REPUBLIC BANCORP INC /KY/
Form 10-K
March 14, 2013

U.S. 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, 2012

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:

Title of each class	Name of each exchange on which registered
Class A Common Stock	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None
(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.

o Yes þ 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.

o Yes þ 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.

þYes o 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).

þYes o 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.

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

o Yes þ 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, 2012 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $223,268,529 (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 February 15, 2013 was 18,658,066 and 2,264,247.

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, 2013 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 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."

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.

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

Broadly speaking, forward-looking statements include:

- projections of revenue, income, expenses, 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, non-performing loans, impaired loans and troubled debt restructurings ("TDR"s);
- 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 loan losses;
- deteriorating credit quality, including changes in the interest rate environment and reducing interest margins;
- future credit losses and the overall adequacy of the allowance for loan losses;
- potential write-downs of other real estate owned ("OREO");
- potential recast adjustments to acquisition day fair values ("day-one fair values");
- future short-term and long-term interest rates and the respective impact on net interest margin, net interest spread, net income, liquidity and capital;
- future long-term interest rates and their impact on the demand for Mortgage Banking products and warehouse lines of credit;
- the future value of mortgage servicing rights;
- the future regulatory viability of the Tax Refund Solutions ("TRS") division;
- the future operating performance of TRS, including the impact of the cessation of Refund Anticipation Loans ("RALs");

- future Refund Transfers (“RTs”), formerly referred to as Electronic Refund Check/Electronic Refund Deposit (“ERC/ERD” or “AR/ARD”), volume for TRS;
- the impact to net income resulting from the termination of material TRS contracts;
- future revenues associated with RTs at TRS;
- future financial performance of Republic Payment Solutions (“RPS”);
- future financial performance of Republic Credit Solutions (“RCS”);
- potential impairment of investment securities;
- the extent to which regulations written and implemented by the 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;
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;
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, including but not limited to the acquisitions of failed banks.

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."

PART I

Item 1 Business.

Republic Bancorp, Inc. ("Republic" or the "Company") is a bank holding company headquartered in Louisville, Kentucky. Republic is the parent company of Republic Bank & Trust Company ("RB&T") and Republic Bank ("RB") (collectively referred together as the "Bank"), 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. Incorporated in 1974, Republic became a bank holding company when RB&T became authorized to conduct commercial banking business in Kentucky in 1981.

RB&T's banking centers are primarily located in Kentucky and Southern Indiana. Additionally, RB&T has one banking center in metropolitan Minneapolis, Minnesota and one in metropolitan Nashville, Tennessee. RB's banking centers are primarily located in metropolitan Tampa, Florida; with one office in Cincinnati, Ohio.

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 results of operations of the Bank. At December 31, 2012, Republic had total assets of $3.4 billion, total deposits of $2.0 billion and total stockholders' equity of $537 million. Based on total assets as of December 31, 2012, Republic ranked as the second largest Kentucky-based bank holding company. 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 its 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 through its 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

As of December 31, 2012, the Company was divided into three distinct business operating segments: Traditional Banking, Mortgage Banking and Republic Processing Group ("RPG"). During 2012, the Company realigned the previously reported TRS segment as a division of the newly formed RPG segment. Along with the TRS division, Republic Payment Solutions ("RPS") and Republic Credit Solutions ("RCS") also operate as divisions of the newly formed RPG segment. The RPS and RCS divisions are considered immaterial for segment reporting. Net income, total assets and net interest margin by segment for the years ended December 31, 2012, 2011 and 2010 are presented below:

	Year Ended December 31, 2012			
(dollars in thousands)	Traditional Banking	Mortgage Banking	Republic Processing Group	Total Company
Net income	$ 55,174	$ 3,279	$ 60,886	$ 119,339
Total assets	3,371,934	15,752	6,713	3,394,399
Net interest margin	3.64 %	NM	NM	4.82 %

	Year Ended December 31, 2011			
(dollars in thousands)	Traditional Banking	Mortgage Banking	Republic Processing Group	Total Company
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	Republic Processing Group	Total Company
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 %

NM – Not Meaningful

For expanded segment financial data see Footnote 21 "Segment Information" of Part II Item 8 "Financial Statements and Supplementary Data."

(I) Traditional Banking segment

As of December 31, 2012, in addition to an internet delivery channel, Republic had 44 full-service banking centers with locations as follows:

- Kentucky – 34
  - o Metropolitan Louisville – 20
  - o Central Kentucky – 11
    - § Elizabethtown – 1
    - § Frankfort – 1
    - § Georgetown – 1
    - § Lexington – 5
    - § Owensboro – 2
    - § Shelbyville, Kentucky - 1
  - o Northern Kentucky – 3
    - § Covington, Kentucky – 1
    - § Florence, Kentucky – 1
    - § Independence, Kentucky - 1
- Southern Indiana – 3
  - o Floyds Knobs – 1
  - o Jeffersonville – 1
  - o New Albany – 1
- Metropolitan Tampa, Florida – 4*
- Metropolitan Cincinnati, Ohio – 1*
- Metropolitan Nashville, Tennessee – 1
- Metropolitan Minneapolis, Minnesota – 1

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* - Denotes a RB location

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 Nashville, Tennessee from the Federal Deposit Insurance Corporations (“FDIC”), as receiver for TCB. This acquisition of a failed bank represented a single banking center located in metropolitan Nashville and RB&T’s initial entrance into the Nashville market.

Effective September 7, 2012 RB&T acquired substantially all of the assets and assumed substantially all of the liabilities of First Commercial Bank (“FCB”), headquartered in Bloomington, Minnesota from the FDIC, as receiver for FCB. This acquisition of a failed bank represented a single banking center located in metropolitan Minneapolis and RB&T’s initial entrance into the Minneapolis market.

Lending Activities

The Bank principally markets its lending products and services through the following delivery channels:

Mortgage Lending – A major component of the Bank’s lending activities consists of the origination of single family, first lien residential real estate loans collateralized by owner occupied property, predominately located in the Bank’s primary market areas. Additionally, the Bank offers home equity loans and home equity lines of credit. These loans are originated through the Bank’s retail banking center network.

The Bank generally retains adjustable rate mortgage ("ARM") single family, first lien residential real estate loans with fixed terms up to ten years. All mortgage loans retained on balance sheet are included as a component of the Company's "Traditional Banking" segment and are discussed below and elsewhere in this filing.

Single family, first lien residential real estate loans with fixed rate terms of 15, 20 and 30 years are generally sold into the secondary market. Their accompanying mortgage servicing rights ("MSRs"), which may be either sold or retained, are included as a component of the Company's "Mortgage Banking" segment and are discussed below and elsewhere in this filing. In order to take advantage of the steep yield curve during 2012, 2011 and 2010, the Bank elected to retain approximately $3 million, $45 million and $65 million of 15-year fixed rate single family, first lien residential real estate loans. In addition, during 2012 and 2011, the Bank retained approximately $8 million and $14 million of 30-year fixed rate single family, first lien residential real estate loans.

As a result of the historically low interest rate environment the last four 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 a result of these challenges, the Bank created its Home Equity Amortizing Loan ("HEAL") product. 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, 2012 and 2011, the Bank had $229 million and $58 million of HEALs outstanding.

The Bank offers ARMs with rate adjustments tied to various indices with specified minimum and maximum interest rate adjustments. The interest rates on a majority of these loans are adjusted after their fixed rate terms on an annual basis, with most having limitations on upward adjustments over the life of the loan. These loans typically feature amortization periods of up to 30 years and have fixed rate features for one, three, five, seven or ten years. While there is no requirement for a client to refinance their loan at the end of the fixed rate period, clients have historically done so the substantial majority of the time as most clients are interest rate risk-averse on their first mortgage loans. The Bank is able to mitigate interest rate risk with the ARM product because the substantial majority of these loans refinance at the end of their fixed rate periods.

The Bank generally charges a higher interest rate for its ARM products if the property is not owner occupied. It has been the Bank's experience that the proportions of fixed rate and ARM originations depend in large part on the interest rate environment. As interest rates decline, there is generally a reduced demand for ARMs and an increased demand for fixed rate secondary market loans. Alternatively, as interest rates rise, there is generally an increased demand for ARMs, as consumer demand shifts away from fixed rate secondary market loans.

Prior to the fourth quarter of 2009, in the Bank's primary markets, loans collateralized by single family residential real estate were generally originated in amounts up to 90% of appraised value; however, the Bank commonly included home equity lines of credit in conjunction with its first liens, often increasing the loan-to-value of the entire relationship to 100%. During the fourth quarter of 2009, the Bank reduced the maximum combined first and second lien position loan-to-value ratio for new residential real estate originations in all markets to 80%. These loan-to-value standards remain in place with the exception of the Bank's HEAL product, which is allowed a maximum first and second lien loan-to-value of up to 90%. Additionally, with the exception of HEALs under $150,000, the Bank requires mortgagee's title insurance on first lien residential real estate loans to protect the Bank against defects in its liens on the properties that collateralize the loans. The Bank normally requires title, fire, and extended casualty insurance to be obtained by the borrower and when required by applicable regulations, flood insurance. The Bank maintains an errors and omissions insurance policy to protect the Bank against loss in the event a borrower fails to maintain proper fire and other hazard insurance policies.

Although the contractual loan payment periods for single family, first lien residential real estate ARM loans are generally for a 15 to 30-year period, such loans often remain outstanding for only their fixed rate periods, which is significantly shorter than the contractual terms. The Bank generally charges a penalty for prepayment of ARM loans if

they are refinanced prior to the completion of their fixed rate period.

The Bank does, on occasion, purchase single family, first lien residential real estate loans in low to moderate income areas in order to meet its obligations under the Community Reinvestment Act ("CRA"). The Bank generally applies secondary market underwriting criteria to these purchased loans and generally reserves the right to reject particular loans from a loan package being purchased that do not meet its underwriting criteria. In connection with loan purchases, the Bank receives various representations and warranties from the sellers of the loans regarding the quality and characteristics of the loans.

Commercial Lending – The Bank's commercial real estate and multi-family ("commercial real estate") loans are typically secured by improved property such as office buildings, medical facilities, retail centers, warehouses, apartment buildings, condominiums, schools, religious institutions and other types of commercial real estate.

The Bank's commercial real estate loans are generally made to small-to-medium sized businesses in amounts up to 80% or 85%, depending on the market, of the lesser of the appraised value or purchase price of the property. Commercial real estate loans generally have fixed or variable interest rates indexed to Prime and have terms of three, five, seven or ten years with amortizing terms up to 20 years. Although the contractual loan payment period for these types of loans is generally a 20-year period, such loans often remain outstanding for only their fixed rate periods, which is significantly shorter than their contractual terms. The Bank generally charges a penalty for prepayment of commercial real estate loans if the loans are refinanced prior to the completion of their fixed rate period.

Loans secured by commercial real estate generally are larger and often involve greater risks than single family, first lien residential real estate loans. Because payments on loans secured by commercial real estate properties often are dependent on successful operation or management of the properties or businesses operated from the properties, repayment of such loans may be impacted to a greater extent by adverse conditions in the national and local economies. The Bank seeks to minimize these risks in a variety of ways, including limiting the size of commercial real estate loans and generally restricting such loans to its primary market area. In determining whether to originate commercial real estate loans, the Bank also considers such factors as the financial condition of the borrower and guarantor and the debt service coverage of the property when applicable.

A broad range of short-to-medium-term collateralized commercial loans are made available to businesses for working capital, business expansion (including acquisitions of real estate and improvements), and the purchase of equipment or machinery. The Bank also offers a variety of commercial loans, including term loans, lines of credit and equipment and receivables financing. Equipment loans are typically originated on a fixed-term basis ranging from one to five years.

As mentioned above, the availability of funds for the repayment of commercial loans may be substantially dependent on the success of the business itself. Further, the collateral underlying the loans, which may depreciate over time, usually cannot be appraised with as much precision as residential real estate and may fluctuate in value over the term of the loan.

Warehouse Lines of Credit – In June 2011, RB&T began offering warehouse lines of credit, through which RB&T 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 RB&T. 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. RB&T receives the sale proceeds of each loan directly from the investor and applies the funds to pay off the warehouse advance and related accrued interest and fees. The remaining proceeds are credited to the mortgage banking customer.

Construction Lending – The Bank originates residential construction real estate loans to finance the construction of single family dwellings. Construction loans also are made to contractors to build single family dwellings under contract. Construction loans are generally offered on the same basis as other single family, first lien residential real estate loans, except that a larger percentage down payment is typically required.

The Bank finances the construction of individual owner occupied houses on the basis of written underwriting and construction loan management guidelines. Construction loans are structured either to be converted to permanent loans with the Bank at the end of the construction phase or to be paid off at closing. Construction loans on residential properties are generally made in amounts up to 80% of anticipated cost of construction. Construction loans to developers and builders generally have terms of nine to 12 months. Loan proceeds on builders' projects are disbursed in increments as construction progresses and as property inspections warrant.

The Bank also may make residential land development loans to real estate developers for the acquisition, development and construction of residential subdivisions. Such loans may involve additional risks because the funds are advanced to fund the project while under construction, and the project is of uncertain value prior to completion. Moreover, because it is relatively difficult to evaluate completion value accurately, the total amount of funds required to complete a development may be subject to change. Repayments of these loans depend to a large degree on results of operations, management of properties and conditions in the real estate market or the economy.

Consumer Lending – Traditional consumer loans made by the Bank include home improvement and home equity loans, as well as other secured and unsecured personal loans in addition to credit cards. With the exception of home equity loans, which are actively marketed in conjunction with single family, first lien residential real estate loans, other traditional consumer loan products, while available, are not and have not been actively promoted in the Bank's markets.

Private Banking – The Bank provides financial products and services to high net worth individuals through its Private Banking Department. The Bank's Private Banking officers have extensive banking experience and are trained to meet the unique financial needs of high net worth individuals.

Treasury Management Services – The Bank provides various deposit products designed for commercial business customers located throughout its market areas. Lockbox processing, remote deposit capture, business on-line banking, account reconciliation and Automated Clearing House ("ACH") processing are additional services offered to commercial businesses through the Bank's Treasury Management Department.

Internet Banking – The Bank expands its market penetration and service delivery by offering customers Internet banking services and products through its website, www.republicbank.com.

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

See additional discussion regarding Lending Activities under the sections titled:

- Part I Item 1A "Risk Factors"
- Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations"
- Part II Item 8 "Financial Statements and Supplementary Data."
  - o Footnote 4 "Loans and Allowance for Loan Losses"
  - o Footnote 21 "Segment Information"

(II) Mortgage Banking segment

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

As part of the sale of loans with servicing retained, the Bank records an MSR. MSRs represent an estimate of the present value of future cash servicing income, net of estimated costs, which the Bank expects to receive on loans sold with servicing retained by the Bank. MSRs are capitalized as separate assets. This transaction is posted to net gain on sale of loans, a component of "Mortgage Banking income" in the income statement. Management considers all relevant factors, in addition to pricing considerations from other servicers, to estimate the fair value of the MSRs to be recorded when the loans are initially sold with servicing retained by 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 quarterly based on the weighted average remaining life of the underlying loans. The amortization is recorded as a reduction to Mortgage Banking income.

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

Due to the reduction in long-term interest rates during 2012 and 2011, the fair value of the MSR portfolio declined as prepayment speed assumptions were adjusted upwards resulting in net impairment charges of $142,000 and $203,000 for the years ending December 31, 2012 and 2011.

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.

See additional discussion regarding Mortgage Banking under the sections titled:

- Part I Item 1A "Risk Factors"
- Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations"
- Part II Item 8 "Financial Statements and Supplementary Data."
  - o Footnote 4 "Loans and Allowance for Loan Losses"
  - o Footnote 21 "Segment Information"

(III) Republic Processing Group segment

Nationally, through RB&T, RPG facilitates the receipt and payment of federal and state tax refund products under the TRS division. Nationally, through RB, the RPS division is preparing to become an issuing bank to offer general purpose reloadable prepaid debit, payroll, gift and incentive cards through third party program managers. Nationally, through RB&T, the RCS division is preparing to pilot short-term consumer credit products on-line.

Tax Refund Solutions division:

Republic, through its TRS division, is one of a limited number of financial institutions that facilitates the payment of federal and state tax refund products through third-party tax preparers located throughout the U.S., as well as tax-preparation software providers. The TRS division's primary tax-related products have historically included RTs and RALs. Substantially all of the business generated by the TRS division occurs in the first quarter of the year. The TRS division traditionally operates at a loss during the second half of the year, during which time the division incurs costs preparing for the upcoming year's first quarter tax season.

Effective December 8, 2011, RB&T entered into an agreement with the FDIC resolving its differences regarding the TRS division. 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 FDIC's Amended Notice of Charges dated May 3, 2011 and the lawsuit filed against the FDIC by RB&T. As required by this settlement, RB&T discontinued its offering of the RAL product effective April 30, 2012. The Company's RAL revenue was $45 million in 2012.

Additionally, as a result of the Agreement, TRS is subject to additional oversight requirements through its Electronic Return Originator Oversight ("ERO") Plan, the ("ERO Plan"). The ERO Plan, developed by RB&T and approved by the FDIC, implemented increased training and audits of RB&T's ERO partners, who make RB&T's tax products available to taxpayers across the nation. In addition, various components of the Agreement required RB&T to meet certain implementation, completion and reporting timelines, including the establishment of a compliance management system to appropriately assess, measure, monitor and control third-party risk and ensure compliance with consumer laws.

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

RTs 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 RTs are reported as non-interest income under the line item "Refund transfer fees."

RALs were short-term consumer loans offered to taxpayers that were secured by the customer's anticipated tax refund, which represented the source of repayment. The fees earned on RALs are reported as interest income under the line item "Loans, including fees."

Termination of Material Tax Refund Solutions Contracts

For the first quarter 2012 tax season, RB&T conducted business with Jackson Hewitt Inc. ("JHI"), a subsidiary of Jackson Hewitt Tax Service Inc. ("JH"), and JTH Tax Inc. d/b/a Liberty Tax Service ("Liberty") to offer RAL and RT products. JH and Liberty provide preparation services of federal, state and local individual income tax returns in the U.S. through a nationwide network of franchised and company-owned tax-preparer offices.

On August 27, 2012, RB&T received a termination notice to the Amended and Restated Marketing and Servicing Agreement, dated November 29, 2011 (the "M&S Agreement"), with Liberty related to RB&T's RT products, as well as RB&T's previously offered RAL product.

Prior to its termination, the restated M&S Agreement had, among other things:

- set the term of the M&S Agreement to expire on October 16, 2014;
- named RB&T as the exclusive provider of all RT products and the previously offered RAL product for a mutually agreed upon list of locations through the term of the contract; and
- provided that either party may at its option terminate the M&S Agreement upon twenty (20) 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 was no longer commercially feasible or practical, or no longer provided 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; and provided that in the case of clause (ii) above, 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, regulatory or external events or occurrences.

Liberty's termination letter stated that it was terminating the M&S Agreement effective September 16, 2012, under section 9(b) of the M&S Agreement, with the termination provisions of this section listed in bullet point (3) above. Under the terms of the M&S Agreement, a termination under section 9(b) requires no early termination penalty for either party.

RB&T has notified Liberty that RB&T believes there has been no occurrence that would give rise to termination of the M&S Agreement and that RB&T disagrees with Liberty's interpretation of the M&S Agreement relative to Liberty's ability to terminate. RB&T has also notified Liberty that RB&T believes that the mediation process to settle differences under the M&S Agreement is complete and that it intends to demand arbitration under the terms of the M&S Agreement seeking damages for what RB&T believes was Liberty's wrongful termination of the M&S Agreement.

On September 18, 2012, RB&T received a termination notice to the Amended and Restated Program Agreement, dated August 3, 2011 (the "Program Agreement"), with JHI and Jackson Hewitt Technology Services LLC ("JHTSL") related to RB&T's RT products, as well as RB&T's previously offered RAL product. Prior to its termination, the Program Agreement had, among other things, set the term of the Program Agreement to expire on October 14, 2014.

JHTSL's termination letter stated that they were terminating the Program Agreement pursuant to Sections 8.2(i) and 8.2(ii) because, among other reasons, RB&T "cannot offer and provide RALs to customers of designated EROs during Tax Seasons 2013 and 2014 as required by the Program Agreement." RB&T believes there has been no occurrence that would give rise to termination of the Program Agreement and RB&T has filed a demand for arbitration with JH under the terms of the M&S Agreement seeking damages for what RB&T believes was JH's wrongful termination of the M&S Agreement. JH has answered RB&T's demand and filed a counterclaim seeking damages from RB&T for breach of the M&S Agreement. The parties have agreed to arbitrate the matter with Judicial Arbitration and Mediation Services ("JAMS") in New York, New York in June 2013. Procedurally, JAMS typically provides its decision within 30 days after the close of the hearing. JAMS can also extend that time, however, and if extended, the decision may not occur for an extended period of time following the completion of the June arbitration. The Company believes the arbitration ruling will likely occur prior to the end of 2013; however, no assurances can be made regarding an exact time frame.

Approximately 40% and 40% of the TRS division's gross revenue was derived from JH tax offices for the years ended as of December 31, 2012 and 2011, with another 19% and 20% from Liberty tax offices for the same respective periods. Termination of these contracts will have a material adverse impact to the Company's results of operations in 2013 and beyond.

Tax Refund Solutions Funding – First Quarter 2013 Tax Season

Due to the elimination of RAL product effective April 30, 2012, RB&T will have no funding requirements specific to the TRS division for the first quarter 2013 tax season.

Tax Refund Solutions Funding – First Quarter 2012 Tax Season

During the fourth quarter of 2011, in anticipation of first quarter 2012 RAL program, RB&T obtained $300 million in Federal Home Loan Bank ("FHLB") advances with a weighted average life of three months with a weighted average interest rate of 0.10%. In January 2012, the Company obtained $252 million of short-term brokered deposits to complete its funding needs for the first quarter 2012 tax season. These brokered deposits had a weighted average maturity of 44 days with a weighted average cost of approximately 0.39%. The total weighted average funding cost for the first quarter 2012 tax season was 0.23%.

For additional discussion regarding TRS, a division of Republic Processing Group, see the following sections:

- Part I Item 1 "Business"
  - o General Business Overview
    - § Republic Processing Group segment
- Part I Item 1A "Risk Factors"
  - o Republic Processing Group
- 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 4 "Loans and Allowance for Loan Losses"
  - o Footnote 21 "Segment Information"

Republic Payment Solutions division:

Nationally, through RB, the RPS division is preparing to become an issuing bank to offer general purpose reloadable prepaid debit, payroll, gift and incentive cards through third party program managers. If successful, this program is expected to:

- generate a low-cost deposit source;
- generate float revenue from the previously mentioned low cost deposit source;
- serve as a source of fee income; and
- generate debit card interchange revenue.

For the projected near-term, as the prepaid card program is being established, the operating results of the RPS division are expected to be immaterial to the Company's overall results of operations and will be reported as part of the RPG business operating segment. The RPS division will not be reported as a separate business operating segment until such time, if any, that it becomes material to the Company's overall results of operations.

The Company divides prepaid cards into two general categories: reloadable and non-reloadable cards.

Reloadable Cards: These types of cards are considered general purpose reloadable ("GPR") cards. These cards may take the form of payroll cards issued to an employee by an employer to receive the direct deposit of their payroll. GPR cards can also be issued to a consumer at a retail location or mailed to a consumer after completing an on-line application. GPR cards can be reloaded multiple times with a consumer's payroll, government benefit, a federal or state tax refund or through cash reload networks located at retail locations. Reloadable cards are generally open loop

cards as described below.

Non-Reloadable Cards: These are generally one-time use cards that are only active until the funds initially loaded to the card are spent. These types of cards are considered gift or incentive cards. These cards may be open loop or closed loop, as described below. Normally these types of cards are used for the purchase of goods or services at retail locations and cannot be used to receive cash.

Prepaid cards may be open loop, closed loop or semi-closed loop. Open loop cards can be used to receive cash at ATM locations or purchase goods or services by PIN or signature at retail locations. These cards can be used virtually anywhere that Visa® or MasterCard® is accepted. Closed loop cards can only be used at a specific merchant. Semi-closed loop cards can be used at several merchants such as a shopping mall.

The prepaid card market is one of the fastest growing segments of the payments industry in the U.S. This market has experienced significant growth in recent years due to consumers and merchants embracing improved technology, greater convenience, more product choices and greater flexibility. Prepaid cards have also proven to be an attractive alternative to traditional bank accounts for certain segments of the population, particularly those without, or who could not qualify for, a checking or savings account.

The RPS division will work with various third parties to distribute prepaid cards to consumers throughout the U.S. The Company will also likely work with these third parties to develop additional financial services for consumers to increase the functionality of the program and prepaid card usage.

Republic Credit Solutions division:

Nationally, through RB&T, the RCS division is preparing to pilot short-term consumer credit products through on-line channels. In general, the credit products are expected to be unsecured small dollar consumer loans with maturities of 30 days or more, and are dependent on various factors including the consumer's ability to repay. All RCS programs will be piloted for a period of time to ensure all aspects are meeting expectations before continuation.

RB&T management preliminarily expects to fund RCS during its pilot phase with a nominal amount of capital. At the conclusion of its pilot phase, RB&T management will determine whether or not to expand or modify the program based on the results of the pilot phase. As with most start-up ventures, management expects the pilot to operate at a loss in its initial stages. Given the speculative nature of the program, management cannot currently predict how much money the program may lose during the pilot phase, however, RB&T does not plan to put more than $5 million of capital at risk until such time the program may become profitable.

Employees

As of December 31, 2012, Republic had 797 full-time equivalent employees. Altogether, Republic had 774 full-time and 46 part-time employees. None of the Company’s employees are subject to a collective bargaining agreement, and Republic has never experienced a work stoppage. The Company believes that its employee relations have been and continue to be good.

Competition

Traditional Banking

The Traditional Bank encounters intense competition in its market areas in originating loans, attracting deposits, and selling other banking related financial services. The deregulation of the banking industry, the ability to create financial services holding companies to engage in a wide range of financial services other than banking and the widespread enactment of state laws which permit multi-bank holding companies, as well as the availability of nationwide interstate banking, has created a highly competitive environment for financial institutions. In one or more aspects of the Bank’s business, the Bank competes with local and regional retail and commercial banks, other savings banks, credit unions, finance companies, mortgage companies and other financial intermediaries operating in Kentucky, Indiana, Florida, Ohio, Tennessee and Minnesota. The Bank also competes with insurance companies, consumer finance companies, investment banking firms and mutual fund managers. 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. Many of the Bank's primary competitors, some of which are affiliated with large bank holding companies or other larger financial based institutions, have substantially greater resources, larger established customer bases, higher lending limits, more extensive banking center networks, numerous automatic teller machines, and greater advertising and marketing budgets. They may also offer services that the Bank does not currently provide. 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, can act to create more pressure on smaller financial institutions to consolidate. It is anticipated that competition from both bank and non-bank entities will continue to remain strong in the foreseeable future.

The primary factors in competing for bank products are convenient office locations, flexible hours, interest rates, services, internet banking, range of lending services offered and lending fees. Additionally, the Bank believes that an emphasis on highly personalized service tailored to individual customer needs, together with the local character of the Bank's business and its "community bank" management philosophy will continue to enhance the Bank's ability to compete successfully in its market areas.

Mortgage Banking

The Bank competes with mortgage bankers, mortgage brokers and financial institutions for the origination and funding of mortgage loans. Many competitors have branch offices in the same areas where the Bank's loan officers operate. The Bank also competes with mortgage companies whose focus is on telemarketing and internet lending.

Republic Processing Group

Tax Refund Solutions division

With regard to the TRS division, the discontinuance of the RAL product after April 30, 2012 and the previously mentioned termination of TRS contracts will have a material adverse impact on the profitability of RB&T's RT products. The TRS division faces direct competition for RT market share from independently-owned processing groups partnered with banks. Independent processing groups that were unable to offer RAL products have historically been at a competitive disadvantage to banks who could offer RALs. Without the ability to originate RALs after the 2012 tax season, RB&T is facing increased competition in the RT marketplace. In addition to the loss of volume resulting from additional competitors, RB&T will also incur substantial pressure on its profit margin for its RT products, as it is forced to compete with existing rebate and pricing incentives in the RT marketplace.

In addition, as a result of RB&T's Agreement with the FDIC, the TRS division is subject to additional oversight requirements not currently imposed on its competitors. Management believes these additional requirements make attracting new relationships and retaining existing relationships more difficult for RB&T.

Republic Credit Solutions division

The small dollar consumer loan industry is highly competitive. Management believes principal competitors for its small dollar loan pilot program will be billers who accept late payments for a fee, overdraft privilege programs of other banks and credit unions, as well as payday lenders.

The roll out of RB&T's pilot small dollar loan program will be on-line through various billers across the United States. New entrants to the on-line, small dollar consumer loan market must successfully implement underwriting and fraud prevention processes, overcome consumer brand loyalty and have sufficient capital to withstand early losses associated with unseasoned loan portfolios. In addition, there are substantial regulatory and compliance costs, including the need for expertise to customize products associated with licenses to lend in various states in the U.S.

Republic Payment Solutions division

The prepaid card industry is subject to intense and increasing competition. RB will compete with a number of companies that market different types of prepaid card products; such as GPR, gift, incentive and corporate disbursement cards. There is also competition from large retailers who are seeking to integrate more financial services into their product offerings. Increased competition is also expected from alternative financial services providers who are often well-positioned to service the underbanked and who may wish to develop their own prepaid card programs.

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Supervision and Regulation

RB&T is a Kentucky-chartered commercial banking and trust corporation and as such, it is subject to supervision and regulation by the Federal Deposit Insurance Corporation (“FDIC”) and the Kentucky Department of Financial Institutions (“KDFI”). Republic Bank is a federally-chartered savings bank institution subject to the supervision and regulation by the Office of the Comptroller of Currency (“OCC”). Republic Bank is also subject to limited regulation by the FDIC which insures the Bank’s deposits.

All deposits, subject to regulatory prescribed limitations, held by the Bank are insured by the FDIC. Such supervision and regulation subjects the Bank to restrictions, requirements, potential enforcement actions and examinations by the FDIC, the OCC and Kentucky banking regulators. The Federal Reserve Bank (“FRB”) regulates the Company with monetary policies and operational rules that directly affect the Bank. The Bank is a member of the FHLB System. As a member of the FHLB system, the Bank must also comply with applicable regulations of the Federal Housing Finance Board. Regulation by these agencies is intended primarily for the protection of the Bank’s depositors and the Deposit Insurance Fund (“DIF”) and not for the benefit of the Company’s stockholders. The Bank’s activities are also regulated under consumer protection laws applicable to the Bank’s lending, deposit and other activities. An adverse ruling against the Company under these laws could have a material adverse effect on results.

Republic Bancorp, Inc. is a legal entity separate and distinct from the Bank and is subject to direct supervision by the FRB. Republic Bancorp’s principal sources of funds are cash dividends from the Bank and other subsidiaries. The Company files regular routine reports with the FRB in addition to the Bank’s filings with the FDIC and OCC concerning business activities and financial condition. These regulatory agencies conduct periodic examinations to review the Company’s safety and soundness and compliance with various compliance and regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which a bank or savings bank may engage and is intended primarily to provide protection for the DIF and the Bank’s depositors. Regulators have extensive discretion in connection with their supervisory and enforcement authority and examination policies, including, but not limited to, policies that can materially impact the classification of assets and the establishment of adequate loan loss reserves. Any change in regulatory requirements and policies, whether by the FRB, the FDIC, the OCC or state or federal legislation, could have a material adverse impact on Company operations.

Enforcement Powers – Regulators have broad enforcement powers over banks, savings banks and their holding companies, including, but not limited to: the power to mandate or restrict particular actions, activities, or divestitures; impose monetary fines and other penalties for violations of laws and regulations; issue cease and desist or removal orders; seek injunctions; publicly disclose such actions; and prohibit unsafe or unsound practices. This authority includes both informal actions and formal actions to effect corrective actions or sanctions. In addition, Republic is subject to regulation and enforcement actions by other state and federal agencies.

Certain regulatory requirements applicable to the Company and the Bank are referred to below or elsewhere in this filing. The description of statutory provisions and regulations applicable to banks, savings banks and their holding companies set forth in this filing does not purport to be a complete description of such statutes and regulations. Their effect on the Company and the Bank and is qualified in its entirety by reference to the actual laws and regulations.

Prepaid Cards Regulation

The cards marketed by the RPS division are subject to various federal and state laws and regulations, including those discussed below. Though not all prepaid card products are expressly subject to the provisions of the Electronic Fund Transfers Act(“EFTA”) and the FRB’s Regulation E, with the exception of those provisions comprising the Credit Card Accountability, Responsibility, and Disclosure Act of 2009, or (“CARD Act”); the Bank intends to treat prepaid products such as GPR cards as being subject to certain provisions of the EFTA and Regulation E when applicable,

such as those related to disclosure requirements, periodic reporting, error resolution procedures and liability limitations.

State Wage Payment Laws and Regulations

The use of payroll card programs as means for an employer to remit wages or other compensation to its employees or independent contractors is governed by state labor laws related to wage payments. RPS payroll cards are designed to allow employers to comply with such applicable state wage and hour laws. Most states permit the use of payroll cards as a method of paying wages to employees either through statutory provisions allowing such use, or, in the absence of specific statutory guidance, the adoption by state labor departments of formal or informal policies allowing for the use of such cards. Nearly every state allowing payroll cards places certain requirements and/or restrictions on their use as a wage payment method. The most common of these requirements and/or restrictions involve obtaining the prior written consent of the employee, limitations on payroll card fees and disclosure requirements.

Card Association and Payment Network Operating Rules

In providing certain services, the Bank is required to comply with the operating rules promulgated by various card associations and network organizations, including certain data security standards, with such obligations arising as a condition to access or otherwise participate in the relevant card association or network organization. Each card association and network organization may audit the Bank from time to time to ensure compliance with these standards. The Bank maintains appropriate policies and programs and adapts business practices in order to comply with all applicable rules and standards.

I. The Company

Acquisitions – Republic is required to obtain the prior approval of the FRB under the Bank Holding Company Act ("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 addition, the Bank must obtain regulatory approval prior to entering into certain transactions, such as adding new banking offices and mergers with, or acquisitions of, other financial institutions. 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 target 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, specifically including low to moderate income persons and neighborhoods.

Under the BHCA, so long as it is at least adequately capitalized, adequately managed and not subject to any regulatory restrictions, the Company may purchase a bank, subject to regulatory approval. Similarly, an adequately capitalized and adequately managed bank holding company located outside of Kentucky or Florida may purchase a bank located inside Kentucky or Florida, subject to appropriate regulatory approvals. In either case, however, state law restrictions may be placed on the acquisition of a state 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 for bank holding companies and their affiliates were substantially expanded by the Gramm-Leach-Bliley Act ("GLBA"), issued in March of 2000. The GLBA permits bank holding companies that qualify as, and elect to be, Financial Holding Company's ("FHCs"), to engage in a broad range of financial activities, including underwriting securities, dealing in and making a market in securities, insurance underwriting and agency activities without geographic or other limitation, as well as merchant banking. To maintain its status as a FHC, the Company and all of its affiliated depository institutions must be well-capitalized, well-managed, and have at least a "satisfactory" CRA rating. The Company currently qualifies as a FHC.

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 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 – The FRB does not permit bank holding companies to engage in unsafe and unsound banking practices. The FDIC, the KDFI and the OCC have similar restrictions with respect to the Bank.

Pursuant to the Federal Deposit Insurance Act, the FDIC and OCC have adopted a set of guidelines prescribing safety and soundness standards. These guidelines establish general standards relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings standards, compensation, fees and benefits. In general, the guidelines require appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines.

Source of Strength Doctrine – 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. A bank holding company may also be required to guarantee the capital restoration plan of an undercapitalized banking subsidiary and cross-guarantee provisions (as between RB&T and Republic Bank) generally apply to the Company. In addition, any capital loans by the Company to its bank subsidiaries are subordinate in right of payment to deposits and to certain other indebtedness of the bank subsidiary. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of subsidiary banks will be assumed by the bankruptcy trustee and entitled to a priority of payment. The Dodd-Frank Act codifies the Federal Reserve Board's existing "source of strength" policy that holding companies act as a source of strength to their insured institution subsidiaries by providing capital, liquidity and other support in times of distress.

Office of Foreign Asset Control ("OFAC") – The Company and the Bank, like all U.S. companies and individuals, are prohibited from transacting business with certain individuals and entities named on the OFAC's list of Specially Designated Nationals and Blocked Persons. Failure to comply may result in fines and other penalties. The OFAC issued guidance for financial institutions in which it asserted that it may, in its discretion, examine institutions determined to be high risk or to be lacking in their efforts to comply with these prohibitions.

Code of Ethics – The Company has adopted a code of ethics that applies to all employees, including the Company's principal executive, financial and accounting officers. A copy of the Company's code of ethics is available on the Company's website. The Company intends to disclose information about any amendments to, or waivers from, the code of ethics that are required to be disclosed under applicable SEC regulations by providing appropriate information on the Company's website. If at any time the code of ethics is not available on the Company's website, the Company will provide a copy of it free of charge upon written request.

II. The Bank

The Kentucky and federal banking statutes prescribe the permissible activities in which a Kentucky bank or federal savings 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 chartered 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 KDFI, upon notice to the KDFI 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 KDFI, who must ascertain and determine that the public convenience and advantage will be served and promoted and that there is a 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. Previously, an out-of-state bank was permitted to establish branch offices in Kentucky only by merging with a Kentucky bank. De novo branching into Kentucky by out-of-state banks was not permitted. This difficulty for out-of-state banks to branch into Kentucky limited the ability of Kentucky chartered banks to branch into many states, as several states have reciprocity requirements for interstate branching.

Section 613 of the Dodd-Frank Act effectively eliminated the interstate branching restrictions set forth in the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, thus eliminating the corresponding state law restrictions. Banks located in any state may now de novo branch in any other state, including Kentucky. Such unlimited branching power will likely increase competition within the markets in which the Company and the Bank operate.

Under federal regulations, Republic Bank may establish and operate branches in any state within the U.S. with the prior approval of the OCC. Highly rated federal savings banks that satisfy certain regulatory requirements may establish branches without prior OCC approval, provided the federal savings bank publishes notice of its establishment of a new branch, and notifies the OCC of the establishment of the branch, and no person files a comment with the OCC opposing the proposed branch. OCC and FDIC regulations also restrict the Company’s ability to open new banking offices of RB&T or Republic Bank. In either case, the Company must publish notice of the proposed office in area newspapers and, if objections are made, the new office may be delayed or disapproved.

Affiliate Transaction Restrictions – Transactions between the Bank and its affiliates, including the Company and its subsidiaries, are subject to FDIC and OCC regulations, the FRB's Regulations O and W, and Sections 23A, 23B, 22(g) and 22(h) of the Federal Reserve Act ("FRA"). In general, these transactions must be on terms and conditions that are consistent with safe and sound banking practices and substantially the same, or at least as favorable to the institution or its subsidiary, as those for comparable transactions with non-affiliated parties. In addition, certain types of these transactions referred to as "covered transactions" are subject to quantitative limits based on a percentage of the Bank's capital, thereby restricting the total dollar amount of transactions the Bank may engage in with each individual affiliate and with all affiliates in the aggregate. Affiliates must pledge qualifying collateral in amounts between 100% and 130% of the covered transaction in order to receive loans from the Bank. In addition, applicable regulations prohibit a savings association from lending to any of its affiliates that engage in activities that are not permissible for bank holding companies and from purchasing low-quality assets from an affiliate or purchasing the securities of any affiliate, other than a subsidiary. Limitations are also imposed on loans and extensions of credit by an institution to its executive officers, directors and principal stockholders and each of their related interests.

The FRB promulgated Regulation W to implement Sections 23A and 23B of the FRA. That regulation contains many of 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 – Banking regulators may declare a dividend payment to be unsafe and unsound even if the Bank continues to meet its capital requirements after the dividend. Dividends paid by RB&T provide substantially all of the Company's operating funds. Regulatory requirements serve to limit the amount of dividends that may be paid by the Bank. Under federal regulations, the Bank cannot pay a dividend if, after paying the dividend, the Bank would be undercapitalized.

Under Kentucky and federal banking regulations, 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 state or federal banking regulators. FDIC regulations also require all insured depository institutions to remain in a safe and sound condition, as defined in regulations, as a condition of having federal deposit insurance.

Federal Deposit Insurance Assessments – All Bank deposits are insured to the maximum extent permitted by the DIF. These bank deposits are backed by the full faith and credit of the U.S. Government. The DIF is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged in 2006. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, insured institutions. It also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious threat to the DIF.

The Dodd-Frank Act permanently increased deposit insurance on most accounts to $250,000 per depositor, retroactive to January 1, 2009. In addition, pursuant to Section 13(c)(4)(G) of the Federal Deposit Insurance Act, the FDIC implemented two temporary programs to provide deposit insurance for the full amount of most non-interest bearing transaction deposit accounts through the end of 2012 and to guarantee certain unsecured debt of financial institutions and their holding companies through December 2012. These programs were not extended past December 2012.

As part of a plan to restore the reserve ratio to 1.15%, in 2009, the FDIC imposed a special assessment on all insured institutions equal to five basis points of assets less Tier 1 capital as of June 30, 2009, payable on September 30, 2009, in order to cover losses to the DIF resulting from bank failures. The amount of Republic's special assessment, which was paid on September 30, 2009, was $1.4 million.

In November 2009, the FDIC adopted the final rule amending the assessment regulations to require insured depository institutions to prepay their quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011,

and 2012, on December 30, 2009, along with each institution's risk-based assessment for the third quarter of 2009. Republic prepaid $11.5 million in deposit insurance assessments on December 30, 2009. As of December 31, 2012, RB&T had $2.9 million in prepaid balance outstanding that will be refunded in June 2013 by the FDIC.

In addition to the Deposit Insurance Premium, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize the predecessor to the DIF. These assessments will continue until the Financing Corporation ("FICO") bonds mature between 2017 through 2019.

The FDIC's risk-based premium system provides for quarterly assessments. Each insured institution is placed in one of four risk categories depending on supervisory and capital considerations. Within its risk category, an institution is assigned to an initial base assessment rate which is then adjusted to determine its final assessment rate based on its brokered deposits, secured liabilities and unsecured debt. The FDIC may adjust the scale uniformly from one quarter to the next, except that no adjustment can deviate more than three basis points from the base scale without notice and comment. No institution may pay a dividend if in default of the federal deposit insurance assessment.

On February 7, 2011, effective April 1, 2011, the FDIC Board of Directors adopted a final rule, which redefined the deposit insurance assessment base as required by the Dodd-Frank Act. The final rule:

- Redefined the deposit insurance assessment base as average consolidated total assets minus average tangible equity (defined as Tier I Capital);
- Made generally conforming changes to the unsecured debt and brokered deposit adjustments to assessment rates;
- Created a depository institution debt adjustment;
- Elminated the secured liability adjustment; and
- Adopted a new assessment rate schedule, and, in lieu of dividends, other rate schedules when the reserve ratio reaches certain levels.

The FDIC is authorized to set the reserve ratio for the DIF annually at between 1.15% and 1.50% of estimated insured deposits. The Dodd-Frank Act mandates that the statutory minimum reserve ratio of the DIF increase from 1.15% to 1.35% of insured deposits by September 30, 2020. Banks with assets of less than $10 billion are exempt from any additional assessments necessary to increase the reserve fund above 1.15%.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It may also suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances which would result in termination of the Bank's Federal's deposit insurance.

Republic Bank is required to pay assessments to the OCC to fund its operations. The general assessments, paid on a semi-annual basis, are based upon total assets, including consolidated subsidiaries, as reported in the institution's latest quarterly call report, the institution's financial condition and the complexity of its asset portfolio.

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 their transactions with banks. While the discussion set forth in this filing is not exhaustive, these laws and regulations include Regulation E, the Truth in Savings Act, Check Clearing for the 21st Century Act and the Expedited Funds Availability Act, among others. These federal laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with consumers when accepting deposits. Certain laws also limit the Bank's ability to share information with affiliated and unaffiliated entities. The Bank is required to comply with all applicable consumer protection laws and regulations as part of its ongoing business operations.

Regulation E – In November 2009, the FRB announced its amendment of Regulation E. The amendment prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machine ("ATM") and one-time debit card transactions, unless a consumer affirmatively consents, or opts in, to the overdraft service for those types of transactions. Before opting in, the consumer must be provided a notice that explains the financial institution's overdraft services, including the fees associated with the service, and the consumer's choices. The final rules require institutions to provide consumers who do not opt in with the same account terms, conditions, and features (including pricing) that they provide to consumers who do opt in. For consumers who do not opt in, the institution would be prohibited from charging overdraft fees for any overdrafts it pays on ATM and one-time debit card transactions.

The Bank earns a substantial majority of its fee income related to overdrafts 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 had historically earned more than 60% of its 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.

Prohibitions Against Tying Arrangements – The Bank is subject to prohibitions on certain tying arrangements. A depository institution is prohibited, subject to certain exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional product or service from the institution or its affiliates or not obtain services of a competitor of the institution.

The USA Patriot Act ("Patriot Act"), Bank Secrecy Act ("BSA") and Anti-Money Laundering ("AML") – The Patriot Act was enacted after September 11, 2001, to provide the federal government with powers to prevent, detect, and prosecute terrorism and international money laundering, and has resulted in promulgation of several regulations that have a direct impact on financial institutions. There are a number of programs that financial institutions must have in place such as: (i) BSA/AML controls to manage risk; (ii) Customer Identification Programs to determine the true identity of customers, document and verify the information, and determine whether the customer appears on any federal government list of known or suspected terrorists or terrorist organizations; and (iii) monitoring for the timely detection and reporting of suspicious activity and reportable transactions. Title III of the Patriot Act takes measures intended to encourage information sharing among financial institutions, bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, savings banks, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act. Among other requirements, the Patriot Act imposes the following obligations on financial institutions:

- Establishment of enhanced anti-money laundering programs;
- Establishment of a program specifying procedures for obtaining identifying information from customers seeking to open new accounts;
- Establishment of enhanced due diligence policies, procedures and controls designed to detect and report money laundering;
- Prohibitions on correspondent accounts for foreign shell banks; and
- Compliance with record keeping obligations with respect to correspondent accounts of foreign banks.

Depositor Preference – The Federal Deposit Insurance Act ("FDIA") provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including depositors whose deposits are payable only outside of the U.S. and the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Liability of Commonly Controlled Institutions – FDIC-insured depository institutions can be held liable for any loss incurred, or reasonably expected to be incurred, by the FDIC due to the default of another FDIC-insured depository institution controlled by the same bank holding company, or for any assistance provided by the FDIC to another FDIC-insured depository institution controlled by the same bank holding company that is in danger of default. "Default" generally means the appointment of a conservator or receiver. "In danger of default" generally means the existence of certain conditions indicating that default is likely to occur in the absence of regulatory assistance. Such a

"cross-guarantee" claim against a depository institution is generally superior in right of payment to claims of the holding company and its affiliates against that depository institution. At this time, RB&T and Republic Bank are the only insured depository institutions controlled by the Company for this purpose. However, if the Company were to control other FDIC-insured depository institutions in the future, the cross-guarantee would apply to all such FDIC-insured depository institutions.

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Federal Home Loan Bank System – The FHLB provides credit to its members, which include savings banks, commercial banks, insurance companies, credit unions, and other entities. The FHLB system is currently divided into twelve federally chartered regional FHLBs which are regulated by the Federal Housing Finance Board. The Bank is a member and owns capital stock in FHLB Cincinnati and FHLB Atlanta. The amount of capital stock the Bank must own depends on its balance of outstanding advances. It is required to acquire and hold shares in an amount at least equal to 1% of the aggregate principal amount of its unpaid single family residential real estate loans and similar obligations at the beginning of each year, or 1/20th of its outstanding advances from the FHLB, whichever is greater. Advances are secured by pledges of loans, mortgage backed securities and capital stock of the FHLB. FHLBs also purchase mortgages in the secondary market through their Mortgage Purchase Program ("MPP"). The Bank has never sold loans to the MPP.

In the event of a default on an advance, the Federal Home Loan Bank Act establishes priority of the FHLB's claim over various other claims. Regulations provide that each FHLB has joint and several liability for the obligations of the other FHLBs in the system. In the event a FHLB falls below its minimum capital requirements, the FHLB may seek to require its members to purchase additional capital stock of the FHLB. If problems within the FHLB system were to occur, it could adversely affect the pricing or availability of advances, the amount and timing of dividends on capital stock issued by the FHLBs to members, or the ability of members to have their FHLB capital stock redeemed on a timely basis. Congress continues to consider various proposals which could establish a new regulatory structure for the FHLB system, as well as for other government-sponsored entities. The Bank cannot predict at this time, which, if any, of these proposals may be adopted or what effect they would have on the Bank's business.

Federal Reserve System – Under regulations of the FRB, the Bank is required to maintain non interest-earning reserves against its transaction accounts (primarily NOW and regular checking accounts). The Bank is in compliance with the foregoing reserve requirements. Required reserves must be maintained in the form of vault cash, a non interest-bearing account at the FRB, or a pass-through account as defined by the FRB. The effect of this reserve requirement is to reduce the Bank's interest-earning assets. The balances maintained to meet the reserve requirements imposed by the FRB may be used to satisfy liquidity requirements imposed by the FDIC or OCC. The Bank is authorized to borrow from the FRB discount window.

General Lending Regulations

Pursuant to FDIC and OCC regulations, the Bank generally may extend credit as authorized under federal law without regard to state laws purporting to regulate or affect its credit activities, other than state contract and commercial laws, real property laws, homestead laws, tort laws, criminal laws and other state laws designated by the FDIC and OCC. While the discussion set forth in this filing is not exhaustive, these federal laws and regulations include but are not limited to the following:

Community Reinvestment Act
Home Mortgage Disclosure Act
Equal Credit Opportunity Act
Truth in Lending Act
Real Estate Settlement Procedures Act
Fair Credit Reporting Act

Community Reinvestment Act ("CRA") – Under the CRA, financial institutions have a continuing and affirmative obligation to help meet the credit needs of their entire community, including low and moderate income neighborhoods, consistent with safe and sound banking practices. The CRA does not establish specific lending requirements or programs for the Bank, nor does it limit the Bank's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. In particular, the CRA

assessment system focuses on three tests:

- a lending test, to evaluate the institution's record of making loans in its assessment areas;
- an investment test, to evaluate the institution's record of investing in community development projects, affordable housing and programs benefiting low or moderate income individuals and businesses in its assessment area or a broader area that includes its assessment area; and
- a service test, to evaluate the institution's delivery of services through its retail banking channels and the extent and innovativeness of its community development services.

The CRA requires all institutions to make public disclosure of their CRA ratings. In December 2011, RB&T received a "Satisfactory" CRA Performance Evaluation. In August 2012 RB received an "Outstanding" CRA Performance Evaluation. A copy of each of the public section of each of those CRA Performance Evaluations is available to the public upon request.

Home Mortgage Disclosure Act ("HMDA") – The HMDA has grown out of public concern over credit shortages in certain urban neighborhoods. One purpose of HMDA is to provide public information that will help show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. HMDA also includes a "fair lending" aspect that requires the collection and disclosure of data about applicant and borrower characteristics, as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes. The HMDA requires institutions to report data regarding applications for loans for the purchase or improvement of single family and multi-family dwellings, as well as information concerning originations and purchases of such loans. Federal bank regulators rely, in part, upon data provided under HMDA to determine whether depository institutions engage in discriminatory lending practices. The appropriate federal banking agency, or in some cases the Department of Housing and Urban Development, enforces compliance with HMDA and implements its regulations. Administrative sanctions, including civil money penalties, may be imposed by supervisory agencies for violations of the HMDA.

Equal Credit Opportunity Act; Fair Housing Act ("ECOA") – The ECOA prohibits discrimination against an applicant in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs or good faith exercise of any rights under the Consumer Credit Protection Act. Under the Fair Housing Act, it is unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. Among other things, these laws prohibit a lender from denying or discouraging credit on a discriminatory basis, making excessively low appraisals of property based on racial considerations, or charging excessive rates or imposing more stringent loan terms or conditions on a discriminatory basis. In addition to private actions by aggrieved borrowers or applicants for actual and punitive damages, the U.S. Department of Justice and other regulatory agencies can take enforcement action seeking injunctive and other equitable relief or sanctions for alleged violations.

Truth in Lending Act ("TLA") – The TLA is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As result of the TLA, all creditors must use the same credit terminology and expressions of rates, and disclose the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule for each proposed loan. Violations of the TLA may result in regulatory sanctions and in the imposition of both civil and, in the case of willful violations, criminal penalties. Under certain circumstances, the TLA also provides a consumer with a right of rescission, which if exercised within three business days would require the creditor to reimburse any amount paid by the consumer to the creditor or to a third party in connection with the loan, including finance charges, application fees, commitment fees, title search fees and appraisal fees. Consumers may also seek actual and punitive damages for violations of the TLA.

Real Estate Settlement Procedures Act ("RESPA") – The RESPA requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. The RESPA also prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts. Violations of the RESPA may result in imposition of penalties, including: (i) civil liability equal to three times the amount of any charge paid for the settlement services or civil liability of up to $1,000 per claimant, depending on the violation; (ii) awards of court costs and attorneys' fees; and (iii) fines of not more than $10,000 or imprisonment for not more than one year, or both.

Fair Credit Reporting Act ("FACT") – The FACT requires the Bank to adopt and implement a written identity theft prevention program, paying particular attention to several identified "red flag" events. The program must assess the validity of address change requests for card issuers and for users of consumer reports to verify the subject of a consumer report in the event of notice of an address discrepancy. The FACT gives consumers the ability to challenge the Bank with respect to credit reporting information provided by the Bank. The FACT also prohibits the Bank from using certain information it may acquire from an affiliate to solicit the consumer for marketing purposes unless the consumer has been given notice and an opportunity to opt out of such solicitation for a period of five years.

Loans to One Borrower – Under current limits, loans and extensions of credit outstanding at one time to a single borrower and not fully secured generally may not exceed 15% of the institution's unimpaired capital and unimpaired surplus. Loans and extensions of credit fully secured by certain readily marketable collateral may represent an additional 10% of unimpaired capital and unimpaired surplus.

Interagency Guidance on Non Traditional Mortgage Product Risks – In 2006, final guidance was issued to address the risks posed by residential mortgage products that allow borrowers to defer repayment of principal and sometimes interest (such as “interest-only” mortgages and “payment option” ARMs. The guidance discusses the importance of ensuring that loan terms and underwriting standards are consistent with prudent lending practices, including consideration of a borrower’s repayment capacity. The guidance also suggests that banks i) implement strong risk management standards, ii) maintain capital levels commensurate with risk and iii) establish an allowance for loan losses that reflects the collectability of the portfolio. The guidance urges banks to ensure that consumers have sufficient information to clearly understand loan terms and associated risks prior to making product or payment choices.

Loans to Insiders – The Bank’s authority to extend credit to its directors, executive officers and principal shareholders, as well as to entities controlled by such persons, is governed by the requirements of Sections 22(g) and 22(h) of the FRA and Regulation O of the Federal Reserve Board. Among other things, these provisions require that extensions of credit to insiders:

- be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with non-insiders and that do not involve more than the normal risk of repayment or present other features that are unfavorable to the Bank; and
- not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank’s capital.

The regulations allow small discounts on fees on residential mortgages for directors, officers and employees. In addition, extensions of credit to insiders in excess of certain limits must be approved by the Bank’s Board of Directors.

Qualified Thrift Lender Test (“QTL”) – Federal law requires savings banks to meet the QTL, as detailed in 12 U.S.C. §1467a(m). The QTL measures the proportion of a federal savings bank institution’s assets invested in loans or securities supporting residential construction and home ownership. Under the QTL, a federal savings bank is required to either qualify as a “domestic building and loan association” under the Internal Revenue Code or maintain at least 65% of its “portfolio assets” (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct business) in certain “qualified thrift investments” (primarily residential mortgages and related investments, including certain mortgage backed securities) in at least nine months out of each 12-month period. Qualified thrift investments include (i) housing-related loans and investments, (ii) obligations of the FDIC, (iii) loans to purchase or construct churches, schools, nursing homes and hospitals, (iv) consumer loans, (v) shares of stock issued by any FHLB, and (vi) shares of stock issued by the FHLMC or the Federal National Mortgage Association (“FNMA”). Legislation has expanded the extent to which education loans, credit card loans and small business loans may be considered “qualified thrift investments.” If Republic Bank fails to remain qualified under the QTL, it must either convert to a commercial bank charter or be subject to restrictions specified under OCC regulations. A savings bank may re-qualify under the QTL if it thereafter complies with the QTL. A savings bank also may satisfy the QTL by qualifying as a “domestic building and loan association” as defined in the Internal Revenue Code. At December 31, 2012, Republic Bank met the QTL requirements.

Capital Adequacy Requirements

Capital Guidelines – The FRB, FDIC and OCC 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. Under these regulations, a bank will be considered:

	Total Risk Based Capital Ratio	Tier 1 Risk-Based Capital Ratio	Leverage Ratio	Other
Well Capitalized:	10% or greater	6% or greater	5% or greater	Not subject to any order or written directive to meet and maintain a specific capital level for any capital measure
Adequately Capitalized	8% or greater	4% or greater	4% or greater (3% in the case of a bank with a composite CAMEL rating of 1)	
Undercapitalized	less than 8%	less than 4%	less than 4% (3% in the case of a bank with a composite CAMEL rating of 1)	
Significantly Undercapitalized	less than 6%	less than 3%	less than 3%	
Critically Undercapitalized				Ratio of tangible equity to total assets is less than or equal to 2%

The guidelines require a minimum total risk based capital ratio of 8%, of which at least 4% 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 investment securities.

In addition to the risk based capital guidelines, the FRB utilizes a leverage ratio as a 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).

As of December 31, 2012 and 2011 the Company's capital ratios were as follows:

As of December 31, (dollars in thousands)	2012		2011	
	Amount	Ratio	Amount	Ratio
Total Capital to risk weighted assets				
Republic Bancorp, Inc.	$ 581,189	25.28 %	$ 501,188	24.74 %
Republic Bank & Trust Co.	451,898	20.37	447,143	22.97
Republic Bank	14,494	18.02	16,441	20.34
Tier 1 (Core) Capital to risk weighted assets				
Republic Bancorp, Inc.	558,982	24.31 %	478,003	23.59 %
Republic Bank & Trust Co.	407,261	18.36	401,529	20.63
Republic Bank	13,474	16.75	15,420	19.08
Tier 1 Leverage Capital to average assets				
Republic Bancorp, Inc.	558,982	16.36 %	478,003	14.77 %
Republic Bank & Trust Co.	407,261	12.18	401,529	12.78
Republic Bank	13,474	13.43	15,420	14.44

The federal banking agencies' risk based and leverage ratios represent 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 and the OCC may establish higher minimum capital adequacy requirements if, for example, a bank or savings bank proposes to make an acquisition requiring regulatory approval, has previously warranted special regulatory attention, rapid growth presents supervisory concerns, or, among other factors, has a high susceptibility to interest rate and other types of risk. The Bank is not subject to any such individual minimum regulatory capital requirement.

Corrective Measures for Capital Deficiencies – The banking regulators are required to take "prompt corrective action" with respect to capital deficient institutions. As detailed in the table above, agency regulations define, for each capital category, the levels at which institutions are well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. 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 the 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 banking regulations, a bank may not lawfully accept, roll over or renew brokered deposits, unless it is either well-capitalized or it is adequately capitalized and receives a waiver from the applicable regulator.

If a banking institution's capital decreases below acceptable levels, bank regulatory 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. Banking regulators have limited discretion in dealing with a critically undercapitalized institution and are 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 bank subsidiaries 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 be 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, or require the FHC to decertify as a FHC. 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 a 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. The Company is currently classified 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.

New Capital Requirements – Possible Changes to Capital Requirements Resulting from Basel III. In December 2010 and January 2011, the Basel Committee on Banking Supervision published the final texts of reforms on capital and liquidity generally referred to as "Basel III." Although Basel III is intended to be implemented by participating countries for large, internationally active banks, its provisions are likely to be considered by U.S. banking regulators in developing new regulations applicable to other banks in the U.S., including the Bank. For banks in the U.S., among the most significant provisions of Basel III concerning capital are the following:

- A minimum ratio of common equity to risk-weighted assets reaching 4.5%, plus an additional 2.5% as a capital conservation buffer, by 2019 after a phase-in period.
- A minimum ratio of Tier 1 capital to risk-weighted assets reaching 6.0% by 2019 after a phase-in period.
- A minimum ratio of total capital to risk-weighted assets, plus the additional 2.5% capital conservation buffer, reaching 10.5% by 2019 after a phase-in period.
- An additional countercyclical capital buffer to be imposed by applicable national banking regulators periodically at their discretion, with advance notice.
- Restrictions on capital distributions and discretionary bonuses applicable when capital ratios fall within the buffer zone.
- Deduction from common equity of deferred tax assets that depend on future profitability to be realized.
- Increased capital requirements for counterparty credit risk relating to Over-The-Counter derivatives, repos and securities financing activities.
- For capital instruments issued on or after January 13, 2013 (other than common equity), a loss-absorbency requirement such that the instrument must be written off or converted to common equity if a trigger event occurs, either pursuant to applicable law or at the direction of the banking regulator. A trigger event is an event under which

the banking entity would become nonviable without the write-off or conversion, or without an injection of capital from the public sector. The issuer must maintain authorization to issue the requisite shares of common equity if conversion were required.

The Basel III provisions on liquidity include complex criteria establishing a liquidity coverage ratio ("LCR") and net stable funding ratio ("NSFR"). The purpose of the LCR is to ensure that a bank maintains adequate unencumbered, high quality liquid assets to meet its liquidity needs for 30 days under a severe liquidity stress scenario. The purpose of the NSFR is to promote more medium and long-term funding of assets and activities, using a one-year horizon. Although Basel III is described as a "final text," it is subject to the resolution of certain issues and to further guidance and modification, as well as to adoption by U.S. banking regulators, including decisions as to whether and to what extent it will apply to U.S. banks that are not large, internationally active banks.

The FDIC proposed rules implementing Basel III in June 2012; however, the U.S. banking agencies released a joint statement on November 9, 2012 delaying these rules indefinitely. Highlights of these rules follow:

- Revises the definition of regulatory capital components and related calculations.
- Adds a new common equity tier 1 capital ratio.
- Increases the minimum tier 1 capital ratio requirement from 4 percent to 6 percent.
- Imposes different limitations to qualifying minority interest in regulatory capital than those currently applied;
- Incorporates the revised regulatory capital requirements into the Prompt Corrective Action (PCA) framework.
- Implements a new capital conservation buffer that would limit payment of capital distributions and certain discretionary bonus payments to executive officers and key risk takers if the banking organization does not hold certain amounts of common equity tier 1 capital in addition to those needed to meet its minimum risk-based capital requirements.
- Provides a transition period for several aspects of the proposed rule, including the phase-out period for certain non-qualifying capital instruments, the new minimum capital ratio requirements, the capital conservation buffer, and the regulatory capital adjustments and deductions.
- For advanced approaches banks, introduces a countercyclical capital buffer and a supplemental leverage ratio.

Dodd-Frank Wall Street Reform and Consumer Protection Act – On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("the Dodd-Frank Act") was signed into law. The Dodd-Frank Act is intended to effect a fundamental restructuring of federal banking regulation. Among other things, the Dodd-Frank Act creates a new Financial Stability Oversight Council to identify systemic risks in the financial system and gives federal regulators new authority to take control of and liquidate financial firms. The Dodd-Frank Act also creates a new independent federal regulator to administer federal consumer protection laws.

The Dodd-Frank Act legislation requires various federal agencies to promulgate numerous and extensive implementing regulations over the next several years. Although the substance and scope of these regulations cannot be determined at this time, it is expected that the legislation and implementing regulations, particularly those provisions relating to the new Consumer Financial Protection Bureau ("CFPB") will increase the Company's operating and compliance costs.

Among the Dodd-Frank Act provisions that are likely to affect the Company are the following:

Corporate Governance – The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation at their first annual meeting taking place six months after the date of enactment and at least every three years thereafter and on so-called "golden parachute" payments in connection with approvals of mergers and acquisitions. The new legislation also authorizes the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials. Additionally, the Dodd-Frank Act directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1 billion, regardless of whether the company is publicly traded or not. The Dodd-Frank Act gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

Transactions with Affiliates and Insiders – The Dodd-Frank Act applies Section 23A and Section 22(h) of the Federal Reserve Act (governing transactions with insiders) to derivative transactions, repurchase agreements and securities lending and borrowing transactions that create credit exposure to an affiliate or an insider. Any such transactions with affiliates must be fully secured. The exemption from Section 23A for transactions with financial subsidiaries was effectively eliminated. The Dodd-Frank Act additionally prohibits an insured depository institution from purchasing an asset from or selling an asset to an insider unless the transaction is on market terms and, if representing more than 10% of capital, is approved in advance by the disinterested directors.

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Consumer Financial Protection Bureau – The Dodd-Frank Act created the new, independent federal agency, the CFPB, which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the ECOA, TLA, RESPA, FACT Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the GLBA and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB, but continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive acts and practices in connection with the offering of consumer financial products. The Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, the Dodd-Frank Act allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations. Federal preemption of state consumer protection law requirements, traditionally an attribute of the federal savings association charter, has also been modified by the Dodd-Frank Act and now requires a case-by-case determination of preemption by the OCC and eliminates preemption for subsidiaries of a bank. Depending on the implementation of this revised federal preemption standard, the operations of the Bank could become subject to additional compliance burdens in the states in which it operates.

Deposit Insurance – The Dodd-Frank Act permanently increases the maximum deposit insurance amount for financial institutions to $250,000 per depositor, retroactive to January 1, 2009, and extended unlimited deposit insurance to non interest-bearing transaction accounts through December 31, 2012. The Dodd-Frank Act also broadens the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. The Dodd-Frank Act eliminates the federal statutory prohibition against the payment of interest on business checking accounts.

Elimination of the Office of Thrift Supervision ("OTS") – The Dodd-Frank Act eliminated the OTS, which was Republic Bank's primary federal regulator. The OCC will generally have rulemaking, examination, supervision and oversight authority and the FDIC will retain secondary authority over Republic Bank. OTS guidance, orders, interpretations, policies and similar items will continue to remain in effect until they are superseded by new guidance and policies from the OCC.

Federal Preemption – A major benefit of the federal thrift charter has been the strong preemptive effect of HOLA, under which Republic Bank is chartered. Historically, the courts have interpreted the HOLA to "occupy the field" with respect to the operations of federal thrifts, leaving no room for conflicting state regulation. The Dodd-Frank Act, however, amends the HOLA to specifically provide that it does not occupy the field in any area of state law. Henceforth, any preemption determination must be made in accordance with the standards applicable to national banks, which have themselves been scaled back to require case-by-case determinations of whether state consumer protection laws discriminate against national banks or interfere with the exercise of their powers before these laws may be pre-empted.

Qualified Thrift Lender Test – Federal law requires savings institutions to meet a qualified thrift lender test. Under the test, a savings association is required to either qualify as a "domestic building and loan association" under the Internal Revenue Code or maintain at least 65% of its "portfolio assets" (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct business) in certain "qualified thrift investments" (primarily residential mortgages and related investments, including certain

mortgage-backed securities) in at least 9 months out of each 12 month period. Recent legislation has expanded the extent to which education loans, credit card loans and small business loans may be considered "qualified thrift investments."

A savings institution that fails the qualified thrift lender test is subject to certain operating restrictions. The Dodd-Frank Act subjects violations of the qualified thrift lender test to possible enforcement action for violation of law and imposes dividend restrictions on violating institutions. As of December 31, 2012, Republic Bank met the qualified thrift lender test.

Capital – Under the Dodd-Frank Act, the proceeds of trust preferred securities are excluded from Tier 1 capital unless such securities were issued prior to 2010 by bank or savings and loan holding companies with less than $15 billion of assets. The legislation also establishes a floor for capital of insured depository institutions that cannot be lower than the standards in effect today, and directs the federal banking regulators to implement new leverage and capital requirements within 18 months that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives.

Incentive Compensation – In 2011, seven federal agencies, including the FDIC, the OCC, the FRB and the SEC, issued a Notice of Proposed Rulemaking designed to implement section 956 of the Dodd-Frank Act, which applies only to financial institutions with total consolidated assets of $1 billion or more. This seeks to strengthen the incentive compensation practices at covered institutions by better aligning employee rewards with longer-term institutional objectives. The proposed orders are designed to:

- prohibit incentive-based compensation arrangements that encourage inappropriate risks by providing covered persons with "excessive" compensation;
- prohibit incentive-based compensation arrangements that encourage inappropriate risk taking by providing covered persons with compensation that "could lead to a material financial loss" to an institution;
- require disclosures that will enable the appropriate federal regulator to determine compliance with the rule; and
- require the institution to maintain policies and procedures to ensure compliance with these requirements and prohibitions commensurate with the size and complexity of the organization and the scope of its use of incentive compensation.

Other 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 the proposals will have on the financial institutions industry or the extent to which the business or financial condition and operations of the Company and its subsidiaries may be affected.

Statistical Disclosures

The statistical disclosures required by Part I Item 1 "Business" are located under Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 1A. Risk Factors.

FACTORS THAT MAY AFFECT FUTURE RESULTS

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

There are factors, many beyond the Company's control, which may significantly change the results or expectations of the Company. Some of these factors are described below, however many are described in the other sections of this Annual Report on Form 10-K.

ACCOUNTING POLICIES/ESTIMATES, ACCOUNTING STANDARDS AND INTERNAL CONTROL

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

With respect to the acquisitions of failed banks, the Bank could post material adjustments up to one year after the acquisition date to bargain purchase gains resulting from valuation revisions to assets acquired and liabilities assumed. The assets acquired and liabilities assumed in the acquisitions of failed banks are presented at estimated fair value as of the respective acquisition date and often times result in bargain purchase gains for the acquiring company. Bargain purchase gains often result in connection with the acquisition of a failed bank because the overall price paid by the acquiring bank is less than the estimated fair value of the assets acquired and liabilities assumed. These fair value estimates are considered preliminary, and are subject to change for up to one year after the closing date of the acquisition, as additional information relative to the acquisition date fair values becomes available. More specifically, fair value adjustments for loans and other real estate owned may be made, as market value data, such as appraisals, are received by the Bank.

Due to the compressed due diligence period of an FDIC-assisted acquisition, the measurement period analysis of information that may be reflective of conditions existing as of the acquisition date generally extends longer within the maximum one year measurement period compared to non-FDIC-assisted transactions. The difference is attributable to the fact that FDIC-assisted transactions are marketed for two to four weeks with on-site due diligence limited to two to three days while traditional non-FDIC-assisted transactions generally have a three to six month due diligence and regulatory approval period prior to the acquisition. The accuracy of the bargain purchase gain estimate can also be negatively impacted by the amount of time between the acquisition date of the failed bank and the required reporting

date of the Company. The shorter the time between those two dates can limit the amount of information the Bank can gather before it reports its bargain purchase gain, thus limiting the overall precision in the estimate.

As of the date of this filing, management considers the FCB acquisition within the measurement period; therefore, management believes there may be future adjustments made to the bargain purchase gain that was originally recorded for the third quarter of 2012 and recast as of December 31, 2012. Management also believes that it is possible that some of these adjustments could be significant. While management has made its best estimate related to the future cash flows of the FCB loans based on the information it had available at year end, management believes more data may become available by the end of the first quarter of 2013, including updated appraisal information and face-to-face discussions with troubled borrowers to determine their willingness and ability to repay the loans purchased, which will allow the Bank to more precisely estimate its bargain purchase gain related to the FCB acquisition.

Negative adjustments to the Company's FCB bargain purchase gain could have a material adverse impact to the Company's results of operation.

The Bank may experience future goodwill impairment, which could reduce its earnings. The Bank performed its annual goodwill impairment test during the fourth quarter of 2012 as of September 30, 2012. The evaluation of the fair value of goodwill requires management judgment. If management's judgment was incorrect and an impairment of goodwill was deemed to exist, the Bank would be required to write down its assets resulting in a charge to earnings, which would adversely affect its results of operations, perhaps materially.

Changes in accounting standards could materially impact the Company's financial statements. The Financial Accounting Standards Board ("FASB") may change the financial accounting and reporting standards that govern the preparation of the Company's financial statements. These changes can be hard to predict and can materially impact how the Company records and reports its financial condition and results of operations. For example, the FASB has proposed new accounting standards related to fair value accounting and accounting for leases that could materially change the Company's financial statements in the future. Those who interpret the accounting standards, such as the SEC, the banking regulators and the Company's independent registered public accounting firm may amend or reverse their previous interpretations or conclusions regarding how various standards should be applied. In some cases, the Company could be required to apply a new or revised standard retroactively, resulting in the Company recasting, or possibly restating, prior period financial statements.

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

If the Bank's OREO is not properly valued or sufficiently reserved to cover actual losses, or if the Bank is required to increase its valuation reserves, the Bank's earnings could be reduced. Management obtains updated valuations in the form of appraisals and broker price opinions when a loan has been foreclosed and the property taken in as OREO and at certain other times during the asset's holding period. The Bank's net book value of the loan at the time of foreclosure and thereafter is compared to the updated market value of the foreclosed property less estimated selling costs (fair value). A write-down is recorded for any excess in the asset's net book value over its fair value. If the Bank's valuation process is incorrect, or if property values decline, the fair value of the Bank's OREO may not be sufficient to recover its carrying value in such assets, resulting in the need for additional writedowns or valuation allowances. Significant additional writedowns or valuation allowances to OREO could have a material adverse effect on the Bank's financial condition and results of operations.

REPUBLIC PROCESSING GROUP

The Company's lines of business and products not typically associated with Traditional Banking expose earnings to additional risks and uncertainties. Republic Processing Group ("RPG") is comprised of three distinct divisions: Tax Refund Solutions ("TRS"), Republic Payment Solutions ("RPS") and Republic Credit Solutions ("RCS").

As a result of RB&T's Agreement with the FDIC, the TRS division is subject to additional oversight requirements through its ERO Plan. If RB&T is unable to comply with these new requirements, the FDIC could require RB&T to cease offering RT products in the future. 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
  - 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.

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

As a result of RB&T's Agreement with the FDIC, the TRS division is subject to additional oversight requirements not currently imposed on its competitors. Management believes these additional requirements have made attracting new relationships and retaining existing relationships more difficult for RB&T. As disclosed above, the Agreement contains a provision for an ERO Plan which has been implemented by RB&T. The ERO Plan placed additional oversight and training requirements on RB&T and its tax preparation partners that are not currently required by the regulators for RB&T's competitors in the tax business. Management believes these additional requirements have made attracting new relationships and retaining existing relationships more difficult for RB&T, negatively impacting future RT volume. Reductions in RT volume will have a material adverse impact to RB&T's earnings.

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Discontinuance of the RAL product will have a material adverse impact on the profitability of RB&T's RT products. TRS faces direct competition for RT market share from independently-owned processing groups partnered with banks. Independent processing groups that were unable to offer RAL products have historically been at a competitive disadvantage to banks who could offer RALs. Without the ability to originate RALs after April 30, 2012, RB&T faces increased competition in the RT marketplace. In addition to the loss of volume resulting from additional competitors, RB&T will incur substantial pressure on its profit margin for its RT products as it is forced to compete with existing rebate and pricing incentives in the RT marketplace.

Reduced RT volume and/or a decrease in profitability of the RT products will have a material adverse impact to RB&T's earnings.

RB&T's RT products represent a significant business risk, and with the elimination of the RAL product, management believes RB&T could be subject to additional regulatory and public pressure to exit the RT business. If RB&T can no longer offer these products it will have a material adverse effect on its profits. The TRS division offers bank products to facilitate the payment of tax refunds for customers that electronically file their tax returns. RB&T is one of only a few financial institutions in the U.S. that provides this service to taxpayers. In return, RB&T charges a fee for the service. During 2012, net income from the TRS division accounted for approximately 51% of the Company's total net income.

Various governmental, regulatory and consumer groups have, from time to time, questioned the fairness of the TRS RAL and RT products. With RB&T's agreement to cease offering RALs beyond April 30, 2012, management believes these groups could focus more attention on the RT product. Actions of these groups and others could result in regulatory, governmental or legislative action or material litigation against RB&T.

Discontinuing the RT product by RB&T, either voluntarily or involuntarily, would significantly reduce RB&T's earnings.

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

For additional discussion regarding TRS, a division of Republic Processing Group, see the following sections:

- Part I Item 1 "Business"
  - o General Business Overview
    - § Republic Processing Group segment
- Part I Item 1A "Risk Factors"
  - o Republic Processing Group
- 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"

- Footnote 1 “Summary of Significant Accounting Policies”
- Footnote 4 “Loans and Allowance for Loan Losses”
- Footnote 21 “Segment Information”

TRADITIONAL BANK LENDING AND THE ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses could be insufficient to cover the Bank’s actual loan losses. The Bank makes various assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of its borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of its loans. In determining the amount of the allowance for loan losses, among other things, the Bank reviews its loans and its loss and delinquency experience, and the Bank evaluates economic conditions. If its assumptions are incorrect, the allowance for loan losses may not be sufficient to cover losses inherent in its loan portfolio, resulting in additions to its allowance. In addition, regulatory agencies periodically review the allowance for loan losses and may require the Bank to increase its provision for loan losses or recognize further loan charge-offs. A material increase in the allowance for loan losses or loan charge-offs would have a material adverse effect on the Bank's financial condition and results of operations.

Deterioration in the quality of the Traditional Banking loan portfolio may result in additional charge-offs, which would adversely impact the Bank’s operating results. Despite the various measures implemented by the Bank to address the current economic environment, there may be further deterioration in the Bank’s loan portfolio. When borrowers default on their loan obligations, it may result in lost principal and interest income and increased operating expenses associated with the increased allocation of management time and resources associated with the collection efforts. In certain situations where collection efforts are unsuccessful or acceptable “work out” arrangements cannot be reached or performed, the Bank may have to charge off loans, either in part or in whole. Additional charge-offs will adversely affect the Bank’s operating results and financial condition.

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

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

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

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

RB&T is highly dependent upon programs administered by Freddie Mac ("FHLMC"). Changes in existing U.S. government-sponsored mortgage programs or servicing eligibility standards could materially and adversely affect its business, financial position, results of operations and cash flows. RB&T's ability to generate revenues through mortgage loan sales to institutional investors depends to a significant degree on programs administered by FHLMC. This entity plays a powerful role in the residential mortgage industry, and RB&T has significant business relationships with it. RB&T's status as an FHLMC approved seller/servicer is subject to compliance with its selling and servicing guides.

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

The mortgage warehouse lending business is subject to numerous risks which could result in losses. Risks associated with mortgage warehouse loans include, without limitation, (i) credit risks relating to the mortgage bankers that borrow from RB&T, (ii) the risk of intentional misrepresentation or fraud by any of such mortgage bankers and their third party service providers, (iii) changes in the market value of mortgage loans originated by the mortgage banker during the time in warehouse, the sale of which is the expected source of repayment of the borrowings under a warehouse line of credit, or (iv) unsalable or impaired mortgage loans so originated, which could lead to decreased collateral value and the failure of a purchaser of the mortgage loan to purchase the loan from the mortgage banker. Failure to mitigate these risks could have a material adverse impact on the Bank's financial statements and results of operations.

Loan production volume through warehouse lending is subject to various market conditions. RB&T's warehouse lending business is significantly influenced by the volume and composition of residential mortgage purchase and refinance transactions among the Bank's mortgage banking clients. During 2012 the Bank's warehouse lending volume consisted of 47% purchase transactions, in which the mortgage company's borrower was purchasing a new residence, and 53% refinance transactions, in which the mortgage company's client was refinancing an existing mortgage loan. Purchase volume is driven by a number of factors, including but not limited to, the overall economy, the housing market, and long-term residential mortgage interest rates; while refinance volume is primarily driven by long-term residential mortgage interest rates. RB&T's warehouse lending business has benefited from the past two years of low or declining long-term residential mortgage rates which have incentivized a high volume of borrowers to refinance their mortgages. Increases in long-term residential mortgage interest rates will likely decrease refinances; and, without an equivalent increase in purchases and/or growth in RB&T's warehouse client base, would have an adverse impact on the Bank's net interest income.

INVESTMENT SECURITIES AND FHLB STOCK

Concerns regarding a downgrade of the U.S. government's credit rating could have a material adverse effect on the Company's business, financial condition, liquidity, and results of operations. In 2011, Standard & Poor's lowered its long-term sovereign credit rating on the U.S. from AAA to AA+ and also lowered the credit rating of several related government agencies and institutions, including FHLMC, FNMA, and the Federal Home Loan Bank's ("FHLB's"), from AAA to AA+. Further downgrades by Standard & Poor's or other rating agencies, particularly Moody's and Fitch, or defaults by the U.S. on any of its obligations could have material adverse impacts on financial and banking markets and economic conditions in the U.S. and throughout the world. In turn, the market's anticipation of these impacts could have a material adverse effect on the Company's business, financial condition and liquidity. In particular, these events could increase interest rates and disrupt payment systems, money markets, and long-term or short-term fixed income markets, adversely affecting the cost and availability of funding, which could negatively affect the Company's profitability. It may also negatively affect the value and liquidity of the government securities the Bank holds in its investment portfolio.

At December 31, 2012, the majority of the Bank's investment securities were issued by FHLMC, FNMA, and the FHLB. It is uncertain as to what impact future downgrades or defaults, if any, will have on these securities as sources of liquidity and funding. Also, the adverse consequences as a result of downgrades could extend to the borrowers of the loans the Bank makes and, as a result, could adversely affect its borrowers' ability to repay their loans.

The Bank's investment in Federal Home Loan Bank stock may become impaired. At December 31, 2012, the Bank owned $28 million in FHLB stock. As a condition of membership at the FHLB, the Bank is required to purchase and hold a certain amount of FHLB stock. Its stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB and is calculated in accordance with the Capital Plan of the FHLB. The Bank's FHLB stock has a par value of $100, is carried at cost, and it is subject to recoverability testing per applicable accounting standards. The Bank's FHLB stock investments could become impaired. The Bank will continue to monitor the financial condition of the FHLB as it relates to, among other things, the recoverability of its investment.

The Bank's investment securities may incur other than temporary impairment charges. The Bank's investment portfolio is periodically evaluated for other-than-temporary impairment loss ("OTTI"). In 2011 and 2010, an OTTI charge was recognized on the Bank's private label mortgage backed securities. The Bank's remaining private label mortgage backed security may still require an OTTI charge in the future should the financial condition of the underlying mortgages deteriorate further.

ASSET LIABILITY MANAGEMENT AND LIQUIDITY

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

The Bank's asset-liability management strategy may not be able to prevent changes in interest rates from having a material adverse effect on results of operations and financial condition. Overall, interest rates generally have decreased since 2008. In order to combat contraction with its net interest income and net interest margin and improve its current earnings for the current year and near-term, the Bank elected to retain assets in the loan and investment portfolios with longer repricing durations. In addition, through its strategic pricing, the Bank also allowed its certificates of deposits, which are a longer-term source of funding, to decline. While the Bank has remained within its board approved interest rate risk policies, when interest rates begin to rise again, the Bank's net interest income and net interest margin will be more negatively impacted as a result of these strategies. More specifically, the Bank's interest income will rise at a slower pace than the Bank's interest expense and the fair value of the Bank's assets will likely decrease at a faster pace than the increase in the fair value of interest-bearing liabilities. These circumstances will cause a decline in the Bank's net interest income and a reduction in the Bank's economic value of equity.

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

Mortgage Banking activities could be adversely impacted by increasing long-term interest rates. The Company is unable to predict changes in market interest rates. Changes in interest rates can impact the gain on sale of loans, loan origination fees and loan servicing fees, which account for a significant portion of Mortgage Banking income. A decline in market interest rates generally results in higher demand for mortgage products, while an increase in rates generally results in reduced demand. Generally, if demand increases, Mortgage Banking income will be positively impacted by more gains on sale; however, the valuation of existing mortgage servicing rights will decrease and may result in a significant impairment. Moreover, a decline in demand for Mortgage Banking products could also adversely impact other programs/products such as home equity lending, title insurance commissions and service charges on deposit accounts. Specifically, the Bank's Mortgage Banking income has benefitted in the past three years from a relatively low rate environment which has incentivized borrowers to refinance their mortgages. During 2012, the Bank's loan sales consisted of 19% purchase transactions and 81% refinance transactions. Increases in long-term

interest rates would likely decrease demand for all Mortgage Banking products, and most significantly decrease refinance transaction volume. These decreases in demand will have a significant adverse impact on Mortgage Banking income.

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

The Bank's funding sources may prove insufficient to replace deposits and support future growth. The Bank relies on customer deposits, brokered deposits and advances from the FHLB to fund operations. Although the Bank has historically been able to replace maturing deposits and advances if desired, no assurance can be given that the Bank would be able to replace such funds in the future if the Bank's financial condition or the financial condition of the FHLB or general market conditions were to change. The Bank's financial flexibility will be severely constrained if it is unable to maintain its access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Finally, if the Bank is required to rely more heavily on more expensive funding sources to support future growth, revenues may not increase proportionately to cover costs. In this case, profitability would be adversely affected.

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

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

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

The expiration of the unlimited FDIC insurance on non interest-bearing accounts could cause clients to pursue safer or higher yielding investments. Non interest-bearing deposit balances previously covered under unlimited FDIC insurance may decrease as clients perceive alternatives to be safer or more lucrative. If clients move money out of bank deposits in favor of alternative investments, the Bank could lose a relatively inexpensive source of funds, increasing its funding costs.

The loss of large non-sweep deposit relationships could increase the Bank's funding costs. The Bank's large non-sweep deposits do not require collateral; therefore, cash from these accounts can generally be utilized to fund the loan portfolio. 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. The overall cost of gathering brokered deposits, however, could be substantially higher than the Traditional Bank deposits they replace, increasing the Bank's funding costs and reducing the Bank's overall results of operations.

The Bank's "Overdraft Honor" program represents a significant business risk, and if the Bank terminated the program it would materially impact the earnings of the Bank. There can be no assurance that Congress, the Bank's regulators, or others, will not impose additional limitations on this program or prohibit the Bank from offering the program. The Bank's "Overdraft Honor" program permits eligible customers to overdraft their checking accounts up to a predetermined dollar amount for the Bank's customary overdraft fee(s). Generally, to be eligible for the Overdraft Honor program, customers must qualify for one of the Bank's traditional checking products when the account is opened, remain in that product for 30 days and have recurring deposit activity within the account. Once the eligibility requirements have

been met, the client is eligible to participate in the Overdraft Honor program. If an overdraft occurs, the Bank may pay the overdraft, at its discretion, up to the client's individual overdraft limit. Under regulatory guidelines, customers utilizing the Overdraft Honor program may remain in overdraft status for no more than 60 days. Generally, an account that is overdrawn for 60 consecutive days is closed and the balance is charged off.

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

The Bank assesses two types of fees related to overdrawn accounts, a fixed per item fee and a fixed daily charge for being in overdraft status. The per item fee for this service is not considered an extension of credit, but rather is considered a fee for paying checks when sufficient funds are not otherwise available. As such, it is classified on the income statement in "service charges on deposits" as a component of non-interest income along with per item fees assessed to customers not in the Overdraft Honor program. A substantial majority of the per item fees in service charges on deposits relates to customers in the Overdraft Honor program. The daily fee assessed to the client for being in overdraft status is considered a loan fee and is thus included in interest income under the line item "loans, including fees." The total net per item fees included in service charges on deposit for the years ended December 31, 2012 and 2011 were $7.5 million and $8.9 million. The total net daily overdraft charges included in interest income for the years ended December 31, 2012 and 2011 was $1.7 million and $1.8 million. Additional limitations or elimination, or adverse modifications to this program, either voluntary or involuntary, would significantly reduce Bank earnings.

In 2010, the FDIC issued its final guidance on Automated Overdraft payment programs which requires FDIC regulated banks to implement and maintain robust oversight of these programs. The new guidance has had a material adverse effect on the Bank's net income. These guidelines have negatively impacted and will continue to negatively impact the Bank's net income in 2013 and beyond. This guidance states, "the FDIC expects institutions to implement effective compliance and risk management systems, policies, and procedures to ensure that institutions manage any overdraft payment programs in accordance with the 2005 Joint Guidance on Overdraft Protection Programs (Joint Guidance)(Financial Institutions Letter (FIL)-11-2005) and the Federal Reserve Bank ("FRB") November 2009 amendments to Regulation E, to avoid harming consumers or creating other compliance, operational, financial, reputational, legal or other risks."

Management believes that the implementation of these guidelines was the primary driver in the 16% reduction of the Bank's annual overdraft fee income during 2012. Additional limitations or adverse modifications to this program, either voluntary or involuntary, would further significantly reduce net income.

Company expenses would increase as a result of increases in FDIC insurance premiums. Under the Dodd-Frank Act, the minimum statutory reserve ratio for the FDIC's Deposit Insurance Fund will increase from 1.15% to 1.35% of insurable deposits by 2020. There can be no assurance that the FDIC will not impose special assessments or increase the deposit premiums applicable to the Company.

COMPANY COMMON STOCK

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

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

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

Changes in earnings estimates or publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to the Bank or other financial institutions;
Announcements by the Company or its competitors of mergers, acquisitions and strategic partnerships;
Additions or departure of key personnel;
Actual or anticipated quarterly or annual fluctuations in operating results, cash flows and financial condition;
The announced exiting of or significant reductions in material lines of business within the Company;
Changes or proposed changes in banking laws or regulations or enforcement of these laws and regulations;
Events affecting other companies that the market deems comparable to the Company;
Developments relating to regulatory examinations;
Speculation in the press or investment community generally or relating to the Company's reputation or the financial services industry;
Future issuances or re-sales of equity or equity-related securities, or the perception that they may occur;

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

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

Developments related to litigation or threatened litigation;

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

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

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

The Company's 2012 results of operations are unlikely to be repeated in future years and its 2013 results of operations are projected to reflect significant declines in key income items. The Company's 2013 net income and overall results of operations will likely show a substantial decline as compared to those achieved in 2012. The Company's results of operations for 2012 reflect pre-tax bargain purchase gains on FDIC assisted acquisitions of $55 million, RAL fees in interest income of $45 million and RT fees in non interest income of $78 million.

Within the Traditional Banking segment, FDIC-assisted acquisition opportunities are expected to decline substantially in 2013 as compared to 2012. In addition, as the market for FDIC-assisted opportunities declines, pricing for the deals that do become available is expected to be less favorable as competition increases for these limited opportunities. As a result of these factors, the level of bargain purchase gains achieved by the Company in 2012 are unlikely to be repeated in 2013 and beyond.

Within the RPG segment, RAL revenue will not reoccur in the future as a result of the discontinuance of the RAL product effective April 30, 2012. Furthermore, RT revenues will be reduced substantially in 2013 primarily due to decreased customer volume following the termination of material contracts with Jackson Hewitt Tax Service and Liberty Tax Service and pricing pressures following the loss of the RAL product as a competitive advantage. Due primarily to these factors, RPG net income is expected to be in a range of $3 to $5 million for the first quarter of 2013. RPG typically operates at a loss after the first quarter of each calendar year.

Comparisons of the Company's 2012 and 2013 results of operations will likely reflect significant negative declines in revenues and overall net income. These declines may also have a negative impact on the Company's stock price.

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

The Company's insiders hold voting rights that give them significant control over matters requiring stockholder approval. The Company's Chairman/CEO and President hold substantial voting authority over the Company's Class A Common Stock and Class B Common Stock. Each share of Class A Common Stock is entitled to one vote and each

share of Class B Common Stock is entitled to ten votes. This group generally votes together on matters presented to stockholders for approval. These actions may include, for example, the election of directors, the adoption of amendments to corporate documents, the approval of mergers and acquisitions, sales of assets and the continuation of the Company as a registered company with obligations to file periodic reports and other filings with the SEC. Consequently, other stockholders' ability to influence Company actions through their vote may be limited and the non-insider stockholders may not have sufficient voting power to approve a change in control even if a significant premium is being offered for their shares. Majority stockholders may not vote their shares in accordance with minority stockholder interests.

GOVERNMENT REGULATION / ECONOMIC FACTORS

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

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

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

The Dodd-Frank Act may adversely affect the Company's business, financial conditions and results of operations. In July, 2010, the President of the U.S. signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act ("the Dodd-Frank Act"). The Dodd-Frank Act imposes various new restrictions and creates an expanded framework of regulatory oversight for financial institutions.

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

The new Basel III capital standards have been indefinitely delayed by U.S. federal banking agencies. It is not yet known when these standards will be implemented by U.S. regulators or how they will be applied to financial institutions and financial institutions holding companies. Implementation of these standards, or any other new regulations, may adversely affect the Bank's and Republic's ability to pay dividends, or require the Company to restrict

growth or raise capital, including in ways that may adversely affect its results of operations or financial condition.

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

Also, included as provisions of the Dodd-Frank Act was the establishment of the Bureau of Consumer Financial Protection, which was granted authority to regulate companies that provide consumer financial services. The Company is regularly refining its consumer financial services and developing new products and services or operations to address recent or anticipated legislative and regulatory changes. Some of these anticipated legislative and regulatory changes may result in, among other things, RB&T reducing fees to consumers or implementing additional disclosure requirements. The Company could incur additional operating costs which could reduce overall product profitability and lead to the Company exiting certain consumer products. The Company generally cannot estimate what effect, if any, operational changes it would make in response to legislative and regulatory changes and what effect these changes may have on the Company's financial results until the Company is able to develop legal and financially viable alternative products and services.

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

Furthermore, the Board of Governors of the Federal Reserve System, in an attempt to help the overall economy, has, among other things, kept interest rates low through its targeted federal funds rate and the purchase of mortgage-backed securities. If the Federal Reserve Board increases the federal funds rate, overall interest rates will likely rise, which may negatively impact the housing markets and the U.S. economic recovery. In addition, deflationary pressures, while possibly lowering operating costs, could have a significant negative effect on the Company's borrowers, especially business borrowers, and the values of underlying collateral securing loans, which could negatively affect the Company's financial performance.

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

The Company may be adversely affected by the soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. The Company has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose the Company to credit risk in the event of a default by a counterparty or client. In addition, the Company's credit risk may be exacerbated when the collateral held by the Company cannot be

realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to the Company. Any such losses could have a material adverse effect on the Company's financial condition and results of operations.

MANAGEMENT, INFORMATION SYSTEMS, ACQUISITIONS, ETC.

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

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

The Company's operations, including customer interactions, are increasingly done via electronic means, and this has increased the risks related to cyber security. The Company is exposed to the risk of cyber-attacks in the normal course of business. In general, cyber incidents can result from deliberate attacks or unintentional events. Management has observed an increased level of attention in the industry focused on cyber-attacks that include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyber-attacks may also be carried out in a manner that does not require gaining unauthorized access, such as by causing denial-of-service attacks on websites. Cyber-attacks may be carried out by third parties or insiders using techniques that range from highly sophisticated efforts to electronically circumvent network security or overwhelm websites to more traditional intelligence gathering and social engineering aimed at obtaining information necessary to gain access. The objectives of cyber-attacks vary widely and can include theft of financial assets, intellectual property, or other sensitive information, including the information belonging to the Bank's customers. Cyber-attacks may also be directed at disrupting operations. While the Company has not incurred any material losses related to cyber-attacks, nor is management aware of any specific or threatened cyber-incidents as of the date of this report, the Bank may incur substantial costs and suffer other negative consequences if the Bank falls victim to successful cyber-attacks. Such negative consequences could include remediation costs that may include liability for stolen assets or information and repairing system damage that may have been caused; increased cyber security protection costs that may include organizational changes, deploying additional personnel and protection technologies, training employees, and engaging third party experts and consultants; lost revenues resulting from unauthorized use of proprietary information or the failure to retain or attract customers following an attack; litigation; and reputational damage adversely affecting customer or investor confidence.

The Company's information systems may experience an interruption that could adversely impact the Company's business, financial condition and results of operations. The Company relies heavily on communications and information systems to conduct its business. Any failure or interruption of these systems could result in failures or disruptions in customer relationship management, general ledger, deposit, loan and other systems. While the Company has policies and procedures designed to prevent or limit the impact of the failure or interruption of information

systems, there can be no assurance that any such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed. The occurrences of any failures, or interruptions of the Company's information systems could damage the Company's reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's financial condition and results of operations.

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

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

The Company's ability to successfully complete acquisitions will affect its ability to grow its franchise and compete effectively in its market areas. The Company has announced plans to pursue a policy of growth through acquisitions in the near-future to supplement internal growth. The Company's efforts to acquire other financial institutions and financial service companies or branches may not be successful. Numerous potential acquirers exist for many acquisition candidates, creating intense competition, which affects the purchase price for which the institution can be acquired. In many cases, the Company's competitors have significantly greater resources than the Company has, and greater flexibility to structure the consideration for the transaction. The Company may also not be the successful bidder in acquisition opportunities that it pursues due to the willingness or ability of other potential acquirers to propose a higher purchase price or more attractive terms and conditions than the Company is willing or able to propose. The Company intends to continue to pursue acquisition opportunities in each of its market areas, although the Company currently has no understandings or agreements to acquire other financial institutions. The risks presented by the acquisition of other financial institutions could adversely affect the Bank's financial condition and results of operations.

If the Company is successful in conducting acquisitions, it will be presented with many risks that could adversely affect the Company's financial condition and results of operations. An institution that the Company acquires may have unknown asset quality issues or unknown or contingent liabilities that the Company did not discover or fully recognize in the due diligence process, thereby resulting in unanticipated losses. The acquisition of other institutions also typically requires the integration of different corporate cultures, loan and deposit products, pricing strategies, data processing systems and other technologies, accounting, internal audit and financial reporting systems, operating systems and internal controls, marketing programs and personnel of the acquired institution, in order to make the transaction economically advantageous. The integration process is complicated and time consuming and could divert the Company's attention from other business concerns and may be disruptive to its customers and the customers of the acquired institution. The Company's failure to successfully integrate an acquired institution could result in the loss of key customers and employees, and prevent the Company from achieving expected synergies and cost savings. Acquisitions also result in professional fees and may result in creating goodwill that could become impaired, thereby requiring the Company to recognize further charges. The Company may finance acquisitions with borrowed funds,

thereby increasing the Company’s leverage and reducing liquidity, or with potentially dilutive issuances of equity securities.

The Company may engage in additional FDIC-assisted transactions, which could present additional risks to its business. The Company may have additional opportunities to acquire the assets and liabilities of failed banks in FDIC-assisted transactions. Although these FDIC-assisted transactions typically provide for FDIC assistance to an acquirer to mitigate certain risks, such as sharing exposure to loan losses and providing indemnification against certain liabilities of the failed institution, the Company is (and would be in future transactions) subject to many of the same risks it would face in acquiring another bank in a negotiated transaction, including risks associated with maintaining customer relationships and failure to realize the anticipated acquisition benefits in the amounts and within the timeframes the Company expects. In addition, because these acquisitions are structured in a manner that would not allow the Company the time and access to information normally associated with preparing for and evaluating a negotiated acquisition, the Company may face additional risks in FDIC-assisted transactions, including additional strain on management resources, management of problem loans, problems related to integration of personnel and operating systems and impact to capital resources requiring the Company to raise additional capital. Moreover, if the Company seeks to participate in additional FDIC-assisted acquisitions, the Company can only participate in the bid process if it receives approval of bank regulators. The Company's inability to overcome these risks could have a material adverse effect on its business, financial condition and results of operations.

The Company's litigation related costs may continue to increase. The Bank is subject to a variety of legal proceedings that have arisen in the ordinary course of the Bank's business. The Bank believes that it has meritorious defenses in legal actions where it has been named as a defendant and is vigorously defending these suits. There can be no assurance that a resolution of any such legal matters will not result in significant liability to the Bank nor have a material adverse impact on its financial condition and results of operations or the Bank's ability to meet applicable regulatory requirements. Moreover, the expenses of pending legal proceedings could adversely affect the Bank's results of operations until they are resolved.

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 34 banking centers located in Kentucky, four banking centers located in Florida, three banking centers in Indiana and one banking center located each in Ohio, Tennessee and Minnesota.

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

Bank Offices	Approximate Square Footage	Owned (O)/ Leased (L)
Kentucky Banking Centers:		
Louisville Metropolitan Area		
2801 Bardstown Road, Louisville	5,000	L (1)
601 West Market Street, Louisville	57,000	L (1)
661 South Hurstbourne Parkway, Louisville	42,000	L (1)
9600 Brownsboro Road, Louisville	15,000	L (1)
5250 Dixie Highway, Louisville	5,000	O/L (2)
10100 Brookridge Village Boulevard, Louisville	5,000	O/L (2)
9101 U.S. Highway 42, Prospect	3,000	O/L (2)
11330 Main Street, Middletown	6,000	O/L (2)
3902 Taylorsville Road, Louisville	4,000	O/L (2)
3811 Ruckriegel Parkway, Louisville	4,000	O/L (2)
5125 New Cut Road, Louisville	4,000	O/L (2)
4808 Outer Loop, Louisville	4,000	O/L (2)
438 Highway 44 East, Shepherdsville	4,000	O/L (2)
1420 Poplar Level Road, Louisville	3,000	O
4921 Brownsboro Road, Louisville	2,000	L
3950 Kresge Way, Suite 108, Louisville	1,000	L
3726 Lexington Road, Louisville	4,000	L
2028 West Broadway, Suite 105, Louisville	3,000	L
220 Abraham Flexner Way, Suite 100, Louisville	1,000	L
6401 Claymont Crossing, Crestwood	4,000	L
Lexington		
3098 Helmsdale Place	5,000	O/L (2)
3608 Walden Drive	4,000	O/L (2)
651 Perimeter Drive	4,000	L
2401 Harrodsburg Road	6,000	O
641 East Euclid Avenue	3,000	O
Northern Kentucky		

535 Madison Avenue, Covington	4,000	L
8513 U.S. Highway 42, Florence	4,000	L
2051 Centennial Boulevard, Independence	2,000	L
Owensboro		
3500 Frederica Street	5,000	O
3332 Villa Point Drive, Suite 101	2,000	L

(continued)

Bank Offices	Approximate Square Footage	Owned (O)/ Leased (L)
(continued)		
Elizabethtown, 1690 Ring Road	6,000	O
Frankfort, 100 Highway 676	3,000	O/L (2)
Georgetown, 430 Connector Road	4,000	O/L (2)
Shelbyville, 1614 Midland Trail	4,000	O/L (2)
Southern Indiana Banking Centers:		
4571 Duffy Road, Floyds Knobs	4,000	O/L (2)
3141 Highway 62, Jeffersonville	4,000	O
3001 Charlestown Crossing Way, New Albany	2,000	L
Florida Banking Centers:		
9100 Hudson Avenue, Hudson	4,000	O
34650 U.S. Highway 19, Palm Harbor	3,000	L
9037 U.S. Highway 19, Port Richey	8,000	O
11502 North 56th Street, Temple Terrace	3,000	L
Ohio Banking Center:		
9683 Kenwood Road, Blue Ash	3,000	L
Tennessee Banking Center:		
3817 Mallory Station Road, Franklin	9,000	L
Minnesota Banking Center:		
8500 Normandale Lake Blvd, Suite 110, Bloomington	4,000	
Support and Operations:		
200 South Seventh Street, Louisville, KY	48,000	L (1)
125 South Sixth Street, Louisville, KY	1,000	L
401 East Chestnut, Suite 620, Louisville, KY	500	L

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(1) Locations are leased from partnerships in which Steven E. Trager, Chairman and Chief Executive Officer and A. Scott Trager, President, are partners. See additional discussion included under Part III Item 13 "Certain Relationships and Related Transactions, and Director Independence."

(2) The banking centers at these locations are owned by Republic; however, the banking center is located on land that is leased through long-term agreements with third parties.

Item 3. Legal Proceedings.

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

Overdraft Litigation

On August 1, 2011, a lawsuit was filed in the U.S. 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 filed its objection to Plaintiff's Motion to Amend. On June 16, 2012, the District Court denied the Plaintiff's Motion to Amend concluding that she lacked the ability to automatically amend the complaint as of right. However, the Court held that she could be permitted to amend if she could first demonstrate that her amendment would not be futile and that she had standing to sue despite RB&T's offer of judgment. The Court declined to rule on that issue at this time and ordered the case stayed pending a decision by the U.S. Court of Appeals for the Sixth Circuit in a case on appeal with the same standing issue. The Sixth Circuit is in turn waiting for the ruling of the U.S. Supreme Court in yet another case with the same standing issue. RB&T intends to vigorously defend its case. Management continues to closely monitor this case, but is unable to estimate, at this time, the possible loss or range of possible loss, if any, that may result from this lawsuit.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market and Dividend Information

Republic's Class A Common Stock is traded on The NASDAQ Global Select Market® ("NASDAQ") under the symbol "RBCAA." The following table sets forth the high and low market value of the Class A Common Stock and the respective dividends declared during 2012 and 2011.

	2012			
	Market Value		Dividend	
Quarter Ended	High	Low	Class A	Class B
March 31st	$ 27.50	$ 23.35	0.154	0.140
June 30th	24.31	20.23	0.165	0.150
September 30th	25.12	21.95	0.165	0.150
December 31st (*)	22.02	19.85	1.265	1.150

	2011			
	Market Value		Dividend	
Quarter Ended	High	Low	Class A	Class B
March 31st	$ 23.86	$ 16.87	0.143	0.130
June 30th	21.89	18.95	0.154	0.140
September 30th	21.69	16.00	0.154	0.140
December 31st	23.51	16.98	0.154	0.140

(*) – A one-time special cash dividend of $1.10 per share on Class A Common Stock and $1.00 per share on Class B Common Stock was declared on November 14, 2012 to shareholders of record as of November 30, 2012, payable on December 21, 2012.

At February 15, 2013, the Company's Class A Common Stock was held by 573 shareholders of record and the Class B Common Stock was held by 117 shareholders of record. There is no established public trading market for the Company's Class B Common Stock. The Company intends to continue its historical practice of paying quarterly cash dividends; however, there is no assurance by the Board of Directors that such dividends will continue to be paid in the future. The payment of dividends in the future is dependent upon future income, financial position, capital requirements, the discretion and judgment of the Board of Directors and numerous other considerations.

For additional discussion regarding regulatory restrictions on dividends, see the following section:

Part II Item 8 "Financial Statements and Supplementary Data"
Footnote 15 "Stockholders' Equity and Regulatory Capital Matters"

Republic has made available to its employees participating in its 401(k) plan the opportunity, at the employee's sole discretion, to invest funds held in their accounts under the plan in shares of Class A Common Stock of Republic. Shares are purchased by the independent trustee administering the plan from time to time in the open market in the

form of broker's transactions. As of December 31, 2012, the trustee held 200,169 shares of Class A Common Stock and 2,648 shares of Class B Common Stock on behalf of the plan.

Details of Republic's Class A Common Stock purchases during the fourth quarter of 2012 are included in the following table:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs
October 1 - October 31	-	$ -	-	
November 1 - November 30	20,843	20.38	20,843	
December 1 - December 31	42,000	20.28	42,000	
Total	62,843	$ 20.23	62,843	523,719

During 2012, the Company repurchased 79,470 shares and there were 1,849 shares exchanged for stock option exercises. During November of 2011, the Company's Board of Directors amended its existing share repurchase program by approving the repurchase of 300,000 additional shares from time to time, as market conditions are deemed attractive to the Company. The repurchase program will remain effective until the total number of shares authorized is repurchased or until Republic's Board of Directors terminates the program. As of December 31, 2012, the Company had 523,719 shares which could be repurchased under its current share repurchase programs.

During 2012, there were approximately 29,000 shares of Class A Common Stock issued upon conversion of shares of Class B Common Stock by stockholders of Republic in accordance with the share-for-share conversion provision option of the Class B Common Stock. The exemption from registration of the newly issued Class A Common Stock relied upon was Section (3)(a)(9) of the Securities Act of 1933.

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

STOCK PERFORMANCE GRAPH

The following stock performance graph does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates the performance graph by reference therein.

The following stock performance graph sets forth the cumulative total shareholder return (assuming reinvestment of dividends) on Republic's Class A Common Stock as compared to the NASDAQ Bank Stocks Index and the Standard & Poor's ("S&P") 500 Index. The graph covers the period beginning December 31, 2007 and ending December 31, 2012. The calculation of cumulative total return assumes an initial investment of $100 in Republic's Class A Common Stock, the NASDAQ Bank Index and the S&P 500 Index on December 31, 2007. The stock price performance shown on the graph below is not necessarily indicative of future stock price performance.

	December 31, 2007	December 31, 2008	December 31, 2009	December 31, 2010	December 31, 2011	December 31, 2012
Republic Bancorp Class A Common Stock	$ 100.00	$ 168.20	$ 130.41	$ 154.43	$ 153.28	$ 152.82
NASDAQ Bank Stock Index	100.00	78.46	66.39	75.04	67.16	78.80
S&P 500 Index	100.00	63.00	79.91	91.05	92.98	106.06

Item 6. Selected Financial Data

The following table sets forth Republic Bancorp Inc.'s selected financial data from 2008 through 2012. This information should be read in conjunction with Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II Item 8 "Financial Statements and Supplementary Data." Certain amounts presented in prior periods have been reclassified to conform to the current period presentation.

	As of and for the Years Ended December 31,				
(in thousands, except per share data, FTEs and # of banking centers)	2012	2011	2010	2009	2008
Balance Sheet Data:					
Cash and cash equivalents	$ 137,691	$ 362,971	$ 786,371	$ 1,068,179	$ 616,303
Investment securities	484,256	674,022	542,694	467,235	904,674
Mortgage loans held for sale	10,614	4,392	15,228	5,445	11,298
Gross loans	2,650,197	2,285,295	2,175,240	2,268,232	2,303,857
Allowance for loan losses	23,729	24,063	23,079	22,879	14,832
Goodwill	10,168	10,168	10,168	10,168	10,168
Total assets	3,394,399	3,419,991	3,622,703	3,918,768	3,939,368
Non interest-bearing deposits	479,046	408,483	325,375	318,275	273,203
Interest-bearing deposits	1,503,882	1,325,495	1,977,317	2,284,206	2,470,166
Total deposits	1,982,928	1,733,978	2,302,692	2,602,481	2,743,369
Securities sold under agreements to repurchase and other short-term borrowings	250,884	230,231	319,246	299,580	339,012
Federal Home Loan Bank advances	542,600	934,630	564,877	637,607	515,234
Subordinated note	41,240	41,240	41,240	41,240	41,240
Total liabilities	2,857,697	2,967,624	3,251,327	3,602,748	3,663,446
Total stockholders' equity	536,702	452,367	371,376	316,020	275,922
Average Balance Sheet Data:					
Federal funds sold and other interest-earning deposits	$ 187,790	$ 315,530	$ 473,137	$ 341,126	$ 92,978
Investment securities, including FHLB stock	640,830	678,804	561,273	536,996	629,626
Gross loans, including loans held for sale	2,504,150	2,246,259	2,338,990	2,372,008	2,369,691
Allowance for loan losses	25,226	28,817	27,755	22,005	15,556
Total assets	3,560,739	3,416,921	3,503,886	3,415,725	3,232,435
Non interest-bearing deposits	624,053	509,457	421,162	381,665	321,308
Interest-bearing deposits	1,512,455	1,540,515	1,725,891	1,684,277	1,599,280
Total liabilities	2,351,768	2,418,865	2,671,466	2,679,499	2,604,577
Total stockholders' equity	530,096	439,636	361,357	305,864	267,578

Income Statement Data - Total Company:					
Total interest income	$ 183,459	$ 195,115	$ 193,473	$ 212,605	$ 202,142
Total interest expense	22,804	30,255	36,661	48,742	72,418
Net interest income	160,655	164,860	156,812	163,863	129,724
Provision for loan losses	15,043	17,966	19,714	33,975	16,205
Total non interest income	165,078	119,624	87,658	57,621	45,960
Total non interest expenses	126,745	122,321	126,323	121,485	107,592
Income before income tax expense	183,945	144,197	98,433	66,024	51,887
Income tax expense	64,606	50,048	33,680	23,893	18,235
Net income	119,339	94,149	64,753	42,131	33,652
Income Statement Data - Traditional Bank(1):					
Total interest income	$ 137,886	$ 135,522	$ 141,252	$ 154,942	$ 176,366
Total interest expense	22,655	29,775	35,099	43,786	64,808
Net interest income	115,231	105,747	106,153	111,156	111,558
Provision for loan losses	8,167	6,406	11,571	15,885	8,154
Total non interest income	86,554	31,072	28,548	31,766	14,826
Total non interest expenses	104,222	91,238	93,527	94,167	86,650
Income before income tax expense	89,396	39,175	29,603	32,870	31,580
Income tax expense	30,943	12,368	9,090	10,718	11,186
Net income	58,453	26,807	20,513	22,152	20,394

(continued)

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, 2012	2011	2010	2009	2008
Per Share Data:					
Basic average shares outstanding	20,959	20,945	20,877	20,749	20,518
Diluted average shares outstanding	21,028	20,993	20,960	20,884	20,824
End of period shares outstanding:					
Class A Common Stock	18,694	18,652	18,628	18,499	18,318
Class B Common Stock	2,271	2,300	2,307	2,309	2,310
Basic earnings per share:					
Class A Common Stock	$5.71	$4.50	$3.11	$2.04	$1.65
Class B Common Stock	5.55	4.45	3.06	1.99	1.60
Diluted earnings per share:					
Class A Common Stock	$5.69	$4.49	$3.10	$2.02	$1.62
Class B Common Stock	5.53	4.44	3.04	1.98	1.58
Cash dividends declared per share:					
Class A Common Stock	$1.749	$0.605	$0.561	$0.517	$0.473
Class B Common Stock	1.590	0.550	0.510	0.470	0.430
Market value per share at December 31,	$21.13	$22.90	$23.75	$20.60	$27.20
Book value per share at December 31,	25.60	21.59	17.74	15.19	13.38
Tangible book value per share at December 31,(2)	24.86	20.81	16.88	14.28	12.59
Performance Ratios:					
Return on average assets (ROA)	3.35 %	2.76 %	1.85 %	1.23 %	1.04 %
Return on average equity (ROE)	22.51 %	21.42 %	17.92 %	13.77 %	12.58 %
Efficiency ratio(3)	39 %	43 %	52 %	53 %	57 %
Yield on average interest-earning assets	5.50 %	6.02 %	5.74 %	6.54 %	6.54 %
Cost of average interest-bearing liabilities	0.97 %	1.25 %	1.37 %	1.82 %	2.78 %
Net interest spread	4.53 %	4.77 %	4.37 %	4.72 %	3.76 %
Net interest margin - Total Company	4.82 %	5.09 %	4.65 %	5.04 %	4.20 %
Net interest margin - Traditional Banking Segment	3.64 %	3.55 %	3.57 %	3.79 %	3.96 %
Capital Ratios:					
Average stockholders' equity to average total assets	14.89 %	12.87 %	10.31 %	8.95 %	8.28 %
Total risk based capital	25.28 %	24.74 %	22.04 %	18.37 %	15.43 %
Tier 1 risk based capital	24.31 %	23.59 %	20.89 %	17.25 %	14.72 %
Tier 1 leverage capital	16.36 %	14.77 %	12.05 %	10.52 %	8.80 %
Dividend payout ratio	31 %	13 %	18 %	25 %	29 %
Dividend yield	8 %	3 %	2 %	3 %	2 %

Other Information:					
End of period full time equivalent employees	797	710	744	735	724
Number of banking centers	44	43	43	44	45

(continued)

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, 2012	2011	2010	2009	2008
Asset Quality Data - Total Company:					
Loans on non-accrual status	$18,506	$23,306	$28,317	$43,136	$11,324
Loans past due 90 days or more and still on accrual	3,173	-	-	8	2,133
Total non-performing loans	21,679	23,306	28,317	43,144	13,457
Other real estate owned	26,203	10,956	11,969	4,772	5,737
Total non-performing assets	47,882	34,262	40,286	47,916	19,194
Total delinquent loans	20,844	24,433	26,927	44,854	24,765
Asset Quality Data - Acquired Banks:					
Loans on non-accrual status	$-	NA	NA	NA	NA
Loans past due 90 days or more and still on accrual	3,173	NA	NA	NA	NA
Total non-performing loans	3,173	NA	NA	NA	NA
Other real estate owned	14,498	NA	NA	NA	NA
Total non-performing assets	17,671	NA	NA	NA	NA
Total delinquent loans	5,967	NA	NA	NA	NA
Credit Quality Ratios - Total Company:					
Non-performing loans to total loans	0.82 %	1.02 %	1.30 %	1.90 %	0.58 %
Non-performing assets to total loans (including OREO)	1.79 %	1.49 %	1.84 %	2.11 %	0.83 %
Non-performing assets to total assets	1.41 %	1.00 %	1.11 %	1.22 %	0.49 %
Allowance for loan losses to total loans	0.90 %	1.05 %	1.06 %	1.01 %	0.64 %
Allowance and non-accretable yield to total GCLPR(4)	2.34 %	NA	NA	NA	NA
Allowance for loan losses to non-performing loans	109 %	103 %	82 %	53 %	110 %
Delinquent loans to total loans(5)	0.79 %	1.07 %	1.24 %	1.98 %	1.07 %
Net loan charge offs to average loans	0.61 %	0.76 %	0.83 %	1.09 %	0.60 %
Credit Quality Ratios - Traditional Bank:					
Non-performing loans to total loans	0.82 %	1.02 %	1.30 %	1.90 %	0.58 %
Non-performing assets to total loans (including OREO)	1.79 %	1.49 %	1.84 %	2.11 %	0.83 %
Non-performing assets to total assets	1.41 %	1.10 %	1.32 %	1.60 %	0.69 %
Allowance for loan losses to total loans	0.90 %	1.05 %	1.06 %	1.01 %	0.64 %
Allowance and non-accretable yield to total GCLPR(4)	2.34 %	NA	NA	NA	NA

Allowance for loan losses to non-performing loans	109	%	103	%	82	%	53	%	110	%
Delinquent loans to total loans(5)	0.79	%	1.07	%	1.24	%	1.98	%	1.07	%
Net loan charge offs to average loans	0.34	%	0.24	%	0.51	%	0.34	%	0.26	%
Credit Quality Ratios - Traditional Bank Excluding Acquired Banks:										
Non-performing loans to total loans	0.74	%	1.02	%	1.30	%	1.90	%	0.58	%
Non-performing assets to total loans (including OREO)	1.20	%	1.49	%	1.84	%	2.11	%	0.83	%
Non-performing assets to total assets	0.95	%	1.10	%	1.32	%	1.60	%	0.69	%
Allowance for loan losses to total loans	0.94	%	1.05	%	1.06	%	1.01	%	0.64	%
Allowance for loan losses to non-performing loans	127	%	103	%	82	%	53	%	110	%
Delinquent loans to total loans(5)	0.59	%	1.07	%	1.24	%	1.98	%	1.07	%
Net loan charge offs to average loans	0.35	%	0.24	%	0.51	%	0.34	%	0.26	%
Credit Quality Ratios - Acquired Banks:										
Non-performing loans to total loans	2.29	%	NA		NA		NA		NA	
Non-performing assets to total loans (including OREO)	11.54	%	NA		NA		NA		NA	
Non-performing assets to total assets	8.73	%	NA		NA		NA		NA	
Allowance for loan losses to total loans	0.15	%	NA		NA		NA		NA	
Allowance and non-accretable yield to total GCLPR(4)	21.83	%	NA		NA		NA		NA	
Allowance for loan losses to non-performing loans	7	%	NA		NA		NA		NA	
Delinquent loans to total loans(5)	4.30	%	NA		NA		NA		NA	
Net loan charge offs to average loans	0.00	%	NA		NA		NA		NA	

(continued)

(1) The Company's "Core Bank" is composed of its Traditional Banking and Mortgage Banking segments. See Footnote 21 "Segment Information" under Part II Item 8 "Financial Statements and Supplemental Data" for additional information regarding the Company's reporting segments.

(2) The following table provides a reconciliation of total stockholders' equity in accordance with U.S. generally accepted accounting principles ("GAAP") to tangible stockholders' equity in accordance with applicable regulatory requirements. The Company provides the tangible common equity ratio, in addition to those defined by banking regulators, because of its widespread use by investors as a means to evaluate capital adequacy.

(in thousands, except per share data)	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
Total stockholders' equity (a)	$ 536,702	$ 452,367	$ 371,376	$ 316,020	$ 275,922
Less: Goodwill	10,168	10,168	10,168	10,168	10,168
Less: Core deposit intangible	510	58	117	196	298
Less: Mortgage servicing rights	4,777	6,087	7,800	8,430	5,809
Tangible stockholders' equity (c)	$ 521,247	$ 436,054	$ 353,291	$ 297,226	$ 259,647
Total assets (b)	$ 3,394,399	$ 3,419,991	$ 3,622,703	$ 3,918,768	$ 3,939,368
Less: Goodwill	10,168	10,168	10,168	10,168	10,168
Less: Core deposit intangible	510	58	117	196	298
Less: Mortgage servicing rights	4,777	6,087	7,800	8,430	5,809
Tangible assets (d)	$ 3,378,944	$ 3,403,678	$ 3,604,618	$ 3,899,974	$ 3,923,093
Total stockholders' equity to total assets (a/b)	15.81 %	13.23 %	10.25 %	8.06 %	7.00 %
Tangible stockholders' equity to tangible assets (c/d)	15.43 %	12.81 %	9.80 %	7.62 %	6.62 %
Number of shares outstanding (e)	20,965	20,952	20,935	20,808	20,628
Book value per share (a/e)	$ 25.60	$ 21.59	$ 17.74	$ 15.19	$ 13.38
Tangible book value per share (c/e)	24.86	20.81	16.88	14.28	12.59

(3) 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.

(4)

The following tables reflect the calculation of the allowance for loan losses plus non-accretable yield on purchased, credit impaired loans as a percentage of total gross contractual loan principal receivable (“GCLPR”). While this ratio is not considered in accordance with GAAP, it provides additional insight regarding the Bank’s ability to absorb impairment of contractual loan principal receivable.

	Total Company				Acquired Banks		
(in thousands, except per share data)		Dec. 31, 2012		(in thousands, except per share data)		Dec. 31, 2012	
Allowance for loan losses	$	23,729		Allowance for loan losses	$	214	
Non-accretable yield		39,264		Non-accretable yield		39,264	
Total (f)	$	62,993		Total (h)	$	39,478	
Total loans	$	2,650,197		Total loans	$	138,616	
Non-accretable yield		39,264		Non-accretable yield		39,264	
Accretable yield		2,593		Accretable yield		2,953	
Total GCLPR (g)	$	2,692,054		Total GCLPR (i)	$	180,833	
Allowance and non-accretable yield to total GCLPR (f/g)		2.34	%	Allowance and non-accretable yield to total GCLPR (h/i)		21.83	%

(5) Equals total loans exceeding 30 days past due divided by total loans.

NA – Not Applicable

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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 ("RB") (collectively referred together as the "Bank"), 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: RB&T and RB.

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.

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

Broadly speaking, forward-looking statements include:

- projections of revenue, income, expenses, 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, non-performing loans, impaired loans and troubled debt restructurings ("TDR"s);
- 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 loan losses;
- deteriorating credit quality, including changes in the interest rate environment and reducing interest margins;
- future credit losses and the overall adequacy of the allowance for loan losses;
- potential write-downs of other real estate owned ("OREO");
- potential recast adjustments to acquisition day fair values ("day-one fair values");

future short-term and long-term interest rates and the respective impact on net interest margin, net interest spread, net income, liquidity and capital;
future long-term interest rates and their impact on the demand for Mortgage Banking products and warehouse lines of credit;
the future value of mortgage servicing rights;
the future regulatory viability of the Tax Refund Solutions ("TRS") division;
the future operating performance of TRS, including the impact of the cessation of Refund Anticipation Loans ("RALs");
future Refund Transfers ("RTs"), formerly referred to as Electronic Refund Check/Electronic Refund Deposit ("ERC/ERD" or "AR/ARD"), volume for TRS;
the impact to net income resulting from the termination of material TRS contracts;
future revenues associated with RTs at TRS;
future financial performance of Republic Payment Solutions ("RPS");

- future financial performance of Republic Credit Solutions (“RCS”);
- potential impairment of investment securities;
- the extent to which regulations written and implemented by the 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;
- 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;
- 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, including but not limited to the acquisitions of failed banks.

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 Part I Item 1 “Business” and Part I Item 1A “Risk Factors.”

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 ("GAAP"). 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 GAAP. 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
- Acquisitions of failed banks
- Mortgage servicing rights
- Income tax accounting
- Goodwill and other intangible assets
- Investment securities
- Other real estate owned ("OREO")

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 allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-classified loans and is based on historical loss experience adjusted for current qualitative factors. For the impact on the allowance for loan losses of loans acquired in the acquisitions of failed banks, see additional discussion under "Acquisitions of Failed Banks" in this section of the filing.

The specific component of the allowance for loan losses is made for loans individually classified as impaired. 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 that meet the following classifications are considered impaired:

- All loans internally classified as "Substandard," "Doubtful" or "Loss;"
- All loans on non-accrual status;
- All retail and commercial troubled debt restructurings ("TDRs"). TDRs are loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties;
- Accounting Standards Codification ("ASC") Topic 310-30 purchased credit impaired loans whereby current projected cash flows have deteriorated since acquisition, or cash flows cannot be reasonably estimated in terms of timing and amounts; 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 maintains a list of classified commercial, commercial real estate loans and large single family residential and home equity loans. The Bank reviews and monitors these classified loans on a regular basis. Generally, assets are designated as classified loans to ensure more frequent monitoring. Classified 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.

Loans, including impaired loans, but excluding consumer loans, are typically placed on non-accrual status when the loans become past due 80 days or more as to principal or interest, unless the loans are adequately secured and in the process of collection. Past due status is based on how recently payments have been received. When loans are placed on non-accrual status, all unpaid interest is reversed from interest income and accrued interest receivable. These loans remain on non-accrual status until the borrower demonstrates the ability to become and remain current or the loan or a portion of the loan is deemed uncollectible and is charged off. Consumer loans are reviewed periodically and generally charged off when the loans reach 120 days past due or at any earlier point the loan is deemed uncollectible.

Impairment is measured on a loan by loan basis 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.

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.

The general component of the allowance for loan losses covers loans collectively evaluated for impairment and is based on historical loss experience adjusted for current qualitative factors. The historical loss experience is determined by loan performance and class and is based on the actual loss history experienced by the Bank. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are included in the general component unless classified as TDRs.

For "Pass" rated or nonrated loans, management evaluates the loan portfolio by reviewing the historical loss rate for each respective loan class. Management evaluates the following historical loss rate scenarios:

- Rolling four quarter
- Rolling eight quarter average
- Rolling twelve quarter average
- Rolling sixteen quarter average
- Current year to date historical loss factor (average)
- Prior annual three year historical loss factors
- Peer group data

Currently, management has assigned a greater emphasis to the higher of the rolling eight quarter and rolling twelve quarter averages when determining its historical loss factors for its "Pass" rated and nonrated loans.

Historical loss rates for non-performing loans, which are not individually evaluated for impairment, are analyzed using loss migration analysis by loan class of prior year loss results.

Loan classes are evaluated utilizing subjective qualitative factors in addition to the historical loss calculations to determine a loss allocation for each of those classes. Management assigns risk multiples to certain classes to account for qualitative factors such as:

- Changes in nature, volume and seasoning of the loan portfolio;
- Changes in experience, ability, and depth of lending management and other relevant staff;
- Changes in the quality of the Bank's loan review system;
- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified loans;
- Changes in the value of underlying collateral for collateral-dependent loans;
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectibility of the portfolio, including the condition of various market segments;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution's existing portfolio.

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.

Prior to January 1, 2012, the Bank's allowance for loan losses calculation was supported with qualitative factors which included a nominal "unallocated allowance for loan losses" component totaling $2.0 million as of December 31, 2011. The Bank believes that historically the "unallocated" allowance properly reflected estimated credit losses determined in accordance with GAAP. The unallocated allowance was primarily related to RB&T's loan portfolio, which is highly concentrated in the Kentucky and Southern Indiana real estate markets. These markets have remained relatively stable during the current economic downturn, as compared to other parts of the U.S. With the Bank's recent expansion into the metropolitan Nashville, Tennessee and metropolitan Minneapolis, Minnesota markets, its plans to pursue future acquisitions into potentially new markets through Federal Deposit Insurance Corporation ("FDIC")-assisted transactions, and its offering of new loan products, such as mortgage warehouse lines of credit, the Bank elected to revise its methodology to provide a more detailed calculation when estimating the impact of qualitative factors over

the Bank's various loan categories.

In executing this methodology change on January 1, 2012, the Bank allocated its "unallocated" allowance by adjusting its qualitative factors for its groups of smaller-balance homogeneous loans that are collectively evaluated for impairment and are generally not included in the scope of ASC Topic 310-10-35 Accounting by Creditors for Impairment of a Loan. These portfolios are typically not graded and not subject to annual review.

This methodology change did not have a material impact on the Bank's provision for loan losses for the year ended December 31, 2012. Management believes, based on information presently available, that it has adequately provided for loan losses at December 31, 2012 and December 31, 2011.

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 its beginning allowance to the net charge offs for the most recent calendar year. The ratio of net charge offs to the beginning allowance indicates how adequately the allowance accommodated subsequent charge offs. Higher ratios suggest the beginning of year allowance may not have been large enough to absorb impending charge offs, while inordinately low ratios might indicate an entity was accumulating excessive allowances. The Bank's net charge off ratio to the beginning allowance for loan losses was 35% at December 31, 2012, compared to 23% for December 31, 2011. The Bank's five year annual average for this ratio was 0.56% as of December 31, 2012.

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 2 and 4 years. The Bank's allowance exhaustion rate at December 31, 2012 was 2.8 years compared to the five year annual average of 2.3 years.

Based on management's calculation, an allowance of $24 million, or 0.90%, of total loans was an adequate estimate of probable incurred losses within the loan portfolio as of December 31, 2012. This estimate resulted in Traditional Banking segment provision for loan losses on the income statement of $8.2 million during 2012. 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.

The Bank does not carryover any allowance for loan losses for loans acquired in acquisitions of failed banks. Such loans are recorded at fair value as of the acquisition date and receive allowance allocations based on circumstances and events occurring subsequent to the acquisition date as further discussed below under Acquisitions of Failed Banks.

Acquisitions of Failed Banks – The Bank accounts for acquisitions of failed banks in accordance with the acquisition method as outlined in ASC Topic 805, Business Combinations. The acquisition method requires: a) identification of the entity that obtains control of the acquiree; b) determination of the acquisition date; c) recognition and measurement of the identifiable assets acquired and liabilities assumed, and any noncontrolling interest in the acquiree; and d) recognition and measurement of goodwill or bargain purchase gain.

Identifiable assets acquired, liabilities assumed, and any noncontrolling interest in acquirees are generally recognized at their acquisition date fair values, (i.e. "day-one fair values") based on the requirements of ASC Topic 820, Fair Value Measurements and Disclosures. The measurement period for day-one fair values begins on the acquisition date and ends the earlier of: (a) the day a bank believes it has all the information necessary to determine day-one fair values; or (b) one year following the acquisition date. In many cases, the determination of these day-one fair values requires management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to recast adjustments, which are retrospective adjustments to reflect new information existing at the acquisition date affecting day-one fair values. More specifically, these recast adjustments for loans and other real estate owned may be made, as market value data, such as appraisals, are received by the bank. Increases or decreases to day-one fair values are reflected with a corresponding increase or decrease to goodwill or bargain purchase gain.

Acquisition related costs are expensed as incurred unless those costs are related to issuing debt or equity securities used to finance the acquisition.

Loans purchased in the acquisitions of failed banks may be accounted for using the following accounting standards:

ASC Topic 310-20, Non Refundable Fees and Other Costs, is used to value loans that have not demonstrated post origination credit quality deterioration and the acquirer expects to collect all contractually required payments from the borrower. For these loans, the difference between the fair value of the loan at acquisition and the amortized cost of the loan would be amortized or accreted into income using the interest method.

ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, is used to value loans with post origination credit quality deterioration. For these loans, it is probable the acquirer will be unable to collect all contractually required payments from the borrower. Under ASC Topic 310-30, the expected cash flows that exceed the initial investment in the loan (fair value) represent the “accretable yield,” which is recognized as interest income on a level-yield basis over the expected cash flow periods of the loans.

Purchased Loans (ASC Topic 310-20) – Purchased loans accounted for under ASC Topic 310-20 are accounted for as would any other Bank-originated loan, potentially becoming nonaccrual or impaired, as well as being risk rated under the Bank's standard practices and procedures. In addition, purchased loans accounted for under ASC Topic 310-20 are considered in the determination of the required allowance for loan losses once day-one fair values have been finalized.

Purchased Credit Impaired Loans (ASC Topic 310-30) – Management individually evaluates substantially all purchased credit impaired loans. This evaluation allows management to determine the estimated fair value of the purchased credit impaired loans and includes no carryover of any previously recorded allowance for loan losses by the failed bank. In determining the estimated fair value of purchased credit impaired loans, management considers a number of factors including, among other things, the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, estimated holding periods and net present value of cash flows expected to be received. To the extent that any purchased credit impaired loan acquired in a FDIC-assisted acquisition is not specifically reviewed, management applies a loss estimate to that loan based on the average expected loss rates for the purchased credit impaired loans that were individually reviewed in that purchased loan portfolio. For the 2012 acquisitions of failed banks, RB&T elected to account for purchased credit impaired loans individually, as opposed to aggregating the loans into pools based on common risk characteristics such as loan type.

In determining the day-one fair values of purchased credit impaired loans, management calculates a non-accretable difference (the credit component) and an accretable difference (the yield component). The non-accretable difference is the difference between the contractually required payments and the cash flows expected to be collected in accordance with management's determination of the day-one fair values. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows will result in a reversal of the provision for loan losses to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income. Estimated prepayments are treated consistently for cash flows expected to be collected and projections of contractual cash flows such that the credit component is not affected. The accretable difference on purchased credit impaired loans is the difference between the expected cash flows and the net present value of expected cash flows. Such difference is accreted into earnings using the level yield method over the expected cash flow periods of the loans.

With regard to purchased credit impaired loans, management separately monitors this portfolio regularly and reviews the loans contained within this portfolio against the factors and assumptions used in determining the day-one fair values on a quarterly basis. In addition to its quarterly evaluation, a loan is typically reviewed when it is modified or extended, or when material information becomes available to the Bank that provides additional insight regarding the loan's performance, the status of the borrower, or the quality or value of the underlying collateral.

To the extent that a purchased credit impaired loan's performance deteriorates from management's expectation established in conjunction with the determination of the day-one fair values, such loan would generally be considered impaired and could require loan loss provisions. Any improvement in the expected performance of a purchased credit impaired loan would result in a reversal of the provision for loan losses to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income.

See additional discussion regarding the 2012 acquisitions of failed banks under Footnote 2 "Acquisitions of Failed Banks" of Part II Item 8 "Financial Statements and Supplementary Data."

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 on 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, 2012 was $4.8 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, 2012.

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 $510,000 were not impaired and are properly recorded in the consolidated financial statements as of December 31, 2012.

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 2010 and 2011 under Footnote 3 “Investment Securities” of Part II Item 8 “Financial Statements and Supplementary Data.”

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. Fair value is commonly based on recent real estate appraisals or broker price opinions. Appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach.

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Bank. Once received, a member of the Bank's Credit Administration Department ("CAD") reviews the assumptions and approaches utilized in the appraisal, as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On at least an annual basis, the Bank updates its appraised values to determine what additional adjustment, if any, should be made to the carrying value of the OREO asset.

OVERVIEW

The Company's 2013 net income and overall results of operations will likely show a substantial decline as compared to those achieved in 2012. The Company's results of operations for 2012 reflect pre-tax bargain purchase gains on FDIC assisted acquisitions of $55.4 million, RAL fees in interest income of $45.3 million and RT fees in non interest income of $78.3 million.

Within the Traditional Banking segment, FDIC-assisted acquisition opportunities are expected to decline substantially in 2013 as compared to 2012. In addition, as the market for FDIC-assisted opportunities declines, pricing for the deals that do become available is expected to be less favorable as competition increases for these limited opportunities. As a result of these factors, the level of bargain purchase gains achieved by the Company in 2012 are unlikely to be repeated in 2013 and beyond.

Within the RPG segment, RAL revenue will not reoccur in the future as a result of the discontinuance of the RAL product effective April 30, 2012. Furthermore, RT revenues will be reduced substantially in 2013 primarily due to decreased customer volume following the termination of material contracts with Jackson Hewitt Tax Service and Liberty Tax Service and pricing pressures following the loss of the RAL product as a competitive advantage. Due primarily to these factors, RPG net income is expected to be in a range of $3 to $5 million for the first quarter of 2013. RPG typically operates at a loss after the first quarter of each calendar year.

Comparisons of the Company's 2012 and 2013 results of operations will likely reflect significant negative declines in revenues and overall net income.

Table 1 – Summary

Year Ended December 31, (dollars in thousands, except per share data)		2012			2011			2010	
Net income	$	119,339		$	94,149		$	64,753	
Diluted earnings per Class A Common Stock		5.69			4.49			3.10	
Return on average assets (ROA)		3.35	%		2.76	%		1.85	%
Return on average equity (ROE)		22.51	%		21.42	%		17.92	%

Net income for the year ended December 31, 2012 was $119.3 million, representing an increase of $25.2 million, or 27%, compared to the same period in 2011. Diluted earnings per Class A Common Share increased 27% from $4.49 for the year ended December 31, 2011 to $5.69 for the same period in 2012. Additional discussion follows in this section of the filing under "Results of Operations."

General highlights by segment for the year ended December 31, 2012 consisted of the following:

Traditional Banking segment

Net income increased $28.7 million for 2012 compared to 2011.

On January 27, 2012, RB&T acquired loans and deposits of TCB from the FDIC with a fair value of $57 million and $947 million, resulting in a pre-tax bargain purchase gain of $27.6 million, primarily recorded during the first quarter of 2012. See additional discussion regarding the TCB acquisition under Footnote 2 "Acquisitions of Failed Banks" of Part II Item 8 "Financial Statements and Supplementary Data."

On September 7, 2012, RB&T acquired loans and deposits of FCB from the FDIC with a fair value of $128 million and $196 million, resulting in a pre-tax bargain purchase gain of $27.8 million, primarily recorded during the third quarter of 2012. See additional discussion regarding the FCB acquisition under Footnote 2 “Acquisitions of Failed Banks” of Part II Item 8 “Financial Statements and Supplementary Data.”

As projected, approximately $905 million and $126 million of the deposit liabilities assumed in the TCB and FCB acquisitions exited RB&T by December 31, 2012 due to the strategic reduction in the interest rates paid on deposits.

Net interest income increased $9.5 million, or 9%, for 2012 to $114.8 million. The Traditional Banking segment net interest margin increased nine basis points for 2012 to 3.64%.

Provision for loan losses was $8.2 million for 2012 compared to $6.4 million for 2011.

Total non-interest income increased $51.0 million for 2012 compared to 2011 primarily due to the bargain purchase gains detailed above.

Total non-interest expense increased $13.0 million, or 15%, during 2012 compared to 2011.

Total non-performing loans to total loans for the Traditional Banking segment was 0.82% at December 31, 2012, compared to 1.02% at December 31, 2011.

RB&T's Warehouse Lending portfolio had $217 million in loans outstanding at December 31, 2012 compared to $41 million at December 31, 2011.

Gross loans grew by $365 million, or 16% during 2012, with $139 million attributable to the 2012 acquisitions of failed banks.

Deposits grew by $249 million, or 14% during 2012, with $112 million attributable to the 2012 acquisitions of failed banks.

Republic Processing Group segment

The total dollar volume of tax refunds processed during 2012 decreased $1.1 billion, or 9%, from 2011.

Total RAL dollar volume decreased from $1.0 billion during 2011 to $796 million during 2012.

Total RT dollar volume declined $814 million, or 8%, during 2012 compared to 2011.

RPG net income decreased $6.5 million, or 10%, for 2012 compared to the same period in 2011.

Net interest income decreased $13.7 million, or 23%, for 2012 compared to 2011.

RPG recorded a provision for loan losses of $6.9 million for 2012, compared to $11.6 million for 2011.

RPG posted non interest income of $78.5 million for 2012 compared to $88.6 million for 2011.

RB&T obtained $300 million of Federal Home Loan Bank ("FHLB") advances during the fourth quarter of 2011 to fund projected RAL volume during the first quarter 2012 tax season. In addition, during the first quarter of 2012, RB&T obtained $252 million of brokered deposits to complete its required funding for the first quarter 2012 tax season.

RPG posted non-interest expenses of $22.5 million for 2012 compared to $31.1 million for 2011.

RB&T permanently discontinued the offering of its RAL product effective April 30, 2012. RALs contributed net income of $21.8 million and $23.5 million in 2012 and 2011.

Liberty Tax Service and Jackson Hewitt Tax Service unilaterally terminated their contracts with TRS during the third quarter of 2012.

For additional discussion regarding TRS, a division of Republic Processing Group, see the following sections:

Part I Item 1 "Business"

- o General Business Overview
  - § Republic Processing Group segment
- Part I Item 1A "Risk Factors"
  - o Republic Processing Group
- 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 4 "Loans and Allowance for Loan Losses"
  - o Footnote 21 "Segment Information"

Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income increased $4.5 million, or 117%, during 2012 compared to 2011.

Mortgage banking income was positively impacted by an increase in secondary market loan volume during 2012.

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 2011 compared to 2010.

Despite increases in net interest income during the third and fourth quarters of 2011, net interest income for 2011, decreased slightly, or $339,000, to $105.3 million. The Traditional Banking segment net interest margin declined 2 basis points for the year to 3.55%.

Provision for loan losses was $6.4 million for 2011 compared to $11.6 million for 2010.

Total non-interest income increased $4.4 million, or 19%, for 2011 compared to 2010.

During 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 2011 compared to 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 product 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.

Republic Processing Group segment

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

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

Net income increased $23.1 million, or 52%, for 2011 compared to 2010.

Net interest income increased $8.5 million, or 17%, for 2011 compared to 2010.

RPG recorded a provision for loan losses of $11.6 million for 2011 compared to $8.1 million for 2010.

RPG posted non interest income of $88.9 million for 2011 compared to $59.1 million for 2010.

During the second quarter of 2011, RB&T accrued a $2 million liability related to the assessment of a Civil Money Penalty ("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 division. 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 division subsequent to April 30, 2012. For additional discussion regarding the Agreement, see the Company's Form 8-K filed with the SEC on December 9, 2011, including Exhibits 10.1 and 10.2.

Mortgage Banking segment

Within the Mortgage Banking segment, Mortgage Banking income decreased $1.9 million for 2011 compared to 2010.

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 2012 vs. 2011

Total Company net interest income decreased $4.2 million, or 3%, for 2012 compared to 2011. The total Company net interest margin decreased 27 basis points to 4.82% for 2012. The significant components comprising the total Company decrease in net interest income were as follows:

Traditional Banking segment

Net interest income within the Traditional Banking segment increased $9.5 million, or 9%, for 2012 compared to 2011. The Traditional Banking net interest margin increased nine basis points for the same period to 3.64%. The increase in net interest income during 2012 was directly attributable to an increase in the average balance of loans outstanding. Five distinguishable drivers occurred in 2012 that positively impacted the size of the loan portfolio and correspondingly provided a positive impact to net interest income.

As disclosed in previous filings, the first of these drivers occurred in June 2011 when 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%.

Secondly, as discussed in more detail within the “Loan Portfolio” section of this filing, the Bank began offering its Mortgage Warehouse Lending product during June of 2011. During 2012, the Mortgage Warehouse Lending portfolio had average loans outstanding of $100 million achieving an average yield of 4.43%. These loans are revolving lines of credit with a term of 364 days, contain interest rate floors and adjust monthly with 30 day LIBOR.

The third driver occurred on January 27, 2012 when RB&T acquired TCB. As part of the acquisition, RB&T acquired loans, net of loans put back to the FDIC, with a fair value of approximately $57 million and an initial projected effective yield of 7.94%. At December 31, 2012 TCB loans with a carrying value of $31 million were still outstanding. See additional discussion regarding the 2012 acquisitions of failed banks under Footnote 2 “Acquisitions of Failed Banks” of Part II Item 8 “Financial Statements and Supplementary data.”

The fourth driver for the year over year increase in net interest income was an increase in the average balance of the Bank’s residential real estate loans, which increased $171 million compared to 2011 due primarily to growth in the Bank’s Home Equity Amortizing Loan (“HEAL”) product. The HEAL product is described in more detail within the “Loan Portfolio” section of this filing under “Financial Condition.”

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Lastly, the fifth driver occurred on September 7, 2012 when RB&T acquired FCB. As part of the FCB acquisition, the Bank acquired loans with a fair value of approximately $128 million and an initial projected effective yield of 7.36%. At December 31, 2012 FCB loans with a carrying value of $108 million were still outstanding. See additional discussion regarding the 2012 acquisitions of failed banks under Footnote 2 “Acquisitions of Failed Banks” of Part II Item 8 “Financial Statements and Supplementary data.”

Within the liabilities section of the balance sheet, the Bank continued to reprice its interest-bearing deposits lower to partially offset declining asset yields. In addition, due to the steepness of the yield curve and the FRB’s pledge to keep the Federal Funds Target Rate (“FFTR”) low for an extended period of time, the Bank prepaid $81 million in FHLB advances during the first quarter of 2012 that were originally scheduled to mature between October 2012 and May 2013. These advances had a weighted average cost of 3.56%. The Bank incurred a $2.4 million early termination penalty in connection with these prepayments, which will save the Bank approximately $2.6 million in interest expense during the period from April 2012 through the first five months of 2013.

The interest savings realized by the Bank as a result of these prepayments have been and will continue to be reduced by the Bank’s on-going interest rate risk mitigation practices, which often includes strategies utilizing long term advances from the FHLB. In particular, the Bank took advantage of declining interest rates during 2012 to borrow $195 million of long-term advances with a weighted average life of five years and a weighted average cost of 1.37%. The Bank borrowed these funds on a long-term basis to mitigate its interest rate risk position in the event of an increasing rate environment.

Management expects to continue to experience downward repricing in its loan and investment portfolios resulting from on-going paydowns and early payoffs. This downward repricing will continue to cause compression in Republic’s net interest income and net interest margin. Additionally, because the FFTR (the index which many of the Bank’s short-term deposit rates track) has remained at a target range between 0.00% and 0.25%, no future FFTR decreases from the Federal Open Markets Committee 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 2012” under “Financial Condition.”

Republic Processing Group segment

Net interest income for RPG decreased $13.7 million, or 23%, for 2012 compared to 2011. The decrease in net interest income was primarily due to a $13.9 million, or 23%, decline in RAL fee income resulting from a corresponding 23% decrease in RAL volume. The overall decline in the volume of RALs originated during 2012 resulted from a general decrease in consumer demand for the product. Management believes the decrease in RAL volume, which is generated through retail locations, was the result of a shift in consumer demand toward lower priced on-line tax preparation services and increased competition within the retail market based on free products and services from competitors.

RPG’s net interest income continued to benefit from low funding costs during 2012. Average interest-bearing liabilities utilized to fund RALs during 2012 and 2011 were $107 million and $141 million with a weighted average cost of 0.19% and 0.43%. As a result, interest expense was $149,000 for 2012, compared to $480,000 for 2011.

Lastly, the fifth driver occurred on September 7, 2012 when RB&T acquired FCB. As part of the FCB acquisition, the Bank acquired loans with a fair value of approximately $128 million and an initial projected effective yield of 7.36%. At December 31, 2012 FCB loans with a carrying value of $108 million were still outstanding. See additional discussion regarding the 2012 acquisitions of failed banks under Footnote 2 “Acquisitions of Failed Banks” of Part II Item 8 “Financial Statements and Supplementary data.”

Within the liabilities section of the balance sheet, the Bank continued to reprice its interest-bearing deposits lower to partially offset declining asset yields. In addition, due to the steepness of the yield curve and the FRB’s pledge to keep the Federal Funds Target Rate (“FFTR”) low for an extended period of time, the Bank prepaid $81 million in FHLB advances during the first quarter of 2012 that were originally scheduled to mature between October 2012 and May 2013. These advances had a weighted average cost of 3.56%. The Bank incurred a $2.4 million early termination penalty in connection with these prepayments, which will save the Bank approximately $2.6 million in interest expense during the period from April 2012 through the first five months of 2013.

The interest savings realized by the Bank as a result of these prepayments have been and will continue to be reduced by the Bank’s on-going interest rate risk mitigation practices, which often includes strategies utilizing long term advances from the FHLB. In particular, the Bank took advantage of declining interest rates during 2012 to borrow $195 million of long-term advances with a weighted average life of five years and a weighted average cost of 1.37%. The Bank borrowed these funds on a long-term basis to mitigate its interest rate risk position in the event of an increasing rate environment.

Management expects to continue to experience downward repricing in its loan and investment portfolios resulting from on-going paydowns and early payoffs. This downward repricing will continue to cause compression in Republic’s net interest income and net interest margin. Additionally, because the FFTR (the index which many of the Bank’s short-term deposit rates track) has remained at a target range between 0.00% and 0.25%, no future FFTR decreases from the Federal Open Markets Committee 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 2012” under “Financial Condition.”

Republic Processing Group segment

Net interest income for RPG decreased $13.7 million, or 23%, for 2012 compared to 2011. The decrease in net interest income was primarily due to a $13.9 million, or 23%, decline in RAL fee income resulting from a corresponding 23% decrease in RAL volume. The overall decline in the volume of RALs originated during 2012 resulted from a general decrease in consumer demand for the product. Management believes the decrease in RAL volume, which is generated through retail locations, was the result of a shift in consumer demand toward lower priced on-line tax preparation services and increased competition within the retail market based on free products and services from competitors.

RPG’s net interest income continued to benefit from low funding costs during 2012. Average interest-bearing liabilities utilized to fund RALs during 2012 and 2011 were $107 million and $141 million with a weighted average cost of 0.19% and 0.43%. As a result, interest expense was $149,000 for 2012, compared to $480,000 for 2011.

As discussed throughout, the Company ceased the RAL portion of the TRS division on April 30, 2012.

For additional discussion regarding TRS, a division of Republic Processing Group, see the following sections:

Part I Item 1 "Business"
Republic Processing Group segment
Part I Item 1A "Risk Factors"
Republic Processing Group
Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations"
"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 4 "Loans and Allowance for Loan Losses"
Footnote 21 "Segment Information"

Discussion of 2011 vs. 2010

Total Company net interest income increased $8.0 million, or 5%, for 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 two 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 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 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%.

Republic Processing Group segment

Net interest income within at RPG division increased $8.5 million, or 17%, for 2011 compared to 2010. The increase in net interest income was primarily due to a $7.6 million, or 15%, increase in RAL fee income. 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 Debt Indicator (“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.

RPG’s net interest income continued to benefit from low funding costs during 2011. Average interest bearing liabilities utilized to fund RALs during 2011 and 2010 were $107 million and $313 million with a weighted average cost of 0.43% and 0.50%. As a result, interest expense for the RPG division was $455,000 for 2011, a decrease of $1.1 million from 2010.

Table 2 provides detailed Total Company average balances, interest income/expense and rates by major balance sheet category for the years ended December 31, 2012, 2011 and 2010. 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,

	2012			2011			2010		
(dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS									
Interest-earning assets:									
Taxable investment securities, including FHLB stock(1)	$640,830	$12,446	1.94 %	$678,804	$16,486	2.43 %	$561,113	$15,799	2.82 %
Tax exempt investment securities(1)(4)	-	-	0.00 %	-	-	0.00 %	160	11	10.58 %
Federal funds sold and other interest-earning deposits	187,790	471	0.25 %	315,530	914	0.29 %	473,137	1,200	0.25 %
Refund Anticipation Loan fees(2)	24,182	45,227	187.03 %	29,572	59,117	199.91 %	99,629	51,556	51.75 %
Traditional Bank loans and fees(2)(3)	2,479,968	125,315	5.05 %	2,216,687	118,598	5.35 %	2,239,361	124,907	5.58 %
Total interest-earning assets	3,332,770	183,459	5.50 %	3,240,593	195,115	6.02 %	3,373,400	193,473	5.74 %
Less: Allowance for loan losses	25,226			28,817			27,755		
Non interest-earning assets:									
Non interest-earning cash and cash equivalents	164,071			112,513			57,790		
Premises and equipment, net	33,672			36,020			38,458		
Other assets(1)	55,452			56,612			61,993		
Total assets	$3,560,739			$3,416,921			$3,503,886		

LIABILITIES AND STOCK-HOLDERS' EQUITY												
Interest-bearing liabilities:												
Transaction accounts	$614,118	$397	0.06	%	$422,222	$540	0.13	%	$302,958	$561	0.19	%
Money market accounts	478,682	737	0.15	%	628,178	1,939	0.31	%	636,963	2,845	0.45	%
Time deposits	253,567	2,190	0.86	%	254,064	4,055	1.60	%	329,970	5,775	1.75	%
Brokered money market and brokered certificates of deposit	166,088	1,750	1.05	%	236,051	2,380	1.01	%	456,000	3,948	0.87	%
Total interest-bearing deposits	1,512,455	5,074	0.34	%	1,540,515	8,914	0.58	%	1,725,891	13,129	0.76	%
Securities sold under agreements to repurchase and other short-term borrowings	237,414	375	0.16	%	278,861	646	0.23	%	330,154	1,026	0.31	%
Federal Home Loan Bank advances	560,659	14,833	2.65	%	558,249	18,180	3.26	%	574,181	19,991	3.48	%
Subordinated note	41,240	2,522	6.12	%	41,240	2,515	6.10	%	41,240	2,515	6.10	%
Total interest-bearing liabilities	2,351,768	22,804	0.97	%	2,418,865	30,255	1.25	%	2,671,466	36,661	1.37	%
Non interest-bearing liabilities and Stockholders' equity:												
Non interest-bearing deposits	624,053				509,457				421,162			
Other liabilities	54,822				48,963				49,901			
	530,096				439,636				361,357			

Stockholders' equity			
Total liabilities and stock-holders' equity	$3,560,739	$3,416,921	$3,503,886
Net interest income	$160,655	$164,860	$156,812
Net interest spread	4.53 %	4.77 %	4.37 %
Net interest margin	4.82 %	5.09 %	4.65 %

(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 $50.8 million, $62.3 million and $54.9 million for the years ended December 31, 2012, 2011 and 2010.

(3) Average balances for loans include the principal balance of non-accrual loans and loans held for sale.

(4) Yields on tax exempt investment securities have been computed based on a fully tax-equivalent basis using the federal income tax rate of 35%.

Table 3 below 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, 2012 Compared to Year Ended December 31, 2011 Increase / (Decrease) Due to			Year Ended December 31, 2011 Compared to Year Ended December 31, 2010 Increase / (Decrease) Due to	
(in thousands)	Total Net Change	Volume	Rate	Total Net Change	Volume	Rate
Interest income:						
Taxable investment securities, including FHLB stock	$(4,040)	$(882)	$(3,158)	$687	$3,039	$(2,352)
Tax exempt investment securities	-	-	-	(11)	(11)	-
Federal funds sold and other interest-earning deposits	(443)	(333)	(110)	(286)	(440)	154
Refund Anticipation Loan fees	(13,890)	(10,262)	(3,628)	7,561	(56,719)	64,280
Traditional bank loans and fees	6,717	13,553	(6,836)	(6,309)	(1,254)	(5,055)
Net change in interest income	(11,656)	2,076	(13,732)	1,642	(55,385)	57,027
Interest expense:						
Transaction accounts	(143)	187	(330)	(21)	183	(204)

Money market accounts	(1,202)	(387)	(815)	(906)	(39)	(867)
Time deposits	(1,865)	(8)	(1,857)	(1,720)	(1,244)	(476)
Brokered money market and brokered certificates of deposit	(630)	(733)	103	(1,568)	(2,138)	570
Securities sold under agreements to repurchase and other short-term borrowings	(271)	(86)	(185)	(380)	(144)	(236)
Federal Home Loan Bank advances	(3,347)	78	(3,425)	(1,811)	(544)	(1,267)
Subordinated note	7	-	7	-	-	-
Net change in interest expense	(7,451)	(949)	(6,502)	(6,406)	(3,926)	(2,480)
Net change in net interest income	$(4,205)	$3,025	$(7,230)	$8,048	$(51,459)	$59,507

Provision for Loan Losses

Discussion of 2012 vs. 2011

The Company recorded total provision for loan losses of $15.0 million for 2012 compared to $18.0 million during 2011. 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 2012 was $8.2 million, a $1.8 million or 27% increase from 2011. The net increase in the provision for loan losses related to the following:

- The Bank experienced a $792,000 net provision for loan loss increase in the Bank's general loan loss reserves for its pass-rated credits. Approximately $437,000 of the increase was due to qualitative factors allocated to the warehouse lending portfolio. While the Company's warehouse lending portfolio has experienced no charge-offs in its brief history, the portfolio's rapid growth during 2012 was judged a qualitative risk.
- The Bank experienced a net provision for loan loss decrease of $651,000 associated with required reserves for its large classified loan portfolio.
- The Bank recorded a net provision for loan loss decrease of $440,000 related to improvement in the past due 90-days and non-accrual retail loan portfolios.
- The Bank recorded $2.0 million in provision for loan losses in 2012 associated with residential mortgage TDRs as the Company successfully refinanced retail borrowers displaying weaknesses in their ability to make payments under their previous contractual loan terms. The provision was primarily calculated utilizing discounted cash flow analyses.

During 2012, the Bank charged off $9.9 million in loans compared to $7.3 million for 2011. In addition, the Bank also recorded $500,000 less in credits to its provision for loan losses for recoveries of previously charged off loans during 2012 than it did during 2011. Net charge-offs as a percentage of average loans within the Traditional Banking segment were 0.34% for 2012 compared to 0.24% for 2011. This equated to a $3.1 million increase in net charge-offs for 2012 compared to 2011.

As a percentage of total loans, the Traditional Banking allowance for loan losses was 0.90% at December 31, 2012 compared to 1.05% at December 31, 2011. Management believes, based on information presently available, that it has adequately provided for loan losses at December 31, 2012.

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, non-performing, impaired and TDR loans.

Republic Processing Group segment

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

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

As of December 31, 2012 and 2011, $10.5 million and $14.3 million of total RALs originated remained uncollected, representing 1.31% and 1.38% of total gross RALs originated during the respective tax years by RB&T. All of these loans were charged off as of June 30, 2012 and 2011. 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 $6.9 million and $11.6 million for the TRS division during the years ended December 31, 2012 and 2011.

Provision for Loan Losses
Discussion of 2011 vs. 2010

The Company recorded total provision for loan losses of $18.0 million for 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 nine 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 remained relatively stable during 2011, the Bank did not make 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 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 adequately provided for loan losses at December 31, 2011.

Republic Processing Group segment

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 the TRS division during the years ended December 31, 2011 and 2010.

Non-Interest Income

Table 4 – Analysis of Non Interest Income

Year Ended December 31, (dollars in thousands)	2012	2011	2010	Percent Increase/(Decrease) 2012/2011	2011/2010
Service charges on deposit accounts	$13,496	$14,105	$15,562	-4 %	-9 %
Refund transfer fees	78,304	88,195	58,789	-11 %	50 %
Mortgage banking income	8,447	3,899	5,797	117 %	-33 %
Debit card interchange fee income	5,817	5,791	5,067	0 %	14 %
Bargain purchase gain - Tennessee Commerce Bank	27,614	-	-	0 %	0 %
Bargain purchase gain - First Commercial Bank	27,824	-	-	0 %	0 %
Gain on sale of banking center	-	2,856	-	-100 %	0 %
Gain on sale of securities available for sale	56	2,285	-	-98 %	0 %
Net impairment loss on investment securities	-	(279)	(221)	-100 %	26 %
Other	3,520	2,772	2,664	27 %	4 %
Total non interest income	$165,078	$119,624	$87,658	38 %	36 %

Discussion of 2012 vs. 2011

Total Company non interest income increased $45.5 million, or 38%, for 2012 compared to 2011. 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 $51.0 million during 2012 compared to 2011.

Service charges on deposit accounts decreased $609,000, or 4%, during 2012 compared to the same period in 2011. The decrease was primarily the result of the continued general decline in consumer overdraft activity that the Bank and the banking industry as a whole have experienced the past several years. In addition, further contributing to this general decline in consumer overdraft activity was a decline in the number of the Bank's retail checking accounts and the amended FDIC guidelines, which took effect in July 2011. These guidelines have continued to have a negative impact on the Bank's net income since their implementation and will continue to do so in the future.

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. The total net per item fees included in service charges on deposits for 2012 and 2011 were $7.5 million and $8.9 million. The total net daily overdraft charges included in interest income for 2012 and 2011 were $1.7 million and $1.8 million.

On August 1, 2011, the Bank converted the substantial majority of its existing retail checking accounts into new product types with new fee structures. The goal of the new fee structure, in the short-term, 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 2012 as a result of these new fees was approximately $1.3 million compared to $820,000 in 2011 for the five month period, partially offsetting the decrease in overdraft-related fees for the same period.

As a result of the new fee structure, the Bank's retail checking account base declined substantially from July 1, 2011 through January 31, 2012, further contributing to the decline in overdraft related revenue. The Bank experienced nominal growth in its retail checking account base from January 31, 2012 through December 31, 2012. With only 11 recent months of nominal growth in its retail checking account base, management is uncertain if this trend will continue in the future or if the Bank will again experience further declines.

Related to the TCB acquisition, the Bank recorded a bargain purchase gain of $27.6 million, substantially all of which was recorded during the first quarter of 2012. The bargain purchase gain was realized because the overall price paid by RB&T for TCB was substantially less than the fair value of the TCB assets acquired and liabilities assumed in the acquisition.

Related to the FCB acquisition, the Bank recorded an initial bargain purchase gain of $27.8 million, substantially all of which was recorded during the third quarter of 2012. As with the TCB acquisition, the bargain purchase gain was realized because the overall price paid by RB&T for FCB was substantially less than the fair value of the FCB assets acquired and liabilities assumed in the acquisition.

During 2012, the Bank recognized net securities gains in earnings for TCB acquired securities available of $56,000. Subsequent to the acquisition of TCB, management concluded that these securities did not fit the profile of securities traditionally purchased by the Bank and thus sold them during the first quarter 2012. The Bank recognized net gains on sales, calls and impairment of investment securities of $2.0 million during 2011. The substantial majority of the 2011 gain occurred during the second quarter of 2011, as the Bank sold available for sale securities with an amortized cost of $132 million. The decision to sell these securities was based, in large part, on positive growth developments within the loan portfolio.

See additional discussion regarding the 2012 acquisitions of failed banks under Footnote 2 “Acquisitions of Failed Banks” of Part II Item 8 “Financial Statements and Supplementary Data.”

The Bank recognized a $2.9 million gain related to the sale of a banking center in 2011.

Republic Processing Group segment

RPG non interest income decreased $10.0 million, or 11%, during 2012 compared to the same period in 2011. Net RT fees decreased $9.9 million for 2012 primarily attributable to the overall decrease in volume during the tax season. More specifically within the RT category, RT check fees decreased 12% consistent with a 12% decrease in volume. The decline in RT checks fees was partially offset by a 10% increase in direct deposit on-line RT fees driven by a 10% increase in this lower-margin RT product. As with the decrease RPG experienced in RAL volume, management believes the decrease in RT volume, which is generated through store-front locations, was a direct result of a shift in consumer demand toward lower-priced on-line tax preparation services and increased competition within the retail market based on free products and services from competitors.

With regard to the TRS division of RPG, TRS faces direct competition for RT 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 a Stipulation Agreement and a Consent Order (collectively, the “Agreement”), RB&T will not originate RALs beyond April 30, 2012. Without the ability to originate RALs, RB&T is facing increased competition in the RT marketplace. In addition to the loss of volume resulting from additional competitors, RB&T will incur substantial pressure on its profit margin for its RT products as well.

In addition to the potential impact to RTs resulting from a loss of the RAL product, management believes the Agreement also negatively impacts RB&T’s ability to originate RT products. As previously disclosed, the Agreement contained 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 are not currently required by the regulators for RB&T’s competitors in the tax business. These additional requirements make attracting new relationships, retaining existing relationships, and maintaining profit margin for RTs more difficult for RB&T. Management estimates RT revenues will be reduced substantially in 2013 as a result of pricing pressures, increased competition resulting from the elimination of the RAL product and the previously disclosed termination of material contracts with Jackson Hewitt Tax Service and Liberty Tax Service.

For additional discussion regarding TRS, a division of Republic Processing Group, 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”
Part II Item 8 “Financial Statements and Supplementary Data”
Footnote 1 “Summary of Significant Accounting Policies”

Footnote 4 “Loans and Allowance for Loan Losses”
Footnote 21 “Segment Information”

Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income increased $4.5 million, or 117%, during 2012 compared to the same period in 2011. Mortgage banking income was positively impacted by an increase in secondary market loan volume during 2012, which resulted from the continued low long-term interest rate environment. The Bank's loan sales during 2012 consisted of 19% purchase transactions and 81% refinance transactions, as refinances in particular were fueled by the low long-term rate environment. During 2012, the Bank sold mortgage loans of $247 million compared to $149 million during the same period in 2011. In addition, secondary market pricing generally improved across the industry during 2012 compared to the prior year.

In addition to the factors noted in the previous paragraph, due to the reduction in long-term interest rates during 2012, 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 $142,000 was recorded during 2012.

Discussion of 2011 vs. 2010

Total Company non interest income increased $32.0 million, or 37%, for 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 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.

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.

Management implemented these guidelines effective July 1, 2011. These guidelines had a negative impact on the Bank's net income in 2011. Management estimated that the impact of the implementation of these guidelines 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. Revenue generated during 2011 (primarily for a five month period) as a result of the new fees was approximately $947,000.

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 $2.0 million during 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.

Republic Processing Group segment

RPG non interest income increased $29.5 million, or 50%, during 2011 compared to 2010. Net RT fees increased $29.4 million, or 50%, for 2011 primarily attributable to the overall increase in volume at TRS during the tax season. RT fee income was positively impacted by a 63% increase in the number of RTs 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 2011, 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 RT volume.

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. The Bank's loan sales during 2011 consisted of 31% purchase transactions and 69% refinance transactions. During 2011, the Bank sold mortgage loans of $149 million compared to $285 million during the same period in 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.

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 in 2011.

Non-Interest Expenses

Table 5 – Analysis of Non-Interest Expenses

Year Ended December 31, (dollars in thousands)	2012	2011	2010	Percent Increase/(Decrease) 2012/2011		2011/2010	
Salaries and employee benefits	$60,633	$54,966	$55,246	10	%	-1	%
Occupancy and equipment, net	22,474	21,713	21,958	4	%	-1	%
Communication and transportation	5,806	5,695	5,418	2	%	5	%
Marketing and development	3,429	3,237	10,813	6	%	-70	%
FDIC insurance expense	1,403	4,425	3,155	-68	%	40	%
Bank franchise tax expense	3,916	3,645	3,187	7	%	14	%
Data processing	4,309	3,207	2,697	34	%	19	%
Debit card interchange expense	2,462	2,239	1,741	10	%	29	%
Supplies	2,114	2,353	2,359	-10	%	0	%
Other real estate owned expense	3,537	2,356	1,829	50	%	29	%
Charitable contributions	3,341	5,933	6,232	-44	%	-5	%
Legal expense	1,866	3,969	1,832	-53	%	117	%
FDIC civil money penalty	-	900	-	-100	%	0	%
FHLB advance prepayment penalty	2,436	-	1,531	0	%	0	%
Other	9,019	7,683	8,325	17	%	-8	%
Total non interest expenses	$126,745	$122,321	$126,323	4	%	-3	%

Discussion of 2012 vs. 2011

Total Company non-interest expenses increased $4.4 million, or 4%, for 2012 compared to 2011. The most significant components comprising the change in non-interest expense were as follows:

Traditional Banking segment

Non-interest expense within the Traditional Banking segment was $100 million during 2012, an increase of $13 million over 2011. Approximately $9.5 million of the increase in non-interest expenses during 2012 related to the acquisitions of failed banks, with $6.2 million related to the TCB acquisition and $3.3 million related to the FCB acquisition. Expenses related to the TCB acquisition declined during the third quarter of 2012 as a result of the branch consolidation and core system conversion in July 2012. The FCB branch consolidation and core system conversion occurred in February 2013. Overall, traditional banking expenses not associated with the 2012 acquisitions, increased $3.5 million, or 4% from 2011. The most notable changes in the Traditional Banking's non-interest expenses are discussed in the following paragraphs. See additional discussion regarding the 2012 acquisitions of failed banks under Footnote 2 "Acquisitions of Failed Banks" of Part II Item 8 "Financial Statements and Supplementary Data."

Salaries and benefits increased $6.2 million during 2012 compared to the same period in 2011. The Bank incurred $4.0 million in salaries and benefit expense directly associated with the acquisitions of failed banks; including approximately $2.0 million related to incentive compensation accruals. Approximately $272,000 of this incentive compensation relates to retention bonuses payable to the acquired bank employees to encourage them to remain with the Bank through various dates up through system conversion. Approximately $1.1 million of this incentive

compensation was for short-term bonuses for Bank employees related to a successful system conversion, with another $670,000 for Bank associates related to a two-year profitability goal tied to the acquisitions.

Further contributing to the Bank's rise in salaries and benefits was an increase in the Traditional Banking segment's full time equivalent employees ("FTEs"), which rose from 641 at December 31, 2011 to 729 at December 31, 2012. The increase in the Bank's FTEs was the result of retaining employees at the acquired banks and the hiring of additional employees to support the acquired operations and the Bank's long-term growth plans. In addition, the Bank recorded a $2.3 million increase in incentive compensation payouts during 2012 as compared to 2011 as the Bank generally achieved a more favorable performance compared to its budgeted goals in 2012 compared to 2011.

Occupancy and equipment expense increased $1.2 million during 2012 compared to 2011. Substantially all of the fluctuation was attributable to the 2012 acquisitions of failed banks for expense items such as rent, leased and rented equipment and equipment service.

Data processing expense increased $1.1 million during 2012 compared to the same period in 2011, with $912,000 of the increase attributable to the data processing costs and internet banking enhancements for the 2012 acquisitions of failed banks.

FDIC insurance expense decreased $1.1 million during 2012 to $1.2 million. The decrease primarily occurred due to more favorable insurance premium calculations for the Company and its risk profile resulting from the implementation of the Dodd-Frank Act. As a result of the Dodd-Frank Act, the FDIC approved a rule that changed the FDIC insurance assessment base from adjusted domestic deposits to a bank's average consolidated total assets minus average tangible equity, defined as Tier 1 capital. The change was effective for the second quarter of 2011. The decrease in expense resulting from the more favorable premium calculations was partially offset with a $93,000 increase resulting from the 2012 acquisitions of failed banks.

Other real estate owned expense increased $1.2 million during 2012 compared to 2011, with $818,000 of the increase attributable to the 2012 acquisitions of failed banks.

Contributions expense increased $473,000 during 2012 compared to the same period in 2011 primarily due to the first quarter contribution to the Republic Bank Foundation. See additional discussion below under "Republic Processing Group segment."

During the first quarter of 2012, the Bank prepaid $81 million in FHLB advances that were originally scheduled to mature between October 2012 and May 2013. These advances had a weighted average cost of 3.56%. The Bank recognized a $2.4 million early termination penalty during the first quarter of 2012 in connection with this prepayment.

Traditional banking other expense increased $1.6 million during 2012 compared to 2011. Approximately $2.0 million of this increase related to the 2012 acquisitions of failed banks, for expenses such as audit and professional fees and legal expenses. Offsetting the increase due to the acquisitions, banking center and ATM service promotional expense decreased by $419,000 during 2012. The decline was the direct result of the Bank's new fee structure for retail checking accounts implemented during 2011. The new fee structure significantly reduced the number of client foreign ATM reimbursements paid by the Bank.

See additional discussion regarding the 2012 acquisitions of failed banks under Footnote 2 "Acquisitions of Failed Banks" of Part II Item 8 "Financial Statements and Supplementary Data."

Republic Processing Group segment

RPG non-interest expenses decreased $8.6 million, or 28%, for 2012 compared to 2011.

Salaries and employee benefits decreased $553,000, or 5%, for 2012 compared to 2011. The 2012 year reflected lower contract labor staffing costs and reduced bonus payouts tied to the achievement of gross operating profit goals.

FDIC insurance expense decreased $1.9 million, or 92% during 2012 related primarily to the new insurance calculation noted in the "Traditional Banking" discussion above and to the elimination of a higher assessment rate levied against the Bank for its deposit insurance during 2011 resulting from facts and circumstances specific to the Bank and the TRS division.

Bank Franchise expense related to the RPG segment increased $350,000 during 2012 compared to 2011 primarily due to an increase in capital associated with continued strong earnings and the higher capital base. Bank franchise tax expense represents taxes paid to different state taxing authorities based on capital. The substantial majority of the Company's Bank Franchise tax is paid to the Commonwealth of Kentucky.

Legal expense at the RPG segment was $262,000 for 2012 compared to $2.3 million for 2011. The decrease in legal expense was directly related to the December 2011 resolution of RB&T's on-going regulatory actions with the FDIC as described in the Agreement.

Charitable contribution expense totaled $1.9 million at the TRS division for 2012, as RB&T made a $2.5 million contribution to the Republic Bank Foundation, which was allocated between the Company's business operating segments using a formula based on pre-tax profits for the quarter. Charitable contribution expense totaled $4.9 million at the TRS division for 2011, as RB&T made a $5 million contribution to the Republic Bank Foundation. The Republic Bank Foundation was formed in 2010 to support charitable, educational, scientific and religious organizations throughout communities in Kentucky, Indiana, Ohio, Tennessee and Florida.

During the second quarter of 2011, the FDIC assessed a Civil Money Penalty against RB&T at a $2.0 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 of 2011.

For additional discussion regarding TRS, a division of Republic Processing Group, see the following sections:

Part I Item 1 "Business"
Republic Processing Group segment
Part I Item 1A "Risk Factors"
Republic Processing Group
Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations"
"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 4 "Loans and Allowance for Loan Losses"
Footnote 21 "Segment Information"

Discussion of 2011 vs. 2010

Total Company non-interest expenses decreased $4.0 million, or 3%, for 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 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 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.

Republic Processing Group segment

RPG non-interest expenses decreased $1.7 million, or 5%, for 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 the TRS division 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 RPG, 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 RPG increased $579,000 and $169,000, 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 the TRS division.

Bank Franchise expense related to the TRS division increased $401,000 compared to 2010, primarily due to an increase in capital associated with higher earnings at TRS.

Legal expense at RPG 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.

During the second quarter of 2011, the FDIC assessed a 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 RPG for years ended December 31, 2011 and 2010.

Mortgage Banking segment

Mortgage Banking non-interest expenses increased $1.3 million for 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.

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 $138 million in cash and cash equivalents at December 31, 2012 compared to $363 million at December 31, 2011.

During the fourth quarter of 2011, RB&T accumulated cash via FHLB advances totaling $300 million in preparation for the first quarter 2012 tax season. These advances matured during the first quarter of 2012 thereby reducing cash by the amount borrowed. Due to the elimination of the RAL product effective April 30, 2012, RB&T had no funding requirements specific to the first quarter 2013 tax season.

For cash held at the 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. Due to ongoing contraction within the Bank's net interest margin, management generally maintained a strategy during 2012 to keep minimal amounts of cash on its balance sheet. Management believes it will maintain a similar strategy in 2013, within board approved policy limits, as it continues to combat the ongoing contraction within its net interest margin.

Investment Securities

Table 6 – Investment Securities Portfolio

December 31, (in thousands)		2012		2011		2010
Securities available for sale (fair value):						
U.S. Treasury securities and U.S. Government agencies	$	39,472	$	152,674	$	120,297
Private label mortgage backed security		5,687		4,542		5,124
Mortgage backed securities - residential		197,210		293,329		158,677
Collateralized mortgage obligations		195,877		195,403		225,657
Total securities available for sale		438,246		645,948		509,755
Securities to be held to maturity (carrying value):						
U.S. Treasury securities and U.S. Government agencies		4,388		4,233		4,191
Mortgage backed securities - residential		827		1,376		1,930
Collateralized mortgage obligations		40,795		22,465		26,818
Total securities to be held to maturity		46,010		28,074		32,939
Total investment securities	$	484,256	$	674,022	$	542,694

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 remaining eligible securities that are not pledged to secure client repurchase agreements may be 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 decreased $208 million during 2012 to $438 million at December 31, 2012. The decrease in the securities portfolio was due primarily to pay-downs and pay-offs of existing securities. In general, the Bank utilized the excess cash from these securities to fund growth within the loan portfolio.

During the first quarter 2012, RB&T acquired $43 million in available for sale investment securities through the TCB acquisition. All but $4 million of these securities were sold or called during the first quarter of 2012, realizing a pre-tax net gain of $56,000. The Bank sold these securities because management determined that the acquired securities did not fit within the Bank's traditional investment strategies. During the third quarter 2012, RB&T acquired $12 million in available for sale investment securities through the FCB acquisition. All of these securities are guaranteed by agencies of the U.S. Government, and as a result, RB&T does not currently have plans to liquidate them.

See additional discussion regarding the 2012 acquisitions of failed banks under Footnote 2 "Acquisitions of Failed Banks" 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)	2012	2011
Private label mortgage backed security	$ 5,687	$ 4,542
Mortgage backed securities - residential	198,100	294,806
Collateralized mortgage obligations	236,988	218,027
Total mortgage backed securities fair value	$ 440,775	$ 517,375

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 3 "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)	2012	2011

Amortized cost	$	509	$	70,232
Fair value		508		70,087

The amortized cost/carrying amount, fair value, weighted average yield and weighted average maturity of the investment portfolio at December 31, 2012 follows:

Table 9 – Securities Available for Sale

December 31, 2012 (dollars in thousands)	Amortized Cost	Fair Value	Weighted Average Yield	Weighted Average Maturity in Years
U.S. Treasury securities and U.S. Government agencies:				
Due in one year or less	$ 1,006	$ 1,007	0.06 %	0.33
Due from one year to five years	35,378	35,920	1.85 %	3.19
Due from five years to ten years	2,547	2,545	0.79 %	6.64
Total U.S. Treasury securities and U.S. Government agencies	38,931	39,472	1.74 %	3.34
Private label mortgage backed security	5,684	5,687	5.78 %	4.34
Total mortgage backed securities - residential	190,569	197,210	2.44 %	4.46
Total collateralized mortgage obligations	194,427	195,877	1.23 %	2.99
Total securities available for sale	$ 429,611	$ 438,246	1.87 %	3.69

Table 10 – Securities to be Held to Maturity

December 31, 2012 (dollars in thousands)	Carrying Value	Fair Value	Weighted Average Yield	Weighted Average Maturity in Years
U.S. Treasury securities and U.S. Government agencies:				
Due in one year or less	$2,004	$2,011	4.11 %	0.04
Due from one year to five years	2,384	2,404	0.68 %	2.82
Total U.S. Treasury securities and U.S. Government agencies:	4,388	4,415	2.25 %	1.55
Total mortgage backed securities - residential	827	890	5.52 %	3.12
Total collateralized mortgage obligations	40,795	41,111	1.08 %	4.43
Total securities to be held to maturity	$46,010	$46,416	1.23 %	4.13

Loan Portfolio

Net loans, primarily consisting of secured real estate loans, increased by $365 million, or 16% during 2012 to $2.6 billion at December 31, 2012. Approximately $139 million of this growth was the direct result of the 2012 acquisitions of failed banks. See additional discussion regarding the TCB and FCB acquisitions under Footnote 2 "Acquisitions of Failed Banks" of Part II Item 8 "Financial Statements and Supplementary Data."

Within specific loan categories, residential real estate loans increased $163 million during 2012 to $1.1 billion at December 31, 2012. Approximately $45 million of the residential real estate increase was from the 2012 Acquisitions of failed banks with the remaining increase primarily concentrated within the Bank's Home Equity Amortizing Loan ("HEAL") product. The HEAL product is a first or 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. In addition, the Bank does not require mortgagee title insurance for HEALs originated under $150,000. The overall features of the HEAL have made it an attractive alternative to long-term fixed rate secondary market products. As of December 31, 2012, the Bank had $229 million of HEALs outstanding compared to $58 million outstanding at December 31, 2011.

In June 2011, the Bank began offering warehouse lines of credit and had $41 million outstanding at December 31, 2011. Through these credit lines, 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 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 are 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 pay off the warehouse advance and related accrued interest and fees. The remaining proceeds are credited to the mortgage banking customer. As of December 31, 2012, the Bank had $217 million of outstanding loans from total credit lines of $331 million.

RB&T's warehouse lending business is significantly influenced by the volume and composition of residential mortgage purchase and refinance transactions among the Bank's mortgage banking clients. During 2012 the Bank's warehouse lending volume consisted of 47% purchase transactions, in which the mortgage company's borrower was purchasing a new residence, and 53% refinance transactions, in which the mortgage company's client was refinancing an existing mortgage loan. Purchase volume is driven by a number of factors, including but not limited to, the overall economy, the housing market, and long-term residential mortgage interest rates; while refinance volume is primarily driven by long-term residential mortgage interest rates. RB&T's warehouse lending business has benefited from the past two years of low or declining long-term residential mortgage rates which have incentivized a high volume of borrowers to refinance their mortgages. Increases in long-term residential mortgage interest rates will likely decrease refinances; and, without an equivalent increase in purchases and/or growth in RB&T's warehouse client base, would have an adverse impact on the Bank's net interest income.

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

Table 11A – Loan Portfolio Composition

December 31, (in thousands)	2012	2011	2010	2009	2008
Residential real estate:					
Owner occupied	$1,148,354	$985,735	$918,407	$976,348	$960,635
Non owner occupied	74,539	99,161	126,404	120,963	134,905
Commercial real estate	698,611	639,966	640,872	641,451	653,048
Commercial real estate - purchased whole loans	33,531	32,741	-	-	-
Real estate construction	80,093	67,406	68,701	83,090	99,395
Commercial	130,768	119,117	108,720	104,274	111,604
Warehouse lines of credit	216,576	41,496	-	-	-
Home equity	241,853	280,235	289,945	318,449	313,418
Consumer:					
Credit cards	8,716	8,580	8,213	8,052	6,671
Overdrafts	955	950	901	2,006	2,796
Other consumer	16,201	9,908	13,077	13,599	21,385
Total gross loans	$2,650,197	$2,285,295	$2,175,240	$2,268,232	$2,303,857

Acquisitions of Failed Banks:

The contractual amount of the loans purchased in the TCB transaction decreased from $79 million as of the acquisition date to $42 million as of December 31, 2012. The carrying value of the loans purchased in the TCB transaction was $57 million as of the acquisition date compared to $31 million as of December 31, 2012.

The contractual amount of the loans purchased in the FCB transaction decreased from $172 million as of the acquisition date to $139 million as of December 31, 2012. The carrying value of the loans purchased in the FCB transaction was $128 million as of the acquisition date compared to $108 million as of December 31, 2012.

The composition of TCB and FCB loans outstanding at December 31, 2012 follows:

Table 11B – Loan Portfolio Composition

December 31, 2012 (in thousands)	Tennessee Commerce Bank	First Commercial Bank	Total Acquired Banks
Residential real estate	$ 12,270	$ 32,459	$ 44,729
Commercial real estate	8,015	61,758	69,773
Real estate construction	4,235	3,301	7,536
Commercial	1,284	9,405	10,689
Home equity	4,183	385	4,568
Consumer:			-
Credit cards	321	-	321
Overdrafts	1	11	12
Other consumer	655	333	988
Total gross loans	$ 30,964	$ 107,652	$ 138,616

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, 2012 (in thousands)		Total		One Year Or Less		Over One Through Five Years		Over Five Years
Fixed rate loan maturities:								
Residential real estate:	$	652,465	$	203,032	$	322,019	$	127,414
Commercial real estate		341,680		140,061		167,285		34,334
Real estate construction		19,582		9,577		7,448		2,557
Commercial		87,298		47,572		25,987		13,739
Warehouse lines of credit		-		-		-		-
Home equity		2,625		2,514		111		-
Consumer:								
Credit cards		-		-		-		-
Overdrafts		955		955		-		-
Other consumer		12,549		5,410		3,592		3,547
Total fixed rate loans	$	1,117,154	$	409,121	$	526,442	$	181,591
Variable rate loan maturities:								
Residential real estate:	$	570,428	$	234,616	$	276,576	$	59,236
Commercial real estate		390,462		320,437		55,449		14,576
Real estate construction		60,511		48,449		4,477		7,585
Commercial		43,470		33,287		9,260		923
Warehouse lines of credit		216,576		216,576		-		-
Home equity		239,228		238,191		-		1,037
Consumer:								
Credit cards		8,716		8,716		-		-
Overdrafts		-		-		-		-
Other consumer		3,652		3,652		-		-
Total variable rate loans	$	1,533,043	$	1,103,924	$	345,762	$	83,357
Total:								
Residential real estate:	$	1,222,893	$	437,648	$	598,595	$	186,650
Commercial real estate		732,142		460,498		222,734		48,910
Real estate construction		80,093		58,026		11,925		10,142
Commercial		130,768		80,859		35,247		14,662
Warehouse lines of credit		216,576		216,576		-		-
Home equity		241,853		240,705		111		1,037
Consumer:								
Credit cards		8,716		8,716		-		-
Overdrafts		955		955		-		-
Other consumer		16,201		9,062		3,592		3,547

Total loans	$	2,650,197	$	1,513,045	$	872,204	$	264,948

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 allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-classified loans and is based on historical loss experience adjusted for current qualitative factors. For the impact on the allowance for loan losses of loans acquired in the acquisitions of failed banks, see additional discussion under "Acquisitions of Failed Banks" in this section of the filing.

The specific component of the allowance for loan losses is made for loans individually classified as impaired. 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 that meet the following classifications are considered impaired:

- All loans internally classified as "Substandard," "Doubtful" or "Loss;"
- All loans on non-accrual status;
- All retail and commercial troubled debt restructurings ("TDRs"). TDRs are loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties;
- ASC Topic 310-30 purchased credit impaired loans whereby current projected cash flows have deteriorated since acquisition, or cash flows cannot be reasonably estimated in terms of timing and amounts; 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 maintains a list of classified commercial, commercial real estate loans and large single family residential and home equity loans. The Bank reviews and monitors these classified loans on a regular basis. Generally, assets are designated as classified loans to ensure more frequent monitoring. Classified 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.

Loans, including impaired loans, but excluding consumer loans, are typically placed on non-accrual status when the loans become past due 80 days or more as to principal or interest, unless the loans are adequately secured and in the process of collection. Past due status is based on how recently payments have been received. When loans are placed on non-accrual status, all unpaid interest is reversed from interest income and accrued interest receivable. These loans remain on non-accrual status until the borrower demonstrates the ability to become and remain current or the loan or a portion of the loan is deemed uncollectible and is charged off. Consumer loans are reviewed periodically and generally charged off when the loans reach 120 days past due or at any earlier point the loan is deemed uncollectible.

Impairment is measured on a loan by loan basis 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.

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.

The general component of the allowance for loan losses covers loans collectively evaluated for impairment and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by loan performance and class and is based on the actual loss history experienced by the Bank. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are included in the general component unless classified as TDRs.

For "Pass" rated or nonrated loans, management evaluates the loan portfolio by reviewing the historical loss rate for each respective loan class. Management evaluates the following historical loss rate scenarios:

- Rolling four quarter
- Rolling eight quarter average
- Rolling twelve quarter average
- Rolling sixteen quarter average
- Current year to date historical loss factor (average)
- Prior annual three year historical loss factors
- Peer group data

Currently, management has assigned a greater emphasis to the higher of the rolling eight quarter and rolling twelve quarter averages when determining its historical loss factors for its "Pass" rated and nonrated loans.

Historical loss rates for non-performing loans, which are not individually evaluated for impairment, are analyzed using loss migration analysis by loan class of prior year loss results.

Loan classes are evaluated utilizing subjective factors in addition to the historical loss calculations to determine a loss allocation for each of those classes. Management assigns risk multiples to certain classes to account for qualitative factors such as:

- Changes in nature, volume and seasoning of the loan portfolio;
- Changes in experience, ability, and depth of lending management and other relevant staff;
- Changes in the quality of the Bank's loan review system;
- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified loans;
- Changes in the value of underlying collateral for collateral-dependent loans;
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectibility of the portfolio, including the condition of various market segments;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution's existing portfolio.

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.

The Bank's allowance for loan losses decreased $334,000 during 2012 to $24 million at December 31, 2012. As a percent of total loans, the traditional banking allowance for loan losses decreased to 0.90% at December 31, 2012 compared to 1.05% at December 31, 2011.

Notable fluctuations in the allowance for loan losses were as follows:

The Bank decreased its "Substandard" rated loan loss allowance by a net $1.7 million during 2012, as charge-offs within the Bank's substandard loan category totaled $6.2 million during that time period. A significant portion of these charge-offs were for loans substantially reserved for in prior years. The charge-offs were offset by approximately $4.5 million in additional net allocations recorded for Substandard loans during 2012.

The Bank increased its "Special Mention/Watch" rated loan loss allowance by a net $2.1 million during 2012. Approximately $107,000 of the net increase was due primarily to an updated loss migration analysis in combination with an increase in this portfolio balance. The Bank recorded an additional $2.0 million in provision for loan losses in 2012 associated with residential mortgage TDRs, as the Company successfully refinanced retail borrowers displaying weaknesses in their ability to make payments under their previous contractual loan terms. The provision was primarily calculated utilizing discounted cash flow analyses.

Primarily as a result of a decline in balances associated with the Bank's 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 decreased its loan loss allowance by a net $1.0 million during 2012.

The Bank increased its overall allowance for its "Pass" rated credits by a net $236,000 during 2012 attributable primarily to loan portfolio growth and an increase the Bank's average historical loss rates during the period.

Table 13 – Summary of Loan Loss Experience

Year Ended December 31, (dollars in thousands)	2012	2011	2010	2009	2008
Allowance for loan losses at beginning of year	$24,063	$23,079	$22,879	$14,832	$12,735
Charge offs:					
Residential real estate	(3,648)	(2,760)	(3,012)	(2,439)	(1,356)
Commercial real estate	(1,033)	(1,125)	(4,846)	(956)	(257)
Commercial real estate - purchased whole loans	-	-	-	-	-
Real estate construction	(1,922)	(845)	(1,261)	(1,196)	(2,970)
Commercial	(176)	(100)	(207)	(372)	(98)
Warehouse lines of credit	-	-	-	-	-
Home equity	(2,252)	(1,279)	(1,811)	(1,915)	(507)
Consumer:					
Credit cards	(123)	(241)	(158)	(389)	(153)
Overdrafts	(468)	(678)	(848)	(832)	(1,250)
Other consumer	(266)	(281)	(362)	(563)	(349)
Refund anticipation loans	(11,097)	(15,484)	(14,584)	(31,180)	(9,206)
Total charge offs	(20,985)	(22,793)	(27,089)	(39,842)	(16,146)
Recoveries:					
Residential real estate	393	245	70	84	153
Commercial real estate	90	301	48	120	215
Commercial real estate - purchased whole loans	-	-	-	-	-
Real estate construction	104	237	248	102	-
Commercial	25	128	49	16	34
Warehouse lines of credit	-	-	-	-	-
Home equity	92	159	23	23	48
Consumer:					
Credit cards	36	32	19	16	27
Overdrafts	422	506	385	257	250
Other consumer	225	279	292	206	155
Refund anticipation loans	4,221	3,924	6,441	13,090	1,156
Total recoveries	5,608	5,811	7,575	13,914	2,038
Net loan charge offs	(15,377)	(16,982)	(19,514)	(25,928)	(14,108)
Provision for loan losses - Traditional Banking	8,167	6,406	11,571	15,885	8,154
Provision for loan losses - Refund anticipation loans	6,876	11,560	8,143	18,090	8,051
Total provision for loan losses	15,043	17,966	19,714	33,975	16,205

Allowance for loan losses at end of year	$23,729	$24,063	$23,079	$22,879	$14,832
Credit Quality Ratios - Total Company:					
Allowance for loan losses to total loans	0.90 %	1.05 %	1.06 %	1.01 %	0.64 %
Allowance for loan losses to non-performing loans	109 %	103 %	82 %	53 %	110 %
Net loan charge offs to average loans	0.61 %	0.76 %	0.83 %	1.09 %	0.60 %
Credit Quality Ratios - Traditional Banking:					
Allowance for loan losses to total loans	0.90 %	1.05 %	1.06 %	1.01 %	0.64 %
Allowance for loan losses to non-performing loans	109 %	103 %	82 %	53 %	110 %
Net loan charge offs to average loans	0.34 %	0.24 %	0.51 %	0.34 %	0.26 %
Credit Quality Ratios - Acquired Banks:					
Allowance for loan losses to total loans	0.15 %	NA	NA	NA	NA
Allowance for loan losses to non-performing loans	7 %	NA	NA	NA	NA
Net loan charge offs to average loans	0.00 %	NA	NA	NA	NA

NA - not applicable

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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)	2012 Allowance	2012 Percent of Loans to Total Loans	2011 Allowance	2011 Percent of Loans to Total Loans	2010 Allowance	2010 Percent of Loans to Total Loans	2009 Allowance	2009 Percent of Loans to Total Loans	2008 Allowance	2008 Percent of Loans to Total Loans
Residential real estate	$8,055	47 %	$6,354	48 %	$5,281	49 %	$4,936	48 %	$2,562	48 %
Commercial real estate	8,843	26 %	7,724	28 %	7,214	29 %	9,180	28 %	6,554	28 %
Commercial real estate - purchased whole loans	34	1 %	-	1 %	NA	NA	NA	NA	NA	NA
Real estate construction	2,769	3 %	3,042	3 %	2,612	3 %	2,434	4 %	1,508	4 %
Commercial	580	5 %	1,025	5 %	1,347	5 %	1,473	5 %	1,086	5 %
Warehouse lines of credit	541	8 %	104	2 %	NA	NA	NA	NA	NA	NA
Home equity	2,348	9 %	2,984	12 %	3,581	13 %	1,823	14 %	678	14 %
Consumer:										
Credit cards	210	0 %	503	0 %	492	0 %	438	0 %	209	0 %
Overdrafts	198	0 %	135	0 %	126	0 %	179	0 %	153	0 %
Other consumer	151	1 %	227	1 %	461	1 %	451	1 %	117	1 %
Unallocated	-	-	1,965	-	1,965	-	1,965	-	1,965	-
Total	$23,729	100 %	$24,063	100 %	$23,079	100 %	$22,879	100 %	$14,832	100 %

NA - Not Applicable

Prior to January 1, 2012, the Bank's allowance for loan losses calculation was supported with qualitative factors which included a nominal "unallocated" component totaling $2.0 million as of December 31, 2011. The Bank believes that historically the "unallocated" allowance properly reflected estimated credit losses determined in accordance with GAAP. The unallocated allowance was primarily related to RB&T's loan portfolio, which is highly concentrated in the Kentucky and Southern Indiana real estate markets. These markets have remained relatively stable during the current economic downturn, as compared to other parts of the U.S. With the Bank's recent expansion into the metropolitan Nashville, Tennessee and metropolitan Minneapolis, Minnesota markets, its plans to pursue future acquisitions into potentially new markets through Federal Deposit Insurance Corporation ("FDIC")-assisted transactions, and its offering of new loan products, such as mortgage warehouse lines of credit, the Bank elected to revise its methodology to

provide a more detailed calculation when estimating the impact of qualitative factors over the Bank's various loan categories.

In executing this methodology change on January 1, 2012, the Bank allocated its "unallocated" allowance by adjusting its qualitative factors for its groups of smaller-balance homogeneous loans that are collectively evaluated for impairment and are generally not included in the scope of ASC Topic 310-10-35 Accounting by Creditors for Impairment of a Loan. These portfolios are typically not graded and not subject to annual review.

This methodology change did not have a material impact on the Bank's provision for loan losses for the year ended December 31, 2012. Management believes, based on information presently available, that it has adequately provided for loan losses at December 31, 2012 and 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.

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

Table 16 – Classified Assets

December 31, (in thousands)	2012	2011	2010	2009	2008
Loss	$-	$-	$-	$-	$-
Doubtful	-	-	-	-	-
Substandard	36,304	43,088	38,245	46,335	17,128
Watch/Special mention	48,458	35,455	54,254	57,036	43,614
Purchased Credit Impaired Group 1	87,033	-	-	-	-
Purchased Credit Impaired Group 2	1,160	-	-	-	-
Total classified assets	$172,955	$78,543	$92,499	$103,371	$60,742

Purchased loans accounted for under ASC Topic 310-20 are accounted for as are any other Bank-originated loan, potentially becoming nonaccrual or impaired, as well as being risk rated under the Bank's standard practices and procedures. In addition, purchased loans accounted for under ASC Topic 310-20, are considered in the determination of the required allowance for loan and lease losses.

Related to purchased credit impaired loans accounted for under ASC Topic 310-30, management separately monitors this portfolio and on a quarterly basis reviews the loans contained within this portfolio against the factors and assumptions used in determining the day-one fair values. In addition to its quarterly evaluation, a loan is typically reviewed when it is modified or extended, or when material information becomes available to the Bank that provides additional insight regarding the loan's performance, the status of the borrower, or the quality or value of the underlying collateral.

To the extent that a purchased credit impaired loan is performing in accordance with management's performance expectation established in conjunction with the determination of the day-one fair values, such loan is classified in the Purchased Credit Impaired Loans Group 1 ("PCI-1") category within the Bank's classified loans, which is the equivalent of a "Watch/Special Mention" classification for the Bank's originated loans. Any improvement in the expected performance of a PCI-1 loan would result in an adjustment to accretable yield, which would have a positive impact on interest income.

PCI-1 loans may include loans that qualify as TDRs, and therefore are considered impaired under the applicable TDR accounting standards. These TDRs within the PCI-1 category, however, will not be downgraded to Purchased Credit Impaired Group 2 ("PCI-2") loans and will not require an additional provision for loan losses if their restructured cash flows are within management's initial expectations when the loans were booked at fair value as of the date of acquisition. At December 31, 2012, there were approximately $3.2 million in purchased credit impaired loans past due 90 days or more and still on accrual status. Not all of these loans were classified as PCI-2, as their performance levels were within management's day-one cash flow expectations.

To the extent that a PCI-1 loan's performance deteriorates from management's expectation established in conjunction with the determination of the day-one fair values, such a loan would be classified a PCI-2 loan. PCI-2 loans would generally be considered impaired and could require loan loss provisions. Any improvement in the expected performance of a PCI-2 loan would result in a reversal of the provision for loan losses to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income.

See additional discussion regarding the 2012 acquisitions of failed banks under Footnote 2 “Acquisitions of Failed Banks” of Part II Item 8 “Financial Statements and Supplementary Data.”

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 $18 million at December 31, 2012, with approximately $10 million of these loans also reported as TDRs.

Non-performing loans to total loans decreased to 0.82% at December 31, 2012, from 1.02% at December 31, 2011, as the total balance of non-performing loans decreased by nearly $2 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)	2012		2011		2010		2009		2008	
Loans on non-accrual status (1)	$18,506		$23,306		$28,317		$43,136		$11,324	
Loans past due 90 days or more and still on accrual (2)	3,173		-		-		8		2,133	
Total non-performing loans	21,679		23,306		28,317		43,144		13,457	
Other real estate owned	26,203		10,956		11,969		4,772		5,737	
Total non-performing assets	$47,882		$34,262		$40,286		$47,916		$19,194	
Credit Quality Ratios - Total Company										
Non-performing loans to total loans	0.82	%	1.02	%	1.30	%	1.90	%	0.58	%
Non-performing assets to total loans (including OREO)	1.79	%	1.49	%	1.84	%	2.11	%	0.83	%
Non-performing assets to total assets	1.41	%	1.00	%	1.11	%	1.22	%	0.49	%
Credit Quality Ratios - Traditional Banking										
Non-performing loans to total loans	0.82	%	1.02	%	1.30	%	1.90	%	0.58	%
Non-performing assets to total loans (including OREO)	1.79	%	1.49	%	1.84	%	2.11	%	0.83	%
Non-performing assets to total assets	1.41	%	1.10	%	1.32	%	1.60	%	0.69	%
Credit Quality Ratios - Acquired Banks										
Non-performing loans to total loans	2.29	%	NA		NA		NA		NA	
Non-performing assets to total loans (including OREO)	11.54	%	NA		NA		NA		NA	
Non-performing assets to total assets	8.73	%	NA		NA		NA		NA	

(1) Loans on non-accrual status include impaired loans. See Footnote 4 "Loans and Allowance for Loan Losses" of Part II Item 8 "Financial Statements and Supplementary Data" for additional discussion regarding impaired loans.

(2)

Purchased credit impairment loans which are 90 days or more and still on accrual are considered performing within day-one expectations and classified as PCI-1.

Approximately $11 million, or 49%, of the Bank's total non-performing loans at December 31, 2012 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."

Approximately $7 million, or 33%, of the Bank's total non-performing loans are in the commercial real estate and real estate construction loan portfolios as of December 31, 2012. 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)	2012	2011	2010	2009	2008
Residential real estate	$11,404	$13,748	$15,236	$14,832	$7,147
Commercial real estate	4,468	3,032	6,265	16,850	2,665
Commercial real estate - purchased whole loans	-	-	-	-	-
Real estate construction	2,308	2,521	3,682	9,500	2,749
Commercial	1,534	373	323	647	243
Warehouse lines of credit	-	-	NA	NA	NA
Home equity	1,868	3,603	2,734	1,244	567
Consumer:					
Credit cards	-	-	-	-	-
Overdrafts	-	-	-	-	-
Other consumer	97	29	77	71	86
Total non-performing loans	$21,679	$23,306	$28,317	$43,144	$13,457

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

December 31,	2012	2011	2010	2009	2008
Residential real estate	0.93 %	1.27 %	1.46 %	1.35 %	0.65 %
Commercial real estate	0.64 %	0.47 %	0.98 %	2.63 %	0.41 %
Commercial real estate - purchased whole loans	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Real estate construction	2.88 %	3.74 %	5.36 %	11.43 %	2.77 %
Commercial	1.17 %	0.31 %	0.30 %	0.62 %	0.22 %
Warehouse lines of credit	0.00 %	0.00 %	NA	NA	NA
Home equity	0.77 %	1.29 %	0.94 %	0.39 %	0.18 %
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	0.60 %	0.29 %	0.59 %	0.52 %	0.41 %
Total non-performing loans to total loans	0.82 %	1.02 %	1.30 %	1.90 %	0.58 %

Approximately $15 million in non-performing loans at December 31, 2011, were removed from the non-performing loan classification during 2012. Approximately $2 million, or 16%, of these loans were removed from the non-performing category because they were charged-off. Approximately $6 million, or 38%, in loan balances were transferred to other real estate owned ("OREO") with $4 million, or 24%, refinanced at other financial institutions. The remaining $3 million, or 22%, 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 $805,000, $1.1 million and $1.3 million in 2012, 2011 and 2010.

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, 2012, are adequate to absorb probable losses on all non-performing loans.

The following tables detail the activity of the Bank's non-performing loans:

Table 19 – Rollforward of Non-performing Loan Activity

December 31, (in thousands)	2012	2011	2010
Non-performing loans at beginning of year	$ 23,306	$ 28,317	$ 43,144
Core bank loans added to non-performing status	11,454	13,490	18,524
Acquired bank loans added to non-performing status			