

REPUBLIC BANCORP INC /KY/
Form 10-K
March 16, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934**

For the fiscal year ended December 31, 2005

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky
(State or other jurisdiction of
incorporation or organization)

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

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

40202
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

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Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Act:

Class A Common Stock

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.
 Yes No

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

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of June 30, 2005 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$189,243,000 (for purposes of this calculation, the market value of the Class B Common Stock was based on the market value of the Class A Common Stock into which it is convertible).

The number of shares outstanding of the registrant's Class A Common Stock and Class B Common Stock, as of March 1, 2006 was 16,430,806 and 2,141,945. All share and per share data has been restated to reflect the five percent (5%) stock dividend that was declared in January 2006.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes:

Portions of the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held April 25, 2006 are incorporated by reference into Part III of this Form 10-K.

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Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains statements relating to future results of Republic Bancorp, Inc. that are considered forward-looking within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The forward-looking statements are principally, but not exclusively, contained in Item 1. *Business*, Item 1A. *Risk Factors* and Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*. These statements relate to, among other things, expectations concerning critical accounting estimates, loan demand, growth and performance, simulated changes in interest rates and the adequacy of the allowance for loan losses. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any 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 within our markets, equity and fixed income market fluctuations, personal and corporate customers' bankruptcies, inflation, acquisitions and integrations of acquired businesses, technological changes, changes in law and regulations, 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 our filings with the Securities and Exchange Commission (SEC). Forward-looking statements and factors that may cause actual results to differ materially are also discussed under the sections titled Item 1. *Business* and Item 1A: *Risk Factors*. Broadly speaking, forward-looking statements include:

projections of revenue, income, earnings per share, capital expenditures, dividends, capital structure or other financial items;

descriptions of plans or objectives of the Company's management 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:

future credit losses and non-performing assets;

the adequacy of the allowance for loan losses;

the future value of mortgage servicing rights;

the impact of new accounting pronouncements;

future short-term and long-term interest rate levels and the respective impact on net interest margin, net interest spread, net income, liquidity and capital;

legal and regulatory matters; and,

future capital expenditures.

Forward-looking statements discuss matters that are not historical facts. As forward-looking statements discuss future events or conditions, they often include words such as anticipate, believe, estimate, expect, intend, plan, project, target, can, could, may, should, expressions. Do not rely on forward-looking statements. Forward-looking statements detail management's expectations regarding the future and are not guarantees. Forward-looking statements are assumptions based on information known to management only as of the date they 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 Item 1. Business, Item 1A. Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.*

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

PART I**Item 1. Business.**

Republic Bancorp, Inc. (Republic or the Company) is a Financial Holding Company (FHC), under the Bank Holding Company Act of 1956, as amended (BHCA), headquartered in Louisville, Kentucky. Republic is the Parent Company of Republic Bank & Trust Company, Republic Bank & Trust Company of Indiana (together referred to as the Bank), Republic Funding Company, Republic Invest Co. and Republic Bancorp Capital Trust. Republic Invest Co. includes its subsidiary, Republic Capital LLC. Republic Bancorp Capital Trust is a Delaware statutory business trust that is a wholly-owned unconsolidated finance subsidiary of Republic Bancorp, Inc. The consolidated financial statements also include the wholly-owned subsidiaries of Republic Bank & Trust Company: Republic Financial Services, LLC, TRS RAL Funding, LLC, and Republic Insurance Agency, LLC. Incorporated in Kentucky on January 2, 1974, Republic became a bank holding company when Republic Bank & Trust Company became authorized to conduct commercial banking business in Kentucky in 1981.

The principal business of Republic is directing, planning and coordinating the business activities of the Bank. The financial condition and results of operations of Republic are primarily dependent upon the operations of the Bank. At December 31, 2005, Republic had total assets of \$2.7 billion, total deposits of \$1.6 billion and total stockholders' equity of \$214 million. Based on total assets as of December 31, 2005, Republic ranked as the second largest bank holding company headquartered in the state of Kentucky. The executive offices of Republic are located at 601 West Market Street, Louisville, Kentucky 40202, telephone number (502) 584-3600. The Company's website address is www.republicbank.com.

Website Access to Reports

The Company makes the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934, available free of charge on or through the Internet website, www.republicbank.com, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC.

General Business Overview

The Company is divided into four distinct business operating segments: Banking, Tax Refund Solutions, Mortgage Banking and Deferred Deposits (Payday Loans). Total assets and net income for the years ended December 31, 2005, 2004 and 2003 are presented below:

As of December 31, 2005 (in thousands)	Banking	Tax Refund Solutions	Mortgage Banking	Deferred Deposits	Consolidated Totals
Net income	\$ 23,730	\$ 5,531	\$ 817	\$ 4,987	\$ 35,065
Total Assets	2,720,620	1,770	6,617	6,549	2,735,556

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As of December 31, 2004 (in thousands)	Banking	Tax Refund Solutions	Mortgage Banking	Deferred Deposits	Consolidated Totals
Net income	\$ 19,187	\$ 5,406	\$ 1,337	\$ 6,571	\$ 32,501
Total Assets	2,430,797	2,012	16,496	49,617	2,498,922

As of December 31, 2003 (in thousands)	Banking	Tax Refund Solutions	Mortgage Banking	Deferred Deposits	Consolidated Totals
Net income	\$ 15,801	\$ 3,499	\$ 5,066	\$ 3,837	\$ 28,203
Total Assets	2,063,676	1,829	13,757	48,814	2,128,076

(I) Banking

As of December 31, 2005, Republic had a total of 34 full-service banking centers with 32 located in Kentucky and two in southern Indiana. Republic's primary market areas are located in metropolitan Louisville, central Kentucky and southern Indiana. Louisville, the largest city in Kentucky, is the location of Republic's headquarters, as well as 19 banking centers. Republic's central Kentucky market includes 13 banking centers in the following Kentucky cities: Bowling Green (1); Elizabethtown (1); Frankfort (2); Georgetown (1); Lexington, the second largest city in Kentucky (5); Owensboro (2); and Shelbyville (1). The Company has announced plans to open its first Loan Production Offices (LPOs) in Fort Wright, Kentucky and Tampa, Florida in 2006, representing the Company's first entrance into these markets. Republic Bank & Trust Company of Indiana has banking centers located in New Albany and Jeffersonville, Indiana. Republic also has two LPOs (Republic Finance) located in Louisville, Kentucky that operate as a division of Republic Bank & Trust Company. Republic Finance offers an array of loan products to individuals who may not qualify under the Bank's standard underwriting guidelines.

Republic has developed a community banking network, with most of its banking centers located either in separate communities or portions of urban areas that represent distinct communities. Each of Republic's banking centers is managed by one or more officers with the authority to make loan decisions within Bank mandated policies, procedures and guidelines.

Banking related operating revenues are derived primarily from interest earned from the Bank's loan and investment securities portfolios and fee income from loans, deposits and other banking products. The Company has historically extended credit and provided general banking services through its banking center network to individuals and businesses. Over the past several years, the Company has expanded into new lines of business to diversify its asset mix and further enhance its profitability. The Bank principally markets its banking products and services through the following delivery channels:

Mortgage Lending The Company generally retains adjustable rate residential real estate loans with fixed terms up to ten years. These loans are originated through the Company's retail banking center network and LPOs. Fixed rate residential real estate loans that are sold into the secondary market, and their accompanying servicing rights, which may be either sold or retained, are included as a component of the Company's *Mortgage Banking* segment and are discussed throughout this Form 10-K.

Commercial Lending Commercial loans are primarily real estate secured and are generated through banking centers in the Company's market areas. The Company makes commercial loans to a variety of industries and intends to promote this business through focused calling programs, in order to broaden relationships by providing business clients with loan, deposit and cash management services.

Consumer Lending Traditional consumer loans made by the Bank include home improvement and home equity loans, as well as secured and unsecured personal loans. With the exception of home equity loans, which are actively marketed in conjunction with single family first lien mortgage loans, traditional consumer loan products are not actively promoted in Republic's markets.

Cash Management Services Republic provides various deposit products designed for businesses located throughout its market areas. Lockbox processing, business online banking, account reconciliation and Automated Clearing House (ACH) processing are additional services offered to businesses through the Cash Management department. The Premier First product is the Company's premium money market sweep account designed for business clients.

Internet Banking Republic expands its market penetration and service delivery by offering clients Internet banking services and products through its Internet site, www.republicbank.com.

Other Banking Services The Bank also provides trust services, title insurance products and other related financial institution lines of business.

(II) Tax Refund Solutions (TRS)

Republic Bank & Trust Company is one of a limited number of financial institutions that facilitates the payment of federal and state tax refunds through tax preparers located throughout the U.S.. The Company facilitates the payment of these tax refunds through three primary products. For those taxpayers who apply and qualify, the Company offers a Refund Anticipation Loan (RAL). RALs are repaid when the taxpayers refunds are electronically received by the Company from the government. RAL fees are recorded in the financial statements under the line item titled Loans, including fees. For those taxpayers who wish to receive their funds electronically via an ACH, the Company will provide an Electronic Refund Check (ERC) or an Electronic Refund Deposit (ERD) to the taxpayer. An ERC/ERD is issued to the taxpayer after the Company has received the tax refund from the federal or state government. Revenue from ERC/ERD fees is recorded in the financial statements under non interest income in the line item titled Electronic Refund Check fees. *See additional discussion about this product under the sections titled Item 1A. Risk Factors and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.*

(III) Mortgage Banking

Mortgage banking activities primarily include 15, 20 and 30-year fixed rate real estate loans that are sold into the secondary market. Since 2003, Republic has retained servicing on substantially all loans sold into the secondary market. Administration of loans with the servicing retained by the Company includes collecting principal and interest payments, escrowing funds for taxes and insurance and remitting payments to the secondary market investors. A fee is received by Republic for performing these standard servicing functions. *See additional discussion regarding mortgage banking under the sections titled Item 1A. Risk Factors and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.*

(IV) Deferred Deposits (Payday Loans)

Payday loans are transactions whereby customers receive cash advances in exchange for a check or authorization to electronically debit the customer s checking account for the advanced amount plus a fixed fee. Under the Marketer/Servicer model, customers can reclaim their checks in cash for the amount of the advance plus the fee, on or before the due date of the advance. If the customer does not reclaim the check in cash by the advance due date, the check is deposited. Under the Company s Internet model, the customer s account will be electronically debited on the advance due date. If the ACH is not honored due to insufficient funds, the Company may electronically debit the customer s account additional times in an effort to collect the amount due. Deferred deposit transactions are recorded as loans on the Company s financial statements and the corresponding fees are recorded as a component of interest income on loans.

The Company originates payday loans under a marketing and servicing contract with ACE Cash Express, Inc. (ACE) in the states of Texas, Arkansas and Pennsylvania, with the substantial majority of these transactions concentrated in the state of Texas. As of December 31, 2005, Republic had payday loans outstanding of approximately \$5 million through its contract with ACE. In 2005, Republic recognized net income of approximately \$1.7 million under the ACE contract, which represented approximately 5% of the Company s total net income for the period.

Previously, the Company also operated its payday loan program through a marketing and servicing relationship with Advance America in Texas and North Carolina. The contracts with Advance America were terminated in July 2005, and the Company no longer has any payday loans outstanding under these contracts. As a result, Republic will receive no payday loan income from the Advance America contracts in the future.

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All payday loans originated by Republic are subject to the revised Federal Deposit Insurance Corporation (FDIC) Guidance (the Guidance) on payday lending dated March 1, 2005, which became effective July 1, 2005. The Guidance essentially limits customers from having payday loans outstanding from any bank lender more than 90 days in the previous twelve months. FDIC guidance also requires that banks limit payday loans outstanding to the lesser of 25% of Tier I capital or the amount that actual capital levels exceed the well capitalized classification for Tier I and total capital. Based on the Company s capital levels at December 31, 2005, payday loans outstanding were significantly below the Banks regulatory limits.

By letter to Republic Bank & Trust Company of Indiana dated February 17, 2006, the FDIC cited inherent risks associated with payday lending activities and asked Republic Bank & Trust Company of Indiana to consider terminating this line of business. Republic Bank & Trust Company of Indiana voluntarily elected to terminate its

Internet payday loan program the week of February 20, 2006. The Internet payday loan program began operating in July 2005 and remained in a developmental stage until its termination date. During the fourth quarter of 2005, the Company recorded an after-tax net loss of approximately \$517,000 from its Internet payday loan program. The Company anticipates incurring approximately \$188,000 in additional pre-tax expense during the first quarter of 2006 related to exiting the Internet payday loan line of business.

By letter to Republic Bank & Trust Company dated February 17, 2006, the FDIC cited inherent risks associated with payday lending activities and asked Republic Bank & Trust Company to consider terminating this line of business. Consequently, on February 24, 2006, Republic Bank & Trust Company and ACE amended the agreement regarding Republic Bank & Trust Company's payday loan activities in Texas, Pennsylvania and Arkansas. With respect to Texas, Republic Bank & Trust Company ceased offering payday loans the week of February 27, 2006. With respect to Arkansas and Pennsylvania, Republic Bank & Trust Company will cease offering payday loans on June 30, 2006. During the fourth quarter of 2005, the Company recorded after-tax net income of approximately \$299,000 through its marketing/servicing agreement with ACE. The Company does not anticipate incurring any additional costs related to the termination of the ACE contract.

See additional discussion about the payday lending products under the sections titled: Item 1A. Risk Factors, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Footnote 20 Segment Information and Footnote 22 Subsequent Event of Item 8. Financial Statements and Supplementary Data.

Employees

As of December 31, 2005, Republic had 678 full-time equivalent employees. Altogether, the Company had 644 full-time and 67 part-time employees. None of the Company's employees are subject to a collective bargaining agreement, and Republic has never experienced a work stoppage.

Competition

The Bank actively competes with several local and regional retail and commercial banks, credit unions and mortgage companies for deposits, loans and other banking related financial services. There is intense competition in the Company's markets from other financial institutions, as well as other non bank companies that engage in similar activities. Some of the Company's competitors are not subject to the same degree of regulatory review and restrictions that apply to the Company and the Bank. In addition, the Bank must compete with much larger financial institutions that have greater financial resources than the Bank and, while predominantly headquartered in other states, aggressively compete for market share in Kentucky and southern Indiana. These competitors attempt to gain market share through their financial product mix, pricing strategies and banking center locations. Legislative developments related to interstate branching and banking in general, by providing large banking institutions easier access to a broader marketplace, are creating more pressure on smaller financial institutions to consolidate. The Bank also competes with insurance companies, consumer finance companies, investment banking firms and mutual fund managers. Retail establishments compete for certain loans by offering credit cards and retail installment contracts for the purchase of goods and merchandise. It is anticipated that competition from both bank and non bank entities will continue to remain strong in the near future.

Supervision and Regulation

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Republic and the Bank are subject to the laws, regulations and policies of various regulatory authorities. In particular, bank holding companies and their subsidiaries are directly impacted by the credit and monetary policies and operational rules of the Federal Reserve Board (FRB). Republic and the Bank are also subject to numerous federal and state laws and regulations affecting their business and must undergo periodic examinations by federal and state financial institution examiners. The operations and earnings of Republic and the Bank are affected not only by the laws and regulations applicable to the banking business, but also by the policies and interpretations of regulatory authorities.

The supervision and regulation of bank holding companies and their subsidiaries is intended primarily for the protection of depositors, the deposit insurance funds of the FDIC and the banking system as a whole, and not for the protection of bank holding company shareholders or creditors. Regulators have broad enforcement powers over bank holding companies and banks, including, but not limited to, the power to mandate or restrict particular actions, activities, or divestitures, impose substantial fines and other penalties for violations of laws and regulations, to issue

cease and desist or removal orders, to seek injunctions, to publicly disclose such actions and to police unsafe or unsound practices. In addition, Republic's non banking subsidiaries are also subject to regulation by other agencies.

The following sections summarize some of the laws to which the Company and the Bank are subject. The descriptions of applicable statutes and regulations are brief summaries of such statutes and regulations, do not purport to be complete, and are qualified in their entirety by reference to such statutes and regulations.

The Company

The Company is a bank holding company that has elected and presently maintains the status of a FHC, subject to certain restrictions attributable to its Community Reinvestment Act (CRA) rating under the BHCA. As such, it is subject to supervision, regulation and examination by the FRB. The BHCA and other federal laws subject bank and financial holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations. FHC status also compels the Company to maintain specified capital ratios, examination ratings and management ratings with respect to its operations.

Bank Acquisitions by Bank and FHCs Republic is required to obtain the prior approval of the FRB under the BHCA before it may, among other things, acquire all or substantially all of the assets of any bank, or ownership or control of any voting shares of any bank, if after such acquisition it would own or control, directly or indirectly, more than 5% of any class of the voting shares of such bank. In approving bank acquisitions by bank holding companies, the FRB is required to consider the financial and managerial resources and future prospects of the bank holding company and the bank involved, the convenience and needs of the communities to be served and various competitive factors. Consideration of financial resources generally focuses on capital adequacy, which is discussed below. Consideration of convenience and needs issues includes the parties' performance under the CRA. Under the CRA, all financial institutions have a continuing and affirmative obligation consistent with safe and sound operation to help meet the credit needs of their entire communities, including low to moderate income neighborhoods.

Under the BHCA, so long as it is at least adequately capitalized and adequately managed, Republic may purchase a bank, subject to regulatory approval, located inside or outside the states of Kentucky or Indiana. Similarly, an adequately capitalized and adequately managed bank holding company located outside of Kentucky or Indiana may purchase a bank located inside Kentucky or Indiana, subject to respective regulatory approval. In either case, however, state law restrictions may be placed on the acquisition of a bank that has been in existence for a limited amount of time, or would result in specified concentrations of deposits. For example, Kentucky law prohibits a bank holding company from acquiring control of banks located in Kentucky, if the holding company would then hold more than 15% of the total deposits of all federally insured depository institutions in Kentucky.

Financial Activities The activities permissible to bank holding companies and their affiliates were substantially expanded by the Gramm-Leach-Bliley Act (GLBA), effective March 11, 2000. The GLBA permits bank holding companies to qualify as FHCs that may engage in a broad range of financial activities, including underwriting, dealing in and making a market in securities, insurance underwriting and agency activities without geographic or other limitation, as well as merchant banking.

FHC regulators approve certain activities as financial in nature or incidental to financial activities, as well as define the procedures and requirement that allow a FHC to request the FRB's approval to conduct a financial activity, or an activity that is complementary to a financial activity. The Company is required to obtain prior FRB approval in order to engage in the financial activities identified in the GLBA or FRB regulations. Republic cannot commence or acquire any new financial activities since one of its depository institution subsidiaries received a less than satisfactory CRA rating. In addition, if any of its depository institution subsidiaries ceases to be well capitalized or well managed, and compliance is not achieved within 180 days, the Company may be forced, in effect, to cease conducting business as a FHC by divesting either its non banking financial activities or its bank activities. Moreover, Hart-Scott-Rodino antitrust filing requirements may apply to certain non bank acquisitions.

Subject to certain exceptions, insured state banks are permitted to control or hold an interest in a financial subsidiary that engages in a broader range of activities (such as securities underwriting) than are permissible for national banks to engage in directly, subject to any restrictions imposed on a bank under the laws of the state under which it is organized. Conducting financial activities through a bank subsidiary can impact capital adequacy and regulatory restrictions may apply to affiliate transactions between the bank and its financial subsidiaries.

Safe and Sound Banking Practice Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The FDIC, the Kentucky Office of Financial Institutions and the Indiana Department of Financial Institutions have similar restrictions with respect to the Bank.

Source of Strength Under FRB policy, a bank holding company is expected to act as a source of financial strength to each of its banking subsidiaries and to commit resources for their support. Such support may restrict the Company's ability to pay dividends, and may be required at times when, absent this FRB policy, a holding company may not be inclined to provide it. As noted below, a bank holding company may also be required to guarantee the capital restoration plan of an undercapitalized banking subsidiary and cross guarantee provisions, as described below, generally apply to the Company.

The USA Patriot Act The USA Patriot Act was signed into law on October 26, 2001. The USA Patriot Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, the USA Patriot Act takes measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Among other requirements, the USA Patriot Act requires banks to establish anti-money laundering programs, to adopt procedures and controls to detect and report money laundering, and to comply with certain enhanced recordkeeping obligations with respect to correspondent accounts of foreign banks. Compliance with these new requirements has not had a material effect on our operations.

The Bank

Republic Bank & Trust Company is a Kentucky chartered commercial banking and trust corporation and as such, it is subject to supervision and regulation by the FDIC and the Kentucky Office of Financial Institutions. Republic Bank & Trust Company of Indiana is an Indiana chartered commercial banking corporation and as such, it is subject to supervision and regulation by the FDIC and the Indiana Department of Financial Institutions. All deposits held by the Bank are insured by the FDIC. Such supervision and regulation subjects the Bank to special restrictions, requirements, potential enforcement actions and periodic examination by the FDIC and the respective Kentucky and Indiana banking regulators. As the FRB regulates the bank holding company, they have supervisory authority that directly affects the Bank.

The Kentucky and Indiana banking statutes prescribe the permissible activities in which a Kentucky or Indiana bank may engage and where those activities may be conducted. Kentucky's statutes contain a super parity provision that permits a well rated Kentucky banking corporation to engage in any banking activity in which a national or state bank operating in any other state or a federal savings association meeting the qualified thrift lender test and operating in any state could engage, provided it first obtains a legal opinion from counsel specifying the statutory or regulatory provisions that permit the activity.

Branching Kentucky law generally permits a Kentucky chartered bank to establish a branch office in any county in Kentucky. A Kentucky bank may also, subject to regulatory approval and certain restrictions, establish a branch office outside of Kentucky. Well capitalized Kentucky banks that have been in operation at least three years and that satisfy certain criteria relating to, among other things, their composite and management ratings, may establish a

branch in Kentucky without the approval of the Executive Director of the Kentucky Office of Financial Institutions, upon notice to the Office and any other state bank with its main office located in the county where the new branch will be located. Branching by all other banks requires the approval of the Executive Director of the Kentucky Office of Financial Institutions, who must ascertain and determine that the public convenience and advantage will be served and promoted and that there is reasonable probability of the successful operation of the branch. In any case, the transaction must also be approved by the FDIC, which considers a number of factors, including financial history, capital adequacy, earnings prospects, character of management, needs of the community and consistency with corporate powers. An out of state bank is permitted to establish branch offices in Kentucky only by merging with a Kentucky bank. *De novo* branching into Kentucky by an out of state bank is not permitted. This difficulty for out of state banks to branch into Kentucky may limit the ability of a Kentucky bank to branch into many states, as several states have reciprocity requirements for interstate branching.

Under Indiana law, an Indiana chartered bank may branch statewide and may establish and maintain a *de novo* branch or acquire a branch in a state other than Indiana, with the approval or consent of Indiana and the target state's authorities. An out of state bank may establish and maintain a *de novo* branch in Indiana and may establish and maintain a branch in Indiana through the acquisition of a branch, subject to reciprocity provisions and the prior approval of the bank's primary regulator and upon notice to the Indiana Department of Financial Institutions.

Restrictions on Affiliate Transactions Transactions between the Bank and its non banking affiliates, including the Company, are subject to Section 23A of the Federal Reserve Act. In general, Section 23A imposes limits on the amount of such transactions, and also requires certain levels of collateral for loans to affiliated parties. It also limits the amount of advances to third parties, which are collateralized by the securities, or obligations of the Company or its subsidiaries.

Affiliate transactions are also subject to Section 23B of the Federal Reserve Act which generally requires that certain transactions between the Bank and its affiliates be on terms substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with the Bank and other nonaffiliated persons.

The FRB promulgated Regulation W to implement Sections 23A and 23B. That regulation contains the foregoing restrictions and also addresses derivative transactions, overdraft facilities and other transactions between a bank and its non bank affiliates.

Restrictions on Distribution of Subsidiary Bank Dividends and Assets Dividends paid by Republic Bank & Trust Company have provided substantially all of the Company's operating funds in the past. Capital adequacy requirements and state law serve to limit the amount of dividends that may be paid by the Bank. Under federal law, the Bank cannot pay a dividend if, after paying the dividend, the Bank will be undercapitalized. The FRB or the FDIC may declare a dividend payment to be unsafe and unsound even though the Bank would continue to meet its capital requirements after the dividend. Under Kentucky and Indiana banking law, the dividends the Bank can pay during any calendar year are generally limited to its profits for that year, plus its retained net profits for the two preceding years, less any required transfers to surplus or to fund the retirement of preferred stock or debt, absent approval of the respective states' banking regulators. Management does not anticipate any restrictions on dividends to the Company from the Bank in the foreseeable future.

Deposit Insurance Assessments Currently, the FDIC maintains two funds for the insurance of deposits of financial institutions; the Bank Insurance Fund (BIF) for deposits originated by banks (including the Bank) and the Savings Association Insurance Fund (SAIF) for deposits originated by savings associations, including savings association deposits acquired by banks. The Bank must pay assessments to the FDIC for federal deposit insurance protection based on a risk based assessment system. Under this system, FDIC insured depository institutions pay insurance premiums at rates based on their risk classification. Institutions assigned to higher risk classifications (that is, institutions that pose a greater risk of loss to their respective deposit insurance funds) pay assessments at higher rates than institutions that pose a lower risk. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. In addition, the FDIC can impose special assessments in certain instances. The current range of the Company's BIF and SAIF assessments is between 0% and 0.33% of deposits.

The Deposit Insurance Funds Act of 1996 requires both BIF and SAIF insured institutions to share the cost of the Financing Corporation bonds, which were issued to initially fund the SAIF, through additional assessments on insured deposits. Financing Corporation assessments imposed on BIF insured deposits are presently estimated at 132 basis points.

Cross Guarantee Provisions The Federal Deposit Insurance Act contains a cross-guarantee provision which generally makes commonly controlled insured depository institutions liable to the FDIC for any losses incurred in connection with the failure of its sister depository institutions.

Consumer Laws and Regulations In addition to the laws and regulations discussed herein, the Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the discussion set forth herein is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act, the Fair Housing Act and the Fair and Accurate Transactions Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with clients when accepting deposits or originating loans. These laws also limit the Bank's ability to share information with affiliated and unaffiliated entities. The Bank is required to comply with the applicable provisions of all applicable consumer protection laws and regulations as part of its ongoing business operations.

Various consumers groups have, from time to time, questioned the fairness of payday lending and RALs, both products provided by the Company. *See additional discussion under the sections titled Item 1A. Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.*

Capital Adequacy Requirements

Capital Guidelines The FRB and the FDIC have substantially similar risk based and leverage ratio guidelines for banking organizations, which are intended to ensure that banking organizations have adequate capital related to the risk levels of assets and off balance sheet instruments. Under the risk based guidelines, specific categories of assets are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a risk weighted asset base. The guidelines require a minimum total risk based capital ratio of 8.0%, of which at least 4.0% is required to consist of Tier I capital elements (generally, common shareholders' equity, minority interests in the equity accounts of consolidated subsidiaries, non cumulative perpetual preferred stock, less goodwill and certain other intangible assets). Total capital is the sum of Tier I and Tier II capital. Tier II capital generally may consist of limited amounts of subordinated debt, qualifying hybrid capital instruments, other preferred stock, loan loss reserves and unrealized gains on certain equity securities. As of December 31, 2005, the Company's ratio of Tier I capital to total risk-weighted assets was 14.41% and its ratio of total capital to total risk weighted assets was 15.03%. As of December 31, 2005, Republic Bank & Trust Company's ratio of Tier I capital to total risk weighted assets was 10.82% and its ratio of total risk based capital to total risk weighted assets was 12.78%. Republic Bank & Trust Company of Indiana's Tier I capital to total risk weighted assets was 21.51% and its ratio of total risk based capital to total risk weighted assets was 22.76% at December 31, 2005.

In addition to the risk based capital guidelines, the FRB utilizes a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company's Tier I capital divided by its average total consolidated assets (less goodwill and certain other intangible assets). Certain highly rated bank holding companies may maintain a minimum leverage ratio of 3.0%, but other bank holding companies may be required to maintain a leverage ratio of up to 200 basis points above the regulatory minimum. As of December 31, 2005, the Company's leverage ratio was 9.47%. The FDIC's leverage guidelines require state banks to maintain Tier I capital of no less than 5% of average total assets, except in the case of certain highly rated banks for which the requirement is 3% of average total assets. As of December 31, 2005, Republic Bank & Trust Company's and Republic Bank & Trust Company of Indiana's leverage ratios were 7.12% and 13.62%, respectively.

The federal banking agencies' risk based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria, assuming that they have the highest regulatory capital rating. Banking organizations not meeting these criteria are required to operate with capital positions above the minimum ratios. FRB guidelines also provide that banking organizations experiencing internal growth or making acquisitions may be expected to maintain strong capital positions above the minimum supervisory levels, without significant reliance on intangible assets. The FDIC may establish higher minimum capital adequacy requirements if, for example, a bank has previously received warranted special regulatory attention or, among other factors, has a high susceptibility to interest rate risk.

Corrective Measures for Capital Deficiencies The federal banking regulators are required to take prompt corrective action with respect to capital deficient institutions. Agency regulations define, for each capital category, the levels at which institutions are well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Under these regulations, a well capitalized bank has a total risk based capital ratio of 10% or higher; a Tier I risk-based capital ratio of 6% or higher; a leverage ratio of 5% or higher; and is not subject to any written agreement, order or directive requiring it to maintain a specific capital level for any capital measure. An adequately capitalized bank has a total risk-based capital ratio of 8% or higher; a Tier I risk-based capital ratio of 4% or higher; a leverage ratio of 4% or higher (3% or higher if the bank was rated a CAMEL 1 in its most recent examination report and is not experiencing significant growth); and does not meet the criteria for a well capitalized bank. A bank is undercapitalized if it fails to meet any one of the ratios required to be adequately capitalized.

Undercapitalized institutions are required to submit a capital restoration plan, which must be guaranteed by any holding company of the institution. In addition, agency regulations contain broad restrictions on certain activities of undercapitalized institutions including asset growth, acquisitions, branch establishment, and expansion into new lines of business. With certain exceptions, an insured depository institution is prohibited from making capital distributions, including dividends and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment. A bank's capital classification will also affect its ability to accept brokered deposits. Under the FDIC regulations, a bank may not lawfully accept, roll over or renew brokered deposits, unless either it is well capitalized or it is adequately capitalized and receives a waiver from the FDIC.

If a banking institution's capital decreases below acceptable levels, the FDIC's enforcement powers become more enhanced. A significantly undercapitalized institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management and other restrictions. The FDIC has only very limited discretion in dealing with a critically undercapitalized institution and is normally required to appoint a receiver or conservator.

Banks with risk based capital and leverage ratios below the required minimums may also be subject to certain administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing in the event the institution has no tangible capital.

In addition, a bank holding company that elects to be treated as a FHC may face significant consequences if its banks fail to maintain the required capital and management ratings, including entering into an agreement with the FRB which imposes limitations on its operations and may even require divestitures. Such possible ramifications may limit the ability of a bank subsidiary to significantly expand or acquire less than well capitalized and well managed institutions. More specifically, the FRB's regulations require a FHC to notify the FRB within 15 days of becoming aware that any depository institution controlled by the company has ceased to become well capitalized or well managed. If the FRB determines that a FHC controls a depository institution that is not well capitalized or well managed, the FRB will notify the FHC that it is not in compliance with applicable requirements and may require the FHC to enter into an agreement acceptable to the FRB to correct any deficiencies. Until such deficiencies are corrected, the FRB may impose any limitations or conditions on the conduct or activities of the FHC and its affiliates that the FRB determines are appropriate, and the FHC may not commence any additional activity or acquire control of any company under Section 4(k) of the BHC Act without prior FRB approval. Unless the period of time for compliance is extended by the FRB, if an FHC fails to correct deficiencies in maintaining its qualification for FHC status within 180 days of entering into an agreement with the FRB, the FRB may order divestiture of any depository institution controlled by the company. A company may comply with a divestiture order by ceasing to engage in any financial or other activity that would not be permissible for a bank holding company that has not elected to be treated as a FHC.

Under the Federal Deposit Insurance Corporation Improvement Act (FDICIA), each federal banking agency has prescribed, by regulation, non-capital safety and soundness standards for institutions under its authority. These standards cover internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, such other operational and managerial standards as the agency determines to be appropriate, and standards for asset quality, earnings and stock valuation. An institution which fails to meet these standards must develop a plan acceptable to the agency, specifying the steps that the institution will take to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions. Management believes that the Bank currently satisfies all such standards.

Legislative Initiatives

The U.S. Congress and state legislative bodies continually consider proposals for altering the structure, regulation and competitive relationships of financial institutions. It cannot be predicted whether, or in what form, any of these potential proposals or regulatory initiatives will be adopted, the impact they will have on the financial institutions industry or the extent to which the business or financial condition of the Company and its subsidiaries may be affected.

Statistical Disclosures

The statistical information required by Item 1. *Business* may be found under Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Item 1A. Risk Factors.

FACTORS THAT MAY AFFECT FUTURE RESULTS

There are factors, many beyond our control, which may significantly change the results or expectations of the Company. Some of these factors are described below in the sections titled *Company Factors* and *Industry Factors*; however, many are described in the other sections of this Form 10-K document.

Company Factors

The Company's accounting policies and estimates are critical components of the Company's presentation of its financial statements. Our management must exercise judgment in selecting and adopting various accounting policies and in applying estimates. Actual outcomes may be materially different than amounts previously estimated. Management has identified two accounting policies as being critical to the presentation of the Company's financial statements. These policies are described in Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations* under the section titled *Critical Accounting Policies and Estimates* and relate to the allowance for loan losses and the valuation of mortgage servicing rights. Due to the inherent uncertainty of estimates, we cannot provide any assurance that the Company will not significantly increase its allowance for loan losses if actual losses are more than the amount reserved or recognize a significant provision for impairment of its mortgage servicing rights.

The Company's lines of business and products not typically associated with traditional banking expose the Company's earnings to additional risks and uncertainties. In addition to traditional banking and mortgage banking products, the Company provides RALs, ERCs/ERDs, payday loans and Overdraft Honor deposit accounts. The following details specific risk factors related to these lines of business:

RALs represent a significant business risk, and if the Company terminated the business it would materially impact the earnings of the Company. TRS offers bank products to facilitate the payment of tax refunds for customers that electronically file their tax returns. The Company is one of only a few financial institutions in the U.S. that provides this service to taxpayers. Under this program, the taxpayer may receive a RAL or an ERC/ERD. In return, the Company charges a fee for the service. There is credit risk associated with a RAL because the money is disbursed to the client prior to the Company receiving the client's refund from the Internal Revenue Service (IRS). There is minimal credit risk with an ERC/ERD because the Company does not disburse the funds to the client until the Company has received the refund from the state or IRS.

Various consumer groups have, from time to time, questioned the fairness of the TRS program and have accused this industry of charging excessive rates of interest, via the fee, and engaging in predatory lending practices. Consumer groups have also claimed that customers are not adequately advised that a RAL is a loan product and that alternative, less expensive means of obtaining the tax refund proceeds may be available. Pressure from these groups, regulatory or legislative changes or material litigation could result in the Company exiting this business

or selected markets of this business at any time.

The Company's liquidity risk is increased during the first quarter of each year due to the RAL program. The Company has committed to the electronic filers and tax preparers that it will make RALs available to their customers under the terms of its contracts with them. This requires the Company to estimate liquidity needs for the RAL program well in advance of the tax season. If management materially overestimates the need for liquidity during the tax season, a significant expense could be incurred with no offsetting revenue stream. If management materially underestimates the need for liquidity during the tax season, the Bank could experience a significant shortfall of capital needed to fund RALs and could potentially be required to stop originating new RALs.

Exiting this line of business, either voluntarily or involuntarily, would significantly reduce the Company's earnings. *See additional discussion about this product under the sections titled Item 1. Business, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Footnote 20 Segment Information of Item 8. Financial Statements and Supplementary Data.*

Our mortgage banking activities would be significantly adversely impacted by rising long-term interest rates. Changes in interest rates can impact the gain on sale of loans, loan origination fees and loan servicing fees, which account for a significant portion of mortgage banking income. A decline in interest rates generally results in higher demand for mortgage products, while an increase in rates generally results in reduced demand. If demand increases, mortgage banking income will be positively impacted by more gains on sale; however, the valuation of existing mortgage servicing rights will decrease and may result in a significant impairment. In addition to the previously mentioned risks, a decline in demand for mortgage banking products could also adversely impact other programs/products such as home equity lending, title insurance commissions and service charges on deposit accounts. *See additional discussion about this product under the sections titled Item 1. Business, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Footnote 20 Segment Information of Item 8. Financial Statements and Supplementary Data.*

Payday loans offered through third party Marketer/Service providers represent a material component of the Company's historical earnings. Payday loans originated through a marketer/service provider arrangement are transactions whereby customers pay a fixed fee to receive a cash advance in exchange for a check. Various federal and state agencies have questioned whether this business should be permitted by member banks. Subsequent to December 31, 2005, the FDIC specifically cited inherent risks associated with payday lending activities and asked Republic to consider terminating this line of business.

In July 2005, the Company's two Marketing/Service contracts with Advance America were terminated. The termination of the Advance America contracts had a material adverse impact on the earnings of the Company during the second half of 2005. In addition and as a result of the FDIC letter described above, Republic reached an agreement with ACE subsequent to December 31, 2005 to terminate their marketing/service agreement with the Company for Texas during the first quarter of 2006 and for Pennsylvania and Arkansas during the second quarter of 2006. The termination of all of these contracts will have a material adverse impact on the Company's 2006 earnings when comparing them to the Company's 2005, 2004 and 2003 earnings. *See additional discussion about this product under the sections titled Item 1. Business, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Footnote 20 Segment Information and Footnote 22 Subsequent Event of Item 8 Financial Statements and Supplementary Data.*

The Company's Overdraft Honor program represents a significant business risk, and if the Company terminated the program it would materially impact the earnings of the Company. There can be no assurance that the Company's regulators, or others, will not impose additional limitations on this program or prohibit the Company from offering the program. Republic's Overdraft Honor program permits selected clients to overdraft their checking accounts up to a predetermined dollar amount up to \$750, for the Company's customary fee. Clients' checking accounts that have been current for a certain period of time are allowed to enter the program. Under regulatory guidelines, this service is not considered an extension of credit, but rather is considered a fee for paying checks when sufficient funds are not otherwise available. This fee, if computed as a percentage of the amount overdrawn, results in a high rate of interest when annualized and thus is considered excessive by some consumer groups. Additional limitations or elimination, or adverse modifications to this program, either voluntarily or involuntarily, could significantly reduce Company earnings.

The Company's stock generally has a low average daily trading volume, which limits a shareholder's ability to quickly accumulate or quickly sell large numbers of shares of Republic's stock without causing negative price fluctuations. Also, Republic's stock price can fluctuate

widely in response to a variety of factors, such as actual or anticipated variations in the Company's operating results, recommendations by securities analysts, operating and stock price performance of other companies, news reports, results of litigation, regulatory actions or changes in government regulations, among other factors. In addition, a low average daily trading volume can lead to significant price swings even when a relatively small number of shares are being traded.

Industry Factors

Fluctuations in interest rates may negatively impact our banking business. Republic's core source of income from operations consists of net interest income, which is equal to the difference between interest income received on interest-earning assets (usually loans and investment securities) and the interest expenses incurred in connection with interest-bearing liabilities (usually deposits and borrowings). These rates are highly sensitive to many factors beyond our control, including general economic conditions, both domestic and foreign, and the monetary and fiscal policies of various governmental and regulatory authorities. Republic's net interest income can be affected significantly by changes in market interest rates. Changes in interest rates may reduce Republic's net interest income as the difference between interest income and interest expense decreases. As a result, Republic has adopted asset and liability management policies to minimize potential adverse effects of changes in interest rates on net interest income, primarily by altering the mix and maturity of loans, investments and funding sources. However, even with these policies in place, a change in interest rates could negatively impact the Company's results of operations or financial position.

An increase in interest rates could also have a negative impact on Republic's results of operations by reducing the ability of our clients to repay their outstanding loans, which could not only result in increased loan defaults, foreclosures and charge offs, but may also likely necessitate further increases to Republic's allowance for loan losses.

The Company is significantly impacted by the regulatory, fiscal and monetary policies of federal and state governments which could negatively impact the Company's liquidity position. These policies can materially affect the value of the Company's financial instruments and earnings and can also adversely affect the Company's borrowers and their ability to repay their outstanding loans. Also, failure to comply with laws, regulations or policies, or adverse examination findings, could result in significant penalties, negatively impact operations, or result in other sanctions to the Company.

The Board of Governors of the Federal Reserve Bank regulates the supply of money and credit in the U.S.. Its policies determine, in large part, our cost of funds for lending and investing and the return we earn on these loans and investments, all of which impact our net interest margin.

The Company and the Bank are heavily regulated at both federal and state levels. This regulatory oversight is primarily intended to protect depositors, the federal deposit insurance funds and the banking system as a whole, not the shareholders of the Company. Changes in policies, regulations and statutes could significantly impact the earnings or products of Republic.

Federal and state laws and regulations govern numerous matters including changes in the ownership or control of banks and bank holding companies, maintenance of adequate capital and the financial condition of a financial institution, permissible types, amounts and terms of extensions of credit and investments, permissible non-banking activities, the level of reserves against deposits and restrictions on dividend payments. Various federal and state regulatory agencies possess cease and desist powers, and other authority to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulations. The Federal Reserve Bank possesses similar powers with respect to bank holding companies. These, and other restrictions, can limit in varying degrees, the manner in which Republic conducts its business.

Republic is subject to regulatory capital adequacy guidelines, and if we fail to meet these guidelines our financial condition may be adversely affected. Under regulatory capital adequacy guidelines, and other regulatory requirements, Republic and the Bank must meet guidelines that include quantitative measures of assets, liabilities and certain off balance sheet items, subject to qualitative judgments by regulators about components, risk weightings and other factors. If Republic fails to meet these minimum capital guidelines and other regulatory requirements, Republic's financial condition will be materially and adversely affected. Republic's failure to maintain the status of well capitalized under our regulatory framework, or well managed under regulatory exam procedures, or regulatory violations, could compromise our status as a FHC and related eligibility for a streamlined review process for acquisition proposals and limit financial product diversification.

Our financial condition and earnings could be negatively impacted to the extent the Company relies on information that is false, misleading or inaccurate. The Company relies on the accuracy and completeness of information provided by vendors, clients and other counterparties. In deciding whether to extend credit or enter into transactions with other parties, the Company relies on information furnished by, or on behalf of, clients or entities related to that client.

Defaults in the repayment of loans may negatively impact our business. When borrowers default on obligations of one or more of their loans, it may result in lost principal and interest income and increased operating expenses, as a result of the increased allocation of management time and resources to the collection and work out of the loans. In certain situations where collection efforts are unsuccessful or acceptable work out arrangements cannot be reached, the Company may have to charge off the loan in part or in whole.

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

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

The Company's executive offices, principal support and operational functions are located at 601 West Market Street in Louisville, Kentucky. Republic has 32 banking centers located in Kentucky and two banking centers in southern Indiana. At December 31, 2005, Republic had two LPOs (Republic Finance) located in Louisville, Kentucky. In January 2006, the Company opened an LPO in Fort Wright, Kentucky and has announced plans to open an LPO in Tampa Florida in 2006.

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The location of Republic's facilities, their respective approximate square footage and their form of occupancy are as follows:

Bank Offices	Square Footage	Owned (O)/ Leased (L)
<u>Kentucky Banking Centers</u>		
Louisville Metropolitan Area		
2801 Bardstown Road, Louisville	5,000	L (1)
601 West Market Street, Louisville	51,000	L (1)
661 South Hurstbourne Parkway, Louisville	42,000	L (1)
4921 Brownsboro Road, Louisville	2,000	L
4655 Outer Loop, Louisville	3,000	L
5250 Dixie Highway, Louisville	5,000	O/L (2)
3950 Kresge Way, Suite 108, Louisville	900	L
9600 Brownsboro Road, Louisville	27,000	L (1)
3726 Lexington Road, Louisville	4,000	L
10100 Brookridge Village Blvd., Louisville	5,000	O/L (2)
9101 U.S. Highway 42, Prospect	3,000	O/L (2)
2028 West Broadway, Suite 105, Louisville	3,000	L
11330 Main Street, Middletown	6,000	O/L (2)
3902 Taylorsville Road, Louisville	4,000	O/L (2)
224 East Muhammad Ali Blvd., Louisville	400	L
3811 Ruckriegel Parkway, Louisville	4,000	O/L (2)
5125 New Cut Road, Louisville	4,000	O/L (2)
1420 Poplar Level Road, Louisville	3,000	O
3605 Fern Valley Road, Suite 101, Louisville	4,000	L
Lexington		
651 Perimeter Drive	4,000	L
2401 Harrodsburg Road	6,000	O
641 East Euclid Avenue	3,000	O
3098 Helmsdale Place	5,000	O/L (2)
3608 Walden Drive	4,000	O/L (2)