REPUBLIC BANCORP INC /KY/
Form 10-K
March 14, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky	61-0862051

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
601 West Market Street, Louisville, Kentucky	40202
(Address of principal executive offices)	(Zip Code)

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

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

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

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 x 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 x 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. x Yes 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). x Yes 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. x

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 x	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 x 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, 2013 (the last business day of the registrant s most recently completed second fiscal quarter) was approximately $215,806,321 (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 14, 2014 was 18,544,745 and 2,259,926.

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 24, 2014 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, where the context requires, Republic Bancorp, Inc. and its subsidiaries; and the term the Bank refers to the Company s subsidiary banks: Republic Bank & Trust Company (RB&T) and Republic Bank (RB).

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, classified, or 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 provisions for loan losses;
- future credit quality, credit losses and the overall adequacy of the Allowance for Loan Losses (Allowance);
- potential write-downs of other real estate owned (OREO);
- future short-term and long-term interest rates and the respective impact on net interest income, net interest spread, net income, liquidity and capital;
- the future impact of Company strategies to mitigate interest rate risk;
- 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 (MSR s);
- the future financial performance of the Tax Refund Solutions (TRS) division of Republic Processing Group (RPG);
- future Refund Transfer (RT) volume for TRS;
- the future net revenues associated with RTs at TRS;
- the future financial performance of the Republic Payment Solutions (RPS) division of RPG;
- the future financial performance of the Republic Credit Solutions (RCS) division of RPG;
- the potential impairment of investment securities;
- the extent to which regulations written and implemented by the Consumer Financial Protection Bureau (CFPB), 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 but not limited to Basel III capital reforms; 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;

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- the impact of new accounting pronouncements;

- legal and regulatory matters including results and consequences of regulatory guidance, litigation, administrative proceedings, rule-making, interpretations, actions and examinations;

- 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 strategic plans, including, but not limited to, those related to future business acquisitions, in general, and its two Federal Deposit Insurance Corporation (FDIC)-assisted acquisitions in 2012.

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, plan, project, target, can, could, may, similar expressions. Do not rely on forward-looking statements. Forward-looking statements detail management s expectations regarding the future and are not guarantees. Forward-looking statements are assumptions based on information known to management only as of the date the statements are made and management may not update them to reflect changes that occur subsequent to the date the statements are made.

See additional discussion under the sections titled Part I Item 1 Business, 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). Republic Invest Co., a former subsidiary of RB&T, and its subsidiary, Republic Capital LLC, were dissolved in April 2013 in connection with the full repayment by RB&T of intragroup subordinated debentures issued by Republic Capital LLC in a 2004 intragroup trust preferred transaction. Republic Bancorp Capital Trust (RBCT) is a Delaware statutory business trust that is a wholly-owned, unconsolidated finance subsidiary of Republic. Incorporated in 1974, Republic became a bank holding company when RB&T became authorized to conduct commercial banking business in Kentucky in 1981.

On January 27, 2014, RB&T filed an application with the FDIC and the Kentucky Department of Financial Institutions (KDFI) to merge RB&T and RB, with RB&T, a Kentucky-based, state chartered non-member institution, being the resulting institution and continuing to operate under the name Republic Bank & Trust Company.

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As of December 31, 2013, in addition to an Internet delivery channel, Republic had 45 full-service banking centers with locations as follows:

- Kentucky 34
- Metropolitan Louisville 20
- Central Kentucky 9
- Elizabethtown 1
- Frankfort 1
- Georgetown 1
- Lexington 5*
- Shelbyville 1
- Western Kentucky 2
- Owensboro 2
- Northern Kentucky 3
- Covington 1
- Florence 1
- Independence 1
- Southern Indiana 3
- Floyds Knobs 1
- Jeffersonville 1
- New Albany 1
- Metropolitan Tampa, Florida 4*
- Metropolitan Cincinnati, Ohio 1
- Metropolitan Nashville, Tennessee 2

- Metropolitan Minneapolis, Minnesota 1*

** - One banking center in Palm Harbor, Florida, one in Lexington, Kentucky and Republic s sole banking center in Minneapolis, Minnesota were closed in the first quarter of 2014, thereby reducing total banking centers to 42.*

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, 2013, Republic had total assets of $3.4 billion, total deposits of $2.0 billion and total stockholders equity of $543 million. Based on total assets as of December 31, 2013, 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.

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General Business Overview

As of December 31, 2013, 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 Tax Refund Solutions (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 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, 2013, 2012 and 2011 are presented below:

	Year Ended December 31, 2013			
(dollars in thousands)	**Traditional Banking**	**Mortgage Banking**	**Republic Processing Group**	**Total Company**
Net income	**$ 23,928**	**$ 2,887**	**$ (1,392)**	**$ 25,423**
Total assets	**3,354,850**	**9,307**	**7,747**	**3,371,904**
Net interest margin	**3.51%**	**NM**	**NM**	**3.48%**

	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%

Segment assets are reported as of the respective period ends while income and margin data are reported for the respective periods.

NM Not Meaningful

For expanded segment financial data see Footnote 22 Segment Information of Part II Item 8 Financial Statements and Supplementary Data.

(I) Traditional Banking segment

2012 FDIC-Assisted Acquisitions

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 FDIC, as receiver for TCB. The acquisition of this 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. The acquisition of this failed bank represented a single banking center located in metropolitan Minneapolis and RB&T s initial entrance into the Minneapolis market.

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Lending Activities

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

Retail 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. 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.

The Bank offers single family, first lien residential real estate, adjustable rate mortgages (ARM s) with rate adjustments tied to various indices with specified minimum and maximum interest rate adjustments. The interest rates on a majority of ARMs are adjusted after their fixed rate periods 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 periods that correspond to market conditions, with ARMs of longer fixed rate periods offered in a declining rate environment and shorter fixed rate periods offered in a rising rate environment. 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 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 ARMs 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.

Depending on the term and amount of the ARM, loans collateralized by single family, owner-occupied first lien residential real estate, may be originated with a loan-to-value up to 90% and a combined loan-to-value up to 100%. During the fourth quarter of 2013, the Bank introduced a 100% loan-to-value loan for home purchase transactions within its primary markets. The Bank does not require the borrower to obtain mortgage insurance for ARM loans with loan-to-values above 80%. The Bank requires mortgagee s title insurance on first lien residential real estate loans, except for the Bank s Home Equity Amortizing Loan (HEAL) product under $150,000, 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.

ARMs originated prior to January 10, 2014 generally contain a prepayment penalty. Effective January 10, 2014, with the implementation of the Ability to Repay (ATR) Rule, the Bank eliminated prepayment penalties for newly originated ARMs.

Single family, first lien residential real estate loans with fixed rate periods of 15, 20 and 30 years are primarily sold into the secondary market. Mortgage servicing rights (MSRs) attached to the sold portfolio are either sold along with the loan or retained and included as a component of the Company s Mortgage Banking segment as discussed below and elsewhere in this filing. Loans with fixed rate periods of greater than 15 years are understood to carry an elevated level of interest rate risk. The Bank may retain such loans from time to time within Bank approved interest rate risk policies to combat market compression.

For additional information regarding the Bank s interest rate sensitivity, see the section titled Asset/Liability Management and Market Risk under Part II Item 7 Management s Discussion and Analysis of Financial condition and Results of Operations.

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.

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Commercial Lending The Bank s commercial real estate (CRE) and multi-family 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 use property.

The Bank s CRE loans are generally made to small-to-medium sized businesses in amounts up to 80% or 85% loan-to-value (LTV), depending on the market, of the lesser of the appraised value or purchase price of the property. CRE loans generally have 5-year fixed rate periods, or variable interest rates indexed to Prime, and have maturity terms of ten years. CRE loans generally amortize over 15 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 CRE loans if the loans are refinanced prior to the completion of their fixed rate period.

Loans secured by CRE generally are larger and often involve potentially greater risks than single family, first lien residential real estate loans. Because payments on loans secured by CRE 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 CRE loans and generally restricting such loans to its primary market area. In determining whether to originate CRE loans, the Bank also considers such factors as the financial condition of the borrower and guarantor, the loan amount to collateral value and the debt service coverage of the property, as well as global cash flow, when applicable.

A broad range of short-to-medium-term collateralized commercial and industrial (C&I) 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. These often represent 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 C&I 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 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 and Land Development 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.

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The Bank also may make land development loans to real estate developers for the acquisition, development and construction of commercial projects. Such loans may involve additional risks because the funds are advanced to fund the project while under construction, and the project is of speculative 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 the 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.

Internet Lending The Bank accepts online loan applications through its website, www.republicbank.com. Loans originated through the internet are primary within the Bank s traditional markets of Kentucky and Indiana. The Bank plans to expand to other markets outside its traditional footprint in 2014.

Correspondent Lending The Bank plans to launch a correspondent lending channel in the first quarter of 2014 whereby it will acquire residential mortgage loans from approved correspondents. The Bank plans to acquire loans within and outside our primary markets by initially partnering with our warehouse lending clients.

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.*
- *Footnote 4 Loans and Allowance for Loan Losses*
- *Footnote 22 Segment Information*

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(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 mortgage servicing rights. 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. Conversely, due to the increase in long-term interest rates during 2013, the fair value of the MSR portfolio increased as prepayment speed assumptions were adjusted downwards resulting in a reversal of prior impairment of $345,000 for the year ending December 31, 2013.

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*
- *Footnote 6 Mortgage Banking Activities*
- *Footnote 22 Segment Information*

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(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. Through RB, the RPS division is an issuing bank offering general purpose reloadable prepaid debit cards through third party program managers. Through RB&T, the RCS division is piloting short-term consumer credit products.

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. 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.

Prior to April 30, 2012, the TRS division s primary tax-related products included RTs and Refund Anticipation Loans (RAL s). 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, net of rebates, are the primary source of revenue for the TRS division and the RPG segment, and are reported in the income statement as non-interest income under the line item Net 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 M&S Agreement had, among other things, set the term of the M&S Agreement to expire on October 16, 2014.

RB&T notified Liberty that RB&T believed there had been no occurrence that gave rise to termination of the M&S Agreement and that RB&T disagreed with Liberty s interpretation of the M&S Agreement relative to Liberty s ability to terminate. RB&T and Liberty subsequently entered into mediation under the terms of the M&S Agreement.

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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.

RB&T notified JHI that RB&T believed there had been no occurrence that gave rise to termination of the Program Agreement and that RB&T disagreed with JHI s interpretation of its ability to terminate the Program Agreement. RB&T and JHI subsequently entered into a binding arbitration under the terms of the Program Agreement.

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 had a material adverse impact to the Company s results of operations in 2013 and is expected to prospectively.

RB&T s third party arbitration with JHI was concluded during the fourth quarter of 2013. Legal related expenses associated with the arbitration totaled $2.2 million for 2013, with $1.4 million of those expenses being incurred during the fourth quarter of 2013. The Company does not anticipate any additional future legal expense associated with this matter. With the matter resolved, RB&T entered into a new two-year agreement with JHI pursuant to which it began processing refunds for JHI clients in January 2014. The contract is expected to increase RPG s annual net revenue by approximately 12% per year above its 2013 net revenue level. Additional overhead expenses with the new contract are expected to be minimal.

RB&T s contract dispute with Liberty was resolved during January 2014 with a nominal amount of related legal expense during 2013. The Company does not anticipate any additional future legal expense associated with this matter. With the matter resolved, RB&T entered into a new two-year agreement with Liberty in which it will begin processing refunds for Liberty clients in January 2015. Beginning with the first quarter 2015 tax season, the contract is expected to increase RPG s annual net revenues for the two year term of the contract by an average of approximately 16% over its 2013 net revenue level. Additional overhead expenses with the new contract are expected to be immaterial.

Republic Payment Solutions division:

Through RB, the RPS division is an issuing bank offering general purpose reloadable prepaid cards through third party program managers. This program s objectives include:

- 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 matures, 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.

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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:

Through RB&T, the RCS division is piloting short-term consumer credit products. In general, the credit products are 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 products will be piloted for a period of time to ensure all aspects are meeting expectations before continuation.

RB&T management funded one of its RCS pilot products nominally during 2013, with $3 million in loans outstanding at December 31, 2013. At the conclusion of each pilot phase, RB&T management will determine whether or not to expand or modify each product based on piloted results. As with most start-ups, the RCS division did reflect an operating loss of approximately $77,000 during 2013, with September 2013 the first month reflecting revenues. Management expects the division to continue operating at a loss in the near-term and, given the speculative nature of the RCS products, management cannot currently predict the amount of additional losses the division may incur as products are piloted.

Employees

As of December 31, 2013, Republic had 736 full-time equivalent employees (FTE s). Altogether, Republic had 721 full-time and 29 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.

Executive Officers

See Part III, Item 10. Directors, Executive Officers and Corporate Governance. for information about the Company s executive officers.

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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, and Tennessee. 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 has had 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 has faced increased competition in the RT marketplace. In addition to the loss of volume resulting from additional competitors, RB&T has incurred substantial pressure on its profit margin for its RT products as it competes 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.

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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.

New entrants to the 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.

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 FDIC and the KDFI. RB is a federally-chartered savings bank subject to supervision and regulation by the Office of the Comptroller of Currency (OCC). RB 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 KDFI. 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 Federal Home Loan Bank (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. The Bank and the Company are also subject to regulations issued by the Consumer Financial Protection Bureau (CFPB), an independent bureau of the FRB created by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act).

The Company is a legal entity separate and distinct from the Bank and is subject to direct supervision by the FRB. The Company 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 financial institution 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, the CFPB, the KDFI or state or federal legislation, could have a material adverse impact on Company operations.

Enforcement Powers Regulators have broad enforcement powers over 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 and formal actions to effect corrective actions and/or sanctions. In addition, RB&T is subject to regulation and potential enforcement actions by other state and federal agencies.

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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 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 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 regulations issued by the CFPB as well as 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 (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 of such associations and organizations.

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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 designated communities, specifically including low to moderate income persons and neighborhoods.

Under the BHCA, so long as it is at least adequately capitalized, adequately managed, has a satisfactory or better CRA rating and is 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 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). 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 but not limited to, 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 (FDIA), 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.

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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 RB and further described below under Liability of Commonly Controlled Institutions) 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 whereby 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 its requirements.

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 condition, capital adequacy, earnings prospects, character of management, needs of the community and consistency with corporate powers. Section 613 of the Dodd-Frank Act effectively eliminated any interstate branching restrictions as set forth in the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. Banks located in any state may *de novo* branch in any other state, including Kentucky. Such unlimited branching authority has the potential to increase competition within the markets in which the Company and the Bank operate.

Under federal regulations, RB 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 public 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. A comment in opposition, in and of itself, does not preclude approval. OCC and FDIC regulations also restrict the Company s ability to open new banking offices of RB&T or RB. 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.

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Affiliate Transaction Restrictions Transactions between the Bank and its affiliates, and in some cases the Bank s correspondent banks, 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 a bank 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 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 FDIC deposit insurance.

FDIC 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. 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.

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. In June 2013, the FDIC refunded RB&T $2.2 million in unapplied prepaid assessments.

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 paying FDIC deposit insurance assessments.

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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;
- Eliminated 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 FDIC deposit insurance.

RB is required to pay regular assessments to the OCC to fund its operations. The general assessments, paid on a semi-annual basis, are based upon total assets, as reported in RB s latest quarterly call report, as well as RB 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, both state and federal, as part of its ongoing business operations.

Regulation E A 2009 amendment to Regulation E 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 deposit 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 has 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.

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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 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 RB 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.

Federal Home Loan Bank System The FHLB offers 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 to maintain its membership 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.

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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 FHLBs to its 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 may extend credit subject to certain restrictions. Additionally, state law may impose additional restrictions. While the discussion of extensions of credit set forth in this filing is not exhaustive, 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
- Card Act

Community Reinvestment Act (CRA) Under the CRA, financial institutions have a continuing and affirmative obligation to help meet the credit needs of their designated 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.

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Home Mortgage Disclosure Act (HMDA) The HMDA grew 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.

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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 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 RB, a federally savings 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, 2013, RB met the QTL requirements.

Ability to Repay (ATR) Rule and Qualified Mortgage Loans (QM s) On January 10, 2013, the CFPB issued a final rule implementing the ATR requirement in the Dodd-Frank Act. The rule, among other things, requires lenders to consider a consumer s ability to repay a mortgage loan before extending credit to the consumer and limits prepayment penalties. The rule also establishes certain protections from liability for mortgage lenders with regard to QMs they originate. For this purpose, the rule defines QMs to include loans with a borrower debt-to-income ratio of less than or equal to 43% or, alternatively, a loan eligible for purchase by the FNMA or Freddie Mac while they operate under Federal conservatorship or receivership, and loans eligible for insurance or guarantee by the Federal Housing Administration (FHA), U.S. Department of Veterans Affairs (VA) or U.S. Department of Agriculture (USDA). Additionally, QMs may not: (i) contain excess upfront points and fees; (ii) have a term greater than 30 years; or (iii) include interest-only or negative amortization payments.

The Dodd-Frank Act did not specify whether the presumption of ATR compliance is conclusive (i.e., creates a safe harbor) or is rebuttable. For mortgages that are not QMs, the final rule describes certain minimum requirements for creditors making ATR determinations, but does not dictate that they follow particular underwriting models. At a minimum, creditors generally must consider eight underwriting factors: (1) current or reasonably expected income or assets; (2) current employment status; (3) the monthly payment on the covered transaction; (4) the monthly payment on any simultaneous loan; (5) the monthly payment for mortgage-related obligations; (6) current debt obligations, alimony, and child support; (7) the monthly debt-to-income ratio or residual income; and (8) credit history. Creditors must generally use reasonably reliable third-party records to verify the information they use to evaluate the factors.

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The ATR rule was effective January 10, 2014. While we do not anticipate the rule will have a material impact on our mortgage operations, we will not fully know the result of this regulation on our mortgage operations or the banking industry as a whole until later in 2014.

On January 17, 2013, the CFPB issued a series of final rules as part of an ongoing effort to address mortgage servicing reforms and create uniform standards for the mortgage servicing industry. The rules increase requirements for communications with borrowers, address requirements around the maintenance of customer account records, govern procedural requirements for responding to written borrower requests and complaints of errors, and provide guidance around servicing of delinquent loans, foreclosure proceedings and loss mitigation efforts, among other measures. These rules were also effective January 10, 2014 and will likely lead to increased costs to service loans across the mortgage industry. The Company is continuing to evaluate these rules and their impact on the Bank s mortgage operations and profitability.

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).

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As of December 31, 2013 and 2012 the Company s capital ratios were as follows:

	2013		2012	
As of December 31, (dollars in thousands)	**Amount**	**Ratio**	Amount	Ratio
Total Capital to risk weighted assets				
Republic Bancorp, Inc.	**$ 592,531**	**26.71**%	$ 581,189	25.28%
Republic Bank & Trust Co.	**439,143**	**20.61**	451,898	20.37
Republic Bank	**15,860**	**18.69**	14,494	18.02
Tier 1 (Core) Capital to risk weighted assets				
Republic Bancorp, Inc.	**569,505**	**25.67**%	558,982	24.31%
Republic Bank & Trust Co.	**418,348**	**19.63**	407,261	18.36
Republic Bank	**14,785**	**17.42**	13,474	16.75
Tier 1 Leverage Capital to average assets				
Republic Bancorp, Inc.	**569,505**	**16.81**%	558,982	16.36%
Republic Bank & Trust Co.	**418,348**	**12.73**	407,261	12.18
Republic Bank	**14,785**	**14.41**	13,474	13.43

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 its 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.

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In addition, a bank holding company 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 Rules On July 2, 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to the Bank. The FDIC and the OCC have subsequently approved these rules. The final rules were adopted following the issuance of proposed rules by the Federal Reserve in June 2012, and implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act.

The rules include new risk-based capital and leverage ratios, which will be phased in from 2015 to 2019, and will refine the definition of what constitutes capital for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Bank under the final rules are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The final rules also establish a capital conservation buffer above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The capital conservation buffer will be phased-in over four years beginning on January 1, 2016, as follows: the maximum buffer will be 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. This will result in the following minimum ratios beginning in 2019: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

The final rules implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which will be phased out over time. However, the final rules provide that small depository institution holding companies with less than $15 billion in total assets as of December 31, 2009 (which includes the Company) will be able to permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.

The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions if their capital levels begin to show signs of weakness. These revisions take effect January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions will be required to meet the following increased capital level requirements in order to qualify as well capitalized: (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 5% (increased from 4%).

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The final rules set forth certain changes for the calculation of risk-weighted assets, which the Bank will be required to utilize beginning January 1, 2015. The standardized approach final rule utilizes an increased number of credit risk exposure categories and risk weights, and also addresses: (i) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act; (ii) revisions to recognition of credit risk mitigation; (iii) rules for risk weighting of equity exposures and past due loans; (iv) revised capital treatment for derivatives and repo-style transactions; and (v) disclosure requirements for top-tier banking organizations with $50 billion or more in total assets that are not subject to the advance approach rules that apply to banks with greater than $250 billion in consolidated assets.

Based on the Bank s current capital composition and levels, management believes it will be in compliance with the requirements as set forth in the final rules.

Dodd-Frank Act On July 21, 2010, 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. As previously noted, the Dodd-Frank Act also created the CFPB 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 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 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 CFPB The Dodd-Frank Act created the 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 increased 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 broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also required 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 RB s primary federal regulator. The OCC will generally have rulemaking, examination, supervision and oversight authority and the FDIC will retain secondary authority over RB. 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 RB 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, amended the HOLA to specifically provide that it does not occupy the field in any area of state law. Any preemption determination must currently 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 (such as RB) 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, 2013, RB met the qualified thrift lender test.

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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 established a floor for capital of insured depository institutions that cannot be lower than the standards in effect today, and directed 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.

Volcker Rule On December 10, 2013, in implementing section 619 of the Dodd-Frank Act, the final Volcker Rule was approved by the OCC, the FED, the FDIC, the SEC, and the Commodities Futures Trading Commission (CFTC) (collectively, the Agencies). The Volcker Rule attempts to reduce risk and banking system instability by restricting U.S. banks from investing in or engaging in proprietary trading and speculation and imposing a strict framework to justify exemptions for underwriting, market making and hedging activities. U.S. banks will be restricted from investing in funds with collateral comprised of less than 100% loans that are not registered with the SEC and from engaging in hedging activities that do not hedge a specific identified risk. The Bank does not believe the Volcker Rule will have a significant effect on operations.

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.*

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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.*

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 2013 as of September 30, 2013. 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. In addition, 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.

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If the Bank s other real estate owned (OREO) portfolio 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 the Company s earnings to additional risks and uncertainties. The 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, TRS is subject to additional oversight requirements through its ERO Plan. If RB&T is unable to comply with these 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 on-site visits, document reviews, mystery shops of tax preparation offices, and tax product customer surveys;
- on-site audit confirmation of ERO agreements to adhere to laws, processes, procedures, disclosure requirements and physical and electronic security requirements;
- an advertising approval process that requires RB&T to approve all tax preparer advertisements prior to their issuance;
- monitoring of ERO offices for income tax return quality;
- monitoring of ERO offices for adherence to acceptable tax preparation fee parameters;
- monitoring for federal and state tax preparation requirements, including local and state tax preparer registration and posting and disclosure requirements relative to Bank products;
- RB&T to provide advance notification, as practicable, to the FDIC of any significant changes in the TRS line of business, including
- a change of more than 25% from the prior tax season in the number of EROs with which RB&T is doing business, or

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

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

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 and will continue to make 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 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. Management believes these additional requirements have and will continue to make attracting new relationships and retaining existing relationships more difficult for RB&T, potentially reducing RT volume. Further reductions in RT volume will have a material adverse impact to RB&T s earnings.

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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.

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, management believes these groups will 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, sustained 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.

Industry trends in relation to tax preparation companies assuming the role of program manager for tax-related bank products has and will continue to reduce RPG s profitability. The TRS division of RPG has historically earned RT revenues based on its role as program manager for bank products in the tax refund process. Program managers for bank products in the tax refund processing business generally 1) supply marketing materials for bank products, 2) supply blank RT check stock for the tax offices, 3) supply tier-1 customer service to the taxpayers, which includes answering taxpayer phone calls related to the status of their RTs and the verification to third parties regarding the validity of the RT checks issued to the taxpayers by the Bank, and 4) provide overall management of the movement of refunds when received from the government, which includes exception processing and the reconciliation of all funds received and disbursed, among other duties.

Industry trends reflect larger tax preparation companies assuming the role of the program manager for the bank products in the tax refund process, which includes the obligation and costs of those responsibilities of a program manager described in the previous paragraph. In those cases where the tax preparation company is also assuming the role of the program manager, the tax preparation company is also earning more of the revenue for the associated bank products sold, as the Bank typically provides ACH services and third party risk management oversight duties. This trend will likely continue to adversely affect the margin the Company earns on its tax-related products and the overall operating results and financial condition of the RPG segment.

The RPG segment incurred a net operating loss in 2013. If RPG is unable to achieve an acceptable level of profitability in the future, the Company may decide to discontinue these operations and incur substantial costs to do so, which could materially negatively impact earnings.

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TRADITIONAL BANK LENDING AND THE ALLOWANCE FOR LOAN LOSSES (ALLOWANCE)

The Allowance 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, 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 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 and may require the Bank to increase its provision for loan losses or recognize further loan charge-offs. A material increase in the Allowance 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 as part of the decision process to make a loan on or secured by real property does not ensure the value of the real property collateral. As part of the decision process to make a loan secured by real property, the Bank generally requires an appraisal of the real property. An appraisal, however, is only an estimate of the value of the property at the time the appraisal is made. 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.

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RB&T is highly dependent upon programs administered by the Federal Home Loan Mortgage Corporation (Freddie Mac   or the 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 the 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 the FHLMC or any significant adverse change in the level of activity in the secondary mortgage market or the underwriting criteria of the 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.

Loans originated through the Bank s planned 2014 Correspondent Lending channel will subject the Bank to additional negative earnings sensitivity as the result of prepayments and additional credit risks that the Bank does not have through its historical origination channels. Loans generated through the Bank s 2014 Correspondent Lending initiative will substantially be i) purchased at a premium and ii) represent out-of-market loans originated by a non-Republic person and/or non-Republic entity. Loans purchased at a premium inherently subject the Bank s earnings to additional sensitivity related to prepayments as increases in prepayment speeds will negatively affect the overall yield to maturity on such loans, potentially even causing the net loan yield to be negative for the period of time the loan is owned by the Bank.

Loans originated out of the Bank s market area by non-Republic persons and/or entities will inherently carry additional credit risk from potential fraud due to the increased level of third party involvement on such loans. In addition, the Bank will also experience an increase in complexity for customer service and the collection process, given the number of different state laws the Bank could be subject to from loans purchased throughout the U.S.

Failure to appropriately manage these additional risks could lead to reduced profitability and/or operating losses through this origination channel.

Loans originated through the Bank s Internet Lending channel, which management anticipates increasing in 2014, will subject the Bank to credit and regulatory risks that the Bank does not have through its historical origination channels. The dollar amount of loans originated through the Bank s Internet Lending channel is expected to be increasingly out-of-market.   Loans originated out of the Bank s market area inherently carry additional credit risk as the Bank will experience an increase in the complexity of the customer authentication requirements for such loans. Failure to appropriately identify the end-borrower for such loans could lead to fraud losses. Failure to appropriately manage these additional risks could lead to reduced profitability and/or operating losses through this origination channel. In addition, failure to appropriately identify the end-borrower could result in regulatory sanctions resulting from failure to comply with various customer identification regulations.

Loan production volume through mortgage warehouse lending is subject to various market conditions. RB&T s mortgage 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 2013 the Bank s mortgage warehouse lending volume consisted of 63% purchase transactions, in which the mortgage company s borrower was purchasing a new residence, and 37% 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 mortgage warehouse lending business benefited during 2011, 2012 and the first five months of 2013 from low or declining long-term residential mortgage rates, which incentivized a high volume of borrowers to refinance their mortgages. Increases in long-term residential mortgage interest rates in the second quarter of 2013 decreased refinances significantly without an equivalent increase in purchase volume. Market movements of this nature without compensating growth in RB&T s mortgage warehouse client base will have an adverse impact on the Bank s net interest income.

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INVESTMENT SECURITIES, FHLB STOCK AND OTHER INVESTMENTS

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+. In October 2013, Fitch placed the U.S. AAA long-term foreign and local currency Issuer Default Ratings on Rating Watch Negative. Further downgrades by Standard & Poor s, Moody s or 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, 2013, 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, 2013, 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). From 2008 through 2011 OTTI charges were 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 and/or the underlying third party insurance wrap (guarantee) deteriorate further.

The Bank holds a significant amount of bank-owned life insurance. At December 31, 2013, the Bank held bank-owned life insurance (BOLI) on certain employees with a cash surrender value of $25 million. The eventual repayment of the cash surrender value is subject to the ability of the various insurance companies to pay death benefits or to return the cash surrender value to the Bank if needed for liquidity purposes. The Bank continually monitors the financial strength of the various insurance companies that carry these policies. However, any one of these companies could experience a decline in financial strength, which could impair its ability to pay benefits or return the Bank s cash surrender value. If the Bank needs to liquidate these policies for liquidity purposes, it would be subject to taxation on the increase in cash surrender value and penalties for early termination, both of which would adversely impact earnings.

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.

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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, from 2008 through the first four months of 2013, interest rates generally decreased. 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 could be more negatively impacted as a result of these strategies. More specifically, the Bank s interest income could rise at a slower pace than the Bank s interest expense and the fair value of the Bank s assets could likely decrease at a faster pace than the increase in the fair value of interest-bearing liabilities. These circumstances could 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. During most of 2013, the Bank experienced contraction in its net interest income and net interest margin as it 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 interest 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 or stagnant 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. A decline in demand for Mortgage Banking products resulting from rising interest rates could also adversely impact other programs/products such as home equity lending, title insurance commissions and service charges on deposit accounts.

The Bank s Mortgage Banking income has benefitted over the past three years from a relatively low rate environment, which has incentivized borrowers to refinance their mortgages. During the second quarter of 2013, however, long-term interest rates rose significantly and drove a dramatic downturn in mortgage refinancings. The Bank s loan sales consisted of 19% purchase transactions and 81% refinance transactions during 2012 versus 26% purchase and 74% during 2013. Of the 1,650 secondary market loans refinanced by the Bank during 2013, 74% took place prior to June 30, 2013, the month in which long term interest rates began to rise significantly. Stagnant or increasing long-term interest rates would likely continue to decrease demand for all Mortgage Banking products, and most significantly decrease refinance transaction volume. Any such decreases in demand would 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.

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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 loss of large deposit relationships could increase the Bank s funding costs. The Bank has several large deposit realationships that 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 on a short-term basis to replace the balances. On a longer-term basis, the Bank would likely utilize brokered deposits and/or FHLB borrowings to replace withdrawn balances. The overall cost of gathering brokered deposits and/or FHLB borrowings, 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 before it must be closed 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, 2013 and 2012 were $8.0 million and $7.5 million. The total net daily overdraft charges included in interest income for the years ended December 31, 2013 and 2012 was $1.7 million in both periods. Additional limitations or elimination, or adverse modifications to this program, either voluntary or involuntary, would significantly reduce Bank earnings.

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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 2014 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.

Additional limitations or adverse modifications to this program, either voluntary or involuntary, would further significantly reduce net income.

There can be no assurance that the FDIC will not impose special assessments or increase the deposit premiums applicable to the Company. 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. Company expenses would increase as a result of increases in FDIC insurance premiums**.**

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.

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

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

The Company s insiders hold voting rights that give them significant control over matters requiring stockholder approval. The Company s Chairman/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.

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The Dodd-Frank Act may continue to 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 imposed various new restrictions and creates an expanded framework of regulatory oversight for financial institutions.

On July 2, 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to the Bank. The FDIC and the OCC have subsequently approved these rules. The final rules were adopted following the issuance of proposed rules by the Federal Reserve in June 2012, and implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act.

The rules include new risk-based capital and leverage ratios, which will be phased in from 2015 to 2019, and will refine the definition of what constitutes capital for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Bank under the final rules are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The final rules also establish a capital conservation buffer above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The capital conservation buffer will be phased-in over four years beginning on January 1, 2016, as follows: the maximum buffer will be 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. This will result in the following minimum ratios beginning in 2019: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

The final rules implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which will be phased out over time. However, the final rules provide that small depository institution holding companies with less than $15 billion in total assets as of December 31, 2009 (which includes the Company) will be able to permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.

The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions if their capital levels begin to show signs of weakness. These revisions take effect January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions will be required to meet the following increased capital level requirements in order to qualify as well capitalized: (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 5% (increased from 4%).

The final rules set forth certain changes for the calculation of risk-weighted assets, which the Bank will be required to utilize beginning January 1, 2015. The standardized approach final rule utilizes an increased number of credit risk exposure categories and risk weights, and also addresses: (i) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act; (ii) revisions to recognition of credit risk mitigation; (iii) rules for risk weighting of equity exposures and past due loans; (iv) revised capital treatment for derivatives and repo-style transactions; and (v) disclosure requirements for top-tier banking organizations with $50 billion or more in total assets that are not subject to the advance approach rules that apply to banks with greater than $250 billion in consolidated assets.

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 cannot currently predict what operational changes, if any, it will make in response to evolving legislative and regulatory requirements and what effect these changes may have on the Company s financial results of operations. The Company does believe that any operational changes it may be required to make in the future will have a negative impact on the Company s overall profitability.

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Government responses to economic conditions may adversely affect the Company s operations, financial condition and earnings. 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 or tapers its securities purchases, 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.

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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 for stolen assets or information; system repairs; consumer protection costs; 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 payment of damages; 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.

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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.

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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. As of December 31, 2013, Republic had 34 banking centers located in Kentucky, four banking centers located in Florida, three banking centers in Indiana, two in Tennessee and one banking center in Ohio 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	6,000	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	3,000	L
3950 Kresge Way, Suite 108, Louisville	1,000	L
3726 Lexington Road, Louisville	4,000	L
2028 West Broadway, Suite 105, Louisville	2,000	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 (3)

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)

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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	5,000	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 (3)
9037 U.S. Highway 19, Port Richey	11,000	O
11502 North 56th Street, Temple Terrace	3,000	L
Ohio Banking Center:		
9683 Kenwood Road, Blue Ash	3,000	L
Tennessee Banking Centers:		
2034 Richard Jones Road, Nashville	3,000	L
113 Seaboard Lane, Franklin	2,000	L
Minnesota Banking Center:		
8500 Normandale Lake Blvd, Suite 110, Bloomington	4,000	L (4)
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

(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. For additional discussion regarding Republic s lease obligations, see Part II Item 8 Financial Statements and Supplementary Data Footnote 19 Transactions with Related Parties and Their Affiliates

(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.

(3) Banking center lease was exited in the first quarter of 2014.

(4) Banking center was converted to a non-branch support office during the first quarter of 2014.

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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 Republic Bank & Trust assessed overdraft fees. In the Complaint, the Plaintiff pleads seven claims against RB&T alleging: breach of contract and breach of the covenant of good faith and fair dealing (Counts 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, (Count VI). RB&T filed a Motion to Dismiss the case on January 12, 2012. In response, Plaintiff filed her Motion to Amend the Complaint on February 23, 2012. In Plaintiff s proposed Amended Complaint, Plaintiff acknowledged disclosure of the Overdraft Honor Policy and did 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 the Plaintiff lacked the ability to automatically amend the complaint as of right. However, the Court held that the Plaintiff could be permitted to amend if the Plaintiff could first demonstrate that her amendment would not be futile and that the Plaintiff had standing to sue despite RB&T s offer of judgment. The Court declined to rule on that issue at that 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 ruled on June 11, 2013 and concluded that the offer of judgment did not moot the matter before it only because the offer of judgment in question did not afford the Plaintiff complete relief. The District Court lifted the stay of this matter on June 14, 2013 and permitted Plaintiff to file her Amended Complaint. Plaintiff filed her Amended Complaint on June 21, 2013 and brought seven claims: breach of contract and breach of the covenant of good faith and fair dealing (Counts I & II), unconscionability (Count III), conversion (Count IV), unjust enrichment (Count V), violation of the Electronic Funds Transfer Act, (Count VI) and violation of the Kentucky Consumer Protection Act (Count VII). RB&T filed its Motion to Dismiss the Amended Complaint on July 15, 2013. On September 30, 2013 the Court issued its decision granting the Motion to Dismiss in part and denying it in part. The Court initially concluded that the offer of judgment did not moot the case and deprive it of subject matter jurisdiction as it did not provide Plaintiff with all of the relief she sought. The Court dismissed the conversion, unconscionability and Electronic Funds Transfer Act claims in their entirety for failure to state a claim. With respect to the remaining claims, the Court dismissed them to the extent they are premised upon any overdraft charges incurred by the Plaintiff on or after January 6, 2010, the date on which she received the Overdraft Honor Policy. The Court concluded that Plaintiff could not state any claim for the time period after she received the Policy with respect to the manner in which RB&T assessed overdraft fees. The Answer to the remaining claims was filed on October 14, 2013 and the matter now proceeds into discovery.

Item 4. Mine Safety Disclosures.

Not applicable.

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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 2013 and 2012.

	2013			
	Sales Price (1)		Dividend	
Quarter Ended	**High**	**Low**	**Class A**	**Class B**
March 31st	**$ 23.02**	**$ 20.57**	**0.165**	**0.150**
June 30th	**24.44**	**20.71**	**0.176**	**0.160**
September 30th	**28.14**	**23.22**	**0.176**	**0.160**
December 31st	**27.65**	**22.77**	**0.176**	**0.160**

	2012			
	Sales Price (1)		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 (2)	22.02	19.85	1.265	1.150

(1) Sales price based on closing price.

(2) A 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 14, 2014, the Company s Class A Common Stock was held by 636 shareholders of record and the Class B Common Stock was held by 123 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 16 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, 2013, the trustee held 274,190 shares of Class A Common Stock and 2,648 shares of Class B Common Stock on behalf of the plan.

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Details of Republic s Class A Common Stock purchases during the fourth quarter of 2013 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		**$**		
November 1 - November 30				
December 1 - December 31				
Total		**$**		**330,640**

During 2013, the Company repurchased 193,000 shares and there were 7,000 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, 2013, the Company had 330,640 shares which could be repurchased under its current share repurchase programs.

During 2013, there were approximately 11,000 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.

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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, 2008 and ending December 31, 2013. 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, 2008. The stock price performance shown on the graph below is not necessarily indicative of future stock price performance.

	December 31, 2008	December 31, 2009	December 31, 2010	December 31, 2011	December 31, 2012	December 31, 2013
Republic Bancorp Class A Common Stock	$ 100.00	$ 77.53	$ 91.81	$ 91.13	$ 90.85	$ 108.56
NASDAQ Bank Index	100.00	83.70	100.24	89.72	105.21	151.53
S&P 500 Index	100.00	126.45	150.63	153.81	175.43	235.22

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Item 6. Selected Financial Data.

The following table sets forth Republic Bancorp Inc. s selected financial data from 2009 through 2013. 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)	**2013**	2012	2011	2010	2009
Balance Sheet Data:					
Cash and cash equivalents	**$ 170,863**	$ 137,691	$ 362,971	$ 786,371	$ 1,068,179
Investment securities	**483,537**	484,256	674,022	542,694	467,235
Mortgage loans held for sale, at fair value	**3,506**	10,614	4,392	15,228	5,445
Gross loans	**2,589,792**	2,650,197	2,285,295	2,175,240	2,268,232
Allowance for loan losses	**(23,026)**	(23,729)	(24,063)	(23,079)	(22,879)
Goodwill	**10,168**	10,168	10,168	10,168	10,168
Bank owned life insurance	**25,086**				
Total assets	**3,371,904**	3,394,399	3,419,991	3,622,703	3,918,768
Non interest-bearing deposits	**488,642**	479,046	408,483	325,375	318,275
Interest-bearing deposits	**1,502,215**	1,503,882	1,325,495	1,977,317	2,284,206
Total deposits	**1,990,857**	1,982,928	1,733,978	2,302,692	2,602,481
Securities sold under agreements to repurchase and other short-term borrowings	**165,555**	250,884	230,231	319,246	299,580
Federal Home Loan Bank advances	**605,000**	542,600	934,630	564,877	637,607
Subordinated note	**41,240**	41,240	41,240	41,240	41,240
Total liabilities	**2,829,111**	2,857,697	2,967,624	3,251,327	3,602,748
Total stockholders equity	**542,793**	536,702	452,367	371,376	316,020
Average Balance Sheet Data:					
Federal funds sold and other interest-earning deposits	**$ 145,970**	$ 187,790	$ 315,530	$ 473,137	$ 341,126
Investment securities, including FHLB stock	**527,681**	640,830	678,804	561,273	536,996
Gross loans, including loans held for sale	**2,575,146**	2,504,150	2,246,259	2,338,990	2,372,008
Allowance for loan losses	**(23,287)**	(25,226)	(28,817)	(27,755)	(22,005)
Total assets	**3,385,345**	3,560,739	3,416,921	3,503,886	3,415,725
Non interest-bearing deposits	**513,891**	624,053	509,457	421,162	381,665
Interest-bearing deposits	**1,514,847**	1,512,455	1,540,515	1,725,891	1,684,277
Total interest-bearing liabilities	**2,305,106**	2,351,768	2,418,865	2,671,466	2,679,499
Total stockholders equity	**546,880**	530,096	439,636	361,357	305,864
Income Statement Data - Total Company:					
Total interest income	**$ 134,568**	$ 183,459	$ 195,115	$ 193,473	$ 212,605
Total interest expense	**21,393**	22,804	30,255	36,661	48,742
Net interest income	**113,175**	160,655	164,860	156,812	163,863
Provision for loan losses	**2,983**	15,043	17,966	19,714	33,975
Total non interest income	**47,969**	165,078	119,624	87,658	57,621
Total non interest expenses	**117,663**	126,745	122,321	126,323	121,485
Income before income tax expense	**40,498**	183,945	144,197	98,433	66,024
Income tax expense	**15,075**	64,606	50,048	33,680	23,893

Net income		**25,423**		119,339		94,149		64,753	42,131
Income Statement Data - Traditional Bank(1):									
Total interest income	**$**	**133,948**	$	137,486	$	135,121	$	140,784	$ 154,138
Total interest expense		**21,392**		22,655		29,775		35,099	43,786
Net interest income		**112,556**		114,831		105,346		105,685	110,352
Provision for loan losses		**3,828**		8,167		6,406		11,571	15,885
Total non interest income		**25,821**		78,068		27,095		22,678	20,645
Total non interest expenses		**98,064**		100,380		87,389		90,968	92,513
Income before income tax expense		**36,485**		84,352		38,646		25,824	22,599
Income tax expense		**12,557**		29,178		12,183		7,929	7,237
Net income		**23,928**		55,174		26,463		17,895	15,362

(continued)

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Item 6. Selected Financial Data. *(continued)*

	As of and for the Years Ended December 31,				
(in thousands, except per share data, FTEs and # of banking centers)	**2013**	2012	2011	2010	2009
Per Share Data:					
Basic average shares outstanding	**20,807**	20,959	20,945	20,877	20,749
Diluted average shares outstanding	**20,904**	21,028	20,993	20,960	20,884
End of period shares outstanding:					
Class A Common Stock	**18,541**	18,694	18,652	18,628	18,499
Class B Common Stock	**2,260**	2,271	2,300	2,307	2,309
Basic earnings per share:					
Class A Common Stock	**$ 1.23**	$ 5.71	$ 4.50	$ 3.11	$ 2.04
Class B Common Stock	**1.17**	5.55	4.45	3.06	1.99
Diluted earnings per share:					
Class A Common Stock	**$ 1.22**	$ 5.69	$ 4.49	$ 3.10	$ 2.02
Class B Common Stock	**1.16**	5.53	4.44	3.04	1.98
Cash dividends declared per share:					
Class A Common Stock	**$ 0.693**	$ 1.749	$ 0.605	$ 0.561	$ 0.517
Class B Common Stock	**0.630**	1.590	0.550	0.510	0.470
Market value per share at December 31,	**$ 24.54**	$ 21.13	$ 22.90	$ 23.75	$ 20.60
Book value per share at December 31,	**26.09**	25.60	21.59	17.74	15.19
Tangible book value per share at December 31,(2)	**25.35**	24.86	20.81	16.88	14.28
Performance Ratios:					
Return on average assets (ROA)	**0.75%**	3.35%	2.76%	1.85%	1.23%
Return on average equity (ROE)	**4.65%**	22.51%	21.42%	17.92%	13.77%
Efficiency ratio(3)	**73%**	39%	43%	52%	53%
Yield on average interest-earning assets	**4.14%**	5.50%	6.02%	5.74%	6.54%
Cost of average interest-bearing liabilities	**0.93%**	0.97%	1.25%	1.37%	1.82%
Net interest spread	**3.21%**	4.53%	4.77%	4.37%	4.72%
Net interest margin - Total Company	**3.48%**	4.82%	5.09%	4.65%	5.04%
Net interest margin - Traditional Banking Segment	**3.51%**	3.64%	3.55%	3.57%	3.79%
Capital Ratios:					
Average stockholders equity to average total assets	**16.15%**	14.89%	12.87%	10.31%	8.95%
Total risk based capital - Total Company	**26.71%**	25.28%	24.74%	22.04%	18.37%
Tier 1 risk based capital - Total Company	**25.67%**	24.31%	23.59%	20.89%	17.25%
Tier 1 leverage capital - Total Company	**16.81%**	16.36%	14.77%	12.05%	10.52%
Dividend payout ratio	**56%**	31%	13%	18%	25%
Dividend yield	**2.82**	8.28	2.64	2.36	2.51
Other Information:					
Period end full time equivalent employees - Total Company	**736**	797	710	744	735
Number of banking centers	**45**	44	43	43	44

(continued)

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Item 6. Selected Financial Data. *(continued)*

(in thousands, except per share data, FTEs and # of banking centers)	**2013**	2012	2011	2010	2009
	As of and for the Years Ended December 31,				
Credit Quality Data - Total Company:					
Loans on non-accrual status	**$ 19,104**	$ 18,506	$ 23,306	$ 28,317	$ 43,136
Loans past due 90-days-or-more and still on accrual	**1,974**	3,173			8
Total non-performing loans	**21,078**	21,679	23,306	28,317	43,144
Other real estate owned	**17,102**	26,203	10,956	11,969	4,772
Total non-performing assets	**38,180**	47,882	34,262	40,286	47,916
Total delinquent loans	**16,223**	20,844	24,433	26,927	44,854
Credit Quality Data - Acquired Banks:					
Loans on non-accrual status	**$ 290**	$	NA	NA	NA
Loans past due 90-days-or-more and still on accrual	**1,974**	3,173	NA	NA	NA
Total non-performing loans	**2,264**	3,173	NA	NA	NA
Other real estate owned	**9,463**	14,498	NA	NA	NA
Total non-performing assets	**11,727**	17,671	NA	NA	NA
Total delinquent loans	**3,504**	5,967	NA	NA	NA
Credit Quality Ratios - Total Company:					
Non-performing loans to total loans	**0.81%**	0.82%	1.02%	1.30%	1.90%
Non-performing assets to total loans (including OREO)	**1.46%**	1.79%	1.49%	1.84%	2.11%
Non-performing assets to total assets	**1.13%**	1.41%	1.00%	1.11%	1.22%
Allowance for loan losses to total loans	**0.89%**	0.90%	1.05%	1.06%	1.01%
Allowance and non-accretable yield to total GCLPR(4)	**1.61%**	2.34%	NA	NA	NA
Allowance for loan losses to non-performing loans	**109%**	109%	103%	82%	53%
Delinquent loans to total loans(5)	**0.63%**	0.79%	1.07%	1.24%	1.98%
Net loan charge offs to average loans	**0.14%**	0.61%	0.76%	0.83%	1.09%
Credit Quality Ratios - Traditional Bank:					
Non-performing loans to total loans	**0.81%**	0.82%	1.02%	1.30%	1.90%
Non-performing assets to total loans (including OREO)	**1.46%**	1.79%	1.49%	1.84%	2.11%
Non-performing assets to total assets	**1.13%**	1.41%	1.10%	1.32%	1.60%
Allowance for loan losses to total loans	**0.89%**	0.90%	1.05%	1.06%	1.01%
Allowance and non-accretable yield to total GCLPR(4)	**1.61%**	2.34%	NA	NA	NA
Allowance for loan losses to non-performing loans	**109%**	109%	103%	82%	53%
Delinquent loans to total loans(5)	**0.63%**	0.79%	1.07%	1.24%	1.98%
Net loan charge offs to average loans	**0.18%**	0.34%	0.24%	0.51%	0.34%
Credit Quality Ratios - Traditional Bank Excluding Acquired Banks:					
Non-performing loans to total loans	**0.75%**	0.74%	1.02%	1.30%	1.90%
Non-performing assets to total loans (including OREO)	**1.06%**	1.20%	1.49%	1.84%	2.11%
Non-performing assets to total assets	**0.81%**	0.95%	1.10%	1.32%	1.60%
Allowance for loan losses to total loans	**0.82%**	0.94%	1.05%	1.06%	1.01%
Allowance for loan losses to non-performing loans	**109%**	127%	103%	82%	53%
Delinquent loans to total loans(5)	**0.51%**	0.59%	1.07%	1.24%	1.98%

Net loan charge offs to average loans	**0.20%**	0.35%	0.24%	0.51%	0.34%
Credit Quality Ratios - Acquired Banks:					
Non-performing loans to total loans	**2.35%**	2.29%	NA	NA	NA
Non-performing assets to total loans (including OREO)	**11.07%**	11.54%	NA	NA	NA
Allowance for loan losses to total loans	**2.59%**	0.15%	NA	NA	NA
Allowance and non-accretable yield to total GCLPR(4)	**18.04%**	21.77%	NA	NA	NA
Allowance for loan losses to non-performing loans	**110%**	7%	NA	NA	NA
Delinquent loans to total loans(5)	**3.63%**	4.30%	NA	NA	NA

(continued)

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Item 6. Selected Financial Data. *(continued)*

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(1) See Footnote 22 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, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009
Total stockholders equity (a)	**$ 542,793**	$ 536,702	$ 452,367	$ 371,376	$ 316,020
Less: Goodwill	**10,168**	10,168	10,168	10,168	10,168
Less: Core deposit intangible		510	58	117	196
Less: Mortgage servicing rights	**5,409**	4,777	6,087	7,800	8,430
Tangible stockholders equity (c)	**$ 527,216**	$ 521,247	$ 436,054	$ 353,291	$ 297,226
Total assets (b)	**$ 3,371,904**	$ 3,394,399	$ 3,419,991	$ 3,622,703	$ 3,918,768
Less: Goodwill	**10,168**	10,168	10,168	10,168	10,168
Less: Core deposit intangible		510	58	117	196
Less: Mortgage servicing rights	**5,409**	4,777	6,087	7,800	8,430
Tangible assets (d)	**$ 3,356,327**	$ 3,378,944	$ 3,403,678	$ 3,604,618	$ 3,899,974
Total stockholders equity to total assets (a/b)	**16.10%**	15.81%	13.23%	10.25%	8.06%
Tangible stockholders equity to tangible assets (c/d)	**15.71%**	15.43%	12.81%	9.80%	7.62%
Number of shares outstanding (e)	**20,801**	20,965	20,952	20,935	20,808
Book value per share (a/e)	**$ 26.09**	$ 25.60	$ 21.59	$ 17.74	$ 15.19
Tangible book value per share (c/e)	**25.35**	24.86	20.81	16.88	14.28

(3) The efficiency ratio 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 plus non-accretable yield on purchased, credit impaired loans as a percentage of total gross contractual loan principal receivable (GCLPR) for the applicable periods. 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

(dollars n thousands)	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
Allowance	**$ 23,026**	$ 23,729	**$ 2,497**	$ 214
Non-accretable yield	**19,078**	39,264	**19,078**	39,264
Total (f)	**$ 42,104**	$ 62,993	**$ 21,575**	$ 39,478
Total loans	**$ 2,589,792**	$ 2,650,197	**$ 96,462**	$ 138,616
Non-accretable yield	**19,078**	39,264	**19,078**	39,264
Accretable yield	**4,050**	3,465	**4,050**	3,465
Total GCLPR (g)	**$ 2,612,920**	$ 2,692,926	**$ 119,590**	$ 181,345
Allowance and non-accretable yield to total GCLPR (f/g)	**1.61%**	2.34%	**18.04%**	21.77%

(5) The delinquent loans to total loans ratio equals total loans exceeding 30-days-or-more 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) and Republic Bank (RB), (collectively referred together as the Bank). Republic Invest Co., a former subsidiary of RB&T, and its subsidiary, Republic Capital LLC, were dissolved in April 2013 in connection with the full repayment by RB&T of intragroup subordinated debentures issued by Republic Capital LLC in a 2004 intragroup trust preferred transaction. 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.*

On January 27, 2014, RB&T filed an application with the Federal Deposit Insurance Corporation (FDIC) and the Kentucky Department of Financial Institutions (KDFI) to merge RB&T and RB, with RB&T, a Kentucky-based, state chartered non-member institution, being the resulting institution and continuing to operate under the name Republic Bank & Trust Company.

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

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, classified, or 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 provisions for loan losses;
- future credit quality, credit losses and the overall adequacy of the Allowance for Loan Losses (Allowance);
- potential write-downs of other real estate owned (OREO);
- future short-term and long-term interest rates and the respective impact on net interest income, net interest spread, net income, liquidity and capital;
- the future impact of Company strategies to mitigate interest rate risk;
- 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 (MSR s);
- the future financial performance of the Tax Refund Solutions (TRS) division of Republic Processing Group (RPG);
- future Refund Transfer (RT) volume for TRS;
- the future net revenues associated with RTs at TRS;
- the future financial performance of the Republic Payment Solutions (RPS) division of RPG;
- the future financial performance of the Republic Credit Solutions (RCS) division of RPG;
- the potential impairment of investment securities;

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- the extent to which regulations written and implemented by the Federal Bureau of Consumer Financial Protection (CFPB), 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 but not limited to Basel III capital reforms; 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 strategic plans, including, but not limited to, those related to future business acquisitions, in general, and the two FDIC-assisted acquisitions in 2012.

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, plan, project, target, can, could, may, similar expressions. Do not rely on forward-looking statements. Forward-looking statements detail management s expectations regarding the future and are not guarantees. Forward-looking statements are assumptions based on information known to management only as of the date the statements are made and management may not update them to reflect changes that occur subsequent to the date the statements are made.

See additional discussion under Part 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, accounting and regulatory guidance 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:

- Allowance and Provision for Loan Losses
- Acquisition Accounting
- Goodwill and Other Intangible Assets
- Mortgage Servicing Rights
- Income Tax Accounting
- Investment Securities
- OREO

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Allowance 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 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 is based on historical loss experience adjusted for qualitative factors.

A Bank-originated 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. A Purchased Credit Impaired (PCI) loan is considered impaired when, based on current information and events, it is probable that the future estimated cash flows of the loan have deteriorated from management s initial estimate. Loans that meet the following classifications are considered impaired:

- All loans internally rated as Substandard, Doubtful or Loss;
- All loans internally rated in a PCI category with cash flows that have deteriorated from management s initial estimate;
- All loans on non-accrual status and non-PCI loans past due 90 days-or-more still on accrual;
- All retail and commercial TDRs; and
- Any other situation where the full collection of the total amount due for a loan is improbable or otherwise meets the definition of impaired.

The Bank s classified and special mention loans are generally commercial and industrial (C&I) and commercial real estate (CRE) loans but also include large single family residential and home equity loans, as well as TDRs, whether retail or commercial in nature. The Bank reviews and monitors these loans on a regular basis. Generally, loans are designated as classified or special mention to ensure more frequent monitoring. These 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 or modified contractual terms, then the loan is generally downgraded and often placed on non-accrual status.

GAAP recognizes three methods to measure specific loan impairment, including:

- **Cash Flow Method** The recorded investment in the loan is measured against the present value of expected future cash flows discounted at the loan s effective interest rate. The Bank employs this method for a significant portion of its impaired TDRs. Impairment amounts under this method are reflected in the Bank s Allowance as specific reserves on the respective impaired loan. These specific reserves are adjusted quarterly based upon reevaluation of the loan s expected future cash flows and changes in the recorded investment in such loans.

- **Collateral Method** The recorded investment in the loan is measured against the fair value of the loan s collateral value less applicable selling costs. The Bank employs the fair value of collateral method for its impaired loans when the loan s repayment is based solely on the sale of or the operations of the underlying collateral. Collateral fair value is typically based on the most recent real estate appraisal on file. Measured impairment under this method is classified loss and charged off. The Bank s selling costs for its collateral dependent loans typically range from 10-13% of the fair value of the underlying collateral, depending on the loan class. Selling costs are not applicable for collateral dependent loans whose repayment is based solely on the operations of the underlying collateral.

- **Market Value Method** The recorded investment in the loan is measured against the loan s obtainable market value. The Bank does not currently employ this technique, as it is typically found impractical.

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In addition to obtaining appraisals at the time of loan origination, the Bank typically updates appraisals and/or broker price opinions for loans with potential impairment. Updated valuations for commercial related loans exhibiting an increased risk of loss are typically 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 amount of reserve, to the extent updated collateral values cannot be obtained due to the lack of recent comparable sales or for other reasons, the Bank 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 covers loans collectively evaluated for impairment and is based on historical loss experience with potential adjustments for current relevant 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 the loans are classified as TDRs.

In determining the historical loss rates for each respective loan class, management evaluates the following historical loss rate scenarios:

- Rolling four quarter average
- Rolling eight quarter average
- Rolling twelve quarter average
- Rolling sixteen quarter average
- Rolling twenty quarter average
- Current year to date historical loss factor average
- Peer group loss factors

For the Bank s current Allowance methodology, management uses the higher of the rolling eight, twelve, or sixteen quarter averages for each loan class when determining its historical loss factors for its Pass rated and nonrated loans.

Loan classes are also 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 program;

- 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, nonaccrual and 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 loan 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, legal and regulatory requirements on the level of estimated credit losses in the Bank 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.

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Prior to January 1, 2012, the Bank s Allowance calculation was supported with qualitative factors which included a nominal unallocated Allowance component totaling $2.0 million as of December 31, 2011. The Bank believed 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 recent economic downturn, as compared to other parts of the U.S. With the Bank s 2012 expansion, its plans to pursue future acquisitions into potentially new markets through FDIC-assisted transactions, and its offering of new loan products, such as mortgage warehouse lines of credit, the Bank revised its methodology to provide a more detailed calculation when estimating the impact of qualitative factors over the Bank s various loan categories. This methodology change did not have a material impact on the Bank s provision for loan losses for the year ended December 31, 2012.

In executing this methodology change, the Bank primarily focused on large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment and are generally not included in the scope of Accounting Standards Codification (ASC) Topic 310-10-35, *Accounting by Creditors for Impairment of a Loan.*

The Bank performs two calculations at year end in order to confirm the reasonableness of its Allowance. 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 a bank was accumulating excessive allowances. The Bank s net charge off ratio to the beginning Allowance was 19% at December 31, 2013, compared to 35% for December 31, 2012. The Bank s five year annual average for this ratio was 36% as of December 31, 2013.

For the second calculation, the Bank assesses the Allowance 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 is between two and four years. The Bank s allowance exhaustion rate at December 31, 2013 and 2012 was 3.0 years and 2.8 years compared to the five year annual average of 2.5 years.

Based on management s calculation, an Allowance of $23 million, or 0.89%, of total loans was an adequate estimate of probable incurred losses within the loan portfolio as of December 31, 2013 compared to $24 million, or 0.90%, at December 31, 2012. This estimate resulted in Traditional Bank provision for loan losses of $3.8 million during 2013 compared to $8.2 million in 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 and the resulting effect on the income statement could be material.

The Bank did not carryover any Allowance for loans acquired in its 2012 FDIC-assisted acquisitions. Such loans were recorded at fair value as of the acquisition date, and subsequent to the acquisition date receive allowance allocations based on circumstances and events that occur after the date of acquisition as further discussed below under *Acquisition Accounting* in this section of the filing.

Acquisition Accounting The Bank accounts for its acquisitions 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 (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 management 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 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 complex and 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 bargain purchase gain or goodwill.

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

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Loans purchased in an acquisition are accounted for using one of 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 loan s day-one fair value and amortized cost 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, or 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 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, these loans are considered in the determination of the Allowance once day-one fair values are final.

Purchased Credit Impaired Loans (ASC Topic 310-30) In determining the day-one fair values of PCI loans, management considers a number of factors including, among other things, the estimated 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. For the Company s 2012 FDIC-assisted acquisitions, RB&T elected to account for PCI loans individually, as opposed to aggregating the loans into pools based on common risk characteristics such as loan type.

Management separately monitors the PCI 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, estimated life, the status of the borrower, or the quality or value of the underlying collateral.

To the extent that a PCI loan s performance does not reflect an increased risk of loss of contractual principal beyond the non-accretable yield established as part of its initial day-one evaluation, such loan would be classified in the Purchased Credit Impaired - Group 1 (PCI-1) category; whose credit risk is considered equivalent to a non-PCI Special Mention loan within the Bank s credit rating matrix. PCI-1 loans are considered impaired if, based on current information and events, it is probable that the future estimated cash flows of the loan have deteriorated from management s initial estimate. Provisions for loan losses are made for impaired PCI-1 loans to further discount the loan and allow its yield to conform to at least management s initial expectations. Any improvement in the expected performance of a PCI-1 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.

If during the Bank s periodic evaluations of its PCI loan portfolio, management deems a PCI-1 loan to have an increased risk of loss of contractual principal beyond the non-accretable yield established as part of its initial day-one evaluation, such loan would be classified PCI-Substandard (PCI-Sub) within the Bank s credit risk matrix. Management deems the risk of default and overall credit risk of a PCI-Sub loan to be greater than a PCI-1 loan and more analogous to a non-PCI Substandard loan. PCI-Sub loans are considered to be impaired. Any improvement in the expected performance of a PCI-Sub 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.

PCI loans may be contractually past due 80 days-or-more and continue to accrue interest if future cash flows can be reasonably projected to allow continuation of discount accretion.

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If a troubled debt restructuring is performed on a PCI loan, the loan is considered impaired under the applicable TDR accounting standards and transferred out of the PCI population. The loan may require an additional provision for loan losses if its restructured cash flows are less than management s initial day-one expectations. PCI loans for which the Bank simply chooses to extend the maturity date are generally not considered TDRs and remain in the PCI population.

See additional discussion regarding the Company s 2012 FDIC-assisted acquisitions under Footnote 2 2012 FDIC-Assisted Acquisitions of Part II Item 8 Financial Statements and Supplementary Data.

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 goodwill impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the Bank s balance sheet.

Based on its assessment, the Company believes its goodwill of $10 million was not impaired and is properly recorded in the consolidated financial statements as of December 31, 2013 and 2012.

Other intangible assets consist of core deposit and acquired customer relationship intangible assets arising from bank acquisitions. They are initially measured at fair value and then are amortized on an accelerated method over their estimated useful lives, which can range from two to ten years. During 2013, the Company amortized all $510,000 in other intangible assets held as of December 31, 2012.

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 both December 31, 2013 and 2012 was $5 million.

The carrying value of the MSRs asset is reviewed at least quarterly 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, which is significantly influenced by market interest rates. During a period of declining interest rates, the fair value of the MSRs would generally be expected to decline due to anticipated prepayments within the portfolio. Alternatively, during a period of rising interest rates, the fair value of MSRs would generally be 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. Based on the estimated fair value at December 31, 2013, management believes there was no impairment in the MSR portfolio as of year-end 2013.

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, 2013 and 2012.

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The Company s RPG segment recorded additional income tax expense of $1.1 million for the fourth quarter of 2013 primarily related to additional ASC 740-10, *Accounting for Uncertainty in Income Taxes*, accruals recorded for possible state income tax payments beyond the Company s original estimates related to the tax years 2010 through 2013. The Company attributed the increased state income taxes to the RPG segment, as RPG generated the substantial majority of the Company s state income tax exposure outside of its geographic footprint during the tax years noted.

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

Other Real Estate Owned Assets acquired through loan foreclosures 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. The Bank s selling costs for OREO typically range from 10-13% of each property s fair value, depending on property class. 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 the appraisal is 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 an annual basis, the Bank compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment, if any, should be made to the appraisal value to arrive at an estimated fair value.

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OVERVIEW

Net income for 2013 was $25.4 million, representing a decrease of $93.9 million compared to the same period in 2012. Diluted earnings per Class A Common Share decreased to $1.22 for 2013 compared to $5.69 for the same period in 2012.

Traditional Banking

FDIC-Assisted Acquisitions

Within the Company s Traditional Banking segment, comparability of net income for 2013 to the same period in 2012 was significantly impacted by $55.4 million in prior year pre-tax bargain purchase gains recorded from the acquisitions of Tennessee Commerce Bank (TCB) and First Commercial Bank (FCB) in FDIC-assisted transactions. The Company made no FDIC-assisted acquisitions during 2013.

Opportunities for FDIC-assisted transactions that fit within the Company s strategic plan declined in 2013 and are expected to decline further in the future. As a result of the decline in FDIC-assisted acquisition opportunities, management believes that the pricing for the transactions that do become available will be less favorable, as competition increases for these limited opportunities.

Minnesota Banking Center

In October 2013, Republic gave the required 90-day regulatory notice of its intentions to close its sole banking center location in Minneapolis, Minnesota, which it acquired as part of the FCB acquisition in September 2012. The Bank is currently under a lease for this location which is set to expire in April 2015. The location will remain a support office until the expiration of the Bank s lease of the facility or until such time the Bank is able to negotiate with the landlord a buy-out of its future lease obligations. The banking center stopped transacting business at the Minnesota location with deposit customers on January 10, 2014.

Florida Banking Center

In October 2013, Republic gave the required 90-day regulatory notice of its intentions to close its sole banking center in Palm Harbor, Florida. This location closed on January 17, 2014, while the lease for the premises expired in February 2014.

Lexington Banking Center

In November 2013, Republic gave the required 90-day regulatory notice of its intentions to close its Perimeter banking center in Lexington, KY. This location closed on February 28, 2014 with the lease for the premises expiring in June 2014.

Reduction in Force (RIF)

With sharp increases in long-term interest rates during 2013 leading to an industry-wide decline in consumer demand for retail mortgages coupled with a demographic trend towards less brick and mortar banking, the Traditional Bank implemented a modest RIF during the fourth quarter of 2013 to lower its overhead cost structure. As a result of the RIF, the Traditional Bank incurred severance expense during the fourth quarter of 2013 of approximately $150,000. Primarily as a result of the RIF, the Traditional Bank s total full time equivalent employees (FTE s) decreased from 742 at September 30, 2013 to 675 at December 31, 2013. The Traditional Bank s FTEs were 729 at December 31, 2012.

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Consumer Mortgage Regulation

On January 10, 2013, the CFPB issued a final rule implementing the ability to repay (ATR) requirement in the Dodd-Frank Act. The rule, among other things, requires lenders to consider a consumer s ability to repay a mortgage loan before extending credit to the consumer and limits prepayment penalties. The rule also establishes certain protections from liability for mortgage lenders with regard to qualified mortgages (QM s) they originate. For this purpose, the rule defines QMs to include loans with a borrower debt-to-income ratio of less than or equal to 43% or, alternatively, a loan eligible for purchase by Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac) while they operate under Federal conservatorship or receivership, and loans eligible for insurance or guarantee by the Federal Housing Administration, U.S. Department of Veterans Affairs or U.S. Department of Agriculture. QMs may not: (i) contain excess up-front points and fees; (ii) have a term greater than 30 years; or (iii) include interest-only or negative amortization payments. The rule was effective January 10, 2014. While the Company does not anticipate the rule will have a material impact on mortgage operations, management will not fully know the result of this regulation on the mortgage operations or the banking industry as a whole until later in 2014.

On January 17, 2013, the CFPB issued a series of final rules as part of an ongoing effort to address mortgage servicing reforms and create uniform standards for the mortgage servicing industry. The rules increase requirements for communications with borrowers, address requirements around the maintenance of customer account records, govern procedural requirements for responding to written borrower requests and complaints of errors, and provide guidance around servicing of delinquent loans, foreclosure proceedings and loss mitigation efforts, among other measures. These rules were also effective January 10, 2014 and will likely lead to increased costs to service loans across the mortgage industry. The Company does not believe these new rules will have a significant impact on its ability to originate new loans.

Republic Processing Group

The Company s Republic Processing Group (RPG) segment recorded a net loss of $1.4 million for 2013, a decline of $62.3 million from the same period in 2012. RPG net income was significantly impacted by the previously disclosed elimination of the RAL product and the termination of RB&T s contracts with JTH Tax Inc. d/b/a Liberty Tax Service (Liberty) and Jackson Hewitt Inc. (JHI) during the third quarter of 2012. The RAL product, eliminated effective April 30, 2012, generated $45.2 million in interest income during 2012. The Company s ability to offer RALs gave it a competitive advantage in attracting relationships with tax preparation companies that also generated significant RT product volume. With the elimination of RALs and the termination of the Liberty and JHI contracts during the third quarter of 2012, both the volume and the Company s share of the revenue for the RT product were significantly reduced in 2013. Net RT fees for 2013 were $13.9 million, a decrease of $64.4 million, or 82%, from the same period in 2012.

RPG s profitability during 2013 was also negatively impacted by higher than normal legal related expenses, which were primarily associated with the Company s unsuccessful attempt to acquire H&R Block Bank (HRBB) and its contract disputes with JHI and Liberty. In total, RPG incurred approximately $3.0 million in expenses during 2013 associated with these three matters.

The TRS division of RPG derives substantially all of its revenues during the first and second quarters of the year and historically operates at a net loss during the second half of the year, as the Company prepares for the upcoming tax season.

H&R Block and H&R Block Bank

RB&T entered into a Purchase and Assumption Agreement (the P&A Agreement) July 11, 2013, with HRBB and its sole shareholder Block Financial LLC (collectively, H&R Block). Pursuant to the P&A Agreement, RB&T was to acquire certain assets and assume certain liabilities, including all of the deposits of HRBB (the P&A Transaction).

On July 15, 2013, RB&T submitted an application for approval of the P&A Transaction to the Office of the Comptroller of the Currency (OCC) for consideration in conjunction with RB&T s pending application from May 2013 for approval of an internal merger of RB&T and its affiliate, RB, which would include RB&T s conversion to a national bank.

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On October 8, 2013, RB&T notified HRBB that RB&T was withdrawing its pending applications with the OCC to merge and consolidate its RB&T and RB charters into one national bank charter and to consummate the P&A Transaction. As a result, H&R Block terminated the P&A Agreement with RB&T and the parties terminated discussions regarding the Joint Marketing Master Services Agreement and related Receivables Participation Agreement. In total, RPG incurred $717,000 in legal expenses associated with the P&A Agreement. The Company does not anticipate there will be any additional costs associated with the P&A Agreement going forward.

Jackson Hewitt Inc.

RB&T s third party arbitration with JHI was concluded during the fourth quarter of 2013. Legal related expenses associated with the arbitration totaled $2.2 million for 2013, with $1.4 million of those expenses being incurred during the fourth quarter of 2013. The Company does not anticipate any additional future legal expense associated with this matter. With the matter resolved, RB&T entered into a new two-year agreement with JHI pursuant to which it began processing refunds for JHI clients in January 2014. The contract is expected to increase RPG s annual net revenue by approximately 12% per year above its 2013 net revenue level. Additional overhead expenses with the new contract are expected to be minimal.

Liberty Tax Services

RB&T s contract dispute with Liberty was resolved during January 2014 with a nominal amount of related legal expense during 2013. The Company does not anticipate any additional future legal expense associated with this matter. With the matter resolved, RB&T entered into a new two-year agreement with Liberty in which it will begin processing refunds for Liberty clients in January 2015. Beginning with the first quarter 2015 tax season, the contract is expected to increase RPG s annual net revenues for the two year term of the contract by an average of approximately 16% over its 2013 net revenue level. Additional overhead expenses with the new contract are expected to be immaterial.

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The following table summarizes Republic s financial performance for the years ended December 31, 2013, 2012 and 2011.

Table 1 Summary

Year Ended December 31, (in thousands, except per share data)		**2013**		2012		2011
Net income	**$**	**25,423**	$	119,339	$	94,149
Diluted earnings per Class A Common Stock		**1.22**		5.69		4.49
Return on average assets (ROA)		**0.75%**		3.35%		2.76%
Return on average equity (ROE)		**4.65%**		22.51%		21.42%

Additional discussion follows in this section of the filing under *Results of Operations.*

General highlights by segment for the year ended December 31, 2013 consisted of the following:

Traditional Banking segment

- Net income decreased $31.2 million for 2013 compared to 2012. The decrease was driven by the previously mentioned pre-tax $55.4 million from pre-tax bargain purchase gains recorded in 2012 for two FDIC-assisted acquisitions.

- Net interest income decreased $2.3 million, or 2%, for 2013 to $112.6 million. The Traditional Banking segment net interest margin decreased 13 basis points for 2013 to 3.51%.

- Provision for loan losses was $3.8 million for 2013 compared to $8.2 million for 2012.

- Total non-interest income decreased $52.2 million for 2013 compared to 2012 primarily due to the pre-tax bargain purchase gains detailed above.

- Total non-interest expense decreased $2.3 million, or 2%, during 2013 compared to 2012.

- Total non-performing loans to total loans for the Traditional Banking segment was 0.81% at December 31, 2013, compared to 0.82% at December 31, 2012.

- Total delinquent loans to total loans for the Traditional Banking segment was 0.63% at December 31, 2013, compared to 0.79% at December 31, 2012.

- RB&T s Mortgage Warehouse Lending portfolio had $150 million in loans outstanding at December 31, 2013 compared to $217 million at December 31, 2012.

- Gross Traditional Bank loans declined by $64 million, or 2% during 2013.

- Traditional Bank deposits grew by $7 million, or less than 1% during 2013.

Mortgage Banking segment

- Within the Mortgage Banking segment, mortgage banking income decreased $1.2 million, or 14%, during 2013 compared to the same period in 2012.

- While the Bank benefitted from a $0 closing cost promotion initiated at the beginning of 2013 and favorable long-term rates for the first five months of 2013, significant increases in these rates in late May 2013 negatively impacted new loan application volume. The rise in interest rates is expected to continue to negatively impact future loan application volume beyond 2013.

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Republic Processing Group segment

- The total dollar volume of tax refunds processed during 2013 decreased $7.0 billion, or 66%, from 2012.

- RPG incurred a net loss of $1.4 million in 2013 compared to $60.9 million in net income in 2012.

- With RB&T s resolution of its differences with the FDIC through a Stipulation Agreement and Consent Order (collectively, the Agreement), RB&T discontinued RALs effective April 30, 2012. Total RAL dollar volume was $796 million during the 2012 tax season. Total interest income on the RAL product was $45.2 million during the 2012 tax season.

- RPG recorded a net recovery to its provision for loan losses of $845,000 for 2013, compared to a $6.9 million charge for the same period in 2012.

- RPG posted non-interest income of $14.8 million for 2013 compared to $78.5 million for the same period in 2012.

- Liberty and JHI unilaterally terminated their contracts with RPG s TRS division during the third quarter of 2012 and as a result, Republic processed no business during 2013 from either of these tax service providers. On a combined basis, these contracts represented approximately 53% of the Company s 2012 RT volume.

- The TRS division recorded $3.0 million in expenses during 2013 in connection with its contractual disputes with Liberty and JHI and its unsuccessful attempt to acquire H&R Block Bank.

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.

- 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.

- 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 pre-tax 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 Traditional Bank loans grew by $365 million, or 16% during 2012, with $139 million attributable to the Company s 2012 FDIC-assisted acquisitions.

- Traditional Bank deposits grew by $249 million, or 14% during 2012, with $112 million attributable to the Company s 2012 FDIC-assisted acquisitions

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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 a significant increase in secondary market loan volume during 2012.

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.

- Liberty and JHI Service unilaterally terminated their contracts with TRS during the third quarter of 2012.

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 2013 vs. 2012

Total Company net interest income decreased $47.5 million, or 30%, for 2013 compared to 2012. The total Company net interest margin decreased 134 basis points to 3.48% for 2013, with the decrease primarily attributable to the elimination of the RAL product, effective April 30, 2012. The significant components comprising the total Company decrease in net interest income were as follows:

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Traditional Banking segment

Net interest income within the Traditional Banking segment decreased $2.3 million, or 2%, for 2013 compared to 2012. The Traditional Banking net interest margin was 3.51% for 2013, a decrease of 13 basis points from 2012. The decrease in the Traditional Bank s net interest income and net interest margin during 2013 was primarily attributable to the following factors:

- The Traditional Banking segment continued to experience downward repricing in its loan and investment portfolios during 2013 resulting from ongoing paydowns and early payoffs within its loan and investment portfolios. As a result, the yield in both the loan and investment portfolios of the Bank declined from 2012 to 2013.

- Traditional Bank loans experienced yield compression of 19 basis points from 2012 to 2013. Average loans outstanding were $2.47 billion with a weighted average yield of 5.06% during 2012 compared to $2.55 billion with a weighted average yield of 4.88% during 2013.

- Traditional Bank taxable investment securities experienced yield compression of 18 basis points from 2012 to 2013. Average taxable investment securities outstanding were $641 million with a weighted average yield of 1.94% during 2012 compared to $528 million with a weighted average yield of 1.76% during 2013.

- Partially offsetting the margin compression resulting from the declining yields within the interest-earning asset categories were the following factors:

- Average loans outstanding for the Mortgage Warehouse Loan portfolio increased by $32 million from 2012 to 2013. Average loans outstanding were $100 million during 2012 with a weighted-average yield of 4.43% as compared to average loans outstanding of $132 million during 2013 with a weighted-average yield of 4.50%. As a result, interest income on Warehouse lines of credit increased $1.5 million during 2013 compared to the same period in 2012. These loans are revolving lines of credit with a term of 364 days, contain interest rate floors and adjust monthly with one-month LIBOR.

- The Traditional Bank s percentage of average loans to average interest-earning assets increased from 78% in 2012 to 79% in 2013.

- The Bank accreted $2.3 million into interest income on loans during 2013 from discounts related to its acquired TCB loan portfolio compared to $836,000 in 2012.

- The Bank accreted $4.0 million into interest income on loans during 2013 from discounts related to its FCB loan portfolio compared to $329,000 for the same period in 2012, as the acquisition occurred near the end of the third quarter of 2012.

The total discount accretion of $6.3 million during 2013 that resulted from the TCB and FCB acquisitions positively impacted the Company s net interest margin by 20 basis points, while the overall operations of the acquisitions contributed $12.3 million in net interest income and added 25 basis points to the net interest margin. Management projects accretion of loan discounts related to the 2012 FDIC-assisted acquisitions to be approximately $1.6 million for 2014. The accretion estimate for 2014 could be positively impacted by positive workout arrangements in which RB&T receives loan payoffs for amounts greater than the loans respective carrying values.

The downward repricing of interest-earning assets is expected to continue to cause compression in Republic s net interest income and net interest margin in the future. Because the Federal Funds Target Rate (FFTR), the index which many of the Bank s short-term deposit rates track, has remained at a target range between 0.00% and 0.25%, no future FFTR decreases from the Federal Open Market Committee of the Federal Reserve Bank (FRB) are possible, exacerbating the compression to the Bank s net interest income and net interest-bearing margin caused by its repricing loans and investments. In addition, the Bank s period end balances of loans outstanding at December 31, 2013 were only $18 million higher than its average loan balances for 2013, presenting a significant challenge for the Bank to increase its average 2014 loan balances significantly above its 2013 average loan balances. A likely decrease in average loan balances during 2014, in combination with the additional anticipated downward repricing of the Bank s interest-earning assets, will likely lead to a further decline in the Bank s net interest income and net interest margin for 2014.

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In addition to the margin compression challenges noted above, the Bank also faces margin compression challenges associated with the on-going management of its interest rate risk position. To combat the continued downward repricing in the Bank s loan and investment portfolios during 2013, a primary strategy for the Bank included the origination of loans with longer repricing durations than the Bank has traditionally originated and retained within its portfolio. Overall, the Bank originated and retained within its loan portfolio $230 million of fixed rate loans during 2013 with maturities of 10 to 15 years and hedged a portion of these long-term assets with $70 million in FHLB advances at a weighted-average rate of 1.61% and a weighted average life of approximately seven years.

This strategy of extending the repricing duration of the Bank s loans to mitigate the negative repricing trends within its interest-earning assets negatively affected the Bank s ability to maintain its interest rate risk position within its board-approved policy limits for its economic value of equity (EVE) calculation. The EVE represents the difference between the net present value of the Bank s interest-earning assets and interest bearing liabilities at a point in time. While the Bank s primary interest rate risk management tool is its earnings simulation model, as presented in the section titled *Asset/Liability Management and Market Risk* , the board has also established policy limits for acceptable changes in the Bank s EVE based on certain projected changes in market interest rates.

The Bank exceeded the Board s approved policy limits during the fourth quarter of 2013 related to changes in its EVE for certain assumed changes in market interest rates. To bring its EVE calculation within board-approved policy limits, the Bank borrowed $20 million of long-term FHLB advances with a weighted average life of five years and a weighted average cost of 1.76%. Also, during the fourth quarter of 2013, the Bank executed two long-term interest rate swaps with notional amounts of $20 million to hedge its cash flows associated with certain immediately repricing liabilities. While these transactions did help improve the Bank s EVE interest rate risk position in a rising interest rate environment, they did negatively impact the Bank s current earnings.

The Bank is unable to determine the ultimate negative impact to the Bank s net interest spread and margin in the future from all of the matters discussed above because several factors remain unknown, including, but not limited to, the future demand for the Bank s financial products and its overall future liquidity needs, among many other factors.

See additional discussion regarding the Bank s interest rate swaps under Footnote 7 Interest Rate Swaps of Part II Item 8 Financial Statements and Supplementary Data.

Republic Processing Group segment

Net interest income within the RPG segment decreased $45.3 million for 2013 compared to the same period in 2012. As previously discussed in this document, the decrease in net interest income at RPG was the result of the Company s discontinuation of the RAL product effective April 30, 2012.

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 2013 under Financial Condition.

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.

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The first of these drivers occurred in June 2011 when the Bank purchased approximately $37 million of performing CRE 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, 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%.

The third driver occurred in 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%.

The fourth driver related to the average balance of the Bank s residential real estate loans, which increased $171 million in 2012 compared to 2011 due primarily to growth in the Bank s Home Equity Amortizing Loan (HEAL) product.

Lastly, the fifth driver occurred in September 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%.

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 2012. In addition, due to the steepness of the yield curve and the FRB s pledge to keep the 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.

In addition, 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.

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.

Table 2 provides detailed Total Company average balances, interest income/expense and rates by each major balance sheet category for the years ended December 31, 2013, 2012 and 2011. 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.

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

(dollars in thousands)	**2013** Average Balance	Interest	Average Rate	2012 Average Balance	Interest	Average Rate	2011 Average Balance	Interest	Average Rate
ASSETS									
Interest-earning assets:									
Taxable investment securities, including FHLB stock(1)	**$ 527,681**	**$ 9,312**	**1.76%**	$ 640,830	$ 12,446	1.94%	$ 678,804	$ 16,486	2.43%
Federal funds sold and other interest-earning deposits	**145,970**	**413**	**0.28%**	187,790	471	0.25%	315,530	914	0.29%
Refund Anticipation Loan fees(2)(3)			**0.00%**	24,182	45,227	187.03%	29,572	59,117	199.91%
All other Bank loans and fees(2)(4)	**2,575,146**	**124,843**	**4.85%**	2,479,968	125,315	5.05%	2,216,687	118,598	5.35%
Total interest-earning assets	**3,248,797**	**134,568**	**4.14%**	3,332,770	183,459	5.50%	3,240,593	195,115	6.02%
Allowance for loan losses	**(23,287)**			(25,226)			(28,817)		
Non interest-earning assets:									
Non interest-earning cash and cash equivalents	**77,322**			164,071			112,513		
Premises and equipment, net	**33,165**			33,672			36,020		
Other assets(1)	**49,348**			55,452			56,612		
Total assets	**$ 3,385,345**			$ 3,560,739			$ 3,416,921		
LIABILITIES AND STOCK-HOLDERS EQUITY									
Interest-bearing liabilities:									
Transaction accounts	**$ 696,295**	**$ 484**	**0.07%**	$ 614,118	$ 397	0.06%	$ 422,222	$ 540	0.13%
Money market accounts	**508,288**	**631**	**0.12%**	478,682	737	0.15%	628,178	1,939	0.31%
Time deposits	**187,076**	**1,365**	**0.73%**	253,567	2,190	0.86%	254,064	4,055	1.60%
Brokered money market and brokered certificates of deposit	**123,188**	**1,613**	**1.31%**	166,088	1,750	1.05%	236,051	2,380	1.01%
Total interest-bearing deposits	**1,514,847**	**4,093**	**0.27%**	1,512,455	5,074	0.34%	1,540,515	8,914	0.58%
Securities sold under agreements to repurchase and other short-term borrowings	**170,386**	**70**	**0.04%**	237,414	375	0.16%	278,861	646	0.23%
Federal Home Loan Bank advances	**578,633**	**14,715**	**2.54%**	560,659	14,833	2.65%	558,249	18,180	3.26%
Subordinated note	**41,240**	**2,515**	**6.10%**	41,240	2,522	6.12%	41,240	2,515	6.10%
Total interest-bearing liabilities	**2,305,106**	**21,393**	**0.93%**	2,351,768	22,804	0.97%	2,418,865	30,255	1.25%

Non interest-bearing liabilities and Stockholders equity:			
Non interest-bearing deposits	**513,891**	624,053	509,457
Other liabilities	**19,468**	54,822	48,963
Stockholders equity	**546,880**	530,096	439,636
Total liabilities and stock-holders equity	**$ 3,385,345**	$ 3,560,739	$ 3,416,921
Net interest income	**$ 113,175**	$ 160,655	$ 164,860
Net interest spread	**3.21%**	4.53%	4.77%
Net interest margin	**3.48%**	4.82%	5.09%

(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 purpose of this calculation, the fair market value adjustment on investment securities resulting from 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 $10.9 million, $50.8 million and $62.3 million for 2013, 2012 and 2011.

(3) The Refund Anticipation Loan product was discontinued effective April 30, 2012.

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

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

Table 3 Total Company Volume/Rate Variance Analysis

		Year Ended December 31, 2013 Compared to Year Ended December 31, 2012			Year Ended December 31, 2012 Compared to Year Ended December 31, 2011	
	Total Net	**Increase / (Decrease) Due to**		Total Net	Increase / (Decrease) Due to	
(in thousands)	**Change**	**Volume**	**Rate**	Change	Volume	Rate
Interest income:						
Taxable investment securities, including FHLB stock	**$ (3,134)**	**$ (2,066)**	**$ (1,068)**	$ (4,040)	$ (882)	$ (3,158)
Federal funds sold and other interest-earning deposits	**(58)**	**(113)**	**55**	(443)	(333)	(110)
Refund Anticipation Loan fees	**(45,227)**	**(45,227)**		(13,890)	(10,262)	(3,628)
All other Bank loans and fees	**(472)**	**4,714**	**(5,186)**	6,717	13,553	(6,836)
Net change in interest income	**(48,891)**	**(42,692)**	**(6,199)**	(11,656)	2,076	(13,732)
Interest expense:						
Transaction accounts	**87**	**56**	**31**	(143)	187	(330)
Money market accounts	**(106)**	**44**	**(150)**	(1,202)	(387)	(815)
Time deposits	**(825)**	**(518)**	**(307)**	(1,865)	(8)	(1,857)
Brokered money market and brokered certificates of deposit	**(137)**	**(509)**	**372**	(630)	(733)	103
Securities sold under agreements to repurchase and	**(305)**	**(84)**	**(221)**	(271)	(86)	(185)

other short-term borrowings						
Federal Home Loan Bank advances	**(118)**	**468**	**(586)**	(3,347)	78	(3,425)
Subordinated note	**(7)**		**(7)**	7		7
Net change in interest expense	**(1,411)**	**(543)**	**(868)**	(7,451)	(949)	(6,502)
Net change in net interest income	**$ (47,480)**	**$ (42,149)**	**$ (5,331)**	$ (4,205)	$ 3,025	$ (7,230)

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Provision for Loan Losses

Discussion of 2013 vs. 2012

The Company recorded total provision for loan losses of $3.0 million for 2013 compared to $15.0 million during 2012. 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 2013 was $3.8 million, a $4.3 million, or 53%, decline from the $8.2 million recorded during 2012. The significant components comprising the Traditional Bank s decreased provision for loan losses were as follows:

- The Bank recorded provision for loan losses related to its purchased credit impaired loans of $1.3 million during 2013. These provisions reflected probable shortfalls in cash flows below initial day-one estimates for these loans. Analogous provisions during 2012 were significantly lower, as the FCB acquisition was still within its initial day-one measurement period at December 31, 2012, and the TCB acquisition was only three months out of its initial day-one measurement period.

- The Bank recorded a net increase to the provision of $930,000 in 2013 associated with residential mortgage TDRs compared to $2.0 million for the same period in 2012, as the Company successfully refinanced retail borrowers displaying weaknesses in their ability to make payments under their previous contractual loan terms. Provisions were primarily calculated utilizing discounted cash flow analyses.

- Approximately $4.7 million of the provision for loan losses for 2012 was attributable to the Bank s substandard classified loan portfolios. The Bank significantly increased allocations for relationships that were either downgraded to substandard or displayed further signs of credit deterioration during the year. A net recovery to the provision of $94,000 was made for substandard classified loans in 2013 due to favorable reevaluations and workouts of substandard classified loans.

- The Bank recorded provision expense of approximately $2.0 million during 2013 compared to $1.2 million for the same period in 2012 attributable to increases in the Bank s general loan loss reserves for its pass-rated credits, excluding its 2012 acquired loans. These provisions were generally due to growth in the loan portfolios combined with movements in historical loss percentages and qualitative factors.

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

The Company ceased offering the RAL product effective April 30, 2012. As a result, RPG experienced no RAL losses during 2013. During 2013, the Company recorded a credit of $845,000 to provision expense for recoveries of prior period RAL losses. During the 2012, the Company recorded a net provision of $6.9 million for probable RAL losses.

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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 and concentration during 2012 was judged a qualitative risk.

- The Bank experienced a net provision for loan loss decrease of $651,000 in 2012 associated with required reserves for its large classified loan portfolio.

- The Bank recorded a net provision for loan loss decrease of $440,000 in 2012 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 recorded $500,000 less in credits to its provision for loan losses for recoveries of previously charged off loans than it did during 2011.

Republic Processing Group segment

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.

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Non-Interest Income

Table 4 Analysis of Non-interest income

Year Ended December 31, (dollars in thousands)	**2013**	2012	2011	Percent Increase/(Decrease) **2013/2012**	2012/2011
Service charges on deposit accounts	**$ 13,953**	$ 13,496	$ 14,105	**3%**	-4%
Net refund transfer fees	**13,884**	78,304	88,195	**-82%**	-11%
Mortgage banking income	**7,258**	8,447	3,899	**-14%**	117%
Debit card interchange fee income	**6,512**	5,817	5,791	**12%**	0%
Bargain purchase gain - Tennessee Commerce Bank		27,614		**-100%**	100%
Bargain purchase gain - First Commercial Bank	**1,324**	27,824		**-95%**	100%
Gain on sale of banking center			2,856	**0%**	-100%
Gain on sale of securities available for sale		56	2,285	**-100%**	0%
Net gain on sale of other real estate owned	**2,170**	416	444	**422%**	0%
Increase in cash surrender value of BOLI	**86**			**100%**	0%
Net impairment loss on investment securities			(279)	**0%**	-100%
Other	**2,782**	3,104	2,328	**-10%**	33%
Total non interest income	**$ 47,969**	$ 165,078	$ 119,624	**-71%**	38%

Discussion of 2013 vs. 2012

Total Company non-interest income decreased $117.1 million, or 71%, for 2013 compared to 2012. 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 decreased $52.2 million, or 67%, for 2013 compared to 2012.

During 2012, the Company recorded bargain purchase gains of $55.4 million as a result of its FDIC-assisted acquisitions of TCB and FCB. The bargain purchase gains were realized because the overall price paid by RB&T was substantially less than the fair value of the TCB and FCB assets acquired and liabilities assumed in the transactions.

Service charges on deposit accounts were $14.0 million during 2013 compared to $13.5 million for the same period in 2012. 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 2013 and 2012 were $8.0 million and $7.5 million. The total daily overdraft charges, net of refunds, included in interest income for 2013 and 2012 was $1.7 million in both periods.

Net gain on the sale of OREO was $2.2 million for the sale of 117 properties during 2013, as compared to a net gain of $416,000 from the sale of 137 properties during 2012. Approximately $1.0 million of the 2013 net gain related to assets acquired in the 2012 FDIC-assisted acquisitions.

See additional discussion regarding the 2012 FDIC-assisted acquisitions under Footnote 2 2012 FDIC-Assisted Acquisitions of Part II Item 8 Financial Statements and Supplementary Data.

During November 2013, the Bank purchased $25 million of Bank Owned Life Insurance (BOLI). The BOLI offers tax advantaged non-interest income to help the Bank cover employee-related benefits expenses. The $25 million of BOLI is expected to add approximately $750,000 of tax-exempt non-interest income to the Bank s earnings in 2014.

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Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income decreased $1.2 million, or 14%, during 2013 compared to the same period in 2012.

Mortgage banking income for 2013 was negatively impacted by a sharp increase in long-term interest rates beginning in May 2013, which led to a significant decrease in secondary market loan volume as compared to the same time period in the prior year. Overall, Republic s proceeds from the sale of secondary market loans totaled $305 million during 2013 compared to $256 million during the same period in 2012, with the majority of the 2013 application volume occurring during the first half of 2013.

While long-term interest rates at December 31, 2013 were relatively low as compared to longer-term historical levels, they were at their highest level in almost two years. The rise in interest rates is expected to continue to negatively impact future loan application volume during 2014.

The Bank maintained an MSR impairment reserve of $345,000 at December 31, 2012. Due to the increase in long-term interest rates during 2013, the fair value of the Bank s MSRs increased, as prepayment speed assumptions were adjusted lower. As a result of the increase in the fair value of the Bank s MSRs, all $345,000 of MSR impairment reserve was reversed back into income during 2013.

See additional discussion regarding Mortgage Banking under Footnote 6 Mortgage Banking Activities of Part II Item 8 Financial Statements and Supplementary Data.

Republic Processing Group segment

RPG non-interest income decreased $63.8 million, or 81%, during 2013 compared to the same period in 2012. The decrease was the result of pricing pressures via revenue sharing driven by increased competition resulting from the elimination of the RAL product and the previously disclosed termination of RB&T s contracts with Liberty and JHI.

With regard to the TRS division of the RPG segment, 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 were, historically, at a competitive disadvantage to banks who could offer RALs. With RB&T s resolution of its differences with the FDIC through the Agreement, RB&T discontinued RALs effective April 30, 2012. Without the ability to originate RALs, RB&T continues to face increased competition in the RT marketplace. In addition to the loss of volume resulting from additional competitors, RB&T has incurred substantial pressure on its profit margin for RT products via revenue sharing arrangements with its various partners.

Furthermore, management believes that the Agreement with the FDIC also negatively impacts RB&T s ability to originate RT products. As previously disclosed, the Agreement contains a provision for an Electronic Return Originator (ERO) Plan to be administered by RB&T. The ERO Plan places additional oversight and training requirements on RB&T and its tax preparation partners that may not currently be required by 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 net RT revenues could continue to be reduced beyond 2013 if these competitive disadvantages remain in place.

In addition to the reduced profit margin the Company experienced with its RT volume during 2013 as noted above, the Company also experienced a significant decrease in RT volume resulting from the termination of the Company s contracts with JHI and Liberty. As previously disclosed in a Form 8-K filed on August 29, 2012, JHI unilaterally terminated its contract with RB&T on August 27, 2012. In addition, as previously disclosed in a Form 8-K filed on September 19, 2012, Liberty unilaterally terminated its contract with RB&T on September 18, 2012. On a combined basis, these contracts represented approximately 53% of RB&T s 2012 RT volume.

As previously disclosed in this document, RB&T s third party arbitration with JHI was concluded during the fourth quarter of 2013. With the matter resolved, RB&T entered into a new two-year agreement with JHI pursuant to which it began processing refunds for JHI clients in January 2014. The contract is expected to increase RPG s annual net revenue by approximately 12% per year above its 2013 net revenue level. Additional overhead expenses with the new contract are expected to be minimal.

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RB&T s contract dispute with Liberty was resolved during January 2014 with a nominal amount of related legal expense during 2013. The Company does not anticipate any additional future legal expense associated with this matter. With the matter resolved, RB&T entered into a new two-year agreement with Liberty in which it will begin processing refunds for Liberty clients in January 2015. Beginning with the first quarter 2015 tax season, the contract is expected to increase RPG s annual net revenues for the two year term of the contract by an average of approximately 16% over its 2013 net revenue level. Additional overhead expenses with the new contract are expected to be immaterial.

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 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. 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.

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, 2013.

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.

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

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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 recorded proceeds from the sale of mortgage loans of $256 million compared to $153 million during the same period in 2011. Secondary market pricing also 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 additional impairment charge of $142,000 was recorded during 2012.

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.

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Non-Interest Expenses

Table 5 Analysis of Non-Interest Expenses

							Percent Increase/(Decrease)	
Year Ended December 31, (dollars in thousands)		**2013**		2012		2011	**2013/2012**	2012/2011
Salaries and employee benefits	**$**	**57,778**	$	60,633	$	54,966	**-5%**	10%
Occupancy and equipment, net		**21,918**		22,474		21,713	**-2%**	4%
Communication and transportation		**4,128**		5,806		5,695	**-29%**	2%
Marketing and development		**3,353**		3,429		3,237	**-2%**	6%
FDIC insurance expense		**1,682**		1,403		4,425	**20%**	-68%
Bank franchise tax expense		**4,115**		3,916		3,645	**5%**	7%
Data processing		**3,333**		4,309		3,207	**-23%**	34%
Debit card interchange expense		**2,850**		2,462		2,239	**16%**	10%
Supplies		**1,157**		2,114		2,353	**-45%**	-10%
Other real estate owned expense		**3,446**		3,537		2,356	**-3%**	50%
Charitable contributions		**1,004**		3,341		5,933	**-70%**	-44%
Legal expense		**4,627**		1,866		3,969	**148%**	-53%
FDIC civil money penalty						900	**0%**	-100%
FHLB advance prepayment penalty				2,436			**-100%**	100%
Other		**8,272**		9,019		7,683	**-8%**	17%
Total non interest expenses	**$**	**117,663**	$	126,745	$	122,321	**-7%**	4%

Discussion of 2013 vs. 2012

Total Company non-interest expenses in 2013 decreased $9.1 million, or 7%, from 2012. The most significant components comprising the change in non-interest expense were as follows:

Traditional Banking segment

Total Traditional Bank non-interest expenses in 2013 decreased $2.3 million, or 2%, from 2012.

Salaries and benefits in 2013 increased $402,000 over 2012 due primarily to a rise in salaries and benefits resulting from an increase in the Traditional Banking segment s full time equivalent employees (FTEs) for the first three quarters of 2013. The increase in the Traditional Bank s FTEs was the result of retaining employees its FDIC-assisted acquired banks and the hiring of additional employees to support the FDIC-assisted acquired banks operations and the Bank s long-term growth plans. The increase in salaries and benefits during 2013 was partially offset by a $2.6 million reduction in incentive compensation accruals as anticipated bonus payouts for 2013 were expected to be approximately $763,000 as compared to $2.7 million for 2012 payouts.

Also marginally impacting salaries and benefits during the fourth quarter of 2013 was $150,000 in expenses for anticipated severance payouts related to a Bank-related reduction in force (RIF). Primarily as a result of the Bank s RIF, its total FTE s decreased from 742 at September 30, 2013 to 675 at December 31, 2013. The Bank s FTEs were 729 at December 31, 2012. In addition to the RIF, the Bank substantially eliminated all merit increases for its year-end 2013 employee evaluations. The RIF in combination with the substantial elimination of annual merit increases is expected to save the Company approximately $2.3 million in salaries and benefits for the 2014 calendar year.

Contributions expense in 2013 decreased $486,000 from 2012 due to the first quarter 2012 contribution to the Republic Bank Foundation.

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 incurred a $2.4 million early termination penalty in connection with this prepayment during 2012.

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Data processing expense in 2013 decreased $973,000 from 2012 primarily due to $912,000 in data processing costs incurred during 2012 related to the TCB and FCB acquisitions.

Audit and professional fees in 2013 decreased $340,000 from 2012 due primarily to additional audit and third party consulting fees in 2012 related to the 2012 FDIC-assisted acquisitions.

Amortization expense of the Traditional Bank s core deposit intangible asset in 2013 increased $339,000 over 2012, as the Bank accelerated the amortization of this asset consistent with the Company s decision to close its sole banking center in the Minnesota market.

See additional discussion regarding the 2012 FDIC-assisted acquisitions under Footnote 2 2012 FDIC-Assisted Acquisitions of Part II Item 8 Financial Statements and Supplementary Data.

Republic Processing Group segment

Total RPG non-interest expenses in 2013 decreased $6.3 million, or 28%, from 2012.

Salaries and employee benefits during 2013 decreased $2.9 million, or 29%, from 2012 as RPG reflected lower contract labor staffing costs, reduced bonus payouts tied to TRS operating performance as compared to goal, and a reduction in staff at TRS consistent with a decline in overall segment revenues.

Legal expense at RPG during 2013 was $3.0 million compared to $283,000 for 2012. The increase in legal expenses during 2013 was directly associated with the Company s contract termination disputes with JHI and Liberty. In addition, the Company also incurred legal expenses during 2013 related to a now terminated Purchase and Assumption Agreement (the P&A Agreement) and the negotiations of a Master Services Agreement (MSA) and Receivables Participation Agreement (RPA) with H&R Block.

In total, RPG incurred $717,000 in legal expenses during 2013 associated with the P&A Agreement and the negotiation of the MSA. The Company does not anticipate there will be any additional costs associated with this transaction going forward.

See the Company s Form 8-K filed with the SEC on July 11, 2013 for additional information on the Company s entry into the now terminated P&A Agreement.

See the Company s Form 8-K filed with the SEC on October 8, 2013 disclosing the termination of the P&A Agreement.

RB&T s third party arbitration with JHI was concluded during the fourth quarter of 2013. Legal related expenses associated with the arbitration totaled $2.2 million for 2013, with $1.4 million of those expenses being incurred during the fourth quarter of 2013. The Company does not anticipate any additional future legal expenses associated with this matter. With the matter resolved, RB&T entered into a new two-year agreement with JHI pursuant to which it began processing refunds for JHI clients in January 2014. Additional overhead expenses with the new contract are expected to be minimal.

RB&T s contract dispute with Liberty was resolved during January 2014 with a nominal amount of related legal expense during 2013. The Company does not anticipate any additional future legal expense associated with this matter. With the matter resolved, RB&T entered into a new two-year agreement with Liberty in which it will begin processing refunds for Liberty clients in January 2015. Additional overhead expenses with the new contract are expected to be immaterial.

Charitable contributions in 2013 decreased $1.9 million from 2012. The decrease was the result of the $2.5 million total company contribution made to the Republic Bank Foundation in 2012 with no contribution being made during 2013. The contribution to the Republic Bank Foundation was allocated to the Company s business segments using a formula based on the segments overall profits.

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The following expenses and their related decreases were a function of the elimination of the RAL product and the decline in RT volume from 2012 to 2013 leading to a reduced demand for resources to facilitate the business:

- Occupancy and equipment expense decreased $935,000, or 27%;
- Communication and transportation expenses decreased $1.6 million, or 77%;
- Audit and professional fees decreased $579,000, or 77%; and
- Supplies expense decreased $930,000, or 78%.

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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 Company s 2012 FDIC-assisted acquisitions, 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.

Salaries and benefits in 2012 increased $6.2 million over 2011. The Bank incurred $4.0 million in salaries and benefit expense directly associated with the Company s 2012 FDIC-assisted acquisitions; including approximately $2.0 million related to incentive compensation accruals. Approximately $272,000 of incentive compensation related 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 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 Traditional Bank s rise in salaries and benefits was an increase in the Traditional Banking segment s FTEs, which rose from 641 at December 31, 2011 to 729 at December 31, 2012. The increase in the Traditional 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 in 2012 increased $1.2 million over 2011. Substantially all of the fluctuation was attributable to the Company s 2012 FDIC-assisted acquisitions for expense items such as rent, leased and rented equipment and equipment service.

Data processing expense in 2012 increased $1.1 million over 2011, with $912,000 of the increase attributable to the data processing costs and internet banking enhancements for the Company s 2012 FDIC-assisted acquisitions.

FDIC insurance expense in 2012 decreased $1.1 from 2011. 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 Company s 2012 FDIC-assisted acquisitions.

Other real estate owned expense in 2012 increased $1.2 million over 2011, with $818,000 of the increase attributable to the Company s 2012 FDIC-assisted acquisitions.

Contributions expense in 2012 increased $473,000 over 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.

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Traditional banking other expense in 2012 increased $1.6 million over 2011. Approximately $2.0 million of this increase related to the Company s 2012 FDIC-assisted acquisitions, 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.

Republic Processing Group segment

RPG non-interest expenses in 2012 decreased $8.6 million, or 28%, from 2011.

Salaries and employee benefits in 2012 decreased $553,000, or 5%, from 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 in 2012 decreased $1.9 million, or 92% from 2011. The decrease was primarily related 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 in 2012 related to the RPG segment increased $350,000 over 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 $283,000 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 in 2012 totaled $1.9 million at the TRS, 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.

Income Tax Expenses

Republic Processing Group segment

The Company s RPG segment recorded additional income tax expense of $1.1 million for the fourth quarter of 2013 primarily related to additional ASC 740-10, *Accounting for Uncertainty in Income Taxes,* accruals recorded for possible state income tax payments beyond the Company s original estimates related to the tax years 2010 through 2013. The Company attributed the increased state income taxes to the RPG segment, as RPG generated the substantial majority of the Company s state income tax exposure outside of its geographic footprint during the tax years noted.

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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 $171 million in cash and cash equivalents at December 31, 2013 compared to $138 million at December 31, 2012. The Bank s restricted cash includes $2 million in a money market account as collateral to secure settlement obligations related to the RPG segment s prepaid card program as of December 31, 2013. No similar collateral was maintained as of December 31, 2012.

For cash held at the FRB, the Bank earns a yield of 0.25% on amounts in excess of required reserves. For all other cash held within the Bank s banking center and ATM networks, the Bank does not earn interest. Due to ongoing contraction within the Bank s net interest margin, management is anticipating that it will maintain a general near-term strategy to keep minimal amounts of cash on its balance sheet; however, this strategy will likely be significantly influenced by the Company s on-going interest rate risk management practices and strategies, which could limit the Company s ability to invest its cash into higher yielding earning assets.

Investment Securities

Table 6 Investment Securities Portfolio

December 31, (in thousands)	**2013**	2012	2011
Securities available for sale (fair value):			
U.S. Treasury securities and U.S. Government agencies	**$ 97,465**	$ 39,472	$ 152,674
Private label mortgage backed security	**5,485**	5,687	4,542
Mortgage backed securities - residential	**150,087**	197,210	293,329
Collateralized mortgage obligations	**163,946**	195,877	195,403
Mutual fund	**995**		
Corporate bonds	**14,915**		
Total securities available for sale	**432,893**	438,246	645,948
Securities held to maturity (carrying value):			
U.S. Treasury securities and U.S. Government agencies	**2,311**	4,388	4,233
Mortgage backed securities - residential	**420**	827	1,376
Collateralized mortgage obligations	**42,913**	40,795	22,465
Corporate bonds	**5,000**		
Total securities held to maturity	**50,644**	46,010	28,074
Total investment securities	**$ 483,537**	$ 484,256	$ 674,022

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

During 2013, part of the Bank s strategy to mitigate contraction within its net interest income was to grow its investment securities portfolio. As a result, the Bank purchased $113 million in U.S. Government agencies, $76 million in MBSs, and $20 million in floating rate corporate bonds. The corporate bonds purchased during 2013 have a weighted average yield of 1.36% and an expected weighted-average life of seven years. All other securities purchased during 2013 have a weighted average yield of 1.44% and an expected weighted-average life of less than five years. The majority of the funds employed to purchase the aforementioned securities were previously invested in cash equivalents earning approximately twenty-five basis points.

The $20 million of floating rate corporate bonds purchased during the second quarter of 2013 were rated investment grade by accredited ratings agencies as of their respective purchase dates, and represented approximately 4% of the Bank s investment portfolio as of December 31, 2013. While management does not consider these bonds to be material relative to the Bank s overall balance sheet structure, these purchases do represent a strategic deviation from the Bank s historical purchase patterns of primarily U.S. Government or U.S. Government Agency backed securities.

Management does not anticipate material future purchases of corporate bonds in the future. The Company will likely continue to grow its U.S. Government and U.S. Government Agency investment securities portfolio during 2014 in order to combat its anticipated net interest income contraction. The amounts and types of securities it purchases in 2014, however, will also likely be heavily dependent upon the Company s overall interest rate risk position, which could limit the Company s ability to mitigate its anticipated contraction in its net interest income.

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

Table 7 Mortgage Backed Investment Securities

December 31, (in thousands)		**2013**		2012
Private label mortgage backed security	**$**	**5,485**	$	5,687
Mortgage backed securities - residential		**150,550**		198,100
Collateralized mortgage obligations		**207,062**		236,988
Total mortgage backed securities fair value	**$**	**363,097**	$	440,775

For discussion of the Bank s private label mortgage backed security, 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.

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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. The Bank increased its investment in structured notes by $30 million during 2013 due to favorable market terms. 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)		2013		2012
Amortized cost	$	**30,492**	$	509
Fair value		**30,467**		508

The amortized cost/carrying amount, fair value, weighted average yield and weighted average maturity of the investment portfolio at December 31, 2013 follows:

Table 9 Securities Available for Sale

December 31, 2013 (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	$	**24,395**	$	**24,760**	**1.78%**	**1.22**
Due from one year to five years		**70,259**		**70,237**	**1.45%**	**4.18**
Due from five years to ten years		**2,503**		**2,468**	**2.66%**	**5.64**
Total U.S. Treasury securities and U.S. Government agencies		**97,157**		**97,465**	**1.57%**	**3.47**
Corporate bonds:						
Due from five years to ten years		**15,015**		**14,915**	**1.26%**	**7.60**
Total Corporate bonds		**15,015**		**14,915**	**1.26%**	**7.60**
Private label mortgage backed security		**4,740**		**5,485**	**6.58%**	**4.11**
Total mortgage backed securities - residential		**146,087**		**150,087**	**2.20%**	**3.65**
Total collateralized mortgage obligations		**164,264**		**163,946**	**1.28%**	**4.91**
Mutual fund		**1,000**		**995**	**0.07%**	**NM**
Total securities available for sale	$	**428,263**	$	**432,893**	**1.71%**	**4.24**

NM = Not meaningful. Security does not have a finite maturity.

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Table 10 Securities Held to Maturity

December 31, 2013 (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	$ 508	$ 512	1.43%	3.12
Due from one year to five years	1,803	1,793	1.48%	6.38
Total U.S. Treasury securities and U.S. Government agencies:	2,311	2,305	2.17%	1.79
Corporate bonds:				
Due from one year to five years	5,000	4,884	1.48%	6.38
Total corporate bonds	5,000	4,884	1.48%	6.38
Total mortgage backed securities - residential	420	463	5.66%	3.73
Total collateralized mortgage obligations	42,913	43,116	0.89%	6.34
Total securities held to maturity	$ 50,644	$ 50,768	1.02%	6.16

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Loan Portfolio

Net loans, primarily consisting of secured real estate loans, decreased by $60 million, or 2%, during 2013 to $2.6 billion at December 31, 2013. Following are the more significant factors contributing to fluctuations in the Bank s loan portfolio:

Loans Associated with the 2012 FDIC-Assisted Acquisitions

The contractual amount of the loans associated with the TCB transaction decreased from $42 million as of December 31, 2012 to $34 million as of December 31, 2013. The carrying value of these loans decreased from $31 million at December 31, 2012 to $29 million as of December 31, 2013, as the Bank has continued efforts to establish itself in this new market and work acquired problem loans out of the Bank.

The contractual amount of the loans associated with the FCB transaction decreased from $139 million as of December 31, 2012 to $85 million as of December 31, 2013. The carrying value of these loans decreased from $108 million as of December 31, 2012 to $68 million as of December 31, 2013, as the Bank has mainly focused its resources towards working the problem loans out of the Bank and servicing the performing loans from the transaction.

See additional discussion regarding the 2012 FDIC-assisted acquisitions under Footnote 2 2012 FDIC-Assisted Acquisitions of Part II Item 8 Financial Statements and Supplementary Data.

Mortgage Warehouse Lines of Credit

RB&T began offering mortgage warehouse lines of credit in June 2011. These lines of credit provide 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 RB&T. The 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. 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.

As of December 31, 2013 RB&T had $150 million of outstanding loans from total committed credit lines of $358 million. As of December 31, 2012, RB&T had $217 million of outstanding loans from total committed credit lines of $331 million. The $67 million decrease in the outstanding balances of mortgage warehouse loans was primarily due to the rise in long-term interest rates during the latter part of the second quarter of 2013, which negatively impacted refinance volume among RB&T s mortgage warehouse clients.

RB&T s mortgage warehouse lending business is significantly influenced by the volume and composition of residential mortgage purchase and refinance transactions among RB&T s mortgage banking clients. During 2013 and 2012, RB&T s warehouse volume consisted of 63% and 47% purchase transactions in which the mortgage company s borrower was purchasing a new residence, and 37% 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 did benefit during 2012 and the first five months of 2013 from low or declining long-term residential mortgage rates which incentivized a high volume of borrowers to refinance their mortgages. Long-term interest rates, however, began rising rapidly in May of 2013. These increases in long-term residential mortgage interest rates have and will likely continue to decrease refinance activity and, without an equivalent increase in purchases and/or growth in RB&T s warehouse client base, will likely have a negative impact on RB&T s mortgage warehouse loans outstanding beyond 2013.

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Fixed Rate Commercial Real Estate Loan Initiatives

As an additional effort to grow its loan portfolio and further combat net interest income compression, the Bank began offering a promotional 15-year fixed-rate CRE loan during the first quarter of 2013. The initial offering rate on these loans was 3.50% when the program was started in January of 2013, but was later adjusted to 3.79% in February 2013 and 3.95% in June 2013, consistent with the market demand and the interest rate environment. During 2013, the Bank closed approximately $83 million of these loans with a weighted average rate of approximately 3.65%. To partially mitigate the risk of rising interest rates related to these longer-term loans, the Bank borrowed $70 million from the FHLB with a weighted average rate of 1.61% and a weighted average life of approximately six years.

With market conditions changing in late second quarter 2013, the Bank ceased accepting new loan applications for the 15-year promotional CRE product and began promoting CRE products of shorter-term and therefore lower interest rate risk. The Bank continues to adjust its CRE product offerings to fit customer demand and stay within credit and interest rate risk tolerances.

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

Table 11A Loan Portfolio Composition

December 31, (in thousands)	**2013**	2012	2011	2010	2009
Residential real estate:					
Owner occupied	**$ 1,097,795**	$ 1,145,495	$ 985,735	$ 918,407	$ 976,348
Non owner occupied	**110,809**	74,539	99,161	126,404	120,963
Commercial real estate	**773,173**	714,642	639,966	640,872	641,451
Commercial real estate - purchased whole loans	**34,186**	33,531	32,741		
Construction & land development	**44,351**	68,214	67,406	68,701	83,090
Commercial & industrial	**127,763**	130,681	119,117	108,720	104,274
Warehouse lines of credit	**149,576**	216,576	41,496		
Home equity	**226,782**	241,607	280,235	289,945	318,449
Consumer:					
Credit cards	**9,030**	8,716	8,580	8,213	8,052
Overdrafts	**944**	955	950	901	2,006
Other consumer	**15,383**	15,241	9,908	13,077	13,599
Total gross loans	**$ 2,589,792**	$ 2,650,197	$ 2,285,295	$ 2,175,240	$ 2,268,232

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2012 FDIC-Assisted Acquisitions:

The composition of TCB and FCB loans outstanding at December 31, 2013 and 2012 follows:

Table 11B Loan Portfolio Composition

December 31, 2013 (in thousands)	**Tennessee Commerce Bank**	**First Commercial Bank**	**Total Acquired Banks**
Residential real estate	**$ 10,191**	**$ 19,554**	**$ 29,745**
Commercial real estate	**13,398**	**43,167**	**56,565**
Construction & land development	**295**	**1,614**	**1,909**
Commercial & industrial	**329**	**2,867**	**3,196**
Home equity	**4,270**	**366**	**4,636**
Consumer:			
Credit cards	**205**		**205**
Overdrafts	**4**		**4**
Other consumer	**73**	**129**	**202**
Total gross loans	**$ 28,765**	**$ 67,697**	**$ 96,462**

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
Construction & land development	4,235	3,301	7,536
Commercial & industrial	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 loans	$ 30,964	$ 107,652	$ 138,616

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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, 2013 (in thousands)	Total	One Year Or Less	Over One Through Five Years	Over Five Years
Fixed rate loan maturities:				
Residential real estate:	$ 600,348	$ 97,248	$ 249,176	$ 253,924
Commercial real estate	412,496	117,557	204,585	90,354
Construction & land development	10,859	3,018	5,224	2,617
Commercial & industrial	63,405	20,492	35,505	7,408
Warehouse lines of credit				
Home equity				
Consumer:				
Credit cards				
Overdrafts	944	944		
Other consumer	13,067	5,252	5,658	2,157
Total fixed rate loans	$ 1,101,119	$ 244,511	$ 500,148	$ 356,460
Variable rate loan maturities:				
Residential real estate:	$ 608,256	$ 215,735	$ 301,392	$ 91,129
Commercial real estate	394,863	188,123	175,547	31,193
Construction & land development	33,492	30,139	3,303	50
Commercial & industrial	64,358	45,687	10,515	8,156
Warehouse lines of credit	149,576	149,576		
Home equity	226,782	226,477	301	4
Consumer:				
Credit cards	9,030	9,030		
Overdrafts				
Other consumer	2,316	2,316		
Total variable rate loans	$ 1,488,673	$ 867,083	$ 491,058	$ 130,532
Total:				
Residential real estate:	$ 1,208,604	$ 312,983	$ 550,568	$ 345,053
Commercial real estate	807,359	305,680	380,132	121,547
Construction & land development	44,351	33,157	8,527	2,667
Commercial & industrial	127,763	66,179	46,020	15,564
Warehouse lines of credit	149,576	149,576		
Home equity	226,782	226,477	301	4
Consumer:				
Credit cards	9,030	9,030		
Overdrafts	944	944		
Other consumer	15,383	7,568	5,658	2,157
Total loans	$ 2,589,792	$ 1,111,594	$ 991,206	$ 486,992

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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 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 is based on historical loss experience adjusted for qualitative factors.

A Bank-originated 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. A Purchased Credit Impaired (PCI) loan is considered impaired when, based on current information and events, it is probable that the future estimated cash flows of the loan have deteriorated from management s initial estimate. Loans that meet the following classifications are considered impaired:

- All loans internally rated as Substandard, Doubtful or Loss;
- All loans internally rated in a PCI category with cash flows that have deteriorated from management s initial estimate;
- All loans on non-accrual status and non-PCI loans past due 90 days-or-more still on accrual;
- All retail and commercial TDRs; and
- Any other situation where the full collection of the total amount due for a loan is improbable or otherwise meets the definition of impaired.

The Bank s classified and special mention loans are generally C&I and CRE loans but also include large single family residential and home equity loans, as well as TDRs, whether retail or commercial in nature. The Bank reviews and monitors these loans on a regular basis. Generally, loans are designated as classified or special mention to ensure more frequent monitoring. These 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 or modified contractual terms, then the loan is generally downgraded and often placed on non-accrual status.

GAAP recognizes three methods to measure specific loan impairment, including:

- **Cash Flow Method** The recorded investment in the loan is measured against the present value of expected future cash flows discounted at the loan s effective interest rate. The Bank employs this method for a significant portion of its impaired TDRs. Impairment amounts under this method are reflected in the Bank s Allowance as specific reserves on the respective impaired loan. These specific reserves are adjusted quarterly based upon reevaluation of the loan s expected future cash flows and changes in the recorded investment in such loans.

- **Collateral Method** The recorded investment in the loan is measured against the fair value of the loan s collateral value less applicable selling costs. The Bank employs the fair value of collateral method for its impaired loans when the loan s repayment is based solely on the sale of or the operations of the underlying collateral. Collateral fair value is typically based on the most recent real estate appraisal on file. Measured impairment under this method is classified loss and charged off. The Bank s selling costs for its collateral dependent loans typically range from 10-13% of the fair value of the underlying collateral, depending on the loan class. Selling costs are not applicable for collateral dependent loans whose repayment is based solely on the operations of the underlying collateral.

- **Market Value Method** The recorded investment in the loan is measured against the loan s obtainable market value. The Bank does not currently employ this technique as it is typically found impractical.

In addition to obtaining appraisals at the time of loan origination, the Bank typically updates appraisals and/or broker price opinions for loans with potential impairment. Updated valuations for commercial related loans exhibiting an increased risk of loss are typically 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 amount of reserve, to the extent updated collateral values cannot be obtained due to the lack of recent comparable sales or for other reasons, the Bank 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.

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The general component of the Allowance covers loans collectively evaluated for impairment and is based on historical loss experience with potential adjustments for current relevant 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 the loans are classified as TDRs.

In determining the historical loss rates for each respective loan class, management evaluates the following historical loss rate scenarios:

- Rolling four quarter average
- Rolling eight quarter average
- Rolling twelve quarter average
- Rolling sixteen quarter average
- Rolling twenty quarter average
- Current year to date historical loss factor average
- Peer group loss factors

For the Bank s current Allowance methodology, management uses the higher of the rolling eight, twelve, or sixteen quarter averages for each loan class when determining its historical loss factors for its Pass rated and nonrated loans.

Loan classes are also 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 program;
- 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, nonaccrual and 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 loan 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, legal and regulatory requirements on the level of estimated credit losses in the Bank 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 decreased $703,000, or 3%, during 2013 to $23 million at December 31, 2013. As a percent of total loans, the Allowance decreased slightly to 0.89% at December 31, 2013 compared to 0.90% at December 31, 2012.

Total Company net charge-offs exceeded loan loss provisions during 2013, as the Company s credit quality ratios generally continued their positive trends from the prior year. Annualized Traditional Bank net loan charge-offs to average loans were 0.18% for 2013 compared to 0.34% for the same period in 2012.

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Notable fluctuations in the Allowance were as follows:

- The Bank increased its allowance by a net $1.9 million during 2013 related to loans acquired in its 2012 FDIC-assisted acquisitions. This increase was due to probable shortfalls in future estimated cash flows below initial day-one estimates for these loans.

- The Bank increased its allowance by a net $930,000 in 2013 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 allowance allocations were primarily calculated utilizing discounted cash flow analyses.

- The Bank charged off approximately $2.8 million in substandard allowance allocations in 2013, the majority of which was allocated in a previous period.

- The Bank posted a net $1.4 million increase to its allowance attributable to increases in the Bank s general loan loss reserves for its pass-rated credits, excluding its 2012 FDIC-assisted acquired loans. These increases were generally due to growth in the loan portfolios combined with movements in historical loss percentages and qualitative factors.

- The Bank recorded a net decrease of $561,000 to its allowance related to improvements within the Bank s small balance, homogeneous loan portfolios. These loans were predominantly retail oriented and were either past due 90-days-or-more or on non-accrual status and not past due at the respective periods ends.

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Table 13 Summary of Loan Loss Experience

Year Ended December 31, (dollars in thousands)	**2013**	2012	2011	2010	2009
Allowance for loan losses at beginning of year	**$ 23,729**	$ 24,063	$ 23,079	$ 22,879	$ 14,832
Charge offs:					
Residential real estate	**(2,127)**	(3,648)	(2,760)	(3,012)	(2,439)
Commercial real estate	**(1,190)**	(1,033)	(1,125)	(4,846)	(956)
Commercial real estate - purchased whole loans					
Construction & land development	**(619)**	(1,922)	(845)	(1,261)	(1,196)
Commercial & industrial	**(466)**	(176)	(100)	(207)	(372)
Warehouse lines of credit					
Home equity	**(632)**	(2,252)	(1,279)	(1,811)	(1,915)
Consumer:					
Credit cards	**(142)**	(123)	(241)	(158)	(389)
Overdrafts	**(601)**	(468)	(678)	(848)	(832)
Other consumer	**(408)**	(266)	(281)	(362)	(563)
Refund Anticipation Loans		(11,097)	(15,484)	(14,584)	(31,180)
Total charge offs	**(6,185)**	(20,985)	(22,793)	(27,089)	(39,842)
Recoveries:					
Residential real estate	**457**	393	245	70	84
Commercial real estate	**117**	90	301	48	120
Commercial real estate - purchased whole loans					
Construction & land development	**48**	104	237	248	102
Commercial & industrial	**99**	25	128	49	16
Warehouse lines of credit					
Home equity	**165**	92	159	23	23
Consumer:					
Credit cards	**19**	36	32	19	16
Overdrafts	**411**	422	506	385	257
Other consumer	**338**	225	279	292	206
Refund Anticipation Loans	**845**	4,221	3,924	6,441	13,090
Total recoveries	**2,499**	5,608	5,811	7,575	13,914
Net loan charge offs	**(3,686)**	(15,377)	(16,982)	(19,514)	(25,928)
Provision for loan losses - Traditional Banking	**3,828**	8,167	6,406	11,571	15,885
Provision for loan losses - Refund Anticipation Loans	**(845)**	6,876	11,560	8,143	18,090
Total provision for loan losses	**2,983**	15,043	17,966	19,714	33,975
Allowance for loan losses at end of year	**$ 23,026**	$ 23,729	$ 24,063	$ 23,079	$ 22,879
Credit Quality Ratios - Total Company:					
Allowance for loan losses to total loans	**0.89%**	0.90%	1.05%	1.06%	1.01%
Allowance for loan losses to non-performing loans	**109%**	109%	103%	82%	53%
Net loan charge offs to average loans	**0.14%**	0.61%	0.76%	0.83%	1.09%
Credit Quality Ratios - Traditional Banking:					

Allowance for loan losses to total loans	**0.89%**	0.90%	1.05%	1.06%	1.01%
Allowance for loan losses to non-performing loans	**109%**	109%	103%	82%	53%
Net loan charge offs to average loans	**0.18%**	0.34%	0.24%	0.51%	0.34%
Credit Quality Ratios - Acquired Banks:					
Allowance for loan losses to total loans	**2.59%**	0.15%	NA	NA	NA
Allowance for loan losses to non-performing loans	**110%**	7%	NA	NA	NA

NA - not applicable

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The table below sets forth management s allocation of the Allowance by loan class. 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 qualitative 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

	2013		2012		2011		2010		2009	
December 31, (dollars in thousands)	**Allowance**	**Percent of Loans to Total Loans**	Allowance	Percent of Loans to Total Loans	Allowance	Percent of Loans to Total Loans	Allowance	Percent of Loans to Total Loans	Allowance	Percent of Loans to Total Loans
Residential real estate	**$ 8,839**	**47%**	$ 8,055	47%	$ 6,354	48%	$ 5,281	49%	$ 4,936	48%
Commercial real estate	**8,309**	**30%**	8,843	26%	7,724	28%	7,214	29%	9,180	28%
Commercial real estate - purchased whole loans	**34**	**1%**	34	1%		1%	NA	NA	NA	NA
Construction & land dev.	**1,296**	**2%**	2,769	3%	3,042	3%	2,612	3%	2,434	4%
Commercial & industrial	**1,089**	**5%**	580	5%	1,025	5%	1,347	5%	1,473	5%
Warehouse lines of credit	**449**	**6%**	541	8%	104	2%	NA	NA	NA	NA
Home equity	**2,396**	**9%**	2,348	9%	2,984	12%	3,581	13%	1,823	14%
Consumer:										
Credit cards	**289**	**0%**	210	0%	503	0%	492	0%	438	0%
Overdrafts	**199**	**0%**	198	0%	135	0%	126	0%	179	0%
Other consumer	**126**	**0%**	151	1%	227	1%	461	1%	451	1%
Unallocated					1,965		1,965		1,965	
Total	**$ 23,026**	**100%**	$ 23,729	100%	$ 24,063	100%	$ 23,079	100%	$ 22,879	100%

NA - Not Applicable

Prior to January 1, 2012, the Bank s Allowance calculation was supported with qualitative factors which included a nominal unallocated Allowance component totaling $2.0 million as of December 31, 2011. The Bank believed 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 recent economic downturn, as compared to other parts of the U.S. With the Bank s 2012 expansion, its plans to pursue future acquisitions into potentially new markets through FDIC-assisted transactions, and its offering of new loan products, such as mortgage warehouse lines of credit, the Bank revised its methodology to provide a more detailed calculation when estimating the impact of qualitative factors over the Bank s various loan categories. This methodology change did not have a material impact on the Bank s provision for loan losses for the year ended December 31, 2012.

In executing this methodology change, the Bank adjusted 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.

Management believes, based on information presently available, that it has adequately provided for loan losses at December 31, 2013 and December 31, 2012. *For additional discussion regarding Republic s methodology for determining the adequacy of the Allowance, see the section titled Critical Accounting Policies and Estimates in this section of the filing.*

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The composition of loans classified within the Allowance follows:

Table 15 Classified and Special Mention Assets

December 31, (in thousands)	**2013**	2012	2011	2010	2009
Loss	**$**	$	$	$	$
Doubtful					
Substandard	**44,083**	49,352	43,088	38,245	46,335
Purchased Credit Impaired - Substandard	**222**				
Total Classified Loans	**44,305**	49,352	43,088	38,245	46,335
Special Mention	**40,167**	50,625	35,455	54,254	57,036
Purchased Credit Impaired - Group 1	**40,731**	72,978			
Total Special Mention Loans	**80,898**	123,603	35,455	54,254	57,036
Total Classified and Special Mention Loans	**$ 125,203**	$ 172,955	$ 78,543	$ 92,499	$ 103,371

Purchased loans accounted for under ASC Topic 310-20 are accounted for as 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, these loans are considered in the determination of the Allowance once day-one fair values are final.

In determining the day-one fair values of PCI 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. For the Company s 2012 FDIC-assisted acquisitions, 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.

Management separately monitors the PCI 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, estimated life, the status of the borrower, or the quality or value of the underlying collateral.

To the extent that a PCI loan s performance does not reflect an increased risk of loss of contractual principal beyond the non-accretable yield established as part of its initial day-one evaluation, such loan would be classified in the Purchased Credit Impaired - Group 1 (PCI-1) category; whose credit risk is considered equivalent to a non-PCI Special Mention loan within the Bank s credit rating matrix. PCI-1 loans are considered impaired if, based on current information and events, it is probable that the future estimated cash flows of the loan have deteriorated from management s initial estimate. Provisions for loan losses are made for impaired PCI-1 loans to further discount the loan and allow its yield to conform to at least management s initial expectations. Any improvement in the expected performance of a PCI-1 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.

If during the Bank s periodic evaluations of its PCI loan portfolio, management deems a PCI-1 loan to have an increased risk of loss of contractual principal beyond the non-accretable yield established as part of its initial day-one evaluation, such loan would be classified PCI-Substandard (PCI-Sub) within the Bank s credit risk matrix. Management deems the risk of default and overall credit risk of a PCI-Sub loan to be greater than a PCI-1 loan and more analogous to a non-PCI Substandard loan. PCI-Sub loans are considered to be impaired. Any improvement in the expected performance of a PCI-Sub 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.

PCI loans may be contractually past due 80 days-or-more and continue to accrue interest if future cash flows can be reasonably projected to allow continuation of discount accretion.

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If a troubled debt restructuring is performed on a PCI loan, the loan is considered impaired under the applicable TDR accounting standards and transferred out of the PCI population. The loan may require an additional provision for loan losses if its restructured cash flows are less than management s initial day-one expectations. Special Mention and Substandard loans include $1 million and $6 million at December 31, 2013 and $4 million and $11 million at December 31, 2012, respectively, which were removed from the PCI population due to a troubled debt restructuring of the loan. PCI loans for which the Bank simply chooses to extend the maturity date are generally not considered TDRs and remain in the PCI population.

See additional discussion regarding the 2012 FDIC-assisted acquisitions under Footnote 2 2012 FDIC-Assisted Acquisitions 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 past due 90-days-or-more and still accruing. Impaired loans that are not placed on non-accrual status are not included as non-performing loans. The non-performing loan category includes impaired loans totaling approximately $21 million at December 31, 2013, with approximately $13 million of these loans also reported as TDRs. The non-performing loan category includes impaired loans totaling approximately $22 million at December 31, 2012, with approximately $14 million of these loans also reported as TDRs.

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 Summary

December 31, (dollars in thousands)	**2013**	2012	2011	2010	2009
Loans on non-accrual status (1)	**$ 19,104**	$ 18,506	$ 23,306	$ 28,317	$ 43,136
Loans past due 90 days or more and still on accrual (2)	**1,974**	3,173			8
Total non-performing loans	**21,078**	21,679	23,306	28,317	43,144
Other real estate owned	**17,102**	26,203	10,956	11,969	4,772
Total non-performing assets	**$ 38,180**	$ 47,882	$ 34,262	$ 40,286	$ 47,916
Credit Quality Ratios - Total Company					
Non-performing loans to total loans	**0.81%**	0.82%	1.02%	1.30%	1.90%
Non-performing assets to total loans (including OREO)	**1.46%**	1.79%	1.49%	1.84%	2.11%
Non-performing assets to total assets	**1.13%**	1.41%	1.00%	1.11%	1.22%

Credit Quality Ratios - Traditional Banking					
Non-performing loans to total loans	**0.81%**	0.82%	1.02%	1.30%	1.90%
Non-performing assets to total loans (including OREO)	**1.46%**	1.79%	1.49%	1.84%	2.11%
Non-performing assets to total assets	**1.13%**	1.41%	1.10%	1.32%	1.60%
Credit Quality Ratios - Acquired Banks					
Non-performing loans to total loans	**2.35%**	2.29%	NA	NA	NA
Non-performing assets to total loans (including OREO)	**11.07%**	11.54%	NA	NA	NA

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(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) All loans past due 90 days-or-more and still accruing are PCI loans accounted for under ASC 310-30.

Approximately $10 million, or 50%, of the Bank s total non-performing loans at December 31, 2013 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. The Bank s non-performing residential real estate concentration was $11 million, or 53%, as of December 31, 2012.

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Approximately $8 million, or 37%, of the Bank s total non-performing loans are in the CRE and construction and land development loan portfolios as of December 31, 2013. 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 Bank s non-performing commercial and construction and land development concentration was $7 million, or 31%, as of December 31, 2012.

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

Table 17 Non-performing Loan Composition

December 31, (in thousands)	**2013**	2012	2011	2010	2009
Residential real estate	**$ 10,490**	$ 11,404	$ 13,748	$ 15,236	$ 14,832
Commercial real estate	**7,643**	4,468	3,032	6,265	16,850
Commercial real estate - purchased whole loans				NA	NA
Construction & land development	**167**	2,308	2,521	3,682	9,500
Commercial & industrial	**1,558**	1,534	373	323	647
Warehouse lines of credit				NA	NA
Home equity	**1,128**	1,868	3,603	2,734	1,244
Consumer:					
Credit cards					
Overdrafts					
Other consumer	**92**	97	29	77	71
Total non-performing loans	**$ 21,078**	$ 21,679	$ 23,306	$ 28,317	$ 43,144

NA Not applicable

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

December 31,	**2013**	2012	2011	2010	2009
Residential real estate	**0.87%**	0.93%	1.27%	1.46%	1.35%
Commercial real estate	**0.99%**	0.63%	0.47%	0.98%	2.63%
Commercial real estate - purchased whole loans	**0.00%**	0.00%	0.00%	NA	NA
Construction & land development	**0.38%**	3.38%	3.74%	5.36%	11.43%
Commercial & industrial	**1.22%**	1.17%	0.31%	0.30%	0.62%
Warehouse lines of credit	**0.00%**	0.00%	0.00%	NA	NA
Home equity	**0.50%**	0.77%	1.29%	0.94%	0.39%
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%**	0.64%	0.29%	0.59%	0.52%
Total non-performing loans to total loans	**0.81%**	0.82%	1.02%	1.30%	1.90%

NA Not applicable

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The composition of the Bank s non-performing loans stratified by the number of loans within a specified value range follows:

Table 19 Stratification of Non-performing Loans

December 31, 2013 (dollars in thousands)	**No.**	**Balance <= $100**	**No.**	**Balance > $100 <= $500**	**No.**	**Balance > $500**	**No.**	**Total Balance**
Residential real estate:								
Owner occupied	**87**	**$ 4,127**	**23**	**$ 3,838**	**2**	**$ 1,246**	**112**	**$ 9,211**
Non-owner occupied	**8**	**312**			**1**	**967**	**9**	**1,279**
Commercial real estate	**3**	**139**	**12**	**3,410**	**3**	**4,094**	**18**	**7,643**
Commercial real estate - purchased whole loans								
Construction & land dev.	**2**	**167**					**2**	**167**
Commercial & industrial			**2**	**327**	**1**	**1,231**	**3**	**1,558**
Warehouse lines of credit								
Home equity	**24**	**529**	**3**	**599**			**27**	**1,128**
Consumer:								
Credit cards								
Overdrafts								
Other consumer	**16**	**92**					**16**	**92**
Total	**140**	**$ 5,366**	**40**	**$ 8,174**	**7**	**$ 7,538**	**187**	**$ 21,078**

Number of Loans and Unpaid Principal Balance

December 31, 2012 (dollars in thousands)	No.	Balance <= $100	No.	Balance > $100 <= $500	No.	Balance > $500	No.	Total Balance
Residential real estate:								
Owner occupied	82	$ 3,993	31	$ 5,411	1	$ 624	114	$ 10,028
Non-owner occupied	15	798	2	578			17	1,376
Commercial real estate	5	137	7	1,805	3	2,526	15	4,468
Commercial real estate - purchased whole loans								
Construction & land dev.	1	76	4	1,205	1	1,027	6	2,308
Commercial & industrial	2	97	1	237	1	1,200	4	1,534
Warehouse lines of credit								
Home equity	33	826	6	1,042			39	1,868
Consumer:								
Credit cards								
Overdrafts								
Other consumer	19	97					19	97
Total	157	$ 6,024	51	$ 10,278	6	$ 5,377	214	$ 21,679

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Approximately $15 million in non-performing loans at December 31, 2012, were removed from the non-performing loan classification during 2013. Approximately $1 million, or 9%, of these loans were removed from the non-performing category because they were charged-off. Approximately $3 million, or 22%, in loan balances were transferred to OREO with $6 million, or 37%, refinanced at other financial institutions. The remaining $5 million, or 32%, was returned to accrual status for performance reasons, such as six consecutive months of performance. Of the $5 million returned to accrual status, one relationship of approximately $2 million accounted for 37% of the total amount returned to accrual status.

Interest income that would have been recorded if non-accrual loans were on a current basis in accordance with their original terms was $641,000, $805,000 and $1.1 million in 2013, 2012 and 2011.

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, 2013 and 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 20 Rollforward of Non-performing Loan Activity

December 31, (in thousands)	**2013**	2012	2011
Non-performing loans at beginning of year	**$ 21,679**	$ 23,306	$ 28,317
Acquired bank loans added to non-performing status	**1,033**	3,173	
All other bank loans added to non-performing status	**14,370**	11,454	13,490
Loans removed from non-performing status *(see table below)*	**(15,374)**	(15,391)	(16,699)
Principal paydowns	**(630)**	(863)	(1,802)
Non-performing loans at end of year	**$ 21,078**	$ 21,679	$ 23,306

Table 21 Detail of Loans Removed from Non-Performing Status

Year Ended December 31, (in thousands)	**2013**	2012	2011
Loans charged off	**$ (1,520)**	$ (2,421)	$ (2,220)
Loans transferred to OREO	**(3,340)**	(5,871)	(7,070)
Loans refinanced at other institutions	**(5,626)**	(3,664)	(5,677)
Loans returned to accrual status	**(4,888)**	(3,435)	(1,732)
Total non-performing loans removed from non-performing status	**$ (15,374)**	$ (15,391)	$ (16,699)

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Delinquent Loans

Delinquent loans to total loans decreased to 0.63% at December 31, 2013, from 0.79% at December 31, 2012, as the total balance of delinquent loans decreased by nearly $5 million for the same period. All Bank loans, with the exception of PCI loans, greater than 90 days past due or more as of December 31, 2013 and December 31, 2012 were on non-accrual status.

The composition of the Bank s delinquent loans follows:

Table 22 Delinquent Loan Composition

December 31, (in thousands)	**2013**	2012	2011	2010	2009
Residential real estate	**$ 7,650**	$ 11,799	$ 14,299	$ 16,031	$ 22,601
Commercial real estate	**5,198**	2,640	5,126	5,700	14,111
Commercial real estate - purchased whole loans				NA	NA
Construction & land development	**499**	2,124	541	2,322	4,111
Commercial & industrial	**1,415**	2,262	105	67	434
Warehouse lines of credit				NA	NA
Home equity	**1,110**	1,654	4,041	2,444	3,142
Consumer:					
Credit cards	**98**	65	53	61	54
Overdrafts	**159**	168	129	158	155
Other consumer	**94**	132	139	144	246
Total past due loans	**$ 16,223**	$ 20,844	$ 24,433	$ 26,927	$ 44,854

NA Not applicable.

Table 23 Delinquent Loans to Total Loans by Loan Type ***(1)***

December 31,	**2013**	2012	2011	2010	2009
Residential real estate	**0.63%**	0.97%	1.32%	1.53%	2.06%
Commercial real estate	**0.67%**	0.37%	0.80%	0.89%	2.20%
Commercial real estate - purchased whole loans	**0.00%**	0.00%	0.00%	0.00%	0.00%
Construction & land development	**1.13%**	3.11%	0.80%	3.38%	4.95%
Commercial & industrial	**1.11%**	1.73%	0.09%	0.06%	0.42%
Warehouse lines of credit	**0.00%**	0.00%	0.00%	NA	NA
Home equity	**0.49%**	0.68%	1.44%	0.84%	0.99%

Consumer:					
Credit cards	**1.09%**	0.75%	0.62%	0.74%	0.67%
Overdrafts	**16.84%**	17.59%	13.58%	17.54%	7.73%
Other consumer	**0.61%**	0.87%	1.40%	1.10%	1.81%
Total past due loans to total loans	**0.63%**	0.78%	1.07%	1.24%	1.98%

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

NA Not applicable.

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As detailed in the preceding tables, past due loans within the residential real estate, construction and land development, C&I and home equity categories improved significantly, or $7 million, from December 31, 2012 to December 31, 2013, while CRE delinquencies increased $3 million for the same period.

Approximately $17 million in delinquent loans at December 31, 2012, were removed from delinquent status as of December 31, 2013. Approximately $1 million, or 8%, of these loans were removed from the delinquent category because they were charged-off. Approximately $6 million, or 37%, in loan balances were transferred to OREO with $6 million, or 35%, refinanced at other financial institutions. The remaining $4 million, or 20%, in delinquent loans paid current in 2013.

The Bank had $96 million in loans outstanding at December 31, 2013 related to its 2012 FDIC-assisted acquisitions, with approximately $4 million of the purchased loans (accounted for under both ASC Topic 310-20 and ASC Topic 310-30) past due 30-or-more days. See additional discussion regarding the Company s 2012 FDIC-assisted acquisitions under Footnote 2 *2012 FDIC-Assisted Acquisitions* of Part II Item 8 *Financial Statements and Supplementary Data.*

The following tables reflect activity of the Bank s delinquent loans:

Table 24 Rollforward of Delinquent Loan Activity

December 31, (in thousands)		**2013**		2012		2011
Delinquent loans at beginning of year	**$**	**20,844**	$	24,433	$	26,927
Acquired bank loans that became delinquent		**2,094**		5,967		
All other bank loans that became delinquent		**10,894**		11,592		17,467
Net change in delinquent credit cards and demand deposit accounts		**28**		45		(32)
Delinquent loans removed from delinquent status *(see table below)*		**(17,328)**		(20,965)		(18,872)
Principal paydowns of loans delinquent in both periods		**(309)**		(228)		(1,057)
Delinquent loans at end of year	**$**	**16,223**	$	20,844	$	24,433

Table 25 Detail of Loans Removed From Delinquent Status

Year Ended December 31, (in thousands)		**2013**		2012		2011
Loans charged-off	**$**	**(1,380)**	$	(2,120)	$	(2,090)
Loans transferred to OREO		**(6,331)**		(6,358)		(6,140)
Loans refinanced at other institutions		**(6,115)**		(7,741)		(7,147)
Loans paid current		**(3,502)**		(4,746)		(3,495)
Total delinquent loans removed from delinquent status	**$**	**(17,328)**	$	(20,965)	$	(18,872)

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Impaired Loans and Troubled Debt Restructurings

The Bank defines impaired loans as follows:

- All loans internally rated as Substandard, Doubtful or Loss;
- All loans internally rated in a PCI category with cash flows that have deteriorated from management s initial estimate;
- All loans on non-accrual status and non-PCI loans past due 90 days-or-more still on accrual;
- All retail and commercial TDRs; and
- Any other situation where the full collection of the total amount due for a loan is improbable or otherwise meets the definition of impaired.

The Bank s policy is to charge off all or that portion of its investment in an impaired loan upon a determination that it is probable the full amount will not be collected. Impaired loans totaled $108 million at December 31, 2013 compared to $106 million at December 31, 2012. Impaired loans from the Company s 2012 FDIC-assisted acquisitions totaled $32 million and $18 million at December 31, 2013 and 2012.

A TDR is the situation where, due to a borrower s financial difficulties, the Bank grants a concession to the borrower that the Bank would not otherwise have considered. The majority of the Bank s TDRs involve a restructuring of loan terms such as a temporary reduction in the payment amount to require only interest and escrow (if required) and/or extending the maturity date of the loan. Non-accrual loans modified as TDRs remain on non-accrual status and continue to be reported as non-performing loans. Accruing loans modified as TDRs are evaluated for non-accrual status based on a current evaluation of the borrower s financial condition, and ability and willingness to service the modified debt. As of December 31, 2013, the Bank had $74 million in TDRs, of which $13 million were also on non-accrual status. As of December 31, 2012, the Bank had $83 million in TDRs, of which $14 million were also on non-accrual status.

The composition of the Bank s impaired loans follows:

Table 26 Impaired Loan Composition

December 31, (in thousands)	**2013**	2012	2011	2010	2009
Troubled debt restructurings	**$ 73,972**	$ 83,307	$ 67,022	$ 32,231	$ 36,615
Impaired loans (which are not TDRs)	**34,022**	22,400	10,171	12,855	12,231
Total impaired loans	**$ 107,994**	$ 105,707	$ 77,193	$ 45,086	$ 48,846

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 and TDRs.

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Other Real Estate Owned

The composition of the Bank s other real estate owned follows:

Table 27 Other Real Estate Owned Composition

December 31, (in thousands)		**2013**		2012		2011		2010		2009
Residential real estate	**$**	**3,574**	$	6,281	$	4,754	$	5,171	$	2,749
Commercial real estate		**5,824**		7,693		2,030		3,259		1,178
Construction & land development		**7,704**		12,229		4,172		3,543		845
Total other real estate owned	**$**	**17,102**	$	26,203	$	10,956	$	11,973	$	4,772

Table 28 Stratification of Other Real Estate Owned

					Number of Properties and Carrying Value Range					
December 31, 2013 (dollars in thousands)	**No.**		**Carrying Value <= $100**	**No.**		**Carrying Value > $100 <= $500**	**No.**		**Carrying Value > $500**	**No.**		**Total Carrying Value**

December 31, 2013 (dollars in thousands)	**No.**		**Carrying Value <= $100**	**No.**		**Carrying Value > $100 <= $500**	**No.**		**Carrying Value > $500**	**No.**		**Total Carrying Value**
Residential real estate	**17**	**$**	**828**	**6**	**$**	**1,256**	**2**	**$**	**1,490**	**25**	**$**	**3,574**
Commercial real estate				**5**		**1,344**	**2**		**4,480**	**7**		**5,824**
Construction & land development	**6**		**164**	**12**		**2,689**	**4**		**4,851**	**22**		**7,704**
Total	**23**	**$**	**992**	**23**	**$**	**5,289**	**8**	**$**	**10,821**	**54**	**$**	**17,102**

Number of Properties and Carrying Value Range

December 31, 2012 (dollars in thousands)	No.		Carrying Value <= $100	No.		Carrying Value > $100 <= $500	No.		Carrying Value > $500	No.		Total Carrying Value
Residential real estate	30	$	1,665	12	$	2,735	3	$	1,881	45	$	6,281
Commercial real estate				7		1,826	6		5,867	13		7,693
Construction & land development	5		105	14		2,897	6		9,227	25		12,229
Total	35	$	1,770	33	$	7,458	15	$	16,975	83	$	26,203

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The table below presents a rollforward of the Bank s OREO for the periods presented:

Table 29 Rollforward of OREO Activity

December 31, (in thousands)	**2013**	2012	2011	2010	2009
OREO at beginning of year	**$ 26,203**	$ 10,956	$ 11,973	$ 4,772	$ 5,737
OREO acquired from failed banks at fair value		21,266			
Recast adjustment to acquired properties	**(1,074)**				
Transfer from loans to OREO	**15,271**	20,610	11,300	17,798	7,332
Proceeds from sale*	**(23,644)**	(25,326)	(11,844)	(9,673)	(6,306)
Net gain on sale	**2,170**	416	444	203	20
Writedowns	**(1,824)**	(1,719)	(917)	(1,127)	(2,011)
OREO at end of year	**$ 17,102**	$ 26,203	$ 10,956	$ 11,973	$ 4,772

* *Inclusive of non-cash proceeds where the Bank financed the sale of the property.*

The fair value of OREO represents the estimated value that management expects to receive when the property is sold, net of related costs to sell. These estimates are based on the most recently available real estate appraisals, with certain adjustments made based on the type of property, age of appraisal, current status of the property and other related factors to estimate the current value of the property. Approximately 82%, or $5 million, of the CRE balance related to two properties added during 2013 located in the Bank s Minnesota market. Approximately 50%, or $4 million, of the construction and land development balance related to one land development property added during 2012 located in the Bank s greater Louisville, Kentucky market.

Approximately $9 million and $15 million of the OREO balance at December 31, 2013 and 2012 related to the 2012 FDIC-assisted acquisitions and relates predominantly to CRE and construction and land development loans. *See additional discussion regarding the 2012 FDIC-assisted acquisitions under Footnote 2 2012 FDIC-Assisted Acquisitions of Part II Item 8 Financial Statements and Supplementary Data.*

Approximately $8 million of the OREO balance at December 31, 2013 related to loans transferred to OREO in connection with the Bank s traditional lending markets. Approximately $3 million of this balance was tied to retail residential real estate properties, $342,000 to construction and land development property, with the remaining $4 million tied to CRE.

Bank Owned Life Insurance (BOLI)

During November 2013, the Bank purchased $25 million of Bank Owned Life Insurance (BOLI). The BOLI offers tax advantaged non-interest income to help the Bank cover employee-related benefits expenses. The $25 million of BOLI is expected to add approximately $750,000 of tax-exempt non-interest income to the Bank s earnings in 2014. The Company intends to evaluate the BOLI performance during the second quarter of 2014 and could purchase an additional $25 million of BOLI, if circumstances are deemed to be favorable, to help cover employee-benefit related costs.

Deposits

Total Company deposits increased $8 million, or less than 1%, from December 31, 2012 to $2 billion at December 31, 2013. Total Company interest-bearing deposits decreased $2 million, or less than 1%, and total Company non-interest bearing deposits increased $10 million, or 2%.

Deposits related to the Company s 2012 FDIC-assisted acquisitions totaled $38 million at December 31, 2013 compared to $112 million at December 31, 2012. Former TCB deposits consisted of $17 million in interest-bearing deposits and almost $4 million in non-interest bearing deposits at December 31, 2013, a decrease of $20 million and $1 million since December 31, 2012. Former FCB deposits consisted of $15 million in interest-bearing deposits and $2 million in non-interest bearing deposits at December 31, 2013, a decrease of $48 million and $5 million since December 31, 2012. In general, the run-off of deposits balances for both TCB-related customers and FCB-related customers is within management s expectations and the result of lower offering rates by RB&T as compared to those offered by TCB and FCB as of their respective acquisition dates.

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Excluding non-interest bearing deposits associated with the Company s 2012 FDIC-assisted acquisitions, non-interest bearing deposits increased $15 million, or 3%, during 2013. During most of 2012, non-interest bearing accounts, in general, remained an attractive product offering to clients due to the unlimited FDIC insurance feature. This unlimited guaranty by the FDIC expired on December 31, 2012. Management does not believe that the expiration of the unlimited FDIC insurance guaranty has had a material negative impact to the Bank s non-interest bearing deposit balances.

Excluding interest-bearing deposits associated with the Company s 2012 FDIC-assisted acquisitions, interest-bearing deposits increased $67 million, or 5%, during 2013. Approximately $32 million of this increase represented a transfer by one account out of a repurchase agreement into the NOW category of deposits. At this time, management remains uncertain as to the long-term nature of this large deposit.

See additional discussion regarding the 2012 FDIC-assisted acquisitions under Footnote 2 2012 FDIC-Assisted Acquisitions of Part II Item 8 Financial Statements and Supplementary Data.

Ending balances of all deposit categories follows:

Table 30A Deposits

December 31, (in thousands)	**2013**	2012	2011	2010	2009
Demand	**$ 651,134**	$ 580,900	$ 523,708	$ 298,452	$ 245,502
Money market accounts	**479,569**	514,698	433,508	637,557	596,370
Brokered money market accounts	**35,533**	35,596	18,121	513	64,608
Savings	**78,020**	62,145	44,472	38,661	33,691
Individual retirement accounts*	**28,767**	32,491	31,201	34,129	34,651
Time deposits, $100,000 and over*	**67,255**	80,906	82,970	152,891	169,548
Other certificates of deposit*	**75,516**	100,036	103,230	127,156	135,171
Brokered certificates of deposit**(1)*	**86,421**	97,110	88,285	687,958	1,004,665
Total interest-bearing deposits	**1,502,215**	1,503,882	1,325,495	1,977,317	2,284,206
Total non interest-bearing deposits	**488,642**	479,046	408,483	325,375	318,275
Total deposits	**$ 1,990,857**	$ 1,982,928	$ 1,733,978	$ 2,302,692	$ 2,602,481

(*) - Represents a time deposit.

(1) Incudes brokered deposits less than, equal to and greater than $100,000.

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The composition of deposits outstanding at December 31, 2013 and 2012 related to the Company s 2012 FDIC-assisted acquisitions follows:

Table 30B Deposits 2012 FDIC-assisted Acquired Banks

December 31, 2013 (in thousands)	**Tennessee Commerce Bank**	**First Commercial Bank**	**Total Acquired Banks**
Demand	**$ 1,072**	**$ 2,674**	**$ 3,746**
Money market accounts	**2,325**	**4,677**	**7,002**
Savings	**4,069**		**4,069**
Individual retirement accounts*	**643**	**729**	**1,372**
Time deposits, $100,000 and over*	**3,947**	**1,475**	**5,422**
Other certificates of deposit*	**2,293**	**3,168**	**5,461**
Brokered certificates of deposit*(1)	**2,758**	**2,581**	**5,339**
Total interest-bearing deposits	**17,107**	**15,304**	**32,411**
Total non interest-bearing deposits	**3,335**	**2,192**	**5,527**
Total deposits	**$ 20,442**	**$ 17,496**	**$ 37,938**

(*) - Represents a time deposit.

(1) Incudes brokered deposits less than, equal to and greater than $100,000.

December 31, 2012 (in thousands)	Tennessee Commerce Bank	First Commercial Bank	Total Acquired Banks
Demand	$ 1,401	$ 5,871	$ 7,272
Money market accounts	1,727	25,762	27,489
Savings	8,623		8,623
Individual retirement accounts*	1,166	3,269	4,435
Time deposits, $100,000 and over*	10,822	3,267	14,089
Other certificates of deposit*	7,196	12,574	19,770
Brokered certificates of deposit*(1)	6,729	12,247	18,976
Total interest-bearing deposits	37,664	62,990	100,654
Total non interest-bearing deposits	4,240	6,812	11,052
Total deposits	$ 41,904	$ 69,802	$ 111,706

(*) Represents a time deposit.

(1) Incudes brokered deposits less than, equal to and greater than $100,000.

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

Table 31 Average Deposits

		2013			2012			2011	
December 31, (dollars in thousands)		**Average Balance**	**Average Rate**		Average Balance	Average Rate		Average Balance	Average Rate
Transaction accounts	**$**	**696,295**	**0.07%**	$	614,118	0.06%	$	422,222	0.13%
Money market accounts		**508,288**	**0.12%**		478,682	0.15%		628,178	0.31%
Time deposits		**187,076**	**0.73%**		253,567	0.86%		254,064	1.60%
Brokered money market		**34,691**	**0.20%**		22,469	0.22%		6,563	0.31%
Brokered certificates of deposit		**88,497**	**1.75%**		143,619	1.19%		229,488	1.03%
Total average interest-bearing deposits		**1,514,847**	**0.27%**		1,512,455	0.34%		1,540,515	0.58%
Total average non interest-bearing deposits		**513,891**			624,053			509,457	
Total average deposits	**$**	**2,028,738**	**0.20%**	$	2,136,508	0.24%	$	2,049,972	0.43%

Maturities of time deposits of $100,000 or more outstanding, including brokered deposits, at December 31, 2013 follows:

Table 32 Maturities of Time Deposits Greater than $100,000

Maturity		(in thousands)
Three months or less	**$**	**28,084**
Over three months through six months		**24,043**
Over six months through 12 months		**29,525**
Over 12 months		**65,257**
Total time deposits greater than $100,000	**$**	**146,909**

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

Securities sold under agreements to repurchase and other short-term borrowings decreased $85 million, or 34%, during 2013. Approximately $32 million of this decline was related to the previously discussed transfer into deposits by one customer relationship. The remaining decrease was related to customary account fluctuations, as these balances are subject to large fluctuations on a daily basis. The substantial majority of these accounts are indexed to immediately repricing indices such as the FFTR.

Information regarding Securities sold under agreements to repurchase follows:

Table 33 Securities sold under agreements to repurchase

December 31, (dollars in thousands)	**2013**	2012	2011	2010	2009
Outstanding balance at end of year	**$ 165,555**	$ 250,884	$ 230,231	$ 319,246	$ 299,580
Weighted average interest rate at year end	**0.04%**	0.06%	0.17%	0.31%	0.30%
Average outstanding balance during the year	**$ 170,386**	$ 237,414	$ 278,861	$ 330,154	$ 323,688
Average interest rate during the year	**0.04%**	0.16%	0.23%	0.31%	0.33%
Maximum outstanding at any month end	**$ 242,721**	$ 272,057	$ 297,571	$ 329,383	$ 318,769

Federal Home Loan Bank Advances

FHLB advances increased $62 million, or 12%, from December 31, 2012 to $605 million at December 31, 2013. In addition to using FHLB advances as a funding source, the Bank also utilizes longer-term FHLB advances as an interest rate risk management tool. During 2013, the Bank borrowed $70 million in FHLB advances primarily to fund and partially mitigate the Bank s interest rate risk for its fixed rate CRE loan initiative. These advances had a weighted average rate of 1.61% and a weighted average life of seven years. To assist in bringing the Bank s EVE calculation within board-approved policy limits during the fourth quarter of 2013, the Bank borrowed an additional $20 million of long-term FHLB advances with a weighted-average life of five years and a weighted-average cost of 1.76%.

Overall use of these advances during a given year is dependent upon many factors including asset growth, deposit growth, current earnings, and expectations of future interest rates, among others. With many of the Bank s expected loan originations during 2014 having repricing terms longer than five years, management will likely elect to borrow additional funds in 2014 and beyond to mitigate its risk of future increases in market interest rates. Whether the Bank ultimately does so, and how much in advances it extends out, will be dependent upon circumstances at that time. If the Bank does obtain longer-term FHLB advances for interest rate risk mitigation, it will have a negative impact on then current earnings. The amount of the negative impact will be dependent upon the dollar amount, coupon and final maturity of the advances obtained.

Information regarding Federal Home Loan Bank advances follows:

Table 34 Federal Home Loan Bank advances

December 31, (dollars in thousands)	**2013**	2012	2011	2010	2009
Outstanding balance at end of year	**$ 605,000**	$ 542,600	$ 934,630	$ 564,877	$ 637,607
Weighted average interest rate at year end	**2.42%**	2.64%	1.83%	3.49%	3.53%
Average outstanding balance during the year	**$ 578,633**	$ 560,659	$ 558,249	$ 574,181	$ 630,294
Average interest rate during the year	**2.54%**	2.65%	3.26%	3.48%	3.69%
Maximum outstanding at any month end	**$ 605,000**	$ 789,618	$ 934,630	$ 662,593	$ 675,117

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Interest Rate Swaps

During the fourth quarter of 2013, the Bank entered into two interest rate swap agreements as part of its interest rate risk management strategy. The Bank designated the swaps as cash flow hedges intended to reduce the variability in cash flows attributable to either FHLB advances tied to the three-month LIBOR or the overall changes in cash flows on certain money market deposit accounts. The counterparty for both swaps met the Bank s credit standards and the Bank believes that the credit risk inherent in the swap contracts is not significant. At December 31, 2013, the Bank had no cash pledged as collateral for these swaps.

Table 35 Interest Rate Swaps

Information regarding the Bank s interest rate swaps follows:

December 31, (dollars in thousands)		2013
Notional amount	**$**	**20,000**
Weighted average pay rate		**2.25%**
Weighted average receive rate		**0.21%**
Weighted average maturity in years		**7**
Unrealized gain	**$**	**170**

Liquidity

The Bank had a loan to deposit ratio (excluding brokered deposits) of 139% at December 31, 2013 and 143% at December 31, 2012. At December 31, 2013 and December 31, 2012, the Bank had cash and cash equivalents on-hand of $171 million and $138 million. In addition, the Bank had available collateral to borrow an additional $282 million and $472 million from the FHLB at December 31, 2013 and December 31, 2012. In addition to its borrowing line with the FHLB, RB&T also had unsecured lines of credit totaling $166 million available through various other financial institutions as of December, 31 2013.

The Bank maintains sufficient liquidity to fund routine loan demand and routine deposit withdrawal activity. Liquidity is managed by maintaining sufficient liquid assets in the form of investment securities. Funding and cash flows can also be realized by the sale of securities available for sale, principal paydowns on loans and MBSs and proceeds realized from loans held for sale. The Bank s liquidity is impacted by its ability to sell certain investment securities, which is limited due to the level of investment securities that are needed to secure public deposits, securities sold under agreements to repurchase, FHLB borrowings, and for other purposes, as required by law.

At December 31, 2013 and December 31, 2012, pledged investment securities had a fair value of $225 million and $335 million. Republic s banking centers and its website, www.republicbank.com, provide access to retail deposit markets. These retail deposit products, if offered at attractive rates, have historically been a source of additional funding when needed. If the Bank were to lose a significant funding source, such as a few major depositors, or if any of its lines of credit were cancelled, or if the Bank cannot obtain brokered deposits, the Bank would be forced to offer market leading deposit interest rates to meet its funding and liquidity needs.

At December 31, 2013, the Bank had approximately $391 million from 58 large deposit relationships where the individual relationship individually exceeded $2 million. These accounts do not require collateral; therefore, cash from these accounts can generally be utilized to fund the loan portfolio. The 20 largest deposit relationships represented approximately $282 million of the total balance. If any of these balances are moved from the Bank, the Bank would likely utilize overnight borrowing lines in the short-term to replace the balances. On a longer-term basis, the Bank would likely utilize brokered deposits to replace withdrawn balances. Based on past experience utilizing brokered deposits, the Bank believes it can quickly obtain brokered deposits if needed. The overall cost of gathering brokered deposits, however, could be substantially higher than the Traditional Bank deposits they replace, potentially decreasing the Bank s earnings.

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Capital

Table 36 Capital

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

December 31, (dollars in thousands)	**2013**	2012	2011	2010	2009
Stockholders equity	**$ 542,793**	$ 536,702	$ 452,367	$ 371,376	$ 316,020
Book value per share at December 31,	**26.09**	25.60	21.59	17.74	15.19
Tangible book value per share at December 31, *(1)*	**25.35**	24.86	20.81	16.87	14.28
Dividends declared per share - Class A Common Stock	**0.693**	1.749	0.605	0.561	0.517
Dividends declared per share - Class B Common Stock	**0.630**	1.590	0.550	0.510	0.470
Average stockholders equity to average total assets	**16.15%**	14.89%	12.87%	10.31%	8.95%
Total risk based capital - Total Company	**26.71%**	25.28%	24.74%	22.04%	18.37%
Tier 1 risk based capital - Total Company	**25.67%**	24.31%	23.59%	20.89%	17.25%
Tier 1 leverage capital - Total Company	**16.81%**	16.36%	14.77%	12.05%	10.52%
Dividend payout ratio	**56%**	31%	13%	18%	25%

(1) See footnote 4 of Part II, Item 6 Selected Financial Data

Total stockholders equity increased from $537 million at December 31, 2012 to $543 million at December 31, 2013. The increase in stockholders equity was primarily attributable to net income earned during 2013 reduced by cash dividends declared and common stock repurchases.

New Capital Rules Beginning January 1, 2015 the Company and the Bank will be subject to the new capital regulations of Basel III. The new regulations establish higher minimum risk-based capital ratio requirements, a new common equity Tier 1 risk-based capital ratio and a new capital conservation buffer. The new regulations also include revisions to the definition of capital and changes in the risk-weighting of certain assets. The new regulations establish definitions of well capitalized including the capital conservation buffer as a 7.0% common equity Tier 1 risk-based capital ratio, an 8.5% Tier 1 risk-based capital ratio and a 10.5% total risk-based capital ratio. The Tier 1 leverage ratio is unchanged from current regulations. Management has completed a preliminary analysis of the impact of these new regulations to the capital ratios of both the Company and the Bank and estimates that the ratios for both the Company and the Bank will comfortably exceed the new minimum capital ratio requirements for well-capitalized including the capital conservation buffer under Basel III when effective.

Common Stock The Class A Common shares are entitled to cash dividends equal to 110% of the cash dividend paid per share on Class B Common Stock. Class A Common shares have one vote per share and Class B Common shares have ten votes per share. Class B Common shares may be converted, at the option of the holder, to Class A Common shares on a share for share basis. The Class A Common shares are not convertible into any other class of Republic s capital stock.

Dividend Restrictions The Parent Company s principal source of funds for dividend payments are dividends received from RB&T. Banking regulations limit the amount of dividends that may be paid to the Parent Company by the Bank without prior approval of the respective states banking regulators. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year s net profits, combined with the retained net profits of the preceding two years. At December 31, 2013, RB&T could, without prior approval, declare dividends of approximately $75 million. The Company does not plan to pay dividends from its Florida subsidiary, RB, in the foreseeable future.

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

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Banking regulators have categorized the Bank as well-capitalized. To be categorized as well-capitalized, the Bank must maintain minimum Total Risk Based, Tier I Capital and Tier I Leverage Capital ratios. Regulatory agencies measure capital adequacy within a framework that makes capital requirements, in part, dependent on the individual risk profiles of financial institutions. Republic continues to exceed the regulatory requirements for Total Risk Based Capital, Tier I Capital and Tier I Leverage Capital. Republic and the Bank intend to maintain a capital position that meets or exceeds the well-capitalized requirements as defined by the FRB, FDIC and the OCC. Republic s average stockholders equity to average assets ratio was 16.15% at December 31, 2013 compared to 14.89% at December 31, 2012. Formal measurements of the capital ratios for Republic and the Bank are performed by the Company at each quarter end.

In 2004, the Bank executed an intragroup trust preferred transaction with the purpose of providing RB&T access to additional capital markets, if needed in the future. The subordinated debentures held by RB&T were treated as Tier 2 Capital based on requirements administered by the Bank s federal banking agency. In April 2013, the Bank received approval from its regulators and unwound the intragroup trust preferred transaction. The cash utilized to pay off the transaction remained at the Parent Company, Republic Bancorp. Unwinding of the transaction had no impact on RB&T s two Tier 1 related capital ratios and only a minimal impact on its Total Risk Based Capital ratio.

In 2005, Republic Bancorp Capital Trust (RBCT), an unconsolidated trust subsidiary of Republic Bancorp, Inc., was formed and issued $40 million in Trust Preferred Securities (TPS). The TPS pay a fixed interest rate for ten years and adjust with LIBOR + 1.42% thereafter. The TPS mature on December 31, 2035 and are redeemable at the Bank s option after ten years. The subordinated debentures are treated as Tier I Capital for regulatory purposes. The sole asset of RBCT represents the proceeds of the offering loaned to Republic Bancorp, Inc. in exchange for subordinated debentures which have terms that are similar to the TPS. The subordinated debentures and the related interest expense, which are payable quarterly at the annual rate of 6.015%, are included in the consolidated financial statements. The proceeds obtained from the TPS offering have been utilized to fund loan growth (in prior years), support an existing stock repurchase program and for other general business purposes such as the acquisition of GulfStream Community Bank in 2006.

Off Balance Sheet Items

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

Table 37 Off Balance Sheet Items

	Maturity by Period				
December 31, 2013 (in thousands)	**Less than one year**	**Greater than one year to three years**	**Greater than three years to five years**	**Greater than five years**	**Total**
Unused warehouse lines of credit	**$ 208,424**	**$**	**$**	**$**	**$ 208,424**
Unused home equity lines of credit	**542**	**25,156**	**63,940**	**140,723**	**230,361**
Unused loan commitments - other	**122,440**	**52,230**	**1,735**	**2,371**	**178,776**
Standby letters of credit	**2,145**	**100**	**63**		**2,308**
FHLB letters of credit	**3,200**				**3,200**
Total off balance sheet items	**$ 336,751**	**$ 77,486**	**$ 65,738**	**$ 143,094**	**$ 623,069**

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The terms and risk of loss involved in issuing standby letters of credit are similar to those involved in issuing loan commitments and extending credit. Commitments outstanding under standby letters of credit totaled $2 million and $17 million at December 31, 2013 and December 31, 2012. In addition to credit risk, the Bank also has liquidity risk associated with standby letters of credit because funding for these obligations could be required immediately. The Bank does not deem this risk to be material.

At December 31, 2013, the Bank had a $3 million letter of credit from the FHLB issued on behalf of a RB&T client. This letter of credit was used as credit enhancements for client bond offerings and reduced RB&T s available borrowing line at the FHLB. The Bank uses a blanket pledge of eligible real estate loans to secure these letters of credit.

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

Aggregate Contractual Obligations

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

Table 38 Aggregate Contractual Obligations

			Maturity by Period		
December 31, 2013 (in thousands)	**Less than one year**	**Greater than one year to three years**	**Greater than three years to five years**	**Greater than five years**	**Total**
Time deposits (including brokered certificates of deposit)	**$ 151,189**	**$ 79,287**	**$ 27,012**	**$ 471**	**$ 257,959**
Federal Home Loan Bank advances	**188,000**	**92,000**	**235,000**	**90,000**	**605,000**
Subordinated note (*)				**41,240**	**41,240**
Securities sold under agreements to repurchase	**165,555**				**165,555**
Interest rate swaps (**)	**400**	**332**	**141**		**873**
Lease commitments	**6,846**	**10,345**	**5,672**	**5,507**	**28,370**
Total contractual obligations	**$ 511,990**	**$ 181,964**	**$ 267,825**	**$ 137,218**	**$ 1,098,997**

(*) While this instrument matures in September 2035, the Bank has the right to prepay at the end of the fixed period, August 2015, without penalty.

(**) Obligation is estimated using the LIBOR forward yield curve through 2020. Amounts are subject to change based on actual movements in LIBOR.

See Footnote 10 Deposits of Part II Item 8 Financial Statements and Supplementary Data for further information regarding the Bank s time deposits.

FHLB advances represent the amounts that are due to the FHLB. Approximately $100 million of the advances, although fixed, are subject to conversion provisions at the option of the FHLB and can be prepaid without a penalty. Management believes these advances will not likely be converted in the short-term, and therefore has included the advances in their original maturity categories for purposes of this table.

See Footnote 13 Subordinated Note of Part II Item 8 Financial Statements and Supplementary Data for further information regarding the Bank s subordinated note.

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

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

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Asset/Liability Management and Market Risk

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

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

The Company utilizes an earnings simulation model as its primary tool to measure interest rate sensitivity. Potential changes in market interest rates and their subsequent effects on net interest income were evaluated with the model. The model projects the effect of instantaneous movements in interest rates between 100 and 400 basis point increments equally across all points on the yield curve. These projections are computed based on many various assumptions, which are used to determine the range between 100 and 400 basis point increments, as well as the base case (which is a twelve month projected amount) scenario. Assumptions based on growth expectations and on the historical behavior of the Bank s deposit and loan rates and their related balances in relation to changes in interest rates are also incorporated into the model. These assumptions are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model s simulated results due to timing, magnitude and frequency of interest rate changes, as well as changes in market conditions and the application and timing of various management strategies. Additionally, actual results could differ materially from the model if interest rates do not move equally across all points on the yield curve.

The Company did not present a model simulation for declining interest rates as of December 31, 2013 because the Federal Open Market Committee effectively lowered the Fed Funds Target Rate between 0.00% to 0.25% in December 2008; therefore, no further short-term rate reductions can occur. Overall, the Company s interest rate risk position from rising rates has generally remained within a relatively narrow range since December 31, 2012, showing improvements in the Up 100 and Up 200 basis points scenarios with deterioration in the Up 300 scenario. The Company s Base net interest income projection as of December 31, 2013, however, was substantially lower than the previous 12 months and the Base projection as of December 31, 2012. The Base projection represents the Company s projected net interest income, excluding loan fees, for the next 12-month period. The deterioration in the Company s Base net interest income projection is primarily due to the expected continued downward repricing of the Bank s interest-earning assets.

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The following tables illustrate the Company s projected net interest income sensitivity profile based on the asset/liability model as of December 31, 2013 and 2012. The Company s interest rate sensitivity model does not include loan fees within interest income. During 2013 and 2012, loan fees (excluding RAL fees) included in interest income were $10.9 million and $5.6 million.

Table 39 Interest Rate Sensitivity for 2013

(dollars in thousands)	Previous Twelve Months	Base	Increase in Rates 100 Basis Points	200 Basis Points	300 Basis Points	400 Basis Points*
Projected interest income:						
Short-term investments	$ 413	$ 24	$ 279	$ 528	$ 771	$ 936
Investment securities	9,311	9,006	10,727	12,499	14,130	15,662
Loans, excluding loan fees	113,933	112,746	119,881	128,069	136,706	145,458
Total interest income, excluding loan fees	123,657	121,776	130,887	141,096	151,607	162,056
Projected interest expense:						
Deposits	4,093	3,957	9,460	17,540	26,011	35,242
Securities sold under agreements to repurchase	70	29	835	2,048	3,673	5,297
Federal Home Loan Bank advances and other long-term borrowings	17,230	16,494	17,717	18,949	20,190	22,729
Total interest expense	21,393	20,480	28,012	38,537	49,874	63,268
Net interest income, excluding loan fees	$ 102,264	$ 101,296	$ 102,875	$ 102,559	$ 101,733	$ 98,788
Change from base			$ 1,579	$ 1,263	$ 437	$ (2,508)
% Change from base			1.56%	1.25%		