

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

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.

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

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 October 25, 2011, was 18,655,193 and 2,299,829, respectively.

1

TABLE OF CONTENTS

	Page
PART I – FINANCIAL INFORMATION	
<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> 50
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk.</u> 87
<u>Item 4.</u>	<u>Controls and Procedures.</u> 87
PART II – OTHER INFORMATION	
<u>Item 1.</u>	<u>Legal Proceedings.</u> 87
<u>Item 1A.</u>	<u>Risk Factors.</u> 88
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds.</u> 103
<u>Item 4</u>	<u>(Removed and Reserved).</u> 103
<u>Item 6.</u>	<u>Exhibits.</u> 104
	<u>SIGNATURES</u> 105

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS (in thousands) (unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	\$75,573	\$786,371
Securities available for sale	672,771	509,755
Securities to be held to maturity (fair value of \$29,707 in 2011 and \$33,824 in 2010)	29,371	32,939
Mortgage loans held for sale	4,721	15,228
Loans, net of allowance for loan losses of \$23,945 and \$23,079 (2011 and 2010)	2,195,971	2,152,161
Federal Home Loan Bank stock, at cost	26,153	26,212
Premises and equipment, net	34,044	37,770
Goodwill	10,168	10,168
Other assets and accrued interest receivable	46,369	52,099
TOTAL ASSETS	\$3,095,141	\$3,622,703
LIABILITIES		
Deposits		
Non interest-bearing	\$385,511	\$325,375
Interest-bearing	1,416,887	1,977,317
Total deposits	1,802,398	2,302,692
Securities sold under agreements to repurchase and other short-term borrowings	227,504	319,246
Federal Home Loan Bank advances	524,731	564,877
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	46,197	23,272
Total liabilities	2,642,070	3,251,327
STOCKHOLDERS' EQUITY		
Preferred stock, no par value	-	-
Class A Common Stock and Class B Common Stock, no par value	4,948	4,944
Additional paid in capital	131,265	129,327
Retained earnings	308,847	230,987
Accumulated other comprehensive income	8,011	6,118
Total stockholders' equity	453,071	371,376
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$3,095,141	\$3,622,703

See accompanying footnotes to consolidated financial statements.

3

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
INTEREST INCOME:				
Loans, including fees	\$30,225	\$31,021	\$148,229	\$146,212
Taxable investment securities	3,864	3,788	11,549	11,252
Tax exempt investment securities	-	-	-	11
Federal Home Loan Bank stock and other	337	461	1,730	1,911
Total interest income	34,426	35,270	161,508	159,386
INTEREST EXPENSE:				
Deposits	2,057	2,946	7,267	10,366
Securities sold under agreements to repurchase and other short-term borrowings	111	262	535	746
Federal Home Loan Bank advances	4,467	4,978	13,857	15,014
Subordinated note	628	632	1,886	1,883
Total interest expense	7,263	8,818	23,545	28,009
NET INTEREST INCOME	27,163	26,452	137,963	131,377
Provision for loan losses	(140)	(1,804)	17,503	17,966
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	27,303	28,256	120,460	113,411
NON INTEREST INCOME:				
Service charges on deposit accounts	3,421	3,847	10,581	11,728
Electronic refund check fees	425	293	88,071	58,513
Net RAL securitization income	5	8	203	228
Mortgage banking income	1,352	1,679	3,092	4,094
Debit card interchange fee income	1,415	1,213	4,392	3,745
Gain on sale of banking center	2,856	-	2,856	-
Gain on sale of securities available for sale	301	-	2,208	-
Total impairment losses on investment securities	-	-	(279)	(126)
Gain recognized in other comprehensive income	-	-	-	-
Net securities gain (loss) recognized in earnings	-	-	(279)	(126)
Other	701	783	2,032	1,822
Total non interest income	10,476	7,823	113,156	80,004
NON INTEREST EXPENSES:				
Salaries and employee benefits	13,145	13,399	43,634	43,743

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

Occupancy and equipment, net	5,138	5,114	16,436	16,585
Communication and transportation	1,081	887	4,468	4,075
Marketing and development	736	722	2,508	10,116
FDIC insurance expense	918	586	3,718	2,485
Bank franchise tax expense	713	642	2,992	2,432
Data processing	787	660	2,352	1,978
Debit card interchange expense	566	299	1,690	1,234
Supplies	409	219	1,617	1,597
Other real estate owned expense	608	562	1,467	1,365
Charitable contributions	178	282	5,710	6,064
Legal expense	784	365	3,123	1,105
Accrued FDIC civil money penalty	-	-	2,000	-
FHLB advance prepayment expense	-	-	-	1,531
Other	1,375	1,385	6,067	6,596
Total non interest expenses	26,438	25,122	97,782	100,906
INCOME BEFORE INCOME TAX EXPENSE	11,341	10,957	135,834	92,509
INCOME TAX EXPENSE	3,471	3,647	47,889	32,174
NET INCOME	\$7,870	\$7,310	\$87,945	\$60,335

(continued)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
OTHER COMPREHENSIVE INCOME, NET OF TAX				
Unrealized gain (loss) on securities available for sale, net of tax	\$2,332	\$(385)) \$3,559	\$693
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	92	81	(49)) 506
Realized amount on securities sold, net	(196)) -	(1,435)) -
Reclassification adjustment for losses or gains realized in income, net of tax	-	-	(182)) (82)
Other comprehensive income (loss)	2,228	(304)) 1,893	1,117
COMPREHENSIVE INCOME	\$10,098	\$7,006	\$89,838	\$61,452
BASIC EARNINGS PER SHARE:				
Class A Common Stock	\$0.38	\$0.35	\$4.20	\$2.90
Class B Common Stock	0.36	0.34	4.16	2.86
DILUTED EARNINGS PER SHARE:				
Class A Common Stock	\$0.38	\$0.35	\$4.19	\$2.89
Class B Common Stock	0.36	0.34	4.15	2.85

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
 NINE MONTHS ENDED SEPTEMBER 30, 2011

(in thousands, except per share data)	Common Stock		Additional Paid In Capital	Accumulated		Total Stockholders' Equity	
	Class A Shares Outstanding	Class B Shares Outstanding		Retained Earnings	Other Comprehensive Income		
Balance, January 1, 2011	18,628	2,307	\$ 4,944	\$ 129,327	\$ 230,987	\$ 6,118	\$ 371,376
Net income	-	-	-	-	87,945	-	87,945
Net change in accumulated other comprehensive income	-	-	-	-	-	1,893	1,893
Dividend declared Common Stock:							
Class A (\$0.451 per share)	-	-	-	-	(8,407)	-	(8,407)
Class B (\$0.410 per share)	-	-	-	-	(944)	-	(944)
Stock options exercised, net of shares redeemed	38	-	7	881	(450)	-	438
Repurchase of Class A Common Stock	(20)	-	(3)	(124)	(284)	-	(411)
Conversion of Class B Common Stock to Class A Common Stock	7	(7)	-	-	-	-	-
Notes receivable on Common Stock, net of cash payments	-	-	-	838	-	-	838
Deferred director compensation expense - Company Stock	2	-	-	130	-	-	130
Stock based compensation	-	-	-	213	-	-	213

expense

Balance, September 30, 2011	18,655	2,300	\$ 4,948	\$ 131,265	\$ 308,847	\$ 8,011	\$ 453,071
--------------------------------	--------	-------	----------	------------	------------	----------	------------

See accompanying footnotes to consolidated financial statements.

6

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
 NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010 (in thousands)

	2011	2010
OPERATING ACTIVITIES:		
Net income	\$87,945	\$60,335
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	2,393	8,719
Provision for loan losses	17,503	17,966
Net gain on sale of mortgage loans held for sale	(2,976)	(4,130)
Origination of mortgage loans held for sale	(93,052)	(196,853)
Proceeds from sale of mortgage loans held for sale	106,535	200,645
Increase in RAL securitization residual	(203)	(228)
Paydown of trading securities	203	228
Net realized impairment of mortgage servicing rights	203	157
Net realized (gain) loss on sales, calls and impairment of securities	(1,929)	126
Net gain on sale of other real estate owned	(424)	(135)
Writedowns of other real estate owned	463	993
Deferred director compensation expense - Company Stock	130	118
Stock based compensation expense	213	401
Net gain on sale of banking center	(2,856)	-
Net change in other assets and liabilities:		
Accrued interest receivable	(308)	18
Accrued interest payable	(566)	(659)
Other assets	3,115	5,009
Other liabilities	17,660	6,566
Net cash provided by operating activities	134,049	99,276
INVESTING ACTIVITIES:		
Purchases of securities available for sale	(694,640)	(563,688)
Purchases of securities to be held to maturity	(500)	(685)
Purchases of Federal Home Loan Bank stock	(1)	(26)
Proceeds from calls, maturities and paydowns of securities available for sale	384,947	424,804
Proceeds from calls, maturities and paydowns of securities to be held to maturity	4,114	12,259
Proceeds from sales of securities available for sale	160,075	-
Proceeds from sales of Federal Home Loan Bank Stock	60	-
Proceeds from sales of other real estate owned	10,622	7,421
Net change in loans	(83,498)	84,894
Purchases of premises and equipment	(1,845)	(3,342)
Sale of banking center	(15,410)	-
Net cash used in investing activities	(236,076)	(38,363)
FINANCING ACTIVITIES:		
Net change in deposits	(468,372)	(865,379)
Net change in securities sold under agreements to repurchase and other short-term borrowings	(91,160)	(13,070)
Payments on Federal Home Loan Bank advances	(55,146)	(117,183)
Proceeds from Federal Home Loan Bank advances	15,000	45,000
Repurchase of Common Stock	(411)	(387)

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

Net proceeds from Common Stock options exercised	438	1,883
Cash dividends paid	(9,120)	(8,932)
Net cash used in financing activities	(608,771)	(958,068)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(710,798)	(897,155)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	786,371	1,068,179
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$75,573	\$171,024

(continued)

7

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)
 NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010 (in thousands)

	2011	2010
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$24,118	\$28,758
Income taxes	34,706	19,905
 SUPPLEMENTAL NONCASH DISCLOSURES		
Transfers from loans to real estate acquired in settlement of loans	\$9,873	\$9,703

See accompanying footnotes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – SEPTEMBER 30, 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.

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 and nine months ended September 30, 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.

As of September 30, 2011, the Company was divided into three distinct business operating segments: Traditional Banking, Mortgage Banking and Tax Refund Solutions.

Traditional Banking and Mortgage Banking (collectively “Core Banking”)

Republic operates 42 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. Additionally, in June 2011 Republic commenced business in its newly established warehouse lending division. Through this division, the Bank provides short-term, revolving credit facilities to mortgage bankers secured by single 1-4 family real estate loans.

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") business operating 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. TRS'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 RB&T has received the refund from the federal or state government. There is no credit risk or borrowing cost for RB&T associated with these products because they are only delivered to the taxpayer upon receipt of the refund directly from the Internal Revenue Service (“IRS”). Fees earned on ERCs/ERDs are reported as non interest income under the line item “Electronic Refund Check fees.”

RALs 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, RB&T 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 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 meaningful 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. In response to loss of access to the DI in 2011, RB&T significantly reduced the maximum RAL amount for individual customers, raised the RAL offering price to its customers and modified its underwriting and application requirements resulting in fewer RALs approved.

If a consumer’s RAL application is approved, RB&T 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 RB&T. The refund received from the IRS or state taxing authority, if applicable, is used by RB&T 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 RB&T. The funds advanced by RB&T 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”

Part II Item 1A “Risk Factors”

Recently Issued Accounting Pronouncements

In April, 2011, the FASB issued ASU No. 2011-03, “Reconsideration of Effective Control for Repurchase Agreements.” The amendments in this ASU remove from the assessment of effective control the criteria relating to the transferor’s ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. The amendments in this ASU also eliminate the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. The guidance in this ASU is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The Company will adopt the methodologies prescribed by this ASU by the date required, and does not anticipate that the ASU will have a material effect on its financial position or results of operations.

In May, 2011, the FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments in this ASU generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs. The amendments in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company will adopt the methodologies prescribed by this ASU by the date required, and does not anticipate that the ASU will have a material effect on its financial position or results of operations.

In June, 2011, the FASB issued ASU No. 2011-05, “Amendments to Topic 220, Comprehensive Income.” Under the amendments in this ASU, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders’ equity. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this ASU should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. Due to the recency of this pronouncement, the Company is evaluating its timing of adoption of ASU 2011-05, but will adopt the ASU retrospectively by the due date.

In September, 2011, the FASB issued ASU No. 2011-08, “Intangibles – Goodwill and Other.” This ASU is intended to simplify how an entity tests goodwill for impairment. The new guidance allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer is required to calculate the fair value of a reporting unit unless the entity determines, based on its qualitative assessment, that it is more likely than not that the reporting unit’s fair value is less than its carrying amount. The ASU will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company will adopt the methodologies prescribed by this ASU by the date required, and does not anticipate that the ASU will have a material effect on its financial position or results of operations.

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

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:

September 30, 2011 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$147,221	\$1,313	\$(97)	\$148,437
Private label mortgage backed and other private label mortgage-related securities	5,818	-	(1,275)	4,543
Mortgage backed securities - residential	302,496	9,972	-	312,468
Collateralized mortgage obligations	204,911	2,503	(91)	207,323
Total securities available for sale	\$660,446	\$13,788	\$(1,463)	\$672,771

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	150,460	8,217	-	158,677
Collateralized mortgage obligations	223,665	2,144	(152)	225,657
Total securities available for sale	\$500,342	\$11,240	\$(1,827)	\$509,755

Mortgage backed Securities

At September 30, 2011, with the exception of the \$4.5 million private label mortgage backed and other private label mortgage-related securities, all other mortgage backed securities held by the Bank were issued by U.S. government-sponsored entities and agencies, primarily Federal Home Loan Mortgage Corporation (“Freddie Mac” or “FHLMC”) and Fannie Mae (“FNMA”), institutions which the government has affirmed its commitment to support. At September 30, 2011 and December 31, 2010, there were gross unrealized losses of \$91,000 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 Bank does not have the intent to sell these mortgage backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired.

As mentioned throughout this filing, the Bank’s mortgage backed securities portfolio includes private label mortgage backed and other private label mortgage-related securities with a fair value of \$4.5 million which had gross unrealized losses of approximately \$1.3 million at September 30, 2011 and \$1.4 million at December 31, 2010. As of September

30, 2011, the Bank believes there is no further credit loss component of other-than-temporary impairment (“OTTI”) in addition to that which has already been recorded. Additionally, the Bank 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:

September 30, 2011 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$4,239	\$ 15	\$ -	\$4,254
Mortgage backed securities - residential	1,546	115	-	1,661
Collateralized mortgage obligations	23,586	206	-	23,792
Total securities to be held to maturity	\$29,371	\$ 336	\$ -	\$29,707

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 2011, the Company recognized net securities gains in earnings for securities available for sale as follows:

There were no sales of securities available for sale during the first quarter of 2011.

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

During the third quarter of 2011, the Company realized \$188,000 in pre-tax gains related to unamortized discount accretion on \$24 million of callable U.S. Government agencies that were called during the third quarter of 2011 before their maturity.

Also, during the third quarter of 2011, the Bank sold available for sale mortgage backed securities with an amortized cost of \$2 million, resulting in a pre-tax gain of \$112,000.

During the three and nine month periods ended September 30, 2010, there were no sales or calls of securities available for sale.

The amortized cost and fair value of the investment securities portfolio by contractual maturity at September 30, 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.

September 30, 2011 (in thousands)	Securities available for sale		Securities held to maturity	
	Amortized Cost	Fair Value	Carrying Value	Fair Value

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

Due in one year or less	\$-	\$-	\$-	\$-
Due from one year to five years	116,973	129,483	2,239	2,254
Due from five years to ten years	30,248	18,954	2,000	2,000
Due beyond ten years	-	-	-	-
Private label mortgage backed and other private label mortgage-related securities	5,818	4,543	-	-
Mortgage backed securities - residential	302,496	312,468	1,546	1,661
Collateralized mortgage obligations	204,911	207,323	23,586	23,792
Total	\$660,446	\$672,771	\$29,371	\$29,707

Market Loss Analysis

Securities with unrealized losses at September 30, 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:

September 30, 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	\$30,151	\$(97)	\$-	\$-	\$30,151	\$(97)
Private label mortgage backed and other						
private label mortgage-related securities	-	-	4,543	(1,275)	4,543	(1,275)
Mortgage backed securities - residential, including Collateralized mortgage obligations	24,206	(91)	-	-	24,206	(91)
Total	\$54,357	\$(188)	\$4,543	\$(1,275)	\$58,900	\$(1,463)
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)

At September 30, 2011, the Bank's security portfolio consisted of 163 securities, 11 of which were in an unrealized loss position. The majority of unrealized losses are related to the Bank's mortgage-backed securities, as discussed in this section of the filing.

Other-than-temporary impairment ("OTTI")

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

to:

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

14

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 Bank owns three private label mortgage backed securities and one private label mortgage-related security with a total carrying value of \$5.8 million at September 30, 2011. For the three private label mortgage backed securities (Securities 1 through 3 in the table below), the Bank has recorded all projected losses through OTTI charges. The Bank has permanently written off a portion of the principal associated with these securities, as a portion of their 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 Bank 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 Bank utilized an income valuation model (present value model) approach, in determining the fair value of these securities. This approach is beneficial for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management’s best estimate is used. Management’s best estimate consists of both internal and external support for these investments. See Footnote 6, “Fair Value” for additional discussion.

The following table contains details regarding the Bank’s private label securities as of September 30, 2011:

(in thousands)	Amortized Cost	Cumulative OTTI Credit Losses	Amortized Cost, Net of OTTI Reserves	Fair Value	Gross Unrealized Gains / (Losses)
Security 1	\$ 1,290	\$ (1,290)	\$ -	\$ -	\$ -
Security 2	597	(597)	-	-	-
Security 3	1,394	(1,394)	-	-	-
Security 4	7,834	(2,016)	5,818	4,543	(1,275)
Total	\$ 11,115	\$ (5,297)	\$ 5,818	\$ 4,543	\$ (1,275)

The credit ratings for the Bank’s private label mortgage backed and other private label mortgage-related securities range from “speculative” to “default” at September 30, 2011.

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

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Beginning balance	\$7,705	\$13,115	\$9,757	\$17,266
Reversal of interest reserve	(62)	-	(341)	-
Realized pass through of actual losses	(2,346)	(2,304)	(4,398)	(6,581)
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized	-	-	279	126
Ending balance, September 30	\$5,297	\$10,811	\$5,297	\$10,811

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

Pledged Investment Securities

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

(in thousands)	September 30, 2011	December 31, 2010
Carrying amount	\$ 432,708	\$ 420,999
Fair value	443,055	430,445

3. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the loan portfolio follows:

(in thousands)	September 30, 2011	December 31, 2010
Residential Real Estate:		
Owner Occupied	\$ 936,750	\$ 918,407
Non Owner Occupied	102,596	126,404
Commercial Real Estate	647,676	640,872
Commercial Real Estate - Purchased Whole Loans	32,783	-
Real Estate Construction	66,578	68,701
Commercial	111,295	108,720
Warehouse Lines of Credit	17,324	-
Home Equity	287,119	289,945
Consumer:		
Credit Cards	7,858	8,213

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

Overdrafts	710	901
Other Consumer	9,227	13,077
Total Loans	2,219,916	2,175,240
Less: Allowance for Loan Losses	23,945	23,079
Loans, Net	\$ 2,195,971	\$ 2,152,161

Banking Center Divestiture:

In May 2011, RB&T, entered into a definitive agreement to sell its banking center located in Bowling Green, Kentucky to Citizens First Bank, Inc. ("Citizens"). This transaction was closed on September 30, 2011. In addition to other items, Citizens acquired \$13 million, or approximately one-half, of the outstanding loans of RB&T's Bowling Green banking center.

Credit Quality Indicators:

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

For new and renewed commercial and commercial real estate loans, the Bank's Credit Administration Department, which acts independently of the loan officer, assigns the credit quality grade to the loan. Loan grades for new commercial and commercial real estate loans with an aggregate credit exposure of \$1,500,000 or greater are validated by the Senior Loan Committee ("SLC"). Loan grades for renewed commercial and commercial real estate loans with an aggregate credit exposure of \$2,000,000 or greater, are also validated by the SLC.

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

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

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

Monthly, members of senior management along with managers of Commercial Lending, Commercial Credit Administration and Special Asset and Retail Collections attend a Special Asset Committee ("SAC") meeting. The SAC reviews all commercial and commercial real estate past due, classified, and impaired loans in excess of \$100,000 and discusses the relative trends and current status of these assets. In addition, the SAC reviews all retail single 1-4 residential real estate loans exceeding \$750,000 and all home equity loans exceeding \$100,000 that are 80-days or more past due or that are on non-accrual status. SAC also reviews the actions taken by management regarding foreclosure mitigation, loan extensions, troubled debt restructures and collateral repossessions. Based on the information reviewed in this meeting, the SAC approves all specific loan loss allocations to be recognized by the Bank within its Allowance for Loan Loss analysis.

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

On at least an annual basis, the Bank analyzes all aggregate lending relationships with outstanding balances greater than \$1 million that are internally classified as "Special Mention," "Substandard," "Doubtful" or "Loss." In addition, for all "Pass" rated loans, the Bank analyzes, on at least an annual basis, all aggregate lending relationships with outstanding

balances exceeding \$4 million.

17

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

September 30, 2011 (in thousands)	Pass	Special Mention	Substandard	Doubtful / Loss	Total Rated Loans
Residential Real Estate:					
Owner Occupied	\$-	\$1,192	\$12,499	\$-	\$13,691
Non Owner Occupied	-	2,626	2,537	-	5,163
Commercial Real Estate	609,014	26,040	12,622	-	647,676
Commercial Real Estate - Purchased Whol Loans	32,783	-	-	-	32,783
Real Estate Construction	52,822	3,692	10,064	-	66,578
Commercial	106,692	4,304	299	-	111,295
Warehouse Lines of Credit	17,324	-	-	-	17,324
Home Equity	-	-	3,423	-	3,423
Consumer:					
Credit Cards	-	-	-	-	-
Overdrafts	-	-	-	-	-
Other Consumer	-	-	10	-	10
Total	\$818,635	\$37,854	\$41,454	\$-	\$897,943

December 31, 2010 (in thousands)	Pass	Special Mention	Substandard	Doubtful/ Loss	Total Rated Loans
Residential Real Estate:					
Owner Occupied	\$ -	\$ 1,017	\$ 11,925	\$ -	\$ 12,942
Non Owner Occupied	-	3,288	1,095	-	4,383
Commercial Real Estate	592,957	33,802	14,113	-	640,872
Real Estate Construction	51,173	11,340	6,188	-	68,701
Commercial	103,489	4,807	424	-	108,720
Home Equity	-	-	4,495	-	4,495
Consumer:					
Credit Cards	-	-	-	-	-
Overdrafts	-	-	-	-	-
Other Consumer	-	-	5	-	5
Total	\$ 747,619	\$ 54,254	\$ 38,245	\$ -	\$ 840,118

Activity in the allowance for loan losses follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Allowance for loan losses at beginning of period	\$25,931	\$26,659	\$23,079	\$22,879
Charge offs - Traditional Banking	(2,975)	(4,057)	(6,142)	(8,451)
Charge offs - Tax Refund Solutions	(6)	-	(15,484)	(14,584)
Total charge offs	(2,981)	(4,057)	(21,626)	(23,035)
Recoveries - Traditional Banking	442	238	1,554	636
Recoveries - Tax Refund Solutions	693	3,530	3,435	6,120
Total recoveries	1,135	3,768	4,989	6,756
Net loan charge offs/recoveries - Traditional Banking	(2,533)	(3,819)	(4,588)	(7,815)
Net loan charge offs/recoveries - Tax Refund Solutions	687	3,530	(12,049)	(8,464)
Net loan charge offs/recoveries	(1,846)	(289)	(16,637)	(16,279)
Provision for loan losses - Traditional Banking	547	1,726	5,454	9,502
Provision for loan losses - Tax Refund Solutions	(687)	(3,530)	12,049	8,464
Total provision for loan losses	(140)	(1,804)	17,503	17,966
Allowance for loan losses at end of period	\$23,945	\$24,566	\$23,945	\$24,566

The following table presents the activity in the allowance for loan losses by portfolio segment for the nine months ended September 30, 2011:

September 30, 2011 (in thousands)	Residential Real Estate		Commercial Real Estate - Real			Warehouse Lines of Credit		Home Equity
	Owner Occupied	Non Owner Occupied	Commercial Real Estate	Purchased Whole Loans	Real Estate Construction	Commercial	Credit	
	Beginning balance	\$ 3,775	\$ 1,507	\$ 7,214	\$ -	\$ 2,612	\$ 1,347	
Provision for loan losses	2,372	192	1,512	-	1,083	(322)	43	555
Loans charged off	(1,699)	(512)	(1,081)	-	(823)	(100)	-	(1,043)
Recoveries	186	4	284	-	231	125	-	100
Ending Balance	\$ 4,634	\$ 1,191	\$ 7,929	\$ -	\$ 3,103	\$ 1,050	\$ 43	\$ 3,193

September 30, 2011 (in thousands)	Consumer					Total
	Tax Refund Solutions	Credit Cards	Overdrafts	Other Consumer	Unallocated	
	Beginning balance	\$ -	\$ 492	\$ 125	\$ 461	
	12,049	114	67	(162)	-	17,503

Provision for loan losses						
Loans charged off	(15,484)	(172)	(486)	(226)	-	(21,626)
Recoveries	3,435	24	395	205	-	4,989
Ending Balance	\$ -	\$ 458	\$ 101	\$ 278	\$ 1,965	\$ 23,945

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

(in thousands)	September 30, 2011	December 31, 2010
Loans on non-accrual status	\$ 23,822	\$ 28,317
Loans past due 90 days or more and still on accrual	-	-
Total non-performing loans	23,822	28,317
Other real estate owned	11,185	11,969
Total non-performing assets	\$ 35,007	\$ 40,286

Total Company Credit Quality Ratios:

Non-performing loans to total loans	1.07	%	1.30	%
Non-performing assets to total loans (including OREO)	1.57	%	1.84	%
Non-performing assets to total assets	1.13	%	1.11	%

Traditional Banking Credit Quality Ratios:

Non-performing loans to total loans	1.07	%	1.30	%
Non-performing assets to total loans (including OREO)	1.57	%	1.84	%
Non-performing assets to total assets	1.14	%	1.32	%

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

(in thousands)	September 30, 2011		December 31, 2010	
	Non accrual	Loans Past Due 90 Days or More and Still Accruing Interest	Non accrual	Loans Past Due 90 Days or More and Still Accruing Interest
Residential Real Estate:				
Owner Occupied	\$ 11,701	\$ -	\$ 13,356	\$ -
Non Owner Occupied	1,681	-	1,880	-
Commercial Real Estate	4,054	-	6,265	-
Commercial Real Estate - Purchased Whole Loans	-	-	-	-
Real Estate Construction	2,641	-	3,682	-
Commercial	300	-	323	-
Warehouse Lines of Credit	-	-	-	-
Home Equity	3,380	-	2,734	-

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

Consumer:		-		-
Credit Cards	-	-	-	-
Overdrafts	-	-	-	-
Other Consumer	65	-	77	-
Total	\$ 23,822	\$ -	\$ 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
September 30, 2011 (in thousands)				
Residential Real Estate:				
Owner Occupied	\$ 4,511	\$ 1,699	\$ 6,221	\$ 12,431
Non Owner Occupied	103	-	958	1,061
Commercial Real Estate	141	-	1,486	1,627
Commercial Real Estate - Purchased Loans	-	-	-	-
Real Estate Construction	-	-	541	541
Commercial	21	-	14	35
Warehouse Lines of Credit	-	-	-	-
Home Equity	983	281	2,656	3,920
Consumer:				
Credit Cards	25	22	-	47
Overdrafts	207	-	-	207
Other Consumer	34	12	2	48
Total	\$ 6,025	\$ 2,014	\$ 11,878	\$ 19,917
	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

All loans greater than 90 days past due or more as of September 30, 2011 and December 31, 2010 were on non accrual status.

Republic defines impaired loans as follows:

All loans internally classified as “doubtful” or “loss;”

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

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

All non classified retail and commercial loan 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.

See the section titled “Credit Quality Indicators” below for additional discussion regarding the Company’s loan
classification structure.

Information regarding Republic's impaired loans follows:

(in thousands)	September 30, 2011	December 31, 2010
Impaired loans with no allocated allowance for loan losses	\$ 20,111	\$ 14,141
Impaired loans with allocated allowance for loan losses	35,631	30,945
 Total impaired loans	 \$ 55,742	 \$ 45,086
 Amount of the allowance for loan losses allocated	 \$ 6,327	 \$ 4,284

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

September 30, 2011 (in thousands)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
				Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:							
Residential Real Estate:							
Owner Occupied	\$ 16,465	\$ 16,465	\$ -	\$ 14,792	\$ 278	\$ 12,199	\$ 423
Non Owner Occupied	690	267	-	262	-	329	-
Commercial Real Estate	1,044	978	-	4,024	8	2,761	11
Commercial Real Estate - Purchased Loans	-	-	-	-	-	-	-
Real Estate Construction	906	707	-	921	-	1,487	-
Commercial Warehouse Lines of Credit	1,213	1,213	-	1,213	12	1,213	37
Home Equity Consumer:	-	-	-	-	-	-	-
Credit Cards	617	481	-	631	2	316	6
Overdrafts	-	-	-	-	-	-	-
Other Consumer	-	-	-	-	-	-	-
Impaired loans with an allowance recorded:							
Residential Real Estate:							
Owner Occupied	2,792	2,792	1,045	3,187	10	1,981	21
Non Owner Occupied	1,882	1,882	361	1,817	3	1,963	11
Commercial Real Estate	16,596	16,188	1,820	15,176	199	17,389	569
Commercial Real Estate - Purchased Loans	-	-	-	-	-	-	-
Real Estate Construction	10,715	9,735	2,149	9,780	77	7,753	227
Commercial	3,009	3,009	99	3,138	32	3,460	92
	-	-	-	-	-	-	-

Warehouse Lines of Credit							
Home Equity	2,025	2,025	853	1,666	-	833	-
Consumer:							
Credit Cards	-	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-	-
Other Consumer	-	-	-	-	-	-	-
Total impaired loans	57,954	55,742	6,327	56,607	621	51,684	1,397
Loans collectively evaluated for impairment:							
Residential Real Estate:							
Owner Occupied	917,493	917,493	3,589				
Non Owner Occupied	100,447	100,447	830				
Commercial Real Estate:							
Commercial Real Estate - Purchased	630,510	630,510	6,109				
Loans	32,783	32,783	-				
Real Estate Construction	56,136	56,136	954				
Commercial	107,073	107,073	951				
Warehouse Lines of Credit	17,324	17,324	43				
Home Equity	284,613	284,613	2,340				
Consumer:							
Credit Cards	7,858	7,858	458				
Overdrafts	710	710	101				
Other Consumer	9,227	9,227	278				
Unallocated allowance for loan losses	-	-	1,965				
Total non impaired loans	2,164,174	2,164,174	17,618				
Grand total	\$ 2,222,128	\$ 2,219,916	\$ 23,945				

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	909,523	909,523	4,724
Non Owner Occupied	123,642	123,642	11
Commercial Real Estate	618,830	618,830	5,241
Real Estate Construction	62,290	62,290	1,294
Commercial	103,733	103,733	900
Home Equity	289,945	289,945	3,581
Consumer:			
Credit Cards	8,213	8,213	492
Overdrafts	901	901	126
Other Consumer	13,077	13,077	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

For the three and nine months ended September 30, 2011, the Company did not recognize any interest income under the cash-basis method of accounting for impaired loans.

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 Bank's residential real estate TDRs involve reducing the client's loan payment through a rate reduction for a set period of time based on the borrower's ability to service the modified loan payment. The majority of the Bank's commercial related and construction TDRs involve a restructuring of loan terms such as a 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.

Approximately \$29 million in TDRs were added in 2011, with approximately \$12 million consisting of four relationships. Of the \$29 million in TDR additions, approximately \$16 million were added during the third quarter of 2011, the majority of which were on accrual status.

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

September 30, 2011 (in thousands)	TDRs on Non-Accrual Status	TDRs on Accrual Status	Total TDRs
Residential real estate	\$ 2,493	\$ 17,911	\$ 20,404
Commercial real estate	3,777	9,610	13,387
Real estate construction	2,521	7,921	10,442
Commercial	-	4,222	4,222
Total TDRs	\$ 8,791	\$ 39,664	\$ 48,455

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 Company considers an impaired loan to be performing to its modified terms if the loan is not past due 30 days or more as of the reporting date

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

September 30, 2011 (in thousands)	TDRs	TDRs Not	Total
	Performing to Modified Terms	Performing to Modified Terms	
Residential real estate loans:			
Interest only payments for 6-12 months	\$ 6,064	\$ 161	\$ 6,225
Rate reduction	12,751	1,088	13,839
Forbearance for 3-6 months	-	-	-
Extension or other modification	-	340	340
Total residential TDRs	18,815	1,589	20,404
Commerical related and construction loans:			
Interest only payments for 6 - 12 months	6,124	-	6,124
Interest only payments for 36 months	4,208	-	4,208
Rate reduction	340	114	454
Forbearance for 3-6 months	924	-	924
Extension or other modification	14,911	1,430	16,341
Total commercial TDRs	26,507	1,544	28,051
Total TDRs	\$ 45,322	\$ 3,133	\$ 48,455

December 31, 2010 (in thousands)	TDRs	TDRs Not	Total
	Performing to Modified Terms	Performing to Modified Terms	
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 September 30, 2011 and December 31, 2010, 94% and 95% of the Bank's TDRs were performing according to their modified terms. The Bank allocated \$4.7 million and \$2.8 million of specific reserves to customers whose loan terms have been modified in TDRs as of September 30, 2011 and December 31, 2010. Specific reserve allocations 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 allocated for as part of the Bank's normal loan loss provisioning methodology. The Bank has not committed to lend any additional material amounts to its existing TDR relationships at September 30, 2011.

A summary of the types of TDR loan modifications that occurred during the first nine months of 2011 were as follows:

(in thousands)	TDRs Performing to Modified	TDRs Not Performing to Modified	Total
	Terms	Terms	TDRs
Residential real estate loans:			
Interest only payments for 6-12 months	\$ 4,689	\$ -	\$ 4,689
Rate reduction	12,499	1,088	13,587
Total residential TDRs	17,188	1,088	18,276
Commerical related and construction loans:			
Interest only payments for 6 - 12 months	1,907	-	1,907
Extension or other modification	9,171	-	9,171
Total commercial TDRs	11,078	-	11,078
Total TDRs	\$ 28,266	\$ 1,088	\$ 29,354

As of September 30, 2011, 96% of the Bank's TDRs that occurred during the first nine months of 2011 were performing according to their modified terms. The Bank had allocated \$2.9 million in specific reserves to customers whose loan terms were modified in TDRs during the first nine months of 2011. As stated above, 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 Bank's normal reserving methodology.

During the previous twelve months, approximately \$333,000 retail and \$392,000 commercial TDRs have gone delinquent and defaulted on their restructured terms during the period.

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 September 30, 2011 and December 31, 2010, \$9 million and \$5 million, respectively of TDRs were classified as non-performing loans.

RAL Loss Reserves and Provision for Loan Losses:

Substantially all RALs issued by RB&T 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 RB&T 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, RB&T also incurs losses as a result of tax debts not previously disclosed during its underwriting process.

At March 31st of each year, RB&T 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 RB&T's internal RAL underwriting criteria applied against prior years' customer data, and the subjective experience of RB&T management. RALs outstanding 30 days or longer 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 meaningful part of the overall underwriting for the product. Without the DI, as expected, RB&T experienced 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 RB&T's RAL losses in 2011 resulted 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 of September 30, 2011 and 2010, \$14.8 million and \$11.0 million of total RALs originated remained uncollected, representing 1.43% and 0.37% of total gross RALs originated during the respective tax years by RB&T. Substantially all of these loans were charged off as of June 30, 2011 and 2010.

For the quarter ended September 30, 2011 and 2010, the TRS provision for loan losses was a net credit of \$687,000 and a net credit of \$3.5 million. The net credit in both periods resulted from better than previously projected paydowns within RB&T's Refund Anticipation Loan ("RAL") portfolio. Management was able to estimate its 2011 TRS provision for loan losses with greater precision than its 2010 estimate, in part, because of the 66% strategic reduction in RAL dollar volume from 2010 to 2011. Management expects the actual loss rate realized will be less than the current uncollected amount, as RB&T will continue to receive payments from the IRS throughout the year and make other collection efforts to obtain repayment on the RALs.

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”

Part II Item 1A “Risk Factors”

4. DEPOSITS

Ending deposit balances at September 30, 2011 and December 31, 2010 were as follows:

(in thousands)	September 30, 2011	December 31, 2010
Demand (NOW and SuperNOW)	\$ 570,640	\$ 298,452
Money market accounts	448,161	637,557
Brokered money market accounts	14,739	513
Savings	42,315	38,661
Individual retirement accounts*	31,764	34,129
Time deposits, \$100,000 and over*	89,857	152,891
Other certificates of deposit*	109,935	127,156
Brokered certificates of deposit*	109,476	687,958
Total interest-bearing deposits	1,416,887	1,977,317
Total non interest-bearing deposits	385,511	325,375
Total deposits	\$ 1,802,398	\$ 2,302,692

(*) - Represents a time deposit.

Total demand (NOW and SuperNOW) accounts increased \$272 million during 2011, while money market accounts declined \$190 million during the same period. Approximately \$195 million of the change between categories occurred during the third quarter and was directly related to provisions within the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act"). As a result of this Act, which removed the prohibition on payments of interest on demand accounts as of July 21, 2011, a substantial majority of the Bank's corporate money market relationships were converted into transactional NOW accounts.

In May 2011, RB&T, entered into a definitive agreement to sell its banking center located in Bowling Green, Kentucky to Citizens. This transaction closed on September 30, 2011. In addition to other items, Citizens assumed all deposits of its Bowling Green banking center, or approximately \$33 million. The Company recognized a pre-tax net gain on sale for the entire transaction of \$2.9 million.

During the fourth quarter of 2010, RB&T 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, RB&T 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 3 "Loans and Allowance for Loan Losses"
- 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 September 30, 2011 and December 31, 2010, FHLB advances outstanding were as follows:

(in thousands)	September 30, 2011	December 31, 2010
Overnight FHLB borrowings with a interest rate of 0.04%	\$ 15,000	\$ -
Putable fixed interest rate advances with a weighted average interest rate of 4.36%(1)	120,000	150,000
Fixed interest rate advances with a weighted average interest rate of 3.14% due through 2019	389,731	414,877
Total FHLB advances	\$ 524,731	\$ 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 Bank earlier by the FHLB. At the end of their respective fixed rate periods and on a quarterly basis thereafter, the FHLB has the right to require payoff of the advances by the Bank at no penalty. Based on market conditions at this time, the Bank does not believe that any of its putable advances are likely to be “put back” to the Bank in the short-term by the FHLB.

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At September 30, 2011, Republic had available collateral to borrow an additional \$333 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	\$ 35,000
2012	85,000
2013	91,000
2014	178,000
2015	10,000
Thereafter	125,731
Total	\$ 524,731

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

(in thousands)	September 30, 2011	December 31, 2010
----------------	-----------------------	----------------------

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

First lien, single family residential real estate	\$	655,566	\$	697,535
Home equity lines of credit		61,945		36,106
Multi-family commercial real estate		10,526		14,332

32

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

Securities available for sale: For all securities available for sale, excluding 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 Bank's three private label mortgage backed securities and one private label mortgage-related security remain extremely illiquid, and as such, the Bank classifies these securities as Level 3 securities in accordance with FASB ASC topic 820, "Fair Value Measurements and Disclosures." Based on this determination, the Bank utilized an income valuation model (present value model) approach, in determining the fair value of these securities.

See Footnote 2 "Investment Securities" for additional discussion regarding the Bank'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 Bank's derivative instruments is primarily measured by obtaining pricing from broker-dealers recognized to be market participants. The pricing is derived from market observable inputs that can generally be verified and do not typically involve significant judgment by the Bank. Forward contracts and rate lock loan commitments are classified as Level 2 in the fair value hierarchy.

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 Bank 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 Bank has elected the fair value option, are summarized below:

	Fair Value Measurements at September 30, 2011 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
(in thousands)				
Securities available for sale:				
U.S. Treasury securities and U.S. Government agencies	\$ -	\$ 148,437	\$ -	\$ 148,437
Private label mortgage backed and other private label mortgage-related securities	-	-	4,543	4,543
Mortgage backed securities - residential	-	312,468	-	312,468
Collateralized mortgage obligations	-	207,323	-	207,323
Total securities available for sale	\$ -	\$ 668,228	\$ 4,543	\$ 672,771
Mandatory forward contracts	\$ -	\$ 30,548	\$ -	\$ 30,548
Rate lock loan commitments	-	29,255	-	29,255
Mortgage loans held for sale	-	4,721	-	4,721
Mortgage servicing rights	-	4,361	-	4,361

	Fair Value Measurements at December 31, 2010 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
(in thousands)				
Securities available for sale:				

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

U.S. Treasury securities and U.S. Government agencies	\$ -	\$ 120,297	\$ -	\$ 120,297
Private label mortgage backed and other private label mortgage-related securities	-	-	5,124	5,124
Mortgage backed securities - residential	-	158,677	-	158,677
Collateralized mortgage obligations	-	225,657	-	225,657
Total securities available for sale	\$ -	\$ 504,631	\$ 5,124	\$ 509,755
Mandatory forward contracts	\$ -	\$ 25,868	\$ -	\$ 25,868
Rate lock loan commitments	-	10,894	-	10,894
Mortgage loans held for sale	-	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 September 30, 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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Balance, beginning of period	\$ 4,402	\$ 5,566	\$ 5,124	\$ 5,901
Total gains or losses included in earnings:				
Net impairment loss recognized in earnings	-	-	(279)	(126)
Net change in unrealized gain / (loss)	2,628	2,430	4,595	7,330
Realized pass through of actual losses	(2,346)	(2,304)	(4,398)	(6,581)
Principal paydowns	(141)	(328)	(499)	(1,160)
Balance, end of period	\$ 4,543	\$ 5,364	\$ 4,543	\$ 5,364

There were no transfers into or out of Level 3 assets during the three and nine months ended September 30, 2011 and 2010.

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

(in thousands)	Carrying Value	Fair Value Measurements at September 30, 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	\$ 455	\$ -	\$ -	\$ 411	\$ 411	
Non Owner Occupied	695	-	-	582	582	
Commercial Real Estate	3,778	-	-	3,207	3,207	
Real Estate Construction	-	-	-	-	-	
Commercial Home equity	2,358	-	-	1,505	1,505	

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

Total impaired loans *	\$ 7,286	\$ -	\$ -	\$ 5,705	\$ 5,705
Other real estate owned:					
Residential Real Estate:					
Owner Occupied	\$ 3,421	\$ -	\$ -	\$ 3,421	\$ 3,421
Non Owner Occupied	802	-	-	802	802
Commercial Real Estate	2,202	-	-	2,202	2,202
Real Estate Construction	4,760	-	-	4,760	4,760
Total other real estate owned	\$ 11,185	\$ -	\$ -	\$ 11,185	\$ 11,185

Fair Value Measurements at
December 31, 2010 Using:

(in thousands)	Carrying Value	Quoted	Significant		Total Fair Value
		Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans:					
Residential Real Estate:					
Owner Occupied	\$ 323	\$ -	\$ -	\$ 298	\$ 298
Non Owner Occupied	859	-	-	668	668
Commercial Real Estate	8,339	-	-	7,533	7,533
Real Estate Construction	3,052	-	-	2,767	2,767
Commercial	282	-	-	82	82
Total impaired loans*	\$ 12,855	\$ -	\$ -	\$ 11,348	\$ 11,348
Other real estate owned:					
Residential Real Estate:					
Owner Occupied	\$ 2,832	\$ -	\$ -	\$ 2,832	\$ 2,832
Non Owner Occupied	1,101	-	-	1,101	1,101
Commercial Real Estate	3,735	-	-	3,735	3,735
Real Estate Construction	4,301	-	-	4,301	4,301
Total other real estate owned	\$ 11,969	\$ -	\$ -	\$ 11,969	\$ 11,969

* - The impaired loan balances in the preceding two tables excludes TDRs where the impairment was determined by measuring the present value of future cashflows. The difference between the carrying value and the fair value represents loss reserves recorded within the allowance for loan losses in accordance with ASC 310-10-35.

The Bank 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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net impairment loss recognized in earnings	\$ -	\$ -	\$ 279	\$ 126

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

Collateral dependent impaired loans are generally measured for impairment using the fair market value for reasonable disposition of the underlying collateral. The Company's practice is to obtain new or updated appraisals on the loans subject to the initial impairment review and then to evaluate the need for an update to this value on an as necessary or possibly annual basis thereafter (depending on the market conditions impacting the value of the collateral). The Company may discount the appraisal amount as necessary for selling costs and past due real estate taxes. If a new or

updated appraisal is not available at the time of a loan's impairment review, the Company may apply a discount to the existing value of an old appraisal to reflect the property's current estimated value if it is believed to have deteriorated in either: (i) the physical or economic aspects of the subject property or (ii) material changes in market conditions. The results of the impairment review results in an increase in the allowance for loan loss or in a partial charge-off of the loan, if warranted. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

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

(in thousands)	September 30, 2011	December 31, 2010
Carrying amount of loans with a valuation allowance	\$ 5,373	\$ 9,472
Valuation allowance	1,581	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 September 30, 2011 and December 31, 2010, the carrying value of other real estate owned was \$11 million and \$12 million, respectively. The fair value of the Bank's other real estate owned properties exceeded their carrying value at September 30, 2011 and December 31, 2010.

Detail of other real estate owned write downs follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Other real estate owned write-downs	\$ 236	\$ 389	\$ 463	\$ 993

Mortgage servicing rights ("MSR"s) are carried at lower of cost or fair value. The Company recorded a \$203,000 MSR valuation as of September 30, 2011. No MSR valuation allowance existed at December 31, 2010.

The carrying amounts and estimated fair values of financial instruments, at September 30, 2011 and December 31, 2010 follows:

(in thousands)	September 30, 2011		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	\$ 75,573	\$ 75,573	\$ 786,371	\$ 786,371
Securities available for sale	672,771	672,771	509,755	509,755
Securities to be held to maturity	29,371	29,707	32,939	33,824
Mortgage loans held for sale	4,721	4,721	15,228	15,228
Loans, net	2,195,971	2,285,095	2,152,161	2,209,717
Federal Home Loan Bank stock	26,153	26,153	26,212	26,212
Accrued interest receivable	9,725	9,725	9,472	9,472
Liabilities:				
Non interest-bearing deposit accounts	385,511	385,511	325,375	325,375
Transaction deposit accounts	1,075,855	1,075,855	975,183	975,183
Time deposits	341,032	360,028	1,002,134	1,004,511
Securities sold under agreements to repurchase and other short-term borrowings	227,504	227,504	319,246	319,246
Federal Home Loan Bank advances	524,731	547,301	564,877	586,737
Subordinated note	41,240	41,159	41,240	41,150
Accrued interest payable	1,804	1,804	2,377	2,377

The methods and assumptions used to estimate the fair value of all previously undisclosed financial instruments 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 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 September 30, 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:

September 30, (in thousands)	2011	2010
Balance, January 1	\$ 15,228	\$ 5,445
Origination of mortgage loans held for sale	93,052	196,853
Proceeds from the sale of mortgage loans held for sale	(106,535)	(200,645)
Net gain on sale of mortgage loans held for sale	2,976	4,130
Balance, September 30	\$ 4,721	\$ 5,783

Mortgage banking activities primarily include the origination of residential mortgage loans sold into the secondary market and the servicing component related to these loans. The following table presents the components of Mortgage Banking income:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net gain on sale of mortgage loans held for sale	\$1,511	\$1,954	\$2,976	\$4,130
Change in mortgage servicing rights valuation allowance	(203)	(157)	(203)	(157)
Loan servicing income, net of amortization	44	(118)	319	121
Total mortgage banking income	\$1,352	\$1,679	\$3,092	\$4,094

Activity for capitalized mortgage servicing rights was as follows:

September 30, (in thousands)	2011	2010
Balance, January 1	\$ 7,800	\$ 8,430
Additions	924	1,818
Amortized to expense	(1,833)	(2,190)
Change in valuation allowance	(203)	(157)
Balance, September 30	\$ 6,688	\$ 7,901

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

September 30, (in thousands)	2011	2010
Balance, January 1	\$ -	\$ -
Additions	(203)	(157)
Reductions credited to operations	-	-
Direct write downs	-	-

Balance, September 30 \$ (203) \$ (157)

Other information relating to mortgage servicing rights follows:

(in thousands)	September 30, 2011	December 31, 2010
Fair value of mortgage servicing rights portfolio	\$ 7,461	\$ 9,967
Discount rate	9 %	9 %
Prepayment speed range	220% - 405 %	137% - 550 %
Weighted average default rate	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 following tables include the notional amounts and realized gain (loss) for Mortgage Banking derivatives recognized in Mortgage Banking income as of September 30, 2011 and December 31, 2010:

(in thousands)	September 30, 2011	December 31, 2010
Mandatory forward contracts:		
Notional amount	\$ 30,703	\$ 25,591
Change in fair value of mandatory forward contracts	(155)	277
Rate lock loan commitments:		
Notional amount	\$ 29,159	\$ 11,091
Change in fair value of rate lock loan commitments	66	(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 Bank 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 Bank is exposed to interest rate risk on loans held for sale and rate lock loan commitments. As market interest rates fluctuate, the fair value of mortgage loans held for sale and rate lock commitments will decline or increase. To offset this interest rate risk, the Bank enters into derivatives such as mandatory forward contracts to sell loans. The fair value of these mandatory forward contracts will fluctuate as market interest rates fluctuate, and the change in the value of these instruments is expected to largely, though not entirely, offset the change in fair value of loans held for sale and rate lock commitments. The objective of this activity is to minimize the exposure to losses on rate loan lock commitments and loans held for sale due to market interest rate fluctuations. The net effect of derivatives on earnings will depend on risk management activities and a variety of other factors, including market interest rate volatility, the amount of rate lock commitments that close, the ability to fill the forward contracts before expiration, and the time period required to close and sell loans.

8. OFF BALANCE SHEET RISKS, COMMITMENTS AND CONTINGENT LIABILITIES

RB&T is subject to a \$2 million Civil Money Penalty (“CMP”), which was assessed by the FDIC during the second quarter of 2011 as part of the Amended Notice of Charges for an Order to Cease and Desist; Notice of Assessment of Civil Money Penalties, Findings of Fact and Conclusions of Law; Order to Pay; and Notice of Hearing (the “Amended Notice”). RB&T believes the charges, which resulted in the CMP, are without merit and intends to vigorously defend its right to offer a legal product to those who wish to purchase the product. RB&T is appealing the CMP as part of the Administrative Law Judge (“ALJ”) hearing process with the FDIC that is currently scheduled to begin on February 6, 2012. Historically, ALJs and the FDIC Board of Directors have found in favor of the FDIC in such proceedings. As a result, management believes the ultimate payment of all or a material portion of the CMP is probable, and as such, RB&T recorded a \$2 million liability as of June 30, 2011. For additional discussion regarding the Amended Notice, see Exhibits 99.1 and 99.2 of the Company’s Form 8-K filed with the SEC on May 5, 2011.

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 10 “Segment Information”
- o Footnote 11 “Regulatory Matters”

Part II Item 1A “Risk Factors”

On August 1, 2011, a lawsuit was filed in the United States District Court for the Western District of Kentucky styled Brenda Webb vs. Republic Bank & Trust Company d/b/a Republic Bank, Civil Action No. 3:11-CV-00423-TBR. The Complaint was brought as a putative class action and seeks monetary damages, restitution and declaratory relief allegedly arising from the manner in which RB&T assessed overdraft fees. In the Complaint, the Plaintiff pleads six claims against RB&T alleging: breach of contract and breach of the covenant of good faith and fair dealing (Count I), unconscionability (Count II), conversion (Count III), unjust enrichment (Count IV), violation of the Electronic Funds Transfer Act and Regulation E (Count V), and violations of the Kentucky Consumer Protection Act, KRS §367, et seq. (Count VI). Management is evaluating the claims of this lawsuit and is unable to estimate the possible loss or range of possible loss, if any, that may result from this lawsuit. RB&T intends to vigorously defend this case. An earlier, identical suit by the same plaintiff was filed on July 19, 2011 in the United States District Court for the Middle District for Florida styled Brenda Webb vs. Republic Bank & Trust Company d/b/a Republic Bank, Civil Action No. 2:11-CV-00405-JES-SPC. The plaintiff dismissed that suit without prejudice on August 2, 2011.

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 September 30, 2011, exclusive of Mortgage Banking loan commitments, the Bank had outstanding loan commitments of \$463 million, which included unfunded home equity lines of credit totaling \$233 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 September 30, 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 September 30, 2011 and December 31, 2010, the Bank had \$12 million letter of credit from the FHLB issued on behalf of two RB&T clients. These letters of credit were used as credit enhancements for client bond offerings and reduced RB&T's available borrowing line at the FHLB. The Bank uses a blanket pledge of eligible real estate loans to secure these letters of credit.

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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	\$ 7,870	\$ 7,310	\$ 87,945	\$ 60,335
Weighted average shares outstanding	20,953	20,917	20,942	20,857
Effect of dilutive securities	41	71	50	88
Average shares outstanding including dilutive securities	20,994	20,988	20,992	20,945
Basic earnings per share:				
Class A Common Share	\$ 0.38	\$ 0.35	\$ 4.20	\$ 2.90
Class B Common Share	0.36	0.34	4.16	2.86
Diluted earnings per share:				
Class A Common Share	\$ 0.38	\$ 0.35	\$ 4.19	\$ 2.89
Class B Common Share	0.36	0.34	4.15	2.85

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Antidilutive stock options	600,676	610,857	605,676	634,497

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”

Part II Item 1A “Risk Factors”

Segment information for the three and nine months ended September 30, 2011 and 2010 follows:

Three Months Ended September 30, 2011

(dollars in thousands)	Traditional Banking	Tax Refund Solutions	Mortgage Banking	Total Company
Net interest income	\$ 27,059	\$ 4	\$ 100	\$ 27,163
Provision for loan losses	547	(687)	-	(140)
Electronic refund check fees	-	425	-	425
Net RAL securitization income	-	5	-	5
Mortgage banking income	-	-	1,352	1,352
Net gain on sales, calls and impairment of securities	301	-	-	301
Other non interest income	8,367	-	26	8,393
Total non interest income	8,668	430	1,378	10,476
Total non interest expenses	22,065	3,668	705	26,438
Gross operating profit (loss)	13,115	(2,547)	773	11,341
Income tax expense (benefit)	4,293	(1,092)	270	3,471
Net income (loss)	\$ 8,822	\$ (1,455)	\$ 503	\$ 7,870
Segment end of period assets	\$ 3,067,504	\$ 15,827	\$ 11,810	\$ 3,095,141
Net interest margin	3.61	% NM	NM	3.60 %

Three Months Ended September 30, 2010

(dollars in thousands)	Traditional Banking	Tax Refund Solutions	Mortgage Banking	Total Company
Net interest income	\$ 26,341	\$ 13	\$ 98	\$ 26,452
Provision for loan losses	1,726	(3,530)	-	(1,804)
Electronic refund check fees	-	293	-	293
Net RAL securitization income	-	8	-	8
Mortgage banking income	-	-	1,679	1,679
Net loss on sales, calls and impairment of securities	-	-	-	-
Other non interest income	5,764	43	36	5,843
Total non interest income	5,764	344	1,715	7,823
Total non interest expenses	22,277	2,279	566	25,122

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

Gross operating profit		8,102		1,608		1,247		10,957
Income tax expense		2,610		600		437		3,647
Net income	\$	5,492		\$ 1,008		\$ 810		\$ 7,310
Segment end of period assets	\$	3,008,349		\$ 13,412		\$ 14,008		\$ 3,035,769
Net interest margin		3.49	%	NM		NM		3.49 %

45

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

Nine Months Ended Sept. 30, 2011

(dollars in thousands)	Traditional Banking	Tax Refund Solutions	Mortgage Banking	Total Company		
Net interest income	\$ 78,580	\$ 59,092	\$ 291	\$ 137,963		
Provision for loan losses	5,454	12,049	-	17,503		
Electronic refund check fees	-	88,071	-	88,071		
Net RAL securitization income	-	203	-	203		
Mortgage banking income	-	-	3,092	3,092		
Net gain on sales, calls and impairment of securities	1,929	-	-	1,929		
Other non interest income	19,663	147	51	19,861		
Total non interest income	21,592	88,421	3,143	113,156		
Total non interest expenses	67,840	27,187	2,755	97,782		
Gross operating profit	26,878	108,277	679	135,834		
Income tax expense	8,263	39,389	237	47,889		
Net income	\$ 18,615	\$ 68,888	\$ 442	\$ 87,945		
Segment end of period assets	\$ 3,067,504	\$ 15,827	\$ 11,810	\$ 3,095,141		
Net interest margin	3.48	%	NM	NM	5.60	%

Nine Months Ended Sept. 30, 2010

(dollars in thousands)	Traditional Banking	Tax Refund Solutions	Mortgage Banking	Total Company
Net interest income	\$ 80,364	\$ 50,729	\$ 284	\$ 131,377
Provision for loan losses	9,502	8,464	-	17,966
Electronic refund check fees	-	58,513	-	58,513
Net RAL securitization income	-	228	-	228
Mortgage banking income	-	-	4,094	4,094
Net loss on sales, calls and impairment of securities	(126)	-	-	(126)
Other non interest income	17,183	53	59	17,295
Total non interest income	17,057	58,794	4,153	80,004
Total non interest expenses	70,567	28,273	2,066	100,906

Gross operating profit		17,352		72,786		2,371		92,509
Income tax expense		5,177		26,167		830		32,174
Net income	\$	12,175		\$ 46,619		\$ 1,541		\$ 60,335
Segment end of period assets	\$	3,008,349		\$ 13,412		\$ 14,008		\$ 3,035,769
Net interest margin		3.62	%	NM		NM		5.08 %

NM – Not Meaningful

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.

In February 2009, RB&T entered into a Stipulation and Consent Agreement with the FDIC agreeing to the issuance of a Cease and Desist Order (the "2009 Order"), predominately related to required improvements and increased oversight of RB&T's compliance management system. For additional discussion regarding the 2009 Order, see Exhibit 10.62 of the Company's Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 6, 2009.

The 2009 Order cited insufficient oversight of RB&T's consumer compliance programs, most notably in RB&T's RAL program. The 2009 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 2009 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 2009 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 2009 Order also required RB&T to correct Home Mortgage Disclosure Act ("HMDA") reporting errors. As a consequence, RB&T made certain corrections to its 2007 and 2006 HMDA reporting. As a result of the errors in its 2007 and 2006 HMDA data and paid a \$22,000 Civil Money Penalty ("CMP") 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. As required by statute, the FDIC referred these alleged Reg B violations to the Department of Justice ("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 its 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.

In February 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. 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 did 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. The FDIC had until May 3, 2011 to amend the Notice if it elected to do so. For additional

discussion regarding the Notice, see Exhibit 10.1 of the Company's Form 8-K filed with the SEC on February 10, 2011.

On May 3, 2011, RB&T received an Amended Notice from the FDIC revising its original Notice referenced in the preceding paragraph. The Amended Notice resulted from conclusions made by the FDIC during a targeted visitation of 250 ERO offices in 36 states, which it conducted on February 15 and 16, 2011. In addition to the allegations contained in the Notice, the Amended Notice alleged violations of the Truth-In-Lending Act, the Equal Credit Opportunity Act, and the Federal Trade Commission Act. The Amended Notice also accused RB&T of, among other things, unsafe or unsound banking practices resulting from its third-party management; unsafe or unsound hindrance, impediment, or interference with a financial institution examination; unsafe or unsound physical security or electronic protection of ERO premises; violations of the Gramm-Leach-Bliley Act and FDIC regulation; and violations of the 2009 Order. Moreover, the Amended Notice included an assessment of a \$2 million CMP. For additional discussion regarding the Amended Notice, see Exhibits 99.1 and 99.2 of the Company's Form 8-K filed with the SEC on May 5, 2011.

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. RB&T’s hearing date was originally set for September 19, 2011, in Louisville, Kentucky. As a result of the issuance of the Amended Notice, the hearing date is now scheduled for February 6, 2012, unless it is subsequently changed by the ALJ. As part of the hearing process, the ALJ will take evidence on the items specified in the Amended Notice and make a recommendation of findings of fact to the FDIC Board of Directors, which may accept, accept in part, or reject the ALJ’s recommendation. There is no statutory timeline in which the ALJ must make a recommendation to the FDIC Board of Directors. The FDIC Board of Directors would have 90 days after the date of the ALJ’s recommendation 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. Filing an appeal would not operate as a stay of the order.

As stated above, RB&T is subject to a \$2 million CMP, which was assessed by the FDIC during the second quarter of 2011 as part of the Amended Notice. In addition to contesting the charges in the Amended Notice, RB&T is also contesting the CMP as part of the ALJ hearing process that is currently scheduled to begin on February 6, 2012. Historically, ALJs and the FDIC Board of Directors have found in favor of the FDIC in such proceedings. As a result, management believes the ultimate payment of all or a material portion of the CMP is probable, and as such, RB&T recorded a \$2 million liability as of June 30, 2011.

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 & 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 timely filed its brief in opposition to the Motion, and the matter remains pending with the Court. 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.

On May 20, 2011, the Court granted the Kentucky Bankers Association’s (the “KBA”) request to participate in the suit as Amicus Curiae. The FDIC filed a motion asking the Court to reverse its approval of the KBA’s participation in the suit as Amicus Curiae. In granting the FDIC’s motion, the Court reserved the right to re-evaluate Amicus Curiae participation by the KBA in the future.

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 10 “Segment Information”

Part II Item 1A “Risk Factors”

12. BRANCH DIVESTITURE

In May 2011, RB&T, entered into a definitive agreement to sell its banking center located in Bowling Green, Kentucky to Citizens First Bank, Inc. (“Citizens”). This transaction was closed on September 30, 2011. The transaction consisted of the following:

Citizens acquired loans totaling \$13 million, representing approximately one-half of the outstanding loans of the banking center.

Citizens assumed all deposits of the Bowling Green banking center, or approximately \$33 million consisting of nearly 3,800 accounts.

Citizens acquired all of the fixed assets of the Bowling Green banking center.

The total pre-tax gain on sale recognized by Republic as a result of the transaction was \$2.9 million.

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 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 Bank's ongoing review of and efforts to resolve possible problem credit relationships, which could result in, among other things, additional provision for loans losses;
- deteriorating credit quality, including changes in the interest rate environment and reducing interest margins;
- the overall adequacy of the allowance for loans losses;
- future short-term and long-term interest rates and the respective impact on net interest margin, net interest spread, net income, liquidity and capital;
- the future 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;

financial services reform and other current, pending or future legislation or regulation that could have a negative effect on the Company's revenue and businesses, including the Dodd-Frank Act and legislation and regulation relating to overdraft fees (and changes to the Company's overdraft practices as a result thereof), debit card interchange fees, credit cards, and other bank services;
future capital expenditures;
the strength of the U.S. economy in general and the strength of the local economies in which the Company conducts operations; 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 Part II Item 1A "Risk Factors."

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 its 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.

In February 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. 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 did 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. The FDIC had until May 3, 2011 to amend the Notice if it elected to do so. For additional discussion regarding the Notice, see Exhibit 10.1 of the Company's Form 8-K filed with the SEC on February 10, 2011.

On May 3, 2011, RB&T received an Amended Notice from the FDIC revising its original Notice referenced in the preceding paragraph. The Amended Notice resulted from conclusions made by the FDIC during a targeted visitation of 250 ERO offices in 36 states, which it conducted on February 15 and 16, 2011. In addition to the allegations contained in the Notice, the Amended Notice alleged violations of the Truth-In-Lending Act, the Equal Credit Opportunity Act, and the Federal Trade Commission Act. The Amended Notice also accused RB&T of, among other things, unsafe or unsound banking practices resulting from its third-party management; unsafe or unsound hindrance, impediment, or interference with a financial institution examination; unsafe or unsound physical security or electronic protection of ERO premises; violations of the Gramm-Leach-Bliley Act and FDIC regulation; and violations of the

2009 Order. Moreover, the Amended Notice included an assessment of a \$2 million Civil Money Penalty (“CMP”). For additional discussion regarding the Amended Notice, see Exhibits 99.1 and 99.2 of the Company’s Form 8-K filed with the SEC on May 5, 2011.

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. RB&T’s hearing date was originally set for September 19, 2011, in Louisville, Kentucky. As a result of the issuance of the Amended Notice, the hearing date is now scheduled for February 6, 2012, unless it is subsequently changed by the ALJ. As part of the hearing process, the ALJ will take evidence on the items specified in the Amended 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. Filing an appeal would not operate as a stay of the order.

As stated above, RB&T is subject to a \$2 million CMP, which was assessed by the FDIC during the second quarter of 2011 as part of the Amended Notice. In addition to contesting the charges in the Amended Notice, RB&T is appealing the CMP as part of the ALJ hearing process. Historically, ALJs and the FDIC Board of Directors have found in favor of the FDIC in such proceedings. As a result, management believes the ultimate payment of all or a material portion of the CMP is probable, and as such, RB&T recorded a \$2 million liability as of June 30, 2011.

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 timely filed its brief in opposition to the Motion, and the matter remains pending with the Court. 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.

On May 20, 2011, the Court granted the Kentucky Bankers Association’s (the “KBA”) request to participate in the suit as Amicus Curiae. The FDIC filed a motion asking the Court to reverse its approval of the KBA’s participation in the suit as Amicus Curiae. In granting the FDIC’s motion, the Court reserved the right to re-evaluate Amicus Curiae participation by the KBA in the future.

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”

Part II Item 1A “Risk Factors”

Branch Divestiture

In May 2011, RB&T, entered into a definitive agreement to sell its banking center located in Bowling Green, Kentucky to Citizens First Bank, Inc. (“Citizens”). This transaction was closed on September 30, 2011. The transaction consisted of the following:

Citizens acquired loans totaling \$13 million, representing approximately one-half of the outstanding loans of the banking center.

Citizens assumed all deposits of the Bowling Green banking center, or approximately \$33 million consisting of nearly 3,800 accounts.

Citizens acquired all of the fixed assets of the Bowling Green banking center.

The total pre-tax gain on sale recognized by Republic as a result of the transaction was \$2.9 million.

See Form 8-K filed with the SEC on June 2, 2011 for additional information related to the sale of the Bowling Green banking center.

BUSINESS SEGMENT COMPOSITION

As of September 30, 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 and nine months ended September 30, 2011 and 2010 are presented below:

(in thousands)	Three Months Ended September 30, 2011			
	Traditional Banking	Tax Refund Solutions	Mortgage Banking	Total Company
Net income (loss)	\$ 8,822	\$ (1,455)	\$ 503	\$ 7,870
Segment assets	3,067,504	15,827	11,810	3,095,141
Net interest margin	3.61 %	NM	NM	3.60 %

(in thousands)	Three Months Ended September 30, 2010			
	Traditional Banking	Tax Refund Solutions	Mortgage Banking	Total Company
Net income	\$ 5,492	\$ 1,008	\$ 810	\$ 7,310
Segment assets	3,008,349	13,412	14,008	3,035,769
Net interest margin	3.49 %	NM	NM	3.49 %

(in thousands)	Nine Months Ended September 30, 2011			
	Traditional Banking	Tax Refund Solutions	Mortgage Banking	Total Company
Net income	\$ 18,615	\$ 68,888	\$ 442	\$ 87,945
Segment assets	3,067,504	15,827	11,810	3,095,141
Net interest margin	3.48 %	NM	NM	5.60 %

(in thousands)	Nine Months Ended September 30, 2010			
	Traditional Banking	Tax Refund Solutions	Mortgage Banking	Total Company
Net income	\$ 12,175	\$ 46,619	\$ 1,541	\$ 60,335
Segment assets	3,008,349	13,412	14,008	3,035,769
Net interest margin	3.62 %	NM	NM	5.08 %

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 September 30, 2011, Republic had 42 full-service banking centers with 34 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 11 banking centers in the following Kentucky cities: Elizabethtown (1); Frankfort (1); Georgetown (1); Lexington, the second largest city in Kentucky (5); Owensboro (2); and Shelbyville (1). RB&T's northern Kentucky market includes banking centers in Covington, Florence and Independence. RB&T also has banking centers located in Floyds Knobs, Jeffersonville and New Albany, Indiana. Republic Bank has locations in Hudson, Palm Harbor, Port Richey and Temple Terrace, Florida, as well as Cincinnati, Ohio.

In June 2011, the Bank commenced business in its newly established warehouse lending division. Through this division, the Bank provides short-term, revolving credit facilities to mortgage bankers secured by single 1-4 family real estate loans. These advances enable the mortgage company customer to close single 1-4 family real estate loans in their own name and temporarily fund their inventory of these closed loans until the loans are sold to investors approved by the Bank. These individual loans are expected to remain on the warehouse line for an average of 15 to 30 days. Interest income and loan fees are accrued for each individual loan during the time the loan remains on the warehouse line and collected when the loan is sold to the secondary market investor. The Bank receives the sale proceeds of each loan directly from the investor and applies the funds to payoff the warehouse advance and related accrued interest and fees. The remaining proceeds are credited to the mortgage banking customer. As of September 30, 2011, the Bank had outstanding loans of \$17 million and two committed lines totaling \$30 million within its warehouse lending division.

(II) 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 Bank 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 Bank. MSRs are capitalized as separate assets. This transaction is posted to net gain on sale of loans, a component of "Mortgage Banking income" in the income statement. Management considers all relevant factors, in addition to pricing considerations from other servicers, to estimate the fair value of the MSRs to be recorded when the loans are initially sold with servicing retained by 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 MSR 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.

Due to the reduction in long-term interest rates during the third quarter of 2011, the fair value of the MSR portfolio declined as prepayment speed assumptions were adjusted upwards resulting in an impairment charge of \$203,000.

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

(III) Tax Refund Solutions (“TRS”) segment

Republic, through its TRS segment business operating 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. TRS’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.

During the nine months ended September 30, 2011, net income from the TRS business operating segment accounted for approximately 78% of the Company’s total net income. Net income associated with RALs represented approximately 34% of the TRS segment’s net income for same period.

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

RALs 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, RB&T historically underwrote the RAL application utilizing the Debt Indicator (“DI”) from the IRS in combination with an automated underwriting model utilizing information contained in the taxpayer’s tax return. The DI, which 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 meaningful 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. In response to loss of access to the DI in 2011, RB&T significantly reduced the maximum RAL amount to \$1,500 for individual customers, raised the RAL offering price to its customers and modified its underwriting and application requirements resulting in fewer RALs approved.

If a consumer’s RAL application is approved, RB&T 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 RB&T. The refund received from the IRS or state taxing authority, if applicable, is used by RB&T 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 RB&T. The funds advanced by RB&T 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.”

RB&T has agreements with Jackson Hewitt Inc. (“JHI”), a subsidiary of Jackson Hewitt Tax Service Inc. (“JH”), and Liberty Tax Service (“Liberty”) to offer RAL and ERC/ERD products. JH and Liberty provide preparation services of federal, state and local individual income tax returns in the U.S. through a nationwide network of franchised and company-owned tax-preparers offices. Approximately 40% and 34% of RB&T’s year to date September 30, 2011 and 2010 TRS gross revenue was derived from JH tax offices with another 20% and 29% from Liberty tax offices for the same respective periods.

Substantially all RALs issued by RB&T 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 RB&T 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, RB&T also incurs losses as a result of tax debts not previously disclosed during its underwriting process.

At March 31st of each year, RB&T 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 RB&T's internal RAL underwriting criteria applied against prior years' customer data, and the subjective experience of RB&T management. RALs outstanding 30 days or longer 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.

TRS Funding – First Quarter 2012 Tax Season

In projecting funding needs for the first quarter 2012 tax season, RB&T expects to once again utilize brokered certificates of deposits and, to a lesser extent, its traditional borrowing lines of credit as its primary RAL funding source. RB&T will begin accumulating funds for its first quarter 2012 tax season during the fourth quarter of 2011. At this time, final RAL volume projections for the first quarter 2012 tax season are not complete; however, management does not currently anticipate overall volume to differ materially from the first quarter 2011 tax season. In addition, given the current interest rate environment, management anticipates being able to obtain funding at similar terms as obtained during the fourth quarter of 2010.

TRS Funding – First Quarter 2011 Tax Season

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

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

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"

Part II Item 1A "Risk Factors"

For additional discussion regarding the 2009 Order, see Exhibit 10.62 of the Company's Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 6, 2009.

For additional discussion regarding the Notice, see Exhibit 10.1 of the Company's Form 8-K filed with the SEC on February 10, 2011.

For additional discussion regarding the Amended Notice, see Exhibits 99.1 and 99.2 of the Company's Form 8-K filed with the SEC on May 5, 2011.

OVERVIEW (Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010)

Net income for the three months ended September 30, 2011 was \$7.9 million, representing an increase of \$560,000, or 8%, compared to the same period in 2010. Diluted earnings per Class A Common Share increased to \$0.38 for the quarter ended September 30, 2011 compared to \$0.35 for the same period in 2010. General highlights for the three months ended September 30, 2011 by business operating segment are detailed below. Additional discussion follows under the section titled “Results of Operations.”

Traditional Banking segment (Third Quarter Highlights)

Net income increased \$3.3 million for the third quarter of 2011 compared to the same period in 2010.

Net interest income increased \$718,000, or 3%, for the third quarter of 2011 to \$27.1 million. The Traditional Banking segment net interest margin increased 12 basis points from the third quarter of 2010 to 3.61%.

Provision for loan losses was \$547,000 for the quarter ended September 30, 2011 compared to \$1.7 million for the same period in 2010.

Total non-interest income increased \$2.9 million, or 50%, for the third quarter of 2011 compared to the same period in 2010.

During the third quarter of 2011, the Company realized \$301,000 in gains related to sales and calls of \$26 million of available for sale investment securities.

Total non-interest expense declined \$212,000 during the third quarter of 2011 compared to the third quarter of 2010.

Total non-performing loans to total loans decreased to 1.07% at September 30, 2011, from 1.30% at December 31, 2010 and 1.69% at September 30, 2010.

During the third quarter of 2011, the Bank sold its Bowling Green, Kentucky banking center and, as a result, recorded a pre-tax gain on sale of \$2.9 million.

Tax Refund Solutions (“TRS”) segment (Third Quarter Highlights)

TRS segment net income decreased \$2.5 million to a net loss of \$1.5 million for the third quarter of 2011 compared to the same period in 2010.

TRS recorded a net credit to provision for loan losses of \$687,000 for the third quarter of 2011, compared to a net credit of \$3.5 million for the same period in 2010.

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”
- Part II Item 1A “Risk Factors”

Mortgage Banking segment (Third Quarter Highlights)

Within the Mortgage Banking segment, mortgage banking income decreased \$327,000, or 19%, during the third quarter of 2011 compared to the same period in 2010.

RESULTS OF OPERATIONS (Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010)

Net Interest Income

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

Total Company net interest income increased \$711,000, or 3%, for the third quarter of 2011 compared to the same period in 2010. The total Company net interest margin increased 11 basis points to 3.60% for the same period. The most significant components affecting the total Company’s net interest income were as follows:

Traditional Banking segment

Net interest income within the Traditional Banking segment increased \$718,000, or 3%, for the third quarter of 2011 compared to third quarter of 2010, while the Traditional Banking net interest margin increased 12 basis points to 3.61%. This represents the first quarter over prior-year same-quarter increase in net interest income within the Traditional Banking segment since the first quarter of 2009. The overall increase in net interest income during the third quarter of 2011 was directly attributable to an increase in the average balance of loans outstanding, as well as an increase in the investment portfolio resulting from the strategies discussed below.

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

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

In addition to the activity noted within its securities portfolio, during June 2011 the Bank also finalized the purchase of approximately \$37 million of commercial real estate loans at a 13% discount. The Bank made this purchase as one of its strategies to reverse an on-going contraction in its net interest margin. At the time of purchase, these loans had a weighted average life of approximately seven years with an expected yield of 8.28%. For further discussion, see the section titled “Loan Portfolio” under “Comparison of Financial Condition at September 30, 2011 and December 31, 2010.”

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

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 September 30, 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.

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

Table 1 – Total Company Average Balance Sheets and Interest Rates for the Three Months Ended September 30, 2011 and 2010

(dollars in thousands)	Three Months Ended September 30, 2011			Three Months Ended September 30, 2010		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-earning assets:						
Taxable investment securities, including FHLB stock(1)						
	\$ 711,050	\$ 4,141	2.33 %	\$ 623,758	\$ 4,097	2.63 %
Federal funds sold and other interest-earning deposits						
	68,108	60	0.35 %	229,125	152	0.27 %
Refund Anticipation Loan fees(2)						
	-	1	0.00 %	-	-	0.00 %
Traditional Bank loans and fees(2)(3)						
	2,237,559	30,224	5.40 %	2,180,565	31,021	5.69 %
Total interest-earning assets						
	3,016,717	34,426	4.56 %	3,033,448	35,270	4.65 %
Less: Allowance for loan losses						
	25,928			26,017		
Non interest-earning assets:						
Non interest-earning cash and cash equivalents						
	63,670			61,100		
Premises and equipment, net						
	35,760			38,471		
Other assets(1)						
	57,011			56,732		
Total assets						
	\$ 3,147,230			\$ 3,163,734		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Transaction accounts						
	\$ 389,542	\$ 107	0.11 %	\$ 310,864	\$ 155	0.20 %
Money market accounts						
	681,683	485	0.28 %	662,269	706	0.43 %
Time deposits						
	244,114	1,005	1.65 %	325,765	1,405	1.73 %
Brokered money market and brokered CD's						
	129,238	460	1.42 %	172,908	680	1.57 %
Total deposits						
	1,444,577	2,057	0.57 %	1,471,806	2,946	0.80 %
Securities sold under agreements to repurchase and other short-term borrowings						
	249,002	111	0.18 %	333,299	262	0.31 %

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

Federal Home Loan Bank advances	517,739	4,467	3.45 %	565,445	4,978	3.52 %
Subordinated note	41,240	628	6.09 %	41,240	632	6.13 %
Total interest-bearing liabilities	2,252,558	7,263	1.29 %	2,411,790	8,818	1.46 %
Non interest-bearing liabilities and Stockholders' equity						
Non interest-bearing deposits	396,568			345,970		
Other liabilities	48,927			36,695		
Stockholders' equity	449,177			369,279		
Total liabilities and stock-holders' equity	\$ 3,147,230			\$ 3,163,734		
Net interest income		\$ 27,163			\$ 26,452	
Net interest spread			3.27 %			3.19 %
Net interest margin			3.60 %			3.49 %

-
- (1) For the purpose of this calculation, the fair market value adjustment on investment securities resulting from FASB ASC topic 320 "Investments – Debt and Equity Securities" is included as a component of other assets.
- (2) The amount of loan fee income included in total interest income was \$1.1 million and \$924,000 for the three months ended September 30, 2011 and 2010.
- (3) Average balances for loans include the principal balance of non accrual loans and loans held for sale.

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

Table 2 – Total Company Volume/Rate Variance Analysis for the Three Months Ended September 30, 2011 and 2010

(in thousands)	Total Net Change	Three Months Ended Sept. 30, 2011 Compared to Three Months Ended Sept. 30, 2010 Increase / (Decrease) Due to	
		Volume	Rate
Interest income:			
Taxable investment securities	\$44	\$538	\$(494)
Federal funds sold and other interest-earning deposits	(92)	(131)	39
Refund Anticipation Loan fees	1	1	-
Traditional Bank loans and fees	(797)	797	(1,594)
Net change in interest income	(844)	1,205	(2,049)
Interest expense:			
Transaction accounts	(48)	33	(81)
Money market accounts	(221)	20	(241)
Time deposits	(400)	(338)	(62)
Brokered money market and brokered CDs	(220)	(160)	(60)
Securities sold under agreements to repurchase and other short-term borrowings	(151)	(56)	(95)
Federal Home Loan Bank advances	(511)	(413)	(98)
Subordinated note	(4)	-	(4)
Net change in interest expense	(1,555)	(914)	(641)
Net change in net interest income	\$711	\$2,119	\$(1,408)

Provision for Loan Losses (Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010)

The Company recorded a net credit to provision for loan losses of \$140,000 for the third quarter 2011, compared to a net credit of \$1.8 million for the same period in 2010. The significant components comprising the Company's provision for loan losses were as follows:

Traditional Banking segment

The Traditional Banking provision for loan losses during the third quarter of 2011 was \$547,000, a \$1.2 million decline from the \$1.7 million recorded during the third quarter of 2010. The decrease in the provision for the quarter was generally attributable to an overall improvement in the Company's classified loans and better charge-off experience. In particular, the Bank experienced a significant reduction in provision expense associated with the Bank's smaller dollar homogenous retail and commercial past due and non-accrual loans, which peaked during 2010.

Annualized net charge-offs as a percentage of average loans within the Traditional Banking segment were 0.45% for the third quarter of 2011 compared to 0.70% for the same period in 2010. This equated to a \$1.3 million reduction in net charge-offs for the third quarter of 2011, as compared to the same period in 2010.

As a percentage of total loans, the Traditional Banking allowance for loan losses was 1.08% at September 30, 2011 compared to 1.06% at December 31, 2010 and 1.14% at September 30, 2010. Management believes, based on information presently available, that it has adequately provided for loan losses at September 30, 2011. See section titled "Asset Quality" for additional discussion of the Bank's delinquent and non-performing loans.

TRS segment

Substantially all Refund Anticipation Loans ("RALs") issued by RB&T 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 RB&T 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, RB&T also incurs losses as a result of tax debts not previously disclosed during its underwriting process.

For the three months ended September 30, 2011 the TRS provision for loan losses was a net credit of \$687,000 compared to a net credit of \$3.5 million for the three months ended September 30, 2010. The net credit in both periods resulted from better than previously projected paydowns within the RB&T's RAL portfolio. Management was able to estimate its 2011 TRS provision for loan losses with greater precision than its 2010 estimate, in part, because of the 66% strategic reduction in RAL dollar volume from the 2010 to 2011 tax seasons.

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			
	September 30,			
	2011		2010	
Allowance for loan losses at beginning of period	\$ 25,931		\$ 26,659	
Charge offs:				
Real Estate:				
Residential	(1,077)		(638)	
Commercial	(362)		(2,613)	
Commercial - Purchased Whole	-		-	
Construction	(770)		-	
Commercial	-		(62)	
Warehouse Lines of Credit	-		-	
Consumer	(347)		(404)	
Home Equity	(419)		(340)	
Tax Refund Solutions	(6)		-	
Total	(2,981)		(4,057)	
Recoveries:				
Real Estate:				
Residential	73		21	
Commercial	42		6	
Commercial - Purchased Whole	-		-	
Construction	126		6	
Commercial	6		27	
Warehouse Lines of Credit	-		-	
Consumer	171		173	
Home Equity	24		5	
Tax Refund Solutions	693		3,530	
Total	1,135		3,768	
Net loan charge offs/recoveries	(1,846)		(289)	
Provision for loan losses	(140)		(1,804)	
Allowance for loan losses at end of period	\$ 23,945		\$ 24,566	
Total Company Credit Quality Ratios:				
Allowance for loan losses to total loans	1.08	%	1.14	%
Allowance for loan losses to non performing loans	101	%	68	%
Allowance for loan losses to non performing assets	68	%	58	%
Annualized net loan charge offs to average loans outstanding	0.33	%	0.05	%
Traditional Banking Credit Quality Ratios:				
Allowance for loan losses to total loans	1.08	%	1.14	%
Allowance for loan losses to non performing loans	101	%	68	%
Allowance for loan losses to non performing assets	68	%	58	%
Annualized net loan charge offs to average loans outstanding	0.45	%	0.70	%

Non-interest Income (Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010)

Non interest income increased \$2.7 million, or 34%, for the third 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 increased \$2.9 million, or 50%, for the third quarter of 2011 compared to the same period in 2010.

Service charges on deposit accounts decreased \$426,000, or 11%, during the third quarter of 2011 compared to the same period in 2010. The decrease was primarily the result of the continued general decline in consumer overdraft activity that the Bank, and the banking industry as a whole, has experienced the past several years. In addition, further contributing to this general decline in consumer overdraft activity, 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 Bank earns a substantial majority of its fee income related to its overdraft service program from the per item fee it assesses its customers for each insufficient funds check or electronic debit presented for payment. In addition, the Bank estimates that it has historically earned more than 60% of its overdraft related fees on the electronic debits presented for payment. Both the per item fee and the daily fee assessed to the account resulting from its overdraft status, if computed as a percentage of the amount overdrawn, results in a high rate of interest when annualized and are thus considered excessive by some consumer groups. The total net per item fees included in service charges on deposits for the third quarters of 2011 and 2010 were \$1.9 million and \$2.8 million. The total net daily overdraft charges included in interest income for the third quarter of 2011 and 2010 was \$495,000 and \$478,000, respectively.

In November 2010, the Federal Deposit Insurance Corporation (“FDIC”) issued its final guidance on Automated Overdraft payment programs requiring FDIC regulated banks to implement and maintain robust oversight of these programs. 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.”

Management implemented these guidelines effective July 1, 2011. These guidelines have had a negative impact on the Bank's net income in 2011 and will continue so in the future. Because of the large number of changes required by the guidelines, management is unable to determine precisely how negative the individual and collective impact of these changes will be.

As a result of the continued decline in service charges on deposits and a further anticipated decline as a result of the new FDIC guidelines, the Bank instituted a new fee structure for its retail checking account products during the third quarter of 2011. The new product design was implemented on July 1, 2011 for all newly opened retail accounts. On August 1, 2011 the Bank converted the substantial majority of its existing retail checking accounts into new product types with the new fee structures. The goal of the new fee structure, in the short-term, is to reverse the trend of declining service charges on deposits. In the long-term, the Bank's goal is that the new fee structure combined with growth in the Bank's retail checking account base will allow the service charges on deposits category to increase once again. Revenue generated during the quarter (primarily for a two month period) as a result of these new fees was approximately \$459,000. The overall results of the new fees in the long-term will be highly dependent on customer deposit balances and overall customer acceptance of the new fee structure, as not all of the Bank's competition has adopted similar changes in response to the FDIC guidelines. A lack of customer acceptance of the new account fees resulting in a significant decline in the number of retail deposit accounts could have a material negative impact on the Bank's future deposit fee income.

In May 2011, RB&T, entered into a definitive agreement to sell its banking center located in Bowling Green, Kentucky to Citizens First Bank, Inc. ("Citizens"). This transaction was closed on September 30, 2011. The transaction consisted of the following:

- Citizens acquired loans totaling \$13 million, representing approximately one-half of the outstanding loans of the banking center.

- Citizens assumed all deposits of the Bowling Green banking center, or approximately \$33 million consisting of nearly 3,800 accounts.

- Citizens acquired all of the fixed assets of the Bowling Green banking center.

- The total pre-tax gain on sale recognized by Republic as a result of the transaction was \$2.9 million.

During the third quarter of 2011, the Company recognized net securities gains/losses in earnings for securities available for sale as follows:

- The Company realized \$188,000 in pre-tax gains related to unamortized discount accretion on \$24 million of callable U.S. Government agencies that were called during the third quarter of 2011 before their maturity.

- Within its Florida-based thrift charter, the Bank sold available for sale mortgage backed securities with an amortized cost of \$2 million, resulting in a pre-tax gain of \$113,000.

Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income decreased \$327,000 during the third quarter of 2011 compared to the same period in 2010. The overall decline in mortgage banking income was primarily attributable to a decline in volume compared to a strong third quarter 2010 and a \$203,000 impairment charge realized during the third quarter of 2011 related to the Bank's Mortgage Servicing Rights ("MSRs").

During the third quarter of 2011, Republic originated for sale \$40 million of fixed rate residential real estate secondary market loans compared to \$82 million during the same period in 2010. In addition, the Bank's pipeline of secondary market loans in process in which the consumer has "locked" their interest rate with the Bank was \$24 million at September 30, 2011 compared to \$13 million at June 30, 2011 and \$35 million at September 30, 2010.

Non-interest Expenses (Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010)

Non-interest expenses increased \$1.3 million, or 5%, during the third quarter of 2011 compared to the same period in 2010. Substantially the entire increase related to TRS. The most significant components comprising the change in non-interest expense were as follows:

TRS segment

FDIC insurance expense associated with TRS increased \$350,000 during the third quarter of 2011 compared to the same period in 2010 related primarily to a higher assessment rate levied against RB&T by the FDIC for factors specific to RB&T.

Legal expense at TRS increased \$330,000 during the third quarter of 2011 compared to the third quarter of 2010. The increase in legal expense was directly related to RB&T's on-going regulatory actions with the FDIC. Management estimates that legal expenses in 2011 related to the FDIC's on-going regulatory action will be between \$2 million and \$3 million if the legal proceedings continue throughout the year. If these actions continue throughout all of 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.

OVERVIEW (Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010)

Net income for the nine months ended September 30, 2011 was \$88.0 million, representing an increase of \$27.6 million, or 46%, compared to the same period in 2010. Diluted earnings per Class A Common Share increased to \$4.19 for the nine months ended September 30, 2011 compared to \$2.89 for the same period in 2010. General highlights for the nine months ended September 30, 2011 by business operating segment are detailed below. Additional discussion follows under the section titled “Results of Operations.”

Traditional Banking segment (First Nine Months Highlights)

Net income increased \$6.4 million, or 53%, for the first nine months 2011 compared to the same period in 2010.

Despite an increase in net interest income for the quarter ended September 30, 2011, net interest income decreased \$1.8 million, or 2%, for the first nine months of 2011 to \$78.6 million. The Traditional Banking segment net interest margin declined 14 basis points for the same periods to 3.48%.

Provision for loan losses was \$5.5 million for the nine months ended September 30, 2011 compared to \$9.5 million for the same period in 2010.

Total non-interest income increased \$4.5 million, or 27%, for the first nine months of 2011 compared to the same period in 2010.

During the first nine months of 2011, the Bank sold and had called available for sale mortgage backed securities with an amortized cost of \$158 million, resulting in a pre-tax gain of \$2.2 million.

Total non-interest expense decreased \$2.7 million, or 4%, during the first nine months of 2011 compared to the first nine months of 2010.

Total non-performing loans to total loans decreased to 1.07% at September 30, 2011, from 1.30% at December 31, 2010 and 1.69% at September 30, 2010.

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

During the third quarter of 2011, the Bank closed the transaction related to the sale of its only banking center located in Bowling Green, Kentucky. The Company recorded a pre-tax gain on sale of \$2.9 million as a result of the transaction.

The Bank launched its Warehouse Lending division during the second quarter of 2011 and had \$17 million in loans outstanding at September 30, 2011.

Tax Refund Solutions (“TRS”) segment (First Nine Months Highlights)

The total dollar volume of tax refunds processed during the 2011 tax season increased \$1.7 billion, or 17%, over the 2010 tax season.

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

Net income increased \$22.3 million, or 48%, for the first nine months of 2011 compared to the same period in 2010.

Net interest income increased \$8.4 million, or 16%, for the first nine months of 2011 compared to the same period in 2010.

TRS recorded a provision for loan losses of \$12.0 million for the first nine months of 2011, compared to \$8.5 million for the same period in 2010.

TRS posted non interest income of \$88.4 million for the first nine months of 2011 compared to \$58.8 million for the same period in 2010.

During the second quarter of 2011, RB&T accrued a \$2 million liability within the TRS segment related to the assessment of a Civil Money Penalty by the FDIC against RB&T.

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”

Part II Item 1A “Risk Factors”

Mortgage Banking segment (First Nine Months Highlights)

Within the Mortgage Banking segment, mortgage banking income decreased \$1.0 million, or 25%, during the first nine months of 2011 compared to the same period in 2010.

RESULTS OF OPERATIONS (Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010)

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 FHLB advances. Net interest income is impacted by both changes in the amount and composition of interest-earning assets and interest-bearing liabilities, as well as market interest rates.

Total Company net interest income increased \$6.6 million, or 5%, for the first nine months of 2011 compared to the same period in 2010. The total Company net interest margin increased 52 basis points to 5.60% 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 \$1.8 million, or 2%, for the first nine months of 2011 compared to 2010. The Traditional Banking net interest margin declined 14 basis points for the same period to 3.48%. The decrease in net interest income was due primarily to a greater degree of downward repricing earning assets, as compared to interest-bearing liabilities, as well as a decrease in the average balances of the Bank’s higher-yielding earning assets. While overall net interest income within the Traditional Banking segment was lower for the first nine months of 2011 compared to the same period in 2010, the Company implemented new strategies during 2011, which reversed the negative trend for net interest income. These strategies, which are discussed in more detail in the following paragraphs, helped to contribute to a second consecutive “linked-quarter” increase in net interest income, whereby net interest income in the third quarter of 2011 was higher than net interest income from the second quarter of 2011, which was higher than net interest income from the first quarter of 2011. In addition, these strategies

also contributed to an increase in net interest income for the third quarter of 2011 compared to the third quarter of 2010, which represents the first quarter over prior-year same quarter increase in net interest income within the Traditional Banking segment since the first quarter of 2009.

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

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

In addition to the activity noted within its securities portfolio, during June 2011 the Bank also finalized the purchase of approximately \$37 million of commercial real estate loans at a 13% discount. The Bank made this purchase as one of its strategies to reverse an on-going contraction in its net interest margin. At the time of purchase, these loans had a weighted average life of approximately seven years with an expected yield of 8.28%. For further discussion, see the section titled "Loan Portfolio" under "Comparison of Financial Condition at September 30, 2011 and December 31, 2010."

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

TRS segment

Net interest income within the TRS segment increased \$8.4 million, or 16%, for the first nine months of 2011 compared to the same period in 2010. The increase in TRS net interest income was primarily due to a \$7.6 million, or 15%, increase in RAL fee income. As stated previously in this filing, RB&T, among other things, increased its RAL pricing in response to 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 RB&T's maximum individual RAL offering amount being lowered to \$1,500.

TRS net interest income continued to benefit from low funding costs during 2011. Average brokered deposits outstanding utilized to fund RALs during the first nine months of 2011 and 2010 were \$141 million and \$365 million with a weighted average cost of 0.41% and 0.53%, respectively. As a result, interest expense for the TRS segment was \$455,000 for the first nine months of 2011, a decrease of \$935,000 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 "Traditional Banking Interest Rate Sensitivity for 2011" in this section of the filing.

Table 4 provides detailed total Company information as to average balances, interest income/expense and rates by major balance sheet category for the nine month periods ended September 30, 2011 and 2010. Table 5 provides an analysis of total Company changes in net interest income attributable to changes in rates and changes in volume of interest-earning assets and interest-bearing liabilities for the same periods.

Table 4 – Total Company Average Balance Sheets and Interest Rates for the Nine Months Ended September 30, 2011 and 2010

(dollars in thousands)	Nine Months Ended September 30, 2011			Nine Months Ended September 30, 2010		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-earning assets:						
Taxable investment securities, including FHLB stock(1)	\$ 659,753	\$ 12,446	2.52 %	\$ 538,763	\$ 12,180	3.01 %
Tax exempt investment securities(1)(4)	-	-	0.00 %	214	11	6.85 %
Federal funds sold and other interest-earning deposits	379,713	833	0.29 %	519,489	983	0.25 %
Refund Anticipation Loan fees(2)	39,567	59,132	199.26 %	133,352	51,555	51.55 %
Traditional Bank loans and fees(2)(3)	2,203,492	89,097	5.39 %	2,256,206	94,657	5.59 %
Total interest-earning assets	3,282,525	161,508	6.56 %	3,448,024	159,386	6.16 %
Less: Allowance for loan losses	30,414			28,977		
Non interest-earning assets:						
Non interest-earning cash and cash equivalents	127,757			56,962		
Premises and equipment, net	36,515			38,604		
Other assets(1)	58,048			63,636		
Total assets	\$ 3,474,431			\$ 3,578,249		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Transaction accounts	\$ 362,255	\$ 367	0.14 %	\$ 297,897	\$ 440	0.20 %
Money market accounts	690,998	1,710	0.33 %	628,326	2,212	0.47 %
Time deposits	264,222	3,236	1.63 %	334,505	4,511	1.80 %
Brokered money market and brokered CD's	277,414	1,954	0.94 %	514,571	3,203	0.83 %
Total deposits	1,594,889	7,267	0.61 %	1,775,299	10,366	0.78 %
Securities sold under agreements to repurchase and other short-term borrowings	280,133	535	0.25 %	322,492	746	0.31 %

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

Federal Home Loan Bank advances	535,738	13,857	3.45	%	577,170	15,014	3.47	%
Subordinated note	41,240	1,886	6.10	%	41,240	1,883	6.09	%
Total interest-bearing liabilities	2,452,000	23,545	1.28	%	2,716,201	28,009	1.37	%
Non interest-bearing liabilities and Stockholders' equity								
Non interest-bearing deposits	536,007				447,989			
Other liabilities	51,737				56,445			
Stockholders' equity	434,687				357,614			
Total liabilities and stock-holders' equity	\$ 3,474,431				\$ 3,578,249			
Net interest income		\$ 137,963				\$ 131,377		
Net interest spread			5.28	%			4.79	%
Net interest margin			5.60	%			5.08	%

-
- (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 \$61.5 million and \$54.2 million for the nine months ended September 30, 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 5 illustrates the extent to which changes in interest rates and changes in the volume of total Company interest-earning assets and interest-bearing liabilities impacted Republic's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume) and (iii) net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

Table 5 – Total Company Volume/Rate Variance Analysis for the Nine Months Ended September 30, 2011 and 2010

(in thousands)	Total Net Change	Nine Months Ended Sept. 30, 2011 Compared to Nine Months Ended Sept. 30, 2010 Increase / (Decrease) Due to	
		Volume	Rate
Interest income:			
Taxable investment securities	\$266	\$2,474	\$(2,208)
Tax exempt investment securities	(11)	(11)	-
Federal funds sold and other interest-earning deposits	(150)	(291)	141
Refund Anticipation Loan fees	7,577	(56,733)	64,310
Traditional Bank loans and fees	(5,560)	(2,180)	(3,380)
Net change in interest income	2,122	(56,741)	58,863
Interest expense:			
Transaction accounts	(73)	83	(156)
Money market accounts	(502)	204	(706)
Time deposits	(1,275)	(887)	(388)
Brokered money market and brokered CDs	(1,249)	(1,628)	379
Securities sold under agreements to repurchase and other short-term borrowings	(211)	(91)	(120)
Federal Home Loan Bank advances	(1,157)	(1,072)	(85)
Subordinated note	3	-	3
Net change in interest expense	(4,464)	(3,391)	(1,073)
Net change in net interest income	\$6,586	\$(53,350)	\$59,936

Provision for Loan Losses (Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010)

The Company recorded a provision for loan losses of \$17.5 million for the first nine months of 2011, compared to \$18.0 million for the same period in 2010. The significant components comprising the Company's provision for loan losses were as follows:

Traditional Banking segment

The Traditional Banking provision for loan losses during the first nine months of 2011 was \$5.5 million, a \$4.0 million decline from the first nine months of 2010. The decrease in the provision for the first nine months of the year was generally attributable to an overall improvement in the Company's credit quality metrics and better charge-off experience.

During the nine months ended September 30, 2011, the Bank charged off \$6.1 million in loans compared to \$8.5 million for the same period in 2010. In addition, the Bank also recorded \$918,000 more in credits to its provision for loan losses for recoveries of previously charged off loans during the first nine months of 2011 than it did during the same period in 2010. Annualized net charge-offs as a percentage of average loans within the Traditional Banking segment were 0.28% for the nine months ended September 30, 2011 compared to 0.46% for the same period in 2010. This equated to a \$3.2 million reduction in net charge-offs for the nine months ended September 30, 2011 compared to the same period in 2010.

As part of its on-going classified asset analysis, the Bank recorded additional provisions of \$4.0 million during the first nine months of 2011 related to 9 specifically reviewed "substandard" commercial and large retail relationships (substantially all in the first quarter) compared to \$2.6 million during the first nine months of 2010 related to 22 relationships. More than offsetting the increase in provision expense associated with its specifically reviewed large substandard loans was a significant reduction in provision expense associated with the Bank's smaller dollar homogenous retail and commercial past due and non-accrual loans, which peaked during 2010.

In addition, during the first nine months of 2010 (substantially all in the first quarter), the Bank increased its allowance for loan losses by \$1.3 million for quantitative and qualitative adjustments to its historical loss percentages for its general formula reserves across substantially all loan categories. In particular, the Bank increased its general reserves associated with its home equity portfolio due to higher historical loss percentages and declining residential real estate values. As real estate values and historical loss percentages have remained relatively stable during the first nine months of 2011, the Bank has not made any additional material qualitative or quantitative adjustments to its historical loss percentages.

As a percentage of total loans, the Traditional Banking allowance for loan losses was 1.08% at September 30, 2011 compared to 1.06% at December 31, 2010 and 1.14% at September 30, 2010. Management believes, based on information presently available, that it has adequately provided for loan losses at September 30, 2011. See section titled "Asset Quality" for additional discussion of the Bank's delinquent and non-performing loans.

TRS segment

Substantially all RALs issued by RB&T 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 RB&T 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, RB&T also incurs losses as a result of tax debts not previously disclosed during its

underwriting process.

At March 31st of each year, RB&T 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 RB&T's internal RAL underwriting criteria applied against prior years' customer data, and the subjective experience of RB&T management. RALs outstanding 30 days or longer 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 meaningful part of the overall underwriting for the product. In response to loss of access to the DI in 2011, RB&T significantly reduced the maximum RAL amount to \$1,500 for individual customers, raised the RAL offering price to its customers and modified its underwriting and application requirements resulting in fewer RALs approved. As compared to prior years, during 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 RB&T'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 of September 30, 2011 and 2010, \$14.8 million and \$11.0 million of total RALs originated remained uncollected, representing 1.43% and 0.37% of total gross RALs originated during the respective tax years by RB&T. Substantially all of these loans were charged off as of June 30, 2011 and 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 RB&T 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 period, resulted in a net provision for loan loss expense of \$12.0 million and \$8.5 million for TRS during the nine months ended September 30, 2011 and 2010, respectively.

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

Table 6 – Summary of Loan Loss Experience

(dollars in thousands)	Nine Months Ended			
	September 30,			
	2011	2010		
Allowance for loan losses at beginning of period	\$23,079	\$22,879		
Charge offs:				
Real Estate:				
Residential	(2,211)	(1,588)		
Commercial	(1,081)	(3,514)		
Commercial - Purchased Whole	-	-		
Construction	(823)	(516)		
Commercial	(100)	(202)		
Warehouse Lines of Credit	-	-		
Consumer	(884)	(1,017)		
Home Equity	(1,043)	(1,614)		
Tax Refund Solutions	(15,484)	(14,584)		
Total	(21,626)	(23,035)		
Recoveries:				
Real Estate:				
Residential	190	56		
Commercial	284	41		
Commercial - Purchased Whole	-	-		
Construction	231	6		
Commercial	125	48		
Warehouse Lines of Credit	-	-		
Consumer	624	468		
Home Equity	100	17		
Tax Refund Solutions	3,435	6,120		
Total	4,989	6,756		
Net loan charge offs/recoveries	(16,637)	(16,279)		
Provision for loan losses	17,503	17,966		
Allowance for loan losses at end of period	\$23,945	\$24,566		
Total Company Credit Quality Ratios:				
Allowance for loan losses to total loans	1.08	%	1.14	%
Allowance for loan losses to non performing loans	101	%	68	%
Allowance for loan losses to non performing assets	68	%	58	%
Annualized net loan charge offs to average loans outstanding	0.99	%	0.91	%
Traditional Banking Credit Quality Ratios:				
Allowance for loan losses to total loans	1.08	%	1.14	%
Allowance for loan losses to non performing loans	101	%	68	%
Allowance for loan losses to non performing assets	68	%	58	%
Annualized net loan charge offs to average loans outstanding	0.28	%	0.46	%

Non-interest Income (Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010)

Non interest income increased \$33.2 million, or 41%, for the first nine months 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 increased \$4.5 million, or 27%, for the first nine months of 2011 compared to the same period in 2010.

The Company recognized net gains on sales, calls and impairment of investment securities of \$2.2 million during the first nine months of 2011. The substantial majority of the 2011 gain occurred during the second quarter of 2011, as the Bank sold available for sale securities with an amortized cost of \$132 million. The decision to sell these securities was based, in large part, on positive growth developments within the loan portfolio.

Service charges on deposit accounts decreased \$1.1 million, or 11%, during the first nine months of 2011 compared to the same period in 2010. Approximately \$282,000 of this decrease was related to the discontinuation of the Bank'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 Bank, and the banking industry as a whole, has experienced the past several years. In addition, further contributing to this general decline in consumer overdraft activity, 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 Bank earns a substantial majority of its fee income related to its overdraft service program from the per item fee it assesses its customers for each insufficient funds check or electronic debit presented for payment. In addition, the Bank estimates that it has historically earned more than 60% of its overdraft related fees on the electronic debits presented for payment. Both the per item fee and the daily fee assessed to the account resulting from its overdraft status, if computed as a percentage of the amount overdrawn, results in a high rate of interest when annualized and are thus considered excessive by some consumer groups. The total net per item fees included in service charges on deposits for the first nine months of 2011 and 2010 were \$6.9 million and \$8.3 million. The total net daily overdraft charges included in interest income for the first nine months of 2011 and 2010 was \$1.3 million and \$1.5 million, respectively.

For additional discussion regarding new FDIC guidelines associated with banks' overdraft honor programs and the Bank's new fee structure regarding its checking account base, see section titled "Non Interest Income" for the three months ended September 30, 2011 and 2010.

In May 2011, RB&T, entered into a definitive agreement to sell its banking center located in Bowling Green, Kentucky to Citizens First Bank, Inc. ("Citizens"). This transaction was closed on September 30, 2011. The transaction consisted of the following:

- Citizens acquired loans totaling \$13 million, representing approximately one-half of the outstanding loans of the banking center.

- Citizens assumed all deposits of the Bowling Green banking center, or approximately \$33 million consisting of nearly 3,800 accounts.

- Citizens acquired all of the fixed assets of the Bowling Green banking center.

- The total pre-tax gain on sale recognized by Republic as a result of the transaction was \$2.9 million.

TRS segment

TRS non interest income increased \$29.6 million, or 50%, during the first nine months of 2011 compared to the same period in 2010. Net ERC/ERD fees increased \$29.6 million for the first nine months 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 63% increase in the number of ERCs/ERDs processed resulting from a shift in business to higher volume tax preparation offices. Each year, RB&T 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 current 2011 tax season, RB&T shifted a large number of its lower volume Jackson Hewitt ("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”

Part II Item 1A “Risk Factors”

Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income decreased \$1.0 million, or 25%, during the first nine months of 2011 compared to the same period in 2010. Mortgage banking income was negatively impacted during much of the first nine months of 2011 by a decline in secondary market loan volume. During the first nine months of 2011, Republic originated for sale \$93 million of fixed rate residential real estate secondary market loans compared to \$197 million during the first nine months of 2010. In addition, the Bank's pipeline of secondary market loans in process in which the consumer has "locked" their interest rate with the Bank was \$24 million at September 30, 2011 compared to \$13 million at June 30, 2011 and \$35 million at September 30, 2010.

In addition to the factors noted in the previous paragraph, due to the reduction in long-term interest rates during the third quarter of 2011, the fair value of the Bank's MSR's declined as prepayment speed assumptions were adjusted higher. As a result of the decline in the fair value of the Bank's MSR's, an impairment charge was recorded during the quarter was \$203,000.

Non-interest Expenses (Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010)

Non-interest expenses decreased \$3.1 million, or 3%, during the first nine months of 2011 compared to the same period in 2010. Approximately \$1.1 million of the decrease related to TRS while \$2.0 million related to the Company's other business operating segments. The most significant components comprising the change in non-interest expense were as follows:

Traditional Banking segment

Salaries and employee benefits declined \$492,000 due to a decline in incentive compensation accruals, contract labor costs, and a reduction in expenses associated with incentive stock options.

Debit card interchange expense increased \$456,000 during the first nine months of 2011 compared to the same period in 2010. This increase resulted from the expiration of credits received by Republic during 2010 as compensation for a billing disagreement with the Bank's third party processor.

During the first quarter of 2010, the Bank 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 Bank incurred \$1.5 million in early termination penalties in connection with this transaction but saved approximately \$1.6 million in total interest expense on its FHLB advances during 2010 and the first nine months of 2011, netting the Bank 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.

Contributions expense declined \$624,000 during the first nine months of 2011 compared to the same period in 2010. In 2010, the Company established the Republic Bank Foundation to support charitable, educational, scientific and religious organizations throughout communities in Kentucky, Indiana, Ohio and Florida. Due to the financial success the Company achieved in the first nine months of 2011 and 2010, the Company significantly increased its contributions, making a \$5 million contribution in each year to the Republic Bank Foundation. The Company allocated the cost of this contribution to its operating segments using a formula based on pre-tax profits. Since its formation, all eligible contributions have been paid by the Republic Bank Foundation resulting in an overall reduction in contributions paid by the Company.

Legal expense increased \$374,000 during the first nine months of 2011 compared to the same period in 2010 primarily due to the increase in collection related legal expense.

TRS segment

Marketing expense at TRS decreased \$7.5 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 did not impact the overall financial results of operations for TRS, as this decrease was offset by the elimination of certain fees charged by RB&T, which substantially offset the fixed fee.

FDIC insurance expense increased \$1.3 million during the first nine months of 2011 compared to the same period in 2010 related primarily to a higher assessment rate levied against RB&T by the FDIC for items specific to RB&T.

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 nine months of 2010, primarily due to an increase in capital associated with higher earnings at TRS.

Legal expense at TRS was \$1.8 million for the first nine months of 2011 compared to \$178,000 for the first nine months of 2010. The increase in legal expense was directly related to RB&T's on-going regulatory actions with the FDIC. Management estimates that legal expenses in 2011 related to the FDIC's on-going regulatory action will be between \$2 million and \$3 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.

During the second quarter of 2011, the FDIC assessed a \$2 million Civil Money Penalty ("CMP") against RB&T as part of the Amended Notice. Management believes the charges, which resulted in the assessment of the CMP, are without merit. RB&T is appealing the CMP as part of the ALJ hearing process with the FDIC that is currently scheduled to begin on February 6, 2012. Historically, ALJs and the FDIC Board of Directors have found in favor of the FDIC in such proceedings. As a result, management believes the ultimate payment of all or a material portion of the CMP is probable, and as such, RB&T recorded a \$2 million liability as of June 30, 2011.

Charitable contribution expense totaled \$4.9 million and \$4.7 million at TRS for the first nine months of 2011 and 2010, respectively. See discussion above under Traditional Banking.

COMPARISON OF FINANCIAL CONDITION AT SEPTEMBER 30, 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 \$76 million in cash and cash equivalents at September 30, 2011 compared to \$786 million at December 31, 2010. During the fourth quarter of 2010, RB&T accumulated cash via brokered certificates of deposits totaling \$562 million in preparation for the first quarter 2011 tax season. For cash held at the Federal Reserve Bank (“FRB”), the Bank earns a yield of 0.25%. For all other cash held within the Bank’s branch and ATM networks, the Bank does not earn interest.

The Bank has strategically reduced its excess cash during 2011. These strategies include retaining fixed rate loans that the Bank has historically sold into the secondary market, purchasing investment securities with longer maturities, purchasing commercial real estate loans, paying down excess Federal Home Loan Bank (“FHLB”) borrowings and further reducing offering rates on certificate of deposit products. These strategies were implemented to improve the Bank’s net interest margin and net interest income.

Securities Available for Sale

Investment securities available for sale primarily consists of U.S. Treasury and U.S. Government agency obligations, including agency mortgage backed securities (“MBSs”) and agency collateralized mortgage obligations (“CMOs”). The agency MBSs primarily consist of hybrid mortgage investment securities, as well as other adjustable rate mortgage investment securities, underwritten and guaranteed by Ginnie Mae (“GNMA”), Freddie Mac (“FHLMC”) and Fannie Mae (“FNMA”). Agency CMOs held in the investment portfolio are substantially all floating rate investment securities that adjust monthly. The Company uses a portion of the investment securities portfolio as collateral for securities sold under agreements to repurchase (“repurchase agreements”). Strategies for the investment securities portfolio may be influenced by economic and market conditions, loan demand, deposit mix and liquidity needs.

Securities available for sale increased by \$163 million during 2011 to \$673 million at September 30, 2011. In February 2011, the Bank modified its investment strategy, taking on more interest rate risk by reinvesting a portion of its excess cash into longer-term investment securities, thus increasing its projected net interest income and net interest margin for the near-term. The Bank primarily invested in longer-term U.S. government agency securities with an average life between three and seven years.

For discussion of the Company’s private label mortgage backed and mortgage related securities, see Footnote 2 “Investment Securities” of Part I Item 1 “Financial Statements.”

Loan Portfolio

Net loans, primarily consisting of secured real estate loans, increased by \$44 million during 2011 to \$2.2 billion at September 30, 2011. In order to combat a declining net interest margin, during the second quarter of 2011, the Bank purchased commercial real estate loans with a face amount of approximately \$37 million at a 13% discount to par. At the time of purchase, these loans had a weighted average life of approximately seven years with an expected yield of 8.28%.

Additionally, the Bank experienced an increase in its internally-originated loan portfolio for the first nine months of 2011, with the majority of this increase occurring in the second quarter of the year. The owner-occupied residential real estate portfolio grew \$18 million during the first nine months of the year, as the Bank retained \$17 million of 15- and 30-year fixed rate loans that it has traditionally sold into the secondary market. In addition to the growth resulting

from the previously discussed commercial real estate loan purchase, the commercial real estate portfolio experienced internally originated growth of \$7 million. Furthermore, the Bank experienced growth of \$17 million related to the start-up of its new warehouse lending division. The Bank was able to achieve growth within its internally-originated portfolio despite the sale of \$13 million in loans associated with its Bowling Green, Kentucky banking center.

Asset Quality

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

Table 7 – Classified Assets

(in thousands)	September 30, 2011	December 31, 2010
Loss	\$ -	\$ -
Doubtful	-	-
Substandard	41,454	38,245
Special mention	37,854	54,254
Total	\$ 79,308	\$ 92,499

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

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 originated by RB&T are generally repaid by the IRS within two weeks. RALs outstanding 30 days or longer are charged off at the end of the first quarter each year with substantially all other RALs, except for those RALs management deems certain of collection, charged off by June 30th of each

year. Subsequent collections of RALs are recorded as recoveries.

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

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

(in thousands)	September 30, 2011	December 31, 2010
Loans on non-accrual status	\$ 23,822	\$ 28,317
Loans past due 90 days or more and still on accrual	-	-
Total non-performing loans	23,822	28,317
Other real estate owned	11,185	11,969
Total non-performing assets	\$ 35,007	\$ 40,286

Total Company Credit Quality Ratios:

Non-performing loans to total loans	1.07	%	1.30	%
Non-performing loans to total loans	1.07	%	1.30	%
Non-performing assets to total loans (including OREO)	1.57	%	1.84	%
Non-performing assets to total assets	1.13	%	1.11	%

Traditional Banking Credit Quality Ratios:

Non-performing loans to total loans	1.07	%	1.30	%
Non-performing loans to total loans	1.07	%	1.30	%
Non-performing assets to total loans (including OREO)	1.57	%	1.84	%
Non-performing assets to total assets	1.13	%	1.31	%

(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 at September 30, 2011 are in the residential real estate category with the underlying collateral predominantly located in the Bank's primary market area of Kentucky. The Bank does not consider any of these loans to be “sub-prime.” 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 Bank's residential real estate loan portfolio.

Approximately \$7 million of Republic's total non-performing loans are in the commercial real estate and real estate construction loan portfolios as of September 30, 2011. These loans are secured primarily by commercial properties. In addition to the primary collateral, the Bank 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 the Company's non-performing loans follows:

Table 9 – Non-performing Loan Composition

(in thousands)	September 30, 2011	December 31, 2010
Residential Real Estate:		
Owner Occupied	\$ 11,701	\$ 13,356
Non Owner Occupied	1,681	1,880
Commercial Real Estate	4,054	6,265
Commercial Real Estate - Purchased Whole Loans	-	-
Real Estate Construction	2,641	3,682
Commercial	300	323
Warehouse Lines of Credit	-	-
Home Equity	3,380	2,734
Consumer:		
Credit Cards	-	-
Overdrafts	-	-
Other Consumer	65	77
 Total non performing loans	 \$ 23,822	 \$ 28,317

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

(in thousands)	September 30, 2011		December 31, 2010	
Residential Real Estate:				
Owner Occupied	1.25	%	1.45	%
Non Owner Occupied	1.64	%	1.49	%
Commercial Real Estate	0.63	%	0.98	%
Commercial Real Estate - Purchased Loans	0.00	%	0.00	%
Real Estate Construction	3.97	%	5.36	%
Commercial	0.27	%	0.30	%
Warehouse Lines of Credit	0.00	%	0.00	%
Home Equity	1.18	%	0.94	%
Consumer:				
Credit Cards	0.00	%	0.00	%
Overdrafts	0.00	%	0.00	%
Other Consumer	0.70	%	0.59	%
 Total non performing loans to total loans	 1.07	 %	 1.30	 %

Based on the Bank'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 September 30, 2011, are adequate to absorb probable losses on these loans.

Approximately \$16 million in non-performing loans at December 31, 2010, were removed from the non-performing loan classification during the first nine months 2011. Approximately \$2 million, or 13%, of these loans were removed from the non-performing category because they were charged-off. Approximately \$7 million, or 43%, in loan balances were transferred to other real estate owned ("OREO") with \$5 million refinanced at other financial institutions. The remaining \$2 million was returned to accrual status for performance reasons, such as six consecutive months of performance.

The following table details the Bank's non-performing loan activity:

Table 11 – Non-performing Loan Activity

(in thousands)

Non-performing loans at January 1, 2011	\$	28,317
Loans added to non-performing status		12,479
Loans removed from non-performing status		(15,608)
Principal paydowns		(1,366)
Non-performing loans at September 30, 2011	\$	23,822

Delinquent Loans

As detailed in the table below, past due loans within the commercial real estate and real estate construction categories improved significantly, or \$6 million, from December 31, 2010 to September 30, 2011. Approximately \$1.5 million of the December 31, 2010 commercial real estate past due balances were transferred to REO while \$1.9 million was refinanced at other financial institutions. Approximately \$1.4 million of the December 31, 2010 real estate construction past due balances were brought current, while \$300,000 was transferred to REO.

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

Table 12 – Past Due Loan Composition

(in thousands)	September 30, 2011	December 31, 2010
Residential Real Estate:		
Owner Occupied	\$ 12,431	\$ 15,014
Non Owner Occupied	1,061	1,017
Commercial Real Estate	1,627	5,700
Commercial Real Estate - Purchased Whole Loans	-	-
Real Estate Construction	541	2,322
Commercial	35	67
Warehouse Lines of Credit	-	-
Home Equity	3,920	2,444
Consumer:		
Credit Cards	47	61
Overdrafts	207	158
Other Consumer	48	144
Total past due loans	\$ 19,917	\$ 26,927

All loans greater than 90 days past due or more as of September 30, 2011 and December 31, 2010 were on non accrual status.

Table 13 – Past Due Loans to Total Loans by Loan Type (1)

(in thousands)	September 30, 2011		December 31, 2010	
Residential Real Estate:				
Owner Occupied	1.33	%	1.63	%
Non Owner Occupied	1.03	%	0.80	%
Commercial Real Estate	0.25	%	0.89	%
Commercial Real Estate - Purchased Whole Loans	0.00	%	0.00	%
Real Estate Construction	0.81	%	3.38	%
Commercial	0.03	%	0.06	%
Warehouse Lines of Credit	0.00	%	0.00	%
Home Equity	1.37	%	0.84	%
Consumer:				
Credit Cards	0.60	%	0.74	%
Overdrafts	29.15	%	17.54	%
Other Consumer	0.52	%	1.10	%
Total past due loans to total loans	0.90	%	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 \$56 million at September 30, 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 September 30, 2011, the Bank had \$48 million in TDRs, of which \$9 million were on nonaccrual status. As of December 31, 2010, the Bank 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 Company deposits decreased \$500 million from December 31, 2010 to \$1.8 billion at September 30, 2011. Total Company interest-bearing deposits decreased \$560 million, or 28%. Excluding interest-bearing deposits associated with TRS, interest-bearing deposits increased \$1 million during 2011. Total Company non-interest-bearing deposits increased \$60 million, or 18%, from December 31, 2010 to September 30, 2011.

Approximately \$19 million of the increase within the non interest-bearing category was from one large commercial relationship, which had a \$50 million CD mature during the year. This client deposited all of the funds from its matured CD into its non interest-bearing operating account for a brief period of time until it moved \$33 million out of the Bank prior to the end of the second quarter. The remaining increase within the non interest-bearing category was primarily from growth in the Bank's treasury management transaction account base, in which some of the Bank's corporate clients moved their deposits into non interest-bearing accounts in order to take advantage of the current unlimited FDIC insurance guaranty. This unlimited guaranty by the FDIC is currently set to expire on December 31, 2012. Management believes that the expiration of the unlimited FDIC insurance guaranty will have a negative impact on the Bank's non interest-bearing deposit balances, however, at this time, management can not precisely predict how large an impact it may be.

The decline in interest-bearing accounts was heavily concentrated in the brokered certificates deposit category. Brokered certificates of deposit decreased \$578 million during 2011 to \$109 million at September 30, 2011. During the fourth quarter of 2010, RB&T 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.

In other interest-bearing categories, interest-bearing demand (NOW and SuperNOW) accounts increased \$272 million during 2011, while money market accounts declined \$190 million during the same period. Approximately \$195 million of the change between categories occurred during the third quarter and was directly related to provisions within the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act"). As a result of this Act, which removed the prohibition on payments of interest on demand accounts as of July 21, 2011, a substantial majority of the Bank's corporate money market relationships were converted into transactional NOW accounts.

Excluding brokered deposits and certificates of deposit, the Bank's lower cost interest-bearing deposits increased \$83 million. Approximately \$75 million of this increase came from five relationships, with \$27 million of that growth resulting from one existing relationship. At this time, the Bank is uncertain as to how long these deposits will remain with the Bank. If and when the economy further improves, management believes it is likely that a large portion of these balances could exit the Bank as the clients' business and investing prospects improve.

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

Securities sold under agreements to repurchase and other short-term borrowings decreased \$92 million, or 29%, during 2011. 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 Bank's treasury management accounts, repurchase agreement balances are subject to large fluctuations on a daily basis. Approximately \$66 million of the decrease for the first nine months of 2011 was attributable to one large treasury management relationship which moved a substantial portion of its balances outside of the Bank. This client's primary operation account remained with the Bank.

Liquidity

The Bank is significantly leveraged with a loan to deposit ratio (excluding brokered deposits) of 132% at September 30, 2011 and 134% at December 31, 2010. Historically, the Company has utilized secured and unsecured borrowing lines to supplement its funding requirements. At September 30, 2011 and December 31, 2010, Republic had available collateral to borrow an additional \$333 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 September 30, 2011. If the Bank were to lose a significant funding source, such as a few major depositors, or if any of its lines of credit were canceled, or if the Bank cannot obtain brokered deposits, the Bank would be forced to offer market leading deposit interest rates to meet its funding and liquidity needs.

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 Bank's liquidity is impacted by its ability to sell certain investment securities, which is limited due to the level of investment securities that are needed to secure public deposits, securities sold under agreements to repurchase and for other purposes, as required by law. At September 30, 2011 and December 31, 2010, these pledged investment securities had a fair value of \$443 million and \$430 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 September 30, 2011, the Bank had approximately \$241 million from 21 large non-sweep deposit relationships where the individual relationship individually exceeded \$1 million. 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 \$218 million of the total balance. If any of these balances are moved from the Bank, the Bank would likely utilize overnight FHLB advances in the short-term to replace the balances. On a longer-term basis, the Bank would likely utilize brokered deposits to replace withdrawn balances. Based on past experience utilizing brokered deposits, the Bank believes it can quickly obtain brokered deposits if needed. The overall cost of gathering brokered deposits, however, could be substantially higher than the Traditional Bank deposits they replace, potentially decreasing the Bank's earnings.

RB&T's liquidity risk increases significantly during the first quarter of each year due to the RAL program. RB&T 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 RB&T 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, RB&T 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 "Overview"
 - o "Results of Operations"
- Part II Item 1A "Risk Factors"

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 September 30, 2011, RB&T could, without prior approval, declare dividends of approximately \$112 million.

Capital

Total stockholders' equity increased from \$371 million at December 31, 2010 to \$453 million at September 30, 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 September 30, 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 12.51% at September 30, 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 Bank executed an intragroup trust preferred transaction, with the purpose of providing RB&T access to additional capital markets, if needed, in the future. The subordinated debentures held by RB&T, as a result of this transaction, however, are treated as Tier 2 Capital based on requirements administered by the Bank's federal banking agency. If RB&T's Tier I Capital ratios should not meet the minimum requirement to be well-capitalized, the Bank could immediately modify the transaction in order to maintain its well-capitalized status.

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

The following table sets forth the Company's risk based capital amounts and ratios as of September 30, 2011 and December 31, 2010:

Table 14 – Capital Ratios

(dollars in thousands)	As of September 30, 2011		As of December 31, 2010			
	Amount	Ratio	Amount	Ratio		
Total Risk Based Capital (to Risk Weighted Assets)						
Republic Bancorp, Inc.	\$ 497,864	25.16	% \$ 415,992	22.04	%	
Republic Bank & Trust Co.	444,685	23.41	385,433	21.18		
Republic Bank	16,142	20.37	16,160	22.67		
Tier I Capital (to Risk Weighted Assets)						
Republic Bancorp, Inc.	\$ 474,820	24.00	% \$ 394,194	20.89	%	
Republic Bank & Trust Co.	399,193	21.02	341,077	18.74		
Republic Bank	15,140	19.10	15,269	21.42		
Tier I Leverage Capital (to Average Assets)						
Republic Bancorp, Inc.	\$ 474,820	15.14	% \$ 394,194	12.05	%	
Republic Bank & Trust Co.	399,193	13.14	341,077	10.75		
Republic Bank	15,140	14.08	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 Bank, on an ongoing basis, monitors interest rate and liquidity risk in order to implement appropriate funding and balance sheet strategies. Management considers interest rate risk to be Bank's most significant market risk.

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

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

The Company did not run a model simulation for declining interest rates as of September 30, 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 September 30, 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 net growth in the securities and loan portfolios during the first nine months of 2011, as the assets contributing to this growth were generally redeployed from immediately repricing interest-earning cash balances into assets that have a repricing duration of greater than one year. Because the interest rate sensitivity model measures the impact of changing interest rates to net interest income for the next 12 month period, assets with a repricing duration of greater than one year will negatively impact net interest income in an "up" rate scenario. While this net growth 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 September 30, 2011. The Company's interest rate sensitivity model does not include loan fees within interest income. During the nine months ended September 30, 2011 and 2010, loan fees included in interest income were \$61.5 million and \$54.2 million, respectively.

Table 15 – Traditional Banking 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	\$-	\$2	\$4	\$5
Investment securities	16,415	19,342	21,838	24,202
Loans, excluding loan fees(1)	113,712	120,076	127,208	135,427
Total interest income, excluding loan fees	130,127	139,420	149,050	159,634
Projected interest expense:				
Deposits	6,680	15,893	25,108	33,730
Securities sold under agreements to repurchase	520	2,802	5,097	7,364

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

Federal Home Loan Bank advances and other					
long-term borrowings	18,010	19,102	20,218	20,410	
Total interest expense	25,210	37,797	50,423	61,504	
Net interest income, excluding loan fees	\$104,917	\$101,623	\$98,627	\$98,130	
Change from base		\$(3,294)	\$(6,290)	\$(6,787))
% Change from base		-3.14	% -6.00	% -6.47	%

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

In the ordinary course of operations, Republic and the Bank are defendants in various legal proceedings. 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. In February 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. 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 did 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. The FDIC had until May 3, 2011 to amend the Notice if it elected to do so. For additional discussion regarding the Notice, see Exhibit 10.1 of the Company’s Form 8-K filed with the SEC on February 10, 2011.

On May 3, 2011, RB&T received an Amended Notice from the FDIC revising its original Notice referenced in the preceding paragraph. The Amended Notice resulted from conclusions made by the FDIC during a targeted visitation of 250 electronic refund originator (“ERO”) offices in 36 states, which it conducted on February 15 and 16, 2011. In addition to the allegations contained in the Notice, the Amended Notice alleged violations of the Truth-In-Lending Act, the Equal Credit Opportunity Act, and the Federal Trade Commission Act. The Amended Notice also accused RB&T of, among other things, unsafe or unsound banking practices resulting from its third-party management; unsafe or unsound hindrance, impediment, or interference with a financial institution examination; unsafe or unsound physical security or electronic protection of ERO premises; violations of the Gramm-Leach-Bliley Act and FDIC regulation; and violations of the 2009 Order. Moreover, the Amended Notice included an assessment of a \$2 million CMP. For additional discussion regarding the Amended Notice, see Exhibits 99.1 and 99.2 of the Company’s Form 8-K filed with the SEC on May 5, 2011.

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. RB&T’s hearing date was originally set for September 19, 2011, in Louisville, Kentucky. As a result of the issuance of the Amended Notice, the hearing date is now scheduled for February 6, 2012,

unless it is subsequently changed by the ALJ. As part of the hearing process, the ALJ will take evidence on the items specified in the Amended Notice and make a recommendation of findings of fact to the FDIC Board of Directors, which may accept, accept in part, or reject the ALJ's recommendation. There is no statutory timeline in which the ALJ must make a recommendation to the FDIC Board of Directors. The FDIC Board of Directors would have 90 days after the date of the ALJ's recommendation 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. Filing an appeal would not operate as a stay of the order.

As stated above, RB&T is subject to a \$2 million CMP, which was assessed by the FDIC during the second quarter of 2011 as part of the Amended Notice. In addition to contesting the charges in the Amended Notice, RB&T is also contesting the CMP as part of the ALJ hearing process. Historically, ALJs and the FDIC Board of Directors have found in favor of the FDIC in such proceedings. As a result, management believes the ultimate payment of all or a material portion of the CMP is probable, and as such, RB&T recorded a \$2 million liability as of June 30, 2011.

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 & 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 timely filed its brief in opposition to the Motion, and the matter remains pending with the Court. 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.

On May 20, 2011, the Court granted the Kentucky Bankers Association’s (the “KBA”) request to participate in the suit as Amicus Curiae. The FDIC filed a motion asking the Court to reverse its approval of the KBA’s participation in the suit as Amicus Curiae. In granting the FDIC’s motion, the Court reserved the right to re-evaluate Amicus Curiae participation by the KBA in the future.

Overdraft Litigation

On August 1, 2011, a lawsuit was filed in the United States District Court for the Western District of Kentucky styled Brenda Webb vs. Republic Bank & Trust Company d/b/a Republic Bank, Civil Action No. 3:11-CV-00423-TBR. The complaint was brought as a putative class action and seeks monetary damages, restitution and declaratory relief allegedly arising from the manner in which RB&T assessed overdraft fees. In the Complaint, the Plaintiff pleads six claims against RB&T alleging: breach of contract and breach of the covenant of good faith and fair dealing (Count I), unconscionability (Count II), conversion (Count III), unjust enrichment (Count IV), violation of the Electronic Funds Transfer Act and Regulation E (Count V), and violations of the Kentucky Consumer Protection Act, KRS §367, et seq. (Count VI). Management is evaluating the claims of this lawsuit and is unable to estimate the possible loss or range of possible loss, if any, that may result from this lawsuit. RB&T intends to vigorously defend this case. An earlier, identical suit by the same plaintiff was filed on July 19, 2011 in the United States District Court for the Middle District for Florida styled Brenda Webb vs. Republic Bank & Trust Company d/b/a Republic Bank, Civil Action No. 2:11-CV-00405-JES-SPC. The plaintiff dismissed that suit without prejudice on August 2, 2011.

Item 1A. Risk Factors.

FACTORS THAT MAY AFFECT FUTURE RESULTS

An investment in the Company’s common stock is subject to risks inherent in its business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially and adversely affect its business, financial condition and results of operations in the future. The value or market price of the Company’s common stock could decline due to any of these identified or other risks, and you could lose all or part of your investment.

There are factors, many beyond the Company’s control, which may significantly change the results or expectations of the Company. Some of these factors are described below, however many are described in the other sections of the Company’s Annual Report on Form 10-K for the year ending December 31, 2010.

CRITICAL ACCOUNTING POLICIES/ESTIMATES, ACCOUNTING STANDARDS AND INTERNAL CONTROLS

The Company's accounting policies and estimates are critical components of the Company's presentation of its financial statements. Management must exercise judgment in selecting and adopting various accounting policies and in applying estimates. Actual outcomes may be materially different than amounts previously estimated. Management has identified several accounting policies and estimates as being critical to the presentation of the Company's financial statements. The Company's management must exercise judgment in selecting and applying many accounting policies and methods so they comply with generally accepted accounting principles and reflect management's judgment of the most appropriate manner to report the Company's financial condition and results. In some cases, management may select an accounting policy which might be reasonable under the circumstances yet might result in the Company's reporting different results than would have been reported under a different alternative. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These policies are described in the Company's 2010 Annual Report on Form 10-K under Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the section titled "Critical Accounting Policies and Estimates" and relate to the following:

TRS allowance for loan losses and provision for loan losses
Banking segment allowance for loan losses and provision for loan losses
Mortgage servicing rights
Income tax accounting
Goodwill and other intangible assets
Impairment of investment securities

The Company may experience future goodwill impairment, which could reduce its earnings. The Company will perform its annual goodwill impairment test during the fourth quarter of 2011 as of September 30, 2011. Its assessment of the fair value of goodwill is based on an evaluation of current purchase transactions, discounted cash flows from forecasted earnings, its current market capitalization, and a valuation of its assets. Its evaluation of the fair value of goodwill involves a substantial amount of judgment. If its judgment was incorrect and an impairment of goodwill was deemed to exist, the Company would be required to write down its assets resulting in a charge to earnings, which would adversely affect its results of operations, perhaps materially; however, it would have no impact on its liquidity, operations or regulatory capital.

Changes in accounting standards could materially impact the Company's financial statements. The Financial Accounting Standards Board ("FASB") may change the financial accounting and reporting standards that govern the preparation of the Company's financial statements. These changes can be hard to predict and can materially impact how the Company records and reports its financial condition and results of operations. Recently, the FASB has proposed new accounting standards related to fair value accounting and accounting for leases that could materially change the Company's financial statements in the future. In some cases, the Company could be required to apply a new or revised standard retroactively; resulting in the Company's restating prior period financial statements.

If the Company does not maintain strong internal controls and procedures, it may impact profitability. Management diligently reviews and updates its internal controls, disclosure controls and procedures, and corporate governance policies and procedures. This system is designed to provide reasonable, not absolute, assurances that the internal controls comply with appropriate regulatory guidance. Any undetected circumvention of these controls could have a material adverse impact on the Company's financial condition and results of operations.

TAX REFUND SOLUTIONS ("TRS")

Republic Bank & Trust Company's ("RB&T's") lines of business and products not typically associated with Traditional Banking expose earnings to additional risks and uncertainties. As part of TRS, RB&T provides Refund Anticipation Loans ("RALs"). The following details specific risk factors related to the TRS business segment:

TRS represents a significant business risk, and if the business was terminated, it would materially impact the earnings of RB&T. TRS offers bank products to facilitate the payment of tax refunds for customers that electronically file their tax returns. RB&T is one of only a few financial institutions in the U.S. that provides this service to taxpayers. Under this program, the taxpayer may receive a RAL or an Electronic Refund Check or Electronic Refund Deposit ("ERC/ERD" or "AR/ARD"). In return, RB&T charges a fee for the service.

During the nine months ended September 30, 2011, net income from the TRS business operating segment accounted for approximately 78% of the Company's total net income. Various governmental and consumer groups have, from time to time, questioned the fairness of the TRS RAL program and have accused this industry of charging excessive/usurious rates of interest, via the fee, and engaging in predatory lending practices. In addition, with the recent loss of the Debt Indicator ("DI") from the Internal Revenue Service ("IRS"), various governmental regulators have questioned the overall safety and soundness of the RAL program.

Consumer groups have also claimed that customers are not adequately advised that a RAL is a loan product and that alternative, less expensive means of obtaining tax refund proceeds may be available. Actions of these groups and others could result in regulatory, governmental or legislative action or material litigation against RB&T. Exiting this line of business by RB&T, either voluntarily or involuntarily, would significantly reduce RB&T's earnings.

In May 2011, RB&T received an Amended Notice of Charges for an Order to Cease and Desist; Notice of Assessment of Civil Money Penalties, Findings of Fact and Conclusions of Law; Order to Pay; and Notice of Hearing from the FDIC (the "Amended Notice") revising its original Notice dated February 10, 2011. The proceeding commenced by this Amended Notice could result in an order by the FDIC that RB&T immediately cease offering RALs. RALs represent a significant business risk, and if the product was terminated, it would materially negatively impact the earnings of RB&T. Net income associated with RALs represented approximately 34% of the TRS segment's net income for the nine months ended September 30, 2011. The Notice contends that RB&T's practice of originating RALs without the benefit of the DI from the IRS is unsafe and unsound. In addition to the allegations contained in the original Notice, the Amended Notice alleged violations regarding the Truth-In-Lending Act, the Equal Credit Opportunity Act, and the Federal Trade Commission Act. The Amended Notice also accused RB&T of, among other items, unsafe or unsound banking practices resulting from its third party management; unsafe or unsound hindrance, impediment, or interference with a financial institution examination; unsafe or unsound physical security or electronic protection of electronic refund originator ("ERO") premises; violations of the Gramm-Leach-Bliley Act and FDIC regulation; and violations of RB&T's 2009 Cease and Desist Order dated February 2009. Moreover, the Amended Notice includes the assessment of a \$2 million Civil Money Penalty ("CMP").

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. As a result of the Amended Notice, RB&T's hearing start date was changed to February 6, 2012 in Louisville, Kentucky, or on such date and at such place as may be set by the ALJ. As part of the hearing process, the ALJ will take evidence on the items specified in the Amended 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, to render a decision. Historically, ALJs and the FDIC Board of Directors have found in favor of the FDIC in such proceedings. 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. Filing an appeal would not operate as a stay of the order.

Discontinuation of the RAL product, either voluntarily or involuntarily, would have a material adverse impact to RB&T's overall earnings.

RB&T's two larger banking competitors in the tax refund industry announced their exit from that line of business during 2010, which could increase public and regulatory pressure for RB&T to exit the business. During 2010, the two larger banking competitors to RB&T within this line of business announced they were exiting the business and would not provide products for the first quarter 2011 tax season. Based on limited information available, management believes that one of the two institutions exited this business line due to the burden of complying with new regulatory product offering guidelines, anticipated changes in consumer protection guidelines and on-going regulatory pressure combined with the immateriality of this line of business to its overall results of operation. According to printed reports, RB&T's other large competitor, which had previously announced it would voluntarily exit the tax business in 2013, exited this business line in late 2010 due to a regulatory mandate that it could no longer offer RALs. RB&T's management believes that these chains of events could dramatically increase the level of public and regulatory scrutiny RB&T receives in this line of business.

Exiting this line of business by RB&T, either voluntarily or involuntarily, would significantly reduce RB&T's earnings.

During February 2011, RB&T's two remaining competitors in the tax business that offered RALs announced that they would not offer RALs beyond the 2011 calendar year. This action left RB&T as the only bank remaining in the tax industry with plans to offer RALs beyond the 2011 calendar year, further increasing public and regulatory

pressure for RB&T to discontinue the RAL product. Discontinuation of the RAL product, either voluntarily or involuntarily, would have a material adverse impact to RB&T's earnings.

RB&T's ERC and ERD products represent a significant business risk and if RB&T can no longer offer RALs it could have a material adverse effect on its ERC and ERD product volumes and profits. In addition to the reduction in RAL net income resulting from the discontinuation of the RAL product, RB&T faces potential direct competition for ERC/ERD market share from independently-owned processing groups partnered with banks. Independent processing groups that are unable to offer RAL products have historically been at a competitive disadvantage to banks who could offer RALs. With the receipt of the Amended Notice from the FDIC, RB&T may not be able to originate RALs beyond the current 2011 calendar year. Without the ability to originate RALs, RB&T would most likely face increased competition in the ERC/ERD marketplace. In addition to a potential loss of volume resulting from additional competitors, RB&T would also likely incur substantial pressure on its profit margin for its ERC/ERD products as well.

In addition to the potential impact to ERCs and ERDS resulting from a loss of the RAL product, the Amended Notice could also negatively impact RB&T's ability to originate those products, as components of the Amended Notice were not specific to the RAL product. Alleged violations within the Amended Notice regarding the Truth-In-Lending Act and the Federal Trade Commission Act could also negatively impact ERCs and ERDs. In addition, the Amended Notice also accused RB&T of, among other items, unsafe or unsound banking practices resulting from its third party management; unsafe or unsound physical security or electronic protection of ERO premises; violations of the Gramm-Leach-Bliley Act and FDIC regulation; and violations of RB&T's 2009 Cease and Desist Order dated February 2009, all of which could impact RB&T's ability to originate ERCs and ERDs in the future.

Reduced ERC/ERD volume, a decrease in profitability of the ERC/ERD products or a regulatory requirement to cease offering the product in the future would have a material adverse impact to RB&T's earnings.

RALs represent a significant third party management risk, and if RB&T fails to comply with all the statutory and regulatory requirements, it could have a material negative impact on earnings. TRS and its third party partners operate in a highly regulated environment and deliver products and services that are subject to strict legal and regulatory requirements. Failure by us or RB&T's third party partners to comply with laws and regulations could result in fines and penalties that materially and adversely affect RB&T's earnings.

The TRS business operating segment represents a significant operational risk, and if RB&T were unable to properly service the business, or grow the business, it could materially impact earnings. Continued growth in this business operating segment requires continued increases in technology and employees to service the new business. In order to process the new business, RB&T must implement and test new systems, as well as train new employees. RB&T relies heavily on communications and information systems to conduct its TRS business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in customer relationship management and other systems. Significant operational problems could cause RB&T to incur higher than normal credit losses. Significant operational problems could also cause a material portion of RB&T's tax-preparer base to switch to a competitor to process their bank product transactions, significantly reducing RB&T's projected revenue without a corresponding decrease in expenses.

RALs represent a significant compliance and regulatory risk, and if RB&T fails to comply with all statutory and regulatory requirements, it could have a material negative impact on earnings. Federal and state laws and regulations govern numerous matters relating to the offering of RALs. Failure to comply with disclosure requirements such as Regulation B (Fair Lending) and Regulation Z (Truth in Lending) or with laws relating to the permissibility of interest rates and fees charged, could have a material negative impact on earnings. In addition, failure to comply with applicable laws and regulations could also expose RB&T to additional CMPs and litigation risk, including shareholder derivative actions.

RALs represent a significant liquidity, or funding, risk. Significantly overestimating or underestimating RB&T's liquidity or funding needs for the following first quarter's tax season could have a material negative impact on RB&T's earnings. Funding for RAL liquidity requirements may also cost more than RB&T's current estimates and/or historical experience. RB&T's liquidity risk increases significantly during the first quarter of each year due to the RAL program. RB&T 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 RB&T 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, RB&T could experience a significant shortfall of cash needed to fund RALs and could potentially be required to stop or reduce its RAL originations.

RALs represent a significant credit risk, and if RB&T is unable to collect a significant portion of its RALs in tax seasons beyond the 2011 calendar year, it would materially, negatively impact earnings. There is credit risk associated with a RAL because the funds are disbursed to the customer prior to RB&T receiving the customer's refund from the IRS. During the previous five calendar years at TRS, net credit losses related to RALs originated have ranged from a low of 0.36% to a high of 1.02% of total RALs originated (including retained and securitized RALs). For the nine months ended September 30, 2011, net RAL credit losses were 1.43% of total RALs originated.

RB&T collects substantially all of its payments related to RALs from the IRS. Losses generally occur on RALs when RB&T does not receive payment from the IRS due to a number of reasons, such as IRS revenue protection strategies including audits of returns, errors in the tax return, tax return fraud and tax debts not previously disclosed to RB&T during its underwriting process. Although RB&T's underwriting takes these factors into consideration during the loan approval process, if the IRS significantly alters its revenue protection strategies for a given tax season, or RB&T is incorrect in its underwriting assumptions, RB&T could experience higher loan loss provisions above those from previous tax seasons. The provision for loan losses is a significant component of the TRS segment's overall earnings.

A lower than acceptable level of profit in the TRS segment could cause RB&T to voluntarily exit this line of business.

A significant portion of TRS RAL, ERC and ERD volume and revenue is derived from two third party relationships. The loss of either of these relationships without replacing their volume, or a significant unplanned reduction in demand for their tax services, would materially, negatively impact the RB&T's operations. Approximately 40% of TRS segment revenue for the nine months ended September 30, 2011 was derived from Jackson Hewitt ("JH") tax offices with another 20% from Liberty tax offices. These contracts are currently set to expire on October 14, 2014 and October 16, 2012 unless terminated earlier for legal or regulatory reasons. In May 2011, JH filed for Chapter 11 bankruptcy bringing into question their viability as a future partner. RB&T's ability to replace this revenue in the event JH is not able to perform due to its bankruptcy status could have a material negative impact on earnings. A loss of business by RB&T under either of these circumstances would have a material adverse effect on RB&T's earnings.

RB&T is subject to a Cease and Desist Order (the "2009 Order") from the FDIC. As part of the Amended Notice, the FDIC assessed a \$2 million CMP against RB&T, in large part, due to alleged violations of the 2009 Order. The failure to comply with the 2009 Order, or additional corrective actions, could result in additional significant penalties and/or additional sanctions. RB&T and the FDIC agreed to the 2009 Order in February 2009, which cites insufficient oversight of RB&T's consumer compliance programs, most notably in RB&T's RAL program. The 2009 Order requires increased compliance oversight of the RAL program by RB&T's management and board of directors that is subject to review and approval by the FDIC. Under the 2009 Order, RB&T must increase its training and audits of its ERO partners, who make RB&T's tax products available to taxpayers across the nation. In addition, various components of the 2009 Order require RB&T to meet certain implementation, completion and reporting timelines, including the establishment of a compliance management system to appropriately assess, measure, monitor and control third party risk and ensure compliance with consumer laws.

If the FDIC further determines that RB&T is not in compliance with the 2009 Order, it has the authority to issue additional CMPs and bring more restrictive enforcement actions. These enforcement actions could include significant additional penalties and/or requirements regarding the tax business which could significantly, negatively impact this segment's profitability and cause RB&T to exit the business altogether.

Establishment of the Consumer Financial Protection Agency. In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law. Among other items, this act created the Bureau of Consumer Financial Protection, which will have authority to regulate companies that provide consumer financial services. The Company is regularly refining its consumer financial services and developing new products and services or operations to address recent or anticipated legislative and regulatory changes. Some of these anticipated legislative and regulatory changes may result in, among other things, RB&T reducing fees to consumers, implementing additional disclosure requirements, or eliminating products such as RALs, altogether. The Company could incur additional operating costs which could reduce overall product profitability and lead to the Company exiting certain consumer products. The Company generally cannot estimate what effect, if any, operational changes it would make in response to legislative and regulatory changes and what effect these changes may have on the Company's financial results until the Company is able to develop legal and financially viable alternative products and services.

For additional discussion regarding the 2009 Order, see Exhibit 10.62 of the Company's Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 6, 2009.

For additional discussion regarding the Notice, see Exhibit 10.1 of the Company's Form 8-K filed with the SEC on February 10, 2011.

For additional discussion regarding the Amended Notice, see Exhibits 99.1 and 99.2 of the Company's Form 8-K filed with the SEC on May 5, 2011.

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

- 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 "Overview"
 - o "Results of Operations"

TRADITIONAL BANK LENDING AND THE ALLOWANCE FOR LOANS LOSSES

The allowance for loan losses could be insufficient to cover the Bank's actual loan losses. The Bank makes various assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of its borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of its loans. In determining the amount of the allowance for loan losses, among other things, the Bank reviews its loans and its loss and delinquency experience, and the Bank evaluates economic conditions. If its assumptions are incorrect, its allowance for loan losses may not be sufficient to cover losses inherent in its loan portfolio, resulting in additions to its allowance. Material additions to the allowance would materially decrease net income.

In addition, regulatory agencies periodically review the allowance for loan losses and may require the Bank to increase its provision for loan losses or recognize further loan charge-offs. A material increase in the allowance for loan losses or loan charge-offs, as required by the regulatory authorities, would have a material adverse effect on the Bank's financial condition and results of operations.

Deterioration in the quality of the Traditional Banking loan portfolio may result in additional charge-offs which will adversely impact Republic's operating results. Despite the various measures implemented by Republic to address the current economic situation, there may be further deterioration in the Bank's loan portfolio which could require additional charge-offs. Additional charge-offs will adversely affect the Bank's operating results and financial condition.

Defaults in the repayment of loans may negatively impact the Bank. When borrowers default on their loan obligations, it may result in lost principal and interest income and increased operating expenses associated with the increased allocation of management time and resources associated with the collection efforts. In certain situations where collection efforts are unsuccessful or acceptable "work out" arrangements cannot be reached or performed, the Bank

may have to charge off loans, either in part or in whole. Additional charge-offs will adversely affect the Bank's operating results and financial condition.

The Bank's financial condition and earnings could be negatively impacted to the extent the Bank relies on borrower information that is false, misleading or inaccurate. The Bank relies on the accuracy and completeness of information provided by vendors, customers and other parties. In deciding whether to extend credit, or enter into transactions with other parties, the Bank relies on information furnished by, or on behalf of, customers or entities related to those customers or other parties. Additional charge-offs will adversely affect the Bank's operating results and financial condition.

The Bank's use of appraisals in deciding whether to make a loan on or secured by real property does not ensure the value of the real property collateral. In considering whether to make a loan secured by real property, the Bank generally requires an appraisal of the real property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and an error in fact or judgment could adversely affect the reliability of the appraisal. In addition, events occurring after the initial appraisal may cause the value of the real estate to decrease. As a result of any of these factors the value of collateral backing a loan may be less than supposed, and if a default occurs the Bank may not recover the outstanding balance of the loan. Additional charge-offs will adversely affect the Bank's operating results and financial condition.

The Bank is exposed to risk of environmental liabilities with respect to properties to which it takes title. In the course of its business, the Bank may own or foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. The Bank may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if the Bank is the owner or former owner of a contaminated site, the Bank may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. These costs and claims could adversely affect the Bank.

Prepayment of loans may negatively impact Republic's business. The Bank's customers may prepay the principal amount of their outstanding loans at any time. The speeds at which such prepayments occur, as well as the size of such prepayments, are within the Bank's customers' discretion. If customers prepay the principal amount of their loans, and the Bank is unable to lend those funds to other customers or invest the funds at the same or higher interest rates, the Bank's interest income will be reduced. A significant reduction in interest income would have a negative impact on the Bank's results of operations and financial condition.

Changes in existing U.S. government-sponsored mortgage programs or servicing eligibility standards could materially and adversely affect its business, financial position, results of operations or cash flows. In addition, RB&T is highly dependent upon programs administered by Freddie Mac ("FHLMC").

RB&T's ability to generate revenues through mortgage loan sales to institutional investors depends to a significant degree on programs administered by FHLMC. This entity plays a powerful role in the residential mortgage industry, and RB&T has significant business relationships with them. RB&T's status as a FHLMC approved seller/servicer is subject to compliance with their selling and servicing guides.

Any discontinuation of, or significant reduction or material change in, the operation of FHLMC or any significant adverse change in the level of activity in the secondary mortgage market or the underwriting criteria of FHLMC would likely prevent RB&T from originating and selling most, if not all, of its mortgage loan originations.

In addition, RB&T services loans on behalf of FHLMC and a majority of its mortgage servicing rights relate to these servicing activities. These entities establish the base service fee in which to compensate RB&T for servicing loans. In January 2011, the Federal Housing Finance Agency directed Fannie Mae ("FNMA") and FHLMC to develop a joint initiative to consider alternatives for future mortgage servicing structures and compensation. Under this proposal, the government sponsored entities are considering potential structures in which the minimum service fee would be reduced or eliminated altogether. The government sponsored entities are also considering different pricing options for non-performing loans to better align servicer incentives with mortgage-backed securities investors and provide the loan guarantor the ability to transfer non-performing servicing.

These proposals, if adopted, could cause significant changes that impact the entire mortgage industry. The lower capital requirements could increase competition by lowering barriers to entry on mortgage originations and could increase the concentration of performing loans with larger servicers that have a cost-advantage through economies of scale that would no longer be limited by capital constraints.

In February 2011, the Obama administration issued a report to Congress, outlining various options for long-term reform of FNMA and FHLMC. These options involve reducing the role of FNMA and FHLMC in the mortgage market and to ultimately wind down both institutions such that the private sector provides the majority of mortgage credit. The report states that any potential reform efforts will make credit less easily available and that any such changes should occur at a measured pace that supports the nation's economic recovery. Any of these options are likely

to result in higher mortgage rates in the future, which could have a negative impact on the Bank's mortgage production business. Additionally, it is unclear what impact these changes will have on the secondary mortgage markets, mortgage-backed securities pricing, and competition in the industry.

The potential changes to the government sponsored mortgage programs, and related servicing compensation structures, could require RB&T to fundamentally change its business model in order to effectively compete in the market. RB&T's inability to make the necessary changes to respond to these changing market conditions or loss of its approved seller/servicer status with any of these government sponsored entities, would have a material adverse effect on its overall business and its consolidated financial position, results of operations and cash flows.

The mortgage warehouse lending business is subject to numerous risks. Risks associated with mortgage warehouse loans include, without limitation, (i) credit risks relating to the mortgage bankers that borrow from RB&T, (ii) the risk of intentional misrepresentation or fraud by any of such mortgage bankers, (iii) changes in the market value of mortgage loans originated by the mortgage banker, the sale of which is the expected source of repayment of the borrowings under a warehouse line of credit, due to changes in interest rates during the time in warehouse, or (iv) unsalable or impaired mortgage loans so originated, which could lead to decreased collateral value and the failure of a purchaser of the mortgage loan to purchase the loan from the mortgage banker.

INVESTMENT SECURITIES AND FHLB STOCK

Concerns regarding the recent downgrade of the U.S. government's credit rating could have a material adverse effect on its business, financial condition, liquidity, and results of operations. In August, 2011, Standard & Poor's lowered its long term sovereign credit rating on the U.S. from AAA to AA+ and also lowered the credit rating of several related government agencies and institutions, including FHLMC, FNMA, and the Federal Home Loan Bank's ("FHLB's"), from AAA to AA+. While U.S. lawmakers reached an agreement to raise the federal debt ceiling, the downgrade, according to Standard & Poor's, reflects its view that the fiscal consolidation plan within that agreement fell short of what would be necessary to stabilize the U.S. government's medium term debt dynamics. This downgrade could have material adverse impacts on financial and banking markets and economic conditions in the United States and throughout the world and, in turn, the market's anticipation of these impacts could have a material adverse effect on its business, financial condition and liquidity. In particular, it could increase interest rates and disrupt payment systems, money markets, and long-term or short-term fixed income markets, adversely affecting the cost and availability of funding, which could negatively affect its profitability. It may also negatively affect the value and liquidity of the government securities the Company hold in its investment portfolio.

At September 30, 2011, the majority of the Bank's investment securities were issued by FHLMC, FNMA, and the FHLB. The Bank also owns \$26 million of FHLB stock, which is also a primary source of its borrowing capacity. It is uncertain as to what, if any, impact the downgrade will have on these securities as sources of liquidity and funding in the future. Also, the adverse consequences as a result of the downgrade could extend to the borrowers of the loans the Company makes and, as a result, could adversely affect its borrowers' ability to repay their loans. Because of the unprecedented nature of the negative credit rating actions with respect to U.S. government obligations, the ultimate impacts on markets and its business, financial condition, liquidity, and results of operations are unpredictable and may not be immediately apparent. These consequences could be exacerbated if other statistical rating agencies, particularly Moody's and Fitch, decide to downgrade the U.S. government's credit rating in the future, or if the U.S. defaults on any of its obligations.

RB&T owns four investment securities which RB&T believes have an elevated level of credit risk and are extremely illiquid. Nationally, residential real estate values have declined significantly since 2007. These declines in value, coupled with the reduced ability of certain homeowners to refinance or repay their residential real estate obligations, have led to elevated delinquencies and losses in residential real estate loans. Many of these loans have previously been securitized and sold to investors as private label mortgage backed securities and other private label mortgage-related security. RB&T owns three private label mortgage backed and one private label mortgage-related securities with a total carrying value of \$5.8 million at September 30, 2011. For three of these securities, the Bank has recorded all projected losses through OTTI charges. The Bank 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. Further deterioration in economic conditions and/or new or additional downgrades from applicable rating agencies could cause the Bank to record additional impairment charges up to \$5.8 million in the future. See additional discussion regarding these impairment charges under Footnote 2 “Investment Securities” of Part I Item 8 “Financial Statements.”

The Bank’s investment in Federal Home Loan Bank stock may become impaired. At September 30, 2011, the Bank owned \$26 million in FHLB stock. As a condition of membership at the FHLB, the Bank is required to purchase and hold a certain amount of FHLB stock. Its stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB and is calculated in accordance with the Capital Plan of the FHLB. The Bank’s FHLB stock has a par value of \$100, is carried at cost, and it is subject to recoverability testing per applicable accounting standards. The FHLB has announced that it had a risk-based capital deficiency under the regulations of the Federal Housing Finance Agency (the “FHFA”), its primary regulator, as of December 31, 2008, and that it would suspend future dividends and the repurchase and redemption of outstanding common stock. As a result, the FHLB has not paid a dividend since the fourth quarter of 2008. The FHLB has communicated that it believes the calculation of risk-based capital under the current rules of the FHFA significantly overstates the market risk of the FHLB’s private-label mortgage-backed securities in the current market environment and that it has enough capital to cover the risks reflected in its balance sheet. As a result, the Company has not recorded an other-than-temporary impairment on its investment in FHLB stock. However, continued deterioration in the FHLB’s financial position may result in impairment in the value of those securities. The Company will continue to monitor the financial condition of the FHLB as it relates to, among other things, the recoverability of its investment.

ASSET LIABILITY MANAGEMENT AND LIQUIDITY

Fluctuations in interest rates could reduce profitability. The Bank's primary source of income is from the difference between interest earned on loans and investments and the interest paid on deposits and borrowings. The Bank expects to periodically experience "gaps" in the interest rate sensitivities of its assets and liabilities, meaning that either interest-bearing liabilities will be more sensitive to changes in market interest rates than interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to the Bank's position, earnings may be negatively affected.

The Bank's asset-liability management strategy may not be able to prevent changes in interest rates from having a material adverse effect on results of operations and financial condition. Overall, interest rates generally have decreased since 2008. When interest rates begin to rise again, the Bank's interest income could rise at a slower pace than the Bank's interest expense and the fair value of the Bank's assets could decrease at a faster pace than the increase in the fair value of interest-bearing liabilities. These circumstances would cause a decline in the Bank's net interest income and a reduction in the economic value of the Bank's shareholders' equity.

A continued stable interest rate environment could reduce profitability. From 2007 through early 2009, net interest income within the Traditional Banking segment benefitted from low short-term interest rates in combination with a "steep" yield curve and an increase in average-earning assets. The month-to-month improvement in this benefit when comparing to the same month in the previous year, however, began to decrease in late 2008, as the Bank could no longer lower the rate on many of its interest-bearing liabilities, while the Bank's higher yielding interest-earning assets continued to paydown and reprice lower. An on-going stable interest rate environment will cause the Bank's interest-earning assets to continue to reprice into lower yielding assets without the ability for the Bank to offset the decline in interest income through a reduction in its cost of funds. The continued contraction in the Bank's net interest margin will cause net income to decrease. The overall magnitude of the decrease in net interest income will depend on the period of time that the current interest rate environment remains.

Mortgage Banking activities could be adversely impacted by increasing long-term interest rates. The Company is unable to predict changes in market interest rates. Changes in interest rates can impact the gain on sale of loans, loan origination fees and loan servicing fees, which account for a significant portion of Mortgage Banking income. A decline in market interest rates generally results in higher demand for mortgage products, while an increase in rates generally results in reduced demand. Generally, if demand increases, Mortgage Banking income will be positively impacted by more gains on sale; however, the valuation of existing mortgage servicing rights will decrease and may result in a significant impairment. Moreover, a decline in demand for Mortgage Banking products could also adversely impact other programs/products such as home equity lending, title insurance commissions and service charges on deposit accounts.

The Company may need additional capital resources in the future and these capital resources may not be available when needed or at all. The Company may need to incur additional debt or equity financing in the future for growth, investment or strategic acquisitions. The Company cannot assure you that such financing will be available on acceptable terms or at all. If the Company is unable to obtain additional financing, it may not be able to grow or make strategic acquisitions or investments.

The Bank's funding sources may prove insufficient to replace deposits and support future growth. The Bank relies on customer deposits, brokered deposits and advances from the FHLB to fund operations. Although the Bank has historically been able to replace maturing deposits and advances if desired, no assurance can be given that the Bank would be able to replace such funds in the future if the Bank's financial condition or the financial condition of the FHLB or general market conditions were to change. The Bank's financial flexibility will be severely constrained if it is unable to maintain its access to funding or if adequate financing is not available to accommodate future growth at

acceptable interest rates. Finally, if the Bank is required to rely more heavily on more expensive funding sources to support future growth, revenues may not increase proportionately to cover costs. In this case, profitability would be adversely affected.

Although the Bank considers such sources of funds adequate for its liquidity needs, the Bank may seek additional debt in the future to achieve long-term business objectives. There can be no assurance additional borrowings, if sought, would be available to the Bank or, if available, would be on favorable terms. The sale of equity or equity-related securities in the future may be dilutive to the Bank's shareholders, and debt financing arrangements may require the Bank to pledge some of its assets and enter into various affirmative and negative covenants, including limitations on operational activities and financing alternatives. Future financing sources, if sought, might be unavailable to the Bank or, if available, could be on terms unfavorable to the Bank and may require regulatory approval. If additional financing sources are unavailable or are not available on reasonable terms, growth and future prospects could be adversely affected.

DEPOSITS, OVERDRAFTS, FDIC INSURANCE PREMIUMS AND SERVICE CHARGES ON DEPOSITS

In response to a continuing decline in the Bank's service charges on deposits, the Bank significantly revised its fee structure related to its consumer deposit accounts effective for the third quarter of 2011. A negative response to this new fee structure from Republic's consumer client base could cause a significant reduction in customer accounts, a significant reduction in customer deposit account balances and a reduction in services charges on deposits. As a result of the continued decline in service charges on deposits, the Bank instituted a new fee structure for its checking account products during the third quarter of 2011. The Bank converted the substantial majority of its existing checking accounts into new product types with new fee structures with the goal to reverse the trend of declining service charges on deposits. The overall results of the new fees will be highly dependent on consumer deposit balances and overall customer acceptance of the new fees. A lack of customer acceptance of the new account fees resulting in a significant decline in the number of consumer deposit accounts could have a material negative impact on the Bank's future deposit fee income.

Clients could pursue alternatives to bank deposits, causing the Company to lose a relatively inexpensive source of funding. Checking and savings account balances and other forms of client deposits could decrease if clients perceive alternative investments, such as the stock market, as providing superior expected returns. If clients move money out of bank deposits in favor of alternative investments, Republic could lose a relatively inexpensive source of funds, increasing its funding costs.

The Bank's "Overdraft Honor" program represents a significant business risk, and if the Bank terminated the program it would materially impact the earnings of the Bank. There can be no assurance that Congress, the Bank's regulators, or others, will not impose additional limitations on this program or prohibit the Bank from offering the program. The Bank's "Overdraft Honor" program permits eligible customers to overdraft their checking accounts up to a predetermined dollar amount for the Bank's customary overdraft fee(s). Generally, to be eligible for the Overdraft Honor program, customers must qualify for one of the Bank's traditional checking products when the account is opened and remain in that product for 30 days; have deposits of at least \$600; and have had no overdrafts or returned deposited items. Once the eligibility requirements have been met, the client is eligible to participate in the Overdraft Honor program. If an overdraft occurs, the Bank may pay the overdraft, at its discretion, up to \$600 (an account in good standing after two years is eligible for up to \$1,000). Under regulatory guidelines, customers utilizing the Overdraft Honor program may remain in overdraft status for no more than 45 days. Generally, an account that is overdrawn for 60 consecutive days is closed and the balance is charged off.

Overdraft balances from deposit accounts, including those overdraft balances resulting from the Bank's Overdraft Honor program, are recorded as a component of loans on the Bank's balance sheet.

The Bank assesses two types of fees related to overdrawn accounts, a fixed per item fee and a fixed daily charge for being in overdraft status. The per item fee for this service is not considered an extension of credit, but rather is considered a fee for paying checks when sufficient funds are not otherwise available. As such, it is classified on the

income statement in “service charges on deposits” as a component of non interest income along with per item fees assessed to customers not in the Overdraft Honor program. A substantial majority of the per item fees in service charges on deposits relates to customers in the Overdraft Honor program. The daily fee assessed to the client for being in overdraft status is considered a loan fee and is thus included in interest income under the line item “loans, including fees.” The total net per item fees included in service charges on deposits for the first nine months of 2011 and 2010 were \$6.9 million and \$8.3 million. The total net daily overdraft charges included in interest income for the first nine months of 2011 and 2010 was \$1.3 million and \$1.5 million, respectively. Additional limitations or elimination, or adverse modifications to this program, either voluntary or involuntary, would significantly reduce Bank earnings.

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 Bank'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 (Joint Guidance)(FIL-11-2005) and the Federal Reserve Bank ("FRB") November 12, 2009 amendments to Regulation E, to avoid harming consumers or creating other compliance, operational, financial, reputational, legal 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."

These guidelines, as interpreted by management, have negatively impacted and will continue to negatively impact the Bank's net income in 2011 and beyond. Because of the large number of changes required by the guidelines and the lack of interpretive guidance available from the FDIC at this time regarding some of the provisions within the guidelines, management is unable to determine precisely how negative the impact will be. Additional limitations or elimination, or adverse modifications to this program, either voluntary or involuntary, would further significantly reduce net income.

Company expenses will increase as a result of increases in FDIC insurance premiums. As part of a plan to restore the reserve ratio of the Deposit Insurance Fund, the FDIC imposed a special assessment equal to five basis points of assets less Tier 1 capital as of June 30, 2009, which was paid on September 30, 2009. The Company recorded an expense of \$1.4 million during the quarter ended June 30, 2009, to reflect the special assessment. The FDIC has also increased its maximum quarterly assessment rates and changed the method by which rates are calculated. The Dodd-Frank Wall Street Reform and Consumer Protection Act broadens the base for FDIC insurance assessments. Effective April 1, 2011, assessments were based on the average consolidated total assets less tangible equity capital of a financial institution. Any further special assessments or increases to quarterly assessment rates will adversely affect the Company's earnings. Moreover, under the Dodd-Frank Act, the minimum statutory reserve ratio for the FDIC's Deposit Insurance Fund will increase from 1.15% to 1.35% of insurable deposits by 2020. There can be no assurance that the FDIC will not impose additional special assessments, or increase the deposit premiums applicable to the Company, in the future.

COMPANY COMMON STOCK

The Company's stock generally has a low average daily trading volume, which limits a stockholder's ability to quickly accumulate or quickly sell large numbers of shares of Republic's stock without causing wide price fluctuations. Republic's stock price can fluctuate widely in response to a variety of factors, such as actual or anticipated variations in the Company's operating results, recommendations by securities analysts, operating and stock price performance of other companies, news reports, results of litigation, regulatory actions or changes in government regulations, among other factors. A low average daily stock trading volume can lead to significant price swings even when a relatively small number of shares are being traded.

The market price for the Company's common stock may be volatile. The market price of the Company's common stock could fluctuate substantially in the future in response to a number of factors, including those discussed below. The market price of the Company's common stock has in the past fluctuated significantly and is likely to continue to fluctuate significantly. Some of the factors that may cause the price of the Company's common stock to fluctuate include:

Variations in the Company's and its competitors' operating results;

Changes in earnings estimates or publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to us or other financial institutions;

Announcements by the Company or its competitors of mergers, acquisitions and strategic partnerships;

Additions or departure of key personnel;

Actual or anticipated quarterly or annual fluctuations in operating results, cash flows and financial condition;

The announced exiting of or significant reductions in material lines of business within the Company;

Changes or proposed changes in banking laws or regulations or enforcement of these laws and regulations;

Events affecting other companies that the market deems comparable to the Company;

Developments relating to regulatory examinations;

Speculation in the press or investment community generally or relating to the Company's reputation or the financial services industry;

Future issuances or re-sales of equity or equity-related securities, or the perception that they may occur;

General conditions in the financial markets and real estate markets in particular, developments related to market conditions for the financial services industry;

Domestic and international economic factors unrelated to the Company's performance;

Developments related to litigation or threatened litigation;

The presence or absence of short selling of the Company's common stock; and

Future sales of the Company's common stock or debt securities.

In addition, in recent years, the stock market, in general, has experienced extreme price and volume fluctuations. This is due, in part, to investors' shifting perceptions of the effect of changes and potential changes in the economy on various industry sectors. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to their performance or prospects. These broad market fluctuations may adversely affect the market price of the Company's common stock, notwithstanding its actual or anticipated operating results, cash flows and financial condition. The Company expects that the market price of its common stock will continue to fluctuate due to many factors, including prevailing interest rates, other economic conditions, operating performance and investor perceptions of the outlook for the Company specifically and the banking industry in general. There can be no assurance about the level of the market price of the Company's common stock in the future or that you will be able to resell your shares at times or at prices you find attractive.

An investment in the Company's Common Stock is not an insured deposit. The Company's common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in the Company's common stock is inherently risky for the reasons described in this section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire the Company's common stock, you could lose some or all of your investment.

The Company's insiders hold voting rights that give them significant control over matters requiring stockholder approval. The Company's Chairman, President, and Vice Chairman hold substantial amounts of the Company's Class A Common Stock and Class B Common Stock. Each share of Class A Common Stock is entitled to one vote and each share of Class B Common Stock is entitled to ten votes. This group generally votes together on matters presented to stockholders for approval. These actions may include, for example, the election of directors, the adoption of amendments to corporate documents, the approval of mergers, sales of assets and the continuation of the Company as a registered company with obligations to file periodic reports and other filings with the SEC. Consequently, other stockholders' ability to influence Company actions through their vote may be limited and the non-insider stockholders may not have sufficient voting power to approve a change in control even if a significant premium is being offered for their shares. The Company cannot assure you that the majority stockholders will vote their shares in accordance with minority stockholder interests.

GOVERNMENT REGULATION / ECONOMIC FACTORS

The Company is significantly impacted by the regulatory, fiscal and monetary policies of federal and state governments which could negatively impact the Company's liquidity position and earnings. These policies can materially affect the value of the Company's financial instruments and can also adversely affect the Company's customers and their ability to repay their outstanding loans. Also, failure to comply with laws, regulations or policies, or adverse examination findings, could result in significant penalties, negatively impact operations, or result in other sanctions against the Company. The Board of Governors of the FRB regulates the supply of money and credit in the U.S. Its policies determine, in large part, the Company's cost of funds for lending and investing and the return the Company earns on these loans and investments, all of which impact net interest margin.

The Company and the Bank are heavily regulated at both the federal and state levels and are subject to various routine and non-routine examinations by federal and state regulators. This regulatory oversight is primarily intended to protect depositors, the Deposit Insurance Fund and the banking system as a whole, not the stockholders of the Company. Changes in policies, regulations and statutes, or the interpretation thereof, could significantly impact the product offerings of Republic causing the Company to terminate or modify its product offerings in a manner that could materially adversely affect the earnings of the Company.

Federal and state laws and regulations govern numerous matters including changes in the ownership or control of banks and bank holding companies, maintenance of adequate capital and the financial condition of a financial

institution, permissible types, amounts and terms of extensions of credit and investments, permissible non-banking activities, the level of reserves against deposits and restrictions on dividend payments. Various federal and state regulatory agencies possess cease and desist powers, and other authority to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulations. The FRB possesses similar powers with respect to bank holding companies. These, and other restrictions, can limit in varying degrees, the manner in which Republic conducts its business.

The Dodd-Frank Act may adversely affect the Company's business, financial conditions and results of operations. On July 21, 2010, the President of the U.S. signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act ("the Dodd-Frank Act"). The Dodd-Frank Act imposes various new restrictions and creates an expanded framework of regulatory oversight for financial institutions. Because the Dodd-Frank Act requires various federal agencies to adopt a broad range of regulations with significant discretion, many of the details of the new law and the effects they will have on the Company will not be known for months or even years.

The Dodd-Frank Act would require the federal banking agencies to establish stricter risk-based capital requirements and leverage limits to apply to banks and bank holding companies. In addition, the "Basel III" standards recently announced by the Basel Committee on Banking Supervision (the "Basel Committee"), if adopted, could lead to significantly higher capital requirements, higher capital charges and more restrictive leverage and liquidity ratios. The standards would, among other things, impose more restrictive eligibility requirements for Tier 1 and Tier 2 capital; increase the minimum Tier 1 common equity ratio to 4.5%, net of regulatory deductions, and introduce a capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets, raising the target minimum common equity ratio to 7%; increase the minimum Tier 1 capital ratio to 8.5% inclusive of the capital conservation buffer; increase the minimum total capital ratio to 10.5% inclusive of the capital buffer; and introduce a countercyclical capital buffer of up to 2.5% of common equity or other fully loss absorbing capital for periods of excess credit growth. Basel III also introduces a non-risk adjusted Tier 1 leverage ratio of 3%, based on a measure of total exposure rather than total assets, and new liquidity standards.

The new Basel III capital standards will be phased in from January 1, 2013 until January 1, 2019, and it is not yet known how these standards will be implemented by U.S. regulators generally or how they will be applied to financial institutions of its size. Implementation of these standards, or any other new regulations, may adversely affect its ability to pay dividends, or require the Company to restrict growth or raise capital, including in ways that may adversely affect its results of operations or financial condition.

Many provisions of the Dodd-Frank Act will not be implemented immediately and will require interpretation and rule making by federal regulators. Republic is monitoring all relevant sections of the Dodd-Frank Act to ensure continued compliance with laws and regulations. While the ultimate effect of the Dodd-Frank on the Company cannot be determined yet, the law is likely to result in increased compliance costs and fees paid to regulators, along with possible restrictions on the Company's operations.

Government responses to economic conditions may adversely affect the Company's operations, financial condition and earnings. Newly enacted financial reform legislation will change the bank regulatory framework, create an independent consumer protection bureau that will assume the consumer protection responsibilities of the various federal banking agencies, and establish more stringent capital standards for banks and bank holding companies. The legislation will also result in new regulations affecting the lending, funding, trading and investment activities of banks and bank holding companies. Bank regulatory agencies also have been responding aggressively to concerns and adverse trends identified in examinations. Ongoing uncertainty and adverse developments in the financial services industry and the domestic and international credit markets, and the effect of new legislation and regulatory actions in response to these conditions, may adversely affect Company operations by restricting business activities, including the Company's ability to originate or sell loans, modify loan terms, or foreclose on property securing loans. These measures are likely to increase the Company's costs of doing business and may have a significant adverse effect on the Company's lending activities, financial performance and operating flexibility. In addition, these risks could affect the performance and value of the Company's loan and investment securities portfolios, which also would negatively affect financial performance.

Furthermore, the Board of Governors of the Federal Reserve System, in an attempt to help the overall economy, has, among other things, kept interest rates low through its targeted federal funds rate and the purchase of mortgage-backed

securities. If the Federal Reserve Board increases the federal funds rate, overall interest rates will likely rise, which may negatively impact the housing markets and the U.S. economic recovery. In addition, deflationary pressures, while possibly lowering operating costs, could have a significant negative effect on the Company's borrowers, especially business borrowers, and the values of underlying collateral securing loans, which could negatively affect the Company's financial performance.

Difficult national and local market conditions have adversely affected the financial services industry. Declines in the housing market over the past few years, falling home prices and increasing foreclosures, unemployment and under-employment have negatively impacted the credit performance of real estate related loans and have resulted in significant write-downs of asset values by many financial institutions. These write-downs have caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of general business activity. If current levels of market disruption and volatility continue or worsen, there can be no assurance that the Company will not experience an adverse effect, which may be material, on the Company's ability to access capital and on its business, financial condition and results of operations.

Republic is subject to regulatory capital adequacy guidelines, and if the Company fails to meet these guidelines the Company's financial condition may be adversely affected. Under regulatory capital adequacy guidelines, and other regulatory requirements, Republic and the Bank must meet guidelines that include quantitative measures of assets, liabilities and certain off balance sheet items, subject to qualitative judgments by regulators regarding components, risk weightings and other factors. If the Company fails to meet these minimum capital guidelines and other regulatory requirements, the Company's financial condition will be materially and adversely affected. If the Company fails to maintain well-capitalized status under its regulatory framework, or is deemed not well-managed under regulatory exam procedures, or if it should experience certain regulatory violations, the Company's status as a Financial Holding Company, and its ability to offer certain financial products could be compromised.

The Company may be subject to examinations by taxing authorities which could adversely affect results of operations. In the normal course of business, the Company may be subject to examinations from federal and state taxing authorities regarding the amount of taxes due in connection with investments it has made and the businesses in which the Company is engaged. Recently, federal and state taxing authorities have become increasingly aggressive in challenging tax positions taken by financial institutions. The challenges made by taxing authorities may result in adjustments to the timing or amount of taxable income or deductions or the allocation of income among tax jurisdictions. If any such challenges are made and are not resolved in the Company's favor, they could have an adverse effect on the Company's financial condition and results of operations.

The Company may be adversely affected by the soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. The Company has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose the Company to credit risk in the event of a default by a counterparty or client. In addition, the Company's credit risk may be exacerbated when the collateral held by the Company cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to the Company. Any such losses could have a material adverse effect on the Company's financial condition and results of operations.

MANAGEMENT, INFORMATION SYSTEMS, ETC.

The Company is dependent upon the services of its management team and qualified personnel. The Company is dependent upon the ability and experience of a number of its key management personnel who have substantial experience with Company operations, the financial services industry and the markets in which the Company offers services. It is possible that the loss of the services of one or more of its senior executives or key managers would have an adverse effect on operations, moreover, the Company depends on its account executives and loan officers to attract bank customers by developing relationships with commercial and consumer clients, mortgage companies, real estate agents, brokers and others. The Company believes that these relationships lead to repeat and referral business. The market for skilled account executives and loan officers is highly competitive and historically has experienced a high rate of turnover. In addition, if a manager leaves the Company, other members of the manager's team may follow. Competition for qualified account executives and loan officers may lead to increased hiring and retention costs. The Company's success also depends on its ability to continue to attract, manage and retain other qualified personnel as the Company grows. The Company cannot assure you that it will continue to attract or retain such personnel.

The Company's operations could be impacted if its third-party service providers experience difficulty. The Company depends on a number of relationships with third-party service providers, including core systems processing and web hosting. These providers are well established vendors that provide these services to a significant number of financial institutions. If these third-party service providers experience difficulty or terminate their services and the Company is unable to replace them with other providers, its operations could be interrupted which would adversely impact its

business.

101

The Company's information systems may experience an interruption or breach in security that could impact the Company's operational capabilities. The Company relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in customer relationship management, general ledger, deposit, loan and other systems. While the Company has policies and procedures designed to prevent or limit the impact of the failure, interruption or security breach of information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrences of any failures, interruptions or security breaches of the Company's information systems could damage the Company's reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's financial condition and results of operations.

New lines of business or new products and services may subject the Company to additional risks. From time to time, the Company may develop and grow new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services the Company may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of the Company's system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on the Company's business, results of operations and financial condition. All service offerings, including current offerings and those which may be provided in the future, may become more risky due to changes in economic, competitive and market conditions beyond the Company's control.

Negative public opinion could damage the Company's reputation and adversely affect earnings. Reputational risk is the risk to Company operations from negative public opinion. Negative public opinion can result from the actual or perceived manner in which the Company conducts its business activities, including sales practices, practices used in origination and servicing operations, the management of actual or potential conflicts of interest and ethical issues, and the Company's protection of confidential customer information. Negative public opinion can adversely affect the Company's ability to keep and attract customers and can expose the Company to litigation.

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

Details of Republic's Class A Common Stock purchases during the third 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
July 1 - July 31	53,190	\$ 20.38	12,690	
August 1 - August 31	58	17.29	58	
September 1 - September 30	-	-	-	
Total	53,248 *	\$ -	12,748	306,889

* - Includes 40,500 shares received by the Company in connection with stock option exercises.

During 2011, the Company repurchased 20,204 shares and there were 43,393 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 September 30, 2011, the Company had 306,889 shares which could be repurchased under the current share repurchase programs.

During 2011, there were approximately 7,000 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	Amended and Restated Program Agreement dated August 3, 2011 between Republic Bank & Trust Company and Jackson Hewitt Inc. and Jackson Hewitt Technology Services LLC (Incorporated by reference to Exhibit 10.1 of Registrant’s Form 8-K filed August 5, 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.
101**	Interactive data files: (i) Consolidated Balance Sheets at September 30, 2011 and December 31, 2010, (ii) Consolidated Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2011 and September 30, 2010, (iii) Consolidated Statement of Stockholders’ Equity for the nine months ended September 30, 2011, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and September 30, 2010 and (v) Notes to Consolidated Financial Statements.

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

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

SIGNATURES

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

REPUBLIC BANCORP, INC.
(Registrant)

Principal Executive Officer:

October 28, 2011

By: Steven E. Trager
President and Chief Executive Officer

Principal Financial Officer:

October 28, 2011

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