

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

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

FORM 10-Q

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

For the quarterly period ended March 31, 2011

or

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

Commission File Number: 0-24649

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

Kentucky
(State of other jurisdiction of incorporation or
organization)

61-0862051
(I.R.S. Employer Identification No.)

601 West Market Street, Louisville, Kentucky
(Address of principal executive offices)

40202
(Zip Code)

(502) 584-3600

(Registrant's telephone number, including area code)

Not Applicable

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

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

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

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

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

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS (in thousands) (unaudited)

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

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

(in thousands, except per share data)

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

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

(continued)

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

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

BASIC EARNINGS PER SHARE:

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

DILUTED EARNINGS PER SHARE:

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

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

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

See accompanying footnotes to consolidated financial statements.

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

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

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

(continued)

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

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

See accompanying footnotes to consolidated financial statements.

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Republic operates 43 banking centers, primarily in the retail banking industry, and conducts its operations predominately in metropolitan Louisville, Kentucky, central Kentucky, northern Kentucky, southern Indiana, metropolitan Tampa, Florida, metropolitan Cincinnati, Ohio and through an Internet banking delivery channel. Core Banking results of operations are primarily dependent upon net interest income, which represents the difference between the interest income and fees on interest-earning assets and the interest expense on interest-bearing liabilities. Principal interest-earning Core Banking assets represent investment securities and real estate mortgage, commercial and consumer loans. Interest-bearing liabilities primarily consist of interest-bearing deposit accounts, securities sold under agreements to repurchase, as well as short-term and long-term borrowing sources.

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

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

Tax Refund Solutions

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

the following year's first quarter tax season.

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

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

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

For additional discussion regarding TRS, see the following sections:

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

Recently Issued Accounting Pronouncements

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

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

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

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

2. INVESTMENT SECURITIES

Securities available for sale:

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

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

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

Mortgage backed Securities

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

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

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

Securities to be held to maturity:

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

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

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

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

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

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

Market Loss Analysis

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

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

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

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

Other-than-temporary impairment ("OTTI")

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

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

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

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

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

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

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

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

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

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

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

Pledged Investment Securities

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

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

3. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the loan portfolio follows:

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

Activity in the allowance for loan losses follows:

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

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

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

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

Ending

Balance	\$4,636	\$1,211	\$8,040	\$4,010	\$1,265	\$4,072	\$2,871	\$484	\$116	\$474	\$1,965	\$29,144
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Republic defines impaired loans as follows:

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

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

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

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

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

Information regarding Republic's impaired loans follows:

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

A TDR is the situation where the Bank grants a concession to the borrower that the Bank would not otherwise have considered due to a borrower's financial difficulties. All TDRs are considered "Impaired." The substantial majority of the Company's residential real estate TDRs involve reducing the client's loan payment through a rate reduction for a set period of time based on the borrower's ability to service the modified loan payment. The majority of the Company's commercial related and construction TDRs involve a restructuring of loan terms such as a temporary forbearance or reduction in the payment amount to require only interest and escrow (if required) and/or extending the maturity date of the loan.

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

March 31, 2011 (in thousands)	TDRs on Non-Accrual Status	TDRs on Accrual Status	Total TDRs
Residential real estate	\$ 1,980	\$ 13,831	\$ 15,811
Commercial real estate	3,069	8,622	11,691
Real estate construction	3,065	1,571	4,636
Commercial	-	4,644	4,644
Total TDRs	\$ 8,114	\$ 28,668	\$ 36,782
December 31, 2010 (in thousands)	TDRs on Non-Accrual Status	TDRs on Accrual Status	Total TDRs
Residential real estate	\$ 1,272	\$ 9,191	\$ 10,463
Commercial real estate	2,703	11,425	14,128
Real estate construction	640	2,719	3,359
Commercial	-	4,281	4,281
Total TDRs	\$ 4,615	\$ 27,616	\$ 32,231

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

March 31, 2011 (in thousands)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment
Impaired loans with no related allowance recorded:				
Residential Real Estate:				
Owner Occupied	\$ 12,203	\$ 12,203	\$ -	\$ 10,471
Non Owner Occupied	393	393	-	395
Commercial Real Estate	1,307	1,270	-	1,422
Real Estate Construction	1,757	1,558	-	1,889
Commercial	1,213	1,213	-	1,213
Home Equity	-	-	-	-
Consumer:				
Credit Cards	-	-	-	-
Overdrafts	-	-	-	-
Other Consumer	-	-	-	-
Impaired loans with an allowance recorded:				
Residential Real Estate:				
Owner Occupied	3,996	2,661	1,006	1,403
Non Owner Occupied	130	1,335	515	1,851
Commercial Real Estate	17,407	16,999	2,573	18,734
Real Estate Construction	11,252	10,329	3,001	7,261
Commercial	3,807	3,807	465	3,791
Home Equity	-	-	-	-
Consumer:				
Credit Cards	-	-	-	-
Overdrafts	-	-	-	-
Other Consumer	-	-	-	-
Total impaired loans	53,465	51,768	7,560	48,430
Loans collectively evaluated for impairment:				
Residential Real Estate:				
Owner Occupied	907,653	905,925	3,762	
Non Owner Occupied	114,109	115,837	494	
Commercial Real Estate	635,368	635,368	5,470	
Real Estate Construction	50,260	50,260	1,010	
Commercial	103,895	103,895	799	
Home Equity	288,499	288,499	4,138	
Consumer:				
Credit Cards	8,061	8,061	484	
Overdrafts	838	838	116	
Other Consumer	18,435	18,435	3,346	
	-	-	1,965	

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

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

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

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

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

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

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

Management determines whether to classify a TDR as non-performing based on its accrual status prior to modification. Non-accrual loans modified as TDRs remain on non-accrual status and continue to be reported as non-performing loans. Accruing loans modified as TDRs are evaluated for non-accrual status based on a current evaluation of the borrower's financial condition and ability and willingness to service the modified debt. At March 31, 2011 and December 31, 2010 \$8 million and \$5 million, respectively of TDRs were classified as non-performing loans.

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

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

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

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

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

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

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

Credit Quality Indicators:

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

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

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

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

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

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

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

RAL Loss Reserves and Provision for Loan Losses:

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

At March 31st of each year, the Company has historically reserved for its estimated RAL losses for the year based on current and prior-year funding patterns, information received from the IRS on current year payment processing, projections using the Company's internal RAL underwriting criteria applied against prior years' customer data, and the subjective experience of Company management. RALs outstanding 30 days or longer are charged off at the end of each quarter with subsequent collections recorded as recoveries. Since the RAL season is over by the end of April of each year, essentially all uncollected RALs are charged off by June 30th of each year, except for those RALs management deems certain of collection.

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

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

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

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

As of March 31, 2011 (dollars in thousands)

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

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

For additional discussion regarding TRS, see the following sections:

Part I Item 1 "Financial Statements:"

- o Footnote 1 "Basis of Presentation and Summary of Significant Accounting Policies"
- o Footnote 4 "Deposits"
- o Footnote 8 "Off Balance Sheet Risks, Commitments and Contingent Liabilities"
- o Footnote 10 "Segment Information"
- o Footnote 11 "Regulatory Matters"

4. DEPOSITS

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

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

* - Represents a time deposit

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

For additional discussion regarding TRS, see the following sections:

Part I Item 1 “Financial Statements:”

- o Footnote 1 “Basis of Presentation and Summary of Significant Accounting Policies”
- o Footnote 4 “Deposits”
- o Footnote 8 “Off Balance Sheet Risks, Commitments and Contingent Liabilities”
- o Footnote 10 “Segment Information”
- o Footnote 11 “Regulatory Matters”

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

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

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

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

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

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

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

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

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

Multi-family commercial real estate	12,977	14,332
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6. FAIR VALUE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fair Value Measurements at
December 31, 2010 Using:

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

The following section details impairment charges recognized during the period:

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

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

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

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

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

Valuation allowance	2,763	1,506
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Other real estate owned, which is carried at the lower of cost or fair value, is periodically assessed for impairment based on fair value at the reporting date. Fair value is determined from external appraisals using judgments and estimates of external professionals. Many of these inputs are not observable and, accordingly, these measurements are classified as Level 3. At March 31, 2011 and December 31, 2010, the carrying value of other real estate owned was \$15 million and \$12 million, respectively. The fair value of the Company's other real estate owned properties exceeded their carrying value at March 31, 2011 and December 31, 2010.

Detail of other real estate owned write downs follows:

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

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

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

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

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

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

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

7. MORTGAGE BANKING ACTIVITIES

Activity for mortgage loans held for sale was as follows:

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

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

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

Activity for capitalized mortgage servicing rights was as follows:

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

Other information relating to mortgage servicing rights follows:

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

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

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

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

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

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

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

8. OFF BALANCE SHEET RISKS, COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

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

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

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

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

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

For additional discussion regarding TRS, see the following sections:

Part I Item 1 "Financial Statements:"

- o Footnote 1 "Basis of Presentation and Summary of Significant Accounting Policies"
- o Footnote 4 "Deposits"
- o Footnote 10 "Segment Information"

- o Footnote 11 “Regulatory Matters”

9. EARNINGS PER SHARE

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

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

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

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

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

10. SEGMENT INFORMATION

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

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

For additional discussion regarding TRS, see the following sections:

Part I Item 1 “Financial Statements:”

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

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

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

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

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11. REGULATORY MATTERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For additional discussion regarding TRS, see the following sections:

Part I Item 1 "Financial Statements:"

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

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

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

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

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

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

Broadly speaking, forward-looking statements include:

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

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

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

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

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

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

RECENT DEVELOPMENTS

Regulatory Developments

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

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

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

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For additional discussion regarding TRS, see the following sections:

Part I Item 1 "Financial Statements:"

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

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

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

BUSINESS SEGMENT COMPOSITION

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

Three Months Ended March 31, 2011

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

Three Months Ended March 31, 2010

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

NM – Not Meaningful

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

(I) Traditional Banking segment

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

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

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

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

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

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

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

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

At March 31st of each year, the Company has historically reserved for its estimated RAL losses for the year based on current and prior-year funding patterns, information received from the IRS on current year payment processing, projections using the Company's internal RAL underwriting criteria applied against prior years' customer data, and the subjective experience of Company management. RALs outstanding 30 days or longer are charged off at the end of each quarter, with subsequent collections recorded as recoveries. Since the RAL season is over by the end of April of each year, essentially all uncollected RALs are charged off by June 30th of each year, except for those RALs management deems certain of collection.

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

IRS Decision to Withhold the DI

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

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

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

TRS Funding – First Quarter 2011 Tax Season

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

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

TRS Funding – First Quarter 2010 Tax Season

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

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

TRS Rebate Accruals

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

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

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

TRS Material Contracts

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

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

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

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

For additional discussion regarding TRS, see the following sections:

Part I Item 1 “Financial Statements:”

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

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

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

(III) Mortgage Banking segment

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

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

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

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

OVERVIEW

Net income for the three months ended March 31, 2011 was \$71.4 million, representing an increase of \$26.8 million, or 60%, compared to the same period in 2010. Diluted earnings per Class A Common Share increased to \$3.40 for the quarter ended March 31, 2011 c