INVACARE CORP
Form 10-Q
May 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 001-15103
INVACARE CORPORATION
(Exact name of registrant as specified in its charter)

Ohio	95-2680965
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
One Invacare Way, Elyria, Ohio	44035
(Address of principal executive offices)	(Zip Code)

(440) 329-6000
(Registrant's telephone number, including area code)

(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 (the “Exchange Act”) 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 x 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 x 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 “small reporting company” in Rule 12b-2 of the Exchange Act. (Check One): Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨ Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of May 4, 2018, the registrant had 33,157,645 Common Shares and 6,357 Class B Common Shares outstanding.

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About Invacare Corporation

Invacare Corporation (NYSE: IVC) ("Invacare" or the "company") is a leading manufacturer and distributor in its markets for medical equipment used in non-acute care settings. At its core, the company designs, manufactures and distributes medical devices that help people to move, breathe, rest and perform essential hygiene. The company provides medical device solutions for congenital (e.g., cerebral palsy, muscular dystrophy, spina bifida), acquired (e.g., stroke, spinal cord injury, traumatic brain injury, post-acute recovery, pressure ulcers) and degenerative (e.g., ALS, multiple sclerosis, chronic obstructive pulmonary disease (COPD), elderly, bariatric) ailments. The company's products are important parts of care for people with a wide range of challenges, from those who are active and heading to work or school each day and may need additional mobility or respiratory support, to those who are cared for in residential care settings, at home and in rehabilitation centers. The company sells its products principally to home medical equipment providers with retail and e-commerce channels, residential care operators, dealers and government health services in North America, Europe and Asia/Pacific. For more information about the company and its products, visit Invacare's website at www.invacare.com. The contents of the company's website are not part of this Quarterly Report on Form 10-Q and are not incorporated by reference herein.

MD&A Overview

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

The discussion and analysis presented below is concerned with material changes in financial condition and results of operations between the periods specified in the condensed consolidated balance sheet at March 31, 2018 and December 31, 2017, and in the condensed consolidated statement of comprehensive income (loss) for the three months ended March 31, 2018 and March 31, 2017. All comparisons presented are with respect to the same period last year, unless otherwise stated. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes that appear elsewhere in this quarterly report on Form 10-Q and the MD&A included in the company's annual report on Form 10-K for the year ended December 31, 2017 and for some matters, SEC filings from prior periods may be useful sources of information.

OVERVIEW

Invacare is a multi-national company with integrated capabilities to design, produce and distribute durable medical equipment. The company makes products that help people move, breathe, rest and perform essential hygiene, and with those products the company supports people with congenital, acquired and degenerative conditions. The company’s products and solutions are important parts of care for people with a range of challenges, from those who are active and heading to work or school each day and may need additional mobility or respiratory support, to those who are cared for in residential care settings, at home and in rehabilitation centers. The company operates in facilities in North America, Europe and Asia/Pacific, which are the result of dozens of acquisitions made over the company’s nearly forty-year history. Some of these acquisitions have been combined into integrated operating units, while others remain relatively independent.

Strategy
The company had a strategy to be a leading provider of durable medical equipment to providers in global markets by providing the broadest portfolio available. This strategy had not kept pace with certain reimbursement changes, competitive dynamics and company-specific challenges in recent years. Since 2015, the company has made a major shift in its strategy. The company has since been aligning its resources to produce solutions that address the most clinically complex needs thereby increasing the value of the company's offering. By focusing the company’s efforts to provide the best possible assistance and outcomes to the people and caregivers who use its products, the company aims to improve its financial condition for sustainable profit and growth. To execute this transformation, the company is undertaking a substantial three-phase multi-year transformation plan.

Transformation
The company has been executing a multi-year transformation to shift to its new strategy, especially in North America. This is expected to yield better financial results from the application of the company’s resources to products and solutions that provide greater healthcare value in clinically complex rehabilitation and post-acute care. The transformation is divided into the following three phases:

Phase One - Assess and Reorient
- Increase commercial effectiveness;
- Shift and narrow the product portfolio;
- Focus innovation on clinically complex solutions;
- Accelerate quality efforts on quality & excellence; and
- Develop and expand talent.

Phase Two - Build and Align

- Leverage commercial improvements;
- Optimize the business for cost and efficiency;
- Continue to improve quality systems;
- Launch new clinical product platforms; and
- Expand talent management and culture.

The company is currently in Phase Two of the transformation, focused primarily on North America, with lesser emphasis on, gradual changes in the Europe segment. By the end of this phase, the company expects growth in sales and gross profit, as well as an improvement in operating income and free cash flow. The company also is optimizing its infrastructure and improving efficiencies to streamline customer interactions and to reduce costs.

Phase Three - Grow

- Lead in quality culture and operations excellence; and
- Grow above market.

By the end of phase three, the company expects continued improvements in net sales, operating margin, operating income and free cash flow.

STATUS OF THE CONSENT DECREE

On July 24, 2017, following its reinspection of the Corporate and Taylor Street facilities, the Food and Drug Administration ("FDA") notified the company that it was in substantial compliance with the FDA Quality System Regulation ("QSR") and, at that time, the company was permitted to resume full operations at those facilities including the resumption of unrestricted sales of products made in those facilities.

The consent decree will continue in effect for a minimum of five years from July 24, 2017, during which time the company's Corporate and Taylor Street facilities must complete two semi-annual and then four annual audits performed by a company-retained expert audit firm. The expert audit firm will determine whether the facilities remain in continuous compliance with the Federal Food, Drug and Cosmetic Act (FDA Act), regulations and the terms of the consent decree. The FDA has the authority to inspect these facilities and any other FDA registered facility, at any time. As of the date of the filing of this Form 10-Q, the first expert audit of the Corporate and Taylor Street facilities was completed in 2018 and the result submitted to FDA. The expert's inspection led to a summary report, which included a finding that the company operates the subject facilities in compliance with FDA regulations and with the requirements of the consent decree. There were no significant deviations requiring further actions noted from the inspection.

For a complete description of the consent decree, see the "Contingencies" note to the financial statements contained in Item 1 of this Quarterly Report on Form 10-Q and "Forward-Looking Statements" contained below in this Item.

OUTLOOK

The company will continue to make significant investments in its transformation, reduce sales in certain areas, refocus resources away from less accretive activities, and look at its global infrastructure for opportunities to drive efficiency. Phase One investments are providing returns. The company expects to see improved results in 2018 with Phase Two actions continuing as the company continues to streamline operations, resize and reshape the organization, especially in North America, around its new business mix and size. By executing this strategy and making these operational improvements, the company expects long-term benefits for the company’s constituents.

As a result of anticipated commercial effectiveness and resulting sales growth, the company expects increased working capital which, if realized, would support investments for growth, especially growth of NA/HME mobility and seating products. This would include investments in demonstration units and SG&A expense, and support of an extended quote-to-cash process for power wheelchairs. Also, the company expects to make additional restructuring and capital investments as it continues to reshape the business over the course of 2018. The company expects spending on capital expenditures to increase from recent low levels to approximately $20,000,000 to $25,000,000 in 2018. As a result, the company anticipates its cash flow usage for 2018 will be similar to the cash used in 2017, including consideration of seasonality of cash flow during the year.

The company is gradually applying the transformation to the Europe segment, which may slightly reduce the segment's net sales as it begins to shift its product mix toward more clinically valued, higher-margin products. Regarding the IPG segment, the company expects its new strategic selling approach in the capital selling environment to continue to take time to yield growth. In its pursuit of sustained increased shareholder value, the company continues to emphasize building a culture of quality excellence and achieving its long-term earnings potential.

MD&A Net Sales

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RESULTS OF OPERATION - NET SALES

($ in thousands USD)	1Q18	1Q17	Reported % Change	Foreign Exchange % Impact	Constant Currency % Change
Europe	131,314	119,508	9.9	12.5	(2.6)
NA/HME	79,782	84,262	(5.3)	0.4	(5.7)
IPG	14,887	16,373	(9.1)	0.2	(9.3)
Asia/Pacific	11,077	11,580	(4.3)	3.2	(7.5)
Consolidated	237,060	231,723	2.3	6.7	(4.4)

The table above provides net sales change as reported and as adjusted to exclude the impact of foreign exchange translation (constant currency net sales). “Constant currency net sales" is a non-GAAP financial measure, which is defined as net sales excluding the impact of foreign currency translation. The current year's functional currency net sales are translated using the prior year's foreign exchange rates. These amounts are then compared to the prior year's sales to calculate the constant currency net sales change. “Constant currency sequential net sales” is a non-GAAP financial measure in which a given quarter’s net sales are compared to the most recent prior quarter’s net sales with each quarter’s net sales translated at the foreign exchange rates for the quarter ended March 31, 2017. Management believes that both of these financial measures provide meaningful information for evaluating the core operating performance of the company. For the quarter, constant currency net sales decreased in each segment.

Constant currency net sales performance drivers by segment:

Europe - The decline in constant currency net sales compared to the first quarter last year was driven by lower sales of lifestyle and respiratory products and, to a lesser extent, mobility and seating products.

North America/Home Medical Equipment (NA/HME) - Constant currency net sales decreased, driven largely by respiratory and lifestyle products partially offset by increases in mobility and seating products compared to the first quarter last year. The decline was also impacted by reduced net sales in China as result of the closure of one of the company's Suzhou, China facilities in 2017 which previously were accounted for in the NA/HME segment.

Institutional Products Group (IPG) - Constant currency net sales decreased compared to the first quarter last year principally due to lower net sales related to case goods, bed products and interior design projects. As previously disclosed, the company is transforming its go-to-market strategy in the post-acute care (PAC) channel. The company expects this new sales approach will take time to yield growth.

Asia/Pacific - Constant currency net sales decreased in institutional beds and respiratory products.

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MD&ANet Sales

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The following tables provide net sales at reported rates for the quarters ended March 31, 2018 and December 31, 2017 and net sales for the quarters ended March 31, 2018 and December 31, 2017, respectively, as translated at the foreign exchange rates for the quarter ended March 31, 2017 with each then compared

to the net sales for the most recent prior period (constant currency sequential net sales). The company began this disclosure in 1Q17 to illustrate the effect of its transformation on its segments and continues to do so while the transformation continues and this is useful.

($ in thousands USD)	1Q18 at Reported Foreign Exchange Rates	Foreign Exchange Translation Impact	1Q18 at 1Q17 Foreign Exchange Rates	4Q17 at 1Q17 Foreign Exchange Rates	Sequential Growth $	Sequential Growth %
Europe	131,314	(14,870)	116,444	131,053	(14,609)	(11.1)%
NA/HME	79,782	(326)	79,456	79,050	406	0.5
IPG	14,887	(47)	14,840	13,789	1,051	7.6
Asia Pacific	11,077	(359)	10,718	13,188	(2,470)	(18.7)
Consolidated	237,060	(15,602)	221,458	237,080	(15,622)	(6.6)%

	4Q17 at Reported Foreign Exchange Rates	Foreign Exchange Translation Impact	4Q17 at 1Q17 Foreign Exchange Rates
Europe	144,052	(12,999)	131,053
NA/HME	79,351	(301)	79,050
IPG	13,804	(15)	13,789
Asia Pacific	13,144	44	13,188
Consolidated	250,351	(13,271)	237,080

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The net sales amounts in the above table are converted at Q1 2017 foreign exchange rates so that the sequential change in net sales can be shown, excluding the impact of changes in foreign currency exchange rates.

Reduced sequential net sales for the company was largely expected as the company's net sales are historically stronger in the second half of the year, specifically with negative growth in the Europe and Asia Pacific segments, as shown in this analysis. However, results in the first quarter of 2018 reflected the

company's efforts to stabilize net sales sequentially in the NA/HME and IPG segments. Specifically, sequential growth in its NA/HME segment resulted from new product introduction and focus on clinically complex products, increased productivity from its salesforce and the ability to sell all products made in the Taylor Street facility without restrictions from the consent decree.

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The company realized a favorable impact from sales mix attributable to increased mobility and seating products, which comprise most of the company's clinically complex product portfolio. Sales mix increased to 37% from 35% for constant currency net sales by product for the first quarter of 2018 as compared to same period last year.

This favorable net sales mix shift is the result of the company's continued transformation efforts, especially where the company has shifted the product portfolio and alignment of resources to focus on clinically complex solutions.

GROSS PROFIT

Gross profit dollar increase was principally related to favorable foreign currency translation and transactions and reduced research and development expenses partially offset by increased freight expense. Gross profit as a percentage of net sales was flat compared to the same period last year. Gross profit percentage was favorably impacted by foreign currency translation and transactions and reduced research and development ("R&D") expenses offset by increased freight expense. Gross profit dollars and gross margin as a percentage of net sales increased for the Europe and Asia Pacific segments and declined in the NA/HME and IPG segments.

Gross profit and gross margin drivers by segment:

Europe - Gross margin as a percentage of net sales increased 0.4 of a percentage point, while gross profit dollars increased $4,019,000, compared to the same period last year. The increase in gross profit dollars was driven by favorable foreign currency translation and transactions and favorable net sales mix partially offset by increased freight costs and net sales decline on a constant currency basis.

NA/HME - Gross margin as a percentage of net sales decreased 2.5 percentage points, while gross profit dollars decreased $3,302,000, compared to the same period last year. The decrease in gross profit dollars was primarily due to unfavorable net sales mix, net sales volume declines and increased freight costs partially offset by lower R&D expenses.

IPG - Gross margin as a percentage of net sales decreased 0.7 of a percentage point, and gross profit dollars decreased $712,000, compared to the same period last year. The decrease in gross profit dollars was driven by volume declines.

Asia/Pacific - Gross margin as a percentage of net sales increased 7.2 percentage points, while gross profit dollars increased $1,468,000, compared to the same period last year. The increase in gross profit dollars was primarily due to favorable net sales mix and reduced research and development expenses.
Sequential quarterly gross profit as a percentage of net sales increased 0.8 of a percentage point. The increase in gross margin percentage was driven by favorable sales mix and favorable foreign currency partially offset by increased freight expense. Sequential gross profit as a percentage of net sales increased in the Asia Pacific and Europe segments with declines in the NA/HME and IPG segments.
Sequential quarterly gross profit dollars decreased $1,826,000. The decline in gross profit dollars was primarily attributable to volume declines principally in the Europe segment. Sequential gross profit dollars decreased in the Europe and NA/HME segments partially offset by increases in Asia Pacific and IPG segments.

MD&A SG&A

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SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

($ in thousands USD)	1Q18	1Q17	Reported Change	Foreign Exchange Impact	Constant Currency Change
SG&A Expenses - $	71,264	72,513	(1,249)	3,554	(4,803)
SG&A Expenses - % change			(1.7)	4.9	(6.6)
% to net sales	30.1	31.3			

For the quarter, the decrease in SG&A expense excluding the impact of foreign exchange, which is referred to as "constant currency SG&A", was primarily driven by reduced employment costs.

SG&A expense drivers by segment:

Europe - SG&A expenses increased by 8.5%, or $2,524,000, compared to the same period last year with foreign currency translation increasing SG&A expenses by approximately $3,272,000, or 11.0%. Constant currency SG&A expenses decreased $748,000, or 2.5%. The decrease was primarily attributable to favorable foreign currency transactions.

NA/HME - SG&A expenses decreased 14.3%, or $4,590,000, compared to the same period last year with foreign currency translation having an immaterial impact. Constant currency SG&A expenses decreased $4,751,000, or 14.8% driven primarily by decreased employment costs and unfavorable foreign currency transactions.

IPG - SG&A expenses decreased 14.7%, or $412,000, compared to the same period last year with foreign currency translation having an immaterial impact. Constant currency SG&A expenses decreased $416,000 or 14.8%. The decline in expense was primarily related to employment costs.

Asia/Pacific - SG&A expenses increased 1.8%, or $66,000, compared to the same period last year with foreign currency translation increasing SG&A expenses $117,000, or 3.2%. Constant currency SG&A expenses decreased $51,000, or 1.4%. The decline in expense was primarily related to employment costs partially offset by unfavorable foreign currency transactions.

Other - SG&A expenses increased 26.5%, or $1,163,000, compared to the same period last year primarily driven by increased employment costs, including equity compensation expense.

MD&A Operating Income (Loss)

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OPERATING INCOME (LOSS)

($ in thousands USD)	1Q18	1Q17	$ Change	% Change
Europe	6,594	5,100	1,494	29.3
NA/HME	(8,138)	(9,426)	1,288	13.7
IPG	1,598	1,898	(300)	(15.8)
Asia/Pacific	972	(430)	1,402	326.0
All Other	(5,773)	(4,510)	(1,263)	(28.0)
Charges related to restructuring	(401)	(3,283)	2,882	87.8
Consolidated Operating Loss	(5,148)	(10,651)	5,503	51.7

For the quarter, the decrease in consolidated operating loss was impacted by reduced restructuring charges and improved segment operating income (loss) in Europe, Asia Pacific and NA/HME segments. The decline in segment operating loss was impacted by favorable gross profit dollars and reduced SG&A expense.

Operating income (loss) by segment:
Europe - Operating income increased compared to the same period last year principally due to favorable foreign currency translation and transactions, favorable net sales mix partially offset by increased freight costs and net sales decline.

NA/HME - Operating loss decreased compared to the same period last year primarily related to reduced SG&A and research and development expense partially offset by net sales declines, unfavorable net sales mix and increased freight costs.

IPG - Operating income declined principally due to a net sales decline partially offset by reduced SG&A expense.

Asia/Pacific - Operating income increased as a result of favorable net sales mix and reduced R&D and manufacturing costs.

All Other - Operating loss increase was primarily impacted by increased SG&A expense, primarily related to increased equity compensation expense. The quarter was also negatively impacted by unfavorable intercompany profit in inventory eliminations as a result of higher inventory levels.

Charge Related to Restructuring Activities

Restructuring charges totaled $401,000 in the first quarter 2018 related to severance costs in the Europe ($293,000), NA/HME ($97,000) and Asia/Pacific ($11,000) segments.

In the first quarter of 2017, the company incurred restructuring charges of $3,283,000 related principally to severance and contract termination costs incurred in the NA/HME segment ($2,242,000) and severance in the Europe ($690,000) and Asia/Pacific ($351,000) segments. Most of the outstanding restructuring accruals at March 31, 2018 are expected to be paid out in the next twelve months.

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OTHER ITEMS

Net Gain (Loss) on Convertible Debt Derivatives

($ in thousands USD)	Change in Fair Value - Gain (Loss)	
	1Q18	1Q17
Convertible Note Hedge Assets	4,286	(5,830)
Convertible Debt Conversion Liabilities	(4,183)	6,731
Net gain on convertible debt derivatives	103	901

The company recognized net gain of $103,000 for the three months ended March 31, 2018, compared to a net gain of $901,000 for the three months ended March 31, 2017, related to the fair value of convertible debt derivatives. See "Long-Term Debt" in the notes to the Consolidated Financial Statements included elsewhere in this report for more detail.

Interest

($ in thousands USD)	1Q18	1Q17	$ Change	% Change
Interest Expense	6,962	4,518	2,444	54.1
Interest Income	(249)	(88)	(161)	183.0

The increase in interest expense for the quarter compared to the same period last year was primarily due to the issuance of convertible notes in the second quarter of 2017.

Income Taxes

The company had an effective tax rate of 20.0% and 18.3% on losses before tax from continuing operations for the three months ended March 31, 2018 and March 31, 2017, respectively, compared to an expected benefit at the U.S. statutory rate of 21% on the continuing operations pre-tax losses for period ended March 31, 2018 and 35% for the period ended March 31, 2017. The company's effective tax rate for the three months ended March 31, 2018 and March 31, 2017 was unfavorable as compared to the U.S. federal statutory rate expected benefit, principally due to the negative impact of the company not being able to record tax benefits related to the significant losses in countries which had tax valuation allowances. The effective tax rate was increased for the three months ended March 31, 2018 and decreased for the three months ended March 31, 2017 by certain taxes outside the United States, excluding countries with tax valuation allowances, that were at an effective rate higher than the U.S. statutory rate for the three months ended March 31, 2018 and lower than the U.S. statutory rate for the three months ended March 31, 2017. See "Income Taxes" in the notes to the Consolidated Financial Statements included elsewhere in this report for more detail.

LIQUIDITY AND CAPITAL RESOURCES

The company continues to maintain an adequate liquidity position through its cash balances and unused bank lines of credit (see Long-Term Debt in the Notes to Condensed Consolidated Financial Statements included in this report).

Key balances on the company's balance sheet and related metrics:

($ in thousands USD)	March 31, 2018	December 31, 2017	$ Change	% Change
Cash and cash equivalents	150,618	176,528	(25,910)	(14.7)
Working capital [1]	232,933	238,850	(5,917)	(2.5)
Total debt [2]	300,803	301,415	(612)	(0.2)
Long-term debt [2]	299,028	299,375	(347)	(0.1)
Total shareholders' equity	422,672	423,294	(622)	(0.1)
Credit agreement borrowing availability [3]	35,409	39,949	(4,540)	(11.4)

(1) Current assets less current liabilities.

(2) Long-term debt and Total debt include debt issuance costs recognized as a deduction from the carrying amount of debt liability and debt discounts classified as debt.

(3) Reflects the combined availability of the company's North American and European asset-based revolving credit facilities. The change in borrowing availability is due to changes in the calculated borrowing base.

The company's cash and cash equivalents balances were $150,618,000 and $176,528,000 at March 31, 2018 and December 31, 2017, respectively. The decrease in cash was the result of normal operations, which includes losses in certain areas and seasonal variations in operations. Debt repayments, acquisitions, divestitures, the timing of vendor payments, the timing of customer rebate payments, the granting of extended payment terms to significant national accounts and other activity can have a significant impact on the company's cash flow and borrowings outstanding such that the cash reported at the end of a given period may be materially different than cash levels during a given period. While the company has cash balances in various jurisdictions around the world, there are no material restrictions regarding the use of such cash for dividends within the company, loans or other purposes, except in China where the cash balance, as of March 31, 2018, was $1,702,000.

The company's total debt outstanding, inclusive of the debt discount related to debentures included in equity in accordance with FSB APB 14-1 as well as the debt discount and fees associated with the company's Convertible Senior Notes due 2021 and 2022, decreased by $612,000 to $300,803,000 at March 31, 2018 from $301,415,000 as of December 31, 2017. See "Long-Term Debt" in the Notes to Condensed Consolidated Financial Statements for more details regarding the company's convertible notes and credit facilities.

Based on the company's current expectations, the company believes that its cash balances and available borrowing capacity under its credit facilities should be sufficient to meet working capital needs, capital requirements, and commitments for at least

the next twelve months. Notwithstanding the company's expectations, if the company's operating results decline as the result of pressures on the business due to, for example, currency fluctuations or regulatory issues or the company's failure to execute its business plans or if the company's transformation takes longer than expected, the company may

require additional financing, or may be unable to comply with its obligations under the credit facilities, and its lenders could demand repayment of any amounts outstanding under the company's credit facilities.

The company also has an agreement with De Lage Landen, Inc. (“DLL”), a third-party financing company, to provide lease financing to the company's U.S. customers. Either party could terminate this agreement with 180 days' notice or 90 days' notice by DLL upon the occurrence of certain events. Should this agreement be terminated, the company's borrowing needs under its credit facilities could increase.

While there is general concern about the potential for rising interest rates, the company expects that it will be able to absorb modest rate increases in the months ahead without any material impact on its liquidity or capital resources. The weighted average interest rate on revolving credit borrowings, excluding capital leases, was 4.78% for the quarter ended March 31, 2018 compared to 4.84% for the year ended December 31, 2017.

See "Long-Term Debt" in the Notes to the Consolidated Financial Statements for more details regarding the company's credit facilities.

CAPITAL EXPENDITURES

The company estimates that capital investments for 2018 could approximate between $20,000,000 and $25,000,000, compared to actual capital expenditures of $14,569,000 in 2017. The anticipated increase relates primarily to the company's investments to transform the company. The terms of the company's credit facilities limit the company's annual capital expenditures to $35,000,000. As of March 31, 2018, the company has material capital expenditure commitments outstanding, consisting primarily of computer systems contracts. See Item 7. Contractual Obligations of the company's Annual Report on Form 10-K for the year ended December 31, 2017.

DIVIDEND POLICY

On February 22, 2018, the company's Board of Directors declared a quarterly cash dividend of $0.0125 per Common Share and $0.011364 per Class B Common Share to shareholders of record as of April 4, 2018, which was paid on April 18, 2018. At the current rate, the cash dividend will amount to $0.05 per Common Share and $0.045 per Class B Common Share on an annual basis, subject to Board of Directors approval of future dividend payments.

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CASH FLOWS

The cash used by operating activities for the three months ended March 31, 2018 was driven by a net loss, decreased accrued expenses and increased inventory partially offset by increased accounts payable. The three months ended March 31, 2017 was negatively impacted by a net loss and increases in inventory and accounts receivable and reductions in accrued expenses. The decrease in cash used by operating activities in the first three months of 2018 compared to the same period last year was principally driven by a reduced net loss, decreased accounts receivable and reduced accrued expenses.

The decrease in cash flows used by investing activities for the first three months of 2018 as compared to the same period last year was primarily related to reduced purchase of property and equipment.

Cash flows used by financing activities in the first three months of 2018 are primarily attributable to payments on capital leases. Cash flows used by financing activities in the first three months of 2017 reflect the repayment of $13,350,000 in aggregate principal amount of the company's convertible debentures due 2027.

MD&A Cash Flows

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Free cash flow is a non-GAAP financial measure and is reconciled to the corresponding GAAP measure as follows:

($ in thousands USD)	Three Months Ended	
	2018	2017
Net cash used by operating activities	(24,651)	(30,330)
Plus: Sales or property and equipment	10	10
Less: Purchases of property and equipment	(2,065)	(3,034)
Free Cash Flow	(26,706)	(33,354)

Free cash flow for the first three months 2018 and 2017 was negatively impacted by the same items that affected cash flows used by operating activities. Free cash flow is a non-GAAP financial measure that is comprised of net cash used by operating activities plus purchases of property and equipment less proceeds from sales of property and equipment. Management believes that this financial measure provides meaningful information for evaluating the overall financial performance of the company and its ability to repay debt or make future investments (including acquisitions, etc.).

With the anticipation of commercial effectiveness and resulting sales growth, the company expects increased working capital which, if realized, would support investments for growth, especially growth of NA/HME mobility and seating products. This would include investments in demonstration units and SG&A expense, and support the extended quote to cash process for power wheelchairs. Generally, the first half of the year is cash consumptive and impacted by significant disbursements related to annual customer rebate payments which normally occur in the first quarter of the year and, to lesser extent, into the second quarter of the year. In addition, the second quarter of the year represents the period annual employee bonuses are paid, if earned. Investment in inventory is historically heavy in the first half of the year with planning around the company's supply chain to fulfill shipments in the second half of the year and can be impacted by footprint rationalization projects. The company also expects to increase its capital expenditures in 2018 as compared to the investment level in 2017. As a result, historically, the company realizes stronger cash flow in the second half of the year versus the first half of the year and the company anticipates its cash flow usage and seasonality for 2018 will be similar to 2017.
The company's approximate cash conversion days at March 31, 2018, December 31, 2017 and March 31, 2017 are as follows:
The increase in the most current days in receivables compared to prior periods was driven by higher receivables in the quarter ended March 31, 2018 compared to the prior periods shown. The days in inventory increased from the seasonal low at December 31, 2017. The days in inventory for the quarter ended March 31, 2018 were favorable to the quarter ended March 31, 2017 due to better inventory velocity over the prior year.

Days in receivables are equal to current quarter net current receivables divided by trailing four quarters of net sales multiplied

by 365 days. Days in inventory and accounts payable are equal to current quarter net inventory and accounts payable, respectively, divided by trailing four quarters of cost of sales multiplied by 365 days. Total cash conversion days are equal to days in receivables plus days in inventory less days in accounts payable.

The company provides a summary of days of cash conversion for the components of working capital so investors may see the rate at which cash is disbursed, collected and how quickly inventory is converted and sold.

ACCOUNTING ESTIMATES AND PRONOUNCEMENTS

CRITICAL ACCOUNTING ESTIMATES

The Consolidated Financial Statements included in the report include accounts of the company and all majority-owned subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying Consolidated Financial Statements and related footnotes. In preparing the financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, thus, actual results could differ from these estimates. Please refer to the Critical Accounting Estimates section within MD&A of company's Annual Report on Form 10-K for the period ending December 31, 2017 as well as the revenue recognition and warranty disclosure below.

Revenue Recognition

The company recognizes revenues when control of the product or service is transferred to unaffiliated customers. Revenues from Contracts with Customers, ASC 606, provides guidance on the application of generally accepted accounting principles to revenue recognition issues. The company has concluded that its revenue recognition policy is appropriate and in accordance with GAAP and ASC 606.

All of the company’s product-related contracts, and a portion related to services, have a single performance obligation, which is the promise to transfer an individual good or service, with revenue recognized at a point in time. Certain service-related contracts contain multiple performance obligations that require the company to allocate the transaction price to each performance obligation. For such contracts, the company allocates revenue to each performance obligation based on its relative standalone selling price at inception of the contract. The company determined the standalone selling price based on the expected cost-plus margin methodology. Revenue related to the service contracts with multiple performance obligations is recognized over time. To the extent performance obligations are satisfied over time, the company defers revenue recognition until the performance obligations are satisfied.

The determination of when and how much revenue to recognize can require the use of significant judgment. Revenue is recognized when obligations under the terms of a contract with the customer are satisfied; generally, this occurs with the transfer of control of the company’s products and services to the customer.

Revenue is measured as the amount of consideration expected to be received in exchange for transferring the product or providing services. The amount of consideration received and recognized as revenue by the company can vary as a result of variable consideration terms included in the contracts such as customer rebates, cash discounts and return policies. Customer rebates and cash discounts are estimated based on the most likely amount principle and these estimates are based on historical experience and anticipated performance. Customers have the right to return product within the company’s normal terms policy, and as such, the company estimates the expected returns based on an

analysis of historical experience. The company adjusts its estimate of revenue at the earlier of when the most likely amount of consideration the company expects to receive changes or when the consideration becomes fixed. The company generally does not expect that there will be significant changes to its estimates of variable consideration (see Receivables in the Notes to the Consolidated Financial Statements include elsewhere in this report).

Depending on the terms of the contract, the company may defer recognizing a portion of the revenue at the end of a given period as the result of title transfer terms that are based upon delivery and or acceptance which align with transfer of control of the company’s products to its customers.

Sales are made only to customers with whom the company believes collection is reasonably assured based upon a credit analysis, which may include obtaining a credit application, a signed security agreement, personal guarantee and/or a cross corporate guarantee depending on the credit history of the customer. Credit lines are established for new customers after an evaluation of their credit report and/or other relevant financial information. Existing credit lines are regularly reviewed and adjusted with consideration given to any outstanding past due amounts.

The company records distributed product sales gross as a principal since the company takes title to the products and has the risks of loss for collections, delivery and returns. The company’s payment terms are for relatively short periods and thus do not contain any element of financing. Additionally, no contract costs are incurred that would require capitalization and amortization.

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Sales, value-added, and other taxes the company collects concurrent with revenue producing activities are excluded from revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. Shipping and handling costs are included in cost of products sold.

The majority of the company’s warranties are considered assurance-type warranties and continue to be recognized as expense when the products are sold (see Current Liabilities in the Notes to the Consolidated Financial Statements include elsewhere in this report). In addition, the company has sold extended warranties that, while immaterial, require the company to defer the revenue associated with those warranties until earned. The company has established procedures to appropriately defer such revenue.

Warranty

Generally, the company’s products are covered by assurance-type warranties against defects in material and workmanship for various periods depending on the product from the date of sale to the customer. Certain components carry a lifetime warranty. In addition, the company has sold extended warranties that, while immaterial, require the company to defer the revenue associated with those warranties until earned. A provision for estimated warranty cost is recorded at the time of sale based upon actual experience. The company continuously assesses the adequacy of its product warranty accruals and makes adjustments as needed. Historical analysis is primarily used to determine the company’s warranty reserves. Claims history is reviewed and provisions are adjusted as needed. However, the company does consider other events, such as a product recall, which could require additional warranty reserve provisions. See Accrued Expenses in the Notes to the Consolidated Financial Statements for a reconciliation of the changes in the warranty accrual.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

For the company’s disclosure regarding recently issued accounting pronouncements, see Accounting Policies - Recent Accounting Pronouncements in the Notes to the Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

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FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements within the meaning of the “Safe Harbor” provisions of the Private Securities Litigation Reform Act of 1995. Terms such as “will,” “should,” “could,” “plan,” “intend,” “expect,” “continue,” “be and “anticipate,” as well as similar comments, denote forward-looking statements that are subject to inherent uncertainties that are difficult to predict. Actual results and events may differ significantly from those expressed or anticipated as a result of risks and uncertainties, which include, but are not limited to, the following: adverse effects of the company’s consent decree of injunction with the U.S. Food and Drug Administration (FDA), including but not limited to, compliance costs, inability to bid on or win certain contracts, inability to rebuild negatively impacted customer relationships, unabsorbed capacity utilization, including fixed costs and overhead; any circumstances or developments that might adversely impact the third-party expert auditor’s required audits of the company’s quality systems at the facilities impacted by the consent decree, including any possible failure to comply with the consent decree or FDA regulations; regulatory proceedings or the company's failure to comply with regulatory requirements or receive regulatory clearance or approval for the company's products or operations in the United States or abroad; adverse effects of regulatory or governmental inspections of company facilities at any time and governmental warning letters or enforcement actions; circumstances or developments that may make the company unable to implement or realize the anticipated benefits, or that may increase the costs, of its current business initiatives; possible adverse effects on the company's liquidity that may result from delays in the implementation or realization of benefits of its current business initiatives, or from any requirement to settle conversions of its outstanding convertible notes in cash; product liability or warranty claims; product recalls, including more extensive warranty or recall experience than expected; possible adverse effects of being leveraged, including interest rate or event of default risks; exchange rate fluctuations, particularly in light of the relative importance of the company's foreign operations to its overall financial performance and including the existing and potential impacts from the Brexit referendum; potential impacts of the United States administration’s policies, and any legislation or regulations that may result from those policies, and of new United States tax laws, rules, regulations or policies; legal actions, including adverse judgments or settlements of litigation or claims in excess of available insurance limits; adverse changes in government and other third-party payor reimbursement levels and practices both in the U.S. and in other countries (such as, for example, more extensive pre-payment reviews and post-payment audits by payors, or the continuing impact of the Medicare National Competitive U.S. Bidding program); ineffective cost reduction and restructuring efforts or inability to realize anticipated cost savings or achieve desired efficiencies from such efforts; delays, disruptions or excessive costs incurred in facility closures or consolidations; tax rate fluctuations; additional tax expense or additional tax exposures,

which could affect the company's future profitability and cash flow; inability to design, manufacture, distribute and achieve market acceptance of new products with greater functionality or new product platforms that deliver the anticipated benefits; consolidation of health care providers; lower cost imports; uncollectible accounts receivable; difficulties in implementing/upgrading Enterprise Resource Planning systems; risk of cybersecurity attack, data breach or data loss and/or delays in or inability to recover or restore data and IT systems; risks inherent in managing and operating businesses in many different foreign jurisdictions; decreased availability or increased costs of materials which could increase the company's costs of producing or acquiring the company's products, including possible increases in commodity costs or freight costs; heightened vulnerability to a hostile takeover attempt or other shareholder activism; provisions of Ohio law or in the company's debt agreements, charter documents or other agreements that may prevent or delay a change in control, as well as the risks described from time to time in the company's reports as filed with the Securities and Exchange Commission. Except to the extent required by law, the company does not undertake and specifically declines any obligation to review or update any forward-looking statements or to publicly announce the results of any revisions to any of such statements to reflect future events or developments or otherwise.

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements.

INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statement of Comprehensive Income (Loss) (unaudited)

(In thousands, except per share data)	Three Months Ended March 31,	
	2018	2017
Net sales	$237,060	$231,723
Cost of products sold	170,543	166,578
Gross Profit	66,517	65,145
Selling, general and administrative expenses	71,264	72,513
Charges related to restructuring activities	401	3,283
Operating Loss	(5,148)	(10,651)
Net gain on convertible debt derivatives	(103)	(901)
Interest expense	6,962	4,518
Interest income	(249)	(88)
Loss Before Income Taxes	(11,758)	(14,180)
Income tax provision	2,350	2,600
Net Loss	$(14,108)	$(16,780)
Dividends Declared per Common Share	$0.0125	$0.0125
Net Loss per Share—Basic	$(0.43)	$(0.52)
Weighted Average Shares Outstanding—Basic	32,911	32,475
Net Loss per Share—Assuming Dilution	$(0.43)	$(0.52)
Weighted Average Shares Outstanding—Assuming Dilution	33,799	32,704
Net Loss	$(14,108)	$(16,780)
Other comprehensive income (loss):		
Foreign currency translation adjustments	11,816	949
Defined Benefit Plans:		
Amortization of prior service costs and unrecognized gains	(47)	(295)
Deferred tax adjustment resulting from defined benefit plan activity	(82)	(3)
Valuation reserve associated with defined benefit plan activity	82	3
Current period unrealized loss on cash flow hedges	(247)	631
Deferred tax loss related to unrealized loss on cash flow hedges	110	(166)
Other Comprehensive Income	11,632	1,119
Comprehensive Loss	$(2,476)	$(15,661)
(Elements as a % of Net Sales)		
Net Sales	100.0 %	100.0 %
Cost of products sold	71.9	71.9
Gross Profit	28.1	28.1
Selling, general and administrative expenses	30.1	31.3
Charges related to restructuring activities	0.2	1.4
Operating Loss	(2.2)	(4.6)
Net gain on convertible debt derivatives	—	(0.4)
Interest expense	2.9	1.9
Interest income	(0.1)	—
Loss Before Income Taxes	(5.0)	(6.1)

Income tax provision	1.0	1.1
Net Loss	(6.0)%	(7.2)%

See notes to condensed consolidated financial statements.

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INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (unaudited)

	March 31, 2018	December 31, 2017
	(In thousands)	
Assets		
Current Assets		
Cash and cash equivalents	$ 150,618	$ 176,528
Trade receivables, net	127,370	125,615
Installment receivables, net	1,281	1,334
Inventories, net	132,038	121,933
Other current assets	33,966	31,504
Total Current Assets	445,273	456,914
Other Assets	101,964	97,576
Intangibles	30,387	30,244
Property and Equipment, net	79,367	80,016
Goodwill	410,291	401,283
Total Assets	$ 1,067,282	$ 1,066,033
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 94,284	$ 90,566
Accrued expenses	111,650	118,697
Current taxes payable	4,631	6,761
Short-term debt and current maturities of long-term obligations	1,775	2,040
Total Current Liabilities	212,340	218,064
Long-Term Debt	244,366	241,405
Other Long-Term Obligations	187,904	183,270
Shareholders' Equity		
Preferred Shares (Authorized 300 shares; none outstanding)	—	—
Common Shares (Authorized 100,000 shares; 36,872 and 36,532 issued and outstanding in 2018 and 2017, respectively)—no par	9,395	9,304
Class B Common Shares (Authorized 12,000 shares; 6 shares issued and outstanding in both 2018 and 2017, respectively)—no par	2	2
Additional paid-in-capital	293,211	290,125
Retained earnings	173,488	187,999
Accumulated other comprehensive income	48,502	36,870
Treasury shares (3,751 and 3,701 shares in 2018 and 2017, respectively)	(101,926)	(101,006)
Total Shareholders' Equity	422,672	423,294
Total Liabilities and Shareholders' Equity	$ 1,067,282	$ 1,066,033

See notes to condensed consolidated financial statements.

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INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statement of Cash Flows (unaudited)

	For the Three Months Ended March 31,	
	2018	2017
Operating Activities	(In thousands)	
Net loss	$(14,108)	$(16,780)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,111	3,593
Provision for losses on trade and installment receivables	201	176
Benefit for deferred income taxes	(3)	(728)
Provision for other deferred liabilities	(66)	283
Provision for equity compensation	1,766	838
Loss on disposals of property and equipment	35	9
Amortization of convertible debt discount	2,786	1,749
Amortization of debt fees	620	521
Gain on convertible debt derivatives	(103)	(901)
Changes in operating assets and liabilities:		
Trade receivables	(930)	(6,386)
Installment sales contracts, net	141	(161)
Inventories	(8,713)	(8,603)
Other current assets	(1,653)	(1,714)
Accounts payable	2,759	4,028
Accrued expenses	(11,509)	(4,322)
Other long-term liabilities	15	(1,932)
Net Cash Used by Operating Activities	(24,651)	(30,330)
Investing Activities		
Purchases of property and equipment	(2,065)	(3,034)
Proceeds from sale of property and equipment	10	10
Change in other long-term assets	(227)	19
Other	(1)	(3)
Net Cash Used by Investing Activities	(2,283)	(3,008)
Financing Activities		
Payments on revolving lines of credit and long-term borrowings	(393)	(14,027)
Proceeds from exercise of stock options	1,410	—
Payment of dividends	(403)	(397)
Purchase of treasury stock	(920)	—
Net Cash Used by Financing Activities	(306)	(14,424)
Effect of exchange rate changes on cash	1,330	364
Increase in cash and cash equivalents	(25,910)	(47,398)
Cash and cash equivalents at beginning of year	176,528	124,234
Cash and cash equivalents at end of period	$150,618	$76,836

See notes to condensed consolidated financial statements.

Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its wholly owned subsidiaries and include all adjustments, which were of a normal recurring nature, necessary to present fairly the financial position of the company as of March 31, 2018 and the results of its operations and changes in its cash flow for the three months ended March 31, 2018 and 2017, respectively. Certain foreign subsidiaries, represented by the European segment, are consolidated using a February 28 quarter end to meet filing deadlines. No material subsequent events have occurred related to the European segment, which would require disclosure or adjustment to the company's financial statements. All significant intercompany transactions are eliminated. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for the full year.

Use of Estimates: The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

Accounts Receivable: The company records accounts receivable when control of the product or service transfers to its unaffiliated customers, risk of loss is passed and title is transferred. The estimated allowance for uncollectible amounts is based primarily on management's evaluation of the financial condition of specific customers. The company records accounts receivable reserves for amounts that may become uncollectible in the future. The company writes off accounts receivable when it becomes apparent, based upon customer circumstances, that such amounts will not be collected and when legal remedies are exhausted.

Reserves for customer bonus and cash discounts are recorded as a reduction in revenue and netted against gross accounts receivable. Customer rebates in excess of a given customer's accounts receivable balance are classified in Accrued Expenses. Customer rebates and cash discounts are estimated based on the most likely amount principle as well as historical experience and anticipated performance. In addition, customers have the right to return product within the company’s normal terms policy, and as such the company estimates the expected returns based on an analysis of historical experience and adjusts revenue accordingly.

Recent Accounting Pronouncements (Already Adopted):

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which replaces numerous requirements in U.S. GAAP and provides companies with a single revenue recognition model for recognizing revenue from contracts with customers. ASU 2014-09 requires a company to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The guidance requires five steps to be applied: 1) identify the contract(s) with customers, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligation in the contract and 5) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance also requires both quantitative and qualitative disclosures, which are more comprehensive than previous revenue standards. The disclosures are intended to enable financial

statement users to understand the nature, timing and uncertainty of revenue and the related cash flow.

Effective January 1, 2018, the company adopted the new accounting standard, and all the related amendments, on a modified retrospective basis, with no cumulative effect adjustment to equity needed. Upon adoption, the standard did not have a material impact on the company's results of operations or cash flows nor does the company expect it to have a material impact on future periods. Pursuant to ASU 2014-09, revenues are recognized as control transfers to the customers, which is consistent with the prior revenue recognition model and the prior accounting for the vast majority of the company's contracts. While the company does have a minor amount of service business for which revenue is recognized over time as compared to a point in time, the company’s process to estimate the amount of revenue to be recognized did not change as a result of the implementation of the new standard.

Recent Accounting Pronouncements (Not Yet Adopted):

In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 requires lessees to put most leases on their balance sheet while recognizing expense in a manner similar to existing accounting. The new accounting guidance is effective for fiscal periods beginning after December 15, 2018 and early adoption is permitted. The company is currently reviewing the impact of the adoption of ASU 2016-02 on the company's financial statements.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Statements." ASU 2016-13 requires a new credit loss standard for most financial assets and certain other instruments. For example, entities will be required to use an "expected loss" model that will generally require earlier recognition of allowances for losses for trade receivables. The standard also requires additional disclosures, including disclosures regarding how an entity tracks credit quality. The amendments in the pronouncement are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Entities may early adopt the amendments as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The company is currently reviewing the impact of the adoption of ASU 2016-13 on the company's financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". The guidance in ASU 2017-04 eliminates the requirement to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. Under the amendments in the new ASU, goodwill impairment testing will be performed by comparing the fair value of the reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. The new standard is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for annual or interim goodwill impairment testing performed after January 1, 2017. The company is currently reviewing the impact of the adoption of ASU 2017-04 but does not expect the adoption to impact the company's financial statements.

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Divested Businesses

Operations Held for Sale

Prior to 2018, the company had recorded expenses related to the sale of all operations held for sale totaling $2,892,000, of which $2,366,000 has been paid out as of March 31, 2018.

Discontinued Operations

From 2012 through 2014, the company sold three businesses which were classified as discontinued operations. Prior to 2018, the company had recorded cumulative expenses related to the sale of discontinued operations totaling $8,801,000, of which $8,405,000 have been paid as of March 31, 2018.

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Current Assets

Receivables

Receivables as of March 31, 2018 and December 31, 2017 consist of the following (in thousands):

	2018	2017
Accounts receivable, gross	$142,763	$154,966
Customer rebate reserve	(5,195)	(18,747)
Allowance for doubtful accounts	(5,219)	(5,113)
Cash discount reserves	(3,773)	(4,252)
Other, principally returns and allowances reserves	(1,206)	(1,239)
Accounts receivable, net	$127,370	$125,615

Reserves for customer bonus and cash discounts are recorded as a reduction in revenue and netted against gross accounts receivable. Customer rebates in excess of a given customer's accounts receivable balance are classified in Accrued Expenses. Customer rebates and cash discounts are estimated based on the most likely amount principle as well as historical experience and anticipated performance. In addition, customers have the right to return product within the company’s normal terms policy, and as such the company estimates the expected returns based on an analysis of historical experience and adjusts revenue accordingly. The decrease in customer rebates from December 31, 2017 to March 31, 2018 was the result of rebate payments, the majority of which are paid in the first quarter of each year.

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Substantially all the company’s receivables are due from health care, medical equipment providers and long-term care facilities located throughout the United States, Australia, Canada, New Zealand, China and Europe. A significant portion of products sold to providers, both foreign and domestic, are ultimately funded through government reimbursement programs such as Medicare and Medicaid in the U.S. As a consequence, changes in these programs can have an adverse impact on dealer liquidity and profitability.

The estimated allowance for uncollectible amounts are based primarily on management’s evaluation of the financial condition of specific customers. In addition, as a result of the company's financing arrangement with DLL, a third-party financing company which the company has worked with since 2000, management monitors the collection status of these contracts in accordance with the company’s limited recourse obligations and provides amounts necessary for estimated losses in the allowance for doubtful accounts and establishes reserves for specific customers as needed. The company writes off

uncollectible trade accounts receivable after such receivables are moved to collection status and legal remedies are exhausted. See Concentration of Credit Risk in the Notes to the Consolidated Financial Statements for a description of the financing arrangement. Long-term installment receivables are included in “Other Assets” on the consolidated balance sheet.

The company’s U.S. customers electing to finance their purchases can do so using DLL. In addition, the company often provides financing directly for its Canadian customers for which DLL is not an option, as DLL typically provides financing to Canadian customers only on a limited basis. The installment receivables recorded on the books of the company represent a single portfolio segment of finance receivables to the independent provider channel and long-term care customers. The portfolio segment is comprised of two classes of receivables distinguished by

geography and credit quality. The U.S. installment receivables are the first class and represent installment receivables re-purchased from DLL because the customers were in default. Default with DLL is defined as a customer being delinquent by three payments. The Canadian installment receivables represent the second class of installment receivables which were originally financed by the company because third party financing was not available to the HME providers. The Canadian installment receivables are typically financed for twelve months and historically have had a very low risk of default.

The estimated allowance for uncollectible amounts and evaluation for impairment for both classes of installment receivables is based on the company’s quarterly review of the financial condition of each individual customer with the allowance for doubtful accounts adjusted accordingly. Installments are individually and not collectively reviewed for impairment. The company assesses the bad debt reserve levels based upon the status of the customer’s adherence to a legally negotiated payment schedule and the company’s ability to enforce judgments, liens, etc.

For purposes of granting or extending credit, the company utilizes a scoring model to generate a composite score that considers each customer’s consumer credit score and or D&B credit rating, payment history, security collateral and time in business. Additional analysis is performed for most customers desiring credit greater than $250,000, which generally includes a detailed review of the customer’s financial statements as well as consideration of other factors such as exposure to changing reimbursement laws.

Interest income is recognized on installment receivables based on the terms of the installment agreements. Installment accounts are monitored and if a customer defaults on payments

Notes to Financial Statements Current Assets

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and is moved to collection, interest income is no longer recognized. Subsequent payments received once an account is put on non-accrual status are generally first applied to the principal balance and then to the interest. Accruing of interest on collection accounts would only be restarted if the account became current again.

All installment accounts are accounted for using the same methodology regardless of the duration of the installment agreements. When an account is placed in collection status, the company goes through a legal process for pursuing collection of outstanding amounts, the length of which typically approximates eighteen months. Any write-offs are made after the legal process has been completed. The company has not made any changes to either its accounting policies or methodology to estimate allowances for doubtful accounts in the last twelve months.

Installment receivables consist of the following (in thousands):

	March 31, 2018			December 31, 2017		
	Current	Long-Term	Total	Current	Long-Term	Total
Installment receivables	$2,344	$1,956	$4,300	$2,415	$2,076	$4,491
Less: Unearned interest	(33)	—	(33)	(38)	—	(38)
	2,311	1,956	4,267	2,377	2,076	4,453
Allowance for doubtful accounts	(1,030)	(1,539)	(2,569)	(1,043)	(1,601)	(2,644)
Installment receivables, net	$1,281	$417	$1,698	$1,334	$475	$1,809

Installment receivables purchased from DLL during the three months ended March 31, 2018 increased the gross installment receivables balance by $1,073,000. No sales of installment receivables were made by the company during the quarter.

The movement in the installment receivables allowance for doubtful accounts was as follows (in thousands):

	Three Months Ended March 31, 2018	Year Ended December 31, 2017
Balance as of beginning of period	$2,644	$ 2,838
Current period provision (benefit)	(53)	1,001
Direct write-offs charged against the allowance	(22)	(1,195)
Balance as of end of period	$2,569	$ 2,644

Installment receivables by class as of March 31, 2018 consist of the following (in thousands):

	Total Installment Receivables	Unpaid Principal Balance	Related Allowance for Doubtful Accounts	Interest Income Recognized
U.S.				
Impaired installment receivables with a related allowance recorded	$ 3,411	$ 3,411	$ 2,569	$ —

Canada				
Non-Impaired installment receivables with no related allowance recorded	889	856	—	25
Impaired installment receivables with a related allowance recorded	—	—	—	—
Total Canadian installment receivables	889	856	—	25
Total				
Non-Impaired installment receivables with no related allowance recorded	889	856	—	25
Impaired installment receivables with a related allowance recorded	3,411	3,411	2,569	—
Total installment receivables	$ 4,300	$ 4,267	$ 2,569	$ 25

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Installment receivables by class as of December 31, 2017 consist of the following (in thousands):

	Total Installment Receivables	Unpaid Principal Balance	Related Allowance for Doubtful Accounts	Interest Income Recognized
U.S.				
Impaired installment receivables with a related allowance recorded	$ 3,566	$ 3,566	$ 2,642	$ —
Canada				
Non-Impaired installment receivables with no related allowance recorded	923	885	—	74
Impaired installment receivables with a related allowance recorded	2	2	2	—
Total Canadian installment receivables	925	887	2	74
Total				
Non-Impaired installment receivables with no related allowance recorded	923	885	—	74
Impaired installment receivables with a related allowance recorded	3,568	3,568	2,644	—
Total installment receivables	$ 4,491	$ 4,453	$ 2,644	$ 74

Installment receivables with a related allowance recorded as noted in the table above represent those installment receivables on a non-accrual basis in accordance with ASU 2010-20. As of March 31, 2018, the company had no U.S. installment receivables past due of 90 days or more for which the company is still accruing interest. Individually, all U.S. installment receivables are assigned a specific allowance for doubtful accounts based on management's review when the

company does not expect to receive both the contractual principal and interest payments as specified in the loan agreement. In Canada, the company had an immaterial amount of Canadian installment receivables which were past due of 90 days or more as of December 31, 2017 for which the company was still accruing interest.

The aging of the company's installment receivables was as follows (in thousands):

	March 31, 2018			December 31, 2017		
	Total	U.S.	Canada	Total	U.S.	Canada
Current	$886	$—	$ 886	$916	$—	$ 916
0-30 Days Past Due	3	—	3	6	—	6
31-60 Days Past Due	—	—	—	—	—	—
61-90 Days Past Due	—	—	—	—	—	—
90+ Days Past Due	3,411	3,411	—	3,569	3,566	3
	$4,300	$3,411	$ 889	$4,491	$3,566	$ 925

Notes to Financial Statements Current Assets

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Inventories

Inventories consist of the following (in thousands):

	March 31, 2018	December 31, 2017
Finished goods	$58,708	$52,773
Raw materials	64,354	59,497
Work in process	8,976	9,663
Inventories, net	$132,038	$121,933

Other Current Assets

Other current assets consist of the following (in thousands):

	March 31, 2018	December 31, 2017
Value added tax receivables	$ 17,237	$ 16,174
Service contracts	2,848	2,812
Prepaid insurance	2,143	2,647
Derivatives (foreign currency forward exchange contracts)	1,323	730
Prepaid inventory	653	711
Prepaid debt fees	397	397
Recoverable income taxes	382	341
Prepaid and other current assets	8,983	7,692
Other Current Assets	$ 33,966	$ 31,504

Notes to Financial Statements Long-Term Assets

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Long-Term Assets

Other Long-Term Assets

Other long-term assets consist of the following (in thousands):

	March 31, 2018	December 31, 2017
Convertible 2022 note hedge asset	$48,919	$ 46,680
Convertible 2021 note hedge asset	48,962	46,915
Cash surrender value of life insurance policies	1,929	1,991
Deferred financing fees	692	787
Long-term installment receivables	417	475
Long-term deferred taxes	547	518
Investments	103	103
Other	395	107
Other Long-Term Assets	$101,964	$ 97,576

Property and Equipment

Property and equipment consist of the following (in thousands):

	March 31, 2018	December 31, 2017
Machinery and equipment	$307,531	$ 307,244
Land, buildings and improvements	79,675	78,522
Leasehold improvements	9,158	9,947
Furniture and fixtures	10,165	10,264
Property and Equipment, gross	406,529	405,977
Less allowance for depreciation	(327,162)	(325,961)
Property and Equipment, net	$79,367	$ 80,016

Goodwill

The change in goodwill from December 31, 2017 to March 31, 2018 was due to foreign currency translation.

Notes to Financial Statements Long-Term Assets

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Intangibles

The company's intangibles consist of the following (in thousands):

	March 31, 2018		December 31, 2017	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Customer lists	$55,504	$ 53,250	$54,516	$ 51,957
Trademarks	26,837	—	26,372	—
Developed technology	8,069	6,796	7,925	6,636
Patents	5,549	5,542	5,566	5,559
License agreements	1,173	1,173	1,187	1,187
Other	1,162	1,146	1,162	1,145
Intangibles	$98,294	$ 67,907	$96,728	$ 66,484

All the company’s intangible assets have been assigned definite lives and continue to be amortized over their useful lives, except for trademarks shown above, which have indefinite lives. The changes in intangible balances reflected on the balance sheet from December 31, 2017 to March 31, 2018 were the result of foreign currency translation and amortization.

The company evaluates the carrying value of definite-lived assets whenever events or circumstances indicate possible impairment. Definite-lived assets are determined to be impaired if the future un-discounted cash flows expected to be generated by the asset are less than the carrying value. Actual impairment amounts for definite-lived assets are then calculated using a discounted cash flow calculation. The company reviews indefinite-lived assets for impairment annually in the fourth quarter of each year and whenever events or circumstances indicate possible impairment. Any impairment amounts for indefinite-lived assets are calculated as the difference between the future discounted cash flows expected to be generated by the asset less than the carrying value for the asset.

Amortization expense related to intangibles was $418,000 in the first three months of 2018 and is estimated to be $1,677,000 in 2018, $1,348,000 in 2019, $198,000 in 2020, $198,000 in 2021, $198,000 in 2022 and $198,000 in

2023. Amortized intangibles are being amortized on a straight-line basis over remaining lives of 1 to 10 years with most of the intangibles being amortized over an average remaining life of approximately 4 years.

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Current Liabilities

Accrued Expenses

Accrued expenses consist of accruals for the following (in thousands):

	March 31, 2018	December 31, 2017
Salaries and wages	$33,134	$ 33,390
Warranty cost	22,159	22,468
Taxes other than income taxes, primarily Value Added Taxes	18,458	22,627
Professional	5,029	5,203
Deferred revenue	4,591	2,770
Freight	4,225	4,002
Rebates	3,650	5,831
Interest	3,406	3,919
Product liability, current portion	2,857	2,905
Derivative liabilities (foreign currency forward exchange contracts)	2,652	2,120
Severance	1,799	3,704
Rent	772	808
Insurance	698	645
Supplemental Executive Retirement Program liability	391	391
Other items, principally trade accruals	7,829	7,914
Accrued Expenses	$111,650	$ 118,697

Depending on the terms of the contract, the company may defer the recognition of a portion of the revenue at the end of a reporting period to align with the transfer of control of the company's products to the customer. In addition, to the extent performance obligations are satisfied over time, the company defers revenue recognition until the performance obligations are satisfied.

Accrued rebates relate to several volume incentive programs the company offers its customers. The company accounts for these rebates as a reduction of revenue when the products are sold in accordance with the guidance in ASC 605-50, Customer Payments and Incentives. Rebates are netted against gross accounts receivables unless in excess of such receivables and then classified as accrued expenses.

Generally, the company's products are covered by warranties against defects in material and workmanship for various periods depending on the product from the date of sale to the customer. Certain components carry a lifetime warranty. A provision for estimated warranty cost is recorded at the time of sale based upon actual experience. In addition, the company has sold extended warranties that, while immaterial, require the company to defer the revenue associated with those warranties until earned. The company has established procedures to appropriate defer such revenue.

The company continuously assesses the adequacy of its product warranty accruals and makes adjustments as needed. Historical analysis is primarily used to determine the company's warranty reserves. Claims history is reviewed and provisions are adjusted as needed. However, the company does consider other events, such as a product field action and recalls, which could require additional warranty reserve provision.
The following is a reconciliation of the changes in accrued warranty costs for the reporting period (in thousands):

Balance as of January 1, 2018	$22,468
Warranties provided during the period	2,823
Settlements made during the period	(3,335)
Changes in liability for pre-existing warranties during the period, including expirations	203
Balance as of March 31, 2018	$22,159

Warranty reserves are subject to adjustment in future periods as new developments change the company's estimate of the total cost.

Notes to Financial Statements Long-Term Liabilities

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Long-Term Debt

Debt consists of the following (in thousands):

	March 31, 2018	December 31, 2017
Convertible senior notes at 5.00%, due in February 2021	$124,256	$ 122,355
Convertible senior notes at 4.50%, due in June 2022	91,082	89,675
Other notes and lease obligations	30,803	31,415
	246,141	243,445
Less current maturities of long-term debt	(1,775)	(2,040)
Long-Term Debt	$244,366	$ 241,405

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The company had outstanding letters of credit of $3,169,000 and $2,945,000 as of March 31, 2018 and December 31, 2017, respectively. There were no borrowings denominated in foreign currencies, excluding a portion of the company's capital leases, as of March 31, 2018 and December 31, 2017. The weighted average interest rate on all borrowings, excluding capital leases, was 4.78% for the quarter ended March 31, 2018 compared to 4.84% for the year ended December 31, 2017.

On September 30, 2015, the company entered into an Amended and Restated Revolving Credit and Security Agreement, which was subsequently amended (the “Credit Agreement”) and which matures on January 16, 2021. The Credit Agreement was entered into by and among the company, certain of the company’s direct and indirect U.S. and Canadian subsidiaries and certain of the company’s European subsidiaries (together with the company, the “Borrowers”), certain other of the company’s direct and indirect U.S., Canadian and European subsidiaries (the “Guarantors”), and PNC Bank, National Association (“PNC”), JPMorgan Chase Bank, N.A., J.P. Morgan Europe Limited, KeyBank National Association, and Citizens Bank, National Association (the “Lenders”). PNC is the administrative agent (the “Administrative Agent”) and J.P. Morgan Europe Limited is the European agent (the “European Agent”) under the Credit Agreement.

In connection with entering into the company's Credit Agreement, the company incurred fees which were capitalized and are being amortized as interest expense. As of March 31, 2018, debt fees yet to be amortized through January 2021 totaled $1,089,000.

U.S. and Canadian Borrowers Credit Facility

For the company's U.S. and Canadian Borrowers, the Credit Agreement provides for an asset-based-lending senior secured revolving credit facility which is secured by substantially all the company’s U.S. and Canadian assets, other than real estate. The Credit Agreement provides the company and the other Borrowers with a credit facility in an aggregate principal amount of

$100,000,000, subject to availability based on a borrowing base formula, under a senior secured revolving credit, letter of credit
and swing line loan facility (the “U.S. and Canadian Credit Facility”). Up to $25,000,000 of the U.S. and Canadian Credit Facility will be available for issuance of letters of credit. The aggregate principal amount of the U.S. and Canadian Credit Facility may be increased by up to $25,000,000 to the extent requested by the company and agreed to by any Lender or new financial institution approved by the Administrative Agent.

The aggregate borrowing availability under the U.S. and Canadian Credit Facility is determined based on a borrowing base formula. The aggregate usage under the U.S. and Canadian Credit Facility may not exceed an amount equal to the sum of (a) 85% of eligible U.S. accounts receivable plus (b) the lesser of (i) 70% of eligible U.S. inventory and eligible foreign in-transit inventory and (ii) 85% of the net orderly liquidation value of eligible U.S. inventory and eligible foreign in-transit inventory (not to exceed $4,000,000), plus (c) the lesser of (i) 85% of the net orderly liquidation value of U.S. eligible machinery and equipment and (ii) $1,170,000 as of March 31, 2018 (subject to reduction as provided in the Credit Agreement), plus (d) 85% of eligible Canadian accounts receivable, plus (e) the lesser of (i) 70% of eligible Canadian inventory and (ii) 85% of the net orderly liquidation value of eligible Canadian inventory, less (f) swing loans outstanding under the U.S. and Canadian Credit Facility, less (g) letters of credit issued and undrawn under the U.S. and Canadian Credit Facility, less (h) a $5,000,000 minimum availability reserve, less (i) other reserves required by the Administrative Agent, and in each case subject to the definitions and limitations in the

Credit Agreement. As of March 31, 2018, the company was in compliance with all covenant requirements and had borrowing capacity on the U.S. and Canadian Credit Facility under the Credit Agreement of $24,012,000, considering the minimum availability reserve, then-outstanding letters of credit, other reserves and the $11,250,000 dominion trigger amount described below. Borrowings under the U.S. and Canadian Credit Facility are secured by substantially all of the company's U.S. and Canadian assets, other than real estate.

Interest will accrue on outstanding indebtedness under the Credit Agreement at the LIBOR rate, plus a margin ranging from 2.25% to 2.75%, or at the alternate base rate, plus a margin ranging from 1.25% to 1.75%, as selected by the company. Borrowings under the U.S. and Canadian Credit Facility are subject to commitment fees of 0.25% or 0.375% per year, depending on utilization.

The Credit Agreement contains customary representations, warranties and covenants. Exceptions to the operating covenants in the Credit Agreement provide the company with flexibility to, among other things, enter into or undertake certain sale and leaseback transactions, dispositions of assets, additional credit facilities, sales of receivables, additional indebtedness and intercompany indebtedness, all subject to limitations set forth in the Credit Agreement, as amended. The Credit Agreement also contains a covenant requiring the company to maintain minimum availability under the U.S. and Canadian Credit Facility of not less than the greater of (i) 11.25% of the maximum amount that may be drawn under the U.S. and Canadian Credit Facility for five (5) consecutive business days, or (ii) $5,000,000 on any business day. The company also is subject to dominion triggers under the U.S. and Canadian Credit Facility requiring the company to maintain borrowing capacity of not less than $11,250,000 on any business day or $12,500,000 for five consecutive days in order to avoid triggering full control by an agent for the lenders of the company's cash receipts for application to the company's obligations under the agreement.

The Credit Agreement contains customary default provisions, with certain grace periods and exceptions, which provide that events of default that include, among other things, failure to pay amounts due, breach of covenants, representations or warranties, bankruptcy, the occurrence of a material adverse effect, exclusion from any medical reimbursement program, and an interruption of any material manufacturing facilities for more than 10 consecutive days. There were no borrowings outstanding under the U.S. and Canadian Credit Facility at March 31, 2018.

European Credit Facility

The Credit Agreement also provides for a revolving credit, letter of credit and swing line loan facility which gives the company and the European Borrowers the ability to borrow up to an aggregate principal amount of $30,000,000, with a $5,000,000 sublimit for letters of credit and a $2,000,000 sublimit for swing line loans (the "European Credit Facility"). Up to $15,000,000 of the European Credit Facility will be available to each of Invacare Limited (the "UK Borrower") and Invacare Poirier SAS (the "French Borrower" and, together with the UK Borrower, the "European Borrowers"). The European Credit Facility matures in January 2021, together with the U.S. and Canadian Credit Facility.

The aggregate borrowing availability for each European Borrower under the European Credit Facility is determined based on a borrowing base formula. The aggregate borrowings of each of the European Borrowers under the European Credit Facility may not exceed an amount equal to (a) 85% of the European Borrower's eligible accounts receivable, less (b) the European Borrower's borrowings and swing line loans outstanding under the European Credit Facility, less (c) the European Borrower's letters of credit issued and undrawn under the European Credit Facility, less (d) a $3,000,000 minimum availability reserve, less (e) other reserves required by the European Agent, and in each case subject to the definitions and limitations in the Credit Agreement. As of March 31, 2018, the aggregate borrowing availability to the European Borrowers under the European Credit Facility was approximately $11,397,000, considering the $3,000,000 minimum availability reserve and the $3,375,000 dominion trigger amount described below.

The aggregate principal amount of the European Credit Facility may be increased by up to $10,000,000 to the extent requested by the company and agreed to by any Lender or Lenders that wish to increase their lending participation or,

if not agreed to by any Lender, a new financial institution that agrees to join the European Credit Facility and that is approved by the Administrative Agent and the European Agent.

Interest will accrue on outstanding indebtedness under the European Credit Facility at the LIBOR rate, plus a margin ranging from 2.50% to 3.00%, or for swing line loans, at the overnight LIBOR rate, plus a margin ranging from 2.50% to 3.00%, as selected by the company. The margin that will be adjusted quarterly based on utilization. Borrowings under the European Credit Facility are subject to commitment fees of 0.25% or 0.375% per year, depending on utilization.

The European Credit Facility is secured by substantially all the personal property assets of the UK Borrower and its in-country subsidiaries, and all the receivables of the French Borrower and its in-country subsidiaries. The UK and French facilities (which comprise the European Credit Facility) are cross collateralized, and the US personal property assets previously pledged under the U.S. and Canadian Credit Facility also serve as collateral for the European Credit Facility.

The European Credit Facility is subject to customary representations, warranties and covenants generally consistent with those applicable to the U.S. and Canadian Credit Facility. Exceptions to the operating covenants in the Credit Agreement provide the company with flexibility to, among other things, enter into or undertake certain sale/leaseback transactions, dispositions of assets, additional credit facilities, sales of receivables, additional indebtedness and intercompany indebtedness, all subject to limitations set forth in the Credit Agreement. The Credit Agreement also contains a covenant requiring the European Borrowers to maintain undrawn

availability under the European Credit Facility of not less than the greater of (i) 11.25% of the maximum amount that may be drawn under the European Credit Facility for five (5) consecutive business days, or (ii) $3,000,000 on any business day. The European Borrowers also are subject to cash dominion triggers under the European Credit Facility requiring the European Borrower to maintain borrowing capacity of not less than $3,375,000 on any business day or 12.50% of the maximum amount that may be drawn under the European Credit Facility for five (5) consecutive business days in order to avoid triggering full control by an agent for the Lenders of the European Borrower's cash receipts for application to its obligations under the European Credit Facility.

The European Credit Facility is subject to customary default provisions, with certain grace periods and exceptions, consistent with those applicable to the U.S. and Canadian Credit Facility, which provide that events of default include, among other things, failure to pay amounts due, breach of covenants, representations or warranties, cross-default, bankruptcy, the occurrence of a material adverse effect, exclusion from any medical reimbursement program, and an interruption in the operations of any material manufacturing facility for more than 10 consecutive days.

The proceeds of the European Credit Facility will be used to finance the working capital and other business needs of the company. There were no borrowings outstanding under the European Credit Facility at March 31, 2018.

Convertible senior subordinated debentures due 2027

In 2007, the company issued $135,000,000 principal amount of 4.125% Convertible Senior Subordinated Debentures due 2027 (the "debentures"), of which $0 principal amount remains outstanding as of March 31, 2018. The holders of the debentures exercised their right to require the company to repurchase all the debentures on February 1, 2017 at a price equal to 100% of the principal amount, which totaled $13,350,000. As a result of the repurchase, the company wrote-off unamortized debt fees of $207,000 and recognized amortization expense of $311,000 in the first quarter of 2017.

Convertible senior notes due 2021

In the first quarter of 2016, the company issued $150,000,000 aggregate principal amount of 5.00% Convertible Senior Notes due 2021 (the “2021 notes”) in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The 2021 notes bear interest at a rate of 5.00% per year payable semi-annually in arrears on February 15 and August 15 of each year, beginning August 15, 2016. The 2021 notes will mature on February 15, 2021, unless repurchased or converted in accordance with their terms prior to such date. Prior to August 15, 2020, the 2021 notes will be convertible only upon

satisfaction of certain conditions and during certain periods, and thereafter, at any time until the close of business on the second scheduled trading day immediately preceding the maturity date. Unless and until the company obtains shareholder approval under applicable New York Stock Exchange rules, the 2021 notes will be convertible, subject to certain conditions, into only cash. If the company obtains such shareholder approval, the 2021 notes may be settled in cash, the company's common shares or a combination of cash and the company's common shares, at the company's election.

Holders of the 2021 notes will have the right to require the company to repurchase all or some of their 2021 notes at 100% of their principal, plus any accrued and unpaid interest, upon the occurrence of certain fundamental changes. The initial conversion rate is 60.0492 common shares per $1,000 principal amount of 2021 notes (equivalent to an initial conversion price of approximately $16.65 per common share). The company evaluated the terms of the conversion features under the applicable accounting literature, including Derivatives and Hedging, ASC 815, and

determined that the features did require separate accounting as a derivative. This derivative was capitalized on the balance sheet as a long-term liability and will be adjusted to reflect fair value each quarter. The fair value of the convertible debt conversion liability at issuance was $34,480,000. The fair value of the convertible debt conversion liability at March 31, 2018 was $55,527,000 compared to $53,154,000 as of December 31, 2017. The company recognized a loss of $2,373,000 for the three months ended March 31, 2018 compared to a gain of $6,731,000 for the three months ended March 31, 2017 related to the convertible debt conversion liability.

In connection with the offering of the 2021 notes, the company entered into privately negotiated convertible note hedge transactions with two financial institutions (the “option counterparties”). These transactions cover, subject to customary anti-dilution adjustments, the number of the company’s common shares that will initially underlie the 2021 notes, and are expected generally to reduce the potential equity dilution, and/or offset any cash payments in excess of the principal amount due, as the case may be, upon conversion of the 2021 notes. The company evaluated the note hedges under the applicable accounting literature, including Derivatives and Hedging, ASC 815, and determined that the note hedges should be accounted for as derivatives. These derivatives were capitalized on the balance sheet as long-term assets and will be adjusted to reflect fair value each quarter. The fair value of the convertible note hedge assets at issuance was $27,975,000. The fair value of the convertible note hedge assets at March 31, 2018 was $48,962,000 compared to $46,915,000 as of December 31, 2017. The company recognized a gain of $2,047,000 for the three months ended March 31, 2018 compared to a loss of $5,830,000 for the three months ended March 31, 2017 related to the convertible note hedge asset.

Notes to Financial Statements Long-Term Liabilities

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The company entered into separate, privately negotiated warrant transactions with the option counterparties at a higher strike price relating to the same number of the company's common shares, subject to customary anti-dilution adjustments, pursuant to which the company sold warrants to the option counterparties. The warrants could have a dilutive effect on the company's outstanding common shares and the company's earnings per share to the extent that the price of the company's common shares exceeds the strike price of those warrants. The initial strike price of the warrants is $22.4175 per share and is subject to certain adjustments under the terms of the warrant transactions. The company evaluated the warrants under the applicable accounting literature, including Derivatives and Hedging, ASC 815, and determined that the warrants meet the definition of a derivative, are indexed to the company's own stock and should be classified in shareholder's equity. The amount paid for the warrants and capitalized in shareholder's equity was $12,376,000.

The net proceeds from the offering of the 2021 notes were approximately $144,034,000, after deducting fees and offering expenses of $5,966,000, which were paid in 2016. These debt issuance costs were capitalized and are being amortized as interest expense through February 2021. In accordance with ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, these debt issuance costs are presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability. Approximately $5,000,000 of the net proceeds from the offering were used to repurchase the company's common shares from purchasers of 2021 notes in the offering in privately negotiated transactions. A portion of the net proceeds from the offering were used to pay the cost of the convertible note hedge transactions (after such cost is partially offset by the proceeds to the company from the warrant transactions), which net cost was $15,600,000.

The liability components of the 2021 notes consist of the following (in thousands):

	March 31, 2018	December 31, 2017
Principal amount of liability component	$150,000	$150,000
Unamortized discount	(22,298)	(23,900)
Debt fees	(3,446)	(3,745)
Net carrying amount of liability component	$124,256	$ 122,355

The unamortized discount of $22,298,000 is to be amortized through February 2021. The effective interest rate on the liability component was 11.1%. Non-cash interest expense of $1,602,000 was recognized for the three months ended March 31, 2018 compared to $1,438,000 for the three months ended March 31, 2017 in comparison to actual interest expense accrued of $1,875,000 for the three months ended March 31, 2018

compared to $1,875,000 for the three months ended March 31, 2017 based on the stated coupon rate of 5.0%. The 2021 notes were not convertible as of March 31, 2018 nor was the applicable conversion threshold met.

Convertible senior notes due 2022

In the second quarter of 2017, the company issued $120,000,000 aggregate principal amount of 4.50% Convertible Senior Notes due 2022 (the "2022 notes") in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The 2022 notes bear interest at a rate of 4.50% per year payable semi-annually in arrears on June 1 and December 1 of each year, beginning December 1, 2017. The 2022 notes will mature on June 1, 2022, unless repurchased or converted in accordance with their terms prior to such date. Prior to December 1, 2021, the 2022 notes will be convertible only upon satisfaction of certain conditions and during certain periods, and thereafter, at any time until the close of business on the second scheduled trading day immediately preceding the maturity date. Unless and until the company obtains shareholder approval of the issuance of the company's common shares upon conversion

of the 2022 notes under applicable New York Stock Exchange rules, the 2022 notes will be convertible, subject to certain conditions, into only cash. If the company obtains such shareholder approval, the 2022 notes may be settled in cash, the company's common shares or a combination of cash and the company's common shares, at the company's election.

Holders of the 2022 notes will have the right to require the company to repurchase all or some of their 2022 notes at 100% of their principal, plus any accrued and unpaid interest, upon the occurrence of certain fundamental changes. The initial conversion rate is 61.6095 common shares per $1,000 principal amount of 2022 notes (equivalent to an initial conversion price of approximately $16.23 per common share). The company evaluated the terms of the conversion features under the applicable accoottom" width="1%" style="TEXT-ALIGN: left">

and other short-term borrowings	230,231	319,246	299,580	339,012	398,296
Federal Home Loan Bank advances	934,630	564,877	637,607	515,234	478,550
Total liabilities	2,967,624	3,251,327	3,602,748	3,663,446	2,916,499
Total stockholders' equity	452,367	371,376	316,020	275,922	248,860
Average Balance Sheet Data:					
Federal funds sold and other interest-earning deposits	$315,530	$473,137	$341,126	$92,978	$7,437
Investment securities	678,804	561,273	536,996	629,626	609,189
Gross loans, including loans held for sale	2,246,259	2,338,990	2,372,008	2,369,691	2,359,617
Allowance for loan losses	28,817	27,755	22,005	15,556	11,885
Total assets	3,416,921	3,503,886	3,415,725	3,232,435	3,091,933
Interest-bearing deposits	1,540,515	1,725,891	1,684,277	1,599,280	1,441,383
Total liabilities	2,418,865	2,671,466	2,679,499	2,604,577	2,539,482
Total stockholders' equity	439,636	361,357	305,864	267,578	242,967
Per Share Data:					
Basic average shares outstanding	20,945	20,877	20,749	20,518	20,458
Diluted average shares outstanding	20,993	20,960	20,884	20,824	20,840
End of period shares outstanding:					
Class A Common Stock	18,652	18,628	18,499	18,318	17,952
Class B Common Stock	2,300	2,307	2,309	2,310	2,344
Basic earnings per share:					
Class A Common Stock					

	$4.50	$3.11	$2.04	$1.65	$1.22
Class B Common Stock	4.45	3.06	1.99	1.60	1.18
Diluted earnings per share:					
Class A Common Stock	4.49	3.10	2.02	1.62	1.20
Class B Common Stock	4.44	3.04	1.98	1.58	1.16
Cash dividends declared per share:					
Class A Common Stock	0.605	0.561	0.517	0.473	0.424
Class B Common Stock	0.550	0.510	0.470	0.430	0.386
Market value per share at December 31,	22.90	23.75	20.60	27.20	16.53
Book value per share at December 31,	21.59	17.74	15.19	13.38	12.26
Tangible book value per share (1)	20.81	16.88	14.28	12.59	11.41

(continued)

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Item 6. Selected Financial Data (continued)

(in thousands, except per share data, FTEs and # of banking centers)	As of and for the Years Ended December 31, 2011		2010		2009		2008		2007	
Performance Ratios:										
Return on average assets (ROA)	2.76	%	1.85	%	1.23	%	1.04	%	0.81	%
Return on average equity (ROE)	21.42	%	17.92	%	13.77	%	12.58	%	10.25	%
Efficiency ratio (2)	43	%	52	%	53	%	57	%	66	%
Yield on average interest-earning assets	6.02	%	5.74	%	6.54	%	6.54	%	6.69	%
Cost of average interest-bearing liabilities	1.25	%	1.37	%	1.82	%	2.78	%	4.12	%
Net interest spread	4.77	%	4.37	%	4.72	%	3.76	%	2.57	%
Net interest margin - Total Company	5.09	%	4.65	%	5.04	%	4.20	%	3.17	%
Net interest margin - Traditional Banking Segment	3.55	%	3.57	%	3.79	%	3.96	%	2.95	%
Asset Quality Data:										
Loans on non-accrual status	$23,306		$28,317		$43,136		$11,324		$8,303	
Loans past due 90 days or more and still on accrual	-		-		8		2,133		1,318	
Total non-performing loans	23,306		28,317		43,144		13,457		9,621	
Other real estate owned	10,956		11,969		4,772		5,737		795	
Total non-performing assets	34,262		40,286		47,916		19,194		10,416	
Credit Quality Ratios - Total Company:										
Non-performing loans to total loans	1.02	%	1.30	%	1.90	%	0.58	%	0.40	%
Non-performing assets to total loans (including OREO)	1.49	%	1.84	%	2.11	%	0.83	%	0.43	%
Non-performing assets to total assets	1.00	%	1.11	%	1.22	%	0.49	%	0.33	%
Allowance for loan losses to total loans	1.05	%	1.06	%	1.01	%	0.64	%	0.53	%
Allowance for loan losses to non-performing loans	103	%	82	%	53	%	110	%	132	%
Delinquent loans to total loans (3)	1.07	%	1.24	%	1.98	%	1.07	%	0.69	%
Net loan charge offs to average loans	0.76	%	0.83	%	1.09	%	0.60	%	0.22	%
Credit Quality Ratios - Traditional Banking:										
Non-performing loans to total loans	1.02	%	1.30	%	1.90	%	0.58	%	0.40	%
Non-performing assets to total loans (including OREO)	1.49	%	1.84	%	2.11	%	0.83	%	0.43	%
Non-performing assets to total assets	1.10	%	1.32	%	1.60	%	0.69	%	0.36	%
Allowance for loan losses to total loans	1.05	%	1.06	%	1.01	%	0.64	%	0.53	%
Allowance for loan losses to non-performing loans	103	%	82	%	53	%	110	%	132	%

Delinquent loans to total loans (3)	1.07	%	1.24	%	1.98	%	1.07	%	0.69	%
Net loan charge offs to average loans	0.24	%	0.51	%	0.34	%	0.26	%	0.10	%
Capital Ratios:										
Average stockholders' equity to average total assets	12.87	%	10.31	%	8.95	%	8.28	%	7.86	%
Total risk based capital	24.74	%	22.04	%	18.37	%	15.43	%	13.90	%
Tier 1 capital	23.59	%	20.89	%	17.25	%	14.72	%	13.29	%
Tier 1 leverage capital	14.77	%	12.05	%	10.52	%	8.80	%	8.75	%
Dividend payout ratio	13	%	18	%	25	%	29	%	35	%
Other Information:										
End of period full time equivalent employees	710		744		735		724		727	
Number of banking centers	43		43		44		45		40	

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(1) – Represents total equity less: goodwill, core deposit intangible asset, and mortgage servicing rights asset divided by total shares outstanding.

(2) – Equals total non interest expense divided by the sum of net interest income and non interest income. The ratio excludes net gain (loss) on sales, calls and impairment of investment securities.

(3) – Equals total loans over 30 days past due divided by total loans.

Item 7. 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 II Item 8 "Financial Statements and Supplementary Data."

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

Republic and its subsidiaries operate in a heavily regulated industry. These regulatory requirements can and do affect the Company's results of operations and financial condition. For an update on regulatory matters affecting the Company and its subsidiaries, see Footnote 22 "Regulatory Matters" in Part II Item 8 "Financial Statements and Supplementary Data."

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") including under Part 1 Item 1A "Risk Factors."

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:

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

- the future regulatory viability of the Tax Refund Solutions (“TRS”) segment;
- the future operating performance of TRS, including the impact of the cessation of Refund Anticipation Loans (“RALs”);
- future RAL volume;
- future Electronic Refund Check/Electronic Refund Deposit (“ERC/ERD” or “AR/ARD”) volume for TRS;
- future revenues associated with ERCs/ERDs at TRS;
- future credit losses associated with RALs;
- anticipated future funding sources for TRS;
- potential impairment of investment securities;
- the future value of mortgage servicing rights;

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- 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 and local governmental regulation of consumer lending and related financial products and services may limit or prohibit the operation of the Company's business;
- financial services reform and other current, pending or future legislation or regulation that could have a negative effect on the Company's revenue and businesses, including the Dodd-Frank Act and legislation and regulation relating to overdraft fees (and changes to the Bank's overdraft practices as a result thereof), debit card interchange fees, credit cards, and other bank services;
- future capital expenditures;
- the strength of the U.S. economy in general and the strength of the local economies in which the Company conducts operations;
- the Bank's ability to maintain current deposit and loan levels at current interest rates and
- The Company's ability to successfully implement future growth plans.

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," "p
"project," "target," "can," "could," "may," "should," "will," "would," or similar expressions. Do not rely on forward
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," Part I Item 1A "Risk Factors" and Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Republic's consolidated financial statements and accompanying footnotes have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported periods.

Management continually evaluates the Company's accounting policies and estimates that it uses to prepare the consolidated financial statements. In general, management's estimates are based on historical experience, on information from regulators and independent third party professionals and on various assumptions that are believed to be reasonable. Actual results may differ from those estimates made by management.

Critical accounting policies are those that management believes are the most important to the portrayal of the Company's financial condition and operating results and require management to make estimates that are difficult, subjective and complex. Most accounting policies are not considered by management to be critical accounting policies. Several factors are considered in determining whether or not a policy is critical in the preparation of the financial statements. These factors include, among other things, whether the estimates have a significant impact on the financial statements, the nature of the estimates, the ability to readily validate the estimates with other information including independent third parties or available pricing, sensitivity of the estimates to changes in economic conditions and whether alternative methods of accounting may be utilized under U.S. generally accepted accounting principles. Management has discussed each critical accounting policy and the methodology for the identification and determination of critical accounting policies with the Company's Audit Committee.

Republic believes its critical accounting policies and estimates relate to:

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

Traditional Banking Segment Allowance for Loan Losses and Provision for Loan Losses – The Bank maintains an allowance for probable incurred credit losses inherent in the Bank's loan portfolio, which includes overdrawn deposit accounts. Management evaluates the adequacy of the allowance for the loan losses on a monthly basis and presents and discusses the analysis with the Audit Committee and the Board of Directors on a quarterly basis.

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

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

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

Consistent with the past several years, the Company's allowance for loan loss calculation contains an "unallocated" component at December 31, 2011. The term "unallocated" is not defined in GAAP, but is used in practice with various meanings. The Company has traditionally used the term "unallocated" to represent amounts that are not attributable to or were not measured on any particular groups of loans. In 2005, the Company elected to maintain its then-unallocated allowance for loan losses at its current level. This equated to approximately $1.9 million. The Company has concluded that its "unallocated" allowance properly reflected estimated credit losses determined in accordance with GAAP in the past and believes it has been properly supported. However, beginning January 1, 2012, the Company plans to effectively allocate its "unallocated" allowance, adjusting its historical loss rates for certain groups of loans for qualitative and/or environmental factors.

In executing this methodology change, the Company will focus on large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment and are not included in the scope of SFAS 114. These portfolios are typically not graded and not subject to annual review. Such groups of loans include:

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

Loans, including impaired loans under FASB ASC topic 310-10-35, "Receivables," but excluding consumer loans, are typically placed on non-accrual status when the loans become past due 80 days or more as to principal or interest, unless the loans are adequately secured and in the process of collection. Past due status is based on how recently

payments have been received. When loans are placed on non-accrual status, all unpaid interest is reversed from interest income and accrued interest receivable. These loans remain on non-accrual status until the borrower demonstrates the ability to become and remain current or the loan or a portion of the loan is deemed uncollectible and is charged off.

In addition to obtaining appraisals at the time of loan origination, the Bank updates appraisals for collateral dependent loans with potential impairment. Updated appraisals for collateral-dependent commercial related loans exhibiting an increased risk of loss are obtained within one year of the last appraisal. Collateral values for past due residential mortgage loans and home equity loans are generally updated prior to a loan becoming 90 days delinquent, but no more than 180 days past due. When determining the allowance amount, to the extent updated collateral values cannot be obtained due to the lack of recent comparable sales or for other reasons, the loan review department discounts the valuation of the collateral primarily based on the age of the appraisal and the real estate market conditions of the location of the underlying collateral.

Consumer loans are reviewed periodically and generally charged off when the loans reach 120 days past due or at any earlier point the loan is deemed uncollectible.

The Bank performs two calculations at year end in order to confirm the reasonableness of its allowance for loan losses. In the first calculation, the Bank compares the net charge offs for the most recent calendar year to the beginning allowance for loan loss balance. The ratio of net charge offs to the beginning allowance indicates how adequately the allowance accommodated subsequent charge offs. Lower ratios suggest the beginning of year allowance may not have been large enough to absorb impending charge offs, while inordinately high ratios might indicate an entity was accumulating excessive allowances. The Bank's net charge off ratio to the beginning allowance for loan losses was 0.23 at December 31, 2011, compared to 0.46 for December 31, 2010. The Bank's five year annual average for this ratio was 0.35 as of December 31, 2011.

For the second calculation, the Bank assesses the allowance for loan losses' exhaustion rate. Exhaustion rates indicate the time (expressed in years) taken to use the beginning of year allowance in the form of actual charge offs. The Bank believes an Exhaustion rate that indicates a reasonable allowance for loan losses is between 3 and 5 years. The Bank's allowance exhaustion rate at December 31, 2011 was 3.4 years compared to the five year annual average of 3.2 years.

Based on management's calculation, an allowance of $24 million, or 1.05%, of total loans was an adequate estimate of probable incurred losses within the loan portfolio as of December 31, 2011. This estimate resulted in Traditional Banking segment provision for loan losses on the income statement of $6.4 million during 2011. If the mix and amount of future charge off percentages differ significantly from those assumptions used by management in making its determination, an adjustment to the allowance for loan losses and the resulting effect on the income statement could be material.

TRS Allowance for Loan Losses and Provision for Loan Losses – RALs are short-term consumer loans offered to taxpayers that are secured by the customer's anticipated tax refund, which represents the source of repayment. Prior to 2011, RB&T historically underwrote the RAL application utilizing the Debt Indicator ("DI") from the IRS in combination with an automated underwriting model utilizing information contained in the taxpayer's tax return. The DI, which indicates whether an individual taxpayer will have any portion of the refund offset for delinquent tax or other debts, such as unpaid child support or federally funded student loans, has historically been a meaningful underwriting component. In August 2010, the IRS announced that it would no longer provide tax preparers and associated financial institutions with the DI beginning with the first quarter 2011 tax season. In response to loss of access to the DI in 2011, RB&T significantly reduced the maximum RAL amount to $1,500 for individual customers, raised the RAL offering price to its customers and modified its underwriting and application requirements resulting in fewer RALs approved.

If a consumer's RAL application is approved, RB&T advances $1,500 of the taxpayer's refund. As part of the RAL application process, each taxpayer signs an agreement directing the applicable taxing authority to send the taxpayer's refund directly to RB&T. The refund received from the IRS or state taxing authority, if applicable, is used by RB&T to pay off the RAL. Any amount due the taxpayer above the amount of the RAL is remitted to the taxpayer once the

refund is received by RB&T. The funds advanced by RB&T are generally repaid by the applicable taxing authority within two weeks. The fees earned on RALs are reported as interest income under the line item “Loans, including fees.”

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

During 2011, 2010 and 2009, RB&T incurred $14.3 million, $10.8 million and $23.1 million in gross RAL losses for RALs originated during the respective calendar years, representing 1.38% 0.36% and 0.93% of total RALs originated during the respective tax years. During the previous five calendar years at TRS, net credit losses related to RALs originated have ranged from a low of 0.36% to a high of 1.38% of total RALs originated (including retained and securitized RALs).

For additional discussion regarding TRS, see the following sections:

- Part I Item 1 “Business”
- Part I Item 1A “Risk Factors”
- Part II Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations:”
  - o “Recent Developments”
  - o “Overview”
  - o “Results of Operations”
  - o “Financial Condition”
- Part II Item 8 “Financial Statements and Supplementary Data:”
  - o Footnote 1 “Summary of Significant Accounting Policies”
  - o Footnote 3 “Loans and Allowance for Loan Losses”
  - o Footnote 8 “Deposits”
  - o Footnote 10 “FHLB Advances”
  - o Footnote 18 “Off balance sheet risks, Commitments and Contingent Liabilities”
  - o Footnote 21 “Segment Information”
  - o Footnote 22 “Regulatory Matters”

Mortgage Servicing Rights – Mortgage servicing rights (“MSRs”) represent an estimate of the present value of future cash servicing income, net of estimated costs that the Bank expects to receive on loans sold with servicing retained by the Bank. MSRs are capitalized as separate assets when loans are sold and servicing is retained. This transaction is posted to net gain on sale of loans, a component of Mortgage Banking income in the income statement. Management considers all relevant factors, in addition to pricing considerations from other servicers, to estimate the fair value of the MSRs to be recorded when the loans are initially sold with servicing retained by the Bank. The carrying value of MSRs is initially amortized in proportion to and over the estimated period of net servicing income and subsequently adjusted based on the weighted average remaining life. The amortization is recorded as a reduction to Mortgage Banking income. The MSR asset, net of amortization, recorded at December 31, 2011 was $6 million.

The carrying value of the MSRs asset is reviewed monthly for impairment based on the fair value of the MSRs, using groupings of the underlying loans by interest rates. Any impairment of a grouping would be reported as a valuation allowance. A primary factor influencing the fair value is the estimated life of the underlying loans serviced. The estimated life of the loans serviced is significantly influenced by market interest rates. During a period of declining interest rates, the fair value of the MSRs is expected to decline due to anticipated prepayments within the portfolio. Alternatively, during a period of rising interest rates, the fair value of MSRs is expected to increase as prepayments 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.

Income Tax Accounting – Income tax liabilities or assets are established for the amount of taxes payable or refundable for the current year. Deferred tax liabilities and assets are also established for the future tax consequences of events that have been recognized in the Company’s financial statements or tax returns. A deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and deductions that can be carried forward (used) in future years. The valuation of current and deferred tax liabilities and assets is considered critical as it requires management to make estimates based on provisions of the enacted tax laws. The assessment of tax liabilities and assets involves the use of estimates, assumptions, interpretations, and judgments concerning certain accounting

pronouncements and federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, will not differ from management's current assessment, the impact of which could be significant to the consolidated results of operations and reported earnings. The Company believes its tax assets and liabilities are adequate and are properly recorded in the consolidated financial statements at December 31, 2011.

Goodwill and Other Intangible Assets – Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009 represents the future economic benefits arising from other assets acquired that are individually identified and separately recognized. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Company has selected September 30th as the date to perform its annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the Company's balance sheet.

At a minimum, management is required to assess goodwill and other intangible assets annually for impairment. Based on its assessment, the Company believes its goodwill of $10 million and other identifiable intangibles of $58,000 were not impaired and are properly recorded in the consolidated financial statements as of December 31, 2011.

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

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

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

See additional discussion regarding impairment charges that the Bank recorded during 2009, 2010 and 2011 under Footnote 2 "Investment Securities" of Part II Item 8 "Financial Statements and Supplementary Data."

RECENT DEVELOPMENTS

Acquisition

On January 27, 2012, RB&T assumed substantially all of the deposits and certain other liabilities and acquired certain assets of Tennessee Commerce Bank ("TCB"), headquartered in Franklin, Tennessee from the FDIC, as receiver for TCB, pursuant to the terms of a Purchase and Assumption Agreement — Whole Bank; All Deposits (the "P&A Agreement"), entered into among RB&T, the FDIC as receiver of TCB and the FDIC. All financial and other numeric measures of TCB described below are based upon TCB's internally prepared interim financial statement information as of January 27, 2012, which are subject to change.

Under the terms of the P&A Agreement, RB&T acquired approximately $220 million in assets, including approximately $112 million in loans and other real estate owned, approximately $45 million of marketable securities and approximately $63 million of cash and cash equivalents. Approximately $648 million of loans and other real estate owned, approximately $86 million of securities and approximately $41 million of other TCB assets were excluded from the transaction. RB&T assumed approximately $950 million of liabilities, including approximately $948 million in customer deposits. The acquisition was completed without loss sharing agreements.

The assets were acquired from the FDIC at a discount of $57 million with no stated deposit premium. Based on TCB's January 27, 2012 internally prepared interim financial statement information, the FDIC made a payment to RB&T in the amount of $785 million, which is subject to customary post-closing adjustments.

TCB's aggressive lending strategy in combination with the fact that it had only one location, led it to raise substantially all of its deposit funding via the internet or through brokered deposits. In many cases, its deposits were acquired at rates above market. Approximately $913 million of its deposits were obtained in this manner causing TCB's total cost of interest bearing deposits to be 1.90% at December 31, 2011. Because RB&T obtained only $220 million of non-cash assets in the transaction at a discount of approximately $57 million, it had no short-term profitable use for the excess cash it obtained in the transaction. As a result, as permitted by the terms of the P&A Agreement, RB&T repriced TCB's existing interest bearing deposits to a substantially lower rate the day after its acquisition. Management anticipates that as a result of this repricing, the substantial majority of the deposits it acquired via the transaction will leave RB&T within the first three months after acquisition.

The Company recorded the acquired assets and liabilities at their estimated fair values at the acquisition date. The estimated fair value for loans reflected expected credit losses at the acquisition date. As a result, the Company will only recognize a provision for credit losses and charge-offs on the acquired loans for any further credit deterioration.

Regulatory Developments

As disclosed in Footnote 22 "Regulatory Matters," of Part II Item 8 "Financial Statements and Supplementary Data", the Federal Deposit Insurance Corporation ("FDIC") concluded as part of its 2009 CRA Evaluation that RB&T violated Regulation B ("Reg B") regarding documentation of spousal obligations on a limited number of loans identified within RB&T's commercial lending area.

Prior to the FDIC's notification to RB&T of its 2009 CRA Evaluation results, RB&T changed certain procedures and processes to better document its commercial loan origination process as it relates to the intent of both spouses to become obligated to repay certain commercial loans. The FDIC did notify RB&T of certain additional corrective actions to be undertaken in response to the alleged Reg B violations.

FDIC Proceedings Regarding the TRS segment:

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

On May 3, 2011, RB&T received an Amended Notice of Charges for an Order to Cease and Desist and Notice of Hearing from the FDIC (the "Amended Notice") from the FDIC revising its original Notice referenced in the preceding paragraph. The Amended Notice resulted from conclusions made by the FDIC during a targeted visitation of 250 ERO offices in 36 states, which it conducted on February 15 and 16, 2011. In addition to the allegations contained in the Notice, the Amended Notice alleged violations of the Truth-In-Lending Act, the Equal Credit Opportunity Act, and the Federal Trade Commission Act. The Amended Notice also accused RB&T of, among other things, unsafe or unsound banking practices resulting from its third-party management; unsafe or unsound hindrance, impediment, or interference with a financial institution examination; unsafe or unsound physical security or electronic protection of ERO premises; violations of the Gramm-Leach-Bliley Act and FDIC regulation; and violations of the 2009 Order. Moreover, the Amended Notice included an assessment of a $2 million Civil Money Penalty ("CMP"). As a result, RB&T recorded a $2 million liability as of June 30, 2011. For additional discussion regarding the Amended Notice, see the Company's Form 8-K filed with the SEC on May 5, 2011, including Exhibits 99.1 and 99.2.

Federal District Court Litigation:

On February 28, 2011, RB&T filed a complaint in the United States District Court for the Western District of Kentucky (the "Court") against the FDIC and various officers of the FDIC in their official capacities, entitled Republic Bank & Trust Company v. Federal Deposit Insurance Corporation, et al (the "Litigation"). The complaint stated that the FDIC's actions to prohibit RB&T from offering RALs constituted 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 stated that the FDIC had unlawfully ignored its procedural rules regarding discovery in the proceedings initiated by the Notice by conducting a series of unscheduled "visitations." The complaint sought declaratory and injunctive relief. On March 31, 2011, the FDIC filed a Motion to Dismiss (the "Motion") RB&T's complaint with the Court. RB&T timely filed its brief in opposition to the Motion, and the matter remained pending with the Court up through RB&T's resolution with the FDIC discussed below.

Resolution of all FDIC-Related Proceedings:

Effective December 8, 2011, RB&T entered into an agreement with the FDIC resolving its differences regarding the TRS operating segment. RB&T's resolution with the FDIC was in the form of a Stipulation Agreement and a Consent Order (collectively, the "Agreement"). As part of the Agreement, RB&T and the FDIC settled all matters set out in the Amended Notice and the Litigation. More specifically,

- the FDIC terminated the 2009 Order against RB&T entered on February 27, 2009;
- the $2 million CMP was reduced to $900,000;
- RB&T was allowed to immediately resume expansionary activities and transactions in the ordinary course, so long as RB&T maintains appropriate regulatory ratings;
- RB&T developed an Electronic Return Originator ("ERO") Oversight Plan (the "ERO Plan"), which the FDIC agreed to and is more fully described below;
- RB&T agreed to cease the RAL portion of its tax business by April 30, 2012, after the first quarter 2012 tax season;
- the FDIC and RB&T discontinued their administrative proceeding commenced in February 2011; and
- RB&T terminated the Litigation.

As disclosed above, the Agreement reduced the previously announced CMP against RB&T from $2 million to $900,000. As a result of the reduced CMP, RB&T, which had previously reserved $2 million for the CMP during the second quarter of 2011, recorded a $1.1 million credit to pre-tax income during the fourth quarter of 2011.

As disclosed above, RB&T developed an ERO Plan, which was agreed to by the FDIC. The ERO Plan articulates a framework for RB&T to continue to offer non-RAL tax related products and services with specified oversight of the tax preparers with which RB&T does business. The ERO Plan includes requirements for, among other things,

- positive affirmations by EROs of individual tax preparer training related to regulatory requirements applicable to bank products;
- annual audits covering 10% of active ERO locations and a significant sample of applications for Bank products. The audits will consist of onsite visits, document reviews, mystery shops of tax preparation offices, and tax product customer surveys;
- on-site audit confirmation of ERO agreements to adhere to laws, processes, procedures, disclosure requirements and physical and electronic security requirements;
- an advertising approval process that requires RB&T to approve all tax preparer advertisements prior to their issuance;
- monitoring of ERO offices for income tax return quality;

monitoring of ERO offices for adherence to acceptable tax preparation fee parameters;

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monitoring for federal and state tax preparation requirements, including local and state tax preparer registration, and posting and disclosure requirements relative to Bank products;

RB&T to provide advance notification, as practicable, to the FDIC of any significant changes in the TRS line of business, including

o a change of more than 25% from the prior tax season in the number of EROs with which RB&T is doing business, or

o the addition of tax-related products offered by RB&T that it did not previously offer; and

RB&T to provide advance notification, as practicable, to the FDIC when RB&T enters into a relationship with a new corporation that has multiple owned or franchised locations, when the relationship alone will represent an increase of more than 10% from the prior tax season in the number of EROs with which RB&T is doing business.

Because the Agreement does not affect RB&T's ability to offer RALs for the first quarter 2012 tax season, it is not expected to have a material adverse impact on net income for the first quarter of 2012 or for the 2012 calendar year. RB&T's discontinuance of RALs beyond 2012 is expected to have a material adverse impact on net income in 2013 and beyond, as the RAL product accounted for approximately 35% of the TRS segment's 2011 net income of $67.3 million. It is expected that TRS will continue to be a material contributor to the Company's overall net income in 2013 and beyond. Actual TRS net income for 2012 and beyond will be impacted by a number of factors, including those factors disclosed from time to time in the Company's filings with the SEC and set forth under Part I Item 1A "Risk Factors."

For additional discussion regarding TRS, see the following sections:

Part I Item 1 "Business"

Part I Item 1A "Risk Factors"

Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations:"

o "Critical Accounting Policies and Estimates"

o "Overview"

o "Results of Operations"

o "Financial Condition"

Part II Item 8 "Financial Statements and Supplementary Data:"

o Footnote 1 "Summary of Significant Accounting Policies"

o Footnote 3 "Loans and Allowance for Loan Losses"

o Footnote 8 "Deposits"

o Footnote 10 "FHLB Advances"

o Footnote 18 "Off balance sheet risks, Commitments and Contingent Liabilities"

o Footnote 21 "Segment Information"

o Footnote 22 "Regulatory Matters"

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

For additional discussion regarding the 2009 Order, see the Company's Form 10-K filed with the SEC on March 6, 2009, including Exhibit 10.62.

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

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

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TRS Material Contracts

In December 2011, RB&T amended and restated its Marketing and Servicing Agreement (the “Marketing Agreement”) with Liberty to, among other things:

set the term of the Agreement to expire on October 16, 2014;

name RB&T as the exclusive provider of all RAL and ERC/ERD products for a mutually agreed upon list of locations through the term of the contract;

remove RB&T’s annual option to unilaterally terminate the Agreement;

amend the designated level of RAL delinquency which, if exceeded, provides RB&T with the right to receive certain monies; and

provided that either party may at its option terminate the Marketing Agreement upon twenty days’ prior written notice if (i) the other party has materially breached any of the terms thereof and has failed to cure such breach within such twenty day time period or (ii) the continued operation of the Financial Product Program or the electronic filing program is no longer commercially feasible or practical, or no longer provides the same opportunity, to the terminating party due to legal, legislative or regulatory determinations, enactments or interpretations or significant external events or occurrences beyond the control of the terminating party; provided, however, that in the case of clause (ii), the parties shall first mutually endeavor in good faith to modify the Financial Product Program in a manner resolving the problems caused by legal, legislative or regulatory or external events or occurrences.

As a result of this amendment, the total number of Liberty tax preparation offices that will offer RB&T’s tax products in 2012 is not expected to differ materially from the number of Liberty tax preparation offices that offered the RB&T’s products in 2011.

During August of 2011, RB&T amended and restated its Program Agreement (the “Program Agreement”) with JHI to, among other things:

add Jackson Hewitt Technology Services LLC (“JHTSL”) as a party to the Program Agreement whereby JHTSL agreed to provide certain technology services, including personnel to RB&T, in connection with the services provided for under the Program Agreement;

set the term of the Program Agreement to expire on October 14, 2014;

remove RB&T’s annual option to unilaterally terminate the Program Agreement;

amend the termination provisions of the Program Agreement to provide RB&T an additional termination right due to regulatory direction relative to its tax products; and

amend the provisions of the Program Agreement to modify, in part, the method of designation of Jackson Hewitt tax preparation locations that will offer RB&T’s tax products in 2012, 2013 and 2014 and provide that RB&T shall be the exclusive tax product provider in those locations.

As a result of this amendment, the total number of JH tax preparation offices that will offer RB&T’s tax products in 2012 is not expected to differ materially from the number of JH tax preparation offices that offered the RB&T’s

products in 2011.

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OVERVIEW

Table 1 – Summary

Year Ended December 31, (dollars in thousands, except per share data)	2011		2010		2009	
Net income	$94,149		$64,753		$42,131	
Diluted earnings per Class A Common Stock	4.49		3.10		2.02	
Return on average assets (ROA)	2.76	%	1.85	%	1.23	%
Return on average equity (ROE)	21.42	%	17.92	%	13.77	%

Net income for the year ended December 31, 2011 was $94.1 million, representing an increase of $29.4 million, or 45%, compared to the same period in 2010. Diluted earnings per Class A Common Share increased 45% from $3.10 for the year ended December 31, 2010 to $4.49 for the same period in 2011. Additional discussion follows in this section of the filing under "Results of Operations."

General highlights by segment for the year ended December 31, 2011 consisted of the following:

Traditional Banking segment

Net income increased $8.6 million, or 48%, for the year ended December 31, 2011 compared to the same period in 2010.

Despite increases in net interest income during the third and fourth quarters of 2011, net interest income for the year ended December 31, 2011, decreased slightly, or $339,000, to $105.3 million. The Traditional Banking segment net interest margin declined 2 basis points for the same period to 3.57%.

Provision for loan losses was $6.4 million for year ended December 31, 2011 compared to $11.6 million for the same period in 2010.

Total non interest income increased $4.4 million, or 19%, for the year ended December 31, 2011 compared to the same period in 2010.

During the year ended December 31, 2011, the Bank sold and had called available for sale mortgage backed securities with a total amortized cost of $160 million, resulting in a pre-tax gain of $2.3 million.

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

Total non interest expense decreased $3.6 million, or 4%, during the year ended December 31, 2011 compared to the same period in 2010.

Total non-performing loans to total loans decreased to 1.02% at December 31, 2011, from 1.30% at December 31, 2010.

The Bank launched its Warehouse Lending division during the second quarter of 2011 and had $41 million in loans outstanding at December 31, 2011.

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

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Tax Refund Solutions (“TRS”) segment

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

As anticipated, total RAL dollar volume decreased from $3.0 billion during the 2010 tax season to $1.0 billion during the 2011 tax season.

Net income increased $23.1 million, or 52%, for the year ended December 31, 2011 compared to the same period in 2010.

Net interest income increased $8.5 million, or 17%, for the year ended December 31, 2011 compared to the same period in 2010.

TRS recorded a provision for loan losses of $11.6 million for the year ended December 31, 2011, compared to $8.1 million for the same period in 2010.

TRS posted non interest income of $88.9 million for the year ended December 31, 2011 compared to $59.1 million for the same period in 2010.

During the second quarter of 2011, RB&T accrued a $2 million liability within the TRS segment related to the assessment of a CMP by the FDIC against RB&T. The actual penalty paid during the fourth quarter of 2011 was $900,000, resulting in a $1.1 million credit to pre-tax income during the fourth quarter.

Effective December 8, 2011, RB&T entered into an agreement with the FDIC resolving its differences regarding the TRS operating segment. RB&T’s resolution with the FDIC was in the form of a Stipulation Agreement and a Consent Order. As discussed throughout, the Company has agreed to cease the RAL portion of the TRS business subsequent to April 30, 2012.

For additional discussion regarding TRS, see the following sections:

Part I Item 1 “Business”
Part I Item 1A “Risk Factors”
Part II Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations:”
- “Critical Accounting Policies and Estimates”
- “Recent Developments”
- “Results of Operations”
- “Financial Condition”

Part II Item 8 “Financial Statements and Supplementary Data:”
- Footnote 1 “Summary of Significant Accounting Policies”
- Footnote 3 “Loans and Allowance for Loan Losses”
- Footnote 8 “Deposits”
- Footnote 10 “FHLB Advances”
- Footnote 18 “Off balance sheet risks, Commitments and Contingent Liabilities”
- Footnote 21 “Segment Information”
- Footnote 22 “Regulatory Matters”

Mortgage Banking segment

Within the Mortgage Banking segment, Mortgage Banking income decreased $1.9 million for the year ended December 31, 2011 compared to the same period in 2010.

General highlights by segment for the year ended December 31, 2010 consisted of the following:

Traditional Banking segment

Net income increased $2.5 million, or 16%, for the year ended December 31, 2010 compared to the same period in 2009.

Net interest income decreased $4.7 million, or 4%, for the year ended December 31, 2010 compared to the same period in 2009. The Traditional Banking segment net interest margin declined 22 basis points for the year ended December 31, 2010 compared to the same period in 2009 to 3.57%.

Provision for loan losses was $11.6 million for the year ended December 31, 2010 compared to $15.9 million for the same period in 2009.

Non interest income increased $2.0 million, or 10%, for the year ended December 31, 2010 compared to the same period in 2009.

Total non interest expense decreased $1.5 million, or 2%, for the year ended December 31, 2010 compared to the same period in 2009.

Total non-performing loans to total loans decreased to 1.30% at December 31, 2010, from 1.90% at December 31, 2009, as the total balance of non-performing loans decreased by nearly $15 million for the same period.

TRS segment

Net income increased $24.3 million, or 121%, for the year ended December 31, 2010 compared to the same period in 2009.

Net interest income decreased $2.0 million, or 4%, for the year ended December 31, 2010 compared to the same period in 2009.

TRS recorded a provision for loan losses of $8.1 million for the year ended December 31, 2010, compared to $18.1 million for the same period in 2009.

TRS posted non interest income of $59.1 million for the year ended December 31, 2010 compared to $25.9 million for the same period in 2009.

Total RAL dollar volume increased 22% from $2.5 billion during the 2009 tax season to $3.0 billion during the 2010 tax season.

RB&T obtained $562 million in brokered deposits during the fourth quarter of 2010 to fund projected RAL volume during the first quarter 2011 tax season.

Mortgage Banking segment

Within the Mortgage Banking segment, Mortgage Banking income decreased $5.2 million for the year ended December 31, 2010 compared to the same period in 2009.

Mortgage Banking income was negatively impacted by a decline in secondary market loan volume during 2010.

Mortgage Banking income during 2009 was positively impacted by the reversal of $1.2 million of the valuation allowance related to the MSR portfolio.

Non interest expenses increased $905,000 for the year ended December 31, 2010 compared to the same period in 2009 primarily due to a change in the allocation of certain shared expenses during 2010 between segments.

RESULTS OF OPERATIONS

Net Interest Income

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

Discussion of 2011 vs. 2010

Total Company net interest income increased $8.0 million, or 5%, for the year ended December 31, 2011 compared to 2010. The total Company net interest margin increased 44 basis points to 5.09% for the same period. The significant components comprising the total Company increase in net interest income were as follows:

Traditional Banking segment

Net interest income within the Traditional Banking segment decreased slightly, or $339,000 for 2011 compared to 2010. The Traditional Banking net interest margin declined 2 basis points for the same period to 3.55%. The decrease in net interest income was due primarily due to a greater degree of downward repricing interest-earning assets, as compared to interest-bearing liabilities, as well as a decrease in the average balances of the Bank's higher-yielding interest-earning assets. While overall net interest income within the Traditional Banking segment was lower for 2011 compared to 2010, the Bank implemented strategies during 2011, which reversed the negative trend for net interest income. These strategies, which are discussed in more detail in the following paragraphs, helped to contribute to a second consecutive quarterly increase in net interest income over prior year same quarter.

Contributing to the positive trend in net interest income during the second half of 2011 was an increase in the investment portfolio. Prior to the first quarter of 2011, the Bank's general investment strategy was largely to not reinvest the cash it had been receiving from its loan and investment paydowns and pay-offs into assets with longer-term repricing horizons, due to market projections of interest rate increases in the future. As a result, much of the cash the Bank received from paydowns during the previous two years had been reinvested into short-term, lower yielding investments, which had improved the Bank's risk position from future interest rate increases, while negatively impacting then-current earnings. This conservative investment strategy, which involved minimal credit risk and minimal interest rate risk, led the Bank to hold a significant sum of cash at the Federal Reserve Bank ("FRB") for much of 2009 and 2010.

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

Also contributing to the positive trend in net interest income during the second half of 2011, were strategies employed within the loan portfolio. More specifically, as it did in 2010, the Bank also retained in its portfolio approximately $45

million of 15-year fixed rate residential real estate loans during 2011 that it has traditionally sold into the secondary market. The weighted average rate of these loans was 3.58%. The Bank employed this strategy due to the overall steepness of the yield curve, which allowed the Bank to earn an acceptable spread for these longer maturity type assets.

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

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

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

TRS segment

Net interest income within the TRS segment increased $8.5 million, or 17%, for 2011 compared to 2010. The increase in TRS' net interest income was primarily due to a $7.6 million, or 15%, increase in RAL fee income. As stated previously in this filing, RB&T, among other things, increased its RAL pricing in response to the anticipated increase in provision for loan losses for RALs resulting from the loss of the DI from the IRS. The revised pricing resulted in an increase in yield for the RAL product. Partially offsetting the increase in interest income from the higher yield on RALs was a reduction to interest income resulting from a decline in the total dollar amount of RALs originated. The decline in the dollar volume of RALs originated occurred as a result of RB&T's maximum individual RAL offering amount being lowered to $1,500.

TRS net interest income continued to benefit from low funding costs during 2011. Average brokered deposits outstanding utilized to fund RALs during the year ended December 31, 2011 and 2010 were $105 million and $313 million with a weighted average cost of 0.43% and 0.50%, respectively. As a result, interest expense for the TRS segment was $455,000 for the year ended December 31, 2011, a decrease of $1.1 million from the same period in 2010.

As discussed throughout, the Company has agreed to cease the RAL portion of the TRS business subsequent to April 30, 2012.

For additional discussion regarding TRS, see the following sections:

- Part I Item 1 "Business"
- Part I Item 1A "Risk Factors"
- Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations:"
  - "Critical Accounting Policies and Estimates"
  - "Recent Developments"
  - "Overview"
  - "Results of Operations"
  - "Financial Condition"
- Part II Item 8 "Financial Statements and Supplementary Data:"
  - Footnote 1 "Summary of Significant Accounting Policies"
  - Footnote 3 "Loans and Allowance for Loan Losses"
  - Footnote 8 "Deposits"
  - Footnote 10 "FHLB Advances"
  - Footnote 18 "Off balance sheet risks, Commitments and Contingent Liabilities"
  - Footnote 21 "Segment Information"
  - Footnote 22 "Regulatory Matters"

Discussion of 2010 vs. 2009

Total Company net interest income decreased $7.1 million, or 4%, for the year ended December 31, 2010 compared to the same period in 2009. The total Company net interest margin decreased 39 basis points to 4.65% for the same period. The significant components comprising the total Company increase in net interest income were as follows:

Traditional Banking segment

Net interest income decreased $4.7 million, or 4%, for 2010 compared to 2009. The Traditional Bank's net interest margin declined 22 basis points for the same period to 3.57%. The decrease in net interest income was due primarily to a decline in interest income resulting from the continued paydowns and downward repricing of loans and investments. Generally, the Bank's strategy has largely been not to reinvest the cash it has been receiving from its loan and investment paydowns and pay-offs into assets with longer-term repricing horizons due to market projections of interest rate increases in the future. As a result, much of the cash the Bank received from paydowns over the past several quarters has been reinvested into short-term, lower yielding investments, which has greatly improved the Bank's risk position from future interest rate increases, while negatively impacting current earnings.

The Bank was able to partially offset the downward pressure on interest income during 2010 by utilizing the following liability strategies:

Continued lowering cost of funds by reducing rates on deposit products;

Exited a higher costing brokered money market relationship during September 2010.

Paid off FHLB advances prior to their scheduled maturity dates. In total, the Bank prepaid $87 million in FHLB advances with a weighted average cost of 3.48% during the first quarter of 2010. This strategy positively impacted net interest income for 2010 by an estimated $1.2 million.

As a result of the above strategies, the Traditional Banking segment lowered its cost of interest-bearing liabilities by 6 basis points during 2010, to 1.49%.

In addition to the above liability strategies, the Bank also retained in its portfolio during 2010 approximately $65 million of 15-year fixed rate residential real estate loans that it has traditionally sold into the secondary market. The weighted average rate of these loans was 3.96% with approximately $57 million of these loans retained during the fourth quarter of the year.

TRS segment

Net interest income within the TRS segment decreased $2.0 million, or 4%, for the year ended December 31, 2010 compared to the same period in 2009. The decrease in net interest income within the TRS segment was primarily due to a $5.4 million, or 9%, reduction in RAL fee income resulting from RB&T's revised 2010 pricing model, which substantially lowered RB&T's RAL fee to its customers. In conjunction with the revised 2010 pricing model, RB&T significantly reduced third party rebates to its technology and service providers, partially offsetting the reduction in price. TRS was also able to partially offset the decline in RAL fees through an increase in volume, as the total number of RALs processed increased 15% over 2009 while the dollar volume of RALs processed increased 22%.

TRS net interest income benefited significantly from lower funding costs during 2010 compared to 2009. Average brokered deposits outstanding utilized to fund RALs during 2010 and 2009 were $313 million and $447 million with a weighted average cost of 0.50% and 0.97%, respectively. As a result, interest expense for the TRS segment was $1.6 million for 2010, a decrease of $3.4 million, or 68%, from 2009.

Table 2 provides detailed Total Company average balances, interest income/expense and rates by major balance sheet category for the years ended December 31, 2011, 2010 and 2009. Table 3 provides an analysis of total Company changes in net interest income attributable to changes in rates and changes in volume of interest-earning assets and interest-bearing liabilities for the same periods.

Table 2 – Total Company Average Balance Sheets and Interest Rates for Years Ended December 31,

(dollars in thousands)	2011 Average Balance	2011 Interest	2011 Average Rate	2010 Average Balance	2010 Interest	2010 Average Rate	2009 Average Balance	2009 Interest	2009 Average Rate
ASSETS									
Interest-earning assets:									
Taxable investment securities, including FHLB stock(1)	$678,804	$16,486	2.43 %	$561,113	$15,799	2.82 %	$536,612	$19,535	3.64 %
Tax exempt investment securities(1)(4)	-	-	0.00 %	160	11	10.58 %	384	23	9.08 %
Federal funds sold and other interest-earning deposits	315,530	914	0.29 %	473,137	1,200	0.25 %	341,126	1,024	0.30 %
Refund Anticipation Loan fees(2)	29,572	59,117	199.91 %	99,629	51,556	51.75 %	73,594	56,922	77.35 %
Traditional Bank loans and fees(2)(3)	2,216,687	118,598	5.35 %	2,239,361	124,907	5.58 %	2,298,414	135,101	5.88 %
Total interest-earning assets	3,240,593	195,115	6.02 %	3,373,400	193,473	5.74 %	3,250,130	212,605	6.54 %
Less: Allowance for loan losses	28,817			27,755			22,005		
Non interest-earning assets:									
Non interest-earning cash and cash equivalents	112,513			57,790			99,461		
Premises and equipment, net	36,020			38,458			40,990		
Other assets(1)	56,612			61,993			47,149		
Total assets	$3,416,921			$3,503,886			$3,415,725		

LIABILITIES AND STOCK- HOLDERS' EQUITY												
Interest-bearing liabilities:												
Transaction accounts	$422,222	$540	0.13	%	$302,958	$561	0.19	%	$253,433	$245	0.10	%
Money market accounts	628,178	1,939	0.31	%	636,963	2,845	0.45	%	581,220	3,172	0.55	%
Time deposits	254,064	4,055	1.60	%	329,970	5,775	1.75	%	389,635	10,319	2.65	%
Brokered money market and brokered certificates of deposit	236,051	2,380	1.01	%	456,000	3,948	0.87	%	459,989	8,151	1.77	%
Total interest-bearing deposits	1,540,515	8,914	0.58	%	1,725,891	13,129	0.76	%	1,684,277	21,887	1.30	%
Securities sold under agreements to repurchase and other short-term borrowings	278,861	646	0.23	%	330,154	1,026	0.31	%	323,688	1,063	0.33	%
Federal Home Loan Bank advances	558,249	18,180	3.26	%	574,181	19,991	3.48	%	630,294	23,277	3.69	%
Subordinated note	41,240	2,515	6.10	%	41,240	2,515	6.10	%	41,240	2,515	6.10	%
Total interest-bearing liabilities	2,418,865	30,255	1.25	%	2,671,466	36,661	1.37	%	2,679,499	48,742	1.82	%
Non interest-bearing liabilities and Stockholders' equity:												
Non interest-bearing deposits	509,457				421,162				381,665			
Other liabilities	48,963				49,901				48,697			
	439,636				361,357				305,864			

Stockholders' equity			
Total liabilities and stock- holders' equity	$3,416,921	$3,503,886	$3,415,725
Net interest income	$164,860	$156,812	$163,863
Net interest spread	4.77 %	4.37 %	4.72 %
Net interest margin	5.09 %	4.65 %	5.04 %

(continued)

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Table 2 – Total Company Average Balance Sheets and Interest Rates for Years Ended December 31, (continued)

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(1) For the purpose of this calculation, the fair market value adjustment on investment securities resulting from FASB
ASC topic 320 "Investments – Debt and Equity Securities" is included as a component of other assets.
(2) The amount of loan fee income included in total interest income was $62.3 million, $54.9 million and $60.7 million
for the years ended December 31, 2011, 2010 and 2009.
(3) Average balances for loans include the principal balance of non-accrual loans and loans held for sale.
(4) Yields on tax exempt investment securities have been computed based on a fully tax-equivalent basis using the federal income tax rate of 35%.

Table 3 illustrates the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities impacted Republic's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume) and (iii) net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

Table 3 – Total Company Volume/Rate Variance Analysis

		Year Ended December 31, 2011 Compared to Year Ended December 31, 2010 Increase / (Decrease) Due to			Year Ended December 31, 2010 Compared to Year Ended December 31, 2009 Increase / (Decrease) Due to	
(in thousands)	Total Net Change	Volume	Rate	Total Net Change	Volume	Rate
Interest income:						
Taxable investment securities, including FHLB stock	$687	$3,039	$(2,352)	$(3,736)	$909	$(4,645)
Tax exempt investment securities	(11)	(11)	-	(12)	(37)	25
Federal funds sold and other interest-earning deposits	(286)	(440)	154	176	352	(176)
Refund Anticipation Loan fees	7,561	(56,719)	64,280	(5,366)	16,694	(22,060)
Traditional bank loans and fees	(6,309)	(1,254)	(5,055)	(10,194)	(3,412)	(6,782)
Net change in interest income	1,642	(55,385)	57,027	(19,132)	14,506	(33,638)
Interest expense:						
Transaction accounts	(21)	183	(204)	316	56	260
Money market accounts	(906)	(39)	(867)	(327)	285	(612)

Time deposits	(1,720)	(1,244)	(476)	(4,544)	(1,413)	(3,131)
Brokered money market and brokered certificates of deposit	(1,568)	(2,138)	570	(4,203)	(70)	(4,133)
Securities sold under agreements to repurchase and other short-term borrowings	(380)	(144)	(236)	(37)	21	(58)
Federal Home Loan Bank advances	(1,811)	(544)	(1,267)	(3,286)	(2,000)	(1,286)
Subordinated note	-	-	-	-	-	-
Net change in interest expense	(6,406)	(3,926)	(2,480)	(12,081)	(3,121)	(8,960)
Net change in net interest income	$8,048	$(51,459)	$59,507	$(7,051)	$17,627	$(24,678)

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Provision for Loan Losses

Discussion of 2011 vs. 2010

The Company recorded total provision for loan losses of $18.0 million for the year ended December 31, 2011 compared to $19.7 million during 2010. The significant components comprising the Company's provision for loan losses were as follows:

Traditional Banking segment

The Traditional Banking provision for loan losses during 2011 was $6.4 million, a $5.2 million decline from 2010. The decrease in the provision was generally attributable to an overall improvement in the Bank's credit quality metrics and better charge-off experience.

As part of its on-going classified asset analysis, the Bank recorded additional provisions of $4.0 million during 2011 related to 9 specifically reviewed "substandard" commercial and large retail relationships (substantially all in the first quarter) compared to $2.1 million during 2010 related to 20 relationships. More than offsetting the increase in provision expense associated with its specifically reviewed large substandard loans was a significant reduction in provision expense associated with the Bank's smaller dollar homogenous retail and commercial past due and non-accrual loans, which peaked during 2010.

In addition, during 2010 (substantially all in the first quarter), the Bank increased its allowance for loan losses by $1.3 million for quantitative and qualitative adjustments to its historical loss percentages for its general formula reserves across substantially all loan categories. In particular, the Bank increased its general reserves associated with its home equity portfolio due to higher historical loss percentages and declining residential real estate values. As real estate values and historical loss percentages have remained relatively stable during 2011, the Bank has not made any additional material qualitative or quantitative adjustments to its historical loss percentages. Home equity loans are one of the Bank's largest homogenous pools of loans and are evaluated collectively in determining the allocated allowance. In determining the allocated allowance, management analyzes the average annual loss rates for the previous 3-year and 2-year periods, along with the current year loss rate, as well as comparisons to peer group corresponding loss rates. In addition, when qualitative factors, such as a general decline in home values, indicate an elevated risk of loss, management performs additional analysis on the home equity portfolio such as updating collateral values on a test basis.

During year 2011, the Bank charged off $7.3 million in loans compared to $12.5 million for 2010. In addition, the Bank also recorded $753,000 more in credits to its provision for loan losses for recoveries of previously charged off loans during 2011 than it did during 2010. Net charge-offs as a percentage of average loans within the Traditional Banking segment were 0.24% for 2011 compared to 0.51% for 2010. This equated to a $5.9 million reduction in net charge-offs for 2011 compared to 2010.

As a percentage of total loans, the Traditional Banking allowance for loan losses was 1.05% at December 31, 2011 compared to 1.06% at December 31, 2010. Management believes, based on information presently available, that it has adequately provided for loan losses at December 31, 2011.

See the sections titled "Allowance for Loan Losses and Provision for Loan Losses" and "Asset Quality" in this section of the filing under "Financial Condition" for additional discussion regarding the provision for loan losses and the Bank's delinquent and non-performing loans.

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TRS segment

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

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

In August 2010, the IRS announced 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 indicated whether an individual taxpayer would have any portion of the refund offset for delinquent tax or other debts, such as unpaid child support or federally-funded student loans.

While underwriting for RALs involves several individual components, the DI has historically represented a meaningful part of the overall underwriting for the product. In response to loss of access to the DI in 2011, RB&T significantly reduced the maximum RAL amount to $1,500 for individual customers, raised the RAL offering price to its customers and modified its underwriting and application requirements resulting in fewer RALs approved. As compared to prior years, during 2011, RB&T estimated a higher provision for loan losses as a percentage of total RALs originated, primarily as a result of the loss of the DI. Due to the elimination of the DI, more of RB&T's estimated RAL losses in 2011 resulted from refunds being retained by the IRS to satisfy federal delinquent debts as compared to prior years when the vast majority of its RAL losses were the result of revenue protection strategies by the IRS.

As of December 31, 2011 and 2010, $14.3 million and $10.8 million of total RALs originated remained uncollected, representing 1.38% and 0.36% of total gross RALs originated during the respective tax years by RB&T. All of these loans were charged off as of June 30, 2011 and 2010. Management's estimate of current year losses combined with recoveries of previous years' RALs during the period, resulted in a net provision for loan loss expense of $11.6 million and $8.1 million for TRS during the years ended December 31, 2011 and 2010, respectively.

See the section titled "Allowance for Loan Losses and Provision for Loan Losses" in this section of the filing under "Financial Condition" for additional discussion regarding the provision for loan losses.

For additional discussion regarding TRS, see the following sections:

- Part I Item 1 "Business"
- Part I Item 1A "Risk Factors"
- Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations:"
  - "Critical Accounting Policies and Estimates"
  - "Recent Developments"
  - "Overview"
  - "Results of Operations"

- o “Financial Condition”

Part II Item 8 “Financial Statements and Supplementary Data:”

- o Footnote 1 “Summary of Significant Accounting Policies”
- o Footnote 3 “Loans and Allowance for Loan Losses”
- o Footnote 8 “Deposits”
- o Footnote 10 “FHLB Advances”
- o Footnote 18 “Off balance sheet risks, Commitments and Contingent Liabilities”
- o Footnote 21 “Segment Information”
- o Footnote 22 “Regulatory Matters”

Discussion of 2010 vs. 2009

The Company recorded total provision for loan losses of $19.7 million for the year ended December 31, 2010, compared to $34.0 million for the same period in 2009. The significant components comprising the total Company decline in provision for loan losses follows:

Traditional Banking segment

The provision for loan losses within the Traditional Banking segment decreased by $4.3 million to $11.6 million for the year ended December 31, 2010, compared to $15.9 million during 2009. Net charge-offs as a percentage of average loans within the Traditional Banking segment were 0.51% for 2010 compared to 0.34% during 2009. Net charge offs as a percent of average loans were significantly impacted by $5.0 million in charge-offs associated with ten commercial real estate relationships, which had been fully reserved for earlier in 2009 and early 2010. These commercial charge-offs increased the Traditional Bank's net charge-offs as a percentage of average loans by 22 basis points during 2010.

Approximately $1.6 million of the decline in Traditional Banking segment provision for loan losses related to specific loss allocations associated with its large classified commercial loan relationships. Large commercial relationships are individually reviewed for classification and loan loss allocations when they have displayed an identified credit weakness. With improvement in the economy and the Bank's loan portfolio delinquency trends during 2010, management's individual evaluation of these large credits produced a lower required loan loss provision as compared to 2009.

Approximately $1.4 million of the decline in Traditional Banking segment provision for loan losses in 2010 related to stabilization of the Bank's 90-day delinquent and non-accrual "retail" and "small-dollar commercial" relationships not specifically evaluated as part of the Bank's large-dollar commercial classified asset review process. Loans falling into this category totaled $12 million at December 31, 2010 compared to $14 million at December 31, 2009. The increase in these balances during 2010 required an additional net loan loss provision of $488,000 during the year. Conversely, the substantial increase in these balances during 2009 required an additional loan loss provision of $1.9 million during 2009. The formula which determines the required loan loss reserves for loans falling into this category is calculated using migration analysis by loan type of prior year loss results.

Due to the steep decline in residential real estate values in Florida during 2009 and 2010, the Bank expanded the analysis of its home equity portfolio in the Florida market. During the second quarter of 2010, the Bank's credit administration department obtained third party updated collateral values on home equity loans of $50,000 or greater in the Company's Florida market, representing a substantial majority of the Florida home equity portfolio. In addition to obtaining a third party updated collateral value for each loan selected, the credit scores for the borrowers and the delinquent property tax statuses were also updated. As a result of the Bank's review of year to date actual net charge offs and additional analysis, the Bank increased its consolidated home equity allocated allowance as a percentage of home equity loans outstanding to 0.85% in June 2010.

TRS segment

Despite the increase in dollar volume of RALs processed during the 2010 tax season, the provision for loan losses associated with RALs decreased from $18.1 million during 2009 to $8.1 million during 2010. The decrease in TRS' provision for loan losses was due to improved underwriting criteria developed from 2009 tax season funding history from the IRS. RALs outstanding past their expected due date as of December 31, 2010 and 2009 were $10.8 million compared to $23.1 million during the 2009. Substantially all of these RALs were charged off prior to June 30, 2010 and 2009.

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Non Interest Income

Table 4 – Analysis of Non Interest Income

Year Ended December 31, (dollars in thousands)	2011	2010	2009	Percent Increase/(Decrease) 2011/2010	2010/2009
Service charges on deposit accounts	$14,105	$15,562	$19,156	-9 %	-19 %
Electronic refund check fees	88,195	58,789	25,289	50 %	132 %
Net RAL securitization income	207	265	514	-22 %	-48 %
Mortgage banking income	3,899	5,797	11,021	-33 %	-47 %
Debit card interchange fee income	5,791	5,067	5,114	14 %	-1 %
Gain on sale of banking center	2,856	-	-	100 %	0 %
Gain on sale of securities available for sale	2,285	-	-	100 %	0 %
Net impairment loss on investment securities	(279)	(221)	(5,822)	26 %	-96 %
Other	2,565	2,399	2,349	7 %	2 %
Total non interest income	$119,624	$87,658	$57,621	36 %	52 %

Discussion of 2011 vs. 2010

Total Company non interest income increased $32.0 million, or 37%, for the year ended December 31, 2011 compared to 2010. The most significant components comprising the total Company increase in non interest income were as follows:

Traditional Banking segment

Traditional Banking segment non interest income increased $4.4 million, or 19%, for 2011 compared to 2010.

Service charges on deposit accounts decreased $1.5 million, or 10%, during 2011 compared to 2010. Approximately $288,000 of this decrease was related to the discontinuation of the Bank's Currency Connection card product, which was substantially completed by the end of the first quarter of 2010. The remaining decrease is the result of the continued general decline in consumer overdraft activity that the Bank, and the banking industry as a whole, has experienced the past several years. In addition, further contributing to this general decline in consumer overdraft activity, were the amended Regulation E ("Reg E") guidelines which took effect on August 15, 2010. See additional discussion below regarding the amended Reg E guidelines.

The Bank earns a substantial majority of its fee income related to its overdraft service program from the per item fee it assesses its customers for each insufficient funds check or electronic debit presented for payment. In addition, the Bank estimates that it has historically earned more than 60% of its overdraft related fees on the electronic debits presented for payment. Both the per item fee and the daily fee assessed to the account resulting from its overdraft status, if computed as a percentage of the amount overdrawn, results in a high rate of interest when annualized and are thus considered excessive by some consumer groups. The total net per item fees included in service charges on deposits for 2011 and 2010 were $8.9 million and $11.0 million. The total net daily overdraft charges included in interest income for 2011 and 2010 was $1.8 million and $2.0 million, respectively.

In November 2010, the FDIC issued its final guidance on Automated Overdraft payment programs requiring FDIC regulated banks to implement and maintain robust oversight of these programs. This guidance states, “the FDIC expects institutions to implement effective compliance and risk management systems, policies, and procedures to ensure that institutions manage any overdraft payment programs in accordance with the 2005 Joint Guidance on Overdraft Protection Programs (FIL-11-2005) and the FRB November 2009 amendments to Regulation E, to avoid harming consumers or creating other compliance, operational, financial, reputational or other risks.”

Highlights of the guidance are as follows:

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

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

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

Management implemented these guidelines effective July 1, 2011. These guidelines have had a negative impact on the Bank's net income in 2011 and will continue to do so in the near-term. Management estimates that the impact of the implementation of these guidelines has reduced its overdraft related fee income by a range of 20%-25%.

As a result of the continued decline in service charges on deposits and a further anticipated decline as a result of the new FDIC guidelines, the Bank instituted a new fee structure for its retail checking account products during the third quarter of 2011. The new product design was implemented on July 1, 2011 for all newly opened retail accounts. On August 1, 2011 the Bank converted the substantial majority of its existing retail checking accounts into new product types with the new fee structures. The short-term goal of the new fee structure was to reverse the trend of declining service charges on deposits. In the long-term, the Bank's goal is that the new fee structure, combined with growth in the Bank's retail checking account base, will allow the service charges on deposits category to increase once again. Revenue generated during 2011 (primarily for a five month period) as a result of the new fees was approximately $947,000. The overall results of the new fees in the long-term will be highly dependent on customer deposit balances and overall customer acceptance of the new fee structure, as not all of the Bank's competition has adopted similar changes in response to the FDIC guidelines. A lack of customer acceptance of the new account fees resulting in a significant decline in the number of retail deposit accounts could have a material negative impact on the Bank's future deposit fee income.

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

Citizens acquired loans totaling $13 million, representing approximately one-half of the outstanding loans of the banking center.
Citizens assumed all deposits of the Bowling Green banking center, or approximately $33 million consisting of nearly 3,800 accounts.
Citizens acquired all of the fixed assets of the Bowling Green banking center.
The total pre-tax gain on sale recognized by Republic as a result of the transaction was $2.9 million.

The Bank recognized net gains on sales, calls and impairment of investment securities of $2.3 million during the year ended December 31, 2011. The substantial majority of the 2011 gain occurred during the second quarter of 2011, as the Bank sold available for sale securities with an amortized cost of $136 million. The decision to sell these securities

was based, in large part, on positive growth developments within the loan portfolio.

TRS segment

TRS non interest income increased $29.5 million, or 50%, during the year ended December 31, 2011 compared to the same period in 2010. Net ERC/ERD fees increased $29.4 million for the year ended December 31, 2011 primarily attributable to the overall increase in volume at TRS during the tax season. ERC/ERD fee income was positively impacted by a 63% increase in the number of ERCs/ERDs processed resulting from a shift in business to higher volume tax preparation offices. Each year, RB&T performs an annual review of its third-party tax preparation offices looking to replace stores which may display any of the following characteristics: low overall product volume, RAL loan loss rates above an acceptable threshold, or lower than acceptable scores for RB&T's audit and compliance reviews. During the 2011 tax season, RB&T shifted a large number of its lower volume JH offices into higher volume JH offices, keeping its overall office count with JH the same as the previous year, while significantly increasing ERC/ERD volume.

With regard to the TRS business segment, TRS faces direct competition for ERC/ERD market share from independently-owned processing groups partnered with banks. Independent processing groups that are unable to offer RAL products have historically been at a competitive disadvantage to banks who could offer RALs. With RB&T's resolution of its differences with the FDIC through the Agreement, RB&T will not continue to originate RALs beyond April 30, 2012. Without the ability to originate RALs, RB&T will face increased competition in the ERC/ERD marketplace. In addition to a potential loss of volume resulting from additional competitors, RB&T will also likely incur substantial pressure on its profit margin for its ERC/ERD products as well.

In addition to the potential impact to ERCs and ERDS resulting from a loss of the RAL product, the Agreement could also negatively impact RB&T's ability to originate ERC and ERD products. As disclosed above, the Agreement contains a provision for an ERO Plan to be implemented by RB&T. The ERO Plan places additional oversight and training requirements on RB&T and its tax preparation partners that is not currently required by the regulators for RB&T's competitors in the tax business. These additional requirements could make attracting new relationships, retaining existing relationships, and maintaining profit margin for ERCs and ERDs more difficult for RB&T once it is no longer able to offer RALs. At this time, management is unable to determine what the ultimate impact of the Agreement to ERC and ERD products will be in the future, but it does anticipate the impact to be negative to the overall profitability of the business segment.

For additional discussion regarding TRS, see the following sections:

Part I Item 1 "Business"
Part I Item 1A "Risk Factors"
Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations:"

- o "Critical Accounting Policies and Estimates"
- o "Recent Developments"
- o "Overview"
- o "Results of Operations"
- o "Financial Condition"

Part II Item 8 "Financial Statements and Supplementary Data:"

- o Footnote 1 "Summary of Significant Accounting Policies"
- o Footnote 3 "Loans and Allowance for Loan Losses"
- o Footnote 8 "Deposits"
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- o Footnote 18 "Off balance sheet risks, Commitments and Contingent Liabilities"
- o Footnote 21 "Segment Information"
- o Footnote 22 "Regulatory Matters"

Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income decreased $1.9 million, or 33%, during 2011 compared to 2010. Mortgage Banking income was negatively impacted during much of 2011 by a decline in secondary market loan volume. During 2011, the Bank originated for sale $134 million of fixed rate residential real estate secondary market loans compared to $289 million during 2010.

As of December 31, 2011, the Bank had $4 million in loans held for sale with $16 million in fixed rate loan commitments to its customers and $20 million in hedging contracts. At December 31, 2010, the Bank had $15 million in loans held for sale with $11 million in fixed rate loan commitments to its customers and $26 million in hedging contracts. The Bank does not anticipate 2012 mortgage banking volume to reach the volume attained in 2011.

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

Discussion of 2010 vs. 2009

Total Company non interest income increased $30.0 million, or 52%, for 2010 compared to 2009. The most significant components comprising the total Company increase in non interest income were as follows:

Traditional Banking segment

Traditional Banking segment non interest income increased $2.0 million, or 10%, for 2010 compared to the same period in 2009. The increase in non interest income was primarily the result of a decrease in OTTI charges that the Bank incurred for its private-label mortgage backed security portfolio. During 2009, the Bank recorded $5.8 million in OTTI charges, while recording only $221,000 during 2010.

Service charges on deposit accounts decreased $3.6 million, or 19%, during 2010 compared to 2009. Approximately $2.3 million of the decrease was due to the discontinuation of the Bank's Currency Connection checking product, which was marketed to clients on a national basis through various third parties. The Bank discontinued the product because management did not believe that it would be able to grow revenue to a level which would achieve an acceptable profitability within the program, given a substantial anticipated increase in cost of future product delivery.

Approximately 13% of the Bank's overdraft fee related income for 2010 was generated by commercial type clients not subject to EFTA rules with another 10% of the Bank's income generated from accounts closed throughout the year. The Bank implemented a program during the second quarter of 2010 to notify all eligible clients of the new "opt in" requirements of the EFTA rules. Through December 31, 2010, those clients who "opted in" generated approximately 65% of the Bank's overdraft fee income for the 2010. Approximately 2% of the Bank's overdraft related fee income during the 2010 was generated by clients who responded that they did not wish to "opt in" to the program. The remaining 10% of the Bank's overdraft related fee income for 2010 was generated by clients who did not respond to the Bank's notifications. These accounts were automatically removed or opted out of the Regulation E portion of the Bank's Overdraft Honor program. Management believes the EFTA did have a negative impact on the Bank's overdraft related fee income beginning in the third quarter of 2010 and will continue to do so in the future. A decrease in future overdraft fee related income resulting from the new Regulation E requirements may be partially offset by growth in the Bank's checking account base and potential fee increases for its overdraft related charges or other deposit related activities.

The total net per item fees included in service charges on deposits for 2010 and 2009 were $11.0 million and $12.3 million. The total net daily overdraft charges included in interest income for 2010 and 2009 was $2.0 million and $2.3 million, respectively.

TRS segment

TRS non interest income increased $33.3 million, or 129%, during 2010 compared to 2009. Net ERC/ERD fees increased $33.5 million for 2010 compared to 2009 primarily attributable to the overall increase in volume at TRS during the tax season. ERC/ERD fee income was positively impacted by a 24% increase in the number of ERCs/ERDs processed primarily due to growth it obtained through its revised contracts with JH and Liberty Tax Services. In addition, TRS increased ERC/ERD fee income significantly by reducing third party rebates to its technology and service providers.

Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income decreased $5.2 million for 2010 compared to 2009. The majority of this decrease was in the "gain on sale of loan" category, as a meaningful decline in short-term interest

rates through the end of May 2009 caused a significant increase in demand for 15 and 30 year fixed rate loans, which the Bank sold into the secondary market. Despite similarly low interest rates, beginning in the second quarter and continuing through the end of 2010, demand did not return to prior year levels as many qualified homeowners had already taken advantage of historical low interest rates by refinancing in 2009. As a result, the Bank sold $556 million in fixed rate loans into the secondary market during 2009 compared to $289 million during 2010. During the third quarter of 2010, the Bank recorded an MSR valuation allowance of $157,000, however, this valuation allowance was reversed in the fourth quarter of 2010 resulting in an end of year valuation allowance of $0.

As of December 31, 2010, the Bank had $15 million in loans held for sale with $11 million in fixed rate loan commitments to its customers and $26 million in mandatory forward sales contracts primarily to Freddie Mac. At December 31, 2009, the Bank had $5 million in loans held for sale with $29 million in fixed rate loan commitments to its customers and $32 million in mandatory forward sales contracts primarily to Freddie Mac.

Non Interest Expenses

Table 5 – Analysis of Non Interest Expenses

Year Ended December 31, (dollars in thousands)	2011	2010	2009	Percent Increase/(Decrease) 2011/2010	Percent Increase/(Decrease) 2010/2009
Salaries and employee benefits	$54,966	$55,246	$51,173	-1 %	8 %
Occupancy and equipment, net	21,713	21,958	22,370	-1 %	-2 %
Communication and transportation	5,695	5,418	5,354	5 %	1 %
Marketing and development	3,237	10,813	13,146	-70 %	-18 %
FDIC insurance expense	4,425	3,155	4,993	40 %	-37 %
Bank franchise tax expense	3,645	3,187	2,643	14 %	21 %
Data processing	3,207	2,697	3,017	19 %	-11 %
Debit card interchange expense	2,239	1,741	3,096	29 %	-44 %
Supplies	2,353	2,359	2,398	0 %	-2 %
Other real estate owned expense	2,356	1,829	2,253	29 %	-19 %
Charitable contributions	5,933	6,232	1,494	-5 %	317 %
Legal expense	3,969	1,832	1,298	117 %	41 %
FDIC civil money penalty	900	-	-	100 %	0 %
FHLB advance prepayment penalty	-	1,531	-	-100 %	0 %
Other	7,683	8,325	8,250	-8 %	1 %
Total non interest expenses	$122,321	$126,323	$121,485	-3 %	4 %

Discussion of 2011 vs. 2010

Total Company non interest expenses decreased $4.0 million, or 3%, for the year ended December 31, 2011 compared to 2010. The most significant components comprising the change in non interest expense were as follows:

Traditional Banking segment

Traditional Banking non interest expenses decreased $3.6 million, or 4%, for the year ended December 31, 2011 compared to 2010.

Salaries and employee benefits declined $604,000 during 2011 compared to 2010 due to a decline in incentive compensation accruals, contract labor costs, and a reduction in expenses associated with incentive stock options.

Data processing expense increased $432,000 during 2011 compared to 2010 primarily due to increased internet and mobile banking expenses.

Debit card interchange expense increased $498,000 during 2011 compared to 2010. This increase resulted from the expiration of credits received by the Bank during 2010 as compensation for a billing disagreement with the Bank's third party processor.

Other real estate owned expense increased $527,000 consistent with the increase in foreclosure volume in 2011.

Contributions expense declined $676,000 during 2011 compared to 2010. In 2010, the Company established the Republic Bank Foundation to support charitable, educational, scientific and religious organizations throughout communities in Kentucky, Indiana, Ohio and Florida. Due to the financial success the Company achieved in 2011 and 2010, the Company significantly increased its contributions, making a $5 million contribution in each year to the Republic Bank Foundation. The Company allocated the cost of this contribution to its operating segments using a formula based on pre-tax profits. Since its formation, eligible new contributions, which may have been previously considered for payment by the Bank, have been directed to and paid by the Republic Bank Foundation.

Banking center and ATM service promotional expense declined $360,000 during 2011 consistent with the new fee structure for retail checking accounts announced during the third quarter of 2011. The new fee structure significantly reduced the number of client foreign ATM reimbursements.

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

TRS segment

TRS non interest expenses decreased $1.7 million, or 5%, for the year ended December 31, 2011 compared to 2010.

Salaries and employee benefits increased $369,000 during 2011 compared to 2010 due to increased staffing costs offset by a decline in bonus expense.

Marketing expense at TRS decreased $7.5 million during 2011 compared to 2010 due to the modification of RB&T's contracts with JH. This contract modification eliminated a large fixed fee for marketing that RB&T was charged as part of the contracts. The elimination of this fee did not impact the overall financial results of operations for TRS, as this decrease was offset by the elimination of certain fees charged by RB&T to its customers, which substantially offset the fixed marketing fee.

Communication and transportation expense and office supplies at TRS increased $579,000 and $169,000, respectively, during 2011 compared to 2010 primarily attributable to increased postage, freight and mailing supplies associated with servicing the increase in volume at TRS.

FDIC insurance expense increased $1.5 million during 2011 compared to 2010 related primarily to a higher assessment rate levied against RB&T throughout the year by the FDIC for items specific to RB&T.

Bank Franchise tax expense represents taxes paid to different state taxing authorities based on capital. The substantial majority of the Company's Bank Franchise expense is paid to the Commonwealth of Kentucky. Bank Franchise expense related to the TRS segment increased $401,000 compared to 2010, primarily due to an increase in capital associated with higher earnings at TRS.

Legal expense at TRS was $2.3 million for 2011 compared to $378,000 for 2010. The increase in legal expense was directly related to RB&T's on-going regulatory actions with the FDIC. Management estimates that legal expenses at TRS in 2012 will be substantially reduced to normal historical type levels due to RB&T's settlement with the FDIC.

During the second quarter of 2011, the FDIC assessed the CMP against RB&T at a $2 million level as part of the Amended Notice. The actual penalty paid during the fourth quarter of 2011 in connection with the settlement was $900,000, resulting in a $1.1 million credit to pre-tax income during the fourth quarter.

Charitable contribution expense totaled $4.9 million and $4.7 million at TRS for years ended December 31, 2011 and 2010, respectively. See discussion above under "Traditional Banking segment."

For additional discussion regarding TRS, see the following sections:

Part I Item 1 "Business"

Part I Item 1A "Risk Factors"

Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations:"

- o "Critical Accounting Policies and Estimates"
- o "Recent Developments"

- o “Overview”
- o “Results of Operations”
- o “Financial Condition”

Part II Item 8 “Financial Statements and Supplementary Data:”

- o Footnote 1 “Summary of Significant Accounting Policies”
- o Footnote 3 “Loans and Allowance for Loan Losses”
- o Footnote 8 “Deposits”
- o Footnote 10 “FHLB Advances”
- o Footnote 18 “Off balance sheet risks, Commitments and Contingent Liabilities”
- o Footnote 21 “Segment Information”
- o Footnote 22 “Regulatory Matters”

Mortgage Banking segment

Mortgage Banking non interest expenses increased $1.3 million for the year ended December 31, 2011 compared to the same period in 2010 primarily due to the change in the allocation of certain shared expenses between segments offset by a reduction in loan origination volume.

Discussion of 2010 vs. 2009

Total Company non interest expenses increased $4.8 million, or 4%, during 2010 compared to 2009. Approximately $5.5 million of the increase related to TRS and was driven by the significant year-over-year growth in the program. Within the Company's other operating segments, non interest expenses declined $700,000 for the year. The most significant components comprising the increase in non interest expense were as follows:

Traditional Banking segment

Salaries and employee benefits increased $2.2 million for 2010 compared to 2009 due to annual merit increases, additional staffing and increased employee benefits expense. In addition, the Bank experienced a $716,000 decrease in its ASC 310-20 "Receivables – Non-refundable Fees and Other Costs" salary expense deferral for 2010 as a result of a reduction in new loan originations.

FDIC insurance assessment expense decreased $1.8 million during 2010 compared to 2009. During the second quarter of 2009, the Company incurred a $1.4 million special assessment which the FDIC implemented to all banks nationally in order to replenish the Deposit Insurance Fund.

Debit card interchange expense decreased $1.4 million during 2010 compared to 2009, as the Bank entered into a new contract with a third party provider at significantly reduced rates. In addition, this expense item incurred a benefit of $530,000 during 2010 due to a non-recurring credit from the third party provider as compensation for a processing error.

Other real estate owned expense decreased $424,000 during 2010 compared to 2009, primarily due to the significant prior period write downs related to two properties held in Florida.

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

TRS segment

Salaries and employee benefits at TRS increased $1.9 million during 2010 compared to 2009. Approximately $865,000 of this increase related to higher bonus accruals, as TRS achieved its maximum tier for its 2010 profitability goal. The remaining increase in salaries and benefits is due to annual merit increases, additional staffing and increased employee benefits expense.

Occupancy and equipment expense increased $415,000 during 2010 compared to 2009, primarily due to expanded infrastructure and technology costs to accommodate the increased volume of the business.

Marketing and development expense decreased $2.5 million during 2010 compared to 2009, due to a reduction in the fixed-payment portion of expenses associated with the Program and Technology Agreements with JH. The decrease was the result of amended contract terms reached for the 2010 tax season.

Charitable contribution expense totaled $4.7 million at TRS for 2010. Due to the financial success the Company achieved in the first quarter of 2010, Republic made a $5 million contribution to the new Republic Bank Foundation. The Company allocated the cost of this contribution to its operating segments using a formula based on gross profits.

Mortgage Banking segment

Non interest expenses increased $905,000 for 2010 compared to 2009 primarily due to a change in the allocation of certain shared expenses during 2010 between segments.

FINANCIAL CONDITION

Cash and Cash Equivalents

Cash and cash equivalents include cash, deposits with other financial institutions with original maturities less than 90 days and federal funds sold. Republic had $363 million in cash and cash equivalents at December 31, 2011 compared to $786 million at December 31, 2010.

During the fourth quarter of 2011, RB&T accumulated cash via Federal Home Loan Bank ("FHLB") advances totaling $300 million in preparation for the first quarter 2012 tax season. Management anticipates obtaining between $200 million and $300 million of short-term brokered deposits during January 2012 to complete its anticipated funding needs for the first quarter 2012 tax season. During the fourth quarter of 2010, RB&T accumulated cash via short-term brokered deposits totaling $562 million in preparation for the first quarter 2011 tax season.

For cash held at the Federal Reserve Bank ("FRB"), the Bank earns a yield of 0.25%. For all other cash held within the Bank's branch and ATM networks, the Bank does not earn interest.

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

Investment Securities

Table 6 – Investment Securities Portfolio

December 31, (in thousands)		2011		2010		2009
Securities available for sale (fair value):						
U.S. Treasury securities and U.S. Government agencies	$	152,674	$	120,297	$	48,082
Private label mortgage backed and other private label mortgage-related securities		4,542		5,124		5,901
Mortgage backed securities - residential		293,329		158,677		238,154
Collateralized mortgage obligations		195,403		225,657		124,174
Total securities available for sale		645,948		509,755		416,311
Securities to be held to maturity (carrying value):						
U.S. Treasury securities and U.S. Government agencies		4,233		4,191		9,187
Obligations of states and political subdivisions		-		-		384
Mortgage backed securities - residential		1,376		1,930		2,748
Collateralized mortgage obligations		22,465		26,818		38,605

Total securities to be held to maturity	28,074	32,939	50,924
Total investment securities	$ 674,022	$ 542,694	$ 467,235

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Securities available for sale primarily consists of U.S. Treasury securities and U.S. Government agency obligations, including agency mortgage backed securities ("MBSs") and agency collateralized mortgage obligations ("CMOs"). The agency MBSs primarily consist of hybrid mortgage investment securities, as well as other adjustable rate mortgage investment securities, underwritten and guaranteed by Ginnie Mae ("GNMA"), Freddie Mac ("FHLMC") and Fannie Mae ("FNMA"). Agency CMOs held in the investment portfolio are substantially all floating rate securities that adjust monthly. The Bank uses a portion of the investment securities portfolio as collateral to Bank clients for securities sold under agreements to repurchase ("repurchase agreements"). The remaning eligible securities that are not pledged to secure client repurchase agreements are pledged to the Federal Home Loan Bank as collateral for the Bank's borrowing line. Strategies for the investment securities portfolio may be influenced by economic and market conditions, loan demand, deposit mix and liquidity needs.

Securities available for sale increased by $136 million during 2011 to $646 million at December 31, 2011. In February 2011, the Bank modified its investment strategy, taking on more interest rate risk by reinvesting a portion of its excess cash into longer-term investment securities, thus increasing its projected net interest income and net interest margin for the near-term. The Bank primarily invested in longer-term U.S. government agency securities with an average life between three and seven years. As commercial loan demand increased in 2011, the Bank elected to sell a portion of these securities that had appreciated to lower the duration of the Bank's investment portfolio in anticipation of large loan balances settling in the second and third quarter of 2011.

Growth in deposits continued to outpace the growth in loans throughout the second and third quarters of 2011, increasing cash balances on hand. The Bank purchased additional investment securities in the third quarter to deploy these excess funds at a higher yield. Securities purchased were concentrated in agency hybrid mortgage-backed securities with a weighted average yield of 2.08% and duration of 3.7 years.

For discussion of the Bank's private label mortgage backed and mortgage related securities, see "Critical Accounting Policies and Estimates" in this section of the filing and Footnote 2 "Investment Securities" of Part II Item 8 "Financial Statements and Supplementary Data."

Detail of the fair value of the Bank's mortgage backed investment securities follows:

Table 7 – Mortgage Backed Investment Securities

December 31, (in thousands)	2011	2010
Private label mortgage backed and other private label mortgage-related of securities	$ 4,542	$ 5,124
Mortgage backed securities - residential	294,806	160,716
Collateralized mortgage obligations	218,027	253,245
Total mortgage backed securities fair value	$ 517,375	$ 419,085

For discussion of the Bank's private label mortgage backed and mortgage related securities, see "Critical Accounting Policies and Estimates" in this section of the filing and Footnote 2 "Investment Securities" of Part II Item 8 "Financial Statements and Supplementary Data."

In addition, the Bank holds agency structured notes in the investment portfolio which consist of step up bonds. A step up bond pays an initial coupon rate for the first period, and then a higher coupon rate for the following periods. These investments are predominantly classified as available for sale. The amortized cost and fair value of the structured note investment portfolio follows:

Table 8 – Structured Notes

December 31, (in thousands)	2011	2010
Amortized cost	$ 70,232	$ 97,504
Fair value	70,087	97,511

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Table 9 – Securities Available for Sale

December 31, 2011 (dollars in thousands)	Amortized Cost	Fair Value	Weighted Average Yield		Average Maturity in Years
U.S. Treasury securities and					
U.S. Government agencies:					
Due from one year to five years	152,085	152,674	1.83	%	1.05
Total U.S. Treasury securites and U.S. Government agencies	152,085	152,674	1.83	%	1.05
Total private label mortgage backed and other private label mortgage-related securities	5,818	4,542	10.56	%	4.03
Total mortgage backed securities - residential	287,013	293,329	3.11	%	7.00
Total collateralized mortgage obligations	194,663	195,403	1.23	%	3.44
Total securities available for sale	$639,579	$645,948	2.30	%	4.47

Table 10 – Securities to be Held to Maturity

December 31, 2011 (dollars in thousands)	Carrying Value	Fair Value	Weighted Average Yield		Average Maturity in Years
U.S. Treasury securities and					
U.S. Government agencies:					
Due in one year or less	$3,690	$3,708	2.15	%	0.54
Due from one year to five years	543	533	1.56	%	2.83
Total U.S. Treasury securities and U.S. Government agencies:	4,233	4,241	2.08	%	0.83
Total mortgage backed securities - residential	1,376	1,477	5.13	%	3.10
Total collateralized mortgage obligations	22,465	22,624	1.61	%	4.93
Total securities to be held to maturity	$28,074	$28,342	1.85	%	4.22

Loan Portfolio

Net loans, primarily consisting of secured real estate loans, increased by $109 million during 2011 to $2.3 billion at December 31, 2011. The Bank experienced the growth in its loan portfolio despite the disposition of $13 million in loans associated with the sale of its Bowling Green banking center.

As a result of the historically low interest rate environment the last three years, the Bank has been challenged to grow its residential real estate portfolio, as consumer demand shifted to 15 and 30 year fixed rate loan products that the Bank has historically sold into the secondary market. As previously discussed, the Bank did elect during 2011 to originate and retain $59 million of longer-term fixed rate loans that it has typically sold into the secondary market. In addition to this strategy, the Bank also created a fixed rate Home Equity Amortizing Loan ("HEAL") product during the second half of 2010 in an effort to grow its residential real estate portfolio. The HEAL product is a first mortgage or a junior-lien mortgage product with amortization periods of 20 years or less. Features of the HEAL include $199 fixed closing costs; no requirement for the client to escrow insurance and property taxes; and as with the Bank's traditional ARM products, no requirement for private mortgage insurance. The overall features of the HEAL have made it an attractive alternative to long-term fixed rate secondary market products. As of December 31, 2011, the Bank had $58 million of HEALs outstanding.

Commercial real estate loans increased $32 million, or 5%, from December 31, 2010. In order to combat a declining net interest margin, during the second quarter of 2011, the Bank purchased performing commercial real estate loans with a face amount of approximately $37 million at a 13% discount to par. At the time of purchase, these loans had a weighted average life of approximately seven years with an expected yield to maturity of 8.28%. In addition to the growth resulting from the previously discussed commercial real estate loan purchase, the commercial real estate portfolio experienced internally originated growth of $5 million.

At December 31, 2011, commercial real estate loans comprised 29% of the total gross loan portfolio and were concentrated primarily within the Bank's existing markets. These loans are generally secured by multi-family investment properties, single family residential developments, medical facilities, small business owner occupied offices, retail properties, hotels and other commercial real estate. These loans typically have interest rates that are initially fixed for one to ten years with the remainder of the loan term subject to repricing based on various market indices. In order to reduce the negative effect of refinance activity within the portfolio during a declining interest rate environment, the Bank requires an early termination penalty on substantially all commercial real estate loans for a portion of the fixed term period. The Bank's underwriting standards typically include personal guarantees on most commercial real estate loans.

In June 2011, the Bank commenced business in its newly established warehouse lending division and had $41 million outstanding at December 31, 2011. Through this division, the Bank provides short-term, revolving credit facilities to mortgage bankers across the nation. These credit facilities are secured by single family first lien residential real estate loans. The credit facility enables the mortgage banking customers to close single family first lien residential real estate loans in their own name and temporarily fund their inventory of these closed loans until the loans are sold to investors approved by the Bank. These individual loans are expected to remain on the warehouse line for an average of 15 to 30 days. Interest income and loan fees are accrued for each individual loan during the time the loan remains on the warehouse line and collected when the loan is sold to the secondary market investor. The Bank receives the sale proceeds of each loan directly from the investor and applies the funds to payoff the warehouse advance and related accrued interest and fees. The remaining proceeds are credited to the mortgage banking customer. As of December 31, 2011, the Bank had four warehouse loan clients with $41 million of outstanding loans from total credit lines of $80 million.

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The table below illustrates Republic's loan portfolio composition for the past five years:

Table 11 – Loan Portfolio Composition

December 31, (in thousands)	2011	2010	2009	2008	2007
Residential real estate:					
Owner occupied	$985,735	$918,407	$976,348	$960,635	$1,000,068
Non owner occupied	99,161	126,404	120,963	134,905	168,523
Commercial real estate	639,966	640,872	641,451	653,048	658,987
Commercial real estate - purchased whole loans	32,741	-	-	-	-
Real estate construction	67,406	68,701	83,090	99,395	163,700
Commercial	119,117	108,720	104,274	111,604	90,741
Warehouse lines of credit	41,496	-	-	-	-
Home equity	280,235	289,945	318,449	313,418	280,506
Consumer:					
Credit cards	8,580	8,213	8,052	6,671	4,587
Overdrafts	950	901	2,006	2,796	1,238
Other consumer	9,908	13,077	13,599	21,385	28,723
Total gross loans	$2,285,295	$2,175,240	$2,268,232	$2,303,857	$2,397,073

The table below illustrates the Bank's maturities and repricing frequency, including estimated prepayments for the loan portfolio:

Table 12 – Selected Loan Distribution

December 31, 2011 (in thousands)	Total	One Year Or Less	Over One Through Five Years	Over Five Years
Fixed rate loan maturities:				
Residential real estate:	$528,549	$134,873	$208,202	$185,474
Commercial real estate	200,409	133,778	42,049	24,582
Commercial real estate - purchased whole loans	32,741	22,738	9,732	271
Real estate construction	21,631	7,122	671	13,838
Commercial	106,883	58,029	30,660	18,194
Warehouse lines of credit	-	-	-	-
Home equity	5,958	550	-	5,408
Consumer:				
Credit cards	-	-	-	-
Overdrafts	950	950	-	-
Other consumer	8,654	2,176	3,391	3,087
Total fixed rate loans	$905,775	$360,216	$294,705	$250,854
Variable rate loan maturities:				
Residential real estate:	$556,347	$298,205	$209,940	$48,202
Commercial real estate	439,557	339,022	95,242	5,293
Commercial real estate - purchased whole loans	-	-	-	-
Real estate construction	45,775	45,661	114	-
Commercial	12,234	10,153	2,081	-
Warehouse lines of credit	41,496	41,496	-	-
Home equity	274,277	266,327	4,165	3,785
Consumer:				
Credit cards	8,580	8,580	-	-
Overdrafts	-	-	-	-
Other consumer	1,254	1,254	-	-
Total variable rate loans	$1,379,520	$1,010,698	$311,542	$57,280
Total:				
Residential real estate:	$1,084,896	$433,078	$418,142	$233,676
Commercial real estate	639,966	472,800	137,291	29,875
Commercial real estate - purchased whole loans	32,741	22,738	9,732	271
Real estate construction	67,406	52,783	785	13,838
Commercial	119,117	68,182	32,741	18,194
Warehouse lines of credit	41,496	41,496	-	-
Home equity	280,235	266,877	4,165	9,193
Consumer:				

Credit cards	8,580	8,580	-	-
Overdrafts	950	950	-	-
Other consumer	9,908	3,430	3,391	3,087
Total loans	$2,285,295	$1,370,914	$606,247	$308,134

Allowance for Loan Losses and Provision for Loan Losses

The Bank maintains an allowance for probable incurred credit losses inherent in the Bank's loan portfolio, which includes overdrawn deposit accounts. Management evaluates the adequacy of the allowance for the loan losses on a monthly basis and presents and discusses the analysis with the Audit Committee and the Board of Directors on a quarterly basis.

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

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

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

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

In addition to obtaining appraisals at the time of loan origination, the Bank updates appraisals for collateral dependent loans with potential impairment. Updated appraisals for collateral-dependent commercial related loans exhibiting an increased risk of loss are obtained within one year of the last appraisal. Collateral values for past due residential mortgage loans and home equity loans are generally updated prior to a loan becoming 90 days delinquent, but no more than 180 days past due. When determining the allowance amount, to the extent updated collateral values cannot be obtained due to the lack of recent comparable sales or for other reasons, the loan review department discounts the valuation of the collateral primarily based on the age of the appraisal and the real estate market conditions of the location of the underlying collateral.

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

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The Bank's allowance for loan losses increased $984,000 during the year to $24.1 million at December 31, 2011. As a percent of total loans, the allowance for loans losses decreased slightly to 1.05% at December 31, 2011 compared to 1.06% at December 31, 2010. In general, the fluctuation in the allowance for loan losses as a percentage of total loans was due primarily to the following:

The Bank increased its loan loss allowance by a net $688,000 during the year for specific loss allocations related to large commercial credits.

The Bank decreased its loan loss allowance by a net $54,000 during the year for 90-day delinquent and/or non-accrual retail and small dollar commercial relationships not specifically evaluated as part of the Bank's large-dollar commercial classified asset review process.

The Bank increased its overall allowance by a net $242,000 during 2011 related to quantitative and qualitative adjustments to its historical loss percentages for its general reserves across all loan categories with the largest percentage increase in the commercial real estate and mortgage warehouse lending categories.

Home equity loans are one of the Bank's largest homogenous pools of loans and are evaluated collectively in determining the allocated allowance. In determining the allocated allowance, management analyzes the average annual loss rates for the previous 3-year and 2-year periods, along with the current year loss rate, as well as comparisons to peer group corresponding loss rates. In addition, when qualitative factors, such as a general decline in home values, indicate an elevated risk of loss, management performs additional analysis on the home equity portfolio such as updating collateral values on a test basis.

Management believes, based on information presently available, that it has adequately provided for loan losses at December 31, 2011. For additional discussion regarding Republic's methodology for determining the adequacy of the allowance for loan losses, see the section titled "Critical Accounting Policies and Estimates" in this section of the filing.

Table 13 – Summary of Loan Loss Experience

Year Ended December 31, (dollars in thousands)	2011	2010	2009	2008	2007
Allowance for loan losses at beginning of year	$23,079	$22,879	$14,832	$12,735	$11,218
Charge offs:					
Residential real estate	(2,760)	(3,012)	(2,439)	(1,356)	(553)
Commercial real estate	(1,125)	(4,846)	(956)	(257)	(493)
Commercial real estate - purchased whole loans	-	-	-	-	-
Real estate construction	(845)	(1,261)	(1,196)	(2,970)	(158)
Commercial	(100)	(207)	(372)	(98)	(132)
Warehouse lines of credit	-	-	-	-	-
Home equity	(1,279)	(1,811)	(1,915)	(507)	(397)
Consumer:					
Credit cards	(241)	(158)	(389)	(153)	(40)
Overdrafts	(678)	(848)	(832)	(1,250)	(1,036)
Other consumer	(281)	(362)	(563)	(349)	(455)
Tax Refund Solutions	(15,484)	(14,584)	(31,180)	(9,206)	(4,246)
Total charge offs	(22,793)	(27,089)	(39,842)	(16,146)	(7,510)
Recoveries:					
Residential real estate	245	70	84	153	102
Commercial real estate	301	48	120	215	213
Commercial real estate - purchased whole loans	-	-	-	-	-
Real estate construction	237	248	102	-	1
Commercial	128	49	16	34	59
Warehouse lines of credit	-	-	-	-	-
Home equity	159	23	23	48	37
Consumer:					
Credit cards	32	19	16	27	26
Overdrafts	506	385	257	250	259
Other consumer	279	292	206	155	161
Tax Refund Solutions	3,924	6,441	13,090	1,156	1,349
Total recoveries	5,811	7,575	13,914	2,038	2,207
Net loan charge offs	(16,982)	(19,514)	(25,928)	(14,108)	(5,303)
Provision for loan losses - Traditional Banking	6,406	11,571	15,885	8,154	3,923
Provision for loan losses - Tax Refund Solutions	11,560	8,143	18,090	8,051	2,897
Total provision for loan losses	17,966	19,714	33,975	16,205	6,820

Allowance for loan losses at end of year	$24,063		$23,079		$22,879		$14,832		$12,735	
Credit Quality Ratios - Total Company:										
Allowance for loan losses to total loans	1.05	%	1.06	%	1.01	%	0.64	%	0.53	%
Allowance for loan losses to non-performing loans	103	%	82	%	53	%	110	%	132	%
Net loan charge offs to average loans	0.76	%	0.83	%	1.09	%	0.60	%	0.22	%
Credit Quality Ratios - Traditional Banking:										
Allowance for loan losses to total loans	1.05	%	1.06	%	1.01	%	0.64	%	0.53	%
Allowance for loan losses to non-performing loans	103	%	82	%	53	%	110	%	132	%
Net loan charge offs to average loans	0.24	%	0.51	%	0.34	%	0.26	%	0.10	%

The table below sets forth management's allocation of the allowance for loan losses by loan type. The allowance allocation is based on management's assessment of economic conditions, historical loss experience, loan volume, past due and non-accrual loans and various other factors. Since these factors and management's assumptions are subject to change, the allocation is not necessarily indicative of future loan portfolio performance or future allowance allocation.

Table 14 – Management's Allocation of the Allowance for Loan Losses

December 31, (dollars in thousands)	2011 Allowance	Percent of Loans to Total Loans	2010 Allowance	Percent of Loans to Total Loans	2009 Allowance	Percent of Loans to Total Loans	2008 Allowance	Percent of Loans to Total Loans	2007 Allowance	Percent of Loans to Total Loans
Residential real estate	$ 6,354	47 %	$ 5,282	48 %	$ 4,936	48 %	$ 2,562	47 %	$ 1,762	49 %
Commercial real estate	7,724	29 %	7,214	30 %	9,180	28 %	6,554	29 %	6,316	27 %
Real estate construction	3,042	3 %	2,612	3 %	2,434	4 %	1,508	4 %	1,012	7 %
Commercial	1,129	7 %	1,347	5 %	1,473	5 %	1,086	5 %	931	4 %
Consumer	865	2 %	1,078	1 %	1,068	1 %	479	1 %	378	1 %
Home equity	2,984	12 %	3,581	13 %	1,823	14 %	678	14 %	371	12 %
Unallocated	1,965	-	1,965	-	1,965	-	1,965	-	1,965	-
Total	$ 24,063	100 %	$ 23,079	100 %	$ 22,879	100 %	$ 14,832	100 %	$ 12,735	100 %

Consistent with the past several years, the Company's allowance for loan loss calculation contains an "unallocated" component at December 31, 2011. The term "unallocated" is not defined in GAAP, but is used in practice with various meanings. The Company has traditionally used the term "unallocated" to represent amounts that are not attributable to or were not measured on any particular groups of loans. In 2005, the Company elected to maintain its then-unallocated allowance for loan losses at its current level. This equated to approximately $1.9 million. The Company has concluded that its "unallocated" allowance properly reflected estimated credit losses determined in accordance with GAAP in the past and believes it has been properly supported. However, beginning January 1, 2012, the Company plans to effectively allocate its "unallocated" allowance, adjusting its historical loss rates for certain groups of loans for qualitative and/or environmental factors.

In executing this methodology change, the Company will focus on large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment and are not included in the scope of SFAS 114. These portfolios are typically not graded and not subject to annual review. Such groups of loans include:

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

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

Table 15 – Classified Assets

December 31, (in thousands)	2011	2010	2009	2008	2007
Loss	$-	$-	$-	$-	$-
Doubtful	-	-	-	-	-
Substandard	43,088	38,245	46,335	17,128	13,683
Special mention	35,455	54,254	57,036	43,614	26,292
Total classified assets	$78,543	$92,499	$103,371	$60,742	$39,975

Asset Quality

Non-performing Loans

Non-performing loans include loans on non-accrual status and loans 90 days or more past due and still accruing. Impaired loans that are not placed on non-accrual status are not included in non-performing loans. The non-performing loan category includes impaired loans totaling approximately $12 million at December 31, 2011.

Non-performing loans to total loans decreased to 1.02% at December 31, 2011, from 1.30% at December 31, 2010, as the total balance of non-performing loans decreased by $5 million for the same period.

The following table details the Bank’s non-performing loans and non performing assets and select credit quality ratios:

Table 16 – Non-performing Loans and Non-performing Assets

December 31, (dollars in thousands)	2011	2010	2009	2008	2007
Loans on non-accrual status (1)	$23,306	$28,317	$43,136	$11,324	$8,303
Loans past due 90 days or more and still on accrual	-	-	8	2,133	1,318
Total non-performing loans	23,306	28,317	43,144	13,457	9,621
Other real estate owned	10,956	11,969	4,772	5,737	795
Total non-performing assets	$34,262	$40,286	$47,916	$19,194	$10,416
Credit Quality Ratios - Total Company					
Non-performing loans to total loans	1.02 %	1.30 %	1.90 %	0.58 %	0.40 %
Non-performing assets to total loans (including OREO)	1.49 %	1.84 %	2.11 %	0.83 %	0.43 %
Non-performing assets to total assets	1.00 %	1.11 %	1.22 %	0.49 %	0.33 %
Credit Quality Ratios - Traditional Banking					
Non-performing loans to total loans	1.02 %	1.30 %	1.90 %	0.58 %	0.40 %
Non-performing assets to total loans (including OREO)	1.49 %	1.84 %	2.11 %	0.83 %	0.43 %
Non-performing assets to total assets	1.10 %	1.32 %	1.60 %	0.69 %	0.36 %

(1) Loans on non-accrual status include impaired loans. See Footnote 3 “Loans and Allowance for Loan Losses” of Part II Item 8 “Financial Statements and Supplementary Data” for additional discussion regarding impaired loans.

Approximately $14 million of the Bank’s total non-performing loans at December 31, 2011 are in the residential real estate category with the underlying collateral predominantly located in the Bank’s primary market area of Kentucky. The Bank does not consider any of these loans to be “sub-prime.”

Residential real estate values in Kentucky have generally performed better than the national average, and as a result, losses from these loans have been minimal in relation to the size of the Bank’s residential real estate loan portfolio.

Approximately $6 million of the Bank’s total non-performing loans are in the commercial real estate and real estate construction loan portfolios as of December 31, 2011. These loans are secured primarily by commercial properties. In addition to the primary collateral, the Bank also obtained in many cases, at the time of origination, personal guarantees from the principal borrowers and secured liens on the guarantors’ primary residences.

The composition of the Bank's non-performing loans follows:

Table 17 – Non-performing Loan Composition

December 31, (in thousands)	2011	2010	2009	2008	2007
Residential real estate	$13,748	$15,236	$14,832	$7,147	$6,644
Commercial real estate	3,032	6,265	16,850	2,665	1,750
Commercial real estate - purchased whole loans	-	-	-	-	-
Real estate construction	2,521	3,682	9,500	2,749	882
Commercial	373	323	647	243	113
Warehouse lines of credit	-	-	-	-	-
Home equity	3,603	2,734	1,244	567	123
Consumer:					
Credit cards	-	-	-	-	-
Overdrafts	-	-	-	-	-
Other consumer	29	77	71	86	109
Total non-performing loans	$23,306	$28,317	$43,144	$13,457	$9,621

Table 18 – Non-performing Loans to Total Loans by Loan Type

December 31,	2011		2010		2009		2008		2007	
Residential real estate	1.27	%	1.46	%	1.35	%	0.65	%	0.57	%
Commercial real estate	0.47	%	0.98	%	2.63	%	0.41	%	0.27	%
Commercial real estate - purchased whole loans	0.00	%	0.00	%	0.00	%	0.00	%	0.00	%
Real estate construction	3.74	%	5.36	%	11.43	%	2.77	%	0.54	%
Commercial	0.31	%	0.30	%	0.62	%	0.22	%	0.12	%
Warehouse lines of credit	0.00	%	0.00	%	0.00	%	0.00	%	0.00	%
Home equity	1.29	%	0.94	%	0.39	%	0.18	%	0.04	%
Consumer:										
Credit cards	0.00	%	0.00	%	0.00	%	0.00	%	0.00	%
Overdrafts	0.00	%	0.00	%	0.00	%	0.00	%	0.00	%
Other consumer	0.29	%	0.59	%	0.52	%	0.41	%	0.38	%
Total non-performing loans to total loans	1.02	%	1.30	%	1.90	%	0.58	%	0.40	%

Based on the Bank's review of the large individual non-performing commercial credits, as well as its migration analysis for its residential real estate and home equity non-performing portfolio, management believes that its reserves as of December 31, 2011, are adequate to absorb probable losses on these non-performing loans.

Approximately $17 million in non-performing loans at December 31, 2010, were removed from the non-performing loan classification during 2011. Approximately $2 million, or 13%, of these loans were removed from the non-performing category because they were charged-off. Approximately $7 million, or 42%, in loan balances were transferred to other real estate owned ("OREO") with $6 million refinanced at other financial institutions. The remaining $2 million was returned to accrual status for performance reasons, such as six consecutive months of performance.

Interest income that would have been recorded if non-accrual loans were on a current basis in accordance with their original terms was $1.1 million, $1.3 million and $2.2 million in 2011, 2010 and 2009, respectively.

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

Table 19 – Rollforward of Non-performing Loan Activity

December 31, (in thousands)	2011	2010	2009
Non-performing loans at beginning of year	$ 28,317	$ 43,144	$ 13,457
Loans added to non-performing status	13,490	18,524	39,280
Loans removed from non-performing status (see table below)	(16,699)	(31,751)	(8,814)
Principal paydowns	(1,802)	(1,600)	(779)
Non-performing loans at end of year	$ 23,306	$ 28,317	$ 43,144

Table 20 – Detail of Loans Removed from Non-Performing Status

Year Ended December 31, (in thousands)	2011	2010	2009
Loans charged off	$ 2,220	$ 5,891	$ 1,332
Loans transferred to OREO	7,070	14,738	3,396
Loans refinanced at other institutions	5,677	5,118	2,722
Loans returned to accrual status	1,732	6,004	1,364
Non-performing loans at end of year	$ 16,699	$ 31,751	$ 8,814

Delinquent Loans

As detailed in the table below, past due loans within the residential real estate, commercial real estate and real estate construction categories improved significantly, or $4 million, from December 31, 2010 to December 31, 2011, while home equity delinquencies increased $2 million for the same period. More specifically, the following factors contributed to the net $2 million decline in delinquent loans:

Approximately $4.0 million of the December 31, 2010 residential real estate past due balances were transferred to OREO, approximately $1.5 million in balances were charged off, with $7.3 million brought current or refinanced at other financial institutions, while the remainder of the fluctuation relates to loans that became past due for the first time in 2011.
Approximately $1.5 million of the December 31, 2010 commercial real estate past due balances were transferred to OREO while $2.5 million was brought current or refinanced at other financial institutions.
Approximately $1.4 million of the December 31, 2010 real estate construction past due balances were brought current, while $300,000 was transferred to OREO.
Approximately $2.3 million of the increase in home equity delinquencies related to 11 relationships that were past due at December 31, 2011 and not at December 31, 2010.

The composition of the Bank's delinquent loans follows:

Table 21 – Delinquent Loan Composition

December 31, (in thousands)		2011		2010		2009		2008		2007
Residential real estate	$	14,299	$	16,031	$	22,601	$	11,663	$	7,917
Commercial real estate		5,126		5,700		14,111		4,507		3,427
Commercial real estate - purchased whole loans		-		-		-		-		-
Real estate construction		541		2,322		4,111		5,190		2,226
Commercial		105		67		434		504		254
Warehouse lines of credit		-		-		-		-		-
Home equity		4,041		2,444		3,142		2,296		1,683
Consumer:										
Credit cards		53		61		54		95		-
Overdrafts		129		158		155		130		-
Other consumer		139		144		246		380		940
Total past due loans	$	24,433	$	26,927	$	44,854	$	24,765	$	16,447

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

Table 22 – Delinquent Loans to Total Loans by Loan Type (1)

December 31,	2011		2010		2009		2008		2007	
Residential real estate	1.32	%	1.53	%	2.06	%	1.06	%	0.68	%
Commercial real estate	0.80	%	0.89	%	2.20	%	0.69	%	0.52	%

Commercial real estate - purchased whole loans	0.00	%	0.00	%	0.00	%	0.00	%	0.00	%
Real estate construction	0.80	%	3.38	%	4.95	%	5.22	%	1.36	%
Commercial	0.09	%	0.06	%	0.42	%	0.45	%	0.28	%
Warehouse lines of credit	0.00	%	0.00	%	0.00	%	0.00	%	0.00	%
Home equity	1.44	%	0.84	%	0.99	%	0.73	%	0.60	%
Consumer:										
Credit cards	0.62	%	0.74	%	0.67	%	1.42	%	0.00	%
Overdrafts	13.58	%	17.54	%	7.73	%	4.65	%	0.00	%
Other consumer	1.40	%	1.10	%	1.81	%	1.78	%	3.27	%
Total past due loans to total loans	1.07	%	1.24	%	1.98	%	1.07	%	0.69	%

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

Impaired Loans and TDRs

The Bank defines impaired loans as follows:

- All loans internally classified as “substandard,” “doubtful” or “loss” (including TDRs),
- All loans internally classified as “special mention” on non-accrual status (including TDRs);
- All non-classified retail and commercial loan TDRs; and
- Any other situation where the collection of total amount due for a loan is improbable or otherwise meets the definition of impaired.

The Bank’s policy is to charge off all or that portion of its investment in an impaired loan upon a determination that it is probable the full amount will not be collected. Impaired loans totaled $77 million at December 31, 2011 compared to $51 million at December 31, 2010. The majority of the increase in impaired loans in 2011 related to TDR maturity extensions.

A TDR is the situation where, due to a borrower’s financial difficulties, the Bank grants a concession to the borrower that the Bank would not otherwise have considered. The majority of the Bank’s TDRs involve a restructuring of loan terms such as a temporary reduction in the payment amount to require only interest and escrow (if required) and/or extending the maturity date of the loan. Non-accrual loans modified as TDRs remain on non-accrual status and continue to be reported as non-performing loans. Accruing loans modified as TDRs are evaluated for non-accrual status based on a current evaluation of the borrower’s financial condition and ability and willingness to service the modified debt. As of December 31, 2011, the Bank had $67 million in TDRs, of which $6 million were on non-accrual status. As of December 31, 2010, the Bank had $39 million in TDRs, of which $5 million were on non-accrual status.

The composition of the Bank’s impaired loans follows:

Table 23 – Impaired Loan Composition

December 31, (in thousands)	2011	2010
Troubled debt restructurings	$ 67,022	$ 38,660
Classifed loans (which are not TDRs)	10,171	12,632
Total impaired loans	$ 77,193	$ 51,292

See Footnote 3 “Loans and Allowance for Loan Losses” of Part II Item 8 “Financial Statements and Supplementary Data” for additional discussion regarding impaired loans and TDRs.

OREO

Table 24 – Rollforward of OREO Activity

December 31, (in thousands)	2011	2010	2009
OREO at beginning of year	$ 11,973	$ 4,772	$ 5,737
Transfer from loans to OREO	11,300	17,802	7,332
OREO sold	(11,400)	(9,474)	(6,286)
Writedowns	(917)	(1,127)	(2,011)

OREO at end of year	$	10,956	$	11,973	$	4,772

At December 31, 2011 approximately $4.8 million of the OREO balance was concentrated in the residential real estate category, with $2.0 million and $4.1 million related to commercial real estate and real estate construction, respectively. Approximately $2.6 million of the ending OREO balance was concentrated in one land development property located in Kentucky. The Bank currently has a contract on this property, which it expects to finalize during the second quarter of 2012. The final sale is contingent upon the buyer's due diligence of the property and the buyer being able to obtain desired zoning.

Deposits

Total Company deposits decreased $569 million from December 31, 2010 to $1.7 billion at December 31, 2011. Total Company interest-bearing deposits decreased $652 million, or 33%. Excluding interest-bearing deposits associated with TRS, interest-bearing deposits decreased $90 million, or 6%, during 2011. Total Company non interest-bearing deposits increased $83 million, or 26%, from December 31, 2010 to December 31, 2011.

As mentioned above, the decline in interest-bearing accounts was heavily concentrated in the brokered certificates deposit category and related to TRS. Total Company brokered certificates of deposit decreased $600 million, or 87%, during 2011 to $88 million at December 31, 2011. RB&T did not acquire any brokered certificates of deposits during the fourth quarter of 2011 to be utilized in the first quarter of 2012 to fund RALs. During the fourth quarter of 2010, RB&T acquired approximately $562 million in brokered certificates of deposits to fund RALs for first quarter of 2011. These deposits had a weighted average cost of 0.42% with an average life of three months.

Total demand (NOW and SuperNOW) accounts increased $225 million, or 75%, during 2011, while money market accounts declined $204 million, or 32%, during the same period. Approximately $195 million of the change between categories occurred during the third quarter and was directly related to provisions within the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Act”). The Act removed the prohibition on payments of interest on demand accounts as of July 21, 2011, and based on this, the substantial majority of the Bank’s corporate money market relationships were converted into transactional NOW accounts.

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

Approximately $26 million of the increase within the non interest-bearing category was from one large commercial relationship, which had a $50 million certificate of deposit mature during the year. This client deposited all of the funds from its matured certificate of deposit into its non interest-bearing operating account for a brief period of time until it moved $33 million out of the Bank prior to the end of the second quarter. The remaining increase within the non interest-bearing category was primarily from growth in the Bank’s treasury management transaction account base, in which some of the Bank’s corporate clients moved their deposits into non interest-bearing accounts in order to take advantage of the current unlimited FDIC insurance guaranty. This unlimited guaranty by the FDIC is currently set to expire on December 31, 2012. Management believes that the expiration of the unlimited FDIC insurance guaranty will have a negative impact on the Bank’s non interest-bearing deposit balances, however, at this time, management can not precisely predict how large an impact it may be.

See section titled “TRS Funding – First Quarter 2012 Tax Season” under Part I Item 1 “Business” for additional discussion of the Company’s funding plans for the first quarter 2012 tax season.

For additional discussion regarding TRS, see the following sections:

Part I Item 1 “Business”
Part I Item 1A “Risk Factors”
Part II Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations:”

- o “Critical Accounting Policies and Estimates”
- o “Recent Developments”
- o “Overview”
- o “Results of Operations”
- o “Financial Condition”

Part II Item 8 “Financial Statements and Supplementary Data:”

- o Footnote 1 “Summary of Significant Accounting Policies”
- o Footnote 3 “Loans and Allowance for Loan Losses”
- o Footnote 8 “Deposits”
- o Footnote 10 “FHLB Advances”
- o Footnote 18 “Off balance sheet risks, Commitments and Contingent Liabilities”
- o Footnote 21 “Segment Information”
- o Footnote 22 “Regulatory Matters”

Ending balances of all deposit categories follows:

Table 25 – Deposits

December 31, (in thousands)	2011	2010	2009	2008	2007
Demand (NOW and SuperNOW)	$523,708	$298,452	$245,502	$202,607	$197,949
Money market accounts	433,508	637,557	596,370	561,599	646,111
Brokered money market accounts	18,121	513	64,608	163,965	-
Savings	44,472	38,661	33,691	32,599	30,362
Individual retirement accounts*	31,201	34,129	34,651	38,142	37,865
Time deposits, $100,000 and over*	82,970	152,891	169,548	202,058	188,011
Other certificates of deposit*	103,230	127,156	135,171	221,179	217,670
Brokered certificates of deposit*	88,285	687,958	1,004,665	1,048,017	371,387
Total interest-bearing deposits	1,325,495	1,977,317	2,284,206	2,470,166	1,689,355
Total non interest-bearing deposits	408,483	325,375	318,275	273,203	279,457
Total deposits	$1,733,978	$2,302,692	$2,602,481	$2,743,369	$1,968,812

* - Represents a time deposit

Average balances of all deposits and the average rates paid on such deposits for the years indicated follows:

Table 26 – Average Deposits

	2011		2010		2009	
December 31, (dollars in thousands)	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Transaction accounts	$422,222	0.13 %	$302,958	0.19 %	$253,433	0.10 %
Money market accounts	628,178	0.31 %	636,963	0.45 %	581,220	0.55 %
Time deposits	254,064	1.60 %	329,970	1.75 %	389,635	2.65 %
Brokered money market	6,563	0.31 %	46,582	0.61 %	115,637	1.14 %
Brokered certificates of deposit	229,488	1.03 %	409,418	0.90 %	344,352	1.99 %
Total average interest-bearing deposits	1,540,515	0.58 %	1,725,891	0.76 %	1,684,277	1.30 %
Total average non interest-bearing deposits	509,457	-	421,162	-	381,655	-
Total average deposits	$2,049,972		$2,147,053		$2,065,932	

Maturities of time deposits of $100,000 or more outstanding, including brokered deposits, at December 31, 2011 follows:

Table 27 – Time Deposit Maturities Greater than $100,000

Maturity	(in thousands)

Three months or less	$	46,037
Over three months through six months		22,725
Over six months through 12 months		25,560
Over 12 months		76,817
Total time deposits greater than $100,000	$	171,139

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

Securities sold under agreements to repurchase and other short-term borrowings decreased $89 million, or 28%, during 2011. All of these accounts require security collateral on behalf of the Bank. The substantial majority of these accounts are indexed to immediately repricing indices such as the Fed Funds Target Rate. Based on the transactional nature of the Bank's treasury management accounts, repurchase agreement balances are subject to large fluctuations on a daily basis. Approximately $47 million of the decrease for 2011 was attributable to one large treasury management relationship which moved a substantial portion of its balances outside of the Bank. This client's primary operating account remained with the Bank. In addition, another large treasury management relationship withdrew approximately $34 million at the end of 2011, however the funds were redeposited in early January, 2012. Management is unsure how long these funds will remain with the Bank.

Information regarding Securities sold under agreements to repurchase follows:

Table 28 – Securities sold under agreements to repurchase

December 31, (dollars in thousands)		2011			2010			2009	
Outstanding balance at end of year	$	230,231		$	319,246		$	299,580	
Weighted average interest rate at year end		0.17	%		0.31	%		0.30	%
Average outstanding balance during the year	$	278,861		$	330,154		$	323,688	
Average interest rate during the year		0.23	%		0.31	%		0.33	%
Maximum outstanding at any month end	$	297,571		$	329,383		$	318,769	

Federal Home Loan Bank Advances

FHLB advances increased $370 million from December 31, 2010 to $935 million at December 31, 2011. During 2011, the Bank paid off approximately $75 million in maturing FHLB advances with excess cash that was being held at the FRB. During the fourth quarter of 2011, RB&T obtained $300 million in FHLB advances to partially fund the first quarter 2012 RAL program. These liabilities had a weighted average life of three months with a weighted average interest rate of 0.10%. In addition to the short-term borrowings obtained to fund TRS during the fourth quarter, the Bank also had $145 million of overnight borrowings from the FHLB as of December 31, 2011 at a rate of 0.04%. The Bank was utilizing these borrowings to fund its Traditional Bank assets.

As discussed in the non interest expense section of this filing, during the first quarter of 2010, the Bank prepaid $87 million in FHLB advances that were originally scheduled to mature between April 2010 and January 2011 and had a weighted average rate of 3.48%.

Approximately $120 million of the FHLB advances at December 31, 2011 were putable advances with original fixed rate periods ranging from one to five years and original maturities ranging from three to ten years if not put back to the Bank earlier by the FHLB. At the end of their respective fixed rate periods and on a quarterly basis thereafter, the FHLB has the right to require payoff of the advances by the Bank at no penalty. The weighted average coupon on all of the Bank's putable advances at December 31, 2011 was 4.36%. Based on market conditions at this time, the Bank does not believe that any of its putable advances are likely to be "put back" to the Bank in the short-term by the FHLB.

In addition to using FHLB advances as a funding source, the Bank also utilizes longer term FHLB advances as an interest rate risk management tool. Overall use of these advances during a given year are dependent upon many factors including asset growth, deposit growth, current earnings, and expectations of future interest rates, among others. With $145 million of overnight borrowings outstanding at December 31, 2011, management projects that it could replace

these overnight borrowings with new advances with longer maturities as soon as the second quarter of 2012 in order to mitigate the Bank's risk from a rise in future interest rates. Whether the Bank ultimately does so, and how much in advances it extends out, will be dependent upon circumstances at that time. If the Bank does obtain longer-term FHLB advances for interest rate risk mitigation, it will have a negative impact on then current earnings. The amount of the negative impact will be dependent upon the dollar amount, coupon and final maturity of the advances obtained.

See section titled “TRS Funding – First Quarter 2012 Tax Season” under Part I Item 1 “Business” for additional discussion of the Company’s funding plans for the first quarter 2012 tax season.

For additional discussion regarding TRS, see the following sections:

Part I Item 1 “Business”
Part I Item 1A “Risk Factors”
Part II Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations:”
o “Critical Accounting Policies and Estimates”
o “Recent Developments”
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o Footnote 1 “Summary of Significant Accounting Policies”
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o Footnote 8 “Deposits”
o Footnote 10 “FHLB Advances”
o Footnote 18 “Off balance sheet risks, Commitments and Contingent Liabilities”
o Footnote 21 “Segment Information”
o Footnote 22 “Regulatory Matters”

Liquidity

The Bank is significantly leveraged with a loan to deposit ratio (excluding brokered deposits) of 140% at December 31, 2011 and 134% at December 31, 2010. Historically, the Company has utilized secured and unsecured borrowing lines to supplement its funding requirements. At December 31, 2011 and December 31, 2010, the Bank had cash and cash equivalents on-hand of $363 million and $786 million. In addition, the Bank had available collateral to borrow an additional $38 million and $192 million, respectively from the FHLB at December 31, 2011 and 2010. In addition to its borrowing line with the FHLB, the Bank also had unsecured lines of credit totaling $196 million available through various other financial institutions as of December, 31 2011, while the holding company had available $20 million through its own borrowing line.

RB&T’s liquidity risk increases significantly during the first quarter of each year due to the RAL program. RB&T has committed to its electronic filer and tax-preparer base that it will make RALs available to their customers under the terms of its contracts with them. This requires RB&T to estimate liquidity, or funding needs for the RAL program, well in advance of the tax season. If management materially overestimates the need for funding during the tax season, a significant expense could be incurred without an offsetting revenue stream. If management materially underestimates its funding needs during the tax season, RB&T could experience a significant shortfall of cash needed to fund RALs and could potentially be required to stop or reduce its RAL originations.

During the fourth quarter of 2011, the Bank chose to utilize a portion of its traditional borrowing lines from the FHLB to partially fund RALS for the first quarter 2012 tax season at TRS. As a result, the Bank obtained $300 million of cash from the FHLB via advances with a 3-month life. In recent years the Bank has traditionally utilized brokered deposits for its RAL funding. The change in strategy for the first quarter 2012 tax season to partially fund RALs with FHLB advances was made due to the relatively low all-in cost of the advances as compared to brokered deposits, including the impact to the cost of FDIC insurance. The Bank plans to obtain additional funding for RALs during the first quarter of 2012 through brokered deposits with 30 to 60 day maturities.

The Bank maintains sufficient liquidity to fund routine loan demand and routine deposit withdrawal activity. Liquidity is managed by maintaining sufficient liquid assets in the form of investment securities. Funding and cash flows can also be realized by the sale of securities available for sale, principal paydowns on loans and MBSs and proceeds realized from loans held for sale. The Bank's liquidity is impacted by its ability to sell certain investment securities, which is limited due to the level of investment securities that are needed to secure public deposits, securities sold under agreements to repurchase, FHLB borrowings, and for other purposes, as required by law. At December 31, 2011 and December 31, 2010, these pledged investment securities had a fair value of $621 million and $430 million, respectively. Republic's banking centers and its website, www.republicbank.com, provide access to retail deposit markets. These retail deposit products, if offered at attractive rates, have historically been a source of additional funding when needed. If the Bank were to lose a significant funding source, such as a few major depositors, or if any of its lines of credit were canceled, or if the Bank cannot obtain brokered deposits, the Bank would be forced to offer market leading deposit interest rates to meet its funding and liquidity needs.

At December 31, 2011, the Bank had approximately $274 million from 38 large non-sweep deposit relationships where the individual relationship individually exceeded $2 million. These accounts do not require collateral; therefore, cash from these accounts can generally be utilized to fund the loan portfolio. The ten largest non-sweep deposit relationships represented approximately $177 million of the total balance. If any of these balances are moved from the Bank, the Bank would likely utilize overnight borrowing lines in the short-term to replace the balances. On a longer-term basis, the Bank would likely utilize brokered deposits to replace withdrawn balances. Based on past experience utilizing brokered deposits, the Bank believes it can quickly obtain brokered deposits if needed. The overall cost of gathering brokered deposits, however, could be substantially higher than the Traditional Bank deposits they replace, potentially decreasing the Bank's earnings.

For additional discussion regarding TRS, see the following sections:

Part I Item 1 "Business"
Part I Item 1A "Risk Factors"
Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations:"
o "Critical Accounting Policies and Estimates"
o "Recent Developments"
o "Overview"
o "Results of Operations"
o "Financial Condition"
Part II Item 8 "Financial Statements and Supplementary Data:"
o Footnote 1 "Summary of Significant Accounting Policies"
o Footnote 3 "Loans and Allowance for Loan Losses"
o Footnote 8 "Deposits"
o Footnote 10 "FHLB Advances"
o Footnote 18 "Off balance sheet risks, Commitments and Contingent Liabilities"
o Footnote 21 "Segment Information"
o Footnote 22 "Regulatory Matters"

The Parent Company's principal source of funds for dividend payments are dividends received from RB&T. Federal and state regulations limit the amount of dividends that may be paid to the Parent Company by the Bank without prior approval of the respective banking regulators. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years. At December 31, 2011, RB&T could, without prior approval, declare dividends of approximately $114 million.

Capital

Table 29 – Capital

Information pertaining to the Company's capital balances and ratios follows:

December 31, (dollars in thousands)		2011			2010			2009	
Stockholders' equity	$	452,367		$	371,376		$	316,020	
Book value per share at December 31,		21.59			17.74			15.19	
Tangible book value per share at December 31,		20.81			16.88			14.28	
Dividends declared per share - Class A Common Stock		0.605			0.561			0.517	
Dividends declared per share - Class B Common Stock		0.550			0.510			0.470	
Average stockholders' equity to average total assets		12.87	%		10.31	%		8.95	%

Total risk based capital	24.74	%	22.04	%	18.37	%
Tier 1 capital	23.59	%	20.89	%	17.25	%
Tier 1 leverage capital	14.77	%	12.05	%	10.52	%
Dividend payout ratio	13	%	18	%	25	%

Total stockholders’ equity increased from $371 million at December 31, 2010 to $452 million at December 31, 2011. The increase in stockholders’ equity was primarily attributable to net income earned during 2011 reduced by cash dividends declared. In addition, stockholders’ equity also increased to a lesser extent from stock option exercises during the period ended December 31, 2011.

During 2011, the Company purchased approximately 23,904 shares of common stock for $492,370, an average of $20.60 per share. During November of 2011, the Company's Board of Directors approved the repurchase of 300,000 shares from time-to-time if market conditions were deemed favorable to the Company. The repurchase program will remain effective until the number of shares authorized is repurchased or until Republic's Board of Directors terminates the program. As of December 31, 2011, the Company had 603,189 shares which could be repurchased under the current stock repurchase program.

See Part III, Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" for additional detail regarding stock repurchases and buyback programs.

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

Banking regulators have categorized the Bank as well-capitalized. To be categorized as well-capitalized, the Bank must maintain minimum Total Risk Based, Tier I Capital and Tier I Leverage Capital ratios. Regulatory agencies measure capital adequacy within a framework that makes capital requirements, in part, dependent on the individual risk profiles of financial institutions. Republic continues to exceed the regulatory requirements for Total Risk Based Capital, Tier I Capital and Tier I Leverage Capital. Republic and the Bank intend to maintain a capital position that meets or exceeds the "well-capitalized" requirements as defined by the FRB, FDIC and the OCC. Republic's average stockholders' equity to average assets ratio was 12.87% at December 31, 2011 compared to 10.31% at December 31, 2010. Formal measurements of the capital ratios for Republic and the Bank are performed by the Company at each quarter end.

In 2004, the Bank executed an intragroup trust preferred transaction, with the purpose of providing RB&T access to additional capital markets, if needed, in the future. The subordinated debentures held by RB&T, as a result of this transaction, however, are treated as Tier 2 Capital based on requirements administered by the Bank's federal banking agency. If RB&T's Tier I Capital ratios should not meet the minimum requirement to be well-capitalized, the Bank could immediately modify the transaction in order to maintain its well-capitalized status.

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

Off Balance Sheet Items

Summarized credit-related financial instruments, including both commitments to extend credit and letters of credit follows:

Table 30 – Off Balance Sheet Items

	Maturity by Period				
December 31, 2011 (in thousands)	Less than one year	Greater than one year to three years	Greater than three years to five years	Greater than five years	Total
Unused loan commitments	$204,457	$20,472	$33,606	$197,197	$455,732
Standby letters of credit	10,807	7,882	-	-	18,689
FHLB letters of credit	11,698	-	-	-	11,698

A portion of the unused commitments above are expected to expire or may not be fully used, therefore the total amount of commitments above does not necessarily indicate future cash requirements.

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 $19 million and $11 million at December 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 December 31, 2011, the Bank had $12 million in letters of credit from the FHLB issued on behalf of two RB&T clients. These letters of credit were used as credit enhancements for client bond offerings and reduced RB&T's available borrowing line at the FHLB. The Bank uses a blanket pledge of eligible real estate loans to secure these letters of credit.

Commitments to extend credit generally consist of unfunded lines of credit. These commitments generally have variable rates of interest.

Aggregate Contractual Obligations

In addition to owned banking facilities, the Bank has entered into long-term leasing arrangements to support the ongoing activities of the Company. The Bank also has required future payments for long-term and short-term debt as well as the maturity of time deposits. The required payments under such commitments follows:

Table 31 – Aggregate Contractual Obligations

	Maturity by Period				
December 31, 2011 (in thousands)	Less than one year	Greater than one year to three years	Greater than three years to five years	Greater than five years	Total
Time deposits (including brokered certificates of deposit)	$180,910	$80,301	$43,445	$1,030	$305,686
Federal Home Loan Bank advances	530,000	269,000	32,000	103,630	934,630
Subordinated note	-	-	-	41,240	41,240
Securities sold under agreements to repurchase	230,231	-	-	-	230,231
Lease commitments	7,372	12,489	8,020	10,812	38,693
Total contractual obligations	$948,513	$361,790	$83,465	$156,712	$1,550,480

FHLB advances represent the amounts that are due to the FHLB. Approximately $120 million of the advances, although fixed, are subject to conversion provisions at the option of the FHLB and can be prepaid without a penalty. Management believes these advances will not likely be converted in the short-term, and therefore has included the advances in their original maturity categories for purposes of this table.

See Footnote 11 “Subordinated Note” of Part II Item 8 “Financial Statements and Supplementary Data” for further information regarding the Bank’s subordinated note.

Securities sold under agreements to repurchase generally have indeterminate maturity periods and are predominantly included in the less than one year category above.

Lease commitments represent the total minimum lease payments under non-cancelable operating leases.

Asset/Liability Management and Market Risk

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

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

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

The Company did not run a model simulation for declining interest rates as of December 31, 2011 and December 31, 2010, because the Federal Open Market Committee effectively lowered the Fed Funds Target Rate between 0.00% to 0.25% in December 2008 and therefore, no further short-term rate reductions can occur. Overall, the indicated change in net interest income as of December 31, 2011 was substantially worse than the indicated change as of December 31, 2010 in an "up" interest rate scenario.

The reason for the deterioration in the Company's position in an "up" interest rate environment was primarily from the net growth in the securities and loan portfolios during 2011, as the assets contributing to this growth were generally redeployed from immediately repricing interest-earning cash balances into assets that had a repricing duration of greater than one year. Because the interest rate sensitivity model measures the impact of changing interest rates to net interest income for the next twelve month period, assets with a repricing duration of greater than one year will negatively impact net interest income in an "up" rate scenario. While this net growth negatively impacted the Company's interest rate risk position in a rising rate environment, it positively impacted the Company's current earnings, in the near-term, due to substantial increase in yield for the assets.

In addition to using FHLB advances as a funding source, the Bank also utilizes longer term FHLB advances as an interest rate risk management tool. Overall use of these advances during a given year are dependent upon many factors including asset growth, deposit growth, current earnings, and expectations of future interest rates, among others. With $145 million of overnight borrowings outstanding at December 31, 2011, management projects that it could replace these overnight borrowings with new advances with longer maturities as soon as the second quarter of 2012 in order to mitigate the Bank's risk from a rise in future interest rates. Whether the Bank ultimately does so, and how much in advances it extends out, will be dependent upon circumstances at that time. If the Bank does obtain longer term FHLB advances for interest rate risk mitigation, it will have a negative impact on then current earnings. The amount of the

negative impact will be dependent upon the dollar amount, coupon and final maturity of the advances obtained.

The following tables illustrate Republic's projected net interest income sensitivity profile based on the asset/liability model as of December 31, 2011 and 2010. The Company's interest rate sensitivity model does not include loan fees within interest income. In addition, management does not believe that the net interest income associated with TRS, which is substantially driven by RAL fee income, is interest rate sensitive. As a result, the following interest rate sensitivity analysis does not include the impact of the TRS segment. During 2011 and 2010, loan fees (including RAL fees) included in interest income were $62.3 million and $54.9 million, respectively.

Table 32 – Interest Rate Sensitivity for 2011 (excluding TRS)

(dollars in thousands)	Previous Twelve Months	Base	Increase in Rates 100 Basis Points	200 Basis Points	300 Basis Points
Projected interest income:					
Short-term investments	$-	$-	$-	$-	$-
Investment securities	16,924	13,979	16,344	18,275	19,963
Loans, excluding loan fees	115,425	112,394	120,066	128,426	137,479
Total interest income, excluding loan fees	132,349	126,373	136,410	146,701	157,442
Projected interest expense:					
Deposits	8,459	6,579	15,739	24,907	33,486
Securities sold under agreements to repurchase	645	507	2,737	4,967	7,196
Federal Home Loan Bank advances and other long-term borrowings	20,670	18,857	19,930	21,031	21,206
Total interest expense	29,774	25,943	38,406	50,905	61,888
Net interest income, excluding loan fees	$102,575	$100,430	$98,004	$95,796	$95,554
Change from base			$(2,426)	$(4,634)	$(4,876)
% Change from base			-2.42 %	-4.61 %	-4.86 %

Table 33 – Interest Rate Sensitivity for 2010 (excluding TRS)

(dollars in thousands)	Previous Twelve Months	Base	Increase in Rates 100 Basis Points	200 Basis Points	300 Basis Points
Projected interest income:					
Short-term investments	$610	$684	$3,395	$5,815	$5,566
Investment securities	15,734	11,844	15,197	18,029	20,798
Loans, excluding loan fees	121,528	114,485	118,868	124,644	131,610
Total interest income, excluding loan fees	137,872	127,013	137,460	148,488	157,974
Projected interest expense:					
Deposits	11,531	10,078	18,817	26,395	35,340
	1,072	778	3,887	6,997	10,115

Securities sold under agreements to repurchase					
Federal Home Loan Bank advances and other					
long-term borrowings	22,496	20,661	20,661	20,110	16,352
Total interest expense	35,099	31,517	43,365	53,502	61,807
Net interest income, excluding loan fees	$102,773	$95,496	$94,095	$94,986	$96,167
Change from base			$(1,401)	$(510)	$671
% Change from base			-1.47%	-0.53%	0.70%

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Non-GAAP Financial Measures

In addition to capital ratios defined by banking regulators, the Company considers various ratios when evaluating capital adequacy, including tangible common equity to tangible assets, and tangible common equity per share, all of which are non-GAAP measures. The Company believes these ratios are important because of their widespread use by investors as a means to evaluate capital adequacy, as they reflect the level of capital available to withstand unexpected market conditions. Because US GAAP does not include capital ratio measures, there are no US GAAP financial measures comparable to these ratios. The following table reconciles the Company's calculation of these measures to amounts reported under US GAAP.

Table 33- Non-GAAP Measures

December 31, (in thousands, except share and per share data)		2011			2010	
Total stockholders' equity (a)	$	452,367		$	371,376	
Less: Goodwill		10,168			10,168	
Less: Core deposit intangible		58			117	
Less: Mortgage servicing rights		6,087			7,800	
Tangible stockholders' equity (c)	$	436,054		$	353,291	
Total assets (b)	$	3,419,991		$	3,622,703	
Less: Goodwill		10,168			10,168	
Less: Core deposit intangible		58			117	
Less: Mortgage servicing rights		6,087			7,800	
Tangible assets (d)	$	3,403,678		$	3,604,618	
Total stockholders' equity to total assets (a/b)		13.23	%		10.25	%
Tangible stockholders' equity to tangible assets (c/d)		12.81	%		9.80	%
Number of shares outstanding (e)		20,952			20,935	
Book value per share (a/e)	$	21.59		$	17.74	
Tangible book value per share (c/e)		20.81			16.88	

Adoption of New Accounting Pronouncements

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

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

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

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

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

See the section titled “Asset/Liability Management and Market Risk” included under Part II Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Item 8. Financial Statements and Supplementary Data.

The following are included in this section:

Management’s Report on Internal Control Over Financial Reporting
Report of Independent Registered Public Accounting Firm
Consolidated balance sheets – December 31, 2011 and 2010
Consolidated statements of income and comprehensive income – years ended December 31, 2011, 2010 and 2009
Consolidated statements of stockholders’ equity – years ended December 31, 2011, 2010 and 2009
Consolidated statements of cash flows – years ended December 31, 2011, 2010 and 2009
Footnotes to consolidated financial statements

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Management of Republic Bancorp, Inc. (the "Company") is responsible for the preparation, integrity, and fair presentation of the Company's annual consolidated financial statements. All information has been prepared in accordance with U.S. generally accepted accounting principles and, as such, includes certain amounts that are based on Management's best estimates and judgments.

Management is responsible for establishing and maintaining adequate internal control over financial reporting presented in conformity with U.S. generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Two of the objectives of internal control are to provide reasonable assurance to Management and the Board of Directors that transactions are properly authorized and recorded in the Company's financial records, and that the preparation of the Company's financial statements and other financial reporting is done in accordance with U.S. generally accepted accounting principles. There are inherent limitations in the effectiveness of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to reliability of financial statements. Furthermore, internal control can vary with changes in circumstances.

Management has made its own assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2011, in relation to the criteria described in the report, Internal Control — Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on its assessment, Management concludes that as of December 31, 2011, the Company's internal control over financial reporting is effective based on those criteria.

Based on its assessment, Management believes that as of December 31, 2011, the Company's internal control was effective in achieving the objectives stated above. Crowe Horwath LLP has provided its report on the effectiveness of internal control in their report dated March 5, 2012.

Steven E. Trager
Chairman and Chief Executive Officer

Kevin Sipes
Chief Financial Officer and Chief Accounting Officer

March 5, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
of Republic Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Republic Bancorp, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2011. We also have audited Republic Bancorp, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Republic Bancorp, Inc.'s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Republic Bancorp, Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2011 in conformity with accounting

principles generally accepted in the United States of America. Also in our opinion, Republic Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Louisville, Kentucky
March 5, 2012

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, (in thousands, except share data)

	2011	2010
ASSETS		
Cash and cash equivalents	$362,971	$786,371
Securities available for sale	645,948	509,755
Securities to be held to maturity (fair value of $28,342 in 2011 and $33,824 in 2010)	28,074	32,939
Mortgage loans held for sale	4,392	15,228
Loans, net of allowance for loan losses of $24,063 and $23,079 (2011 and 2010)	2,261,232	2,152,161
Federal Home Loan Bank stock, at cost	25,980	26,212
Premises and equipment, net	34,681	37,770
Goodwill	10,168	10,168
Other assets and accrued interest receivable	46,545	52,099
TOTAL ASSETS	$3,419,991	$3,622,703
LIABILITIES		
Deposits		
Non interest-bearing	$408,483	$325,375
Interest-bearing	1,325,495	1,977,317
Total deposits	1,733,978	2,302,692
Securities sold under agreements to repurchase and other short-term borrowings	230,231	319,246
Federal Home Loan Bank advances	934,630	564,877
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	27,545	23,272
Total liabilities	2,967,624	3,251,327
Commitments and contingent liabilities (Footnote 18)	-	-
STOCKHOLDERS' EQUITY		
Preferred stock, no par value, 100,000 shares authorized		
Series A 8.5% non cumulative convertible, none issued	-	-
Class A Common Stock, no par value, 30,000,000 shares authorized, 18,651,519 shares (2011) and 18,628,051 shares (2010) issued and outstanding; Class B Common Stock, no par value, 5,000,000 shares authorized, 2,299,803 shares (2011) and 2,307,313 (2010) issued and outstanding	4,947	4,944
Additional paid in capital	131,482	129,327
Retained earnings	311,799	230,987
Accumulated other comprehensive income	4,139	6,118
Total stockholders' equity	452,367	371,376

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,419,991	$3,622,703

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, (in thousands, except per share data)

	2011	2010	2009
INTEREST INCOME:			
Loans, including fees	$177,715	$176,463	$192,023
Taxable investment securities	15,309	14,590	18,362
Tax exempt investment securities	-	11	23
Federal Home Loan Bank stock and other	2,091	2,409	2,197
Total interest income	195,115	193,473	212,605
INTEREST EXPENSE:			
Deposits	8,914	13,129	21,887
Securities sold under agreements to repurchase and other short-term borrowings	646	1,026	1,063
Federal Home Loan Bank advances	18,180	19,991	23,277
Subordinated note	2,515	2,515	2,515
Total interest expense	30,255	36,661	48,742
NET INTEREST INCOME	164,860	156,812	163,863
Provision for loan losses	17,966	19,714	33,975
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	146,894	137,098	129,888
NON INTEREST INCOME:			
Service charges on deposit accounts	14,105	15,562	19,156
Electronic refund check fees	88,195	58,789	25,289
Net RAL securitization income	207	265	514
Mortgage banking income	3,899	5,797	11,021
Debit card interchange fee income	5,791	5,067	5,114
Gain on sale of banking center	2,856	-	-
Gain on sale of securities available for sale	2,285	-	-
Total impairment losses on investment securities	(279)	(221)	(5,822)
Loss recognized in other comprehensive income	-	-	-
Net impairment loss recognized in earnings	(279)	(221)	(5,822)
Other	2,565	2,399	2,349
Total non interest income	119,624	87,658	57,621
NON INTEREST EXPENSES:			
Salaries and employee benefits	54,966	55,246	51,173
Occupancy and equipment, net	21,713	21,958	22,370
Communication and transportation	5,695	5,418	5,354
Marketing and development	3,237	10,813	13,146

FDIC insurance expense	4,425	3,155	4,993
Bank franchise tax expense	3,645	3,187	2,643
Data processing	3,207	2,697	3,017
Debit card interchange expense	2,239	1,741	3,096
Supplies	2,353	2,359	2,398
Other real estate owned expense	2,356	1,829	2,253
Charitable contributions	5,933	6,232	1,494
Legal expense	3,969	1,832	1,298
FDIC civil money penalty	900	-	-
FHLB advance prepayment penalty	-	1,531	-
Other	7,683	8,325	8,250
Total non interest expenses	122,321	126,323	121,485
INCOME BEFORE INCOME TAX EXPENSE	144,197	98,433	66,024
INCOME TAX EXPENSE	50,048	33,680	23,893
NET INCOME	$94,149	$64,753	$42,131

(continued)

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CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (continued)
YEARS ENDED DECEMBER 31, (in thousands, except per share data)

	2011	2010	2009
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Unrealized gain (loss) on securities available for sale, net of tax	$(262)	$(161)	$2,799
Other-than-temporary-impairment on available for sale securities recorded in other comprehensive income, net of tax	-	-	1,800
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	(50)	640	380
Realized amount on securities sold, net of tax	(1,486)	-	-
Reclassification adjustment for gains/losses realized in income, net of tax	(181)	(144)	1,984
Other comprehensive income	(1,979)	335	6,963
COMPREHENSIVE INCOME	$92,170	$65,088	$49,094
BASIC EARNINGS PER SHARE:			
Class A Common Stock	$4.50	$3.11	$2.04
Class B Common Stock	4.45	3.06	1.99
DILUTED EARNINGS PER SHARE:			
Class A Common Stock	$4.49	$3.10	$2.02
Class B Common Stock	4.44	3.04	1.98

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2011, 2010 and 2009

(in thousands, except per share data)	Common Stock Class A Shares Outstanding	Class B Shares Outstanding	Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, January 1, 2009	18,318	2,310	$ 4,878	$ 123,441	$ 146,983	$ 620	$ 275,922
Cumulative effect of change in accounting principle, adoption of FASB ASC 320	-	-	-	-	1,800	(1,800)	-
Net income	-	-	-	-	42,131	-	42,131
Change in unrealized losses on available for sale securities for which a portion of an other-than-temporary impairment has been recognized in earnings, net	-	-	-	-	-	380	380
Net change in accumulated other comprehensive income	-	-	-	-	-	6,583	6,583
Dividend declared Common Stock:							
Class A ($0.517 per share)	-	-	-	-	(9,543)	-	(9,543)
Class B ($0.470 per share)	-	-	-	-	(1,086)	-	(1,086)
Stock options exercised, net of shares redeemed	215	-	46	2,530	(701)	-	1,875
Repurchase of Class A Common Stock	(35)	-	(7)	(221)	(640)	-	(868)
Conversion of Class B Common Stock to Class A Common Stock	1	(1)	-	-	-	-	-

Notes receivable on Common Stock, net of cash payments	-	-	-	(249)	-	-	(249)
Deferred director compensation expense - Company Stock	-	-	-	152	-	-	152
Stock based compensation expense	-	-	-	723	-	-	723
Balance, December 31, 2009	18,499	2,309	$ 4,917	$ 126,376	$ 178,944	$ 5,783	$ 316,020

(continued)

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)

(in thousands, except per share data)	Common Stock Class A Shares Outstanding	Class B Shares Outstanding	Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, January 1, 2010	18,499	2,309	$ 4,917	$ 126,376	$ 178,944	$ 5,783	$ 316,020
Net income	-	-	-	-	64,753	-	64,753
Net change in accumulated other comprehensive income	-	-	-	-	-	335	335
Dividend declared Common Stock:							
Class A ($0.561 per share)	-	-	-	-	(10,422)	-	(10,422)
Class B ($0.510 per share)	-	-	-	-	(1,177)	-	(1,177)
Stock options exercised, net of shares redeemed	138	-	31	2,684	(831)	-	1,884
Repurchase of Class A Common Stock	(11)	-	(4)	(106)	(280)	-	(390)
Conversion of Class B Common Stock to Class A Common Stock	2	(2)	-	-	-	-	-
Notes receivable on Common Stock, net of cash payments	-	-	-	(345)	-	-	(345)
Deferred director compensation expense - Company Stock	-	-	-	151	-	-	151
Stock based compensation expense	-	-	-	567	-	-	567
Balance, December 31, 2010	18,628	2,307	$ 4,944	$ 129,327	$ 230,987	$ 6,118	$ 371,376

(continued)

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)

(in thousands, except per share data)	Common Stock Class A Shares Outstanding	Class B Shares Outstanding	Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, January 1, 2011	18,628	2,307	$ 4,944	$ 129,327	$ 230,987	$ 6,118	$ 371,376
Net income	-	-	-	-	94,149	-	94,149
Net change in accumulated other comprehensive income	-	-	-	-	-	(1,979)	(1,979)
Dividend declared Common Stock:							
Class A ($0.605 per share)	-	-	-	-	(11,280)	-	(11,280)
Class B ($0.550 per share)	-	-	-	-	(1,266)	-	(1,266)
Stock options exercised, net of shares redeemed	38	-	7	881	(450)	-	438
Repurchase of Class A Common Stock	(23)	-	(4)	(147)	(341)	-	(492)
Conversion of Class B Common Stock to Class A Common Stock	7	(7)	-	-	-	-	-
Notes receivable on Common Stock, net of cash payments	-	-	-	973	-	-	973
Deferred director compensation expense - Company Stock	2	-	-	171	-	-	171
Stock based compensation expense	-	-	-	277	-	-	277
Balance, December 31, 2011	18,652	2,300	$ 4,947	$ 131,482	$ 311,799	$ 4,139	$ 452,367

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
YEARS ENDED DECEMBER 31, (in thousands)

	2011	2010	2009
OPERATING ACTIVITIES:			
Net income	$ 94,149	$ 64,753	$ 42,131
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion, net	4,406	10,683	10,542
Provision for loan losses	17,966	19,714	33,975
Net gain on sale of mortgage loans held for sale	(4,091)	(5,989)	(11,332)
Origination of mortgage loans held for sale	(134,059)	(288,893)	(556,685)
Proceeds from sale of mortgage loans held for sale	148,986	285,099	573,870
Net realized impairment (recovery) of mortgage servicing rights	203	-	(1,255)
Increase in RAL securitization residual	(207)	(265)	(514)
Paydown of trading securities	207	265	514
Net realized (gain) loss on sales, calls and impairment of securities	(2,006)	221	5,822
Net gain on sale of other real estate owned	(444)	(203)	(20)
Writedowns of other real estate owned	917	1,127	2,011
Deferred director compensation expense - Company Stock	171	151	152
Stock based compensation expense	277	567	723
Net gain on sale of banking center	(2,856)	-	-
Net change in other assets and liabilities:			
Accrued interest receivable	(262)	577	3,203
Accrued interest payable	(646)	(511)	(3,704)
Other assets	1,665	7,926	(24,309)
Other liabilities	(772)	(5,988)	(3,046)
Net cash provided by operating activities	123,604	89,234	72,078
INVESTING ACTIVITIES:			
Purchases of securities available for sale	(598,495)	(611,521)	(616,047)
Purchases of securities to be held to maturity	(500)	(685)	(18,525)
Purchases of Federal Home Loan Bank stock	(46)	(26)	(1,166)
Proceeds from calls, maturities and paydowns of securities available for sale	310,331	524,423	1,057,950
Proceeds from calls, maturities and paydowns of securities to be held to maturity	5,402	18,669	18,373
Proceeds from sales of securities available for sale	161,652	-	-
Proceeds from sales of Federal Home Loan Bank stock	278	62	-
Proceeds from sales of other real estate owned	11,844	9,684	8,402
Net change in loans	(150,514)	55,335	2,116
Purchases of premises and equipment	(3,727)	(4,268)	(3,986)
Sale of banking center	(15,388)	-	-
Net cash (used in)/provided by investing activities	(279,163)	(8,327)	447,117
FINANCING ACTIVITIES:			

Net change in deposits	(536,792)	(299,789)	(140,888)
Net change in securities sold under agreements to repurchase and other short-term borrowings	(88,433)	19,666	(39,432)
Payments on Federal Home Loan Bank advances	(75,247)	(117,730)	(107,627)
Proceeds from Federal Home Loan Bank advances	445,000	45,000	230,000
Repurchase of Common Stock	(492)	(390)	(868)
Net proceeds from Common Stock options exercised	438	1,884	1,875
Cash dividends paid	(12,315)	(11,356)	(10,379)
Net cash used in financing activities	(267,841)	(362,715)	(67,319)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(423,400)	(281,808)	451,876
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	786,371	1,068,179	616,303
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 362,971	$ 786,371	$ 1,068,179

(continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
YEARS ENDED DECEMBER 31, (in thousands)

	2011	2010	2009
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION:			
Cash paid during the year for:			
Interest	$30,908	$37,172	$52,446
Income taxes	48,947	28,674	28,737
SUPPLEMENTAL NONCASH DISCLOSURES:			
Transfers from loans to real estate acquired in settlement of loans	$11,300	$17,798	$7,332
Loans provided for sales of other real estate owned	3,119	2,294	116

See accompanying footnotes to consolidated financial statements.

FOOTNOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation – 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 December 31, 2011, the Company was divided into three distinct segments: Traditional Banking, Mortgage Banking and Tax Refund Solutions.

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

As of December 31, 2011, Republic operated 42 banking centers, primarily in the retail banking industry, and conducted 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.

Effective January 27, 2012, RB&T assumed substantially all of the deposits and certain other liabilities and acquired certain assets of Tennessee Commerce Bank ("TCB"), headquartered in Franklin, Tennessee from the FDIC, as receiver for TCB. This acquisition represents a single banking center located in the Nashville MSA and represents RB&T's initial entrance into the Tennessee market.

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

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

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

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

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

RALs are short-term consumer loans offered to taxpayers that are secured by the customer's anticipated tax refund, which represents the source of repayment. Prior to 2011, RB&T historically underwrote the RAL application utilizing the Debt Indicator (the "DI") from the IRS in combination with an automated underwriting model utilizing information contained in the taxpayer's tax return. The DI, which indicates whether an individual taxpayer will have any portion of the refund offset for delinquent tax or other debts, such as unpaid child support or federally funded student loans, has historically been a meaningful underwriting component. In August 2010, the IRS announced that it would no longer provide tax preparers and associated financial institutions with the DI beginning with the first quarter 2011 tax season. In response to loss of access to the DI in 2011, RB&T significantly reduced the maximum RAL amount for individual customers, raised the RAL offering price to its customers and modified its underwriting and application requirements resulting in fewer RALs approved.

If a consumer's RAL application is approved, RB&T advances $1,500 of the taxpayer's refund. As part of the RAL application process, each taxpayer signs an agreement directing the applicable taxing authority to send the taxpayer's refund directly to RB&T. The refund received from the IRS or state taxing authority, if applicable, is used by RB&T to pay off the RAL. Any amount due the taxpayer above the amount of the RAL is remitted to the taxpayer once the refund is received by RB&T. The funds advanced by RB&T are generally repaid by the applicable taxing authority within two weeks. The fees earned on RALs are reported as interest income under the line item "Loans, including fees."

For additional discussion regarding TRS, see the following sections:

Part I Item 1A "Risk Factors"

Part II Item 8 "Financial Statements and Supplementary Data:"

- o Footnote 3 "Loans and Allowance for Loan Losses"
- o Footnote 8 "Deposits"
- o Footnote 10 "FHLB Advances"
- o Footnote 18 "Off balance sheet risks, Commitments and Contingent Liabilities"
- o Footnote 21 "Segment Information"
- o Footnote 22 "Regulatory Matters"

Subsequent Events –The Company has evaluated subsequent events for recognition or disclosure.

Use of Estimates – Financial statements prepared in conformity with U.S. generally accepted accounting principles require management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Material estimates relate to:

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

These estimates are particularly subject to change and actual results could differ from these estimates.

Significant Group Concentrations of Credit Risk – The Company does not have any significant concentrations of credit risk to any one industry or relationship. The Company's customers' ability to repay their loans is generally dependent on the real estate and general economic conditions within the Company's footprint.

Earnings Concentration – For 2011, 2010 and 2009, approximately 72%, 68% and 47% of total Company net income was derived from the TRS segment, which if terminated, would have a materially adverse impact on net income. Within the TRS segment, the Company generated 60%, 63% and 31% during 2011, 2010 and 2009 of its TRS gross revenue from its agreements with Jackson Hewitt Tax Service Inc. ("JH") and Liberty Tax Service ("Liberty").

Cash Flows – Cash and cash equivalents include cash, deposits with other financial institutions with original maturities less than 90 days and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest-bearing deposits in other financial institutions, repurchase agreements and income taxes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest-Bearing Deposits in Other Financial Institutions – Interest-bearing deposits in other financial institutions that mature within one year and are carried at cost.

Trust Assets – Property held for customers in fiduciary or agency capacities, other than trust cash on deposit at RB&T, is not included in the consolidated financial statements since such items are not assets of RB&T.

Securities – Debt securities are classified as held to maturity and carried at amortized cost when management has the positive
intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (“OTTI”) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. OTTI related to credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

In order to determine OTTI for purchased beneficial interests that, on the purchase date, were not highly rated, the Bank compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

Mortgage Banking Activities – Mortgage loans originated and intended for sale in the secondary market are carried at fair value, as determined by outstanding commitments from investors. Net gains and losses are recorded as component of mortgage banking income. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold. Substantially all of the gain or loss on the sale of loans are reported in earnings when loans are locked.

Commitments to fund mortgage loans (“interest rate lock commitments”) to be sold into the secondary market and non-exchange traded mandatory forward sales contracts (“forward contracts”) for the future delivery of these mortgage loans are accounted for as free standing derivatives. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the Bank enters in to the derivative. Generally, the Bank enters into forward contracts for the future delivery of mortgage loans when interest rate lock commitments are entered into, in order to hedge the change in interest rates resulting from its commitments to fund the loans. Changes in the fair values

of these mortgage derivatives are included in net gains on sales of loans, which is a component of Mortgage Banking income on the income statement.

Mortgage loans held for sale are generally sold with the mortgage servicing rights ("MSR") retained. When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. Amortization of MSRs are initially set at seven years and subsequently adjusted on a quarterly basis based on the weighted average remaining life of the underlying loans.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

MSRs are evaluated for impairment based upon the fair value of the MSRs as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Bank later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the valuation allowance may be recorded as an increase to income. Changes in valuation allowances are reported within Mortgage Banking income on the income statement. The fair values of MSRs are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

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 generally will decline due to higher expected prepayments within the portfolio. Alternatively, during a period of rising interest rates the fair value of MSRs generally will increase as prepayments on the underlying loans would be expected to decline. Based on the estimated fair value at December 31, 2011, management determined six of the 33 tranches within the MSR portfolio were impaired and booked impairment expense of $203,000 during 2011.

Loan servicing income is reported on the income statement as a component of Mortgage Banking income. Loan servicing income is recorded as loan payments are collected and includes servicing fees from investors and certain charges collected from borrowers. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of MSRs is netted against loan servicing fee income. Loan servicing income totaled $2.8 million, $3.1 million and $2.9 million for the years ended December 31, 2011, 2010 and 2009. Late fees and ancillary fees related to loan servicing are not material.

Loans – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of purchase premiums or discounts, deferred loan fees and costs and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level yield method without anticipating prepayments.

Interest income on mortgage and commercial loans is typically discontinued at the time the loan is 80 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Non-accrual loans and loans past due 80 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

All interest accrued but not received for loans placed on non-accrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured, typically a minimum of six months of performance. Consumer and credit card loans, exclusive of RALs, are not placed on non-accrual status, but are reviewed periodically and charged off when the loans reach 120 days past due or at any point the loan is deemed uncollectible. RALs undergo a review in March and those delinquent RALs deemed uncollectible are charged off against the allowance for loan losses. All remaining RALs are charged off at June 30th each year. Collections subsequent to June 30th each year are recorded as recoveries.

Concentration of Credit Risk - Most of the Company’s Traditional Banking business activity is with customers located in Kentucky, southern Indiana and Florida. Therefore, the Company’s Traditional Banking exposure to credit risk is significantly affected by changes in the economy in these areas.

Certain Purchased Loans - From time to time, the Company occasionally purchases whole loans and groups of whole loans. These purchased whole loans are recorded at the amount paid, such that there is no carryover of the seller’s allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses.

Such purchased loans are aggregated into pools of loans based on common risk characteristics such as, credit score, loan type, and date of origination. The Company estimates the amount and timing of expected cash flows for each purchased loan or pool, and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loans or pools contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Allowance for Loan Losses – The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific components relate to loans that are individually classified as impaired or loans otherwise classified as special mention, substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings ("TDRs") and classified as impaired.

More specifically, the Bank defines impaired loans as follows:

All loans internally classified as "substandard," "doubtful" or "loss" (including TDRs),
All loans internally classified as "special mention" on non-accrual status (including TDRs);
All non-classified retail and commercial loan TDRs; and
Any other situation where the collection of total amount due for a loan is improbable or otherwise meets the definition of impaired.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial real estate, commercial and construction loans over $1 million by evaluating either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement. TDRs are measured at the present value of estimated future cash flows using the loan's effective rate at inception, or using the fair value of the collateral if the loan is collateral dependent.

The general component of the allowance for loan losses covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by loan class and is based on the actual loss history experienced by the Bank. The average five year, four year, three year, two year and current year

loss rates are reviewed in the analysis, as well as comparisons to peer group loss rates. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions such as changed in real estate value; industry conditions; and effects of changes in credit concentrations. In addition, when qualitative factors, such as a general decline in home values, indicate an elevated risk of loss, management performs additional analysis on the portfolio segment, such as updating collateral values on a test basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A "portfolio segment" is defined as the level at which an entity develops and documents a systematic methodology to determine its allowance for loan losses. A "class" of loans represents further disaggregation of a portfolio segment based on risk characteristics and the entity's method for monitoring and assessing credit risk. In developing its allowance methodology, the Company has identified the following Traditional Banking portfolio segments and classes:

Portfolio Segment 1 – Loans where the allowance methodology is determined based on a loan grading system (primarily commercial and commercial related loans).

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

Portfolio Segment 2 - Loans where the allowance methodology is driven by delinquency and non accrual data (primarily mortgage or consumer related)

For this portfolio, the Bank analyzes risk classes based on delinquency and/or non accrual status.

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

See Footnote 3 "Loans and Allowance for Loan Losses" for additional discussion regarding the Company's Allowance for Loan Losses.

Transfers of Financial Assets – Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Other Real Estate Owned – Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Premises and Equipment, Net – Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed over the estimated useful lives of the related assets on the straight-line method. Estimated lives typically range from 25 to 39 years for buildings and improvements, three to ten years for furniture, fixtures and equipment and three to five years for leasehold improvements.

Federal Home Loan Bank Stock – The Bank is a member of the Federal Home Loan Bank ("FHLB") system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in

additional amounts. FHLB stock is carried at cost, classified as a restricted security and periodically evaluated for impairment. Because this stock is viewed as a long-term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are recorded as interest income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill and Other Intangible Assets – Goodwill resulting from business combinations prior to January 1, 2009 represent the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009 represents the future economic benefits arising from other assets acquired that are individually identified and separately recognized. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually.

The Bank has selected September 30th as the date to perform its annual goodwill impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the Bank's balance sheet.

Other intangible assets consist of core deposit and acquired customer relationship intangible assets arising from whole bank and branch acquisitions. They are initially measured at fair value and then are amortized on an accelerated method over their estimated useful lives, which range from 7 to 10 years.

Off Balance Sheet Financial Instruments – Financial instruments include off balance sheet credit instruments, such as commitments to fund loans and standby letters of credit. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded upon funding. Instruments such as standby letters of credit are considered financial guarantees and are recorded at fair value.

Derivatives – The Bank only utilizes derivative instruments as described in Footnote 5 "Mortgage Banking Activities" in this section of the filing.

Stock Based Compensation – Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. The Company utilized a Black-Scholes model to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards. Compensation expense is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Income Taxes – Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

Retirement Plans – 401(k) plan expense is recorded as a component of salaries and employee benefits and represents the amount of Company matching contributions.

Earnings Per Common Share – Basic earnings per share is based on net income (in the case of Class B Common Stock, less the dividend preference on Class A Common Stock), divided by the weighted average number of shares outstanding during the period. Diluted earnings per share includes the dilutive effect of additional potential common shares issuable under stock options. Earnings and dividends per share are restated for all stock dividends through the

date of issuance of the financial statements.

Comprehensive Income – Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale which are also recognized as a separate component of equity, net of tax.

Loss Contingencies – Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restrictions on Cash and Cash Equivalents – Republic is required by the Federal Reserve Bank ("FRB") to maintain average reserve balances. Cash and due from banks on the consolidated balance sheet includes $3 million and $52 million of required reserve balances at December 31, 2011 and 2010. The Bank does not earn interest on cash balances at its branches and within its Automated Teller Machines ("ATMs"). It does a earn a nominal interest rate for reserve balances maintained at the FRB.

Equity – Stock dividends in excess of 20% are reported by transferring the par value of the stock issued from retained earnings to common stock. Stock dividends for 20% or less are reported by transferring the fair value, as of the ex-dividend date, of the stock issued from retained earnings to common stock and additional paid in capital. Fractional share amounts are paid in cash with a reduction in retained earnings.

Dividend Restrictions – Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Fair Value of Financial Instruments – Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Segment Information – Segments represent parts of the Company evaluated by management with separate financial information. Republic's internal information is primarily reported and evaluated in three lines of business – Traditional Banking, Mortgage Banking and TRS.

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

2. INVESTMENT SECURITIES

Securities available for sale:

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

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

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

Mortgage backed Securities

At December 31, 2011, with the exception of the $4.5 million private label mortgage backed and other private label mortgage-related securities, all other mortgage backed securities held by the Bank were issued by U.S. government-sponsored entities and agencies, primarily Federal Home Loan Mortgage Corporation ("Freddie Mac" or "FHLMC") and Fannie Mae ("FNMA"), institutions which the government has affirmed its commitment to support. At December 31, 2011 and 2010, there were gross unrealized losses of $568,000 and $152,000 related to available for sale and held to maturity mortgage backed securities other than the private label mortgage backed and other private label mortgage-related securities. Because the decline in fair value of these mortgage backed securities is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these mortgage backed securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired.

As mentioned throughout this filing, the Bank's mortgage backed securities portfolio includes private label mortgage backed and other private label mortgage-related securities with a fair value of $4.5 million which had gross unrealized losses of approximately $1.3 million at December 31, 2011 and $1.4 million at December 31, 2010. As of December 31, 2011, the Bank believes there is no further credit loss component of OTTI in addition to that which has already

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

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2. INVESTMENT SECURITIES (continued)

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:

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

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

Sales of Securities Available for Sale

During 2011, the Bank recognized gross gains of $2.3 million and gross losses of $0 in earnings for sales of securities available for sale. Gross gains were recognized as follows in 2011:

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

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

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

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

During the fourth quarter of 2011, the Bank sold available for sale mortgage backed securities with an amortized cost of $1.5 million, resulting in a pre-tax gain of $77,000.

During 2010 and 2009, there were no sales of securities available for sale.

The tax provision related to the Bank's realized gains totaled $800,000, $0 and $0 for 2011, 2010 and 2009, respectively.

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2. INVESTMENT SECURITIES (continued)

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

	Securities available for sale		Securities to be held to maturity	
December 31, 2011 (in thousands)	Amortized Cost	Fair Value	Carrying Value	Fair Value
Due in one year or less	$ -	$ -	$ 190	$ 201
Due from one year to five years	142,090	142,662	4,043	4,040
Due from five years to ten years	9,995	10,012	-	-
Private label mortgage backed and other private label mortgage-related securities	5,818	4,542	-	-
Mortgage backed securities - residential	287,013	293,329	1,376	1,477
Collateralized mortgage obligations	194,663	195,403	22,465	22,624
Total securities	$ 639,579	$ 645,948	$ 28,074	$ 28,342

At December 31, 2011 and 2010, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

Market Loss Analysis

Securities with unrealized losses at December 31, 2011 and 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	
December 31, 2011 (in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and U.S. Government agencies	$ 60,547	$ (235)	$ -	$ -	$ 60,547	$ (235)
Private label mortgage backed and other private label mortgage-related securities	-	-	4,542	(1,276)	4,542	(1,276)
Mortgage backed securities - residential,						

including Collateralized mortgage obligations	136,775	(568)	-	-	136,775	(568)
Total	$ 197,322	$ (803)	$ 4,542	$ (1,276)	$ 201,864	$ (2,079)

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

2. INVESTMENT SECURITIES (continued)

At December 31, 2011, the Bank's security portfolio consisted of 154 securities, 26 of which were in an unrealized loss position. The majority of unrealized losses are related to the Bank's mortgage backed securities, as discussed in this section of the filing.

Other-than-temporary impairment ("OTTI")

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

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

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

Nationally, residential real estate values have declined significantly since 2007. These declines in value, coupled with the reduced ability of certain homeowners to refinance or repay their residential real estate obligations, have led to elevated delinquencies and losses in residential real estate loans. Many of these loans have previously been securitized and sold to investors as private label mortgage backed and other private label mortgage-related securities. As detailed in the table below, the Bank owns two private label mortgage backed securities and one private label mortgage-related security with a total carrying value of $5.8 million at December 31, 2011. For the three private label mortgage backed securities (Securities 1 through 3 in the table below), the Bank has recorded all projected losses through OTTI charges. The Bank has permanently written off a portion of the principal associated with these securities, as a portion of their losses were passed through by the servicer/trustee.

None of the Bank's private label mortgage backed and other private label mortgage-related securities are guaranteed by government agencies. Securities 1 through 2 in the table below are mostly backed by "Alternative A" first lien mortgage loans. Security 3 in the table below represents an asset backed security with an insurance "wrap" or guarantee. The average life of Security 3 is currently estimated to be four years. Due to current market conditions, all of these assets remain extremely illiquid, and as such, the Bank determined that these securities are Level 3 securities in accordance with FASB ASC topic 820, "Fair Value Measurements and Disclosures." Based on this determination, the Bank utilized an income valuation model (present value model) approach, in determining the fair value of these securities. This approach is beneficial for positions that are not traded in active markets or are subject to transfer restrictions, and/or

where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support for these investments. See Footnote 4, "Fair Value" for additional discussion.

2. INVESTMENT SECURITIES (continued)

The following table contains details regarding the Bank's private label mortgage backed and other private label mortgage-related securities as of December 31, 2011:

(in thousands)	Amortized Cost	Cumulative OTTI Credit Losses	Amortized Cost, Net of OTTI Reserves	Fair Value	Gross Unrealized Gains / (Losses)
Security 1	$ 476	$ (476)	$ -	$ -	$ -
Security 2	963	(963)	-	-	-
Security 3	7,834	(2,016)	5,818	4,542	(1,276)
Total private label securities	$ 9,273	$ (3,455)	$ 5,818	$ 4,542	$ (1,276)

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

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

Year ended December 31, (in thousands)	2011	2010	2009
Balance, beginning of year	$9,757	$17,266	$14,213
Reversal of interest reserve	(169)	-	-
Realized pass through of actual losses	(6,412)	(7,730)	-
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized	279	221	5,822
Increases to the amount related to the credit loss for which other-than-temporary impairment was previously recognized	-	-	(2,769)
Balance, end of year	$3,455	$9,757	$17,266

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

Pledged Investment Securities

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

December 31, (in thousands)	2011	2010
Carrying amount	$ 613,927	$ 420,999
Fair value	620,922	430,445

3. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the loan portfolio at period end follows:

December 31, (in thousands)	2011	2010
Residential real estate:		
Owner occupied	$ 985,735	$ 918,407
Non owner occupied	99,161	126,404
Commercial real estate	639,966	640,872
Commercial real estate - purchased whole loans	32,741	-
Real estate construction	67,406	68,701
Commercial	119,117	108,720
Warehouse lines of credit	41,496	-
Home Equity	280,235	289,945
Consumer:		
Credit cards	8,580	8,213
Overdrafts	950	901
Other consumer	9,908	13,077
Total loans	2,285,295	2,175,240
Less: Allowance for loan losses	24,063	23,079
Total loans, net	$ 2,261,232	$ 2,152,161

Banking Center Divestiture:

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

Credit Quality Indicators:

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

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

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

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

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

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

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

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

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

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

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

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

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

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

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

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

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

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

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

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

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

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

December 31, 2010 (in thousands)	Pass	Special Mention	Substandard	Doubtful/ Loss	Total Rated Loans
Residential real estate:					
Owner occupied	$ -	$ 1,017	$ 11,925	$ -	$ 12,942
Non owner occupied	-	3,288	1,095	-	4,383
Commercial real estate	592,957	33,802	14,113	-	640,872
Real estate construction	51,173	11,340	6,188	-	68,701
Commercial	103,489	4,807	424	-	108,720
Home equity	-	-	4,495	-	4,495
Consumer:					

Credit cards		-		-		-		-		-
Overdrafts		-		-		-		-		-
Other consumer		-		-		5		-		5
Total	$	747,619	$	54,254	$	38,245	$	-	$	840,118

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3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

Activity in the allowance for loan losses follows:

December 31, (in thousands)	2011	2010	2009
Allowance for loan losses at beginning year	$ 23,079	$ 22,879	$ 14,832
Charge offs - Traditional Banking	(7,309)	(12,505)	(8,662)
Charge offs - Tax Refund Solutions	(15,484)	(14,584)	(31,180)
Total charge offs	(22,793)	(27,089)	(39,842)
Recoveries - Traditional Banking	1,887	1,134	824
Recoveries - Tax Refund Solutions	3,924	6,441	13,090
Total recoveries	5,811	7,575	13,914
Net loan charge offs - Traditional Banking	(5,422)	(11,371)	(7,838)
Net loan charge offs - Tax Refund Solutions	(11,560)	(8,143)	(18,090)
Net loan charge offs	(16,982)	(19,514)	(25,928)
Provision for loan losses - Traditional Banking	6,406	11,571	15,885
Provision for loan losses - Tax Refund Solutions	11,560	8,143	18,090
Total provision for loan losses	17,966	19,714	33,975
Allowance for loan losses at end of year	$ 24,063	$ 23,079	$ 22,879

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

The following tables present the activity in the allowance for loan losses by portfolio class for the years ended December 31, 2011 and 2010:

December 31, 2011 (in thousands)	Residential Real Estate Owner Occupied	Residential Real Estate Non Owner Occupied	Commercial Real Estate	Commercial Real Estate - Purchased Whole Loans	Real Estate Construction	Commercial	Warehouse Lines of Credit
Beginning balance	$ 3,775	$ 1,507	$ 7,214	$ -	$ 2,612	$ 1,347	$ -
Provision for loan losses	3,314	273	1,334	-	1,038	(350)	104
Loans charged off	(2,116)	(644)	(1,125)	-	(845)	(100)	-
Recoveries	239	6	301	-	237	128	-
Ending balance	$ 5,212	$ 1,142	$ 7,724	$ -	$ 3,042	$ 1,025	$ 104

(continued) December 31, 2011 (in thousands)	Home Equity	Tax Refund Solutions	Credit Cards	Consumer Overdrafts	Other Consumer	Unallocated	Total
Beginning balance	$ 3,581	$ -	$ 492	$ 125	$ 461	$ 1,965	$ 23,079
Provision for loan losses	523	11,560	220	182	(232)	-	17,966
Loans charged off	(1,279)	(15,484)	(241)	(678)	(281)	-	(22,793)
Recoveries	159	3,924	32	506	279	-	5,811
Ending balance	$ 2,984	$ -	$ 503	$ 135	$ 227	$ 1,965	$ 24,063

December 31, 2010 (in thousands)	Residential Real Estate Owner Occupied	Residential Real Estate Non Owner Occupied	Commercial Real Estate	Real Estate Construction	Commercial	Home Equity	Tax Refund Solutions
Beginning balance	$ 3,757	$ 1,179	$ 9,180	$ 2,434	$ 1,473	$ 1,823	$ -
Provision for loan losses	2,510	778	2,832	1,191	32	3,546	8,143
Loans charged off	(2,562)	(450)	(4,846)	(1,261)	(207)	(1,811)	(14,584)
Recoveries	70	-	48	248	49	23	6,441

Ending balance	$ 3,775	$ 1,507	$ 7,214	$ 2,612	$ 1,347	$ 3,581	$ -

(continued) December 31, 2011 (in thousands)	Credit Cards	Consumer Overdrafts	Other Consumer	Unallocated	Total
Beginning balance	$ 451	$ 178	$ 439	$ 1,965	$ 22,879
Provision for loan losses	(185)	782	85	-	19,714
Loans charged off	(158)	(854)	(356)	-	(27,089)
Recoveries	384	19	293	-	7,575
Ending balance	$ 492	$ 125	$ 461	$ 1,965	$ 23,079

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3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

The Bank has certain classes of loans that are considered to be "subprime" strictly due to the credit score of the borrower at the time of origination. These loans totaled approximately $93 million at December 31, 2011, approximately $22 million of these loans were originated for CRA purposes. Management does not consider these loans to possess significantly higher credit risk due to other underwriting qualifications.

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

December 31, (dollars in thousands)		2011		2010		2009
Loans on non-accrual status (1)	$	23,306	$	28,317	$	43,136
Loans past due 90 days or more and still on accrual		-		-		8
Total non-performing loans		23,306		28,317		43,144
Other real estate owned		10,956		11,969		4,772
Total non-performing assets	$	34,262	$	40,286	$	47,916

	2011		2010		2009	
Credit Quality Ratios - Total Company						
Non-performing loans to total loans	1.02	%	1.30	%	1.90	%
Non-performing assets to total loans (including OREO)	1.49	%	1.84	%	2.11	%
Non-performing assets to total assets	1.00	%	1.11	%	1.22	%
Credit Quality Ratios - Traditional Banking Segment						
Non-performing loans to total loans	1.02	%	1.30	%	1.90	%
Non-performing assets to total loans (including OREO)	1.49	%	1.84	%	2.11	%
Non-performing assets to total assets	1.10	%	1.32	%	1.60	%

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

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

	Non-Accrual Loans			Loans Past Due 90 Days or More and Still Accruing Interest		
December 31, (in thousands)	2011	2010	2009	2011	2010	2009
Residential real estate:						
Owner occupied	$12,183	$13,356	$12,607	$-	$-	$-
Non owner occupied	1,565	1,880	2,225			
Commercial real estate	3,032	6,265	16,850	-	-	-
Commercial real estate -				-	-	-
purchased whole loans	-	-	-	-	-	-
Real estate construction	2,521	3,682	9,500	-	-	-

Commercial	373	323	647	-	-	-
Warehouse lines of credit	-	-	-	-	-	-
Home equity	3,603	2,734	1,244	-	-	-
Consumer:						
Credit cards	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
Other consumer	29	77	63	-	-	8
Total	$23,306	$28,317	$43,136	$-	$-	$8

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

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

December 31, 2011 (in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Loans Past Due	Total Loans Not Past Due	Total Loans
Residential real estate:						
Owner occupied	$ 4,275	$ 1,850	$ 7,083	$ 13,208	$ 972,527	$ 985,735
Non owner occupied	51	71	969	1,091	98,070	99,161
Commercial real estate	2,094	-	3,032	5,126	634,840	639,966
Commercial real estate - purchased whole loans	-	-	-	-	32,741	32,741
Real estate construction	-	-	541	541	66,865	67,406
Commercial	-	16	89	105	119,012	119,117
Warehouse lines of credit	-	-	-	-	41,496	41,496
Home equity	582	773	2,686	4,041	276,194	280,235
Consumer:						
Credit cards	40	13	-	53	8,527	8,580
Overdrafts	129	-	-	129	821	950
Other consumer	60	79	-	139	9,769	9,908
Total past due loans	$ 7,231	$ 2,802	$ 14,400	$ 24,433	$ 2,260,862	$ 2,285,295

December 31, 2010 (in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Loans Past Due	Total Loans Not Past Due	Total Loans
Residential real Estate:						
Owner occupied	$ 4,540	$ 1,049	$ 9,425	$ 15,014	$ 903,393	$ 918,407
Non owner occupied	185	95	737	1,017	125,387	126,404
Commercial real estate	1,323	-	4,377	5,700	635,172	640,872
Real estate construction	71	333	1,918	2,322	66,379	68,701
Commercial	3	26	38	67	108,653	108,720
Home equity	1,097	518	829	2,444	287,501	289,945
Consumer:						-
Credit cards	57	4	-	61	8,152	8,213
Overdrafts	158	-	-	158	743	901

Other consumer	108	32	4	144	12,933	13,077
Total past due loans	$ 7,542	$ 2,057	$ 17,328	$ 26,927	$ 2,148,313	$ 2,175,240

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

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3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

The Bank considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, the Bank also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following tables presents the recorded investment in residential and consumer loans based on payment activity as of December 31, 2011 and 2010:

	Residential Real Estate			Consumer		
December 31, 2011 (in thousands)	Owner Occupied	Non Owner Occupied	Home Equity	Credit Cards	Overdrafts	Other Consumer
Performing	$973,552	$97,626	$276,632	$8,580	$950	$9,879
Non performing	12,183	1,565	3,603	-	-	29
Total	$985,735	$99,191	$280,235	$8,580	$950	$9,908

	Residential Real Estate			Consumer		
December 31, 2010 (in thousands)	Owner Occupied	Non Owner Occupied	Home Equity	Credit Cards	Overdrafts	Other Consumer
Performing	$905,051	$124,524	$287,211	$8,213	$901	$13,000
Non performing	13,356	1,880	2,734	-	-	77
Total	$918,407	$126,404	$289,945	$8,213	$901	$13,077

The Bank defines impaired loans as follows:

- All loans internally classified as “substandard,” “doubtful” or “loss” (including TDRs),
- All loans internally classified as “special mention” on non-accrual status (including TDRs);
- All non-classified retail and commercial loan TDRs; and
- Any other situation where the collection of total amount due for a loan is improbable or otherwise meets the definition of impaired.

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

Information regarding the Bank’s impaired loans follows:

As of and for the years ended December 31, (in thousands)	2011	2010	2009
Loans with no allocated allowance for loan losses	$ 32,171	$ 16,308	$ 10,995
Loans with allocated allowance for loan losses	45,022	34,984	37,851
Total impaired loans	$ 77,193	$ 51,292	$ 48,846
Amount of the allowance for loan losses allocated	$ 7,086	$ 4,620	$ 4,718
Average of individually impaired loans during the year	59,711	50,135	35,930

Interest income recognized during impairment	1,464	1,635	1,013
Cash basis interest income recognized	-	52	267

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

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio class based on impairment method as of December 31, 2011 and 2010:

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

(continued)	Home	Credit	Consumer	Other

December 31, 2011 (in thousands)	Equity	Cards	Overdrafts	Consumer	Unallocated	Total
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 982	$ -	$ -	$ -	$ -	$ 7,086
Collectively evaluated for impairment	2,002	503	135	227	1,965	16,977
Acquired with deteriorated credit quality	-	-	-	-	-	-
Total ending allowance for loan losses	$ 2,984	$ 503	$ 135	$ 227	$ 1,965	$ 24,063
Loans:						
Loans individually evaluated for impairment	$ 3,107	$ -	$ -	$ -	$ -	$ 77,193
Loans collectively evaluated for impairment	277,128	8,580	950	9,908	-	2,208,102
Loans acquired with deteriorated credit quality	-	-	-	-	-	-
Total ending loan balance	$ 280,235	$ 8,580	$ 950	$ 9,908	$ -	$ 2,285,295

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

December 31, 2010 (in thousands)	Residential Real Estate Owner Occupied	Non Owner Occupied	Commercial Real Estate	Real Estate Construction	Commercial
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 102	$ 602	$ 2,049	$ 1,320	$ 547
Collectively evaluated for impairment	3,672	905	5,165	1,292	800
Acquired with deteriorated credit quality	-	-	-	-	-
Total ending allowance for loan losses	$ 3,774	$ 1,507	$ 7,214	$ 2,612	$ 1,347
Loans:					
Loans individually evaluated for impairment	$ 11,975	$ 2,614	$ 25,003	$ 6,613	$ 5,087
Loans collectively evaluated for impairment	906,432	123,790	615,869	62,088	103,633
Loans acquired with deteriorated credit quality	-	-	-	-	-
Total ending loan balance	$ 918,407	$ 126,404	$ 640,872	$ 68,701	$ 108,720

(continued)

December 31, 2010 (in thousands)	Home Equity	Credit Cards	Consumer Overdrafts	Other Consumer	Unallocated	Total
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 4,620
Collectively evaluated for impairment	3,581	492	126	461	1,965	18,459
Acquired with deteriorated credit quality	-	-	-	-	-	-
Total ending allowance for loan losses	$ 3,581	$ 492	$ 126	$ 461	$ 1,965	$ 23,079

Loans:						
Loans individually evaluated for impairment	$-	$-	$-	$ -	$-	$51,292
Loans collectively evaluated for impairment	289,945	8,213	901	13,077	-	2,123,948
Loans acquired with deteriorated credit quality	-	-	-	-	-	-
Total ending loan balance	$289,945	$8,213	$901	$ 13,077	$-	$2,175,240

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3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

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

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

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	$10,906	$10,906	$-
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	1,069	1,069	102
Non owner occupied	2,348	2,218	602
Commercial real estate	23,999	23,429	2,049
Real estate construction	5,317	4,394	1,320
Commercial	3,874	3,874	547
Home equity	-	-	-
Consumer:			
Credit cards	-	-	-
Overdrafts	-	-	-
Other consumer	-	-	-
Total impaired loans	53,611	51,292	4,620

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

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

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

Management determines whether to classify a TDR as non-performing based on its accrual status prior to modification. Non-accrual loans modified as TDRs remain on non-accrual status and continue to be reported as non-performing loans. Accruing loans modified as TDRs are evaluated for non-accrual status based on a current evaluation of the borrower's financial condition and ability and willingness to service the modified debt. At December 31, 2011 and December 31, 2010, $6 million and $5 million, of TDRs were classified as non-performing loans.

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

December 31, 2011 (in thousands)	Troubled Debt Restructurings on Non-Accrual Status	Troubled Debt Restructurings on Accrual Status	Total Troubled Debt Restructurings
Residential real estate	$ 2,573	$ 24,557	$ 27,130
Commercial real estate	1,294	22,246	23,540
Real estate construction	2,521	9,598	12,119
Commercial	-	4,233	4,233
Total troubled debt restructurings	$ 6,388	$ 60,634	$ 67,022

December 31, 2010 (in thousands)	Troubled Debt Restructurings on Non-Accrual Status	Troubled Debt Restructurings on Accrual Status	Total Troubled Debt Restructurings
Residential real estate	$ 1,416	$ 11,984	$ 13,400
Commercial real estate	2,704	14,036	16,740
Real estate construction	1,180	3,059	4,239
Commercial	-	4,281	4,281
Total troubled debt restructurings	$ 5,300	$ 33,360	$ 38,660

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

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

A summary of the types of TDR loan modifications outstanding and respective performance under modified terms at December 31, 2011 and 2010 follows:

December 31, 2011 (in thousands)	Troubled Debt Restructurings Performing to Modified Terms	Troubled Debt Restructurings Not Performing to Modified Terms	Total Troubled Debt Restructurings
Residential real estate loans (including home equity loans):			
Interest only payments for 6-24 months	$ 5,990	$ 373	$ 6,363
Rate reduction	13,037	2,690	15,727
Forbearance for 3-6 months	-	-	-
First modification extension	849	728	1,577
Subsequent modification extension	3,358	105	3,463
Total residential TDRs	23,234	3,896	27,130
Commercial related and construction loans:			
Interest only payments for 6-24 months	9,643	1,752	11,395
Rate reduction	1,221	624	1,845
Forbearance for 3-6 months	160	855	1,015
First modification extension	15,526	541	16,067
Subsequent modification extension	9,535	35	9,570
Total commercial TDRs	36,085	3,807	39,892
Total troubled debt restructurings	$ 59,319	$ 7,703	$ 67,022

December 31, 2010 (in thousands)	Troubled Debt Restructurings Performing to Modified Terms	Troubled Debt Restructurings Not Performing to Modified Terms	Total Troubled Debt Restructurings
Residential real estate loans (inlcuding home equity loans):			
Interest only payments for 6-12 months	$ 2,783	$ -	$ 2,783
Rate reduction	8,835	549	9,384

Forbearance for 3-6 months	458	-	458
Extension or other modification	105	-	105
Total residential TDRs	12,181	549	12,730
Commercial related and construction loans:			
Interest only payments for 6 - 12 months	8,865	310	9,175
Interest only payments for 36 months	4,208	-	4,208
Rate reduction	3,315	-	3,315
Forbearance for 3-6 months	3,813	855	4,668
Extension or other modification	3,879	685	4,564
Total commercial TDRs	24,080	1,850	25,930
Total troubled debt restructurings	$ 36,261	$ 2,399	$ 38,660

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

As of December 31, 2011 and 2010, 89% and 94% of the Bank's TDRs were performing according to their modified terms. The Bank had allocated $5.1 million and $2.9 million of specific reserves to customers whose loan terms have been modified in TDRs as of December 31, 2011 and 2010. Specific reserve allocations are generally assessed prior to loans being modified as a TDR, as most of these loans migrate from the Bank's internal watch list and have been specifically provided for or reserved for as part of the Bank's normal loan loss provisioning methodology. The Bank has not committed to lend any additional material amounts to its existing TDR relationships at December 31, 2011.

A summary of the types of TDR loan modifications that occurred during the twelve months ended December 31, 2011 follows:

December 31, 2011 (in thousands)		Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings
Residential real estate loans (including home equity loans):						
Interest only payments for 6-24 months	$	5,352	$	-	$	5,352
Rate reduction		8,185		1,319		9,504
Forbearance for 3-6 months		-		-		-
First modification extension		849		584		1,433
Subsequent modification extension		3,358		105		3,463
Total residential TDRs		17,744		2,008		19,752
Commercial related and construction loans:						
Interest only payments for 6 - 12 months		5,969		1,752		7,721
Rate reduction		418		624		1,042
Forbearance for 3-6 months		-		-		-
First modification extension		13,332		-		13,332
Subsequent modification extension		9,535		35		9,570
Total commercial TDRs		29,254		2,411		31,665
Total troubled debt restructurings	$	46,998	$	4,419	$	51,417

As of December 31, 2011, 94% of the Bank's TDRs that occurred during 2011 were performing according to their modified terms. The Bank had allocated $4.5 million in specific reserves to customers whose loan terms were modified in TDRs during 2011. As stated above, specific reserves are generally assessed prior to loans being modified as a TDR, as most of these loans migrate from the Bank's internal watch list and have been specifically reserved for as part of the Bank's normal reserving methodology.

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ending December 31, 2011:

Troubled Debt Restructurings: ($'s in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate:			
Owner occupied	78	$ 18,577	$ 18,577
Non owner occupied	5	922	922
Commercial real estate	28	16,200	16,200
Commercial real estate -		-	-
purchased whole loans	-	-	-
Real estate construction	10	11,243	11,243
Commercial	3	4,222	4,222
Warehouse lines of credit	-	-	-
Home equity	2	253	253
Total	126	$ 51,417	$ 51,417

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ending December 31, 2011:

Troubled Debt Restructurings That Subsequently Defaulted: ($'s in thousands)	Number of Loans	Recorded Investment
Residential real estate:		
Owner occupied	13	$ 1,903
Non owner occupied	-	
Commercial real estate	5	2,005
Commercial real estate -		-
purchased whole loans	-	-
Real estate construction	-	-
Commercial	-	-
Warehouse lines of credit	-	-
Home equity	1	105
Consumer:		
Credit cards	-	-
Overdrafts	-	-
Other consumer	-	-
Total	19	$ 4,013

3. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

The following table details RAL originations and RAL losses for the years ended December 31, 2011, 2010 and 2009:

Year Ended December 31, (in thousands)	2011	2010	2009
RAL Originations:			
RALs originated and retained on balance sheet	$1,038,862	$3,011,607	$2,472,708
RAL Losses:			
Losses for RALs retained, net	$11,560	$8,143	$18,090

RAL Loss Reserves and Provision for Loan Losses:

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

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

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

While underwriting for RALs involves several individual components, the DI has historically represented a meaningful part of the overall underwriting for the product. Without the DI, as expected, RB&T experienced a higher provision for loan losses as a percentage of RALs originated during 2011 as compared to 2010. Due to the elimination of the DI, more of RB&T's RAL losses in 2011 resulted from refunds being retained by the IRS to satisfy eligible state or federal delinquent debts as compared to prior years when the vast majority of its RAL losses were the result of revenue protection strategies by the IRS.

As of December 31, 2011 and 2010, $14.3 million and $10.8 million of total RALs originated remained uncollected, representing 1.38% and 0.36% of total gross RALs originated during the respective tax years by RB&T. Substantially all of these loans were charged off as of June 30, 2011 and 2010, respectively.

For additional discussion regarding TRS, see the following sections:

Part I Item 1A “Risk Factors”

Part II Item 8 “Financial Statements and Supplementary Data:”

- o Footnote 3 “Loans and Allowance for Loan Losses”
- o Footnote 8 “Deposits”
- o Footnote 10 “FHLB Advances”
- o Footnote 18 “Off balance sheet risks, Commitments and Contingent Liabilities”
- o Footnote 21 “Segment Information”
- o Footnote 22 “Regulatory Matters”

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4. FAIR VALUE

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

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

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

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

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

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

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

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

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

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

Impaired Loans: 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: 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.

4. FAIR VALUE (continued)

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

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

	Fair Value Measurements at December 31, 2011 Using:			
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Securities available for sale:				
U.S. Treasury securities and U.S. Government agencies	$ -	$ 152,674	$ -	$ 152,674
Private label mortgage backed and other private label mortgage-related securities	-	-	4,542	4,542
Mortgage backed securities - residential	-	293,329	-	293,329
Collateralized mortgage obligations	-	195,403	-	195,403
Total securities available for sale	$ -	$ 641,406	$ 4,542	$ 645,948
Mandatory forward contracts	$ -	$ 20,394	$ -	$ 20,394
Rate lock loan commitments	-	15,639	-	15,639
Mortgage loans held for sale	-	4,392	-	4,392
Mortgage servicing rights	-	3,412	-	3,412

	Fair Value Measurements at December 31, 2010 Using:		
	Quoted Prices in Active Markets	Significant Other	Significant

(in thousands)	for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Securities available for sale:				
U.S. Treasury securities and U.S. Government agencies	$ -	$ 120,297	$ -	$ 120,297
Private label mortgage backed and other private label mortgage-related securities	-	-	5,124	5,124
Mortgage backed securities - residential	-	158,677	-	158,677
Collateralized mortgage obligations	-	225,657	-	225,657
Total securities available for sale	$ -	$ 504,631	$ 5,124	$ 509,755
Mandatory forward contracts	$ -	$ 25,868	$ -	$ 25,868
Rate lock loan commitments	-	10,894	-	10,894
Mortgage loans held for sale	-	15,228	-	15,228

There were no transfers between Level 1 and Level 2 assets during the years ended December 31, 2011, 2010 and 2009.

4. FAIR VALUE (continued)

The table below presents a reconciliation the Bank's private label mortgage backed and other private label mortgage-related securities. This is the only asset that is measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods ended December 31, 2011, 2010 and 2009:

Years Ended December 31, (in thousands)	2011	2010	2009
Balance, beginning of year	$ 5,124	$ 5,901	$ 14,678
Total gains or losses included in earnings:			
Net impairment loss recognized in earnings	(279)	(221)	(5,822)
Net change in unrealized gain/(loss)	6,671	8,470	584
Realized pass through of actual losses	(6,412)	(7,730)	-
Principal paydowns	(562)	(1,296)	(3,539)
Balance, end of year	$ 4,542	$ 5,124	$ 5,901

There were no transfers into or out of Level 3 assets during the years ended December 31, 2011, 2010 and 2009.

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

		Fair Value Measurements at December 31, 2011 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	$ 967	$ -	$ -	$ 885	$ 885
Non owner occupied	887	-	-	705	705
Commercial real estate	4,924	-	-	4,520	4,520
Real estate construction	430	-	-	285	285
Commercial	260	-	-	60	60
Home equity	2,703	-	-	1,721	1,721
Total impaired loans *	$ 10,171	$ -	$ -	$ 8,176	$ 8,176

Other real estate owned:

Residential real estate:										
Owner occupied	$	4,337	$	-	$	-	$	4,337	$	4,337
Non owner occupied		417		-		-		417		417
Commercial real estate		2,030		-		-		2,030		2,030
Real estate construction		4,172		-		-		4,172		4,172
Total other real estate owned	$	10,956	$	-	$	-	$	10,956	$	10,956

4. FAIR VALUE (continued)

(in thousands)	Carrying Value	Fair Value Measurements at December 31, 2010 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Impaired loans:					
Residential real estate:					
Owner occupied	$ 330	$ -	$ -	$ 235	$ 235
Non owner occupied	859	-	-	669	669
Commercial real estate	8,550	-	-	7,703	7,703
Real estate construction	2,511	-	-	2,226	2,226
Commercial	382	-	-	82	82
Total impaired loans *	$ 12,632	$ -	$ -	$ 10,915	$ 10,915
Other real estate owned:					
Residential real estate:					
Owner occupied	$ 2,832	$ -	$ -	$ 2,832	$ 2,832
Non owner occupied	1,101	-	-	1,101	1,101
Commercial real estate	3,735	-	-	3,735	3,735
Real estate construction	4,301	-	-	4,301	4,301
Total other real estate owned	$ 11,969	$ -	$ -	$ 11,969	$ 11,969

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

The following section details impairment charges recognized during the period:

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

Years Ended December 31, (in thousands)	2011	2010	2009
Net impairment loss recognized in earnings	$ 279	$ 221	$ 5,822

See Footnote 2 “Investment Securities” for additional detail.

Collateral dependent impaired loans are generally measured for impairment using the fair market value for reasonable disposition of the underlying collateral. The Bank’s practice is to obtain new or updated appraisals on the loans subject to the initial impairment review and then to evaluated the need for an update to this value on an as necessary or possibly annual basis thereafter (depending on the market conditions impacting the value of the collateral). The Bank may discount the appraisal amount as necessary for selling costs and past due real estate taxes. If a new or updated appraisal is not available at the time of a loan’s impairment review, the Bank may apply a discount to the existing value of an old appraisal to reflect the property’s current estimated value if it is believed to have deteriorated in either: (i) the physical or economic aspects of the subject property or (ii) material changes in market conditions. The results of the impairment review results in an increase in the allowance for loan loss or in a partial charge-off of the loan, if warranted. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

4. FAIR VALUE (continued)

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:

December 31, (in thousands)	2011	2010
Carrying amount of loans with a valuation allowance	$ 5,551	$ 9,580
Valuation allowance	1,994	1,717

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 December 31, 2011 and 2010, the carrying value of other real estate owned was $11 million and $12 million, respectively. The fair value of the Bank's other real estate owned properties exceeded their carrying value at December 31, 2011 and 2010.

Detail of other real estate owned write downs follows:

December 31, (in thousands)	2011	2010	2009
Other real estate owned writedowns	$ 917	$ 1,127	$ 2,011

Mortgage servicing rights ("MSR"s) are carried at lower of cost or fair value. The Bank recorded a $203,000 in MSR impairment expense during 2011 and had a $203,000 valuation allowance at December 31, 2011.

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

	December 31, 2011		December 31, 2011	
(in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	$ 362,971	$ 362,971	$ 786,371	$ 786,371
Securities available for sale	645,948	645,948	509,755	509,755
Securities to be held to maturity	28,074	28,342	32,939	33,824
Mortgage loans held for sale	4,392	4,392	15,228	15,228
Loans, net	2,261,232	2,305,208	2,152,161	2,209,717
Federal Home Loan Bank stock	25,980	25,980	26,212	26,212
Accrued interest receivable	9,679	9,679	9,472	9,472
Liabilities:				
Non interest-bearing deposits	408,483	408,483	325,375	325,375
Transaction deposits	1,428,292	1,428,292	975,183	975,183
Time deposits	305,686	308,049	1,002,134	1,004,511
Securities sold under agreements to repurchase and other short-term borrowings	230,231	230,231	319,246	319,246

Federal Home Loan Bank advances	934,630	960,671	564,877	586,737
Subordinated note	41,240	41,158	41,240	41,150
Accrued interest payable	1,724	1,724	2,377	2,377

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4. FAIR VALUE (continued)

The methods and assumptions used to estimate the fair value of all previously undisclosed financial instruments are described as follows:

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

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2011 and 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.

5. MORTGAGE BANKING ACTIVITIES

Activity for mortgage loans held for sale was as follows:

December 31, (in thousands)		2011		2010
Balance, beginning of year	$	15,228	$	5,445
Origination of mortgage loans held for sale		134,059		288,893
Proceeds from the sale of mortgage loans held for sale		(148,986)		(285,099)
Net gain on sale of mortgage loans held for sale		4,091		5,989
Balance, end of year	$	4,392	$	15,228

Mortgage loans serviced for others are not reported as assets. The Bank serviced loans for others (primarily FHLMC) totaling $1.0 billion and $1.2 billion at December 31, 2011 and 2010. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and processing foreclosures. Custodial escrow account balances maintained in connection with serviced loans were approximately $11 million and $14 million at December 31, 2011 and 2010.

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

December 31, (in thousands)		2011		2010		2009
Net gain on sale of mortgage loans held for sale	$	4,091	$	5,989	$	11,332
Change in mortgage servicing rights valuation allowance		(203)		-		1,255
Loan servicing income, net of amortization		11		(192)		(1,566)
Total Mortgage Banking income	$	3,899	$	5,797	$	11,021

Net loan servicing income above consists of loan servicing income of $2,828,000, $3,076,000 and $2,900,000 for the years ended December 31, 2011, 2010 and 2009 net of amortization of $2,817,000, $3,268,000 and $4,466,000 for the same periods, respectively.

Activity for capitalized mortgage servicing rights was as follows:

December 31, (in thousands)		2011		2010		2009
Balance, beginning of year	$	7,800	$	8,430	$	5,809
Additions		1,307		2,639		5,833
Amortized to expense		(2,817)		(3,269)		(4,467)
Change in valuation allowance		(203)		-		1,255
Balance, end of year	$	6,087	$	7,800	$	8,430

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

December 31, (in thousands)	2011	2010	2009

Balance, beginning of year	$ -	$ -	$ (1,255)
Additions to expense	(203)	-	-
Reductions credited to operations	-	-	1,255
Direct write downs	-	-	-
Balance, end of year	$ (203)	$ -	$ -

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5. MORTGAGE BANKING ACTIVITIES (continued)

Other information relating to mortgage servicing rights follows:

December 31, (in thousands)	2011	2010
Fair value of mortgage servicing rights portfolio	$ 7,120	$ 9,967
Discount rate	9 %	9 %
Prepayment speed range	221% - 550 %	137% - 550 %
Weighted average default rate	1.50 %	1.50 %

The weighted average estimated remaining life of the MSR portfolio is approximately five years. Estimated future amortization expense of the MSR portfolio (gross of the impairment charge) follows; however, actual amortization expense will be impacted by loan payoffs and changes in estimated lives that occur during each respective year:

Year	(in thousands)
2012	$ 1,760
2013	1,681
2014	1,556
2015	827
2016	309
2017	117
2018	40
Total	$ 6,290

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

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

December 31, (in thousands)	2011	2010
Mandatory forward contracts:		
Notional amount	$ 20,490	$ 25,591
Change in fair value of mandatory forward contracts	(96)	277
Rate lock loan commitments:		
Notional amount	$ 15,623	$ 11,091
Change in fair value of rate lock loan commitments	16	(197)

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5. MORTGAGE BANKING ACTIVITIES (continued)

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

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

6. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment follows:

December 31, (in thousands)		2011		2010
Land	$	4,841	$	4,841
Buildings and improvements		25,959		27,384
Furniture, fixtures and equipment		36,221		38,838
Leasehold improvements		12,030		11,738
Construction in progress		-		-
Total premises and equipment		79,051		82,801
Less: Accumulated depreciation and amortization		44,370		45,031
Premises and equipment, net	$	34,681	$	37,770

In May 2011, RB&T, entered into a definitive agreement to sell its banking center located in Bowling Green, Kentucky to Citizens. This transaction was closed on September 30, 2011. As part of the transaction, Citizens acquired all of the fixed assets of the Bowling Green banking center, or approximately $1.1 million.

During 2009, the Bank transferred $2.1 million from land to OREO, as management modified its intent to develop a banking center on land acquired during the GulfStream Community Bank purchase. The Bank recorded OREO writedowns of $41,000, $373,000 and $1.3 million related to this property during the years ended December 31, 2011, 2010 and 2009, respectively.

Depreciation expense related to premises and equipment follows:

December 31, (in thousands)	2011	2010	2009
Depreciation expense	$ 5,738	$ 5,877	$ 5,395

7. GOODWILL AND INTANGIBLE ASSETS

The change in balance for goodwill follows:

December 31, (in thousands)	2011	2010
Beginning of year	$ 10,168	$ 10,168
Acquired goodwill	-	-
Impairment	-	-
End of year	$ 10,168	$ 10,168

The Goodwill balance relates entirely to the Traditional Banking segment.

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At September 30, 2011, the Company's traditional bank reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the carrying value of the reporting unit did not exceed its fair value. Therefore, the Company did not complete the two-step impairment test.

Detail of core deposit intangibles follows:

	2011		2010	
Years ended December 31, (in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposit intangibles	$ 601	$ 543	$ 601	$ 484

Aggregate core deposit intangible amortization expense follows:

December 31, (in thousands)	2011	2010	2009
Aggregate core deposit intangible amortization expense	$59	$79	$101

Estimated future core deposit amortization expense is as follows:

Year	(in thousands)
2012	$ 37
2013	21

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8. DEPOSITS

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

December 31, (in thousands)	2011	2010
Demand (NOW and SuperNOW)	$ 523,708	$ 298,452
Money market accounts	433,508	637,557
Brokered money market accounts	18,121	513
Savings	44,472	38,661
Individual retirement accounts*	31,201	34,129
Time deposits, $100,000 and over*	82,970	152,891
Other certificates of deposit*	103,230	127,156
Brokered certificates of deposit*	88,285	687,958
Total interest-bearing deposits	1,325,495	1,977,317
Total non interest-bearing deposits	408,483	325,375
Total deposits	$ 1,733,978	$ 2,302,692

(*) - Represents a time deposit.

Time deposits of $100,000 or more, including brokered certificates of deposit, were $171 million and $819 million at December 31, 2011 and 2010.

At December 31, 2011, the scheduled maturities of all time deposits, including brokered certificates of deposit were as follows:

Year	(in thousands)
2012	$ 180,910
2013	55,313
2014	24,988
2015	29,180
2016	14,265
Thereafter	1,030
Total	$ 305,686

Total Company deposits decreased $569 million from December 31, 2010 to $1.7 billion at December 31, 2011. Total Company interest-bearing deposits decreased $652 million, or 33%. Excluding interest-bearing deposits associated with TRS, interest-bearing deposits decreased $90 million, or 6% during 2011. Total Company non interest-bearing deposits increased $83 million, or 26%, from December 31, 2010 to December 31, 2011.

Total demand (NOW and SuperNOW) accounts increased $225 million during 2011, while money market accounts declined $204 million during the same period. Approximately $195 million of the change between categories occurred during the third quarter and was directly related to provisions within the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act"). As a result of this Act, which removed the prohibition on payments of interest on

demand accounts as of July 21, 2011, a substantial majority of the Bank's corporate money market relationships were converted into transactional NOW accounts.

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

8. DEPOSITS (continued)

During the fourth quarter of 2011, RB&T did not obtain brokered certificates of deposits in preparation for funding the first quarter 2012 RAL program. See Footnote 10 “FHLB Advances” for additional discussion.

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

During the first quarter of 2012, RB&T obtained $252 million in brokered certificates of deposit to partially fund the first quarter 2012 RAL program. These brokered certificates of deposit had a weighted average life of 44 days with a weighted average interest rate of 0.39%.

For additional discussion regarding TRS, see the following sections:

Part I Item 1A “Risk Factors”

Part II Item 8 “Financial Statements and Supplementary Data:”

o Footnote 1 “Summary of Significant Accounting Policies”
o Footnote 3 “Loans and Allowance for Loan Losses”
o Footnote 10 “FHLB Advances”
o Footnote 18 “Off balance sheet risks, Commitments and Contingent Liabilities”
o Footnote 21 “Segment Information”
o Footnote 22 “Regulatory Matters”

9. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase consist of short-term excess funds from correspondent banks, repurchase agreements and overnight liabilities to deposit customers arising from the Bank’s treasury management program. While comparable to deposits in their transactional nature, these overnight liabilities to customers are in the form of repurchase agreements. Repurchase agreements collateralized by securities are treated as financings; accordingly, the securities involved with the agreements are recorded as assets and are held by a safekeeping agent and the obligations to repurchase the securities are reflected as liabilities. All securities underlying the agreements are under the Bank’s control. Information regarding securities sold under agreements to repurchase follows:

December 31, (dollars in thousands)	2011		2010		2009	
Outstanding balance at end of year	$230,231		$319,246		$299,580	
Weighted average interest rate at year end	0.17	%	0.31	%	0.30	%
Average outstanding balance during the year	$278,861		$330,154		$323,688	
Average interest rate during the year	0.23	%	0.31	%	0.33	%
Maximum outstanding at any month end	$297,571		$329,383		$318,769	

At December 31, 2011, all securities sold under agreements to repurchase had overnight maturities.

10. FHLB ADVANCES

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

December 31, (in thousands)		2011		2010
Overnight FHLB borrowings with a interst rate of 0.04%	$	145,000	$	-
Fixed interest rate advances with a weighted average interest rate of 0.10% due through March, 2012		300,000		-
Fixed interest rate advances with a weighted average interest rate of 3.11% due through 2035		369,630		414,877
Putable fixed interest rate advances with a weighted average interest rate of 4.36% due through 2017(1)		120,000		150,000
Total FHLB advances	$	934,630	$	564,877

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

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

For additional discussion regarding TRS, see the following sections:

Part I Item 1A "Risk Factors"

Part II Item 8 "Financial Statements and Supplementary Data:"

- o Footnote 1 "Summary of Significant Accounting Policies"
- o Footnote 3 "Loans and Allowance for Loan Losses"
- o Footnote 8 "Deposits"
- o Footnote 18 "Off balance sheet risks, Commitments and Contingent Liabilities"
- o Footnote 21 "Segment Information"
- o Footnote 22 "Regulatory Matters"

During 2011, the Bank paid off approximately $75 million in maturing FHLB advances with excess cash that was being held at the FRB.

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

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At December 31, 2011, the Bank had available collateral to borrow an additional $38 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.

10. FHLB ADVANCES (continued)

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

Year		(in thousands)
2012	$	530,000
2013		91,000
2014		178,000
2015		10,000
2016		22,000
Thereafter		103,630
Total	$	934,630

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

December 31, (in thousands)		2011		2010
First lien, single family residential real estate	$	670,819	$	697,535
Home equity lines of credit		60,211		36,106
Multi-family commercial real estate		14,697		14,332

11. SUBORDINATED NOTE

In 2005, Republic Bancorp Capital Trust (“RBCT”), an unconsolidated trust subsidiary of Republic Bancorp, Inc., issued $40 million in Trust Preferred Securities (“TPS”). The Company is not considered the primary beneficiary of this Trust (variable interest entity), therefore the trust is not consolidated in the Company’s financial statements, but rather the subordinated debentures are shown as a liability. The TPS mature in September, 2035 and are redeemable at the Company’s option after ten years. The TPS pay a fixed interest rate for ten years and adjust with LIBOR + 1.42% thereafter. RBCT used the proceeds from the sale of the TPS to purchase $41.2 million of unsecured fixed/floating rate subordinated debentures. The subordinated debentures mature in whole in September, 2035 and are redeemable at the Company’s option after ten years. The subordinated debentures are currently treated as Tier 1 Capital for regulatory purposes and the related interest expense, currently payable quarterly at the annual rate of 6.015%, is included in the consolidated financial statements.

In 2004, the Company executed an intragroup trust preferred transaction through its subsidiary Republic Invest Co., with the purpose of providing RB&T access to additional capital markets, if needed. On a consolidated basis, this transaction had no impact to the capital levels and ratios of the Company. The subordinated debentures held by RB&T, as a result of this transaction, however, are treated as Tier 2 Capital based on requirements administered by RB&T’s federal banking agency. The Company could immediately modify the transaction to provide up to $24 million to RB&T in additional capital to assist in maintaining minimum well-capitalized regulatory ratios. These subordinated debentures mature in whole in March, 2034.

12. INCOME TAXES

Allocation of federal income tax between current and deferred portion is as follows:

Years Ended December 31, (in thousands)	2011	2010	2009
Current expense:			
Federal	$ 50,326	$ 27,702	$ 27,045
State	996	642	1,197
Deferred expense:			
Federal	(1,287)	5,167	(4,424)
State	13	169	75
Total	$ 50,048	$ 33,680	$ 23,893

Effective tax rates differ from federal statutory rate of 35% applied to income before income taxes due to the following:

Years Ended December 31,	2011	2010	2009
Federal statutory rate times financial statement income	35.00 %	35.00 %	35.00 %
Effect of:			
State taxes, net of federal benefit	0.46 %	0.54 %	1.24 %
General business tax credits	-0.69 %	-1.09 %	-1.34 %
Other, net	-0.06 %	-0.23 %	1.29 %
Effective tax rate	34.71 %	34.22 %	36.19 %

Year-end deferred tax assets and liabilities were due to the following:

Years Ended December 31, (in thousands)	2011	2010
Deferred tax assets:		
Allowance for loan losses	$ 7,787	$ 7,480
Accrued expenses	3,950	3,401
Net operating loss carryforward (1)	843	758
Other-than-temporary impairment	805	735
Total deferred tax assets	13,385	12,374
Deferred tax liabilities:		
Unrealized investment securities gains	$ (2,229)	$ (3,294)
Federal Home Loan Bank dividends	(4,216)	(4,230)
Depreciation	(159)	(117)
Deferred loan fees	(467)	(446)
Mortgage servicing rights	(2,228)	(2,772)
Other	(1,689)	(1,532)
Total deferred tax liabilities	(10,988)	(12,391)

Less: Valuation allowance		(1,040)		(965)
Net deferred tax asset	$	1,357	$	(982)

(1) The Company has a Kentucky net operating loss carry forward of $17 million which begins to expire in 2012 and a Florida net operating loss carryforward of $3 million which begins to expire in 2030. The Company maintains a valuation allowance as it does not anticipate generating taxable income in Kentucky or Florida to utilize these carry forwards prior to expiration.

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12. INCOME TAXES (continued)

Unrecognized Tax Benefits

The Company has not filed tax returns in certain jurisdictions where it has conducted limited lending activity but had no offices; therefore, the Company is open to examination for all years in which the lending activity has occurred. The Company adopted the provisions of FIN 48 on January 1, 2007 and recognized a liability for the amount of tax which would be due to those jurisdictions should it be determined that income tax filings were required. It is the Company's policy to recognize interest and penalties as a component of income tax expense related to its unrecognized tax benefits.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

December 31, (in thousands)		2011			2010	
Balance, beginning of year	$	473		$	377	
Additions based on tax related to the current year		148			124	
Additions for tax positions of prior years		50			14	
Reductions for tax positions of prior years		(56	)		(42	)
Reductions due to the statute of limitations		(109	)		-	
Settlements		-			-	
Balance, end of year	$	506		$	473	

Of the 2011 total, $330,000 represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

The total amount of interest and penalties recorded in the income statement was a benefit of $28,000 and $20,000 for the years ended December 31, 2011 and 2010. The Company had accrued approximately $138,000 and $167,000 for the payment of interest and penalties at December 31, 2011 and 2010.

The Company files income tax returns in the U.S. federal jurisdiction. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for all years prior to and including 2007.

13. 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. See Footnote 14, "Stockholders' Equity" of this section of the filing.

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:

Years Ended December 31, (in thousands, except per share data)	2011	2010	2009
Net income	$ 94,149	$ 64,753	$ 42,131
Weighted average shares outstanding	20,945	20,877	20,749
Effect of dilutive securities	48	83	135
Average shares outstanding including dilutive securities	20,993	20,960	20,884
Basic earnings per share:			
Class A Common Stock	$ 4.50	$ 3.11	$ 2.04
Class B Common Stock	4.45	3.06	1.99
Diluted earnings per share:			
Class A Common Stock	$ 4.49	$ 3.10	$ 2.02
Class B Common Stock	4.44	3.04	1.98

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

Years Ended December 31,	2011	2010	2009
Antidilutive stock options	585,720	623,140	650,553
Average antidilutive stock options	585,147	621,699	644,980

14. STOCKHOLDERS' EQUITY AND REGULATORY CAPITAL MATTERS

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.

Dividend Restrictions – The Parent Company's principal source of funds for dividend payments are dividends received from RB&T. Banking regulations limit the amount of dividends that may be paid to the Parent Company by the Bank without prior approval of the respective states' banking regulators. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years. At December 31, 2011, RB&T could, without prior approval, declare dividends of approximately $114 million. The Company does not plan to pay dividends from its Florida subsidiary, Republic Bank, in the foreseeable future.

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

Prompt corrective action regulations provide five classifications: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2011 and 2010, the most recent regulatory notifications categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

With regard to Republic Bank, the Qualified Thrift Lender ("QTL") test requires at least 65% of assets be maintained in housing-related loans and investments and other specified areas for nine out of the twelve calendar months each year. If this test is not met for at least nine out of twelve months, limits are placed on growth, branching, new investments, FHLB advances and dividends, or Republic Bank must convert to a commercial bank charter. Republic Bank met the requirements of the QTL test for 2011.

14. STOCKHOLDERS' EQUITY AND REGULATORY CAPITAL MATTERS (continued)

	Actual		Minimum Requirement for Capital Adequacy Purposes		Minimum Requirement to be Well Capitalized Under Prompt Corrective Action Provisions	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2011						
Total capital to risk weighted assets						
Republic Bancorp, Inc.	$ 501,188	24.74 %	$ 162,072	8 %	N/A	N/A
Republic Bank & Trust Co.	447,143	22.97	155,702	8	$ 194,627	10 %
Republic Bank	16,441	20.34	6,466	8	8,082	10
Tier 1 (core) capital to risk weighted assets						
Republic Bancorp, Inc.	478,003	23.59	81,036	4	N/A	N/A
Republic Bank & Trust Co.	401,529	20.63	77,851	4	116,776	6
Republic Bank	15,420	19.08	3,233	4	4,849	6
Tier 1 leverage capital to average assets						
Republic Bancorp, Inc.	478,003	14.77	129,852	4	N/A	N/A
Republic Bank & Trust Co.	401,529	12.78	125,652	4	157,065	5
Republic Bank	15,420	14.44	4,680	4	5,850	5

	Actual		Minimum Requirement for Capital Adequacy Purposes		Minimum Requirement to be Well Capitalized Under Prompt Corrective Action Provisions	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2010						
Total capital to risk weighted assets						
Republic Bancorp, Inc.	$ 415,992	22.04 %	$ 150,966	8 %	N/A	N/A

Republic Bank & Trust Co.	385,433	21.18	145,598	8	$ 181,998	10	%
Republic Bank	16,160	22.67	5,703	8	7,129	10	
Tier 1 (core) capital to risk weighted assets							
Republic Bancorp, Inc.	394,195	20.89	75,483	4	N/A	N/A	
Republic Bank & Trust Co.	341,077	18.74	72,799	4	109,199	6	
Republic Bank	15,269	21.42	2,851	4	4,277	6	
Tier 1 leverage capital to average assets							
Republic Bancorp, Inc.	394,195	12.05	131,328	4	N/A	N/A	
Republic Bank & Trust Co.	341,077	10.75	126,906	4	158,633	5	
Republic Bank	15,269	14.76	4,548	4	5,685	5	

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15. STOCK PLANS AND STOCK BASED COMPENSATION

At December 31, 2011, the Company had a stock option plan and a director deferred compensation plan. The stock option plan consists of the 2005 Stock Incentive Plan (“2005 Plan”).

The Company recorded stock option compensation expense as follows:

December 31, (in thousands)	2011	2010	2009
Stock option compensation expense	$ 277	$ 567	$ 723

Since the stock options are incentive stock options and there were no disqualifying dispositions, no tax benefit related to this expense was recognized. No stock options were modified during the years ended December 31, 2011, 2010 and 2009.

The 2005 Plan permits the grant of stock options and stock awards for up to 3,307,500 shares of common stock. The Company believes that such awards better align the interests of its employees with those of its shareholders. Options awards generally become fully exercisable at the end of five to six years of continued employment and must be exercised within one year from the date the options become exercisable. There were no Class B stock options outstanding during each of the periods presented. All stock options have an exercise price that is at least equal to the fair market value of the Company’s stock on the date the options were granted. All shares issued under the above mentioned plans came from authorized and unissued shares. Currently, the Company has a sufficient number of shares to satisfy expected share option exercises.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes based stock option valuation model. This model requires the input of subjective assumptions that will usually have a significant impact on the fair value estimate. Expected volatilities are based on historical volatility of Republic’s stock and other factors. Expected dividends are based on dividend trends and the market price of Republic’s stock price at grant. Republic uses historical data to estimate option exercises and employee terminations within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve at the time of grant.

The fair value of options granted was determined using the following weighted average assumptions as of grant date:

	2011	2010	2009
Risk-free interest rate	2.29 %	2.66 %	1.80 %
Expected dividend yield	2.59 %	2.65 %	2.56 %
Expected stock price volatility	30.88 %	30.40 %	28.57 %
Expected life of options (in years)	6	6	6
Estimated fair value per share	$ 5.56	$ 5.20	$ 4.17

A summary of the activity in the stock option plan for 2011 follows:

	Options Class A Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value

Outstanding, beginning of year	735,224	$	20.65			
Granted	5,000		22.52			
Exercised	(69,928	)	15.76			
Forfeited or expired	(78,020	)	19.59			
Outstanding, end of year	592,276	$	21.38	2.59	$	1,119,818
Fully vested and expected to vest	508,797	$	21.37	2.55	$	964,342
Exercisable (vested) at end of year	123,926	$	23.41	0.88	$	40,438

15. STOCK PLANS AND STOCK BASED COMPENSATION (continued)

Information related to the stock option plan during each year follows:

December 31, (in thousands)	2011	2010	2009
Intrinsic value of options exercised	$ 315	$ 1,455	$ 2,420
Cash received from options exercised, net of shares redeemed	438	1,884	1,875
Weighted average fair value of options granted	28	42	75

Non-executive officer employees had total loans outstanding of $893,000 and $1.6 million at December 31, 2011 and 2010 that were originated to fund stock option exercises.

Unrecognized stock option compensation expense related to unvested awards (net of estimated forfeitures) is estimated as follows:

Year	(in thousands)
2012	$ 793
2013	243
2014	110
2015	10
2016	3
Total	$ 1,159

In November 2004, the Company's Board of Directors approved a Non-Qualified Deferred Compensation Plan (the "Plan"). The Plan governs the deferral of board and committee fees of non-employee members of the Board of Directors. Members of the Board of Directors may defer up to 100% of their board and committee fees for a specified period ranging from two to five years. The value of the deferred director compensation account is deemed "invested" in Company stock and is immediately vested. On a quarterly basis, the Company reserves shares of Republic's stock within the Company's stock option plan for ultimate distribution to Directors at the end of the deferral period. The Plan has not and will not materially impact the Company, as director compensation expense has been and will continue to be recorded when incurred.

The following table presents information on director deferred compensation shares reserved for the periods shown:

	2011		2010		2009	
Years ended December 31,	Shares Deferred	Weighted Average Market Price at Date of Deferral	Shares Deferred	Weighted Average Market Price at Date of Deferral	Shares Deferred	Weighted Average Market Price at Date of Deferral
Balance, beginning of	37,842	$ 20.30	32,004	$ 20.19	24,603	$ 20.27

period								
Awarded	8,658		19.77	7,298		21.05	7,657		19.89
Released	(2,510)		20.42	(1,460)		21.73	(256)		17.36
Balance, end of period	43,990	$	20.19	37,842	$	20.30	32,004	$	20.19

Director deferred compensation has been expensed as follows:

Years Ended December 31, (in thousands)		2011		2010		2009
Director deferred compensation expense	$	171	$	151	$	152

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16. BENEFIT PLANS

Republic maintains a 401(k) plan for eligible employees who have been employed for at least 30-days and have reached the age of 21. During 2011, participants in the plan had the option to contribute from 1% to 100% of their annual eligible compensation up to the maximum allowed by the IRS. Effective January 1, 2012, participants in the plan will have the option to contribute from 1% to 75% of their annual eligible compensation up to the maximum allowed by the IRS. The Company matches 100% of participant contributions up to 1% and an additional 75% for participant contributions between 2% and 5% of each participant's annual eligible compensation. Participants are fully vested after two years of employment.

Republic's normal 401(k) matching contributions were $1.3 million for each of the years ended December 31, 2011, 2010 and 2009. Republic's contribution may increase if the Company achieves certain operating goals. The Company contributed a "bonus" 401(k) match payment of $420,000 in 2012, related to fiscal year 2011 based on attainment of income goals. The Company contributed a "bonus" 401(k) match payment of $406,000 in 2011, related to fiscal year 2010 based on attainment of income goals. There was no "bonus" 401(k) match payment in 2010 related to fiscal year 2009, as the Company failed to achieve its required income goals to pay the match during this period.

Republic maintains an Employee Stock Ownership Plan ("ESOP"). Effective December 31, 2008, all shares were allocated. Effective July 1, 2007, the Company ceased accepting new participants into the ESOP plan.

Years Ended December 31, ($ in thousands)	2011	2010	2009
Shares allocated to participants in the plan	274,742	296,533	312,776
Fair value of shares	$ 6,292	$ 7,043	$ 6,443

The Company maintained a death benefit for the former deceased Chairman of the Company, Bernard M. Trager, equal to three times the average annual compensation paid to Mr. Trager for the two years proceeding his death. Under the death benefit agreement, its beneficiary has 60 days from the date of Mr. Trager's death of February 10, 2012, to determine whether the payment of funds will be made over a three year period or in one lump sum present value payment. The payout under this agreement, which was fully accrued for in prior years, will be approximately $2 million.

17. TRANSACTIONS WITH RELATED PARTIES AND THEIR AFFILIATES

Republic leases office facilities under operating leases from Republic's from limited liability companies in which Republic's Chairman/Chief Executive Officer and President are partners. Rent expense for the years ended December 31, 2011, 2010 and 2009 under these leases was $3,158,000, $3,136,000 and $3,132,000. Total rent expense on all operating leases was $5.5 million, $5.4 million and $5.6 million for the years ended December 31, 2011, 2010 and 2009.

Total minimum lease commitments under non-cancelable operating leases are as follows:

(in thousands)	Affiliate	Other	Total
2012	$ 3,254	$ 4,278	$ 7,532
2013	3,325	3,362	6,687
2014	3,371	2,712	6,083
2015	3,110	1,128	4,238
2016	2,686	1,096	3,782
Thereafter	2,753	8,059	10,812
Total	$ 18,499	$ 20,635	$ 39,134

A director of Republic Bancorp, Inc. is the President and Chief Executive Officer of a company that leases space to the Bank. Fees paid to the Bank totaled $14,000, $13,000 and $13,000 for years ended December 31, 2011, 2010 and 2009, respectively.

A director of Republic Bancorp, Inc. is "of counsel" to a local law firm. Fees paid by the Bank to this firm totaled $293,000, $193,000 and $178,000 in 2011, 2010 and 2009.

A director of RB&T is an executive manager of a public relations firm. Fees paid by the Bank to this firm totaled $116,000, $173,000 and $204,000 in 2011, 2010 and 2009.

Loans made to executive officers and directors of Republic and their related interests during 2011 were as follows:

	(in thousands)
Beginning balance	$ 29,258
Effect of changes in composition of related parties	(281)
New loans	5,689
Repayments	(5,159)
Ending balance	$ 29,507

Deposits from executive officers, directors, and their affiliates totaled $47 million and $30 million at December 31, 2011 and 2010.

18. OFF BALANCE SHEET RISKS, COMMITMENTS AND CONTINGENT LIABILITIES

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 December 31, 2011, exclusive of Mortgage Banking loan commitments, the Bank had outstanding loan commitments of $486 million, which included unfunded home equity lines of credit totaling $238 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 $19 million and $11 million at December 31, 2011 and 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 December 31, 2011, Bank had $12 million in letters of credit from the FHLB issued on behalf of two RB&T clients. These letters of credit were used as credit enhancements for client bond offerings and reduced RB&T's available borrowing line at the FHLB. The Bank uses a blanket pledge of eligible real estate loans to secure these letters of credit.

RB&T was subject to a $2 million Civil Money Penalty ("CMP"), which was assessed by the FDIC during the second quarter of 2011 as part of the Amended Notice of Charges for an Order to Cease and Desist; Notice of Assessment of Civil Money Penalties, Findings of Fact and Conclusions of Law; Order to Pay; and Notice of Hearing (the "Amended Notice"). RB&T accrued the full $2 million assessment during the second quarter of 2011, due to its likelihood of payment. RB&T settled this matter with the FDIC during the fourth quarter of 2011 and paid a final settlement of $900,000 for the CMP. As a result of the settlement, RB&T recorded a credit to pre tax expense during the fourth quarter of 2011 for $1.1 million. For additional discussion see Footnote 22 "Regulatory Matters."

For additional discussion regarding TRS, see the following sections:

Part I Item 1A "Risk Factors"

Part II Item 8 "Financial Statements and Supplementary Data:"

- Footnote 1 “Summary of Significant Accounting Policies”
- Footnote 3 “Loans and Allowance for Loan Losses”
- Footnote 8 “Deposits”
- Footnote 10 “FHLB Advances”
- Footnote 21 “Segment Information”
- Footnote 22 “Regulatory Matters”

18. OFF BALANCE SHEET RISKS, COMMITMENTS AND CONTINGENT LIABILITIES (continued)

On August 1, 2011, a lawsuit was filed in the United States District Court for the Western District of Kentucky styled Brenda Webb vs. Republic Bank & Trust Company d/b/a Republic Bank, Civil Action No. 3:11-CV-00423-TBR. The Complaint was brought as a putative class action and seeks monetary damages, restitution and declaratory relief allegedly arising from the manner in which RB&T assessed overdraft fees. In the Complaint, the Plaintiff pleads six claims against RB&T alleging: breach of contract and breach of the covenant of good faith and fair dealing (Count I), unconscionability (Count II), conversion (Count III), unjust enrichment (Count IV), violation of the Electronic Funds Transfer Act and Regulation E (Count V), and violations of the Kentucky Consumer Protection Act, KRS §367, et seq. (Count VI). RB&T filed a Motion to Dismiss the case on January 12, 2012. In response, Plaintiff filed its Motion to Amend the Complaint on February 23, 2012. In Plaintiff’s proposed Amended Complaint, Plaintiff acknowledges disclosure of the Overdraft Honor Policy and does not seek to add any claims to the Amended Complaint. However, Plaintiff divided the breach of contract and breach of the covenant of good faith and fair dealing claims into two counts (Counts One and Two). In the original Complaint, those claims were combined in Count One. RB&T's response to the Motion to Amend is currently due on March 15, 2012. Management is evaluating the claims of this lawsuit and is unable to estimate the possible loss or range of possible loss, if any, that may result from this lawsuit. RB&T intends to vigorously defend this case.

An earlier, identical suit by the same plaintiff was filed on July 19, 2011 in the United States District Court for the Middle District for Florida styled Brenda Webb vs. Republic Bank & Trust Company d/b/a Republic Bank, Civil Action No. 2:11-CV-00405-JES-SPC. The plaintiff dismissed that suit without prejudice on August 2, 2011.

19. PARENT COMPANY CONDENSED FINANCIAL INFORMATION

BALANCE SHEETS

December 31, (in thousands)		2011		2010
Assets:				
Cash and cash equivalents	$	41,124	$	18,789
Investment in subsidiaries		456,173		398,384
Other assets		820		1,947
Total assets	$	498,117	$	419,120
Liabilities and Stockholders' Equity:				
Subordinated note	$	41,240	$	41,240
Other liabilities		4,510		6,504
Stockholders' equity		452,367		371,376
Total liabilities and stockholders' equity	$	498,117	$	419,120

19. PARENT COMPANY CONDENSED FINANCIAL INFORMATION (continued)

STATEMENTS OF INCOME

Years Ended December 31, (in thousands)	2011	2010	2009
Income and expenses:			
Dividends from subsidiary	$ 35,476	$ 15,825	$ 55,856
Interest income	81	12	7
Other income	39	39	39
Less: Interest expense	2,515	2,515	2,578
Less: Other expenses	382	373	391
Income before income tax benefit	32,699	12,988	52,933
Income tax benefit	961	971	1,022
Income before equity in undistributed net income of subsidiaries	33,660	13,959	53,955
Equity in undistributed net income of subsidiaries	60,489	50,794	(11,824)
Net income	$ 94,149	$ 64,753	$ 42,131

STATEMENTS OF CASH FLOWS

Years Ended December 31, (in thousands)	2011	2010	2009
Operating activities:			
Net income	$ 94,149	$ 64,753	$ 42,131
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(60,489)	(50,794)	11,824
Director deferred compensation - Parent Company	104	90	86
Change in other assets	1,127	1,267	667
Change in other liabilities	(187)	(19,546)	(20,880)
Net cash provided by operating activities	34,704	(4,230)	33,828
Financing activities:			
Commons Stock repurchases	(492)	(390)	(868)
Net proceeds from Common Stock options exercised	438	1,884	1,875
Cash dividends paid	(12,315)	(11,356)	(10,379)
Net cash used in financing activities	(12,369)	(9,862)	(9,372)
Net change in cash and cash equivalents	22,335	(14,092)	24,456

Cash and cash equivalents at beginning of year	18,789	32,881	8,425
Cash and cash equivalents at end of year	$ 41,124	$ 18,789	$ 32,881

20. OTHER COMPREHENSIVE INCOME

December 31, (in thousands)	2011	2010	2009
Unrealized gain (loss) on securities available for sale	$ (403)	$ (249)	$ 4,306
Other-than-temporary impairment on available for sale securities recorded in other comprehensive income	-	-	2,769
Change in unrealized losses on securities available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings	(77)	985	585
Reclassification amount on securities sold	(2,286)	-	
Reclassification adjustment for losses realized in income	(279)	(221)	3,052
Net unrealized gains	(3,045)	515	10,712
Tax effect	1,065	(180)	(3,749)
Net of tax amount	$ (1,980)	$ 335	$ 6,963

21. 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.

Segment information for the years ended December 31, 2011, 2010 and 2009 is as follows:

21. SEGMENT INFORMATION (continued)

	Year Ended December 31, 2011			
(dollars in thousands)	Traditional Banking	Mortgage Banking	Tax Refund Solutions	Total Company
Net interest income	$105,346	$401	$59,113	$164,860
Provision for loan losses	6,406	-	11,560	17,966
Electronic Refund Check fees	-	-	88,195	88,195
Net RAL securitization income	-	-	207	207
Mortgage banking income	-	3,899	-	3,899
Net gain on sales, calls and				-
impairment of securities	2,006	-	-	2,006
Other non interest income	25,089	78	150	25,317
Total non interest income	27,095	3,977	88,552	119,624
Total non interest expenses	87,389	3,849	31,083	122,321
Income before income tax expense	38,646	529	105,022	144,197
Income tax expense	12,183	185	37,680	50,048
Net income	$26,463	$344	$67,342	$94,149
Total assets	$3,099,426	$10,880	$309,685	$3,419,991
Net interest margin	3.55 %	NM	NM	5.09 %

	Year Ended December 31, 2010			
(dollars in thousands)	Traditional Banking	Mortgage Banking	Tax Refund Solutions	Total Company
Net interest income	$105,685	$468	$50,659	$156,812
Provision for loan losses	11,571	-	8,143	19,714
Electronic Refund Check fees	-	-	58,789	58,789
Net RAL securitization income	-	-	265	265
Mortgage banking income	-	5,797	-	5,797
Net loss on sales, calls and				-
impairment of securities	(221)	-	-	(221)
Other non interest income	22,899	73	56	23,028
Total non interest income	22,678	5,870	59,110	87,658
Total non interest expenses	90,968	2,559	32,796	126,323
Income before income tax expense	25,824	3,779	68,830	98,433
Income tax expense	7,929	1,161	24,590	33,680
Net income	$17,895	$2,618	$44,240	$64,753
Total assets	$3,026,628	$23,359	$572,716	$3,622,703
Net interest margin	3.57 %	NM	NM	4.65 %

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21. SEGMENT INFORMATION (continued)

	Year Ended December 31, 2009			
(dollars in thousands)	Traditional Banking	Mortgage Banking	Tax Refund Solutions	Total Company
Net interest income	$110,352	$804	$52,707	$163,863
Provision for loan losses	15,885	-	18,090	33,975
Electronic Refund Check fees	-	-	25,289	25,289
Net RAL securitization income	-	-	514	514
Mortgage banking income	-	11,021	-	11,021
Net loss on sales, calls and impairment of securities	(5,822)	-	-	- (5,822)
Other non interest income	26,467	100	52	26,619
Total non interest income	20,645	11,121	25,855	57,621
Total non interest expenses	92,513	1,654	27,318	121,485
Income before income tax expense	22,599	10,271	33,154	66,024
Income tax expense	7,237	3,481	13,175	23,893
Net income	$15,362	$6,790	$19,979	$42,131
Total assets	$2,976,663	$14,176	$927,929	$3,918,768
Net interest margin	3.79 %	NM	NM	5.04 %

NM – Not Meaningful

22. REGULATORY MATTERS

FDIC Proceedings Regarding the TRS segment:

Notice of Charges for an Order to Cease and Desist and Notice of Hearing, and Stipulation and Consent to the Issuance of a Consent Order, Order to Pay Civil Money Penalties, and Order Terminating Order to Cease and Desist

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

On May 3, 2011, RB&T received an Amended Notice of Charges for an Order to Cease and Desist and Notice of Hearing from the FDIC (the "Amended Notice") from the FDIC revising its original Notice referenced in the preceding paragraph. The Amended Notice resulted from conclusions made by the FDIC during a targeted visitation of 250 ERO offices in 36 states, which it conducted on February 15 and 16, 2011. In addition to the allegations contained in the Notice, the Amended Notice alleged violations of the Truth-In-Lending Act, the Equal Credit Opportunity Act, and the Federal Trade Commission Act. The Amended Notice also accused RB&T of, among other things, unsafe or unsound banking practices resulting from its third-party management; unsafe or unsound hindrance, impediment, or interference with a financial institution examination; unsafe or unsound physical security or electronic protection of ERO premises; violations of the Gramm-Leach-Bliley Act and FDIC regulation; and violations of the 2009 Order. Moreover, the Amended Notice included an assessment of a $2 million CMP. As a result, RB&T recorded a $2 million liability as of June 30, 2011. For additional discussion regarding the Amended Notice, see the Company's Form 8-K filed with the SEC on May 5, 2011, including Exhibits 99.1 and 99.2.

Federal District Court Litigation:

On February 28, 2011, RB&T filed a complaint in the United States District Court for the Western District of Kentucky (the "Court") against the FDIC and various officers of the FDIC in their official capacities, entitled Republic Bank & Trust Company v. Federal Deposit Insurance Corporation, et al (the "Litigation"). The complaint stated that the FDIC's actions to prohibit RB&T from offering RALs constituted 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 stated that the FDIC had unlawfully ignored its procedural rules regarding discovery in the proceedings initiated by the Notice by conducting a series of unscheduled "visitations." The complaint sought declaratory and injunctive relief. On March 31, 2011, the FDIC filed a Motion to Dismiss (the "Motion") RB&T's complaint with the Court. RB&T timely filed its brief in opposition to the Motion, and the matter remained pending with the Court up through RB&T's resolution with the FDIC discussed below.

22. REGULATORY MATTERS (continued)

Resolution of all FDIC-Related Proceedings:

Effective December 8, 2011, RB&T entered into an agreement with the FDIC resolving its differences regarding the TRS operating segment. RB&T's resolution with the FDIC was in the form of a Stipulation Agreement and a Consent Order (collectively, the "Agreement"). As part of the Agreement, RB&T and the FDIC settled all matters set out in the Amended Notice and the Litigation. More specifically,

- the FDIC terminated the 2009 Order against RB&T entered on February 27, 2009;
- the $2 million CMP was reduced to $900,000;
- RB&T was allowed to immediately resume expansionary activities and transactions in the ordinary course, so long as RB&T maintains appropriate regulatory ratings;
- RB&T developed an Electronic Return Originator ("ERO") Oversight Plan (the "ERO Plan"), which the FDIC agreed to and is more fully described below;
- RB&T agreed to cease the RAL portion of its tax business by April 30, 2012, after the first quarter 2012 tax season;
- the FDIC and RB&T discontinued their administrative proceeding commenced in February 2011; and
- RB&T terminated the Litigation.

As disclosed above, the Agreement reduced the previously announced CMP against RB&T from $2 million to $900,000. As a result of the reduced CMP, RB&T, which had previously reserved $2 million for the CMP during the second quarter of 2011, recorded a $1.1 million credit to pre-tax income during the fourth quarter of 2011.

As disclosed above, RB&T developed an ERO Plan, which was agreed to by the FDIC. The ERO Plan articulates a framework for RB&T to continue to offer non-RAL tax related products and services with specified oversight of the tax preparers with which RB&T does business. The ERO Plan includes requirements for, among other things,

- positive affirmations by EROs of individual tax preparer training related to regulatory requirements applicable to bank products;
- annual audits covering 10% of active ERO locations and a significant sample of applications for Bank products. The audits will consist of onsite visits, document reviews, mystery shops of tax preparation offices, and tax product customer surveys;
- on-site audit confirmation of ERO agreements to adhere to laws, processes, procedures, disclosure requirements and physical and electronic security requirements;
- an advertising approval process that requires RB&T to approve all tax preparer advertisements prior to their issuance;
- monitoring of ERO offices for income tax return quality;
- monitoring of ERO offices for adherence to acceptable tax preparation fee parameters;
- monitoring for federal and state tax preparation requirements, including local and state tax preparer registration, and posting and disclosure requirements relative to Bank products;
- RB&T to provide advance notification, as practicable, to the FDIC of any significant changes in the TRS line of business, including
  - a change of more than 25% from the prior tax season in the number of EROs with which RB&T is doing business, or
  - the addition of tax-related products offered by RB&T that it did not previously offer; and
- RB&T to provide advance notification, as practicable, to the FDIC when RB&T enters into a relationship with a new corporation that has multiple owned or franchised locations, when the relationship alone will represent an increase of more than 10% from the prior tax season in the number of EROs with which RB&T is doing business.

Because the Agreement does not affect RB&T's ability to offer RALs for the first quarter 2012 tax season, it is not expected to have a material adverse impact on net income for the first quarter of 2012 or for the 2012 calendar year. RB&T's discontinuance of RALs beyond 2012 is expected to have a material adverse impact on net income in 2013 and beyond, as the RAL product accounted for approximately 35% of the TRS segment's 2011 net income of $67.3 million. It is expected that TRS will continue to be a material contributor to the Company's overall net income in 2013 and beyond. Actual TRS net income for 2012 and beyond will be impacted by a number of factors, including those factors disclosed from time to time in the Company's filings with the SEC and set forth under Part I Item 1A "Risk Factors."

23. SUMMARY OF QUARTERLY FINANCIAL DATA (UNAUDITED)

Presented below is a summary of the consolidated quarterly financial data for the years ended December 31, 2011 and 2010.

($ in thousands, except per share data)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter(3)
2011:				
Interest income	$33,607	$34,426	$34,459	$92,623
Interest expense	6,710	7,263	7,630	8,652
Net interest income	26,897	27,163	26,829	83,971
Provision for loan losses	463	(140)	(439)	18,082
Net interest income after provision	26,434	27,303	27,268	65,889
Non interest income (1)	6,468	10,476	15,368	87,312
Non interest expenses (2)	24,539	26,438	28,526	42,818
Income before income tax expense	8,363	11,341	14,110	110,383
Income tax expense	2,159	3,471	5,447	38,971
Net income	6,204	7,870	8,663	71,412
Basic earnings per share:				
Class A Common Stock	0.30	0.38	0.42	3.41
Class B Common Stock	0.28	0.36	0.40	3.40
Diluted earnings per share:				
Class A Common Stock	0.30	0.38	0.41	3.40
Class B Common Stock	0.28	0.36	0.40	3.39

($ in thousands, except per share data)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter(3)
2010:				
Interest income	$34,087	$35,270	$36,887	$87,229
Interest expense	8,652	8,818	8,834	10,357
Net interest income	25,435	26,452	28,053	76,872
Provision for loan losses	1,748	(1,804)	2,980	16,790
Net interest income after provision	23,687	28,256	25,073	60,082
Non interest income (1)	7,654	7,823	12,304	59,877
Non interest expenses	25,417	25,122	24,645	51,139
Income before income tax expense	5,924	10,957	12,732	68,820
Income tax expense	1,506	3,647	4,335	24,192
Net income	4,418	7,310	8,397	44,628
Basic earnings per share:				
Class A Common Stock	0.21	0.35	0.40	2.15
Class B Common Stock	0.20	0.34	0.39	2.13

Diluted earnings per share:				
Class A Common Stock	0.21	0.35	0.40	2.14
Class B Common Stock	0.20	0.34	0.39	2.13

(continued)

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23. SUMMARY OF QUARTERLY FINANCIAL DATA (UNAUDITED) (continued)

(1) – Non interest income

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

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

(2) – Non interest expenses

During the fourth quarter of 2011, the Company benefited from a $1.1 million credit to non–interest expense related to a previously disclosed CMP assessed by the FDIC. The Company accrued $2.0 million for the full amount of the CMP during the second quarter of 2011 and reached a final settlement with the FDIC for $900,000 during the fourth quarter of 2011.

For additional discussion regarding TRS, see the following sections:

Part I Item 1A “Risk Factors”

Part II Item 8 “Financial Statements and Supplementary Data:”

o Footnote 1 “Summary of Significant Accounting Policies”
o Footnote 3 “Loans and Allowance for Loan Losses”
o Footnote 8 “Deposits”
o Footnote 10 “FHLB Advances”
o Footnote 18 “Off balance sheet risks, Commitments and Contingent Liabilities”
o Footnote 21 “Segment Information”
o Footnote 22 “Regulatory Matters”

(3) - The first quarter of each year is significantly impacted by the TRS operating segment.

24. BRANCH DIVESTITURE

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

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

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

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

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

25. SUBSEQUENT EVENT

Acquisition

On January 27, 2012, RB&T assumed substantially all of the deposits and certain other liabilities and acquired certain assets of Tennessee Commerce Bank (“TCB”), headquartered in Franklin, Tennessee from the FDIC, as receiver for TCB, pursuant to the terms of a Purchase and Assumption Agreement — Whole Bank; All Deposits (the “P&A Agreement”), entered into among RB&T, the FDIC as receiver of TCB and the FDIC. All financial and other numeric measures of TCB described below are based upon TCB’s internally prepared interim financial statement information as of January 27, 2012, which are subject to change.

Under the terms of the P&A Agreement, RB&T acquired approximately $220 million in assets, including approximately $112 million in loans and other real estate owned, approximately $45 million of marketable securities and approximately $63 million of cash and cash equivalents. Approximately $648 million of loans and other real estate owned, approximately $86 million of securities and approximately $41 million of other TCB assets were excluded from the transaction. RB&T assumed approximately $950 million of liabilities, including approximately $948 million in customer deposits. The acquisition was completed without loss sharing agreements.

The assets were acquired from the FDIC at a discount of $57 million with no stated deposit premium. Based on TCB’s January 27, 2012 internally prepared interim financial statement information, the FDIC made a payment to RB&T in the amount of $785 million, which is subject to customary post-closing adjustments.

The Company recorded the acquired assets and liabilities at their estimated fair values at the acquisition date. The estimated fair value for loans reflected expected credit losses at the acquisition date. As a result, the Company will only recognize a provision for credit losses and charge-offs on the acquired loans for any further credit deterioration. There was no indemnification agreement associated with the transaction and the Company is unaware of any contingent relationships. The Company is in process of finalizing all fair value and purchase accounting adjustments.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None

Item 9A. Controls and Procedures.

As of the end of the period covered by this report, an evaluation was carried out by Republic Bancorp, Inc.'s management, with the participation of the Company's Chairman/Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fourth quarter of the Company's fiscal year ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting and on the Financial Statements, thereon are set forth under Part II Item 8 "Financial Statements and Supplementary Data."

Item 9B. Other Information.

Death of the Company's Chairman and Subsequent Appointments

Bernard M. Trager , the Chairman of the Company at December 31, 2011, subsequently passed away on February 10, 2012.

On March 2, 2012, the Registrant's board of directors appointed Steven E. Trager to serve the Registrant as its Chairman and Chief Executive Officer ("CEO") effective February 21, 2012. Before that date, Mr. Steven Trager served as the Registrant's President and CEO.

On March 2, 2012, the Registrant's board of directors appointed A. Scott Trager as the Registrant's President effective February 21, 2012. Before that date, Mr. A. Scott Trager served as the Registrant's Vice Chairman.

A. Scott Trager, age [58], has served as Vice Chairman of Registrant since 1994 and has served as President of Republic Bank & Trust Company since 1984. He has served as a director of Republic Bank since January, 2009.

A. Scott Trager holds a degree in Business Administration from the University of Tennessee and has spent his entire working career in various finance and banking capacities. He has extensive leadership experience in marketing, operations and retail branch management. He has extensive community board experience and broad-based community connections in the metropolitan Louisville area.

A. Scott Trager and Steven E. Trager, the Registrant's Chairman and CEO, are cousins.

Within the Louisville, Kentucky, metropolitan area, the Registrant leases space in buildings owned by limited liability companies whose sole managing member is The Jaytee Properties Limited Partnership, a partnership in which Steven E. Trager and A. Scott Trager, are partners. The buildings include Republic Corporate Center, which serves as both the Registrant's main office and administrative headquarters in Louisville, Kentucky. Additional leasing relations included Republic Bank & Trust Company's Hurstbourne Parkway banking center which is owned and leased to

Republic Bank & Trust Company by Jaytee - Hurstbourne, LLC, the Bardstown Road banking center which is owned and leased to Republic Bank & Trust Company by Jaytee - Bardstown, LLC and the Springhurst banking center which is owned and leased to Republic Bank & Trust Company by Jaytee - Springhurst, LLC. In addition, space at the Registrant's Republic Plaza location is owned and leased to Republic Bank & Trust Company by Jaytee Properties II SPE, LLC, of which Steven E. Trager is manager. Under certain of these lease arrangements, the Registrant was responsible for the fit-up and certain build out costs associated with the leased premises at those facilities. Altogether, these affiliates currently lease approximately 167,000 square feet to Republic Bank & Trust Company and Republic Bank & Trust Company pays approximately $271,000 per month in rent, with lease terms expiring between 2012 and 2021. The aggregate annual amount paid under these affiliate leasing arrangements in 2011 was approximately $3,158,000. In accordance with the Registrant's Audit Committee charter, each of the above leasing transactions was approved by the board of directors and the Audit Committee and all were determined by the board of directors and the Audit Committee to be on terms comparable to those that could have been obtained from unaffiliated parties.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item appears under the headings "PROPOSAL ONE: ELECTION OF DIRECTORS," "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" and "THE BOARD OF DIRECTORS AND ITS COMMITTEES" of the Proxy Statement of Republic Bancorp, Inc. for the 2012 Annual Meeting of Shareholders ("Proxy Statement") to be held April 19, 2012, all of which is incorporated herein by reference.

Item 11. Executive Compensation.

The information required by this Item appears under the sub-heading "Director Compensation" and under the headings "CERTAIN INFORMATION AS TO MANAGEMENT" and "COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION" of the Proxy Statement all of which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Equity Compensation Plan Information

The following table sets forth information regarding Republic's Common Stock that may be issued upon exercise of options, warrants and rights under all equity compensation plans as of December 31, 2011. There were no equity compensation plans not approved by security holders at December 31, 2011.

Plan Category	(1) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(2) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(3) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (1))
2005 Stock Incentive Plan	592,276	$ 21.38	2,715,224

Column (1) above represents options issued for Class A Common Stock only. Options for Class B Common Stock have been authorized but are not issued.

Additional information required by this Item appears under the heading "SHARE OWNERSHIP" of the Proxy Statement, which is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required by this Item is under the headings "COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION" and "CERTAIN OTHER RELATIONSHIPS AND RELATED TRANSACTIONS" of the Proxy Statement, all of which is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

Information required by this Item appears under the heading “INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM” of the Proxy Statement which is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) Financial Statements:

The following are included under Item 8 “Financial Statements and Supplementary Data:”

Management’s Report on Internal Control Over Financial Reporting
Report of Independent Registered Public Accounting Firm
Consolidated balance sheets – December 31, 2011 and 2010
Consolidated statements of income and comprehensive income – years ended December 31, 2011, 2010 and 2009
Consolidated statements of stockholders’ equity – years ended December 31, 2011, 2010 and 2009
Consolidated statements of cash flows – years ended December 31, 2011, 2010 and 2009
Notes to consolidated financial statements

(a)(2) Financial Statements Schedules:

Financial statement schedules are omitted because the information is not applicable.

(a)(3) Exhibits:

The Exhibit Index of this report is incorporated herein by reference. The management contracts and compensatory plans or arrangements required to be filed as exhibits to this Form 10-K pursuant to Item 15(b) are noted in the Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

REPUBLIC BANCORP, INC.

March 7, 2012

By: Steven E. Trager
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated.

/s/ Steven E. Trager Steven E. Trager	Chairman, Chief Executive Officer and Director	March 7, 2012
/s/ A. Scott Trager A. Scott Trager	President and Director	March 7, 2012
/s/ Kevin Sipes Kevin Sipes	Chief Financial Officer and Chief Accounting Officer	March 7, 2012
/s/ Craig A. Greenberg Craig Greenberg	Director	March 7, 2012
/s/ Michael T. Rust Michael T. Rust	Director	March 7, 2012
/s/ Sandra Metts Snowden Sandra Metts Snowden	Director	March 7, 2012
/s/ R. Wayne Stratton R. Wayne Stratton	Director	March 7, 2012
/s/ Susan Stout Tamme Susan Stout Tamme	Director	March 7, 2012

INDEX TO EXHIBITS

No.	Description
3(i)	Articles of Incorporation of Registrant, as amended (Incorporated by reference to Exhibit 3(i) to the Registration Statement on Form S-1 of Registrant (Registration No. 333-56583))
3(ii)	Amended Bylaws (Incorporated by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (Commission File Number: 0-24649))
4.1	Provisions of Articles of Incorporation of Registrant defining rights of security holders (see Articles of Incorporation, as amended, of Registrant incorporated as Exhibit 3(i) herein)
4.2	Agreement Pursuant to Item 601 (b)(4)(iii) of Regulation S-K (Incorporated by reference to Exhibit 4.2 of the Annual Report on Form 10-K of Registrant for the year ended December 31, 1997 (Commission File Number: 33-77324))
10.01*	Officer Compensation Continuation Agreement with Steven E. Trager, dated January 12, 1995 (Incorporated by reference to Exhibit 10.1 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995 (Commission File Number: 33-77324))
10.02*	Officer Compensation Continuation Agreement, as amended and restated, with Steven E. Trager effective January 1, 2006 (Incorporated by reference to Exhibit 10.34 of Registrant's Form 10-K for the year ended December 31, 2005 (Commission File Number: 0-24649))
10.03*	Officer Compensation Continuation Agreement, as amended, with Steven E. Trager effective February 15, 2006 (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed February 21, 2006 (Commission File Number: 0-24649))
10.04*	Officer Compensation Continuation Agreement, as amended and restated, with Steven E. Trager effective April 30, 2008 (Incorporated by reference to Exhibit 10.2 of Registrant's Form 10-Q for the quarter ended March 31, 2008 (Commission File Number: 0-24649))
10.05*	Officer Compensation Continuation Agreement with A. Scott Trager, dated January 12, 1995 (Incorporated by reference to Exhibit 10.5 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995 (Commission File Number: 33-77324))
10.06*	Officer Compensation Continuation Agreement, as amended and restated, with A. Scott Trager effective January 1, 2006 (Incorporated by reference to Exhibit 10.35 of Registrant's Form 10-K for the year ended December 31, 2005 (Commission File Number: 0-24649))
10.07*	Officer Compensation Continuation Agreement, as amended, with A. Scott Trager effective February 15, 2006 (Incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K filed February 21, 2006 (Commission File Number: 0-24649))
10.08*	Officer Compensation Continuation Agreement, as amended and restated, with A. Scott Trager effective April 30, 2008 (Incorporated by reference to Exhibit 10.3 of Registrant's Form 10-Q for the quarter ended March 31, 2008 (Commission File Number: 0-24649))

10.09* Officer Compensation Continuation Agreement with Kevin Sipes, dated June 15, 2001 (Incorporated by reference to Exhibit 10.23 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 (Commission File Number: 0-24649))

10.10* Officer Compensation Continuation Agreement, as amended and restated, with Kevin Sipes effective January 1, 2006 (Incorporated by reference to Exhibit 10.38 of Registrant's Form 10-K for the year ended December 31, 2005 (Commission File Number: 0-24649))

No.	Description
10.11*	Officer Compensation Continuation Agreement, as amended, with Kevin Sipes effective February 15, 2006 (Incorporated by reference to Exhibit 10.5 of Registrant's Form 8-K filed February 21, 2006 (Commission File Number: 0-24649))
10.12*	Officer Compensation Continuation Agreement, as amended and restated, with Kevin Sipes effective April 30, 2008 (Incorporated by reference to Exhibit 10.4 of Registrant's Form 10-Q for the quarter ended March 31, 2008 (Commission File Number: 0-24649))
10.13*	Death Benefit Agreement with Bernard M. Trager dated September 10, 1996 (Incorporated by reference to Exhibit 10.9 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1996 (Commission File Number: 33-77324))
10.14	Right of First Offer Agreement by and among Republic Bancorp, Inc., Teebank Family Limited Partnership, Bernard M. Trager and Jean S. Trager. (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed September 19, 2007 (Commission File Number: 0-24649))
10.15	Lease between Republic Bank & Trust Company and Jaytee Properties, dated August 1, 1982, relating to 2801 Bardstown Road, Louisville (Incorporated by reference to Exhibit 10.11 of Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (Commission File Number: 0-24649))
10.16	Lease between Republic Bank & Trust Company and Jaytee Properties, dated August 1, 2008, relating to 2801 Bardstown Road, Louisville (Incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K filed June 9, 2008 (Commission File Number: 0-24649))
10.17	Lease between Republic Bank & Trust Company and Teeco Properties, dated April 1, 1995, relating to property at 601 West Market Street (Incorporated by reference to exhibit 10.10 of Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (Commission File Number: 0-24649))
10.18	Lease between Republic Bank & Trust Company and Teeco Properties, dated October 1, 1996, relating to property at 601 West Market Street (Incorporated by reference to exhibit 10.10 of Registrant's Form S-1 (Commission File Number: 0-24649))
10.19	Lease extension between Republic Bank & Trust Company and Teeco Properties, dated September 25, 2001, relating to property at 601 West Market Street (Incorporated by reference to exhibit 10.25 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (Commission File Number: 0-24649))
10.20	Lease between Republic Bank & Trust Company and Teeco Properties, dated May 1, 2002, relating to property at 601 West Market Street (Incorporated by reference to exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 (Commission File Number: 0-24649))
10.21	Lease between Republic Bank & Trust Company and Teeco Properties, dated October 1, 2005, relating to property at 601 West Market Street, Louisville, KY (Floor 4), amending and modifying previously filed exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 (Incorporated by reference to exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 (Commission File Number: 0-24649))
10.22	

Lease between Republic Bank & Trust Company and Teeco Properties, as of October 1, 2006, relating to property at 601 West Market Street, Louisville, KY. (Incorporated by reference to exhibit 10.1 of Registrant's Form 8-K filed September 25, 2006 (Commission File Number: 0-24649))

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No.	Description
10.23	Lease between Republic Bank & Trust Company and Teeco Properties, as of July 8, 2008, as amended, relating to property at 601 West Market Street (Floors 1,2,3,5 and 6), Louisville, KY. (Incorporated by reference to exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (Commission File Number: 0-24649))
10.24	Lease between Republic Bank & Trust Company and Teeco Properties, as of July 8, 2008, as amended, relating to property at 601 West Market Street (Floor 4), Louisville, KY. (Incorporated by reference to exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (Commission File Number: 0-24649))
10.25	Lease between Republic Bank & Trust Company and Jaytee Properties, dated February 3, 1993, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.12 of Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (Commission File Number: 0-24649))
10.26	Lease between Republic Bank & Trust Company and Jaytee Properties, dated February 1, 1999, as amended, relating to 661 South Hurstbourne Parkway (Incorporated by reference to Exhibit 10.17 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 (Commission File Number: 0-24649))
10.27	Lease between Republic Bank & Trust Company and Jaytee Properties, dated February 1, 2000, as amended, relating to 661 South Hurstbourne Parkway (Incorporated by reference to Exhibit 10.21 of Registrant's Annual Report on Form 10-K for the year ended December 31, 1999 (Commission File Number: 0-24649))
10.28	Lease between Republic Bank & Trust Company and Jaytee Properties, dated July 1, 2003, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (Commission File Number: 0-24649))
10.29	Lease between Republic Bank & Trust Company and Jaytee Properties, dated August 2, 1993, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.16 of Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 (Commission File Number: 0-24649))
10.30	Lease between Republic Bank & Trust Company and Jaytee Properties, dated September 1, 1995, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.18 of Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 (Commission File Number: 0-24649))
10.31	Lease between Republic Bank & Trust Company and Jaytee Properties, dated February 16, 1996, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.19 of Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 (Commission File Number: 0-24649))
10.32	Lease between Republic Bank & Trust Company and Jaytee Properties, dated January 21, 1998, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.20 of Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 (Commission File Number: 0-24649))

10.33 Lease between Republic Bank & Trust Company and Jaytee Properties, dated September 11, 1998, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.21 of Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 (Commission File Number: 0-24649))

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No.	Description
10.34	Lease between Republic Bank & Trust Company and Jaytee Properties, dated February 1, 2004, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 (Commission File Number: 0-24649))
10.35	Lease between Republic Bank & Trust Company and Jaytee Properties, dated September 1, 2005, as amended, relating to 661 South Hurstbourne Parkway, Louisville, KY, amending and modifying previously filed exhibit 10.12 of Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (Incorporated by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 (Commission File Number: 0-24649))
10.36	Lease between Republic Bank & Trust Company and Jaytee Properties, dated July 1, 2008, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed June 9, 2008 (Commission File Number: 0-24649))
10.37	Lease between Republic Bank & Trust Company and Jaytee Properties, dated November 17, 1997, as amended, relating to 9600 Brownsboro Road (Incorporated by reference to Exhibit 10.18 of Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (Commission File Number: 0-24649))
10.38	Lease between Republic Bank & Trust Company and Jaytee Properties, dated August 1, 1999, as amended, relating to 9600 Brownsboro Road (Incorporated by reference to Exhibit 10.18 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 (Commission File Number: 0-24649))
10.39	Lease between Republic Bank & Trust Company and Jaytee Properties, dated October 30, 1999, as amended, relating to 9600 Brownsboro Road (Incorporated by reference to Exhibit 10.20 of Registrant's Annual Report on Form 10-K for the year ended December 31, 1999 (Commission File Number: 0-24649))
10.40	Lease between Republic Bank & Trust Company and Jaytee Properties, dated May 1, 2003, as amended, relating to 9600 Brownsboro Road (Incorporated by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (Commission File Number: 0-24649))
10.41	Lease between Republic Bank & Trust Company and Jaytee Properties, dated November 1, 2005, as amended, relating to 9600 Brownsboro Road (Incorporated by reference to Exhibit 10.33 of Registrant's Form 10-K for the year ended December 31, 2005 (Commission File Number: 0-24649))
10.42	Lease between Jaytee Properties and InsBanc, Inc., dated February 3, 2003, as amended by Republic Bank & Trust Company relating to 9600 Brownsboro Road, Louisville, KY. (Incorporated by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (Commission File Number: 0-24649))
10.43	Assignment and Assumption of Lease by Republic Bank & Trust Company with the consent of Jaytee Properties, dated May 1, 2006, relating to 9600 Brownsboro Road, Louisville, KY. (Incorporated by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (Commission File Number: 0-24649))
10.44	Lease between Republic Bank & Trust Company and Jaytee Properties, dated January 17, 2008, as amended, relating to 9600 Brownsboro Road, Louisville, KY (Incorporated by reference to Exhibit 10.40 of Registrant's Annual Report on Form 10-K for the year ended December 31, 2007 (Commission File Number: 0-24649))

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No.	Description
10.45	Ground lease between Republic Bank & Trust Company and Jaytee Properties, relating to 9600 Brownsboro Road, dated January 17, 2008, as amended, relating to 9600 Brownsboro Road, Louisville, KY (Incorporated by reference to Exhibit 10.40 of Registrant's Annual Report on Form 10-K for the year ended December 31, 2007 (Commission File Number: 0-24649))
10.46	Lease between Republic Bank & Trust Company and Jaytee Properties II SPE, LLC, dated June 27, 2008, relating to 200 South Seventh Street, Louisville, KY. (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed July 1, 2008 (Commission File Number: 0-24649))
10.47	Lease between Republic Bank & Trust Company and Jaytee Properties II SPE, LLC, dated January 31, 2011, relating to 200 South Seventh Street, Louisville, KY (Commission File Number: 0-24649))
10.48*	1995 Stock Option Plan (as amended to date) (Incorporated by reference to Registrant's Form S-8 filed November 30, 2004 (Commission File Number: 333-120856))
10.49*	Form of Stock Option Agreement for Directors and Executive Officers (Incorporated by reference to Exhibit 10.2 of Registrant's Form 10-Q for the quarter ended September 30, 2004 (Commission File Number: 0-24649))
10.50*	2005 Stock Incentive Plan (Incorporated by reference to Form 8-K filed March 18, 2005 (Commission File Number: 0-24649))
10.51*	Republic Bancorp, Inc. 401(k)/Profit Sharing Plan and Trust (Incorporated by reference to Form S-8 filed December 28, 2005 (Commission File Number: 0-24649))
10.52*	Republic Bancorp, Inc. and subsidiaries Non-Employee Director and Key Employee Deferred Compensation and the Republic Bank & Trust Company Non-Employee Director and Key Employee Deferred Compensation Plan (as adopted November 18, 2004) (Incorporated by reference to Form S-8 filed November 30, 2004 (Commission File Number: 333-120857))
10.53*	Republic Bancorp, Inc. and Subsidiaries Non-Employee Director and Key Employee Deferred Compensation Plan Post-Effective Amendment No. 1 (Incorporated by reference to Form S-8 filed April 13, 2005 (Commission File Number: 333-120857))
10.54*	Republic Bancorp, Inc. and subsidiaries Non-Employee Director and Key Employee Deferred Compensation, as amended and restated as of March 16, 2005 (incorporated by reference to Form 8-K filed March 18 2005 (Commission File Number: 333-120857))
10.55*	Republic Bancorp, Inc. and subsidiaries Non-Employee Director and Key Employee Deferred Compensation as amended and restated as of March 19, 2008 (Incorporated by reference to Exhibit 10.1 of Registrant's Form 10-Q for the quarter ended March 31, 2008 (Commission File Number: 0-24649))
10.56	Junior Subordinated Indenture, Amended and Restated Trust Agreement, and Guarantee Agreement (Incorporated by reference to Exhibit 4.1 of Registrant's Form 8-K filed August 19, 2005 (Commission File Number: 0-24649))
10.57*	2005 Stock Incentive Plan Amendment Number 1 (Incorporated by reference to Exhibit 10.61 of Registrant's Form 10-K filed March 6, 2009 (Commission File Number: 0-24649))

10.58** Amended and Restated Marketing and Servicing Agreement dated November 29, 2011, between Republic Bank & Trust Company and JTH Tax Inc. d/b/a Liberty Tax Service. (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed December 2, 2011 (Commission File Number: 0-24649))

No.	Description
10.59**	Amended and Restated Program Agreement dated August 3, 2011 between Republic Bank & Trust Company and Jackson Hewitt Inc. and Jackson Hewitt Technology Services LLC (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed August 5, 2011 (Commission File Number: 0-24649))
10.60	Order to Cease and Desist dated February 27, 2009 (Incorporated by reference to Exhibit 10.62 of Registrant's Form 10-K filed March 6, 2009 (Commission File Number: 0-24649))
10.61	Notice of Charges for an Order to Cease and Desist and Notice of Hearing dated February 9, 2011 (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed February 10, 2011 (Commission File Number: 0-24649))
10.62	Amended Notice of Charges for an Order to Cease and Desist; Notice of Assessment of Civil Money Penalties, Findings of Fact and Conclusions of Law; Order to Pay; and Notice of Hearing dated May 3, 2011 (Incorporated by reference to Exhibits 99.1 and 99.2 of Registrant's Form 8-K filed May 5, 2011 (Commission File Number: 0-24649))
10.63	Stipulation and Consent to the Issuance of a Consent Order, Order to Pay Civil Money Penalties, and Order Terminating Order to Cease and Desist dated December 8, 2011 (Incorporated by reference to Exhibit 10.1 and 10.2 of Registrant's Form 8-K filed December 9, 2011 (Commission File Number: 0-24649))
10.64	Purchase and Assumption Agreement — Whole Bank; All Deposits, among the Federal Deposit Insurance Corporation, receiver of Tennessee Commerce Bank, Franklin, Tennessee, the Federal Deposit Insurance Corporation and Republic Bank & Trust Company, dated as of January 27, 2012. (Incorporated by reference to Exhibit 2.1 of Registrant's Form 8-K filed February 1, 2012 (Commission File Number: 0-24649))
21	Subsidiaries of Republic Bancorp, Inc.
23	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Principal Executive Officer, pursuant to the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer, pursuant to the Sarbanes-Oxley Act of 2002
32***	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2003
101****	Interactive data files: (i) Consolidated Balance Sheets at December 31, 2011 and December 31, 2010, (ii) Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2011, 2010 and 2009, (iii) Consolidated Statement of Stockholders' Equity for the years ended December 31, 2011, 2010 and 2009, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009 and (v) Notes to Consolidated Financial Statements.

* Denotes management contracts and compensatory plans or arrangements required to be filed as exhibits to this Form 10-K pursuant to Item 15(b).

** Confidential treatment has been requested for the redacted portions of this agreement. A complete copy of the agreement, including the redacted portions, has been filed separately with the Securities and Exchange Commission.

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

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