REPUBLIC BANCORP INC /KY/
Form 10-K
March 13, 2015
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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, 2014

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	(I.R.S. Employer Identification No.)

incorporation or organization)

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, 2014 (the last business day of the registrant s most recently completed second fiscal quarter) was approximately $233,616,877 (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 13, 2015 was 18,614,186 and 2,245,492.

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 23, 2015 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 or RB&T refers to the Company s subsidiary bank: Republic Bank & Trust Company.

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 clients 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; information security breaches or cyber security attacks involving either the Company or one of the Company s third party service providers; as well as other risks and uncertainties reported from time to time in the Company s filings with the Securities and Exchange Commission (SEC), including 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 and lease losses (Provision);

- future credit quality, credit losses and the overall adequacy of the Allowance for Loan and Lease Losses (Allowance);

- potential impairment charges or 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, capital and economic value of equity (EVE);

- 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, Warehouse lines of credit and Correspondent Lending products;

- the future value of mortgage servicing rights (MSRs);

- the future financial performance of Tax Refund Solutions (TRS), a division of the Republic Processing Group (RPG) segment;

- future Refund Transfer (RT) volume for TRS;

- the future net revenue associated with RTs at TRS;

- the future financial performance of Republic Payment Solutions (RPS), a division of RPG;

- the future financial performance of Republic Credit Solutions (RCS), a division of RPG;

- the potential impairment of investment securities;

- the growth in the Bank s loan portfolio, in general;

- the growth in the Bank s Warehouse Lending portfolio;

- the growth in single family residential, first lien real estate loans originated through the Bank s Correspondent Lending delivery channel;

- the volatility of the Bank s Warehouse Lending portfolio outstanding balances;

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- the impact on the Bank s Allowance and Provision, as well as the impact of future legal risks associated with the Bank s expected growth in its single family, residential real estate loan portfolio that are non-Qualified Mortgages (QM);
- the Bank s ability to maintain and/or grow deposits;
- the concentrations and volatility of the Bank s securities sold under agreements to repurchase;
- the future redemption or repricing option available in 2015 for the Company s Trust Preferred Securities (TPS);
- the Company s ability to successfully implement strategic plans, including, but not limited to, those related to future business acquisitions;
- future accretion of discounts on loans acquired in the Bank s 2012 FDIC-assisted acquisitions and the effect of such accretion on the Bank s net interest income and net interest margin;
- future amortization of premiums on loans acquired through the Bank s Correspondent Lending channel and the effect of such amortization on the Bank s net interest income and net interest margin;
- 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 Wall Street Reform and Consumer Protection Act (Dodd-Frank Act); and legislation and regulation relating to overdraft fees (and changes to the Bank s overdraft practices as a result thereof), 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; and
- the strength of the U.S. economy in general and the strength of the local and regional economies in which the Company conducts operations.

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

See additional discussion under the sections titled Part I Item 1 Business, 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 financial holding company headquartered in Louisville, Kentucky. Republic is the parent company of Republic Bank & Trust Company (RB&T or the Bank) and Republic Insurance Services, Inc. (the Captive). The Bank is a Kentucky-based, state chartered non-member financial institution. The Captive, which was formed during the third quarter of 2014, is a wholly-owned insurance subsidiary of the Company. The Captive provides property and casualty insurance coverage to the Company and the Bank as well as five other third-party insurance captives for which insurance may not be available or economically feasible. Republic Bancorp Capital Trust is a Delaware statutory business trust that is a 100%-owned unconsolidated finance subsidiary of Republic Bancorp, Inc.

During the second quarter of 2014, Republic Bank, the Company s wholly-owned, federally chartered savings institution, was legally merged into RB&T. The merged institution operates under the name Republic Bank & Trust Company. The merger did not materially impact the Company s consolidated financial statements.

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As of December 31, 2014, in addition to an Internet delivery channel, Republic had 41 full-service banking centers with locations as follows:

- Kentucky 32
- Metropolitan Louisville 19
- Central Kentucky 8
- Elizabethtown 1
- Frankfort 1
- Georgetown 1
- Lexington 4
- 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 3*
- Metropolitan Cincinnati, Ohio 1
- Metropolitan Nashville, Tennessee 2

** - One banking center in Hudson, Florida was closed in the first quarter of 2015, thereby reducing total banking center locations to 40.*

Republic s headquarters are located in Louisville, which is the largest city in Kentucky based on population.

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, 2014, Republic had total assets of $3.7 billion, total deposits of $2.1 billion and total stockholders equity of $559 million. Based on total assets as of December 31, 2014, Republic ranked as the largest Kentucky-based financial 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, 2014, the Company was divided into four distinct operating segments: Traditional Banking, Warehouse Lending (Warehouse), Mortgage Banking and Republic Processing Group (RPG). Management considers the first three segments to collectively constitute Core Banking activities. The Warehouse segment was reported as a division of the Traditional Banking segment prior to 2014, but was broken out as a separate segment in 2014. All prior periods have been reclassified to conform to the current presentation.

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 separate and independent segment reporting. All divisions of RPG operate through the Bank. Net income, total assets and net interest margin by business segment for the years ended December 31, 2014, 2013 and 2012 are presented below:

	Year Ended December 31, 2014					
	Core Banking					
(dollars in thousands)	**Traditional Banking**	**Warehouse Lending**	**Mortgage Banking**	**Total Core Banking**	**Republic Processing Group**	**Total Company**
Net income	**$ 21,315**	**$ 3,402**	**$ (385)**	**$ 24,332**	**$ 4,455**	**$ 28,787**
Total assets	**3,404,323**	**319,153**	**11,593**	**3,735,069**	**11,944**	**3,747,013**
Net interest margin	**3.32%**	**3.77%**	**NM**	**3.35%**	**NM**	**3.33%**

	Year Ended December 31, 2013					
	Core Banking					
(dollars in thousands)	Traditional Banking	Warehouse Lending	Mortgage Banking	Total Core Banking	Republic Processing Group	Total Company
Net income	$ 21,265	$ 2,663	$ 2,887	$ 26,815	$ (1,392)	$ 25,423
Total assets	3,205,499	149,351	9,307	3,364,157	7,747	3,371,904
Net interest margin	3.47%	4.28%	NM	3.50%	NM	3.48%

	Year Ended December 31, 2012					
	Core Banking					
(dollars in thousands)	Traditional Banking	Warehouse Lending	Mortgage Banking	Total Core Banking	Republic Processing Group	Total Company
Net income	$ 53,452	$ 1,722	$ 3,279	$ 58,453	$ 60,886	$ 119,339
Total assets	3,155,013	216,921	15,752	3,387,686	6,713	3,394,399
Net interest margin	3.62%	4.19%	NM	3.63%	NM	4.82%

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.

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(I) Traditional Banking segment

Lending Activities

The Bank s principal lending activities consists of the following:

Retail Mortgage Lending Through its retail banking centers, its correspondent lending channel and its internet banking channel, the Bank originates single family, first lien residential real estate loans. In addition the Bank originates home equity loans and home equity lines of credit through its retail banking centers. All such loans are generally collateralized by owner occupied property. For those loans originated through the Bank s retail banking centers, the collateral is predominately located in the Bank s primary market area footprint, while loans originated through the correspondent lending channel and internet banking are generally secured by collateral located outside of the Bank s geographic footprint. 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 interest rate adjustments tied to various market indices with specified minimum and maximum adjustments. The Bank generally charges a higher interest rate for its ARMs if the property is not owner occupied. The interest rates on the majority of ARMs are adjusted after their fixed rate periods on an annual basis, with most having annual and lifetime limitations on upward rate adjustments to the loan. These loans typically feature amortization periods of up to 30 years and have fixed interest rate periods generally ranging from five to ten years, the popularity of which with the Bank s clients being somewhat dependent upon market conditions. In general, ARMs containing longer fixed rate periods have historically been more attractive to the Bank s clients in a relatively low rate environment, while ARMs with shorter fixed rate have historically been more attractive to the Bank s clients in a relatively high rate environment. While there is no requirement for clients to refinance their loans 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.

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 (LTV) up to 90% and a combined LTV up to 100%. During the fourth quarter of 2013, the Bank introduced a 100% LTV product for home purchase transactions within its primary markets. The Bank does not require the borrower to obtain private mortgage insurance for ARM loans. Except for the Bank s Home Equity Amortizing Loan (HEAL) product under $150,000, the Bank requires mortgagee s title insurance on single family, first lien residential real estate loans to protect the Bank against defects in its liens on the properties that collateralize the loans. The Bank normally requires title, fire, and extended casualty insurance to be obtained by the borrower and when required by applicable regulations, flood insurance. The Bank maintains an errors and omissions insurance policy to protect the Bank against loss in the event a borrower fails to maintain proper fire and other hazard insurance policies.

Single family, first lien residential ARMs originated prior to January 10, 2014 generally contain an early termination penalty (ETP). Effective January 10, 2014, with the implementation of the Ability to Repay (ATR) Rule, the Bank eliminated ETPs 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. MSRs attached to the sold portfolio are either sold along with the loan or retained. All loans sold into the secondary market along with their corresponding MSRs are included as a component of the Company s Mortgage Banking segment as discussed below and elsewhere in this filing.

The Bank, as it has in the past, may retain such longer-term fixed rate loans from time to time in the future to help combat market compression. Any such loans retained on balance sheet would be reported as a component of the Traditional Banking segment and not the Mortgage Banking segment.

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.

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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 the review of these purchased loan portfolios 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.

In January 2014, the CFPB s final rule implementing the ATR requirements in the Dodd-Frank Act became effective. 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 provides a presumption of compliance with the ATR requirements and certain protections from liability for a mortgage loan meeting the parameters of a QM. While regulatory agencies have explained that there is no legal requirement or supervisory expectation to originate any QMs at all, transactions covered by the ATR requirements that do not meet the parameters of a QM, i.e. non-QMs, do not maintain the presumed protections from liability like their QM counterparts.

Management believes that ARM loans originated through the Bank s retail origination channel during 2014 were predominantly QMs; however, the Bank has made strategic changes to its underwriting guidelines in 2015 that will result in the substantial majority of prospective ARM loans originated through its retail origination channel to be non-QMs. Management has made these strategic changes to provide a better client experience for the Bank s mortgage loan clients and to reduce the overall costs to the Bank of originating loans subject the QM parameters. Management still expects all of its prospective non-QMs to meet the ATR requirements.

See additional discussion regarding ATR requirements and QMs under the sections titled:

- *Supervision and Regulation in this section of the filing*
- *Part I Item 1A Risk Factors*

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% LTV, depending on the market, of the lesser of the appraised value or purchase price of the property. CRE loans generally have five-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 the 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, regional 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 LTV 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 and leases 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.

Similar to CRE loans, 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.

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In 2015, while continuing to increase its total commercial-related loan portfolio, the Bank intends to diversify its commercial loan mix by increasing the ratio of C&I loans to total commercial loans and conversely decreasing the ratio of CRE loans to total commercial loans.

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.

The Bank also originates 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.

Internet Lending The Bank accepts online loan applications through its website, www.republicbank.com. Historically, the majority of loans originated through the internet have been within the Bank s traditional markets of Kentucky and Indiana. Other states where loans may be originated include Tennessee, Florida, Ohio, Virginia, Minnesota, as well as, the District of Columbia.

Correspondent Lending The Bank began acquiring single family, first lien mortgage loans for investment through its Correspondent Lending channel in May 2014. Correspondent Lending generally involves the Bank acquiring, primarily from its Warehouse Lending clients, closed loans that meet the Bank s specifications. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium. Premiums on loans held for investment acquired though the Correspondent Lending channel are amortized into interest income on the level-yield method over the expected life of the loan. As previously disclosed, loans acquired through the Correspondent Lending channel are generally made to borrowers outside of the Bank s historical market footprint. As of December 31, 2014, a substantial majority of loans originated through the Company s Correspondent Lending channel were secured by single family residences located in the state of California.

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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 3 Loans and Allowance for Loan and Lease Losses.*

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 this clientele.

Treasury Management Services The Bank provides various deposit products designed for commercial business clients 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 clients Internet banking services and products through its website, www.republicbank.com.

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

Bank Acquisitions The Bank maintains an acquisition strategy to selectively grow its franchise as a complement to its internal growth strategies. The Bank s most recent acquisitions occurred during 2012 with the execution of two FDIC-assisted acquisitions.

(II) Warehouse Lending segment

Warehouse Lines of Credit The Bank provides short-term, revolving credit facilities to mortgage bankers across the Nation through mortgage warehouse lines of credit. These credit facilities are secured by single family, first lien residential real estate loans. The credit facility enables the mortgage banking clients to close single family, first lien residential real estate loans in their own name and temporarily fund their inventory of these closed loans until the loans are sold to investors approved by the Bank or purchased by the Bank through its Correspondent Lending channel. 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. The Bank receives the sale proceeds of each loan directly from the investor and applies the funds to pay off the warehouse advance and related accrued interest and fees. The remaining proceeds are credited to the mortgage banking client.

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(III) 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 property 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 MSRs. 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 MSR amortization is recorded as a reduction to net servicing income, a component of Mortgage Banking income.

With the assistance of an independent third party, 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 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.

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

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(IV) Republic Processing Group segment

All divisions of the RPG segment operate through the Bank. Nationally, RPG facilitates the receipt and payment of federal and state tax refund products under the TRS division. The RPS division offers general purpose reloadable prepaid debit cards through third party program managers. The RCS division offers 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 Nation, 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, the Bank entered into an agreement with the FDIC resolving its differences regarding the TRS division. The Bank 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, the Bank 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 the Bank. As required by this settlement, the Bank discontinued offering the RAL product effective April 30, 2012. The Company s net 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 the Bank and approved by the FDIC, implemented increased training and audits of the Bank s ERO partners, who make the Bank s tax products available to taxpayers across the Nation. In addition, various components of the Agreement required the Bank 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.

RTs are products whereby a tax refund is issued to the taxpayer after the Bank has received the refund from the federal or state government. There is no credit risk or borrowing cost for the Bank associated with these products because they are only delivered to the taxpayer upon receipt of the refund directly from the governmental paying authority. 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 client s anticipated tax refund, which represented the source of repayment. The fees earned on RALs were reported as interest income under the line item Loans, including fees.

JHI and Liberty Contracts

For the first quarter 2012 tax season, the Bank 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, the Bank 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 the Bank s RT products, as well as the Bank s previously offered RAL product. Approximately 19% of the TRS division s gross revenue was derived from Liberty tax offices during 2012. Termination of this contract had a material adverse impact to the Company s results of operations.

The Bank notified Liberty that the Bank disagreed with Liberty s interpretation of the M&S Agreement relative to Liberty s ability to terminate. The Bank and Liberty subsequently entered into mediation under the terms of the M&S Agreement.

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The Bank s contract dispute with Liberty was resolved during January 2014 with a nominal amount of related legal expense. With the matter resolved, the Bank entered into a new two-year agreement with Liberty in which it began 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 12% over the RPG segment s 2014 net revenue level. Additional overhead expenses with the new contract are expected to be nominal. The new two-year contract with Liberty results in a substantial reduction in revenue when compared to the Bank s former contract with Liberty dating back to 2012.

On September 18, 2012, the Bank 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 related to the Bank s RT products, as well as the Bank s previously offered RAL product. Approximately 40% of the TRS division s gross revenue was derived from JH tax offices during 2012. Termination of this contract had a material adverse impact to the Company s results of operations in 2013.

The Bank subsequently notified JHI that the Bank disagreed with JHI s interpretation of its ability to terminate the Program Agreement and entered into a binding arbitration under the terms of the Program Agreement. The Bank 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. With the matter resolved, the Bank entered into a new two-year agreement with JHI pursuant to which it began processing refunds for JHI clients in January 2014. The new two-year contract with JHI results in a substantial reduction in revenue when compared to the Bank s former contract with JHI dating back to 2012.

Unlike the Bank s previous contract with JHI, the Bank s 2014 contract stipulated that that the tax preparation provider also assumes the program manager role for all product volume generated through JHI. In addition, in January 2015 the Bank amended its two-year contract with Liberty allowing Liberty to assume the program manager role for a portion of the product volume generated through Liberty. The TRS division of RPG has historically earned RT revenue 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 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 RTs and the verification to third parties regarding the validity of 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 the 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 substantially more of the revenue for the associated bank products sold, as the Bank now only 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.

Republic Payment Solutions division:

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 interchange revenue.

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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 meets reporting thresholds.

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 expended. These types of cards are considered gift or incentive cards. These cards may be open loop or closed loop, as described below. Normally these types of cards are used for the purchase of goods or services at retail locations and cannot be used to receive cash.

Prepaid cards may be open loop, closed loop or semi-closed loop. Open loop cards can be used to receive cash at automatic teller machines (ATM s) 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.

The prepaid card market is one of the fastest growing segments of the payments industry throughout the Nation. 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 Nation. 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 the Bank, the RCS division offers 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.

See additional discussion regarding RPG 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 22 Segment Information*

Employees

As of December 31, 2014, Republic had 723 full-time equivalent employees (FTE s). Altogether, Republic had 711 full-time and 24 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. Through its Correspondent Lending channel, the Bank also competes to acquire newly originated mortgage loans from select mortgage companies on a national basis. 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, Tennessee and Ohio. 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 client bases, higher lending limits, more extensive banking center networks, numerous ATMs, 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 and ATMs, flexible hours, deposit 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 client 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.

Warehouse Lending

The Bank competes with financial institutions across the Nation for mortgage banking clients in need of warehouse lines of credit. Competitors may have substantially greater resources, larger established client bases, higher lending limits, as well as underwriting standards and on-going oversight requirements that could be viewed more favorably by some clients. A few or all of these factors can lead to a competitive disadvantage to the Company when attempting to retain or grow its Warehouse Lending client base.

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 often 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 have had a material adverse impact on the profitability of the Bank 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, the Bank has faced increased competition in the RT marketplace. In addition to the loss of volume resulting from additional competitors, the Bank 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.

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In addition, as a result of the Bank 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 the Bank.

Republic Payment Solutions division

The prepaid card industry is subject to intense and increasing competition. The Bank competes 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.

Republic Credit Solutions division

The small dollar consumer loan industry is highly competitive. Management believes principal competitors for its small dollar loan programs 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 Nation.

Supervision and Regulation

The Company and the Bank are subject to extensive federal and state banking laws and regulations, which establish a comprehensive framework of activities in which the Company and the Bank may engage. These laws and regulations are primarily intended to provide protection to clients and depositors, not stockholders.

The Company is a legal entity separate and distinct from the Bank and is subject to direct supervision by The Federal Reserve Bank (FRB). The Company s principal source of funds is the payment of cash dividends from the Bank. The Company files regular routine reports with the FRB in addition to the Bank s filings with the FDIC concerning business activities and financial condition. These regulatory agencies conduct periodic examinations to review the Company s safety and soundness, and compliance with various requirements.

The Bank is a Kentucky-chartered commercial banking and trust corporation and as such, it is subject to supervision and regulation by the FDIC and the Kentucky Department of Financial Institutions (KDFI).

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 and KDFI. The FRB regulates the Company with monetary policies and operational rules that directly impact 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. The Bank and the Company are also subject to regulations issued by the CFPB, an independent bureau of the FRB created by the Dodd-Frank Act. An adverse ruling against the Company or the Bank under these laws could have a material adverse effect on results of operations.

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 KDFI the CFPB or state or federal legislation, could have a material adverse impact on Company operations.

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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, the Bank is subject to regulation and potential enforcement actions by other state and federal agencies.

Certain regulatory requirements applicable to the Company and the Bank are referred to below or elsewhere in this filing. The description of statutory provisions and regulations applicable to banks 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 Card Regulation

The prepaid 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. Prepaid cards issued by the Bank could be subject to 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.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the Dodd-Frank Act was signed into law, which was intended to cause a fundamental restructuring of federal banking regulation through implementation of extensive regulatory reforms. Many of these reforms have been implemented and others are expected to be implemented in the near future. 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. Provisions of the Dodd-Frank Act that have been or will be implemented that have impacted or will likely impact the Company and the Bank include:

• Requiring publicly traded companies to provide stockholders the opportunity to cast a non-binding vote on executive compensation at least every three years 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.

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- Applying 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.

- Creating the CFPB, which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws. 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.

- Permanently increasing the maximum deposit insurance amount for financial institutions from $100,000 to $250,000 per depositor, retroactive to January 1, 2009. 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 DIF 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.

- Imposing new requirements for mortgage lending, including prohibitions on certain compensation to mortgage originators and special consumer protections, including limitations on certain mortgage terms. Additionally, requiring lenders to consider a consumer s ability to repay a mortgage loan before extending credit to the consumer and limiting prepayment penalties.

- Limiting permissible debit interchange fees for certain financial institutions.

- Revising certain corporate governance requirements for public companies.

Incentive Compensation In 2011, seven federal agencies, including the FDIC, 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, the final Volcker Rule provision of the Dodd-Frank Act was approved and implemented by the FRB, the FDIC, the SEC, and the Commodity 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 are 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.

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I. The Company

Acquisitions The Company 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 before 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, 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 and the KDFI have similar restrictions with respect to the Bank.

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

Source of Strength Doctrine Under FRB policy, a bank holding company is expected to act as a source of financial strength to 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 any applicable cross-guarantee provisions that may apply to the Company. In addition, any capital loans by the Company to its bank subsidiary 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 bank 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.

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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 chartered 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. As a result of the Dodd Frank Act, the Bank, along with any other national or state chartered bank generally may branch across state lines. Such unlimited branching authority has the potential to increase competition within the markets in which the Company and the Bank operate.

Affiliate Transaction Restrictions   Transactions between the Bank and its affiliates, and in some cases the Bank s correspondent banks, are subject to FDIC 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. 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. This 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 the Bank 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.

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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 addition to assessments for deposit insurance premiums, 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. The FDIC may adjust the scale uniformly from one quarter to the next, however, 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.

In 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 1 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.

On November 18, 2014, the FDIC revised the risk-based deposit insurance assessment system to reflect changes in the regulatory capital rules in accordance with Basel III that take effect in 2015 and 2018. For deposit insurance assessment purposes, the updated system will revise the ratios and ratio thresholds relating to capital evaluations.

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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 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 clients for each insufficient funds check or electronic debit 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 client obtain some additional product or service from the institution or its affiliates or not obtain services of a competitor of the institution.

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

- Establishment of enhanced anti-money laundering programs;
- Establishment of a program specifying procedures for obtaining identifying information from customers seeking to open new accounts;
- Establishment of enhanced due diligence policies, procedures and controls designed to detect and report money laundering;

- Prohibitions on correspondent accounts for foreign shell banks; and
- Compliance with record keeping obligations with respect to correspondent accounts of foreign banks.

Depositor Preference The 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.

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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, the Bank is the only insured depository institution controlled by the Company. 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 the FHLB Cincinnati. 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.

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. If an 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. The Bank is authorized to borrow from the FRB discount window.

General Lending Regulations

Pursuant to FDIC 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

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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, the Bank received a Satisfactory CRA Performance Evaluation. A copy of the public section of this CRA Performance Evaluation is available to the public upon request.

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 governs disclosures of credit terms to consumer borrowers and 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.

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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.

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.

Ability to Repay (ATR) Rule and Qualified Mortgage Loans (QMs) In January 2014, the CFPB s final rule implementing the ATR requirements in the Dodd-Frank Act became effective. 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.

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

Interagency Guidance on Non Traditional Mortgage Product Risks In 2006, final guidance was issued to address the risks posed by residential mortgage products that allow borrowers to defer repayment of principal and sometimes interest (such as interest-only mortgages and payment option ARMs. The guidance discusses the importance of ensuring that loan terms and underwriting standards are consistent with prudent lending practices, including consideration of a borrower s repayment capacity. The guidance also suggests that banks i) implement strong risk management standards, ii) maintain capital levels commensurate with risk and iii) establish an Allowance 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 before making product or payment choices.

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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.

Capital Adequacy Requirements

Capital Guidelines Both the Company and the Bank are required to comply with capital adequacy guidelines. Guidelines are established by the FRB in the case of the Company and the FDIC in the case of the Bank. The FRB and FDIC have substantially similar risk based and leverage ratio guidelines for banking organizations, which are intended to ensure that banking organizations have adequate capital related to the risk levels of assets and off balance sheet instruments. Under the risk based guidelines, specific categories of assets are assigned different risk weights based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a risk weighted asset base. Under these regulations, a bank will be considered:

Through December 31, 2014, the guidelines require a minimum total risk based capital ratio of 8.0%, of which at least 4.0% is required to consist of Tier 1 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 1 and Tier 2 capital. Tier 2 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 1 capital divided by its average total consolidated assets (less goodwill and certain other intangible assets).

As of December 31, 2014 and 2013 the Company s capital ratios were as follows:

	2014	2013

As of December 31, (dollars in thousands)		**Amount**	**Ratio**		Amount	Ratio
Total capital to risk weighted assets						
Republic Bancorp, Inc.	**$**	**608,658**	**22.17**%	$	592,531	26.71%
Republic Bank & Trust Co.		**472,357**	**17.21**		456,884	20.61
Tier 1 (core) capital to risk weighted assets						
Republic Bancorp, Inc.	**$**	**584,248**	**21.28**%	$	569,505	25.67%
Republic Bank & Trust Co.		**447,947**	**16.32**		433,858	19.57
Tier 1 leverage capital to average assets						
Republic Bancorp, Inc.	**$**	**584,248**	**15.92**%	$	569,505	16.81%
Republic Bank & Trust Co.		**447,947**	**12.21**		433,858	12.80

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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 may establish higher minimum capital adequacy requirements if, for example, a 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.

New Capital Rules Effective January 1, 2015 the Company and the Bank became subject to the new capital regulations in accordance with 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. For prompt corrective action, the new regulations establish definitions of well capitalized as a 6.5% common equity Tier 1 risk-based capital ratio, an 8.0% Tier 1 risk-based capital ratio, a 10.0% total risk-based capital ratio and a 5.0% Tier 1 leverage ratio. 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 continue to exceed the new minimum capital ratio requirements for well-capitalized including the 2.5% capital conservation buffer under Basel III when effective and fully implemented.

Under the new capital rules, Tier 1 capital will generally consist of common stock (plus related surplus) and retained earnings, a restricted amount of minority interest as additional Tier 1 capital, and non-cumulative preferred stock (plus related surplus), subject to certain eligibility requirements, minus goodwill and other specified intangible assets and other regulatory deductions. Proceeds of trust preferred securities are excluded from Tier 1 capital unless such securities were issued before 2010 by bank or savings and loan holding companies with less than $15 billion of assets.

Corrective Measures for Capital Deficiencies The banking regulators are required to take prompt corrective action with respect to capital deficient institutions. Agency regulations define, for each capital category, the levels at which institutions are well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. 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 if the institution has no tangible capital.

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In addition, a bank holding company may face significant consequences if its bank subsidiary fails 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.

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. 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 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.

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 2014 as of September 30, 2014. The evaluation of the fair value of goodwill requires management judgment. If management s judgment was incorrect and goodwill impairment was deemed to exist, the Bank would be required to write down its goodwill 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 difficult 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 accounting for certain asset impairment 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 Securities and Exchange Commission (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 is 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. Significant additional writedowns 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. 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 the Bank s Stipulation Agreement and Consent Order (the Agreement) with the FDIC, TRS is subject to additional oversight requirements through its Electronic Return Originator (ERO) Oversight Plan. If the Bank is unable to comply with these requirements, the FDIC could require the Bank to cease offering RT products in the future. As disclosed above, the Bank developed an ERO Plan, which was agreed to by the FDIC. The ERO Plan articulates a framework for the Bank to continue to offer non-RAL tax related products and services with specified oversight of the tax preparers with which the Bank 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 client 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 the Bank 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;
- the Bank to provide advance notification, as practicable, to the FDIC of any significant changes in the TRS division, including:
- a change of more than 25% from the prior tax season in the number of EROs with which the Bank is doing business, or

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

- the Bank to provide advance notification, as practicable, to the FDIC when the Bank 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 the Bank is doing business.

If the FDIC determines that the Bank 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 the Bank to exit the business altogether.

As a result of the Bank s Agreement with the FDIC, the TRS division is subject to additional oversight requirements not currently imposed on its competitors. Management believes these additional requirements have made and will continue to make attracting new relationships and retaining existing relationships more difficult for the Bank. As disclosed above, the Agreement contains a provision for an ERO Plan which has been implemented by the Bank. The ERO Plan places additional oversight and training requirements on the Bank and its tax preparation partners that are not currently required by the regulators for the Bank 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 the Bank, potentially reducing RT volume. Further reductions in RT volume will have a material adverse impact to the Bank s earnings.

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The Bank s RT products represent a significant business risk and management believes the Bank could be subject to additional regulatory and public pressure to exit the RT business. If the Bank 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 clients that electronically file their tax returns. the Bank is one of only a few financial institutions in the U.S. that provides this service to taxpayers. In return, the Bank charges a fee for the service.

Various governmental, regulatory and consumer groups have, from time to time, questioned the fairness of RT products. Actions of these groups and others could result in regulatory, governmental, or legislative action or material litigation against the Bank.

Discontinuing the RT product by the Bank, either voluntarily or involuntarily, would significantly reduce the Bank s earnings.

The TRS division represents a significant operational risk, and if the Bank 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, the Bank must implement and test new systems, as well as train new employees. The Bank relies heavily on communications and information systems to operate the TRS division. Any failure, sustained interruption or breach in security of these systems could result in failures or disruptions in client relationship management and other systems. Significant operational problems could also cause a material portion of the Bank s tax-preparer base to switch to a competitor to process their bank product transactions, significantly reducing the Bank 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 have 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 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 RTs and the verification to third parties regarding the validity of 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 the 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 only provides Automated Clearing House (ACH) services and third party risk management oversight duties. This trend will likely continue to adversely affect the margin the Company earns on its RT products and the overall operating results and financial condition of the RPG segment.

TRADITIONAL BANK LENDING AND THE ALLOWANCE FOR LOAN AND LEASE 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 loss and delinquency experience, economic conditions, etc. 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 and lease 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 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,

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clients 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, clients or entities related to those clients 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 clients 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 clients discretion. If clients prepay the principal amount of their loans, and the Bank is unable to lend those funds to other clients 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.

The Bank 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. The Bank 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 the Bank has significant business relationships with it. The Bank 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 the Bank from originating and selling most, if not all, of its mortgage loan originations.

Loans originated through the Bank s Correspondent Lending channel 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 acquired through the Bank s Correspondent Lending channel are typically purchased at a premium and also represent out-of-market loans originated by a non-Republic representative. 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 representatives 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. In 2014, the Bank s Correspondent Lending channel originated loans in 20 different states, with the largest concentration of 86% from the state of California.

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

Loans originated through the Bank s Internet Lending channel 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

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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.

The Bank s 100% loan-to-value (LTV) product may experience higher rates of charge-offs and may be more sensitive to downturns in the housing market than the Bank s other real estate loans. The Bank grew its 100% LTV residential real estate loan product to $40 million as of December 31, 2014. Additionally, the Bank does not require private mortgage insurance on this product. Such LTV levels inherently carry a higher level of credit risk, are more sensitive to downturns in the housing market and may lead to higher rates of charge-offs for the Bank.

The Bank s 2015 initiative to increase its non-Qualified Mortgage (QM) loan portfolio may subject the Bank to additional credit risk and legal liability. In January 2014, the Consumer Financial Protection Bureau s (CFPB) final rule implementing the Ability to Repay (ATR) requirements in the Dodd-Frank Act became effective. 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 provides a presumption of compliance with the ATR requirements and certain protections from liability for a mortgage loan meeting the parameters of a QM. While regulatory agencies have explained that there is no legal requirement or supervisory expectation to originate any QMs at all, transactions covered by the ATR requirements that do not meet the parameters of a QM, i.e., non-QMs, do not maintain the presumed protections from liability like their QM counterparts.

Management believes that ARM loans originated through the Bank s retail origination channel during 2013 were predominantly QMs; however, the Bank has made strategic changes to its underwriting guidelines in 2015 that will result in the substantial majority of prospective ARM loans originated through its retail origination channel to be non-QMs. While management expects all of these loans to meet the ATR requirements, non-QMs do not have a presumption of compliance with the ATR requirements, and therefore, may subject the Bank to increased credit risk and an increased risk of legal liability.

WAREHOUSE LENDING (WAREHOUSE)

The 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 the Bank, (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.

Outstanding Warehouse lines of credit can fluctuate significantly. The Bank has a moderate lending concentration in outstanding Warehouse lines of credit. Because outstanding Warehouse balances are contingent upon residential mortgage lending activity, changes in the residential real estate market nationwide can lead to wide fluctuations of balances in this product. Additionally, Warehouse Lending period-end balances are generally higher than the average balance during the period due to increased mortgage activity that occurs at the end of a month. Such volatility may materially impact the Company s balance sheet and results of operations.

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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 the FHLMC, the Federal National Mortgage Association (Fannie Mae or the 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, 2014, 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 securities may incur other-than-temporary-impairment (OTTI) charges. The Bank s investment portfolio is periodically evaluated for 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, or guarantee deteriorate.

The Bank holds a significant amount of bank-owned life insurance. At December 31, 2014, the Bank held bank-owned life insurance (BOLI) on certain employees with a cash surrender value of $51 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 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. 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.

A continued stable interest rate environment may reduce profitability. The Bank continues to experience contraction in its net interest margin, as it can no longer lower the rate on many of its interest-bearing liabilities, while the Bank s higher yielding interest-earning assets continue 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. Continued contraction in the Bank s net interest margin may cause net interest income to decrease if growth in interest-earning assets cannot fully compensate for such contraction in net interest margin. The overall impact of such contraction in net interest margin will depend on the period of time that the current interest rate environment remains and the Bank s interest-earning asset growth and asset mix over such time period.

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A flattening interest rate yield curve may reduce profitability. Changes in the slope of the yield curve, or the spread between short-term and long-term interest rates, could reduce the Bank s net interest margin. Normally, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. Because the Bank s liabilities tend to be shorter in duration than its assets, when the yield curve flattens, as is the case in the current interest rate environment, or even inverts, the Bank s net interest margin could decrease as its cost of funds increases relative to the yield it can earn on its assets.

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

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

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

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

The loss of large deposit relationships could increase the Bank s funding costs. The Bank has several large deposit relationships 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 advances to replace withdrawn balances. The overall cost of gathering brokered deposits and/or FHLB advances, 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 clients to overdraft their checking accounts up to a predetermined dollar amount for the Bank s customary overdraft fee(s). Limitations or adverse modifications to this program, either voluntary or involuntary, would significantly reduce net income.

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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, as detailed in the next risk factor. 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;
- Actual or anticipated quarterly or annual fluctuations in operating results, cash flows and financial condition;
- 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;
- The announced exiting of or significant reductions in material lines of business within the Company;
- Changes or proposed changes in banking laws or regulations or enforcement of these laws and regulations;
- Events affecting other companies that the market deems comparable to the Company;
- Developments relating to regulatory examinations;
- Speculation in the press or investment community generally or relating to the Company s reputation or the financial services industry;
- Future issuances or re-sales of equity or equity-related securities, or the perception that they may occur;
- General conditions in the financial markets and real estate markets in particular, developments related to market conditions for the financial services industry;
- Domestic and international economic factors unrelated to the Company s performance;
- Developments related to litigation or threatened litigation;
- The presence or absence of short selling of the Company s common stock; and,
- Future sales of the Company s common stock or debt securities.

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

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.

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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 clients 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 Federal Reserve System regulates the supply of money and credit in the U.S. Its policies determine, in large part, the Company s cost of funds for lending and investing and the return the Company earns on these loans and investments, all of which impact net interest margin.

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

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

The Dodd-Frank Act may continue to adversely affect the Company s business, financial conditions and results of operations. The Dodd-Frank Act imposed various new restrictions and creates an expanded framework of regulatory oversight for financial institutions.

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.

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Furthermore, the Board of Governors of the Federal Reserve System, in an attempt to help the overall economy, has, among other things, kept interest rates low through its targeted federal funds rate and the purchase of mortgage-backed securities. If the Federal Reserve Board increases the federal funds rate, overall interest rates will likely rise, which may negatively impact the housing markets and other U.S. economic metrics. 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 clients by developing relationships with commercial and consumer clients, mortgage companies, real estate agents, brokers and others. The Company believes that these relationships lead to repeat and referral business. The market for skilled account executives and loan officers is highly competitive and historically has experienced a high rate of turnover. In addition, if a manager leaves the Company, other members of the manager s team may follow. Competition for qualified account executives and loan officers may lead to increased hiring and retention costs. The Company s success also depends on its ability to continue to attract, manage and retain other qualified personnel as the Company grows. The Company cannot assure you that it will continue to attract or retain such personnel.

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

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The Company s operations, including third party and client 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 clients. 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 or one of the Bank s third party service providers fall 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 clients following an attack; litigation and payment of damages; and reputational damage adversely affecting client 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 client 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 client 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 client information. Negative public opinion can adversely affect the Company s ability to keep and attract clients 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 clients and the clients of the acquired institution. The Company s failure to successfully integrate an acquired institution could result in the loss of key clients 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 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 similar to the Bank s 2012 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 client 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 transactions, 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**.**

Item 1B. Unresolved Staff Comments.

None

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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, 2014, Republic had 32 banking centers located in Kentucky, three banking centers located in Florida, three banking centers in Indiana, two in Tennessee and one banking center in Ohio.

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

Bank Offices	**Approximate Square Footage**	**Owned (O)/ Leased (L)**
Kentucky Banking Centers:		
Louisville Metropolitan Area		
2801 Bardstown Road, Louisville	5,000	L (1)
601 West Market Street, Louisville	57,000	L (1)
661 South Hurstbourne Parkway, Louisville	42,000	L (1)
9600 Brownsboro Road, Louisville	15,000	L (1)
5250 Dixie Highway, Louisville	5,000	O/L (2)
10100 Brookridge Village Boulevard, Louisville	5,000	O/L (2)
9101 U.S. Highway 42, Prospect	3,000	O/L (2)
11330 Main Street, Middletown	6,000	O/L (2)
3902 Taylorsville Road, Louisville	4,000	O/L (2)
3811 Ruckriegel Parkway, Louisville	4,000	O/L (2)
5125 New Cut Road, Louisville	4,000	O/L (2)
4808 Outer Loop, Louisville	4,000	O/L (2)
438 Highway 44 East, Shepherdsville	4,000	O/L (2)
1420 Poplar Level Road, Louisville	3,000	O
4921 Brownsboro Road, Louisville	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
6401 Claymont Crossing, Crestwood	4,000	L
Lexington		
3098 Helmsdale Place	5,000	O/L (2)
3608 Walden Drive	4,000	O/L (2)
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)
Florida Banking Centers:		
9037 U.S. Highway 19, Port Richey	11,000	O
11502 North 56th Street, Temple Terrace	3,000	L
9100 Hudson Avenue, Hudson	4,000	O (3)
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
Tennessee Banking Centers:		
2034 Richard Jones Road, Nashville	3,000	L
113 Seaboard Lane, Franklin	2,000	L
Ohio Banking Center:		
9683 Kenwood Road, Blue Ash	3,000	L
Support and Operations:		
200 South Seventh Street, Louisville, KY	64,000	L (1)
125 South Sixth Street, Louisville, KY	1,000	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 18 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 was closed in the first quarter of 2015.

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Item 3. Legal Proceedings.

In the ordinary course of operations, Republic Bancorp, Inc. (Republic) and Republic Bank & Trust Company (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.

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 Bancorp, Inc. s (Republic or the Company) 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 2014 and 2013.

	2014			
	Sales Price (1)		Dividend	
Quarter Ended	**High**	**Low**	**Class A**	**Class B**
March 31st	**$ 24.56**	**$ 22.50**	**0.176**	**0.160**
June 30th	**24.51**	**21.92**	**0.187**	**0.170**
September 30th	**24.26**	**22.51**	**0.187**	**0.170**
December 31st	**25.48**	**22.38**	**0.187**	**0.170**

	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

(1) Sales price based on closing market price.

At February 13, 2015, the Company s Class A Common Stock was held by 541 shareholders of record and the Class B Common Stock was held by 113 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 Part II Item 8 Financial Statements and Supplementary Data Footnote 15 Stockholders Equity and Regulatory Capital Matters.

Republic has made available to its employees participating in its 401(k) Plan the opportunity, at the employee s sole discretion, to invest funds held in their accounts under the plan in shares of Class A Common Stock of Republic. Shares are purchased by the independent trustee administering the plan from time to time in the open market in the form of broker s transactions. As of December 31, 2014, the trustee held 256,784 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 2014 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		**$**		
November 1 - November 30				
December 1 - December 31				
Total		**$**		**315,640**

During 2014, the Company repurchased 15,000 shares and there were 28,679 shares exchanged for stock option exercises. During 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, 2014, the Company had 315,640 shares which could be repurchased under its current share repurchase programs.

During 2014, there were approximately 15,000 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, 2009 and ending December 31, 2014. 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, 2009. The stock price performance shown on the graph below is not necessarily indicative of future stock price performance.

	December 31, 2009	December 31, 2010	December 31, 2011	December 31, 2012	December 31, 2013	December 31, 2014
Republic Class A Common Stock (RBCAA)	$ 100.00	$ 118.42	$ 117.54	$ 117.19	$ 130.30	$ 141.42
NASDAQ Bank Index	100.00	114.15	102.18	119.82	172.34	180.57
S&P 500 Index	100.00	115.06	117.48	134.00	179.67	207.96

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Item 6. Selected Financial Data.

The following table sets forth Republic Bancorp Inc. s selected financial data from 2010 through 2014. 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)	**2014**	2013	2012	2011	2010
Balance Sheet Data:					
Cash and cash equivalents	**$ 72,878**	$ 170,863	$ 137,691	$ 362,971	$ 786,371
Investment securities	**481,348**	483,537	484,256	674,022	542,694
Mortgage loans held for sale, at fair value	**6,388**	3,506	10,614	4,392	15,228
Gross loans	**3,040,495**	2,589,792	2,650,197	2,285,295	2,175,240
Allowance for loan and lease losses	**(24,410)**	(23,026)	(23,729)	(24,063)	(23,079)
Goodwill	**10,168**	10,168	10,168	10,168	10,168
Bank owned life insurance	**51,415**	25,086			
Total assets	**3,747,013**	3,371,904	3,394,399	3,419,991	3,622,703
Non interest-bearing deposits	**502,569**	488,642	479,046	408,483	325,375
Interest-bearing deposits	**1,555,613**	1,502,215	1,503,882	1,325,495	1,977,317
Total deposits	**2,058,182**	1,990,857	1,982,928	1,733,978	2,302,692
Securities sold under agreements to repurchase and other short-term borrowings	**356,108**	165,555	250,884	230,231	319,246
Federal Home Loan Bank advances	**707,500**	605,000	542,600	934,630	564,877
Subordinated note	**41,240**	41,240	41,240	41,240	41,240
Total liabilities	**3,188,282**	2,829,111	2,857,697	2,967,624	3,251,327
Total stockholders equity	**558,731**	542,793	536,702	452,367	371,376
Average Balance Sheet Data:					
Federal funds sold and other interest-earning deposits	**$ 118,803**	$ 145,970	$ 187,790	$ 315,530	$ 473,137
Investment securities, including FHLB stock	**525,748**	527,681	640,830	678,804	561,273
Gross loans, including loans held for sale	**2,738,304**	2,575,146	2,504,150	2,246,259	2,338,990
Allowance for loan and lease losses	**(23,067)**	(23,287)	(25,226)	(28,817)	(27,755)
Total assets	**3,559,617**	3,385,345	3,560,739	3,416,921	3,503,886
Non interest-bearing deposits	**553,929**	513,891	624,053	509,457	421,162
Interest-bearing deposits	**1,510,201**	1,514,847	1,512,455	1,540,515	1,725,891
Total interest-bearing liabilities	**2,432,153**	2,305,106	2,351,768	2,418,865	2,671,466
Total stockholders equity	**557,378**	546,880	530,096	439,636	361,357
Income Statement Data - Total Company:					
Total interest income	**$ 132,377**	$ 134,568	$ 183,459	$ 195,115	$ 193,473
Total interest expense	**19,604**	21,393	22,804	30,255	36,661
Net interest income	**112,773**	113,175	160,655	164,860	156,812
Provision for loan and lease losses	**2,859**	2,983	15,043	17,966	19,714
Total non interest income	**42,519**	46,230	163,465	118,555	86,236
Total non interest expenses	**108,118**	115,924	125,132	121,252	124,901
Income before income tax expense	**44,315**	40,498	183,945	144,197	98,433
Income tax expense	**15,528**	15,075	64,606	50,048	33,680

Net income	**28,787**	25,423	119,339	94,149	64,753
Income Statement Data - Core Banking(1):					
Total interest income	**$ 132,014**	$ 134,419	$ 137,886	$ 135,522	$ 141,252
Total interest expense	**19,571**	21,392	22,655	29,775	35,099
Net interest income	**112,443**	113,027	115,231	105,747	106,153
Provision for loan and lease losses	**3,392**	3,828	8,167	6,406	11,571
Total non interest income	**24,607**	31,471	85,157	30,230	27,326
Total non interest expenses	**96,451**	99,743	102,825	90,396	92,305
Income before income tax expense	**37,207**	40,927	89,396	39,175	29,603
Income tax expense	**12,875**	14,112	30,943	12,368	9,090
Net income	**24,332**	26,815	58,453	26,807	20,513

(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)	**2014**	2013	2012	2011	2010
Per Share Data:					
Basic average shares outstanding	**20,804**	20,807	20,959	20,945	20,877
Diluted average shares outstanding	**20,899**	20,904	21,028	20,993	20,960
End of period shares outstanding:					
Class A Common Stock	**18,603**	18,541	18,694	18,652	18,628
Class B Common Stock	**2,245**	2,260	2,271	2,300	2,307
Basic earnings per share:					
Class A Common Stock	**$ 1.39**	$ 1.23	$ 5.71	$ 4.50	$ 3.11
Class B Common Stock	**1.32**	1.17	5.55	4.45	3.06
Diluted earnings per share:					
Class A Common Stock	**$ 1.38**	$ 1.22	$ 5.69	$ 4.49	$ 3.10
Class B Common Stock	**1.32**	1.16	5.53	4.44	3.04
Cash dividends declared per share:					
Class A Common Stock	**$ 0.737**	$ 0.693	$ 1.749	$ 0.605	$ 0.561
Class B Common Stock	**0.670**	0.630	1.590	0.550	0.510
Market value per share at December 31,	**$ 24.72**	$ 24.54	$ 21.13	$ 22.90	$ 23.75
Book value per share at December 31,	**26.80**	26.09	25.60	21.59	17.74
Tangible book value per share at December 31,(2)	**26.08**	25.35	24.86	20.81	16.88
Performance Ratios:					
Return on average assets (ROA)	**0.81%**	0.75%	3.35%	2.76%	1.85%
Return on average equity (ROE)	**5.16%**	4.65%	22.51%	21.42%	17.92%
Efficiency ratio(3)	**70%**	73%	39%	43%	51%
Yield on average interest-earning assets	**3.91%**	4.14%	5.50%	6.02%	5.74%
Cost of average interest-bearing liabilities	**0.81%**	0.93%	0.97%	1.25%	1.37%
Cost of deposits(4)	**0.19%**	0.20%	0.24%	0.43%	0.61%
Net interest spread	**3.10%**	3.21%	4.53%	4.77%	4.37%
Net interest margin - Total Company	**3.33%**	3.48%	4.82%	5.09%	4.65%
Net interest margin - Core Banking(1)	**3.35%**	3.50%	3.63%	3.55%	3.57%
Capital Ratios:					
Average stockholders equity to average total assets	**15.66%**	16.15%	14.89%	12.87%	10.31%
Total risk based capital - Total Company	**22.17%**	26.71%	25.28%	24.74%	22.04%
Tier 1 risk based capital - Total Company	**21.28%**	25.67%	24.31%	23.59%	20.89%
Tier 1 leverage capital - Total Company	**15.92%**	16.81%	16.36%	14.77%	12.05%
Dividend payout ratio	**53%**	56%	31%	13%	18%
Dividend yield	**2.98%**	2.82%	8.28%	2.64%	2.36%
Other Information:					
Period end full time equivalent employees - Total Company	**723**	736	797	710	744
Number of banking centers	**41**	45	44	43	43

(continued)

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

(in thousands, except per share data, FTEs and # of banking centers)	**2014**	2013	2012	2011	2010
		As of and for the Years Ended December 31,			
Credit Quality Data and Ratios:					
Loans on non-accrual status	**$ 23,337**	$ 19,104	$ 18,506	$ 23,306	$ 28,317
Loans past due 90-days-or-more and still on accrual	**322**	1,974	3,173		
Total non-performing loans	**23,659**	21,078	21,679	23,306	28,317
Other real estate owned	**11,243**	17,102	26,203	10,956	11,969
Total non-performing assets	**$ 34,902**	$ 38,180	$ 47,882	$ 34,262	$ 40,286
Total delinquent loans	**$ 15,851**	$ 16,223	$ 20,844	$ 24,433	$ 26,927
Non-performing loans to total loans	**0.78%**	0.81%	0.82%	1.02%	1.30%
Non-performing assets to total loans (including OREO)	**1.14%**	1.46%	1.79%	1.49%	1.84%
Non-performing assets to total assets	**0.93%**	1.13%	1.41%	1.00%	1.11%
Allowance for loan and lease losses to total loans	**0.80%**	0.89%	0.90%	1.05%	1.06%
Allowance for loan and lease losses to non-performing loans	**103%**	109%	109%	103%	82%
Delinquent loans to total loans(5)	**0.52%**	0.63%	0.79%	1.07%	1.24%
Net loan charge offs to average loans - Total Company	**0.05%**	0.14%	0.61%	0.76%	0.83%
Net loan charge offs to average loans - Core Banking(1)	**0.08%**	0.18%	0.34%	0.24%	0.51%

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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 segments which constitute the Company s Core Banking operations.

(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.

December 31, (in thousands, except per share data)	**2014**	2013	2012	2011	2010
Total stockholders equity (a)	**$ 558,731**	$ 542,793	$ 536,702	$ 452,367	$ 371,376
Less: Goodwill	**10,168**	10,168	10,168	10,168	10,168
Less: Core deposit intangible			510	58	117
Less: Mortgage servicing rights	**4,813**	5,409	4,777	6,087	7,800
Tangible stockholders equity (c)	**$ 543,750**	$ 527,216	$ 521,247	$ 436,054	$ 353,291
Total assets (b)	**$ 3,747,013**	$ 3,371,904	$ 3,394,399	$ 3,419,991	$ 3,622,703
Less: Goodwill	**10,168**	10,168	10,168	10,168	10,168
Less: Core deposit intangible			510	58	117
Less: Mortgage servicing rights	**4,813**	5,409	4,777	6,087	7,800
Tangible assets (d)	**$ 3,732,032**	$ 3,356,327	$ 3,378,944	$ 3,403,678	$ 3,604,618
Total stockholders equity to total assets (a/b)	**14.91%**	16.10%	15.81%	13.23%	10.25%
Tangible stockholders equity to tangible assets (c/d)	**14.57%**	15.71%	15.43%	12.81%	9.80%

Number of shares outstanding (e)	**20,848**	20,801	20,965	20,952	20,935
Book value per share (a/e)	**$ 26.80**	$ 26.09	$ 25.60	$ 21.59	$ 17.74
Tangible book value per share (c/e)	**26.08**	25.35	24.86	20.81	16.88

(continued)

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

(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, if applicable.

(4) The cost of deposits ratio equals total interest expense on deposits divided by total average interest-bearing deposits plus total average non interest-bearing deposits.

(5) The delinquent loans to total loans ratio equals loans 30-days-or-more past due loans divided by total loans.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Management s Discussion and Analysis of Financial Condition and Results of Operations of Republic Bancorp, Inc. (Republic or the Company) analyzes the major elements of Republic s consolidated balance sheets and statements of income. Republic, a financial holding company headquartered in Louisville, Kentucky, is the parent company of Republic Bank & Trust Company (RB&T or the Bank) and Republic Insurance Services, Inc. (the Captive). The Bank is a Kentucky-based, state chartered non-member financial institution.

The Captive, which was formed during the third quarter of 2014, is a wholly-owned insurance subsidiary of the Company. The Captive provides property and casualty insurance coverage to the Company and the Bank as well as five other third-party insurance captives for which insurance may not be available or economically feasible.

Republic Bancorp Capital Trust (RBCT) 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*.

During the second quarter of 2014, Republic Bank, the Company s wholly-owned, federally chartered savings institution, was legally merged into RB&T. The merged institution operates under the name Republic Bank & Trust Company. The merger did not materially impact the Company s consolidated financial statements.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by the forward-looking statements. Actual results may differ materially from those expressed or implied as a result of certain risks and uncertainties, including, but not limited to: changes in political and economic conditions; interest rate fluctuations; competitive product and pricing pressures; equity and fixed income market fluctuations; personal and corporate clients 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; information security breaches or cyber security attacks involving either the Company or one of the Company s third party service providers; as well as other risks and uncertainties reported from time to time in the Company s filings with the Securities and Exchange Commission (SEC), including 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 and lease losses (Provision);
- future credit quality, credit losses and the overall adequacy of the Allowance for Loan and Lease Losses (Allowance);
- potential impairment charges or write-downs of other real estate owned (OREO);

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- future short-term and long-term interest rates and the respective impact on net interest income, net interest spread, net income, liquidity, capital and economic value of equity (EVE);
- 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, Warehouse lines of credit and Correspondent Lending products;
- the future value of mortgage servicing rights (MSRs);
- the future financial performance of Tax Refund Solutions (TRS), a division of the Republic Processing Group (RPG) segment;
- future Refund Transfer (RT) volume for TRS;
- the future net revenue associated with RTs at TRS;
- the future financial performance of Republic Payment Solutions (RPS), a division of RPG;
- the future financial performance of Republic Credit Solutions (RCS), a division of RPG;
- the potential impairment of investment securities;
- the growth in the Bank s loan portfolio, in general;
- the growth in the Bank s Warehouse Lending portfolio;
- the growth in single family residential, first lien real estate loans originated through the Bank s Correspondent Lending delivery channel;
- the volatility of the Bank s Warehouse Lending portfolio outstanding balances;
- the impact on the Bank s Allowance and Provision, as well as the impact of future legal risks associated with the Bank s expected growth in its single family, residential real estate loan portfolio that are non-Qualified Mortgages (QM);
- the Bank s ability to maintain and/or grow deposits;
- the concentrations and volatility of the Bank s securities sold under agreements to repurchase;
- the future redemption or repricing option available in 2015 for the Company s Trust Preferred Securities (TPS);
- the Company s ability to successfully implement strategic plans, including, but not limited to, those related to future business acquisitions;
- future accretion of discounts on loans acquired in the Bank s 2012 FDIC-assisted acquisitions and the effect of such accretion on the Bank s net interest income and net interest margin;

- future amortization of premiums on loans acquired through the Bank s Correspondent Lending channel and the effect of such amortization on the Bank s net interest income and net interest margin;

- 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 Wall Street Reform and Consumer Protection Act (Dodd-Frank Act); and legislation and regulation relating to overdraft fees (and changes to the Bank s overdraft practices as a result thereof), 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; and

- the strength of the U.S. economy in general and the strength of the local and regional economies in which the Company conducts operations.

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

See additional discussion under Part I Item 1 Business and Part I Item 1A Risk Factors.

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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 for Loan and Lease Losses and Provision for Loan and Lease Losses
- Acquisition Accounting
- Goodwill and Other Intangible Assets
- Mortgage Servicing Rights
- Income Tax Accounting
- Investment Securities
- Other Real Estate Owned

Allowance for Loan and Leases Losses and Provision for Loan and Lease 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 non purchase credit impaired (PCI) 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 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 acquisition day estimate. Loans that meet the following classifications are considered impaired:

- Internally rated Substandard, Doubtful or Loss;
- Internally rated PCI with cash flows that have deteriorated from management s initial acquisition day estimate;
- On non-accrual status and non-PCI rated and past due 90 days-or-more and still on accrual;
- 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.

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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 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 expected future cash flows and changes in the recorded investment.

- **Collateral Method** The recorded investment in the loan is measured against the fair value of the collateral value less applicable selling costs. The Bank employs the fair value of collateral method for its impaired loans when 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 asset 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 origination, the Bank typically updates appraisals and/or broker price opinions for loans with potential impairment. Updated valuations for commercial related credits exhibiting an increased risk of loss are typically obtained within one year of the previous 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 measuring impairment, 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, in order to take account of periods of economic growth and economic downturn, management currently uses the highest of the rolling eight, twelve, sixteen or twenty quarter averages for each loan class when determining its historical loss factors for its Pass rated and nonrated credits.

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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 portfolio;
- Changes in experience, ability and depth of lending management and other relevant staff;
- Changes in the quality of the Bank s credit review system;
- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Changes in the volume and severity of past due, non-performing 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 collectability of portfolios, including the condition of various market segments;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution s existing portfolio.

As this analysis, or any similar analysis, is an imprecise measure of loss, the Allowance is subject to ongoing adjustments. Therefore, management will often take into account other significant factors that may be necessary or prudent in order to reflect probable incurred losses in the total loan portfolio.

For Core Banking operations, the Bank performs two calculations at year end in order to confirm the reasonableness of its Allowance. In the first calculation, the Bank compares the 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 9% at December 31, 2014, compared to 19% for December 31, 2013. The Bank s five year annual average for this ratio was 27% as of December 31, 2014. Management believes the Bank s net charge-off ratio to beginning Allowance was within a reasonable range at December 31, 2014 and 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 in a range of two to four years. The Bank s allowance exhaustion rate at December 31, 2014 and 2013 was 4.0 years and 3.0 years compared to the five year annual average of 3.0 years as of December 31, 2014. Management believes the Bank s Allowance exhaustion rate was within a reasonable range at December 31, 2014 and 2013.

Based on management s calculation, an Allowance of $24 million, or 0.80%, of total loans and leases was an adequate estimate of probable incurred losses within the loan portfolio as of December 31, 2014 compared to $23 million, or 0.89%, at December 31, 2013. This estimate resulted in Core Banking Provision of $3.4 million during 2014 compared to $3.8 million in 2013. 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.

Acquisition Accounting The Bank accounts for its acquisitions in accordance with the acquisition method as outlined in Account Standards Codification (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

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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.

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 PCI loans. 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 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, and net present value of cash flows expected to be received. For the Company s 2012 FDIC-assisted acquisitions, the Bank 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 by management 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 acquisition day 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 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 to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income.

PCI loans are placed on non-accrual if management cannot reasonably estimate future cash flows on such loans.

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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 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.

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, 2014 and 2013.

Other intangible assets consist of core deposit and acquired client 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, with no such assets recorded as of December 31, 2014 and 2013.

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, 2014 and 2013 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 quarterly basis to assist with the fair value estimate of the MSRs. Based on the estimated fair value at December 31, 2014, management believes there was no impairment in the MSR portfolio as of year-end 2014.

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, 2014 and 2013.

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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.

The Bank held one impaired security at December 31, 2014 and 2013 with a total carrying value of $5 million.

Other Real Estate Owned (OREO) 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 (BPO s). 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. Appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. 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 at least an annual basis, the Bank performs a back test of collateral appraisals by comparing actual selling prices on recent collateral sales to the most recent appraisal of such collateral. Back tests are performed for each collateral class, e.g. residential real estate or commercial real estate, and may lead to additional adjustments to the value of unliquidated collateral of similar class.

The Bank s total OREO recorded was $11 million and $17 million at December 31, 2014 and 2013.

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OVERVIEW

Net income for 2014 was $28.8 million, representing an increase of $3.4 million, or 13%, compared to 2013. Diluted earnings per Class A Common Share increased 13% to $1.38 for 2014 compared to $1.22 for 2013.

The following table summarizes Republic s financial performance for the years ended December 31, 2014, 2013 and 2012.

Table 1 Summary

Year Ended December 31, (in thousands, except per share data)	**2014**	2013	2012
Net income	**$ 28,787**	$ 25,423	$ 119,339
Diluted earnings per Class A Common Stock	**$ 1.38**	$ 1.22	$ 5.69
Return on average assets	**0.81%**	0.75%	3.35%
Return on average equity	**5.16%**	4.65%	22.51%

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

General highlights by business segment for the year ended December 31, 2014 consisted of the following:

Traditional Banking segment

- Net income remained at $21.3 million for 2014 compared to 2013.

- Net interest income decreased $2.1 million, or 2%, for 2014 to $104.8 million. The Traditional Banking segment net interest margin decreased 15 basis points for 2014 to 3.32%.

- Provision expense was $3.0 million for 2014 compared to $3.9 million for 2013.

- Total non interest income decreased $2.6 million, or 11%, for 2014 compared to 2013.

- Total non interest expense decreased $4.0 million, or 4%, during 2014 compared to 2013.

- Total non-performing loans to total loans for the Traditional Banking segment was 0.87% at December 31, 2014, compared to 0.86% at December 31, 2013.

- Delinquent loans to total loans for the Traditional Banking segment was 0.58% at December 31, 2014, compared to 0.67% at December 31, 2013.

- Gross Traditional Bank loans increased by $279 million, or 11%, from December 31, 2013 to December 31, 2014. Growth during 2014 was primarily driven by the Traditional Bank s Correspondent Lending channel, which acquired $230 million in gross loans since initiation in April 2014.

- Traditional Bank deposits grew by $59 million, or 3%, from December 31, 2013 to December 31, 2014.

- Securities sold under agreements to repurchase increased $191 million, or 115%, from December 31, 2013 to December 31, 2014, with 57% of this growth concentrated in one client relationship.

Warehouse Lending segment

- Net income increased $735,000, or 28%, for 2014 compared to 2013.

- Net interest income increased $1.8 million, or 31%, for 2014 to $7.4 million. The Warehouse Lending (Warehouse) segment net interest margin decreased 51 basis points during 2014 to 3.77%.

- Provision expense was $350,000 for 2014 compared to a net credit of $92,000 for 2013.

- Outstanding balances for Warehouse lines of credit increased by $170 million, or 114%, from December 31, 2013 to December 31, 2014.

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- There were no non-performing loans or delinquent loans associated with the Warehouse segment at both December 31, 2014 and 2013.

Mortgage Banking segment

- Within the Mortgage Banking segment, mortgage banking income decreased $4.4 million, or 61%, during 2014 compared to 2013.

- Overall, Republic s proceeds from the sale of secondary market loans totaled $82 million during 2014 compared to $305 million during 2013. The prior year significantly benefited from favorable long-term interest rates through May 2013, when sharp increases in such interest rates began negatively affecting demand for mortgage banking products. This negative impact on demand continued through the remainder of 2013 and throughout 2014.

Republic Processing Group segment

- Net income for RPG was $4.5 million during 2014 compared to a net loss of $1.4 million during 2013.

- The total dollar volume of tax refunds processed during the 2014 tax season increased $3 billion, or 74%, from the 2013 tax season due primarily to a rise in self-prepared, on-line product volume in combination with growth in retail store-front traffic resulting from new contracts between the Company and third party tax preparation companies.

- While the Bank permanently discontinued the offering of its Refund Anticipation Loan (RAL) product effective April 30, 2012, the Bank still records recoveries on RAL loans charged-off in prior periods. Additionally, RPG provides for losses on short-term consumer loans originated through the RCS division. RPG recorded a net credit to the Provision of $533,000 for 2014, compared to a $845,000 credit for 2013.

- Non interest income was $17.9 million for 2014 compared to $14.8 million for 2013.

- Net RT revenue increased $2.2 million, or 16%, during 2014 compared to 2013.

- Non interest expenses were $11.7 million for 2014 compared to $16.2 million for 2013. TRS experienced a $3.0 million decrease in legal fees for 2014, as the Company incurred substantial legal expenses in the prior year related to contract disputes with its previously two largest product providers and the Bank s unsuccessful effort to acquire H&R Block Bank.

- The Bank resolved its contract dispute with Liberty Tax Service (Liberty) during January 2014. With the matter resolved, the Bank entered into a new two-year agreement with Liberty in which TRS began 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 revenue for the two-year term of the contract by an average of approximately 12% over its 2014 net annual revenue level. Additional overhead expenses with the new contract are expected to be nominal.

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

Traditional Banking segment

- Net income decreased $32.2 million for 2013 compared to 2012. The decrease was driven by $55.4 million in pre-tax bargain purchase gains recorded in 2012 related to FDIC-assisted transactions.

- Net interest income decreased $3.5 million, or 3%, for 2013 to $106.9 million. The Traditional Banking segment net interest margin decreased 15 basis points for 2013 to 3.47%.

- Provision for loan losses was $3.9 million for 2013 compared to $7.7 million for 2012.

- Total non interest income decreased $52.5 million for 2013 compared to 2012 primarily due to the pre-tax bargain purchase gains mentioned above.

- Total non interest expense decreased $2.9 million, or 3%, during 2013 compared to 2012.

- Total non-performing loans to total loans for the Traditional Banking segment was 0.86% at December 31, 2013, compared to 0.89% at December 31, 2012.

- Total delinquent loans to total loans for the Traditional Banking segment was 0.67% at December 31, 2013, compared to 0.86% at December 31, 2012.

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- Gross Traditional Bank loans declined by $5 million during 2013.

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

Warehouse Lending segment

- Net income increased $941,000, or 55%, for 2013 compared to 2012.

- Net interest income increased $1.2 million, or 28%, for 2013 to $5.7 million. The Warehouse segment net interest margin increased nine basis points during 2013 to 4.28%.

- Provision expense was a net credit of $92,000 for 2013 compared to a net charge of $437,000 for 2012.

- Outstanding Warehouse lines of credit were $150 million at December 31, 2013 compared to $217 million at December 31, 2012.

- There were no non-performing loans or delinquent loans associated with the Warehouse segment at both December 31, 2013 and 2012.

Mortgage Banking segment

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

- Overall, Republic s proceeds from the sale of secondary market loans totaled $305 million during 2013 compared to $256 million during 2012, with the majority of the 2013 application volume occurring during the first half of 2013. 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 beginning in May 2013 negatively impacted new loan application volume through the remainder of 2013.

Republic Processing Group segment

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

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

- With the Bank s resolution of its differences with the FDIC through a Stipulation Agreement and Consent Order (collectively, the Agreement), the Bank 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 credit to its Provision of $845,000 for 2013, compared to a $6.9 million net charge for 2012.

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

- Liberty Tax Service (Liberty) and Jackson Hewitt Inc. (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 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 non interest expenses during 2013 in connection with its contractual disputes with Liberty and JHI and its unsuccessful attempt to acquire H&R Block Bank.

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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 interest-bearing liabilities used to fund those assets, such as interest-bearing deposits, securities sold under agreements to repurchase and Federal Home Loan Bank (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 2014 vs. 2013

Total Company net interest income decreased $402,000, or less than 1%, in 2014 compared to 2013. The total Company net interest margin decreased from 3.48% during 2013 to 3.33% in 2014. The primary driver of the decrease in total Company net interest income and net interest margin was a continuing general decline in the Company s interest-earning asset yields without a similar offsetting decline in funding costs. Partially offsetting the contraction in the Company s net interest income was growth in the Company s average loans over the past 12 months, which increased $163 million, or 6%, over this time period.

During 2014 and 2013, the significant majority of net interest income for the total Company was attributable to the Traditional Banking and Warehouse segments. The most significant components affecting the total Company s net interest income by business segment were as follows:

Traditional Banking segment

Net interest income within the Traditional Banking segment decreased $2.1 million, or 2%, in 2014 compared to 2013. The Traditional Banking net interest margin decreased 15 basis points from 2013 to 3.32%. The decrease in the Traditional Bank s net interest income and net interest margin during 2014 was primarily attributable to the following factors:

- The Traditional Banking segment continued to experience downward repricing in its loans and investment portfolios during 2014 resulting from ongoing paydowns and early payoffs of higher interest-earning assets, with new originations and purchases being made into lower yielding assets. As a result, the yield in both the loan and investment portfolios declined in 2014 when compared to 2013.

- Traditional Bank loans experienced yield compression of 35 basis points from 2013 to 2014. Average loans outstanding were $2.42 billion with a weighted average yield of 4.90% during 2013 compared to $2.53 billion with a weighted average yield of 4.55% during 2014. The overall effect of these changes in rate and volume was a decrease of $3.3 million in interest income. Volume during 2014 was driven significantly by the Bank s Correspondent Lending origination channel, which was initiated in May 2014 and originated $230 million in gross loans during the year.

• Traditional Bank taxable investment securities experienced yield compression of 11 basis points from 2013 compared to 2014. Average taxable investment securities outstanding were $528 million with a weighted average yield of 1.76% during 2013 compared to $525 million with a weighted average yield of 1.65% during 2014. The overall effect of these changes in rate and volume was a decrease of $639,000 in interest income from 2013 to 2014.

• Average FHLB advances decreased $6 million from 2013 to 2014. Average FHLB advances were $579 million during 2013 with a weighted average cost of 2.54%, compared to average advances of $585 million with a weighted average cost of 2.24% for 2014. Almost exclusively due to the reduction in rate, interest expense on FHLB advances decreased $1.6 million during 2014 compared to 2013.

• Net interest income continued to benefit from discount accretion on loans acquired from the Bank s 2012 FDIC-assisted transactions. Altogether, this discount accretion totaled $6.3 million for 2013 compared to $5.2 million for 2014, adding 20 and 16 basis points, respectively, to the net interest margin for these periods. Management projects accretion of loan discounts related to the 2012 FDIC-assisted acquisitions to be approximately $1.5 million for 2015. Similar to prior periods, the accretion estimate for 2015 could be positively impacted by positive workout arrangements in which the Bank receives loan payoffs for amounts greater than the loans respective carrying values.

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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 near future. Because the Federal Funds Transfer 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 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 to the margin compression challenges noted above, the Bank has employed certain strategies over the past two years to improve its net interest income. These strategies have expectedly had a negative impact on the Bank s interest rate risk position in a rising rate environment. Management s future strategies to improve its net interest income will likely continue to be impacted by the Bank s overall interest rate risk position at that time.

The Bank is unable to precisely determine its net interest income and net interest margin in the future 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.

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 2014 under Financial Condition.

Warehouse Lending segment

Net interest income within the Warehouse Lending segment increased $1.8 million, or 31%, in 2014 compared to 2013, despite a decline in net interest margin of 51 basis points from 2013 to 3.77%. The increase in net interest income was primarily attributable to growth in commitments and increased usage. Warehouse line commitments increased $170 million during 2014 and average line usage increased to 47% in 2014 compared to 40% in 2013.

Average outstanding Warehouse lines of credit during 2014 increased $65 million compared to 2013. Average outstanding warehouse lines were $197 million during 2014 with a weighted average yield of 4.00%, compared to average outstanding lines of $132 million with a weighted average yield of 4.50% for 2013. As a result, interest income on warehouse lines of credit increased $1.9 million, or 32%, during 2014 compared to 2013.

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. During 2013, the majority of net interest income for the total Company was attributable to the Traditional Banking and Warehouse segments, with the elimination of RPG segment s RAL product during 2012 significantly reducing RPG s 2013 net interest income contribution. The most significant components affecting the total Company s net interest income by business segment were as follows:

Traditional Banking segment

Net interest income within the Traditional Banking segment decreased $3.5 million, or 3%, for 2013 compared to 2012. The Traditional Banking net interest margin was 3.47% for 2013, a decrease of 15 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 experienced 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 18 basis points from 2012 to 2013. Average loans outstanding were $2.38 billion with a weighted average yield of 5.08% during 2012 compared to $2.42 billion with a weighted average yield of 4.90% 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.

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

- 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 $6.3 million into interest income during 2013 from discounts related to its loan portfolios acquired during its 2012-FDIC assisted transactions, as compared to $1.2 million in 2012.

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 traditionally originated and retained within its portfolio. During 2013 the Bank originated and retained within its loan portfolio $230 million of fixed rate loans 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.

The 2013 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 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 within Board-approved policy limits during 2013, 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.

Warehouse Lending segment

Net interest income within the Warehouse Lending segment increased $1.2 million, or 28%, in 2013 compared to 2012. The Warehouse Lending net interest margin increased nine basis points from 2013 to 4.28%. The increase in the Warehouse Lending segment s net interest income and net interest margin during 2013 was primarily attributable to an increase in the average outstanding balance, which was partially offset by a decline in average line usage and lower overall demand for warehouse lines of credit.

Average Warehouse lines of credit increased $32 million from 2012 to 2013. Average outstanding Warehouse lines 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 2012.

Republic Processing Group segment

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

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, 2014, 2013 and 2012. 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,

	2014			2013			2012		
(dollars in thousands)	**Average Balance**	**Interest**	**Average Rate**	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS									
Interest-earning assets:									
Taxable investment securities, including FHLB stock(1)	**$ 525,748**	**$ 8,673**	**1.65%**	$ 527,681	$ 9,312	1.76%	$ 640,830	$ 12,446	1.94%
Federal funds sold and other interest-earning deposits	**118,803**	**344**	**0.29%**	145,970	413	0.28%	187,790	471	0.25%
Refund Anticipation Loan fees(2)(3)			**0.00%**			0.00%	24,182	45,227	187.03%
All other loans and fees(2)(4)	**2,738,304**	**123,360**	**4.50%**	2,575,146	124,843	4.85%	2,479,968	125,315	5.05%
Total interest-earning assets	**3,382,855**	**132,377**	**3.91%**	3,248,797	134,568	4.14%	3,332,770	183,459	5.50%
Allowance for loan and lease losses	**(23,067)**			(23,287)			(25,226)		
Non interest-earning assets:									
Non interest-earning cash and cash equivalents	**75,837**			77,322			164,071		
Premises and equipment, net	**33,296**			33,165			33,672		
Bank owned life insurance	**44,545**			3,179					
Other assets(1)	**46,151**			46,169			55,452		
Total assets	**$ 3,559,617**			$ 3,385,345			$ 3,560,739		
LIABILITIES AND STOCK-HOLDERS EQUITY									
Interest-bearing liabilities:									
Transaction accounts	**$ 750,693**	**$ 488**	**0.07%**	$ 696,295	$ 484	0.07%	$ 614,118	$ 397	0.06%
Money market accounts	**477,129**	**761**	**0.16%**	508,288	631	0.12%	478,682	737	0.15%
Time deposits	**174,904**	**1,142**	**0.65%**	187,076	1,365	0.73%	253,567	2,190	0.86%
Brokered money market and brokered certificates of deposit	**107,475**	**1,514**	**1.41%**	123,188	1,613	1.31%	166,088	1,750	1.05%
Total interest-bearing deposits	**1,510,201**	**3,905**	**0.26%**	1,514,847	4,093	0.27%	1,512,455	5,074	0.34%
Securities sold under agreements to repurchase and other short-term borrowings	**296,196**	**112**	**0.04%**	170,386	70	0.04%	237,414	375	0.16%
Federal Home Loan Bank advances	**584,516**	**13,072**	**2.24%**	578,633	14,715	2.54%	560,659	14,833	2.65%
Subordinated note	**41,240**	**2,515**	**6.10%**	41,240	2,515	6.10%	41,240	2,522	6.12%
Total interest-bearing liabilities	**2,432,153**	**19,604**	**0.81%**	2,305,106	21,393	0.93%	2,351,768	22,804	0.97%
Non interest-bearing liabilities and Stockholders equity:									

Non interest-bearing deposits	**553,929**		513,891		624,053	
Other liabilities	**16,157**		19,468		54,822	
Stockholders equity	**557,378**		546,880		530,096	
Total liabilities and stock-holders equity	**$ 3,559,617**		$ 3,385,345		$ 3,560,739	
Net interest income		**$ 112,773**		$ 113,175		$ 160,655
Net interest spread		**3.10%**		3.21%		4.53%
Net interest margin		**3.33%**		3.48%		4.82%

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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 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 $9.4 million, $10.9 million and $50.8 million for 2014, 2013 and 2012.

(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 and are inclusive of all premiums, discounts, fees and costs.

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, 2014 Compared to Year Ended December 31, 2013			Year Ended December 31, 2013 Compared to Year Ended December 31, 2012	
(in thousands)	**Total Net Change**	**Increase / (Decrease) Due to Volume**	**Rate**	Total Net Change	Increase / (Decrease) Due to Volume	Rate
Interest income:						
Taxable investment securities, including FHLB stock	**$ (639)**	**$ (34)**	**$ (605)**	$ (3,134)	$ (2,066)	$ (1,068)
Federal funds sold and other interest-earning deposits	**(69)**	**(79)**	**10**	(58)	(113)	55
Refund Anticipation Loan fees				(45,227)	(45,227)	
All other loans and fees	**(1,483)**	**7,645**	**(9,128)**	(472)	4,714	(5,186)
Net change in interest income	**(2,191)**	**7,532**	**(9,723)**	(48,891)	(42,692)	(6,199)
Interest expense:						
Transaction accounts	**4**	**37**	**(33)**	87	56	31
Money market accounts	**130**	**(41)**	**171**	(106)	44	(150)
Time deposits	**(223)**	**(86)**	**(137)**	(825)	(518)	(307)
Brokered money market and brokered certificates of deposit	**(99)**	**(216)**	**117**	(137)	(509)	372

Securities sold under agreements to repurchase and other short-term borrowings	**42**	**48**	**(6)**	(305)	(84)	(221)
Federal Home Loan Bank advances	**(1,643)**	**149**	**(1,792)**	(118)	468	(586)
Subordinated note				(7)		(7)
Net change in interest expense	**(1,789)**	**(109)**	**(1,680)**	(1,411)	(543)	(868)
Net change in net interest income	**$ (402)**	**$ 7,641**	**$ (8,043)**	$ (47,480)	$ (42,149)	$ (5,331)

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Provision for Loan and Lease Losses

Discussion of 2014 vs. 2013

The Company recorded total Provision of $2.9 million for 2014 compared to $3.0 million during 2013. The significant components comprising the Company s Provision by business segment were as follows:

Traditional Banking segment

The Traditional Banking Provision was $3.0 million for 2014, an $878,000 improvement from the $3.9 million Provision recorded during 2013. The improvement in the Provision from 2013 to 2014 was primarily due to the following:

- The Traditional Bank posted a net decrease of $726,000 to the Provision during 2014 associated with PCI loans compared to a net increase of $1.3 million for 2013. Increases in the Provision during 2013 generally reflected projected probable shortfalls in cash flows below initial acquisition day estimates for these loans. The net credit to the Provision during 2014 generally reflects reversals of charges made in prior periods due to positive loan workouts. The change associated with the Bank s PCI loans, represented a positive swing to pre-tax earnings related to the Provision of approximately $2.0 million for 2014 as compared to 2013.

- The Traditional Bank posted a net decrease of $671,000 in the Provision associated with loans rated Special Mention during 2014 compared to a net increase in the Provision of $648,000 during 2013. The decrease in Provision during 2014 was primarily driven by payoffs and paydowns of existing retail TDRs and a reduction in the number of newly modified retail TDRs made by the Bank. The increase in the Provision during 2013 relates to an increase in the number of loans newly modified as TDRs. The change associated with the Bank s Special Mention credits, represented a positive swing to pre-tax earnings related to the Provision of approximately $1.3 million for 2014 as compared to 2013.

- The Traditional Bank posted a net increase of $948,000 in Provision associated with loans individually evaluated and rated Substandard for 2014 compared to a net decrease of $476,000 for 2013. During 2014 and 2013, the Bank had no significant impairment charges for individually evaluated Substandard relationships. The change associated with the Bank s Substandard rated credits, represented a negative swing to pre-tax earnings related to the Provision of approximately $1.4 million for 2014 as compared to 2013.

- The Traditional Bank posted net increases of $948,000 and $382,000 to the Provision during 2014 and 2013 associated with small-dollar, primarily retail, nonaccrual loans. Provisions for these loans during the periods were partially driven by an increase in the portfolio balance and partially by the Bank s updated migration analysis. The change associated with the Bank s small-dollar, primarily retail, nonaccrual loans, represented a negative swing to pre-tax earnings related to the Provision of approximately $566,000 for 2014 as compared to 2013.

- The Traditional Bank posted a net increase of $2.6 million in allocations associated with Pass rated and non rated loans during 2014 compared to a net increase of $2.1 million for 2013. The change during 2014 was primarily driven by increases in residential real estate loans originated through the Bank s correspondent lending channel. The change in allocations during 2013 was generally associated with increases in CRE loans driven by the Bank s 2013 CRE promotional products. The change associated with the Bank s Pass rated and non rated loans, represented a negative swing in pre-tax earnings related to the Provision of approximately $479,000 for 2014 as compared to 2013.

As a percentage of total loans, the Traditional Banking Allowance decreased to 0.87% at December 31, 2014 compared to 0.93% at December 31, 2013. The Company believes, based on information presently available, that it has adequately provided for loan losses at December 31, 2014.

See the sections titled Allowance for Loan and Lease Losses and Provision for Loan and Lease Losses and Asset Quality in this section of the filing under Financial Condition for additional discussion regarding the Provision and the Bank s delinquent, non-performing, impaired and TDR loans.

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Warehouse Lending segment

The Warehouse Provision was $350,000 for 2014, a $442,000 increase from a net credit of $92,000 recorded during 2013. The increased Provision from 2013 to 2014 was due to a $170 million increase in the Warehouse portfolio during 2014. The Warehouse segment has incurred no loan losses in its approximate four year history, with all loan loss reserves currently applied to the portfolio being qualitative in nature.

As a percentage of total loans, the Warehouse Allowance decreased to 0.25% at December 31, 2014 compared to 0.30% at December 31, 2013. The Company believes, based on information presently available, that it has adequately provided for Warehouse loan losses at December 31, 2014.

Republic Processing Group segment

As previously reported, the Company ceased offering the RAL product effective April 30, 2012. During 2014 and 2013, the Bank recorded recoveries of $582,000 and $845,000 to the Provision for the collection of prior period RAL charge-offs. Additionally, the Bank recorded a charge of $49,000 to the Provision during 2014 associated with growth in short-term consumer loans originated by the RCS division. Because RCS loans first began piloting loans in September 2013, no such expense was recorded 2013.

Discussion of 2013 vs. 2012

The Company recorded total Provision of $3.0 million for 2013 compared to $15.0 million during 2012. The significant components comprising the Company s Provision by business segment were as follows:

Traditional Banking segment

The Traditional Banking Provision during 2013 was $3.9 million, a $3.8 million, or 49%, decline from the $7.7 million recorded during 2012. The significant components comprising the Traditional Bank s decreased Provision were as follows:

- The Bank recorded a Provision related to its PCI 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 First Commercial Bank (FCB) acquisition was still within its initial day-one measurement period at December 31, 2013, and the Tennessee Commerce Bank (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 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 $4.4 million of the Provision for 2012 was attributable to the Bank s individually evaluated 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 $476,000 was made for individually evaluated Substandard classified loans in 2013 due to favorable reevaluations and workouts of Substandard classified loans.

- The Bank recorded a Provision of approximately $2.1 million during 2013 compared to $803,000 for 2012 attributable to increases in the Bank s general loan loss reserves for its Pass rated and non 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.

Warehouse Lending segment

The Warehouse Provision was a net credit of $92,000 for 2013, a $529,000 improvement from a net Provision expense of $437,000 recorded during 2012. The decreased Provision from 2012 to 2013 was primarily due to a $67 million decrease in the Warehouse portfolio during 2013.

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As a percentage of total loans, the Warehouse Allowance increased to 0.30% at December 31, 2013 compared to 0.25% at December 31, 2012.

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.

Non Interest Income

Table 4 Analysis of Non interest income

							Percent Increase/(Decrease)	
Year Ended December 31, (dollars in thousands)		**2014**		2013		2012	**2014/2013**	2013/2012
Service charges on deposit accounts	**$**	**13,807**	$	13,954	$	13,496	**-1%**	3%
Net refund transfer fees		**16,130**		13,884		78,304	**16%**	-82%
Mortgage banking income		**2,862**		7,258		8,447	**-61%**	-14%
Interchange fee income		**7,017**		6,927		6,327	**1%**	9%
Bargain purchase gain - Tennessee Commerce Bank						27,614	**0%**	-100%
Bargain purchase gain - First Commercial Bank				1,324		27,824	**-100%**	-95%
Gain on sale of securities available for sale						56	**0%**	-100%
Net gain (loss) on other real estate owned		**(2,218)**		346		(1,303)	**-741%**	-127%
Increase in cash surrender value of BOLI		**1,329**		86			**1445%**	100%
Other		**3,592**		2,451		2,700	**47%**	-9%
Total non interest income	**$**	**42,519**	$	46,230	$	163,465	**-8%**	-72%

Discussion of 2014 vs. 2013

Total Company non interest income decreased $3.7 million, or 8%, for 2014 compared to 2013. The most significant components comprising the total Company decrease in non interest income by business segment were as follows:

Traditional Banking segment

Traditional Banking segment non interest income decreased $2.6 million, or 11%, during 2014 compared to 2013.

Service charges on deposit accounts decreased $153,000, or 1%, for 2014 to $13.8 million. The lack of growth in service charges on deposits reflects a generally flat to downward trend for the Bank over the past several years due primarily to on-going regulatory changes that have negatively impacted overdraft fee income. The Bank earns a substantial majority of its fee income related to its overdraft service program from the per item fee it assesses its clients for each insufficient funds check or electronic debit presented for payment. The total per item fees, net of refunds, included in service charges on deposits for 2014 and 2013 were $7.7 million and $8.0 million. The total daily overdraft charges, net of refunds, included in interest income for 2014 and 2013 were $1.6 million and $1.7 million. Management does not believe the generally flat to downward trend in overdraft related income is likely to change in a positive manner the foreseeable future.

As permitted by ASC Topic 805, *Business Combinations,* the Bank extended the measurement period related to its September 7, 2012 FDIC-assisted First Commercial Bank acquisition through March 31, 2013. The initial bargain purchase gain recorded in 2012 was recast upward by $1.3 million during the first quarter of 2013, as the fair value of certain assets acquired were adjusted to reflect new information obtained after the acquisition date that existed as of the acquisition date. Similar income was not recorded for 2014.

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Net gains (losses) on OREO fluctuated from a net gain of $346,000 during 2013 to a net loss of $2.2 million during 2014. The net loss during 2014 was primarily driven by $3.1 million in mark-to-market writedowns of OREO during 2014 compared to $1.8 million in writedowns during 2013.

The Bank recorded a $1.3 million increase to the cash surrender value of its Bank Owned Life Insurance (BOLI) during 2014 compared to $86,000 for 2013. The increase during 2014 was a result of the Bank making its initial BOLI investment of $25 in the fourth quarter of 2013 million and an additional investment of $25 million in the first quarter of 2014. BOLI offers tax-advantaged non interest income to assist the Bank in covering employee-related expenses.

Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income decreased $4.4 million, or 61%, during 2014 compared to 2013. Overall, Republic s proceeds from the sale of secondary market loans totaled $82 million during 2014 compared to $305 million during 2013. The prior year significantly benefited from favorable long-term interest rates through May 2013, when sharp increases in such interest rates began negatively affecting demand for mortgage banking products. This negative impact on demand continued through the remainder of 2013 and through 2014.

Republic Processing Group segment

RPG non interest income increased $3.2 million, or 21%, during 2014 compared to 2013 primarily due to the TRS division, which experienced a 74% increase in the dollar volume of tax refunds processed. This increase was driven by a rise in self-prepared, on-line product volume in combination with growth in retail store-front traffic resulting from new contracts between the Company and third party tax preparation companies.

As previously disclosed, the Bank continues to face stiff competition in the RT marketplace, which includes direct competition for RT market share from independently-owned processing groups partnered with banks. In addition to the possible loss of volume resulting from additional competitors, the Bank has incurred substantial pressure on its profit margin for RT products via revenue sharing arrangements with its various partners.

Approximately 44% of RPG s total net RT revenue for 2014 was derived from a tax provider that has worked with RPG for several years. RPG participated in a competitive bid process for this provider s future RT business during the first quarter of 2014. At the conclusion of the bid process, RPG entered into a new three year agreement with this provider which took effect in January 2015. Management believes annual net RT revenue from this provider in the future will likely decline approximately 18% as a result of the new, less favorable revenue share arrangement with this particular provider. Management s estimated decrease in annual net RT revenue from this provider is exclusive of any potential offsetting revenue resulting from an increase in volume from this or any other RPG tax providers.

Approximately 10% of RPG s total 2014 net RT revenue was derived from a new two-year contract, in which the tax preparation provider also assumed the program manager role. The TRS division of RPG has historically earned RT revenue 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 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 RTs and the verification to third parties regarding the validity of 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 providers 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 the 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 only 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.

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Furthermore, provisions of the Bank s 2012 resolution of its differences with the FDIC through the Stipulation Agreement and a Consent Order (collectively, the Agreement) places additional oversight requirements on the Bank that are not required by regulators of the Bank s competitors in the tax business. These additional requirements have made, and will likely continue to make, attracting new relationships, retaining existing relationships, and maintaining profit margin for RTs more difficult for the Bank. At this time, Management cannot reasonably forecast the overall effects on RT revenue if these competitive disadvantages remain in place.

Discussion of 2013 vs. 2012

Total Company non interest income decreased $117.5 million, or 72%, for 2013 compared to 2012. The most significant components comprising the total Company decrease in non interest income by business segment were as follows:

Traditional Banking segment

Traditional Banking segment non interest income decreased $52.6 million, or 69%, for 2013 compared to 2012.

Service charges on deposit accounts were $14.0 million during 2013 compared to $13.5 million for 2012. 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.

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 the Bank was substantially less than the fair value of the TCB and FCB assets acquired and liabilities assumed in the transactions.

Net gains (losses) on OREO fluctuated from a net loss of $1.3 million during 2012 to a net gain of $346,000 during 2013.

During November 2013, the Bank made an initial investment of $25 million in BOLI and recorded $86,000 in related income during 2013 due to the increase in value of this investment.

Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income decreased $1.2 million, or 14%, during 2013 compared to 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 2012, with the majority of the 2013 application volume occurring during the first half of 2013.

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.

Republic Processing Group segment

RPG non interest income decreased $63.8 million, or 81%, during 2013 compared to 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 disputes of the Bank s contracts with Liberty and JHI.

As previously disclosed in a Form 8-K filed on August 29, 2012, JHI unilaterally terminated its contract with the Bank 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 the Bank on September 18, 2012. On a combined basis, these contracts represented approximately 53% of the Bank s 2012 RT volume.

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Non Interest Expenses

Table 5 Analysis of Non Interest Expenses

							Percent Increase/(Decrease)	
Year Ended December 31, (dollars in thousands)		**2014**		2013		2012	**2014/2013**	2013/2012
Salaries and employee benefits	**$**	**54,373**	$	57,778	$	60,633	**-6%**	-5%
Occupancy and equipment, net		**22,008**		21,918		22,474	**0%**	-2%
Communication and transportation		**3,866**		4,128		5,806	**-6%**	-29%
Marketing and development		**3,264**		3,106		3,213	**5%**	-3%
FDIC insurance expense		**1,865**		1,682		1,403	**11%**	20%
Bank franchise tax expense		**4,616**		4,115		3,916	**12%**	5%
Data processing		**3,513**		3,120		4,109	**13%**	-24%
Interchange related expense		**3,450**		3,063		2,662	**13%**	15%
Supplies		**1,009**		1,157		2,114	**-13%**	-45%
Other real estate owned expense		**1,024**		1,948		2,140	**-47%**	-9%
Charitable contributions		**788**		1,004		3,341	**-22%**	-70%
Legal expense		**1,118**		4,627		1,866	**-76%**	148%
FHLB advance prepayment penalty						2,436	**0%**	-100%
Other		**7,224**		8,278		9,019	**-13%**	-8%
Total non interest expenses	**$**	**108,118**	$	115,924	$	125,132	**-7%**	-7%

Discussion of 2014 vs. 2013

Total Company non interest expenses in 2014 decreased $7.8 million, or 7%, from 2013. The most significant components comprising the change in non interest expense by business segment were as follows:

Traditional Banking segment

For 2014 compared to 2013, Traditional Banking non interest expenses decreased $4.0 million, or 4%.

Salaries and benefits decreased $3.3 million, or 7%, for 2014 compared to 2013 primarily due to a modest reduction in force during the fourth quarter of 2013.

Occupancy expense increased $758,000, or 4%, during 2014, primarily due to an acceleration of depreciation on defunct assets, as well as additional space acquired for back office support areas.

OREO expense decreased $924,000, or 47%, during 2014, consistent with a net decrease of eight OREO properties held by the Bank during 2014.

Legal expense decreased $579,000, or 37%, primarily due to a decrease in legal collection expenses associated with the Bank s 2012 FDIC-assisted transactions.

Warehouse Lending segment

For 2014 compared to 2013, Warehouse non interest expenses increased $205,000, or 12%.

Salaries and employee benefits increased $55,000, or 5%, during 2014 primarily due to additional staffing.

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Bank franchise expense related to the Warehouse segment increased $80,000 during 2014 compared to 2013, as additional tax was apportioned to the Warehouse segment due to its greater pro-rata share of Company gross receipts. 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.

Republic Processing Group segment

For 2014 compared to 2013, RPG non interest expenses decreased $4.5 million, or 28%.

Legal expenses decreased $3.0 million during 2014. Substantial legal expenses were incurred during 2013 related to contract disputes with TRS s previously two largest product providers and the Bank s unsuccessful effort to acquire H&R Block Bank.

Salaries and employee benefits decreased $922,000, or 13%, primarily due to lower contract labor staffing costs and a decline in full time equivalent employees (FTE s) during the period.

Occupancy expenses decreased $803,000, or 32%, for 2014 compared to 2013 primarily due to a reduction in leased square footage and depreciation expense.

Offsetting the decreases above, the Bank franchise expense related to the RPG segment increased $643,000, or 74%, during 2014 compared to 2013, as additional tax was apportioned to the RPG segment due to its greater pro-rata share of Company gross receipts.

Discussion of 2013 vs. 2012

Total Company non interest expenses in 2013 decreased $9.2 million, or 7%, from 2012. The most significant components comprising the change in non interest expense by business segment were as follows:

Traditional Banking segment

Total Traditional Bank non interest expenses in 2013 decreased $3.0 million, or 3%, from 2012.

Salaries and benefits in 2013 increased $164,000 over 2012 due primarily to a rise in salaries and benefits resulting from an increase in the Traditional Banking segment s FTEs for the first three quarters of 2013. The increase in the Traditional Bank s FTEs was the result of retaining employees from its acquired banks and the hiring of additional employees to support the acquired operations and the Bank s long-term growth plans. The increase 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.

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.

Data processing expense in 2013 decreased $1.0 million from 2012 primarily due to $912,000 in processing costs incurred during 2012 related to the 2012 FDIC-assisted transactions.

Audit and professional fees in 2013 decreased $349,000 from 2012 due primarily to additional audit and third party consulting fees in 2012 related to the 2012 FDIC-assisted transactions.

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.

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Warehouse Lending segment

For 2013 compared to 2012, Warehouse non interest expenses increased $318,000, or 24%, primarily due to an increase in salaries and employee benefits expense, which increased $243,000, or 28%, primarily due to the hiring of sales and operational staff combined with additional support staff allocated to the Warehouse segment during 2013.

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 during 2013.

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 totaling $717,000 during 2013 related the Bank s unsuccessful effort to acquire H&R Block Bank.

The Bank 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. With the matter resolved, the Bank 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 nominal.

The Bank s contract dispute with Liberty was resolved during January 2014 with a nominal amount of related legal expense. The Company does not anticipate any additional future legal expense associated with this matter. With the matter resolved, the Bank 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 nominal.

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.

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%.

Income Tax Expenses

Discussion of 2014 vs. 2013

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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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 $73 million in cash and cash equivalents at December 31, 2014 compared to $171 million at December 31, 2013. The Company s cash position during 2014 was strategically decreased primarily due to growth in the Bank s loan portfolio during 2014.

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 s general near-term strategy is to keep minimal amounts of cash on its balance sheet; however, this strategy continues to be impacted by the Bank s ongoing interest rate risk management practices and strategies.

The Company s Captive maintains cash reserves to cover insurable claims. Captive reserves totaled $1 million as of December 31, 2014.

Investment Securities

Table 6 Investment Securities Portfolio

December 31, (in thousands)	**2014**	2013	2012	2011	2010
Securities available for sale (fair value):					
U.S. Treasury securities and U.S. Government agencies	**$ 146,922**	$ 97,465	$ 39,472	$ 152,674	$ 120,297
Private label mortgage backed security	**5,250**	5,485	5,687	4,542	5,124
Mortgage backed securities - residential	**124,256**	150,087	197,210	293,329	158,677
Collateralized mortgage obligations	**143,171**	163,946	195,877	195,403	225,657
Freddie Mac preferred stock	**231**				
Mutual fund	**1,018**	995			
Corporate bonds	**15,063**	14,915			
Total securities available for sale	**435,911**	432,893	438,246	645,948	509,755

Securities held to maturity (carrying value):					
U.S. Treasury securities and U.S. Government agencies	**1,747**	2,311	4,388	4,233	4,191
Mortgage backed securities - residential	**147**	420	827	1,376	1,930
Collateralized mortgage obligations	**38,543**	42,913	40,795	22,465	26,818
Corporate bonds	**5,000**	5,000			
Total securities held to maturity	**45,437**	50,644	46,010	28,074	32,939
Total investment securities	**$ 481,348**	$ 483,537	$ 484,256	$ 674,022	$ 542,694

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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 FHLB 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 2014, the Bank purchased $5 million, $61 million and $15 million of U.S. Treasury, U.S. Government Agency and mortgage backed securities with an overall weighted average yield to maturity of 0.95% and a weighted average expected life of approximately three years. While the Company s general near-term strategy is to maintain minimal cash on its balance sheet by redeploying its net monthly cash flow into new loans or investments, the Bank s levels and types of investment security purchases during 2015 will likely be impacted by its interest rate risk position at the time of the potential purchase.

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

Table 7 Mortgage Backed Investment Securities

December 31, (in thousands)	**2014**	2013	2012	2011	2010
Private label mortgage backed security	**$ 5,250**	$ 5,485	$ 5,687	$ 4,542	$ 5,124
Mortgage backed securities - residential	**124,423**	150,550	198,100	294,806	160,716
Collateralized mortgage obligations	**182,133**	207,062	236,988	218,027	253,245
Total mortgage backed securities fair value	**$ 311,806**	$ 363,097	$ 440,775	$ 517,375	$ 419,085

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 2 Investment Securities of Part II Item 8 Financial Statements and Supplementary Data.

In addition, the Bank holds agency structured notes in the investment portfolio, which consist of step up bonds. A step up bond pays an initial coupon rate for the first period, and then a higher coupon rate for the following periods. The Bank adjusts its investment in this investment type from year to year based on market conditions. 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)	**2014**	2013	2012	2011	2010
Amortized cost	**$ 8,582**	$ 30,492	$ 509	$ 70,232	$ 97,504
Fair value	**8,633**	30,467	508	70,087	97,511

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The amortized cost/carrying amount, fair value, weighted average yield and weighted average maturity of the investment portfolio at December 31, 2014 follows:

Table 9 Securities Available for Sale

December 31, 2014 (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	**$ 10,065**	**$ 10,119**	**1.09%**	**0.72**
Due from one year to five years	**136,560**	**136,803**	**1.03%**	**2.71**
Total U.S. Treasury securities and U.S. Government agencies	**146,625**	**146,922**	**1.03%**	**2.58**
Corporate bonds:				
Due from one year to five years	**5,011**	**5,039**	**1.23%**	**3.22**
Due from five years to ten years	**10,000**	**10,024**	**1.23%**	**8.29**
Total Corporate bonds	**15,011**	**15,063**	**1.23%**	**6.60**
Private label mortgage backed security	**4,030**	**5,250**	**6.75%**	**3.28**
Total mortgage backed securities - residential	**118,836**	**124,256**	**2.15%**	**5.30**
Total collateralized mortgage obligations	**143,283**	**143,171**	**1.30%**	**3.91**
Freddie Mac preferred stock		**231**	**NM**	**NM**
Mutual fund	**1,000**	**1,018**	**NM**	**NM**
Total securities available for sale	**$ 428,785**	**$ 435,911**	**1.49%**	**3.93**

NM = Not meaningful, as the security does not have a finite maturity.

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Table 10 Securities Held to Maturity

December 31, 2014 (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	**$ 1,037**	**$ 1,038**	**3.44%**	**0.88**
Due from one year to five years	**710**	**703**	**2.54%**	**2.39**
Total U.S. Treasury securities and U.S. Government agencies	**1,747**	**1,741**	**3.07%**	**1.49**
Corporate bonds:				
Due from five years to ten years	**5,000**	**4,937**	**1.47%**	**5.38**
Total corporate bonds	**5,000**	**4,937**	**1.47%**	**5.38**
Total mortgage backed securities - residential	**147**	**167**	**7.58%**	**3.43**
Total collateralized mortgage obligations	**38,543**	**38,962**	**0.88%**	**5.35**
Total securities held to maturity	**$ 45,437**	**$ 45,807**	**1.45%**	**5.20**

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Loan Portfolio

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

Table 11 Loan Portfolio Composition

December 31, (in thousands)	**2014**	2013	2012	2011	2010
Residential real estate:					
Owner occupied	**$ 1,118,341**	$ 1,097,795	$ 1,145,495	$ 985,735	$ 918,407
Owner occupied - correspondent*	**226,628**	NA	NA	NA	NA
Non owner occupied	**96,492**	110,809	74,539	99,161	126,404
Commercial real estate	**772,309**	773,173	714,642	639,966	640,872
Commercial real estate - purchased whole loans*	**34,898**	34,186	33,531	32,741	NA
Construction & land development	**38,480**	44,351	68,214	67,406	68,701
Commercial & industrial	**157,339**	127,763	130,681	119,117	108,720
Lease financing receivables	**2,530**	NA	NA	NA	NA
Warehouse lines of credit	**319,431**	149,576	216,576	41,496	NA
Home equity	**245,679**	226,782	241,607	280,235	289,945
Consumer:					
RPG loans	**4,095**	1,827			
Credit cards	**9,573**	9,030	8,716	8,580	8,213
Overdrafts	**1,180**	944	955	950	901
Purchased whole loans*	**4,626**	NA	NA	NA	NA
Other consumer	**8,894**	13,556	15,241	9,908	13,077
Total loans**	**3,040,495**	2,589,792	2,650,197	2,285,295	2,175,240
Allowance for loan and lease losses	**(24,410)**	(23,026)	(23,729)	(24,063)	(23,079)
Total loans, net	**$ 3,016,085**	$ 2,566,766	$ 2,626,468	$ 2,261,232	$ 2,152,161

** - Identifies loans to borrowers located primarily outside of the Bank s historical market footprint.*

*** - Total loans are presented inclusive of premiums, discounts and net loan origination fees and costs.*

NA - Not applicable.

Gross loans increased by $451 million, or 17%, during 2014 to $3.0 billion at December 31, 2014.

Following are the most significant factors contributing to fluctuations in the Bank s loan portfolio:

Owner Occupied - Correspondent

Correspondent Lending generally involves the Bank acquiring, primarily from its Warehouse clients, closed loans at a premium that meet the Bank s specifications. The Bank began acquiring single family, first lien residential real estate loans through its Correspondent Lending channel in May 2014.

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The Correspondent Lending channel purchased $230 million in conforming and jumbo 5/1 and 7/1 adjustable rate mortgage (ARM) loans through December 31, 2014, inclusive of $4.8 million in purchase premiums. Purchase premiums are amortized into interest income on a level yield basis over the estimated life of each loan, with such amortization subject to acceleration based on actual prepayments. Loans acquired through the Correspondent Lending channel generally reflect borrowers outside of the Bank s historical market footprint, with 86% of loans acquired through this origination channel as of December 31, 2014, secured by collateral in the state of California. The average Fair Isaac Corporation (FICO) score and loan-to-value (LTV) of loans originated through the Correspondent Lending channel during 2014 were 759 and 72%, respectively.

Warehouse Lines of Credit

Mortgage warehouse 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 clients to originate single family, first lien residential real estate loans in their own names and temporarily fund their inventory of these originated loans until the loans are sold to investors approved by the Bank. The individual loans are expected to remain on the Bank s 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 Bank s warehouse line and are collected when the loan is sold to the secondary market investor. The Bank receives the sale proceeds of each loan directly from the investor and applies the funds to pay off the warehouse advance and related accrued interest and fees. The remaining proceeds are credited to the mortgage banking client. Outstanding balances on these credit facilities may be subject to significant fluctuations consistent with the overall market demand for mortgage loans.

As of December 31, 2014, the Bank had $319 million of outstanding Warehouse lines from total committed credit lines of $527 million. As of December 31, 2013, the Bank had $150 million of outstanding lines from total committed credit lines of $358 million. The approximate $170 million increase in the outstanding Warehouse lines was due primarily to the addition of seven new clients and the increase in overall usage of the Bank s Warehouse lines during 2014. The average Warehouse line usage increased to 47% in 2014 compared to 40% in 2013. The average Warehouse line commitment was approximately $25 million and $26 million at December 31, 2014 and 2013.

The Bank s Warehouse Lending business is significantly influenced by the overall residential mortgage market and the volume and composition of residential mortgage purchase and refinance transactions among the Bank s mortgage banking clients. For 2014, the Bank s Warehouse volume consisted of 70% purchase transactions, in which the mortgage company s borrower was purchasing a new residence, and 30% refinance transactions, in which the mortgage company s client was refinancing an existing mortgage loan. For 2013, Warehouse volume consisted of 63% purchase and 37% refinance transactions. 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.

The growth of the Bank s Warehouse Lending business greatly depends on the overall mortgage market and typically follows industry trends. Since its entrance into this business segment during 2011, the Bank has historically experienced seasonal decreases in the Warehouse portfolio during the first quarter of each year, in-line with the overall mortgage market. Due to the volatility and seasonality of the mortgage market, it is difficult to project growth levels of outstanding Warehouse lines of credit. While management believes it will be difficult to repeat the growth in Warehouse balances experienced during 2014, the Bank will remain active in continuing to grow its client base while incentivizing its current clients to maintain, and in some cases, increase their usage during 2015.

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Residential Real Estate - Owner Occupied

The Bank s owner occupied, residential real estate portfolio increased $21 million, or 2%, during 2014 to $1.12 billion. Influencing this growth was the Bank s 2014 promotional 100% loan-to-value (LTV) residential real estate loan product. The Bank had $40 million in balances of 100%-LTV residential real estate loans at December 31, 2014.

Management believes that ARM loans originated through the Bank s retail origination channel during 2014 were predominantly QMs; however, the Bank has made strategic changes to its underwriting guidelines in 2015 that will result in the substantial majority of prospective ARM loans originated through its retail origination channel to be non-QMs. Management has made these strategic changes to provide a better client experience for the Bank s mortgage loan clients and to reduce the overall costs to the Bank of originating loans subject the QM parameters. Management still expects all of its prospective non-QMs to meet the Ability to Repay (ATR) requirements.

Loans Associated with the Bank s 2012 FDIC-Assisted Acquisitions

During 2012, the Bank acquired loans in two FDIC assisted transactions with a total contractual balance of $251 million and carrying value of $188 million. The contractual balance of these loans decreased to $181 million at December 31, 2012, to $118 million at December 31, 2013 and to $68 million at December 31, 2014. The carrying value of these loans decreased to $139 million at December 31, 2012, to $95 million at December 31, 2013 and to $56 million at December 31, 2014.

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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, 2014 (in thousands)	Total	One Year Or Less	Over One Through Five Years	Over Five Years
Fixed rate loan maturities:				
Residential real estate	$ 515,157	$ 36,699	$ 137,384	$ 341,074
Commercial real estate	422,534	74,839	240,713	106,982
Construction & land development	7,706	4,906	2,486	314
Commercial & industrial	81,778	20,566	49,619	11,593
Lease financing receivables	2,530	1,217	1,246	67
Warehouse lines of credit				
Home equity				
Consumer	17,336	8,015	7,772	1,549
Total fixed rate loans	$ 1,047,041	$ 146,242	$ 439,220	$ 461,579
Variable rate loan maturities:				
Residential real estate	$ 926,304	$ 246,079	$ 406,331	$ 273,894
Commercial real estate	384,673	136,422	224,293	23,958
Construction & land development	30,774	25,726	4,292	756
Commercial & industrial	75,561	59,558	14,420	1,583
Lease financing receivables				
Warehouse lines of credit	319,431	319,431		
Home equity	245,679	242,800	2,518	361
Consumer	11,032	10,913	119	
Total variable rate loans	$ 1,993,454	$ 1,040,929	$ 651,973	$ 300,552
Total:				
Residential real estate	$ 1,441,461	$ 282,778	$ 543,715	$ 614,968
Commercial real estate	807,207	211,261	465,006	130,940
Construction & land development	38,480	30,632	6,778	1,070
Commercial & industrial	157,339	80,124	64,039	13,176
Lease financing receivables	2,530	1,217	1,246	67
Warehouse lines of credit	319,431	319,431		
Home equity	245,679	242,800	2,518	361
Consumer	28,368	18,928	7,891	1,549
Total loans	$ 3,040,495	$ 1,187,171	$ 1,091,193	$ 762,131

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Allowance for Loan and Lease Losses (Allowance)

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 non-PCI 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 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 acquisition day estimate. Loans that meet the following classifications are considered impaired:

- Internally rated Substandard, Doubtful or Loss;
- Internally rated PCI with cash flows that have deteriorated from management s initial acquisition day estimate;
- On non-accrual status and non-PCI rated and past due 90 days-or-more and still on accrual;
- 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 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 expected future cash flows and changes in the recorded investment.

- **Collateral Method** The recorded investment in the loan is measured against the fair value of the collateral value less applicable selling costs. The Bank employs the fair value of collateral method for its impaired loans when 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 asset 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 origination, the Bank typically updates appraisals and/or broker price opinions for loans with potential impairment. Updated valuations for commercial related credits exhibiting an increased risk of loss are typically obtained within one year of the previous 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 measuring impairment, 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, in order to take account of periods of economic growth and economic downturn, management currently uses the highest of the rolling eight, twelve, sixteen or twenty quarter averages for each loan class when determining its historical loss factors for its Pass rated and nonrated credits.

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 portfolio;
- Changes in experience, ability and depth of lending management and other relevant staff;

- Changes in the quality of the Bank s credit review system;
- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Changes in the volume and severity of past due, non-performing 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 collectability of portfolios, including the condition of various market segments;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution s existing portfolio.

As this analysis, or any similar analysis, is an imprecise measure of loss, the Allowance is subject to ongoing adjustments. Therefore, management will often take into account other significant factors that may be necessary or prudent in order to reflect probable incurred losses in the total loan portfolio.

The Bank s Allowance increased $1 million, or 6%, during 2014 to $24 million at December 31, 2014. As a percent of total loans, the Allowance decreased to 0.80% at December 31, 2014 compared to 0.89% at December 31, 2013.

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Notable fluctuations in the Allowance were as follows:

- The Bank increased its reserves for Pass rated and non-rated loans by $2.5 million during 2014 consistent with the level and pace of growth with such loans. The most notable increases in the loan portfolio were in outstanding warehouse lines of credit, which grew $170 million during 2014, and the Correspondent Lending residential real estate portfolio, which grew $227 million during 2014.

- The Bank increased its reserves for small-dollar, primarily retail, nonaccrual loans by $470,000 partially due to an updated migration analysis and partially due to increased volume in this portfolio.

- The Bank decreased its reserve for retail TDRs by $768,000 during 2014 primarily due to payoffs and paydowns of existing retail TDRs coupled with a slowdown in newly modified retail TDRs during the year.

- The Bank decreased its reserve for Substandard rated loans by $424,000 during 2014 consistent with a $4 million decrease in Substandard loans during 2014 and partially due to partial charge-offs executed on Substandard loans which became collateral dependent during 2014. As previously mentioned, the Bank charges down its collateral dependent Substandard loans to the fair market value of their underlying collateral less selling costs.

- The Bank decreased its reserves for PCI loans by $301,000 during 2014 consistent with the level of positive workouts of this portfolio. The carrying balance of the Bank s PCI portfolio decreased $23 million during 2014.

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Table 13 Summary of Loan and Lease Loss Experience

Year Ended December 31, (dollars in thousands)	**2014**	2013	2012	2011	2010
Allowance at beginning of year	**$ 23,026**	$ 23,729	$ 24,063	$ 23,079	$ 22,879
Charge offs:					
Residential real estate					
Owner occupied	**(836)**	(1,886)	(3,128)	(2,116)	(2,562)
Owner occupied - correspondent		NA	NA	NA	NA
Non owner occupied	**(185)**	(241)	(520)	(644)	(450)
Commercial real estate	**(868)**	(1,190)	(1,033)	(1,125)	(4,846)
Commercial real estate - purchased whole loans					NA
Construction & land development	**(18)**	(619)	(1,922)	(845)	(1,261)
Commercial & industrial	**(20)**	(466)	(176)	(100)	(207)
Lease financing receivables		NA	NA	NA	NA
Warehouse lines of credit					NA
Home equity	**(548)**	(632)	(2,252)	(1,279)	(1,811)
Consumer:					
Refund Anticipation Loans			(11,097)	(15,484)	(14,584)
Other RPG loans	**(5)**		NA	NA	NA
Credit cards	**(88)**	(142)	(123)	(241)	(158)
Overdrafts	**(591)**	(601)	(468)	(678)	(848)
Purchased whole loans		NA	NA	NA	NA
Other consumer	**(404)**	(408)	(266)	(281)	(362)
Total charge offs	**(3,563)**	(6,185)	(20,985)	(22,793)	(27,089)
Recoveries:					
Residential real estate					
Owner occupied	**137**	285	256	239	70
Owner occupied - correspondent		NA	NA	NA	NA
Non owner occupied	**27**	172	137	6	
Commercial real estate	**155**	117	90	301	48
Commercial real estate - purchased whole loans					NA
Construction & land development	**89**	48	104	237	248
Commercial & industrial	**114**	99	25	128	49
Lease financing receivables		NA	NA	NA	NA
Warehouse lines of credit					NA
Home equity	**183**	165	92	159	23
Consumer:					
Refund Anticipation Loans	**582**	845	4,221	3,924	6,441
Other RPG loans			NA	NA	NA
Credit cards	**35**	19	36	32	19
Overdrafts	**391**	411	422	506	385
Purchased whole loans		NA	NA	NA	NA
Other consumer	**375**	338	225	279	292
Total recoveries	**2,088**	2,499	5,608	5,811	7,575
Net loan charge offs	**(1,475)**	(3,686)	(15,377)	(16,982)	(19,514)
Provision - Core Banking	**3,392**	3,828	8,167	6,406	11,571
Provision - RPG	**(533)**	(845)	6,876	11,560	8,143

Total Provision		**2,859**		2,983		15,043		17,966		19,714
Allowance at end of year	**$**	**24,410**	$	23,026	$	23,729	$	24,063	$	23,079
Credit Quality Ratios:										
Allowance to total loans		**0.80%**		0.89%		0.90%		1.05%		1.06%
Allowance for to non-performing loans		**103%**		109%		109%		103%		82%
Net loan charge offs to average loans		**0.05%**		0.14%		0.61%		0.76%		0.83%

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 and Lease Losses

December 31, (dollars in thousands)	**2014** Allowance	**2014** Percent of Loans to Total Loans*	2013 Allowance	2013 Percent of Loans to Total Loans*	2012 Allowance	2012 Percent of Loans to Total Loans*	2011 Allowance	2011 Percent of Loans to Total Loans*	2010 Allowance	2010 Percent of Loans to Total Loans*
Residential real estate:										
Owner occupied	**$ 8,565**	**38%**	$ 7,816	43%	$ 7,006	44%	$ 5,212	44%	$ 3,775	43%
Owner occupied - correspondent	**567**	**7%**	NA	NA	NA	NA	NA	NA	NA	NA
Non owner occupied	**837**	**3%**	1,023	4%	1,049	3%	1,142	4%	1,506	6%
Commercial real estate	**7,740**	**26%**	8,309	30%	8,843	26%	7,690	28%	7,214	29%
Commercial real estate - purchased whole loans	**34**	**1%**	34	1%	34	1%	34	1%	NA	NA
Construction & land development	**926**	**1%**	1,296	2%	2,769	3%	3,042	3%	2,612	3%
Commercial & industrial	**1,167**	**5%**	1,089	5%	580	5%	1,025	5%	1,347	5%
Lease financing receivables	**25**	**0%**	NA	NA	NA	NA	NA	NA	NA	NA
Warehouse lines of credit	**799**	**11%**	449	6%	541	8%	104	2%	NA	NA
Home equity	**2,730**	**8%**	2,396	9%	2,348	9%	2,984	12%	3,581	13%
Consumer:										
RPG loans	**44**	**0%**		0%		0%		0%		0%
Credit cards	**285**	**0%**	289	0%	210	0%	503	0%	492	0%
Overdrafts	**382**	**0%**	199	0%	198	0%	135	0%	126	0%
Purchased whole loans	**185**	**0%**	NA	NA	NA	NA	NA	NA	NA	NA
Other consumer	**124**	**0%**	126	0%	151	1%	227	1%	461	1%
Unallocated							1,965		1,965	
Total	**$ 24,410**	**100%**	$ 23,026	100%	$ 23,729	100%	$ 24,063	100%	$ 23,079	100%

NA - Not Applicable

** - Values of less than 50 basis points are rounded to zero.*

Management believes, based on information presently available, that it has adequately provided for loan and lease losses at December 31, 2014 and 2013.

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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Asset Quality

Classified and Special Mention Loans

The Bank applies credit quality indicators, or ratings, to individual loans based on internal Bank policies. Such internal policies are informed by regulatory standards. Loans rated Loss, Doubtful, Substandard and PCI-Sub are considered Classified. Loans rated Special Mention or PCI-1 considered Special Mention. The Bank s Classified and Special Mention loans decreased $31 million during 2014 primarily due to payoffs and paydowns of loans rated PCI-1.

See Footnote 3 Loans and Allowance for Loan and Lease Losses of Part II Item 8 Financial Statements and Supplementary Data for additional discussion regarding Classified and Special mention loans.

The composition of loans considered Classified or Special Mention within the Allowance follows:

Table 15 Classified and Special Mention Loans

December 31, (in thousands)	**2014**	2013	2012	2011	2010
Loss	**$**	$	$	$	$
Doubtful					
Substandard	**39,999**	44,305	49,352	43,088	38,245
Purchased Credit Impaired - Substandard					
Total Classified Loans	**39,999**	44,305	49,352	43,088	38,245
Special Mention	**36,268**	40,167	50,625	35,455	54,254
Purchased Credit Impaired - Group 1	**17,490**	40,731	72,978		
Total Special Mention Loans	**53,758**	80,898	123,603	35,455	54,254
Total Classified and Special Mention Loans	**$ 93,757**	$ 125,203	$ 172,955	$ 78,543	$ 92,499

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 $24 million at December 31, 2014, with approximately $14 million of these loans also reported as TDRs. 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.

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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)	**2014**	2013	2012	2011	2010
Loans on non-accrual status(1)	**$ 23,337**	$ 19,104	$ 18,506	$ 23,306	$ 28,317
Loans past due 90-days-or-more and still on accrual(2)	**322**	1,974	3,173		
Total non-performing loans	**23,659**	21,078	21,679	23,306	28,317
Other real estate owned	**11,243**	17,102	26,203	10,956	11,969
Total non-performing assets	**$ 34,902**	$ 38,180	$ 47,882	$ 34,262	$ 40,286
Credit Quality Ratios:					
Non-performing loans to total loans	**0.78%**	0.81%	0.82%	1.02%	1.30%
Non-performing assets to total loans (including OREO)	**1.14%**	1.46%	1.79%	1.49%	1.84%
Non-performing assets to total assets	**0.93%**	1.13%	1.41%	1.00%	1.11%

(1) Loans on non-accrual status include impaired loans. See Footnote 3 Loans and Allowance for Loan and Lease 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 $14 million, or 57%, of the Bank s total non-performing loans at December 31, 2014 was concentrated in the residential real estate category with the underlying collateral predominantly located in the Bank s primary market area of Kentucky. The Bank s non-performing residential real estate concentration was $10 million, or 50%, as of December 31, 2013.

Approximately $8 million, or 34%, of the Bank s total non-performing loans was concentrated in the CRE and construction and land development portfolios as of December 31, 2014, with $8 million, or 37%, the amount and percent of this concentration at December 31, 2013. One construction loan represented 75% of the Bank s total non-performing construction loans at December 31, 2014. These loans are secured primarily by commercial properties. In addition to the primary collateral, in many cases the Bank also obtains personal guarantees from the principal borrowers and secured liens on the guarantors primary residences at the time of origination.

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