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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2005

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky	**61-0862051**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
601 West Market Street, Louisville, Kentucky	**40202**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Class A Common Stock

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes ý 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 ý 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. ý 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. ý

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

Large accelerated filer o Accelerated filer ý Non-accelerated filer o

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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

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Cautionary Statement Regarding Forward-Looking Statements

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

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

descriptions of plans or objectives of the Company s management for future operations, products or services;

forecasts of future economic performance; and,

descriptions of assumptions underlying or relating to any of the foregoing.

The Company may make forward-looking statements discussing management s expectations about:

future credit losses and non-performing assets;

the adequacy of the allowance for loan losses;

the future value of mortgage servicing rights;

the impact of new accounting pronouncements;

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

legal and regulatory matters; and,

future capital expenditures.

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

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

PART I

Item 1. Business.

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

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

Website Access to Reports

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

General Business Overview

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

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

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

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

(I) Banking

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

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

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

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

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

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

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

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

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

(II) Tax Refund Solutions (TRS)

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

(III) Mortgage Banking

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

(IV) Deferred Deposits (Payday Loans)

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

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

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

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

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

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

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

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

Employees

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

Competition

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

Supervision and Regulation

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

The supervision and regulation of bank holding companies and their subsidiaries is intended primarily for the protection of depositors, the deposit insurance funds of the FDIC and the banking system as a whole, and not for the protection of bank holding company shareholders or creditors. Regulators have broad enforcement powers over bank holding companies and banks, including, but not limited to, the power to mandate or restrict particular actions, activities, or divestitures, impose substantial fines and other penalties for violations of laws and regulations, to issue cease and desist or removal orders, to seek injunctions, to publicly disclose such actions and to police unsafe or unsound practices. In addition, Republic s non banking subsidiaries are also subject to regulation by other agencies.

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

The Company

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

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

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

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

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

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

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

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

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

The Bank

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital Adequacy Requirements

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

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

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

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

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

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

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

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

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

Legislative Initiatives

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

Statistical Disclosures

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

Item 1A. Risk Factors.

FACTORS THAT MAY AFFECT FUTURE RESULTS

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

Company Factors

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

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

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

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

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

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

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

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

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

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

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

Industry Factors

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

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

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

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

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

Bank Offices	Square Footage	Owned (O)/ Leased (L)
Kentucky Banking Centers		
Louisville Metropolitan Area		
2801 Bardstown Road, Louisville	5,000	L (1)
601 West Market Street, Louisville	51,000	L (1)
661 South Hurstbourne Parkway, Louisville	42,000	L (1)
4921 Brownsboro Road, Louisville	2,000	L
4655 Outer Loop, Louisville	3,000	L
5250 Dixie Highway, Louisville	5,000	O/L (2)
3950 Kresge Way, Suite 108, Louisville	900	L
9600 Brownsboro Road, Louisville	27,000	L (1)
3726 Lexington Road, Louisville	4,000	L
10100 Brookridge Village Blvd., Louisville	5,000	O/L (2)
9101 U.S. Highway 42, Prospect	3,000	O/L (2)
2028 West Broadway, Suite 105, Louisville	3,000	L
11330 Main Street, Middletown	6,000	O/L (2)
3902 Taylorsville Road, Louisville	4,000	O/L (2)
224 East Muhammad Ali Blvd., Louisville	400	L
3811 Ruckriegel Parkway, Louisville	4,000	O/L (2)
5125 New Cut Road, Louisville	4,000	O/L (2)
1420 Poplar Level Road, Louisville	3,000	O
3605 Fern Valley Road, Suite 101, Louisville	4,000	L
Lexington		
651 Perimeter Drive	4,000	L
2401 Harrodsburg Road	6,000	O
641 East Euclid Avenue	3,000	O
3098 Helmsdale Place	5,000	O/L (2)
3608 Walden Drive	4,000	O/L (2)
Frankfort		
100 Highway 676	3,000	O/L (2)
1001 Versailles Road	4,000	O
Owensboro		
3500 Frederica Street	5,000	O
3332 Villa Point Drive, Suite 101	2,000	L
Bowling Green, 1700 Scottsville Road	5,000	O
Elizabethtown, 1690 Ring Road	21,000	O
Shelbyville, 1614 Midland Trail	4,000	O/L (2)
Georgetown, 430 Connector Road	4,000	O/L (2)
Support and Operations		
125 South Sixth Street, Louisville	1,000	L
Indiana Banking Centers		
3001 Charlestown Crossing Way, New Albany	2,000	L

3141 Highway 62, Jeffersonville	4,000	O

Bank Offices	**Square Footage**	**Owned (O)/ Leased (L)**
Loan Production Offices (LPOs)		
6844 Bardstown Road, Louisville, KY	1,000	L
9128 Taylorsville Road, Louisville, KY	1,000	L
1945 Highland Pike, Fort Wright, KY	6,000	L (3)
27607 State Road 56, Suite 100, Tampa, FL	2,000	L (3)

(1) Locations are leased from Republic s Chairman, Bernard M. Trager, or from a partnership in which Republic s Chairman and Chief Executive Officer, Steven E. Trager and Vice Chairman, A. Scott Trager, are partners. See additional discussion included under Item 13. Certain Relationships and Related Transactions.

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

(3) Location is scheduled to open in 2006.

Item 3. Legal Proceedings.

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

In regard to *Tax Refunds Solutions*, a competing RAL financial institution is defending two lawsuits in the State of California relating to the enforceability of cross-collection provisions contained in its RAL contracts with customers. The two cases are the Hood case in the Santa Barbara Superior Court (Case No. 1156354) and the Clark case in the San Francisco Superior Court (Case No. CGC-04-427959). Various companies, including the Company, previously entered into agreements to facilitate the cross-collection of unpaid RALs from prior years. The Company was not named as a Defendant by the Plaintiffs regarding its cross-collection activities with customers. The competing RAL financial institution, however, named the Company and other financial institutions as parties pursuant to the indemnity provisions of the cross-collection contracts between the various companies. The Hood case in Santa Barbara was dismissed by the trial court on federal preemption grounds, but the Plaintiff appealed the trial court ruling. That appeal remains pending. The Clark case in San Francisco remains pending at the trial court level. The issue of cross-collection provisions in RAL contracts could result in further litigation exposure for all financial institutions that offer RALs, including the Company, as some consumer advocate groups have shown a willingness to challenge the RAL cross-collection contract provisions through litigation.

In regard to the *payday loan* product, on August 26, 2004, the Attorney General of North Carolina issued an investigative demand to Advance America Cash Advance Centers of North Carolina, Inc. (Advance America North Carolina), the Company s Marketer/Servicer in the state of North Carolina. The Attorney General and the Banking Commissioner of North Carolina made a determination that Advance America North Carolina was not in compliance with North Carolina law. Management does not believe this ruling will have any affect on the Company, as the Company s contract with Advance America North Carolina was terminated and the Company was not named as a party to the administrative proceedings.

Advance America North Carolina also has litigation pending against it in the State of North Carolina regarding the delivery of payday loans through the Company in that jurisdiction. The Plaintiffs did not name the Company in the state court action. On December 30, 2005, the state court ruled in favor of Advance America North Carolina, concluding that the arbitration provisions in the Company s deferred deposit contracts with customers were not unconscionable and were enforceable. As a result, the state court action has been stayed pending the outcome of arbitration. The Plaintiffs are appealing the state court ruling.

Prior to that ruling and in order to protect its right to arbitrate, the Company initiated action against the named Plaintiffs in the state court action in the U.S. District Court for the Eastern District of North Carolina. The complaint was dismissed by the federal court and the Company appealed. The appeal remains pending.

On January 10, 2006, the Attorney General of the State of Arkansas issued a request for information in the format of a Civil Investigative Demand pursuant to Arkansas Code Ann. Section 4-88-111 and Arkansas Code Ann. Section 23-52-112. The purpose of the Civil Investigative Demand is to gather information from the Company and its Marketer/Servicer, Ace Cash Express, Inc. to determine whether the Company and its Marketer/Servicer have fully complied with applicable Arkansas law. The Company and its Marketer/Servicer believe that payday loans offered to Arkansas residents are in compliance with applicable law. Deferred deposit transactions outstanding in the state of Arkansas were insignificant at December 31, 2005.

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Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of 2005.

PART II

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

Market and Dividend Information

Republic s Class A Common Stock is traded on The NASDAQ Stock Market® (NASDAQ) under the symbol RBCAA. The following table sets forth the high and low sales prices of the Class A Common Stock and the dividends declared on Class A Common Stock and Class B Common Stock during 2005 and 2004.

	2005							
	Market Value				Dividend			
Quarter Ended		**High**		**Low**		**Class A**		**Class B**
March 31	**$**	**24.71**	**$**	**21.14**	**$**	**0.070**	**$**	**0.064**
June 30		**22.65**		**19.18**		**0.084**		**0.076**
September 30		**22.32**		**19.66**		**0.084**		**0.076**
December 31		**21.57**		**18.24**		**0.084**		**0.076**

	2004							
	Market Value				Dividend			
Quarter Ended		**High**		**Low**		**Class A**		**Class B**
March 31	$	17.84	$	15.85	$	0.057	$	0.052
June 30		18.42		15.58		0.070		0.064
September 30		21.57		16.53		0.070		0.064
December 31		26.55		20.71		0.070		0.064

There is no established public trading market for the Company s Class B Common Stock. At February 15, 2006, the Class A Common Stock was held by 788 shareholders of record and the Class B Common Stock was held by 150 shareholders of record. 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 other considerations. The Board of Directors has not approved any additional special cash dividends, such as the amount declared and paid during the fourth quarter of 2003. The Board of Directors, however, did declare a five percent (5%) stock dividend in the first quarter of 2004 and additional five percent (5%) stock dividends during the first quarters of 2005 and 2006. The payment of dividends is subject to the regulatory restrictions described in Footnote 13 Stockholders Equity of Item 8. *Financial Statements and Supplementary Data.*

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 broker s transactions. As of December 31, 2005, the trustee held 211,014 shares of Class A Common Stock and 8,213 shares of Class B Common Stock on behalf of the plan.

Details of Republic s Class A Common Stock purchases during the fourth quarter of 2005 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
Oct. 1 Oct. 31		$		48,697
Nov. 1 Nov. 30	199,500	18.95	199,500	48,697
Dec. 1 Dec. 31	11,609*	20.49	4,200	48,697
Total	211,109	$ 19.72	203,700	

** - Includes 7,409 shares repurchased by the Company in connection with stock option exercises.*

During the fourth quarter of 2005 the Company purchased 203,700 shares for $3.9 million. During 2005, the Company purchased 486,465 shares for $9.8 million. During the third quarter the Company s Board of Directors also approved the repurchase of an additional 262,500 shares from time to time if market conditions are deemed favorable to the Company. The repurchase program will remain effective until the number of shares authorized is repurchased, or until Republic s Board of Directors terminates the program. As of December 31, 2005, the Company had 48,697 shares which could be repurchased under the current stock repurchase program.

During the fourth quarter of 2005, Republic issued 2,730 shares of Class A Common Stock upon conversion of shares of Class B Common Stock by shareholders 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.

Item 6. Selected Financial Data.

The following table sets forth Republic s selected consolidated historical financial information from 2001 through 2005. This information should be read in conjunction with Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations* and Item 8. *Financial Statements and Supplementary Data.*

SELECTED FINANCIAL DATA:

(dollars in thousands, except per share data)	2005	2004	2003	2002	2001
	As of and for the Years Ended December 31,				
Income Statement Data:					
Total interest income	**$ 155,619**	$ 132,366	$ 119,060	$ 106,101	$ 117,396
Total interest expense	**62,940**	42,314	36,795	41,761	57,917
Net interest income	**92,679**	90,052	82,265	64,340	59,479
Provision for loan losses	**(562)**	1,748	6,574	3,338	3,493
Non interest income	**30,503**	27,194	30,933	24,522	19,741
Non interest expenses	**70,581**	66,016	62,859	53,839	50,340
Income before income tax expense	**53,163**	49,482	43,765	31,685	25,387
Income tax expense	**18,098**	16,981	15,562	11,196	8,579
Net income	**35,065**	32,501	28,203	20,489	16,808
Balance Sheet Data:					
Total securities	**$ 512,163**	$ 551,593	$ 410,931	$ 288,459	$ 293,945
Total loans	**2,060,656**	1,789,099	1,581,952	1,310,063	1,184,701
Allowance for loan losses	**11,009**	13,554	13,959	10,148	8,607
Total assets	**2,735,556**	2,498,922	2,128,076	1,752,706	1,590,831
Total deposits	**1,602,565**	1,417,930	1,297,112	1,040,190	866,358
Securities sold under agreements to repurchase and other short-term borrowings	**292,259**	364,828	220,345	224,929	282,023
Federal Home Loan Bank borrowings	**561,133**	496,387	420,178	319,299	296,950
Subordinated note	**41,240**				
Stockholders equity	**213,574**	196,069	169,379	150,796	125,115
Per Share Data:					
Basic earnings per Class A Common Share	**$ 1.78**	$ 1.65	$ 1.44	$ 1.07	$ 0.90
Basic earnings per Class B Common Share	**1.75**	1.62	1.40	1.05	0.89
Diluted earnings per Class A Common Share	**1.71**	1.58	1.41	1.04	0.87
Diluted earnings per Class B Common Share	**1.68**	1.56	1.37	1.02	0.86
Market value per share	**20.43**	23.31	16.88	9.73	11.66
Book value per share	**10.99**	9.89	8.60	7.74	6.71
Cash dividends declared per Class A Common Share	**0.321**	0.267	0.437	0.181	0.152
Cash dividends declared per Class B Common Share	**0.292**	0.242	0.397	0.164	0.138
Performance Ratios:					
Return on average assets (ROA)	**1.33%**	1.40%	1.47%	1.25%	1.10%
Return on average equity (ROE)	**16.56**	17.50	16.88	14.44	13.85
Yield on average earning assets	**6.16**	6.02	6.51	6.71	7.97
Yield on average interest-bearing liabilities	**2.97**	2.29	2.40	3.14	4.55
Net interest spread	**3.19**	3.73	4.11	3.57	3.42

Net interest margin	**3.67**	4.09	4.50	4.07	4.04
Efficiency ratio	**57**	56	56	61	64
Asset Quality Ratios:					
Non performing loans to total loans	**0.29%**	0.34%	0.82%	0.75%	0.47%
Allowance for loan losses to total loans	**0.53**	0.76	0.88	0.77	0.73
Allowance for loan losses to non-performing loans	**183**	221	108	103	154
Net loan charge offs to average loans	**0.10**	0.13	0.19	0.15	0.23
Delinquent loans to total loans	**0.35**	0.47	0.82	1.21	1.71

	As of and for the Years Ended December 31,				
(dollars in thousands, except per share data)	**2005**	**2004**	**2003**	**2002**	**2001**
Capital Ratios:					
Average stockholders equity to average total assets	**8.00%**	8.01%	8.69%	8.65%	7.96%
Tier I leverage	**9.47**	8.03	8.08	9.02	8.36
Tier I risk based capital	**14.41**	12.18	11.99	12.77	12.44
Total risk based capital	**15.03**	13.03	12.99	13.64	13.26
Dividend payout ratio	**18**	16	30	17	17
Other Key Data:					
End of period full time equivalent employees	**678**	611	645	570	532
Number of bank offices (including LPOs)	**37**	33	31	25	22

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

Management s Discussion and Analysis of Financial Condition and Results of Operations of Republic Bancorp, Inc. (Republic or the Company) analyzes the major elements of Republic s consolidated balance sheets and statements of income. Republic, a bank holding company headquartered in Louisville, Kentucky, is the Parent Company of Republic Bank & Trust Company, Republic Bank & Trust Company of Indiana (together referred to as the Bank), Republic Funding Company, Republic Invest Co. and Republic Bancorp Capital Trust. Republic Invest Co. includes its subsidiary, Republic Capital LLC. Republic Bancorp Capital Trust is a Delaware statutory business trust that is a 100%-owned unconsolidated finance subsidiary of Republic Bancorp, Inc. The consolidated financial statements also include the wholly-owned subsidiaries of Republic Bank & Trust Company: Republic Financial Services, LLC TRS RAL Funding, LLC and Republic Insurance Agency, LLC. Management s Discussion and Analysis of Financial Condition and Results of Operations of Republic should be read in conjunction with Item 8. *Financial Statements and Supplementary Data,* as well as other detailed information included in this Form 10-K.

This discussion includes various forward-looking statements with respect to credit quality, including but not limited to, delinquency trends and the adequacy of the allowance for loan losses, banking products, corporate objectives, the Company s interest rate sensitivity model and other financial and business matters. Broadly speaking, forward-looking statements may include:

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

descriptions of plans or objectives of the Company s management for future operations, products or services;

forecasts of future economic performance; and,

descriptions of assumptions underlying or relating to any of the foregoing.

The Company may make forward-looking statements discussing management s expectations about:

future credit losses and non-performing assets;

the adequacy of the allowance for loans losses;

the future value of mortgage servicing rights;

the impact of new accounting pronouncements;

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

legal and regulatory matters; and,

future capital expenditures.

Forward-looking statements discuss matters that are not historical facts. As forward-looking statements discuss future events or conditions, they often include words such as anticipate, believe, estimate, expect, intend, plan, project, target, can, could, may, should, expressions. Do not rely on forward-looking statements. Forward-looking statements detail management s expectations regarding the future and are not guarantees. Forward-looking statements are assumptions based on information known to management only as of the date they are made and management may not update them to reflect changes that occur subsequent to the date the statements are made. *See additional discussion under the sections titled Item 1. Business and Item 1A. Risk Factors.*

OVERVIEW

Net income for the year ended December 31, 2005 was $35.1 million, representing an increase of $2.6 million, or 8%, compared to the same period in 2004. Diluted earnings per Class A Common Share increased 8% from $1.58 at 2004 to $1.71 for 2005. The increase in net income is attributed to increases in net interest income and service charges on deposit accounts, which were offset by higher costs primarily associated with staff additions. The Company also benefited from a reduction in the allowance for loan losses during 2005. Following is a brief overview of a few Company highlights during 2005:

Republic ended the year with total assets of $2.7 billion, an increase of $237 million, or 9%, over the prior year. As of December 31, 2005, Republic was the second largest Kentucky-based bank holding company.

Net loans, primarily consisting of secured real estate loans, increased by $274 million, or 15% to $2 billion at December 31, 2005.

Net interest income grew $2.6 million, or 3%, over the same period in 2004. Net interest income benefited primarily from growth in the loan portfolio, most notably the real estate loan portfolios. Net interest income was negatively impacted by a decline in the Company s net interest spread which resulted from a decline in payday loan fees and a flattening market yield curve.

Service charges on deposit accounts continued to increase during the year due to growth in both checking accounts and the number of clients eligible for the Company s Overdraft Honor program.

Republic opened one new banking center during 2005. In addition, Republic Finance, a division of Republic Bank & Trust Company, opened its second Loan Production Office (LPO) in metropolitan Louisville in 2005.

The Company posted a net credit to the provision for loan losses of $562,000 in 2005 compared to a provision for loan losses of $1.7 million for 2004, resulting in a net change of $2.3 million. The overall net credit posted to the provision relates to a decline in the Company s payday loan portfolio and continued improvement in classified loans.

Republic reported net income during 2004 of $32.5 million compared to $28.2 million for 2003, an increase of 15%. Diluted earnings per Class A Common Share increased 12% to $1.58 for the year ended December 31, 2004. The rise in earnings for 2004 was primarily due to increased net interest income including deferred deposit fees, increased service charges on deposit accounts, increased earnings at Tax Refund Solutions (TRS) and a lower provision for loan losses. These increases offset an $8 million decline in mortgage banking non interest income associated with record secondary market loan origination volume in 2003.

The following table summarizes selected financial information regarding Republic s financial performance:

Table 1 Summary

Years Ended December 31, (dollars in thousands, except per share data)	**2005**	**2004**	**2003**
Net income	**$ 35,065**	$ 32,501	$ 28,203
Diluted earnings per Class A Common Share	**1.71**	1.58	1.41
Return on average assets (ROA)	**1.33%**	1.40%	1.47%
Return on average equity (ROE)	**16.56**	17.50	16.88

Tax Refund Solutions (TRS)

For 2005, TRS generated $8.7 million in refund anticipation loan (RAL) revenue, compared to $8.5 million for the same period in 2004. TRS also received $6.1 million in Electronic Refund Check (ERC) and Electronic Refund Deposit (ERD) revenue during 2005, compared to $5.3 million during 2004. The total volume of tax return refunds processed during the 2005 tax season was $1.5 billion, a moderate change from the volume processed for the 2004 tax season. *See additional discussion about this product under the sections titled Item 1. Business, Item 1A. Risk Factors and Footnote 20 Segment Information of Item 8. Financial Statements and Supplementary Data.*

The Company signed an agreement in January 2006 to securitize RALs during the 2006 tax season. This arrangement will have no overall effect upon the gross fees received from RALs, but will significantly change the financial statement presentation of both the assets and revenue from this segment in the future.

Deferred Deposits (Payday Loans)

Due to a reduction in the Company s payday loan portfolio, primarily due to the termination of its contracts with Advance America, as well as FDIC Guidance, the Company experienced a significant decline in deferred deposit income in 2005.

Previously, the Company operated its payday loan program through a marketing and servicing relationship with Advance America in Texas and North Carolina. These contracts with Advance America were terminated in July 2005 and the Company no longer has any payday loans outstanding under these contracts.

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

Due to the termination of the Advance America contracts and, to a lesser extent, the implementation of the revised FDIC Guidance, Republic experienced a $31 million decline in its payday loan portfolio during the third quarter of 2005. As a result of the decline in the payday loan portfolio, the Company posted a $2.3 million reduction in the amount specifically allocated within the Company s allowance for loan losses for payday loans.

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

On July 11, 2005, Republic commenced offering, on a test basis, payday loans through its Indiana bank subsidiary without a Marketer/Servicer. On September 15, 2005, Republic transitioned into an Internet-based payday loan program offered directly to customers on a nationwide basis at www.republicbankpayday.com. Unlike payday loans originated through the Company s third party Marketer/Servicer, which feature a guarantee from the Marketer/Servicer, payday loans originated directly by the Company are 100% unsecured and have no third party guarantee.

By letter to Republic Bank & Trust Company of Indiana dated February 17, 2006, the FDIC cited inherent risks associated with payday lending activities and asked Republic Bank & Trust Company of Indiana to consider terminating this line of business. Republic Bank & Trust Company of Indiana voluntarily elected to terminate its Internet payday loan program the week of February 20, 2006. The Internet payday loan program began operating in July 2005 and remained in a developmental stage until its termination date. During the fourth quarter of 2005, the Company recorded an after-tax net loss of approximately $517,000 from its Internet payday loan program. The Company anticipates incurring approximately $188,000 in additional pre-tax expense during the first quarter of 2006 related to exiting the Internet payday loan line of business.

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

See additional discussion about the payday lending products under the sections titled Item 1. Business, Item 1A. Risk Factors and Footnote 20 Segment Information and Footnote 22 Subsequent Event of Item 8. Financial Statements and Supplementary Data.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Management continually evaluates the Company s accounting policies and estimates that it uses to prepare the consolidated financial statements. In general, management s estimates are based on historical experience, on information from regulators and 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 or 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 third parties or available pricing, sensitivity of the estimates to changes in economic conditions and whether alternative methods of accounting may be utilized under U.S. generally accepted accounting principles. Management has discussed each critical accounting policy and the methodology for the identification and determination of critical accounting policies with the Company s Audit Committee.

Republic believes its critical accounting policies and estimates include the valuation of the allowance for loan losses and mortgage servicing rights.

Allowance for Loan Losses Republic maintains an allowance for probable incurred credit losses inherent in the Company s loan portfolio. Management evaluates the adequacy of the allowance for loan losses on a monthly basis and presents and discusses the analysis with the Audit Committee and the Board of Directors on a quarterly basis. Management estimates the allowance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower capacity, estimated collateral values, economic conditions, regulatory requirements and guidance and various other factors. While management estimates the allowance for loan losses, in part, based on historical losses within each loan category, estimates for losses within the commercial and commercial real estate portfolio are more dependent upon credit analysis and recent payment performance. Allocations of the allowance may be made for specific loans or loan categories, but the entire allowance is available for any loan that may be charged off. Loan losses are charged against the allowance at the point in time management deems a loan uncollectible.

Management makes allocations within the allowance for loan losses for specifically classified loans regardless of loan amount, collateral or loan type. Loans that are past due 90 days or more and that are not specifically classified are uniformly assigned a risk weighted percentage ranging from 15% to 100% of the loan balance based upon loan type. Management evaluates the remaining loan portfolio by utilizing the historical loss rate for each respective loan type. Both an average five-year loss rate and a loss rate based on heavier weighting of the previous two years loss experience are utilized in the analysis. Specialized loan categories are evaluated by utilizing subjective factors in addition to a historical loss calculation to determine a loss allocation for each of those types. As this analysis, or any similar analysis, is an imprecise measure of loss, the allowance is subject to ongoing adjustments. Therefore, management will often take into account other significant factors as may be necessary or prudent in order to reflect probable incurred losses in the total loan portfolio.

Based on management s calculation, an allowance of $11 million, or 0.53% of total loans was an adequate estimate of losses within the loan portfolio as of December 31, 2005. This estimate resulted in a net credit to the provision for loan losses on the income statement of $562,000 during 2005. If the mix and amount of future charge off percentages differ significantly from those assumptions used by management in making its determination, adjustment to the allowance for loan losses and the resulting effect on the income statement could be material.

Mortgage Servicing Rights Mortgage servicing rights (MSRs) represent an estimate of the present value of future cash servicing income, net of estimated costs that Republic expects to receive on loans sold with servicing retained by the Company. 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. 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 Company. The carrying value of MSRs is amortized in proportion to and over the period of net servicing income. The amortization is recorded as a reduction to mortgage banking income. The total MSR asset, net of amortization, recorded at December 31, 2005 is $6.4 million.

The carrying value of the MSRs asset is periodically reviewed for impairment based on the fair value of the MSRs, using groupings of the underlying loans by interest rates, by geography and by prepayment characteristics. Any impairment of a grouping would be reported as a valuation allowance. A primary factor influencing the fair value is the estimated life of the underlying loans serviced. The estimated life of the loans serviced is significantly influenced by market interest rates. During a period of declining interest rates, the fair value of the MSRs should decline due to expected prepayments within the portfolio. Alternatively, during a period of rising interest rates, the fair value of MSRs should increase as prepayments on the underlying loans would be expected to decline. Management utilizes an independent third party on a monthly basis to assist with the fair value estimate of the MSRs. Based on the estimated fair value at December 31, 2005 and 2004, management determined no impairment of these assets existed.

RESULTS OF OPERATIONS

Net Interest Income

The principal source of Republic s revenue is net interest income. Net interest income is the difference between interest income on interest-earning assets, such as loans and securities, and the interest expense on liabilities used to fund those assets, such as interest-bearing deposits and borrowings. 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 2005 vs. 2004

For 2005, net interest income was $92.7 million, an increase of $2.6 million, or 3%, over 2004. Republic was able to increase its net interest income primarily through growth in the Company s traditional loan portfolio combined with an increase in yield on its investment portfolio. Net interest income was negatively impacted by a decrease of $3.5 million in net interest income from the payday loan business segment resulting primarily from the termination of the Advance America contracts. Republic s net interest income was also negatively impacted by a flattening market yield curve which caused the Company s interest bearing liabilities to reprice sooner than its interest earning assets. *For additional discussion regarding the historical effect of rising short-term interest rates on Republic s net interest income, see section titled Volume/Rate Variance Analysis in this section of the document.*

In addition to the contraction described above, the Company s net interest spread and margin declined as a direct result of the termination of the Company s contracts with Advance America, as well as the impact of the FDIC Guidance s transaction processing volume restrictions with ACE. Subsequent to year end 2005, the Company terminated its remaining payday loan operations, which will further contribute to net interest spread and margin contraction in the future.

Republic s net interest spread and margin were 3.19% and 3.67%, respectively for 2005. Republic s net interest spread and margin, excluding the fee income recognized through its payday loan operations, would have been 2.87% and 3.33% for 2005. *For additional discussion regarding ACE, see Footnote 22 Subsequent Event in Item 8. Financial Statements and Supplementary Data.*

While achieving an increase in net interest income for the year, the Company also continued to experience contraction in its net interest spread and margin resulting from an increase in the Company s cost of funds without a corresponding increase in its yield on earning assets. More specifically, this contraction primarily occurred because much of the Company s funding is derived from large commercial cash management accounts that are tied to immediate repricing indices, while the majority of the Company s interest earning assets are real estate secured loans that reprice over a longer period. Based on the Company s current balance sheet structure, management believes that the net interest spread and margin in 2006 will continue to contract unless short-term rates decline significantly from current levels. Management is unable to precisely determine the negative impact of continued contraction on the Company s net interest spread and margin in the future. *For additional discussion regarding the future effect of rising short-term interest rates on Republic s net interest income, see Interest Rate Sensitivity in this section of the document.*

Discussion of 2004 vs. 2003

For 2004, net interest income was $90.1 million, an increase of $7.8 million, or 9%, over 2003. The Company was able to increase its net interest income primarily through increased loan volume and a reduction in the Company s cost of funds. Gross fees from payday loans, which increased $4.9 million, or 65%, over 2003 and gross fees from RALs, which increased $1.8 million, or 26%, over 2003, were major components of the overall increase for 2004. The Company also experienced an increase in net interest income as a result of growth in the loan portfolio. Despite an increase in net interest income for the year, the Company experienced continued contraction in its net interest spread and margin. Generally, the contraction in Republic s net interest spread and margin occurred due to a reduction in the yield of the Company s earning assets, including both the loan and investment portfolios.

Table 2 provides detailed information as to average balances, interest income/expense and average rates by major balance sheet category for 2003, 2004 and 2005. Table 3 provides an analysis of the changes in net interest income attributable to changes in rates and changes in volume of interest-earning assets and interest-bearing liabilities.

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

	2005			2004			2003		
(dollars in thousands)	**Average Balance**	**Interest**	**Average Rate**	**Average Balance**	**Interest**	**Average Rate**	**Average Balance**	**Interest**	**Average Rate**
ASSETS									
Earning assets:									
Investment securities *(1)*	**$ 537,500**	**$ 19,578**	**3.64%**	$ 445,351	$ 13,380	3.00%	$ 316,642	$ 11,136	3.52%
Federal funds sold and other	**49,700**	**1,472**	**2.96**	40,725	494	1.21	26,792	279	1.04
Loans and fees *(2)*	**1,939,235**	**134,569**	**6.94**	1,714,128	118,492	6.91	1,485,024	107,645	7.25
Total earning assets	**2,526,435**	**155,619**	**6.16**	2,200,204	132,366	6.02	1,828,458	119,060	6.51
Less: Allowance for loan losses	**13,238**			13,975			12,305		
Non-earning assets:									
Cash and cash equivalents	**68,839**			75,234			54,422		
Premises and equipment, net	**32,533**			35,428			29,290		
Other assets *(1)*	**31,639**			21,043			22,928		
Total assets	**$ 2,646,208**			$ 2,317,934			$ 1,922,793		
LIABILITIES AND STOCKHOLDERS EQUITY									
Interest-bearing liabilities:									
Transaction accounts	**$ 320,506**	**$ 3,166**	**0.99%**	$ 325,063	$ 2,565	0.79%	$ 266,316	$ 2,263	0.85%
Money market accounts	**316,938**	**7,669**	**2.42**	306,253	3,288	1.07	253,942	2,193	0.86
Time deposits	**483,403**	**16,612**	**3.44**	422,397	13,858	3.28	404,014	14,276	3.53
Brokered deposits	**124,470**	**4,256**	**3.42**	49,996	1,491	2.98	52,094	1,212	2.33
Repurchase agreements and other short-term borrowings	**359,327**	**9,906**	**2.76**	313,158	4,191	1.34	189,984	1,897	1.00
Federal Home Loan Bank borrowings	**498,231**	**20,380**	**4.09**	427,908	16,921	3.95	363,656	14,954	4.11
Subordinated note	**15,592**	**951**	**6.10**						
Total interest-bearing liabilities	**2,118,467**	**62,940**	**2.97**	1,844,775	42,314	2.29	1,530,006	36,795	2.40
Non interest-bearing liabilities and stockholders equity:									
Non interest-bearing deposits	**290,968**			262,763			196,442		
Other liabilities	**25,061**			24,671			29,248		
Stockholders equity	**211,712**			185,725			167,097		
Total liabilities and stockholders equity	**$ 2,646,208**			$ 2,317,934			$ 1,922,793		

Net interest income	**$ 92,679**	$ 90,052	$ 82,265
Net interest spread	**3.19%**	3.73%	4.11%
Net interest margin	**3.67%**	4.09%	4.50%

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(1) *For the purpose of this calculation, the fair market value adjustment on investment securities resulting from SFAS 115 is included as a component of other assets.*

(2) *The amount of fee income included in interest on loans was $19.4 million, $23.3 million and $17.3 million for the years ended December 31, 2005, 2004 and 2003.*

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Table 3 illustrates the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities affected 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 Volume/Rate Variance Analysis

	Year Ended December 31, 2005 compared to Year Ended December 31, 2004			Year Ended December 31, 2004 compared to Year Ended December 31, 2003		
		Increase/(Decrease) Due to			Increase/(Decrease) Due to	
(in thousands)	**Total Net Change**	**Volume**	**Rate**	**Total Net Change**	**Volume**	**Rate**
Interest income:						
Investment securities	**$ 6,198**	**$ 3,059**	**$ 3,139**	$ 2,244	$ 4,041	$ (1,797)
Federal funds sold and other	**978**	**130**	**848**	215	163	52
Loans and fees	**16,077**	**15,619**	**458**	10,847	16,015	(5,168)
Net change in interest income	**23,253**	**18,808**	**4,445**	13,306	20,219	(6,913)
Interest expense:						
Transaction accounts	**601**	**(36)**	**637**	302	472	(170)
Money market accounts	**4,381**	**119**	**4,262**	1,095	502	593
Time deposits	**2,754**	**2,073**	**681**	(418)	636	(1,054)
Brokered deposits	**2,765**	**2,517**	**248**	279	(51)	330
Repurchase agreements and other short-term borrowings	**5,715**	**698**	**5,017**	2,294	1,504	790
Federal Home Loan Bank borrowings	**3,459**	**2,860**	**599**	1,967	2,559	(592)
Subordinated note	**951**	**951**				
Net change in interest expense	**20,626**	**9,182**	**11,444**	5,519	5,622	(103)
Net change in net interest income	**$ 2,627**	**$ 9,626**	**$ (6,999)**	$ 7,787	$ 14,597	$ (6,810)

Non Interest Income

Table 4 Analysis of Non Interest Income

Year Ended December 31, (dollars in thousands)	2005	2004	2003	Percent Increase/(Decrease) 2005/2004	2004/2003
Service charges on deposit accounts	**$ 15,547**	$ 13,460	$ 10,019	**16%**	34%
Electronic refund check fees	**6,083**	5,268	3,981	**15**	32
Mortgage banking income	**2,751**	3,148	11,104	**(13)**	(72)
Debit card interchange fee income	**3,122**	2,492	1,825	**25**	37
Title insurance commissions	**1,756**	1,515	2,532	**16**	(40)
Other	**1,244**	1,311	1,472	**(5)**	(11)
Total non interest income	**$ 30,503**	$ 27,194	$ 30,933	**12%**	(12)%

Discussion of 2005 vs. 2004

Service charges on deposit accounts increased 16% during 2005 compared to 2004. The increase was due primarily to growth in the Company s checking account base supported by the Bank s Overdraft Honor program, which permits selected clients to overdraft their accounts up to a predetermined dollar amount up to a maximum of $750 for the Bank s customary overdraft fee. The Company also increased its overdraft fee by 7% in August 2005. The total number of accounts eligible for the Overdraft Honor program increased to 55,000 at December 31, 2005 from 49,000 at December 31, 2004. Additionally, the Company s total number of checking accounts, exclusive of commercial accounts, increased 8% from 60,000 at December 31, 2004 to over 65,000 at December 31, 2005.

Mortgage banking income decreased nearly $397,000 during 2005 due primarily to a $596,000 decline in net gain on sale of loans offset by a $199,000 increase in servicing income, net of amortization. The reduction in net gain on sale of loans resulted from the decline in mortgage origination volume of 15 and 30-year fixed rate residential real estate loans from 2004 due primarily to an increase in longer term interest rates. As a percentage of loans sold, net gains decreased to 0.92% in 2005 compared to 1.14% in 2004.

Discussion of 2004 vs. 2003

During 2004, the Company experienced a 34% increase in service charges on deposit accounts for substantially the same reasons as previously discussed for 2005, including an increase in the per item overdraft fee of 7% in July of 2003.

Mortgage banking income decreased nearly $8 million during 2004 due primarily to a $9.9 million decrease in net gain on sale of loans. The decrease in net gain on sale of loans during 2004 was partially offset by a $1.2 million decline in amortization expense of MSRs. This decline in amortization expense resulted from a decline in prepayments during 2004 within the Company s servicing portfolio. The reduction in net gain on sale of loans resulted from a substantial decline in mortgage origination volume of 15 and 30-year fixed rate residential real estate loans from the record levels attained by the Company in 2003. The higher volume of originations during 2003 resulted from aggressive marketing of the Company s low closing cost mortgage loan products and sustained consumer demand for fixed rate, first mortgage residential real estate loan products due to historically low market interest rates through the first six months of the year. This demand began to decline substantially during the third quarter of 2003 reaching more traditional lower levels during the fourth quarter of 2003, and remaining near those levels throughout 2004. As a percentage of loans sold, net gains decreased to 1.14% in 2004 compared to 1.50% in 2003.

Non Interest Expenses

Table 5 Analysis of Non Interest Expenses

Year Ended December 31, (dollars in thousands)	2005	2004	2003	Percent Increase/(Decrease) 2005/2004	2004/2003
Salaries and employee benefits	**$ 37,037**	$ 34,552	$ 32,509	**7%**	6%
Occupancy and equipment, net	**13,467**	13,915	12,416	**(3)**	12
Communication and transportation	**3,035**	2,809	2,729	**8**	3
Marketing and development	**2,878**	2,271	2,997	**27**	(24)
Bankshares tax	**2,262**	1,932	1,980	**17**	(2)
Data processing	**1,909**	1,602	1,722	**19**	(7)
Debit card interchange expense	**1,357**	1,080	1,006	**26**	7
Supplies	**1,133**	1,385	1,481	**(18)**	(6)
Other	**7,503**	6,470	6,019	**16**	7
Total non interest expenses	**$ 70,581**	$ 66,016	$ 62,859	**7%**	5%

Discussion of 2005 vs. 2004

Salaries and employee benefits increased $2.5 million or 7% from 2004 to 2005. The increase was primarily attributed to annual merit increases and associated incentive compensation, as well as additional staffing costs at TRS. The Company had full time equivalent employees (FTEs) totaling 678 at December 31, 2005 as compared to 611 at December 31, 2004. The substantial portion of the increase in FTE s in 2005 occurred in the technology area of TRS, as the organization revamped its delivery systems in an effort to provide better products and services for the upcoming tax season.

Other expenses increased $1 million during 2005 due to an increase in professional fees. The increase in professional fees was primarily associated with Sarbanes Oxley compliance, as well as consulting fees related to the modification to the delivery system of TRS.

Discussion of 2004 vs. 2003

Salaries and employee benefits increased $2 million or 6% from 2003 to 2004. The increase was primarily attributed to annual merit increases and associated incentive compensation, additional seasonal staff at TRS and additional banking center expansion. Republic opened three new banking centers during 2004 and six new banking centers during 2003. Also, included within the salaries and employee benefits category is the Company s deferral for direct expenses on origination of loans. Republic s deferral decreased $1.2 million during 2004 compared to 2003 due to a reduction in the volume of new mortgage loans originated. The Company s number of FTE s decreased to 611 at December 31, 2004 from 645 at December 31, 2003.

Occupancy and equipment expense increased during 2004 primarily due to banking center expansion discussed above.

FINANCIAL CONDITION

Loan Portfolio

Net loans, primarily consisting of secured real estate loans, increased by $274 million or 15% to $2 billion at December 31, 2005. Commercial real estate loans comprised 27% of the total gross loan portfolio at December 31, 2005 and are concentrated primarily within the Bank s existing markets. These loans are principally secured by multi-family investment properties, single family developments, medical facilities, small business owner occupied offices, retail properties and hotels. These loans typically have interest rates that are initially fixed for one to ten years with the remainder of the loan term subject to repricing based on various market indices. In order to reduce the negative effect of refinance activity within the portfolio during a declining interest rate environment, the Company requires an early termination penalty on substantially all commercial real estate loans for a portion of the fixed term period. The Bank s underwriting standards typically include personal guarantees on most commercial real estate loans. Overall, commercial real estate loans increased $70 million from December 31, 2004.

Similar to commercial real estate loans, residential real estate loans that are not sold into the secondary market typically have fixed interest rate periods of one to ten years with the remainder of the loan term subject to repricing based on various market indices. These loans also typically carry early termination penalties during a portion of their fixed rate periods in order to lessen the overall negative effect to the Company of refinancing in a declining interest rate environment. To increase its competitiveness within its markets, Republic offered closing costs as low as $299 on its residential real estate products during 2005. With closing costs generally lower than peer and lower monthly payments compared to longer-term, fixed rate secondary market products, the Company was successful in closing a record dollar amount of residential real estate portfolio loans during 2005, growing $204 million from December 31, 2004.

The Company had approximately $6 million in payday loans outstanding at December 31, 2005 compared to $36 million at December 31, 2004. The decline in payday loans during 2005 was primarily due to the termination of the marketing/servicing contracts with Advance America, and to a lesser extent, the implementation of the revised FDIC Guidance.

Table 6 Loan Portfolio Composition

As of December 31, (in thousands)	**2005**	**2004**	**2003**	**2002**	**2001**
Residential real estate	**$ 1,056,175**	$ 851,736	$ 762,000	$ 597,797	$ 571,959
Commercial real estate	**565,970**	495,827	442,083	413,115	360,056
Real estate construction	**84,850**	70,220	70,897	68,020	70,870
Commercial	**46,562**	36,807	34,553	33,341	30,627
Consumer	**35,529**	32,366	30,450	36,519	26,443
Deferred deposits (Payday loans)	**5,779**	35,631	27,584	2,828	462
Home equity	**265,895**	267,231	215,088	159,261	125,360
Total loans	**$ 2,060,760**	$ 1,789,818	$ 1,582,655	$ 1,310,881	$ 1,185,777

The table below illustrates Republic s maturities and repricing frequency for the loan portfolio:

Table 7 Selected Loan Distribution

As of December 31, 2005 (in thousands)	Total	One Year Or Less	Over One Through Five Years	Over Five Years
Fixed rate maturities:				
Real estate:				
Residential	**$ 338,432**	**$ 36,132**	**$ 125,366**	**$ 176,934**
Commercial	**68,361**	**4,700**	**24,907**	**38,754**
Construction	**3,212**	**2,115**	**1,081**	**16**
Commercial	**16,436**	**6,957**	**9,088**	**391**
Consumer	**22,062**	**10,998**	**4,802**	**6,262**
Home equity	**4,675**	**1,056**	**1,450**	**2,169**
Total fixed	**$ 453,178**	**$ 61,958**	**$ 166,694**	**$ 224,526**
Variable rate repricing:				
Real estate:				
Residential	**$ 717,743**	**$ 140,502**	**$ 560,595**	**$ 16,646**
Commercial	**497,609**	**160,095**	**326,823**	**10,691**
Construction	**81,638**	**78,186**	**3,452**	
Commercial	**30,126**	**30,126**		
Consumer	**19,246**	**14,754**	**4,131**	**361**
Home equity	**261,220**	**261,058**		**162**
Total variable	**$ 1,607,582**	**$ 684,721**	**$ 895,001**	**$ 27,860**

Allowance for Loan Losses and Provision for Loan Losses

The allowance for loan losses as a percent of total loans declined to 0.53% as of December 31, 2005. Management believes, based on information presently available, that it has adequately provided for loan losses at December 31, 2005. *For discussion of Republic s methodology for determining the adequacy of the allowance for loan losses, see section titled Critical Accounting Policies and Estimates in this section of the document.*

Discussion of loan loss provision in 2005 vs. 2004

The Company posted a net credit to the provision for loan losses of $562,000 in 2005 compared to a provision for loan losses of $1.7 million for 2004, resulting in a net change of $2.3 million. The Company posted a credit to the provision for loan losses of $2.6 million in the third quarter of 2005. The provision credit was the result of a $31 million decline in Republic s payday loan portfolio resulting in a significant reduction in the amount specifically allocated within the Company s allowance for loan losses for payday loans. The reduction in the Company s payday loan portfolio was primarily due to the termination of its contracts with Advance America as described previously in this Form 10-K, as well as a reduction in the balance of loans outstanding at ACE due to the FDIC Guidance. Also included in the provision for loan losses were $956,000 and $1.4 million for losses associated with RALs during 2005 and 2004, respectively.

The decrease in the provision, exclusive of RALs and the deferred deposit adjustment, during 2005 was primarily due to lower levels of charge off activity, lower delinquency trends in the portfolio and further improvements in overall asset quality.

Discussion of loan loss provision in 2004 vs. 2003

The Company s provision for loan losses decreased from $6.6 million for 2003 to $1.7 million for 2004. Included in the provision for loan losses were $1.4 million and $1.9 million for RALs during 2004 and 2003. The decrease in the provision, exclusive of RALs, during 2004 was primarily due to lower levels of charge off activity, lower delinquency trends in the portfolio and further improvements in overall asset quality.

Table 8 Summary of Loan Loss Experience

Year Ended December 31, (dollars in thousands)	2005	2004	2003	2002	2001
Allowance for loan losses at beginning of year	**$ 13,554**	$ 13,959	$ 10,148	$ 8,607	$ 7,862
Charge offs:					
Real estate:					
Residential	**(448)**	(444)	(670)	(706)	(798)
Commercial	**(162)**	(177)	(1,223)	(420)	(703)
Construction	**(84)**		(135)	(255)	(8)
Commercial		(22)	(50)	(444)	(114)
Consumer	**(909)**	(868)	(155)	(705)	(818)
Home equity	**(91)**	(177)	(994)	(164)	(182)
Tax Refund Solutions	**(2,213)**	(3,404)	(2,300)	(1,482)	(1,550)
Total	**(3,907)**	(5,092)	(5,527)	(4,176)	(4,173)
Recoveries:					
Real estate:					
Residential	**176**	151	448	88	40
Commercial	**87**	284	1,074	159	313
Construction	**34**	35	300	12	
Commercial	**32**	43	100	271	24
Consumer	**303**	348	26	412	502
Home equity	**35**	56	366	2	65
Tax Refund Solutions	**1,257**	2,022	450	1,435	481
Total	**1,924**	2,939	2,764	2,379	1,425
Net loan charge offs	**(1,983)**	(2,153)	(2,763)	(1,797)	(2,748)
Provision for loan losses	**(562)**	1,748	6,574	3,338	3,493
Allowance for loan losses at end of year	**$ 11,009**	$ 13,554	$ 13,959	$ 10,148	$ 8,607
Ratios:					
Allowance for loan losses to total loans	**0.53%**	0.76%	0.88%	0.77%	0.73%
Provision for loan losses to average loans	**(0.03)**	0.10	0.44	0.27	0.29
Net loan charge offs to average loans outstanding	**0.10**	0.13	0.19	0.15	0.23
Allowance for loan losses to non performing loans	**183**	221	108	103	154

The table below depicts management s allocation of the allowance for loan losses by loan type. The allowance allocation is based on management s assessment of economic conditions, past loss experience, loan volume, past due history and other factors. Since these factors and management s assumptions are subject to change, the allocation is not necessarily indicative of future loan portfolio performance.

Table 9 Management s Allocation of the Allowance for Loan Losses

As of December 31, (dollars in thousands)	2005 Allowance	2005 Percent of Loans to Total Loans	2004 Allowance	2004 Percent of Loans to Total Loans	2003 Allowance	2003 Percent of Loans to Total Loans
Residential real estate	**$ 793**	**51%**	$ 761	48%	$ 1,009	48%
Commercial real estate	**7,086**	**27**	8,100	28	7,804	28

Real estate construction	**101**	**4**	58	4	551	4
Commercial	**163**	**2**	107	2	237	2
Consumer	**761**	**2**	2,422	4	2,104	4
Home equity	**186**	**14**	187	14	131	14
Unallocated	**1,919**		1,919		2,123	
Total	**$ 11,009**	**100%**	$ 13,554	100%	$ 13,959	100%

Asset Quality

Loans, including impaired loans under SFAS 114, but excluding consumer loans, are placed on non-accrual status when they become past due 90 days or more as to principal or interest, unless they are adequately secured and in the process of collection. When loans are placed on non-accrual status, all unpaid accrued interest is reversed. These loans remain on non-accrual status until the borrower demonstrates the ability to remain current or the loan is deemed uncollectible and is charged off.

Consumer loans, exclusive of payday loans and RALs, are not placed on non-accrual status, but are reviewed periodically and charged off when they reach 120 days past due or at any point the loan is deemed uncollectible. Payday loans under contract with the Company s Marketer/Servicer are generally charged off 60 days from the day that they become uncollectible. All uncollectible payday loans are subject to a Marketer/Servicer guarantee. Internet payday loans are charged off when they become 31 days past due. RALs traditionally undergo a review in March of each year and those deemed uncollectible by management are charged off against the allowance for loan losses.

Total non performing loans to total loans decreased marginally to 0.29% at December 31, 2005, from 0.34% at December 31, 2004, while the total balance of non performing loans decreased by $114,000 for the same period.

Table 10 Non performing Assets

As of December 31, (dollars in thousands)	**2005**	**2004**	**2003**	**2002**	**2001**
Loans on non-accrual status*(1)*	**$ 5,725**	$ 5,763	$ 12,466	$ 7,967	$ 5,056
Loans past due 90 days or more and still on accrual	**295**	371	473	1,915	521
Total non performing loans	**6,020**	6,134	12,939	9,882	5,577
Other real estate owned	**452**	657		320	149
Total non performing assets	**$ 6,472**	$ 6,791	$ 12,939	$ 10,202	$ 5,726
Non performing loans to total loans	**0.29%**	0.34%	0.82%	0.75%	0.47%
Non performing assets to total loans	**0.31**	0.38	0.82	0.78	0.48

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

Republic defines impaired loans to be those commercial real estate loans that management has classified as doubtful (collection of total amount due is improbable) or loss (all or a portion of the loan has been written off or a specific allowance for loss has been provided) or otherwise meet the definition of impaired. Republic s policy is to charge off all or that portion of its investment in an impaired loan upon a determination that it is probable the full amount will not be collected. Impaired loans, which are a component of loans on non-accrual status, decreased from $2.7 million at December 31, 2004 to $1.9 million at December 31, 2005. At December 31, 2005, the impaired balance was primarily attributable to two commercial real estate lending relationships.

Investment Securities

Table 11 Investment Securities Portfolio

December 31, (in thousands)		**2005**		**2004**		**2003**		**2002**		**2001**
Securities Available for Sale:										
U.S. Treasury and Government agency securities	**$**	**330,294**	$	291,697	$	154,818	$	51,123	$	32,023
Mortgage backed securities, including CMOs		**117,571**		161,663		140,702		151,924		179,576
Total securities available for sale		**447,865**		453,360		295,520		203,047		211,599
Securities to be Held to Maturity:										
U.S. Treasury and Government agency securities		**12,110**		20,112		9,707		8,175		50,995
States and political subdivisions								100		200
Mortgage backed securities, including CMOs		**52,188**		78,121		105,704		77,137		31,151
Total securities to be held to maturity		**64,298**		98,233		115,411		85,412		82,346
Total investment securities	**$**	**512,163**	$	551,593	$	410,931	$	288,459	$	293,945

Securities available for sale primarily consists of U.S. Treasury and U.S. Government Agency obligations, including agency MBSs and agency collateralized mortgage obligations (CMOs). The MBSs primarily consist of hybrid mortgage securities, as well as other adjustable rate mortgage securities, underwritten and guaranteed by Ginnie Mae (GNMA), Freddie Mac (FHLMC) and Fannie Mae (FNMA). CMOs held in the investment portfolio are substantially all floating rate securities that adjust monthly. The Company primarily uses the securities portfolio as collateral for securities sold under agreements to repurchase (repurchase agreements) along with FHLB borrowings, to mitigate its risk position from changing interest rates. Strategies for the securities portfolio may also be influenced by economic and market conditions, loan demand, deposit mix and liquidity needs.

During 2005, Republic purchased $4.5 billion in securities and had maturities of $4.5 billion. Approximately $4.4 billion of the securities purchased were agency discount notes, which the Company utilized primarily for collateral purposes. The average yield on these discount notes was 3.04% with an average term of 9 days.

Table 12 Securities Available for Sale

As of December 31, 2005 (dollars in thousands)	Amortized Cost	Fair Value	Weighted Average Yield	Average Maturity in Years
U.S. Treasury and U.S. Government agency securities:				
Within one year	**$ 172,807**	**$ 172,129**	**3.44%**	**0.18**
Over one through five years	**160,541**	**158,165**	**3.86**	**2.27**
Total U.S. Treasury and U.S Government agency securities	**333,348**	**330,294**	**3.64**	**1.19**
Total mortgage backed securities, including CMOs*	**119,300**	**117,571**	**4.37**	**4.21**
Total securities available for sale	**$ 452,648**	**$ 447,865**	**3.83**	**1.98**

Table 13 Securities to be Held to Maturity

As of December 31, 2005 (dollars in thousands)	Amortized Cost	Fair Value	Weighted Average Yield	Average Maturity in Years
U.S. Treasury and U.S. Government agency securities:				
Within one year	**$ 5,000**	**$ 4,967**	**2.50%**	**0.08**
Over one through five years	**7,110**	**7,012**	**3.50**	**1.83**
Total U.S. Treasury and U.S Government agency securities	**12,110**	**11,979**	**3.09**	**1.11**
Total mortgage backed securities, including CMOs*	**52,188**	**52,423**	**5.20**	**7.47**
Total securities to be held to maturity	**$ 64,298**	**$ 64,402**	**4.80**	**6.27**

** The average maturity of mortgage backed securities, including CMOs, is calculated based on contractual maturity.*

Deposits

Total deposits were $1.6 billion at December 31, 2005 compared to $1.4 billion at December 31, 2004. Interest-bearing deposits increased $160 million while non interest-bearing deposits increased $24 million from December 31, 2004 to December 31, 2005.

The increase in non interest-bearing accounts relates primarily to growth in escrow, as well as retail and commercial transaction accounts across the Company s retail banking center network. Interest-bearing accounts increased primarily in brokered deposits and money market accounts. These increases were partially offset by a decline in interest bearing consumer demand deposit accounts.

Money market accounts increased $78 million during 2005. The majority of this increase was in the Premier First money market account category. The Premier First money market account is Cash Management s primary product offering for medium to large business clients.

The Company acquired brokered deposits during 2005 to fund RALs during the 2005 tax season and traditional loan growth beyond the 2005 tax season. The brokered deposits had original terms ranging from six months to four years with an average life of 2.10 years and an average cost of 3.55%. The Company acquired $52 million in brokered deposits during the second half of 2005 with an average life of 273 days and an average cost of 4.30% to fund loan growth. Management chose to utilize brokered deposits because of their relatively low acquisition costs as well as speed of acquisition compared to traditional certificates of deposit.

Interest bearing demand accounts decreased $42 million in 2005 primarily from the loss of funds in the Company s High Interest Checking product. With interest rates increasing throughout 2005, management increased the rate paid on this product minimally to offset the rising cost of funds associated with the Company s other deposit products. As a result, the balances in this product declined throughout the year. Management anticipates a strategy that includes continued moderation of the rate paid on this product during 2006, unless additional funds are needed to meet loan demand or for liquidity purposes.

Table 14 Deposits

December 31, (in thousands)	**2005**	**2004**	**2003**	**2002**	**2001**
Demand (NOW and SuperNOW)	**$ 262,714**	$ 304,264	$ 271,022	$ 222,316	$ 46,532
Money market accounts	**262,611**	184,334	124,145	90,637	94,077
Internet money market accounts	**33,864**	45,076	96,034	47,824	44,838
Savings	**43,548**	41,080	35,735	23,993	16,293
Money market certificates of deposit	**59,810**	71,841	70,208	80,190	155,601
Individual retirement accounts	**48,954**	47,324	42,073	37,530	34,299
Certificates of deposit, $100,000 and over	**168,777**	149,217	196,026	111,204	87,154
Other certificates of deposit	**282,609**	266,547	203,893	249,798	258,012
Brokered deposits	**153,194**	46,254	64,655	1,238	
Total interest-bearing deposits	**1,316,081**	1,155,937	1,103,791	864,730	736,806
Total non interest-bearing deposits	**286,484**	261,993	193,321	175,460	129,552
Total	**$ 1,602,565**	$ 1,417,930	$ 1,297,112	$ 1,040,190	$ 866,358

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

Securities sold under agreements to repurchase and other short-term borrowings decreased $73 million during 2005. The majority of this decrease was attributable to one large cash management account which decreased $59 million from December 31, 2004. Based on the transactional nature of the Company s cash management accounts, repurchase agreement balances are subject to large fluctuations on a daily basis.

FHLB Borrowings

FHLB Borrowings increased $65 million during the year to $561 million at December 31, 2005. The increase in advances was primarily utilized to fund the growth in the loan portfolio.

Approximately $117 million of the Company s advances have overnight maturities with a weighted average coupon rate of 4.12%. Approximately $354 million of the Company s advances are fixed, with maturities ranging from less than one to five years. The current weighted average maturity of the fixed FHLB advances at December 31, 2005 is 5 years with a weighted average coupon rate of 3.91%.

The remaining $90 million in the Company s FHLB borrowings consists of convertible advances with original fixed rate periods ranging from one to five years and original maturities ranging from three to ten years. At the end of their respective fixed rate periods, the FHLB has the right to convert the borrowings to floating rate advances tied to LIBOR. If the FHLB elects to convert the debt to a floating rate instrument, Republic has the right to pay off the advances without penalty. These advances had a weighted average coupon of 4.85% at December 31, 2005. At December 31, 2005, all $90 million of these advances are eligible to be converted by the FHLB, however, based on market conditions at this time, management does not believe these advances are likely to be converted in the short-term.

Liquidity

Republic maintains sufficient liquidity to fund loan demand and routine deposit withdrawal activity. Liquidity is managed by maintaining sufficient liquid assets in the form of investment securities. Funding and cash flows can also be realized by the sale of securities available for sale, principal paydowns on loans and MBSs and proceeds realized from loans held for sale. The Company s liquidity is impacted by its ability to sell securities, which is limited, due to the level of securities that are needed to secure public deposits, securities sold under agreements to repurchase and for other purposes, as required by law. At December 31, 2005, these securities had a fair market value of $397 million. Republic s banking centers and its Internet site, www.republicbank.com, provide access to retail deposit markets. These retail deposits, if offered at attractive rates, have historically been a source of additional funding when needed. In addition, brokered deposits have provided a source of liquidity to the Company when needed to fund loan growth.

Traditionally, the Company has also utilized secured and unsecured borrowing lines to supplement its funding requirements. On December 31, 2005, the Company had capacity with the Federal Home Loan Bank to borrow an additional $152 million. The Company also had $175 million in approved unsecured line of credit facilities available at December 31, 2005 through various third party sources.

The Company s principal source of funds for dividend payments is dividends received from the Bank. Kentucky and Indiana banking regulations limit the amount of dividends that may be paid to the Parent Company by the Bank without prior approval of the respective states banking regulators. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year s net profits, combined with the retained net profits of the preceding two years. At December 31, 2005, Republic Bank & Trust Company and Republic Bank & Trust Company of Indiana could, without prior approval, declare dividends of approximately $47 million and $1 million, respectively. The Company does not plan to pay dividends from Republic Bank & Trust Company of Indiana in the foreseeable future.

Capital

Total stockholders equity increased from $196 million at December 31, 2004 to $214 million at December 31, 2005. The increase in stockholders equity was primarily attributable to net income earned during 2005 reduced by dividends declared, the repurchase of Company stock and the decline in accumulated other comprehensive income/(loss) as a result of a decrease in the value of the available for sale securities portfolio.

During 2005, the Company purchased 486,465 shares for $9.8 million. During the third quarter, the Company s Board of Directors also approved the repurchase of an additional 262,500 shares from time-to-time if market conditions are deemed favorable to the Company. The repurchase program will remain effective until the number of shares authorized is repurchased or until Republic s Board of Directors terminates the program. As of December 31, 2005, the Company had 48,697 shares which could be repurchased under the current stock repurchase program.

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

The FDIC has categorized the Bank as well capitalized. To be categorized as well capitalized, the Bank must maintain minimum Total Risk Based, Tier I Risk Based and Tier I Leverage ratios as set forth in Footnote 13 Stockholders Equity of Item 8. *Financial Statements and Supplementary Data*. Regulatory agencies measure capital adequacy within a framework that makes capital requirements, in part, dependent on the individual risk profiles of financial institutions. Republic continues to exceed the regulatory requirements for Tier I leverage, Tier I risk based and total risk based capital. Republic and the Bank intend to maintain a capital position that meets or exceeds the well capitalized requirements as defined by the Federal Reserve and FDIC. Republic s average capital to average assets ratio was 8.00% at December 31, 2005 compared to 8.01% at December 31, 2004. Formal measurements of the capital ratios for the Company and Republic Bank & Trust Company are performed at each quarter end.

In August 2005, Republic Bancorp Capital Trust (RBCT), an unconsolidated trust subsidiary of Republic Bancorp, Inc., issued $40 million in Trust Preferred Securities (TPS). The TPS pay a fixed interest rate for 10 years and adjust with LIBOR thereafter. Treated as Tier I capital for regulatory purposes, the TPS mature on September 30, 2035 and are redeemable at the Company s option after ten years. The sole asset of RBCT represents the proceeds of the offering loaned to Republic Bancorp, Inc. in exchange for subordinated debentures which have terms that are similar to the TPS. The subordinated debentures and the related interest expense, which are payable quarterly at the annual rate of 6.015%, are included in the consolidated financial statements. The proceeds obtained from the TPS offering will be used to fund loan growth, support an existing stock repurchase program and for other general business purposes.

In March 2004, the Company executed an intragroup trust preferred transaction, which will provide Republic Bank & Trust Company access to additional capital markets, if needed, in the future. On a consolidated basis, this transaction had no impact to the capital levels and ratios of the Company. The subordinated debentures held by Republic Bank & Trust Company as a result of this transaction, however, are treated as Tier 2 capital based on requirements administered by the Bank s federal banking agency. If Republic Bank & Trust Company s Tier I capital ratios should not meet the minimum requirement to be well capitalized, the Company could immediately modify the transaction in order to maintain well capitalized status.

Off Balance Sheet Items

Table 15 Off Balance Sheet Items

	Maturity by Period				
December 31, 2005 (in thousands)	**Less than one year**	**Greater than one year to three years**	**Greater than three years to five years**	**Greater than five years**	**Total**
Standby letters of credit	**$ 7,881**	**$ 492**	**$ 710**	**$ 820**	**$ 9,903**
FHLB letters of credit	**73,137**	**14,724**			**87,861**
Commitments to extend credit	**416,395**	**38,537**	**1,693**	**18,306**	**474,931**

Standby letters of credit represent commitments by the Company to repay a third party beneficiary when a customer fails to repay a loan or debt instrument. The terms and risk of loss involved in issuing standby letters of credit are similar to those involved in issuing loan commitments and extending credit. In addition to credit risk, the Company also has liquidity risk associated with standby letters of credit because funding for these obligations could be required immediately. The Company does not deem this risk to be material.

The Company has obtained letters of credit from the FHLB to be used as collateral on public funds deposits and as credit enhancements for client bond offerings. Approximately $28 million of these letters of credit at December 31, 2005 were used as credit enhancements for client bond offerings. The remaining $60 million was used to collateralize a public funds deposit, which the Company classifies as a short-term borrowing.

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

Aggregate Contractual Obligations

Table 16 Aggregate Contractual Obligations

	Maturity by Period				
December 31, 2005 (in thousands)	**Less than one year**	**Greater than one year to three years**	**Greater than three years to five years**	**Greater than five years**	**Total**
Deposits	**$ 1,291,081**	**$ 228,097**	**$ 73,742**	**$ 9,645**	**$ 1,602,565**
Federal Home Loan Bank borrowings	**217,136**	**148,500**	**124,370**	**71,127**	**561,133**
Subordinated note				**41,240**	**41,240**
Securities sold under agreements to repurchase	**290,717**		**1,542**		**292,259**
Lease commitments	**3,450**	**5,166**	**3,171**	**10,622**	**22,409**
Total	**$ 1,802,384**	**$ 381,763**	**$ 202,825**	**$ 132,634**	**$ 2,519,606**

Deposits represent non interest-bearing accounts, transaction accounts, money market accounts, time deposits and brokered deposits held by the Company. Amounts that have an indeterminate maturity period are included in the less than one-year category above.

FHLB borrowings represent the amounts that are due to the FHLB. A portion of the advances from the FHLB, although fixed, are subject to conversion provisions at the option of the FHLB and can be prepaid without a penalty. Management does not believe these advances will likely be converted in the short-term, and therefore has included them in their original maturity buckets for purposes of this table.

See Footnote 10 Subordinated Note of Item 8. *Financial Statements and Supplementary Data* for further information regarding the subordinated note.

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

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

Asset/Liability Management and Market Risk

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

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

Republic utilizes an earnings simulation model to analyze net interest income sensitivity. Potential changes in market interest rates and their subsequent effects on net interest income are evaluated with the model. The model projects the effect of instantaneous movements in interest rates of both 100 and 200 basis point increments equally across all points on the yield curve. These projections are computed based on various assumptions, which are used to determine the 100 and 200 basis point increments, as well as the base case (which is a twelve month projected amount) scenario. Assumptions based on growth expectations and on the historical behavior of Republic s deposit and loan rates and their related balances in relation to changes in interest rates are also incorporated into the model. These assumptions are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model s simulated results due to timing, magnitude and frequency of interest rate changes, as well as changes in market conditions and the application and timing of various management strategies. Additionally, actual results could differ materially from the model if interest rates do not move equally across all points on the yield curve. The December 31, 2005 simulation analysis indicates that an increase in interest rates would have a negative effect on net interest income, and a decrease in interest rates would have a positive effect on net interest income.

The following tables illustrate Republic s projected net interest income sensitivity profile based on the asset/liability model as of December 31, 2005 and 2004:

Table 17 Interest Rate Sensitivity for 2005

(dollars in thousands)	Decrease in Rates 200 Basis Points	100 Basis Points	Base	Increase in Rates 100 Basis Points	200 Basis Points
Projected interest income:					
Short-term investments	**$ 200**	**$ 271**	**$ 319**	**$ 370**	**$ 439**
Investments	**18,795**	**21,966**	**23,918**	**26,827**	**29,482**
Loans, excluding fees	**125,135**	**131,333**	**136,880**	**143,039**	**148,690**
Total interest income, excluding loan fees	**144,130**	**153,570**	**161,117**	**170,236**	**178,611**
Projected interest expense:					
Deposits	**32,582**	**39,232**	**45,893**	**54,206**	**62,186**
Securities sold under agreements to repurchase	**7,102**	**10,339**	**13,576**	**16,009**	**17,367**
Federal Home Loan Bank borrowings	**19,539**	**21,248**	**22,556**	**25,805**	**28,317**
Total interest expense	**59,223**	**70,819**	**82,025**	**96,020**	**107,870**
Net interest income, excluding loan fees	**$ 84,907**	**$ 82,751**	**$ 79,092**	**$ 74,216**	**$ 70,741**
Change from base	**$ 5,815**	**$ 3,659**		**$ (4,876)**	**$ (8,351)**
% Change from base	**7.35%**	**4.63%**		**(6.16)%**	**(10.56)%**

Table 18 - Interest Rate Sensitivity for 2004

(dollars in thousands)	Decrease in Rates 200 Basis Points	100 Basis Points	Base	Increase in Rates 100 Basis Points	200 Basis Points
Projected interest income:					
Short-term investments	$ 282	$ 278	$ 517	$ 707	$ 965
Investments	16,315	18,125	19,798	22,359	24,642
Loans, excluding fees	98,136	102,799	108,057	113,612	118,919
Total interest income, excluding loan fees	114,733	121,202	128,372	136,678	144,526
Projected interest expense:					
Deposits	20,671	22,902	27,459	34,031	40,715
Securities sold under agreements to repurchase	4,977	5,256	8,110	11,902	15,505
Federal Home Loan Bank borrowings	19,294	19,668	19,896	20,161	20,965
Total interest expense	44,942	47,826	55,465	66,094	77,185
Net interest income, excluding loan fees	$ 69,791	$ 73,376	$ 72,907	$ 70,584	$ 67,341
Change from base	$ (3,116)	$ 469		$ (2,323)	$ (5,566)
% Change from base	(4.27)%	0.64%		(3.19)%	(7.63)%

Regulatory Matters

On July 22, 2005 Republic Bank & Trust Company received its most recent Community Reinvestment Act (CRA) performance evaluation prepared as of October 4, 2004. The FDIC concluded that Republic Bank & Trust Company violated Regulation B related to its RAL line of business and assigned a Needs to Improve rating. Republic Bank & Trust Company voluntarily changed certain procedures and processes to address the Regulation B issues raised by the FDIC during the CRA Evaluation. As required by statute, the FDIC referred their conclusions regarding the Regulation B violations to the Department of Justice (DOJ). Also by statute, a financial holding company, such as the Company, that controls a Bank with a less than satisfactory CRA rating, has limitations on certain future business activities until the CRA rating improves. Management does not believe these limitations will have any material effect on the Company s current business plans. At this time, there has been no corrective action imposed by the FDIC or the DOJ.

New Accounting Pronouncements

See discussion in Footnote 1 Summary of Significant Accounting Policies of Item 8. *Financial Statements and Supplementary Data* for discussion of recent accounting pronouncements.

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

The information included under the caption *ASSET/LIABILITY MANAGEMENT AND MARKET RISK* is included under Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations.*

Item 8. Financial Statements and Supplementary Data.

The following are included in this section:

Management s Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm on Financial Statements

Consolidated balance sheets December 31, 2005 and 2004

Consolidated statements of income and comprehensive income years ended December 31, 2005, 2004 and 2003

Consolidated statements of stockholders equity years ended December 31, 2005, 2004 and 2003

Consolidated statements of cash flows years ended December 31, 2005, 2004 and 2003

Footnotes to consolidated financial statements

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Two of the objectives of internal control are to provide reasonable assurance to Management and the Board of Directors that transactions are properly authorized and recorded in our financial records, and that the preparation of the Company s financial statements and other financial reporting is done in accordance with U.S. generally accepted accounting principles.

Management has made its own assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2005, in relation to the criteria described in the report, *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

There are inherent limitations in the effectiveness of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to reliability of financial statements. Furthermore, the effectiveness of internal control can vary with changes in circumstances. Based on its assessment, Management believes that as of December 31, 2005, the Company s internal control was effective in achieving the objectives stated above. Crowe Chizek and Company LLC has provided its report of this assessment in a separate report dated February 3, 2006.

Bernard M. Trager	Steven E. Trager	Kevin Sipes
Chairman of the Board	President and	Executive Vice President and
Republic Bancorp, Inc.	Chief Executive Officer	Chief Financial Officer

Republic Bancorp, Inc. Republic Bancorp, Inc.

February 3, 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting, that Republic Bancorp, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Republic Bancorp, Inc. management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (U.S.). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, management s assessment that Republic Bancorp, Inc. maintained effective internal control over financial reporting as of December 31, 2005 is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the COSO. Also, in our opinion, Republic Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005 based on criteria established in Internal Control Integrated Framework issued by the COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (U.S.), the balance sheets of Republic Bancorp, Inc. as of December 31, 2005 and 2004 and the related statements of income and comprehensive income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2005 and our report dated February 3, 2006 expressed an unqualified opinion.

/s/ Crowe Chizek and Company LLC

Louisville, Kentucky
February 3, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS

Board of Directors and Stockholders

of Republic Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Republic Bancorp, Inc. and subsidiaries as of December 31, 2005 and 2004 and the related consolidated statements of income and comprehensive income, stockholders equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of Republic s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (U.S.). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the