearing

On February 10, 2011, RB&T received a Notice of Charges for an Order to Cease and Desist and Notice of Hearing from the FDIC (the "Notice") regarding its Refund Anticipation Loan ("RAL") program. A copy of the Notice is set forth as Exhibit 10.1 of the Form 8-K filed with the SEC on February 10, 2011. The Notice contends that RB&T's practice of originating RALs without the benefit of the Debt Indicator ("DI") from the Internal Revenue Service ("IRS") is unsafe and unsound. The Notice does not address RB&T's Electronic Refund Check/Electronic Refund Deposit ("ERC/ERD") products. The Notice initiated an agency adjudication proceeding, In Republic Bank & Trust Company, to determine whether the FDIC should issue a cease and desist order to restrain RB&T's RAL program. Under the current ruling, the FDIC has until May 3, 2011 to amend the Notice if it elects to do so.

As part of the process initiated by the Notice, RB&T is entitled to a hearing before an Administrative Law Judge ("ALJ") appointed by the FDIC. During the first quarter of 2011, RB&T's hearing date was set for September 19, 2011, in Louisville, Kentucky. As part of the hearing process, the ALJ will take evidence on the items specified in the Notice and make a recommendation of findings of fact to the FDIC Board of Directors, which may accept or reject the Administrative Law Judge's ("ALJ's") recommendation. There is no statutory timeline in which the ALJ must make a recommendation to the FDIC. The FDIC Board of Directors would have 90 days after the date of the ALJ's recommendation, or argument before the FDIC Board of Directors, to render a decision. In the case of an adverse decision, RB&T would have the right to appeal the resulting order to the U.S. Court of Appeals for the Sixth Circuit. Filing an appeal would not operate as a stay of the order.

The Board and management believe the charges in the Notice from the FDIC to be without merit and intend to vigorously defend RB&T's right to offer a legal product to those who wish to purchase the product.

On February 28, 2011, RB&T filed a complaint in the United States District Court for the Western District of Kentucky against the FDIC and various officers of the FDIC in their official capacities, entitled Republic Bank and Trust Company v. Federal Deposit Insurance Corporation, et al. The complaint states that the FDIC's actions to prohibit RB&T from offering RALs constitute a generally applicable change in law that must be administered through the traditional notice and comment rulemaking required by the Administrative Procedure Act (the "APA") or otherwise in a fashion permitted by law that is separate and apart from the adjudicatory process initiated by the Notice. The complaint also states that the FDIC has unlawfully ignored its procedural rules regarding discovery in the proceedings initiated by the Notice by conducting a series of unscheduled "visitations." The complaint seeks declaratory and injunctive relief. On March 31, 2011, the FDIC filed a Motion to Dismiss (the "Motion") RB&T's complaint with the Court. RB&T intends to oppose the Motion with its response due to the Court by April 25, 2011. No responsive pleadings to RB&T's complaint have been or will be required to be filed in the action while the Motion is pending. If RB&T is successful in its objection to the Motion, the defendants will have an additional fourteen days to file their respective answers to RB&T's complaint.

See Exhibit 10.1 of the Form 8-K filed with the SEC on February 10, 2011 for additional detail regarding the Notice.

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

Details of Republic's Class A Common Stock purchases during the first quarter of 2011 are included in the following table:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs |
|--------------------------|-------------------------------------|---------------------------------|----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| January 1- January 31 | - | \$ - | - | |
| February 1 - February 28 | - | - | - | |
| March 1 - March 31 | - | - | - | |
| Total | - | * \$ - | - | 327,093 |

During the first quarter of 2011, the Company did not repurchase any shares and there were no shares exchanged for stock option exercises. During the fourth quarter of 2009, the Company's Board of Directors amended its existing share repurchase program by approving the repurchase of 300,000 shares from time to time, as market conditions are deemed attractive to the Company. The repurchase program will remain effective until the total number of shares authorized is repurchased or until Republic's Board of Directors terminates the program. As of March 31, 2011, the Company had 327,093 shares which could be repurchased under the current share repurchase programs.

During the first quarter of 2011, there were approximately 3,000 shares of Class A Common Stock issued upon conversion of shares of Class B Common Stock by stockholders of Republic in accordance with the share-for-share conversion provision option of the Class B Common Stock. The exemption from registration of the newly issued Class A Common Stock relied upon was Section (3)(a)(9) of the Securities Act of 1933.

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

Item 4. (Removed and Reserved)

Item 6. Exhibits.

(a) Exhibits

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

| Exhibit Number | Description of Exhibit |
|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1 | Notice of Charges for an Order to Cease and Desist and Notice of Hearing dated February 9, 2011 (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed February 10, 2011 (Commission File Number: 0-24649)) |
| 31.1 | Certification of Principal Executive Officer pursuant to the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Principal Financial Officer pursuant to the Sarbanes-Oxley Act of 2002. |
| 32* | Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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

SIGNATURES

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

REPUBLIC BANCORP, INC.
(Registrant)

Principal Executive Officer:

April 20, 2011

By: Steven E. Trager
President and Chief Executive Officer

Principal Financial Officer:

April 20, 2011

By: Kevin Sipes
Executive Vice President, Chief Financial
Officer and Chief Accounting Officer

