REPUBLIC BANCORP INC /KY/
Form 10-K
March 14, 2008

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, 2007

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

None

(Title of Class)

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

o Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

o Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports),

and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

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

Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

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

o Yes x No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of June 30, 2007 (the last business day of the registrant s most recently completed second fiscal quarter) was approximately $140,409,916 (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, 2008 was 17,952,400 and 2,343,637.

DOCUMENTS INCORPORATED BY REFERENCE

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

Portions of the Registrant s Proxy Statement for the Annual Meeting of Shareholders to be held April 23, 2008 are incorporated by reference into Part III of this Form 10-K.

TABLE OF CONTENTS

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 credit quality, including but not limited to, delinquency trends and the adequacy of the allowance for loan losses, business segments, critical accounting estimates, corporate objectives, the Company s interest rate sensitivity model and other financial and business matters. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by the forward-looking statements. Actual results may differ materially from those expressed or implied as a result of certain risks and uncertainties, including, but not limited to, changes in political and economic conditions, interest rate fluctuations, competitive product and pricing pressures within the Company s 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 the Company s filings with the Securities and Exchange Commission (SEC). 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 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 anticipated future cash flows of securitized Refund Anticipation Loans (RALs);
- 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, these statements often include words such as anticipate, believe, estimate, expect, intend, plan, project, target, can, could, may, similar expressions. Do not rely on forward-looking statements. Forward-looking statements detail management s expectations regarding the future and are not guarantees. Forward-looking statements are assumptions based on information known to management only as of the date the statements are made and management may not update them to reflect changes that occur subsequent to the date the statements are made. See additional discussion under the sections titled 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.

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 (RB&T), Republic Bank, (collectively referred together with RB&T as the Bank), Republic Funding Company, Republic Invest Co. and Republic Bancorp Capital Trust. RB&T is a Kentucky chartered commercial banking and trust corporation, and Republic Bank is a federally chartered thrift institution based in Florida. Republic Invest Co. includes its subsidiary, Republic Capital LLC. The consolidated financial statements also include the wholly-owned subsidiaries of RB&T: Republic Financial Services, LLC, TRS RAL Funding, LLC and Republic Insurance Agency, LLC. Republic Bancorp Capital Trust is a Delaware statutory business trust that is a 100%-owned unconsolidated finance subsidiary of Republic Bancorp, Inc. Incorporated in 1974, Republic became a bank holding company when RB&T 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, 2007, Republic had total assets of $3.2 billion, total deposits of $2.0 billion and total stockholders equity of $249 million. Based on total assets as of December 31, 2007, Republic ranked as the largest Kentucky-based bank holding company. The executive offices of Republic are located at 601 West Market Street, Louisville, Kentucky 40202, telephone number (502) 584-3600. The Company s website address is www.republicbank.com.

Website Access to Reports

The Company makes 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 through its website, www.republicbank.com, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC.

General Business Overview

As of December 31, 2007, the Company was divided into three distinct business operating segments: Banking, Tax Refund Solutions and Mortgage Banking. As discussed throughout this document, the Company substantially exited the deferred deposit business during the first quarter of 2006; therefore, deferred deposit segment operations, previously reported as a fourth segment, are presented as discontinued operations. See additional discussion under Footnote 2 *Discontinued Operations* and Footnote 24 *Segment Information* of Item 8 *Financial Statements and Supplementary Data*.

Net income, total assets and net interest margin by segment for the years ended December 31, 2007, 2006 and 2005 are presented below:

Year Ended December 31, 2007 (in thousands)	Banking	Tax Refund Solutions	Mortgage Banking	Total Continuing Operations	Discontinued Operations
Net income	**$ 21,090**	**$ 2,805**	**$ 1,018**	**$ 24,913**	**$**
Total assets	**2,886,104**	**274,889**	**4,366**	**3,165,359**	
Net interest margin	**2.99%**	**17.23%**	**2.94%**	**3.17%**	

Year Ended December 31, 2006 (in thousands)	Banking	Tax Refund Solutions	Mortgage Banking	Total Continuing Operations	Discontinued Operations
Net income	$ 22,793	$ 4,668	$ 655	$ 28,116	$ 235
Total assets	3,044,983	205	1,599	3,046,787	
Net interest margin	3.02%	60.50%	3.46%	3.22%	

Year Ended December 31, 2005 (in thousands)	Banking	Tax Refund Solutions	Mortgage Banking	Total Continuing Operations	Discontinued Operations
Net income	$ 23,730	$ 5,531	$ 817	$ 30,078	$ 4,987
Total assets	2,721,221	1,770	6,617	2,729,608	5,948
Net interest margin	3.07%	108.39%	3.61%	3.42%	

(I) Banking

As of December 31, 2007, Republic had a total of 40 full-service banking centers with 34 located in Kentucky, three in southern Indiana and three in metropolitan Tampa, Florida. RB&T s primary market areas are located in metropolitan Louisville, central Kentucky, northern Kentucky and southern Indiana. Louisville, the largest city in Kentucky, is the location of Republic s headquarters, as well as 19 banking centers. RB&T 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). RB&T s northern Kentucky market includes banking centers in Covington and Fort Wright. RB&T also has banking centers located in Floyds Knobs, Jeffersonville and New Albany, Indiana. Republic Bank has locations in New Port Richey, Port Richey and Palm Harbor, Florida. The Company has plans to open additional banking centers in Crestwood, Florence, and Independence, Kentucky and one additional banking center in Florida, all within the next year.

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 Bank has historically extended credit and provided general banking services through its banking center network to individuals and businesses. The Bank principally markets its banking products and services through the following delivery channels:

Mortgage Lending The Bank generally retains adjustable rate residential real estate loans with fixed terms up to ten years. These loans are originated through the Bank s retail banking center network. 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 below and throughout this document.

Commercial Lending Commercial loans are primarily real estate secured and are generated through banking centers in the Bank s market areas. The Bank makes commercial loans to a variety of industries and promotes this business through focused calling programs in order to broaden relationships by providing business customers with loan, deposit and treasury 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, other traditional consumer loan products are not actively promoted in the Bank s markets.

Treasury Management Services The Bank provides various deposit products designed for business customers located throughout its market areas. Lockbox processing, remote deposit capture, business online banking, account reconciliation and Automated Clearing House (ACH) processing are additional services offered to businesses through the Treasury Management Department. The *Premier First* product is the Bank s premium money market sweep account designed for business customers.

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

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

(II) Tax Refund Solutions (TRS)

RB&T 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. RB&T facilitates the payment of these tax refunds through three primary products: Refund Anticipation Loans (RALs), Electronic Refund Checks (ERCs) and Electronic Refund Deposits (ERDs). RB&T offers RALs for those taxpayers who apply and qualify. These RALs are repaid when the taxpayers refunds are electronically received by RB&T from the government. For those taxpayers who wish to receive their funds electronically via an ACH, RB&T will provide an ERC or an ERD to the taxpayer. An ERC/ERD is issued, or paid, to the taxpayer after RB&T has received the tax refund from the federal or state government.

See additional discussion regarding TRS under the following: Item 1A Risk Factors, under the sections titled Results of Operations and Critical Accounting Policies and Estimates, in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and Footnote 5 Securitization and Footnote 24 Segment Information of Item 8 Financial Statements and Supplementary Data.

(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, the Bank has historically retained servicing on substantially all loans sold into the secondary market. Administration of loans with the servicing retained by the Bank 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 the Bank 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 and Footnote 6 Mortgage Banking Activities and Footnote 24 Segment Information of Item 8 Financial Statements and Supplementary Data.

Employees

As of December 31, 2007, Republic had 727 full-time equivalent employees (FTEs). Altogether, the Company had 693 full-time and 68 part-time employees. None of the Company s employees are subject to a collective bargaining agreement, and Republic has never experienced a work stoppage. The Company believes that its employee relations have been and continue to be good.

Competition

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 that aggressively compete for market share in Kentucky, southern Indiana and metropolitan Tampa, Florida. These competitors attempt to gain market share through their financial product mix, pricing strategies and banking center locations.

Legislative developments related to interstate branching and banking in general, by providing large banking institutions easier access to a broader marketplace, can act to create more pressure on smaller financial institutions to consolidate. 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 foreseeable future.

Supervision and Regulation

RB&T is a Kentucky chartered commercial banking and trust corporation and as such, it is subject to supervision and regulation by the Federal Deposit Insurance Corporation (FDIC) and the Kentucky Office of Financial Institutions. Republic Bank is a federally chartered thrift institution and as such, it is subject to supervision and regulation by the Office of Thrift Supervision (OTS) and secondarily by the FDIC, as the deposit insurer. All deposits, subject to regulatory prescribed limitations, held by the Bank are insured by the FDIC. Such supervision and regulation subjects the Bank to restrictions, requirements, potential enforcement actions and periodic examination by the FDIC, the OTS and Kentucky banking regulators. The Federal Reserve Bank (FRB) regulates the Company with monetary policies and operational rules that directly affect the Bank. The Company is also a member of the Federal Home Loan Bank (FHLB) System and, with respect to deposit insurance, a member of the Deposit Insurance Fund (DIF) managed by the FDIC.

The Company files reports with the FRB, FDIC and OTS concerning business activities and financial condition. In addition, the Bank must obtain regulatory approval prior to entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. These regulatory agencies conduct periodic examinations to review the Company s safety and soundness and compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities under which a bank or thrift can engage and is intended primarily to provide protection for the DIF and the Company s depositors. Regulators have extensive discretion in connection with their supervisory and enforcement authority and examination policies, including policies that can materially impact the classification of assets and the establishment of adequate loan loss reserves. Any change in regulatory requirements and policies, whether by the FRB, the FDIC, the OTS or state or federal legislation, could have a material adverse impact on the Company and Company operations.

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, issue cease and desist or removal orders, seek injunctions, publicly disclose such actions and prohibit unsafe or unsound practices. In addition, Republic s non-banking subsidiaries also could be subject to regulation by other agencies.

Certain regulatory requirements applicable to the Company are referred to below or elsewhere in this document. The description of statutory provisions and regulations applicable to banks, thrifts and their holding companies set forth in this document does not purport to be a complete description of such statutes and regulations and their effect on the Company and is qualified in its entirety by reference to the actual laws 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. The BHCA and other federal laws subject banks and FHCs 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 statutes also compel the Company to maintain specified capital ratios, examination ratings and management ratings with respect to its operations.

Bank Acquisitions by Banks 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 Florida. Similarly, an adequately capitalized and adequately managed bank holding company located outside of Kentucky or Florida may purchase a bank located inside Kentucky or Florida, subject to appropriate regulatory approvals. In either case, however, state law restrictions may be placed on the acquisition of a state bank that has been in existence for a limited amount of time, or would result in specified concentrations of deposits. For example, Kentucky law prohibits a bank holding company from acquiring control of banks located in Kentucky, if the holding company would then hold more than 15% of the total deposits of all federally insured depository institutions in Kentucky.

Financial Activities The activities permissible for bank holding companies and their affiliates were substantially expanded by the Gramm-Leach-Bliley Act (GLBA), effective March, 2000. The GLBA permits bank holding companies that qualify as, and elect to be FHCs, to 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. To maintain its status as a FHC, the Company and all of its affiliated depository institutions must be well-capitalized, well-managed, and have at least a satisfactory CRA rating.

FHC regulators approve certain activities as financial in nature or incidental to financial activities, as well as define the procedures and requirements 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. 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 to cease conducting business as a FHC by divesting either its non-banking financial activities or its bank activities. Moreover, the Hart-Scott-Rodino Act 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 The FRB does not permit bank holding companies to engage in unsafe and unsound banking practices. The FDIC, the Kentucky Office of Financial Institutions and the OTS 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. In addition, any capital loans by the Company to its bank subsidiaries are subordinate in right of payment to deposits and to certain other indebtedness of the bank subsidiary. In the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of subsidiary banks will be assumed by the bankruptcy trustee and entitled to a priority of payment.

The USA Patriot Act The USA Patriot Act was signed into law in October, 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 the Company s operations.

The Bank

The Kentucky and federal banking statutes prescribe the permissible activities in which a Kentucky bank or federal savings institution 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 Kentucky Office of Financial Institutions 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 a reasonable probability of the successful operation of the branch. In any case, the transaction must also be approved by the FDIC, which considers a number of factors, including financial history, capital adequacy, earnings prospects, character of management, needs of the community and consistency with corporate powers. 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 federal regulations, Republic Bank may establish and operate branches in any state within the U.S. with the prior approval of the OTS. Highly rated federal savings associations that satisfy certain regulatory requirements may establish branches without prior OTS approval, provided the federal savings association publishes notice of its establishment of a new branch, the federal savings association notifies the OTS of the establishment of the branch, and no person files a comment with the OTS opposing the proposed branch.

Restrictions on Affiliate Transactions Transactions between the Bank and its 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 non-affiliated 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 Banking regulators may declare a dividend payment to be unsafe and unsound even if the Bank continues to meet its capital requirements after the dividend. Dividends paid by RB&T provide substantially all of the Company s operating funds. Regulatory requirements serve to limit the amount of dividends that may be paid by the Bank. Under federal regulations, the Bank cannot pay a dividend if, after paying the dividend, the Bank would be undercapitalized.

Under Kentucky and federal banking regulations, the dividends the Bank can pay during any calendar year are generally limited to its profits for that year, plus its retained net profits for the two preceding years, less any required transfers to surplus or to fund the retirement of preferred stock or debt, absent approval of the respective state or federal banking regulators. Management does not anticipate any restrictions on dividends to the Company from the Bank in the foreseeable future. In addition, Republic Bank must notify the OTS thirty days before declaring any dividend payable to the Company. The Company has not paid dividends from Republic Bank and does not anticipate doing so in the near future.

Deposit Insurance Assessments The Federal Deposit Insurance Reform Act of 2005 and The Federal Deposit Insurance Reform Conforming Amendments Act of 2005 signed by the President in February, 2006 (the Act) revised the laws governing federal deposit insurance by providing for changes that included: merging the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) into the DIF effective March 31, 2006; coverage for certain retirement accounts increased to $250,000 effective April 1, 2006; allows for deposit insurance coverage on individual accounts to be indexed for inflation beginning in 2010; gives the FDIC more discretion in managing deposit insurance assessments; and allows eligible institutions a one-time initial assessment credit. Under the Act, the FDIC was authorized to revise the previous assessment system. Insurance premiums are now based on a number of factors including the risk of loss that insured institutions pose to the DIF. The legislation replaced the prior minimum 1.25% reserve ratio for the insurance funds with a range for the new insurance fund s reserve ratio between 1.15% and 1.50% depending on projected losses, economic changes and assessment rates at the end of a calendar year, abolished the rule prohibiting the FDIC from charging the banks in the lowest risk category when the reserve ratio premiums is more than 1.25% and does not limit the FDIC to changing assessment rates bi-annually.

The FDIC announced a new rule in November, 2006 regarding the risk based assessment system for the premiums paid by each bank. Under this risk-based system, the FDIC evaluates an institution s supervisory ratings for all insured institutions, financial ratios for most institutions, and long-term debt issuer ratings for certain large institutions. The pricing structure for 2007 set rates with the minimum premium starting at 0.05% of insured deposits. Certain credits were allowed against 2007 premiums for certain eligible institutions with premium assessments prior to 1996. Management expects premium costs to be between 0.05% and 0.07% for 2008, reduced by applicable credits.

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 any sister depository institution.

Consumer Laws and Regulations In addition to the laws and regulations discussed herein, the Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in their transactions with banks. While the discussion set forth in this document 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 consumers when accepting deposits or originating loans. Certain laws also limit the Bank s ability to share information with affiliated and unaffiliated entities. The Bank is required to comply with all applicable consumer protection laws and regulations as part of its ongoing business operations.

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

Qualified Thrift Lender Test Federal law requires thrift institutions to meet the qualified thrift lender test (QTL), as detailed in 12 U.S.C. §1467a(m). The QTL measures the proportion of a thrift institution s assets invested in loans or securities supporting residential construction and home ownership. Under the QTL, a thrift institution is required to either qualify as a domestic building and loan association under the Internal Revenue Code or maintain at least 65% of its portfolio assets (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct business) in certain qualified thrift investments (primarily residential mortgages and related investments, including certain mortgage backed securities) in at least nine months out of each 12-month period. Qualified thrift investments include (i) housing-related loans and investments, (ii) obligations of the FDIC, (iii) loans to purchase or construct churches, schools, nursing homes and hospitals, (iv) consumer loans, (v) shares of stock issued by any FHLB, and (vi) shares of stock issued by the Federal Home Loan Mortgage Corporation (FHLMC) or the Federal National Mortgage Association (FNMA). Recent legislation has expanded the extent to which education loans, credit card loans and small business loans may be considered qualified thrift investments. Portfolio assets consist of total assets minus (a) goodwill and other intangible assets, (b) the value of properties used by the savings institution to conduct its business, and (c) certain liquid assets in an amount not exceeding 20% of total assets. If Republic Bank fails to remain qualified under the QTL, it must either convert to a commercial bank charter or be subject to restrictions specified under OTS regulations. A savings institution may re-qualify under the QTL if it thereafter complies with the QTL. A savings institution also may satisfy the QTL test by qualifying as a domestic building and loan association as defined in the Internal Revenue Code. At December 31, 2007, Republic Bank exceeded the QTL requirements.

Federal Home Loan Bank System The Bank is a member of the FHLB System, which consists of twelve regional FHLBs subject to supervision and regulation by the Federal Housing Finance Board. The FHLBs provide a central credit facility primarily for its member institutions. As a member of the FHLB, the Bank is required to acquire and hold shares of capital stock in the FHLB in an amount at least equal to 1% of the aggregate unpaid principal of its home mortgage loans, home purchase contracts, and similar obligations at the beginning of each year, or 1/20th of its advances (borrowings) from the FHLB, whichever is greater. As of December 31, 2007, the Bank was in compliance with this requirement.

Capital Adequacy Requirements

Capital Guidelines The FRB, FDIC and OTS 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, 2007, the Company s ratio of Tier I capital to total risk-weighted assets was 13.29% and its ratio of total capital to total risk weighted assets was 13.90%. As of December 31, 2007, RB&T s ratio of Tier I capital to total risk weighted assets was 11.66% and its ratio of total risk based capital to total risk weighted assets was 13.41%. Republic Bank s Tier I capital to total risk weighted assets was 22.89% and its ratio of total risk based capital to total risk weighted assets was 23.70% at December 31, 2007.

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, 2007, the Company s leverage ratio was 8.75%. 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, 2007, RB&T and Republic Bank s leverage ratios were 7.66% and 16.59%, respectively.

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

Corrective Measures for Capital Deficiencies The banking regulators are required to take prompt corrective action with respect to capital deficient institutions. Agency regulations define, for each capital category, the levels at which institutions are well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. 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 the holding company of the institution. In addition, agency regulations contain broad restrictions on certain activities of undercapitalized institutions including asset growth, acquisitions, branch establishment, and expansion into new lines of business. With certain exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment. A bank s capital classification will also affect its ability to accept brokered deposits. Under banking regulations, a bank may not lawfully accept, roll over or renew brokered deposits, unless it is either well-capitalized or it is adequately capitalized and receives a waiver from the regulator.

If a banking institution s capital decreases below acceptable levels, banking regulatory enforcement powers become more enhanced. A significantly undercapitalized institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management and other restrictions. Banking regulators have limited discretion in dealing with a critically undercapitalized institution and are normally required to appoint a receiver or conservator. Banks with risk based capital and leverage ratios below the required minimums may also be subject to certain administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing in the event the institution has no tangible capital.

In addition, a bank holding company that elects to be treated as a FHC may face significant consequences if its 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 be well-capitalized or well-managed. If the FRB determines that a FHC controls a depository institution that is not well-capitalized or well-managed, the FRB will notify the FHC that it is not in compliance with applicable requirements and may require the FHC to enter into an agreement acceptable to the FRB to correct any deficiencies. Until such deficiencies are corrected, the FRB may impose any limitations or conditions on the conduct or activities of the FHC and its affiliates that the FRB determines are appropriate, and the FHC may not commence any additional activity or acquire control of any company under Section 4(k) of the BHC Act without prior FRB approval. Unless the period of time for compliance is extended by the FRB, if a FHC fails to correct deficiencies in maintaining its qualification for FHC status within 180 days of entering into an agreement with the FRB, the FRB may order divestiture of any depository institution controlled by the company. A company may comply with a divestiture order by ceasing to engage in any financial or other activity that would not be permissible for a bank holding company that has not elected to be treated as a FHC.

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

Statistical Disclosures

The statistical disclosures required by Item 1 *Business* are located 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 the Company s 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 Annual Report on Form 10-K.

Company Factors

The Company s accounting policies and estimates are critical components of the Company s presentation of its financial statements. Management must exercise judgment in selecting and adopting various accounting policies and in applying estimates. Actual outcomes may be materially different than amounts previously estimated. Management has identified five accounting policies as being critical to the presentation of the Company s financial statements. These policies are described under 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 following:

- Allowance for loan losses
- Mortgage servicing rights
- Refund Anticipation Loan (RAL) securitization and valuation of residual
- Income tax accounting
- Goodwill and other intangible assets

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 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.* Tax Refund Solutions (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 Electronic Refund Check or Electronic Refund Deposit (ERC/ERD). In return, the Company charges a fee for the service.

During 2007, net income from the Company s TRS business segment accounted for approximately 11% of the Company s total net income. Various governmental and consumer groups have, from time to time, questioned the fairness of the RAL program and have accused this industry of charging excessive/usurious 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 tax refund proceeds may be available. Actions of these groups and others could result in regulatory, governmental or legislative action or material litigation against the Company. Exiting this line of business, either voluntarily or involuntarily, would significantly reduce the Company s earnings.

See the sections titled Results of Operations and Critical Accounting Policies and Estimates in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as Footnote 5 Securitization and Footnote 24 Segment Information of Item 8 Financial Statements and Supplementary Data for additional discussion regarding TRS.

- *The TRS business segment represents a significant operational risk, and if the Company were unable to properly service the anticipated growth in the business it could materially impact the earnings of the Company.* On September 19, 2007, Republic Bank & Trust Company (RB&T) entered into a three year Program Agreement with Jackson Hewitt Inc. (JHI) and a three year Technology Services Agreement with Jackson Hewitt Technology Services LLC (JHTSL) related to RB&T s RAL and ERC/ERD products. JHI and JHTSL are subsidiaries of Jackson Hewitt Tax Service Inc., which provides computerized preparation of federal, state and local individual income tax returns in the U.S. through a nationwide network of franchised and company-owned tax offices operating under the brand name Jackson Hewitt Tax Service®.

The Program and Technology Service Agreements are effective for TRS first quarter 2008 RAL and ERC/ERD tax season and provide for TRS to be the exclusive provider of RAL and ERC/ERD products for a select group of Jackson Hewitt Tax Service offices. During 2007, the select group of Jackson Hewitt Tax Services offices that will begin making TRS products available during 2008 produced approximately 70% of the total number of RAL and ERC/ERD products generated by TRS with others during 2007.

In addition to the new business expected to be acquired through the Jackson Hewitt relationship, the Company also anticipates significant growth through its independent tax-preparer base as well. Material growth in the TRS business segment requires a significant increase in technology and employees to service the new business. In order to process the new business, the Company must implement and test new systems, as well as train new employees. Significant operational problems could cause the Company to incur higher than normal credit losses. Significant operational problems could also cause a material portion of the Company s tax-preparer base to switch to a competitor bank to process their bank product transactions, significantly reducing the Company s projected revenue without a corresponding decrease in expenses.

See the sections titled Results of Operations and Critical Accounting Policies and Estimates in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as Footnote 5 Securitization and Footnote 24 Segment Information of Item 8 Financial Statements and Supplementary Data for additional discussion regarding TRS.

• *RALs represent a significant compliance and regulatory risk, and if the Company fails to comply with all statutory and regulatory requirements it could have a material negative impact on the Company s earnings. Federal and state laws and regulations* govern *numerous matters relating to the offering of RALs. Failure to comply with disclosure requirements such as Regulation B, Fair Lending and Regulation Z, Truth in Lending, or with laws relating to the permissibility of interest rates and fees charged could have a material negative impact on the Company s earnings.*

See the sections titled Results of Operations and Critical Accounting Policies and Estimates in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as Footnote 5 Securitization and Footnote 24 Segment Information of Item 8 Financial Statements and Supplementary Data for additional discussion regarding TRS.

• *RALs represent a significant liquidity risk. Significantly overestimating or underestimating the Company s liquidity need for the upcoming tax season could have a material negative impact on the Company s overall earnings. Funding for the RAL liquidity requirements may also cost more than the Company s current estimates.* The Company s liquidity risk increases significantly during the first quarter of each year due to the RAL program. The Company has committed to the electronic filers and tax-preparer base 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 without an 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.

In addition to the new business expected to be acquired through the Jackson Hewitt relationship, the Company also expects significant growth through its independent tax-preparer customer base as well. The Company expects its 2008 RAL program to require significantly more liquidity than prior tax seasons. Management intends to utilize a securitization structure once again in 2008 to fund a significant portion of the RAL portfolio. Given a general lack of liquidity currently in the credit markets, the Company may not be able to obtain all of its necessary funding from the securitization structure with terms acceptable to the Company. If the Company cannot obtain all of its necessary funding from the securitization structure, it would be forced to obtain additional funding from other sources such as brokered deposits and lines of credit and may need to draw on holding company lines of credit to provide capital to RB&T. These sources must ideally be established well in advance of the tax season in order to ensure their availability, and also their timing and short-term duration may cause the Company to incur significant additional funding costs.

See the sections titled Results of Operations and Critical Accounting Policies and Estimates in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as Footnote 5 Securitization and Footnote 24 Segment Information of Item 8 Financial Statements and Supplementary Data for additional discussion regarding TRS.

• *RALs represent a significant credit risk, and if the Company is unable to collect a significant portion of its RALs it would materially impact the earnings of the Company.* There is credit risk associated with a RAL because the money is disbursed to the customer prior to the Company receiving the customer s refund from the Internal Revenue Service (IRS). The Company collects substantially all of its payments related to RALs from the IRS. Losses generally occur on RALs because the Company does not receive payment from the IRS due to reasons such as taxpayer or tax-preparer fraud, taxpayer or tax-preparer errors on returns, and tax debts not disclosed to the Company, among other reasons.

Historically at TRS, credit losses related to RALs within a given calendar year have ranged from a low of 0.49% to a high of 1.70% of total RALs originated (including retained and securitized RALs). During 2007, the Company incurred $6.6 million in gross losses associated with RALs both retained on balance sheet by the Company and securitized by the Company. Losses as a percent of total RALs originated (including retained and securitized RALs) during 2007 were 1.14%.

In addition to the new business expected to be acquired through the Jackson Hewitt relationship, the Company also expects significant growth through its independent tax-preparer base as well. Although the Company expects losses to track within historical levels in terms of percentage of total loans originated, management cannot guarantee any range of losses associated with the RAL business. Losses significantly above historical levels could have a material negative impact on the Company s overall earnings.

See the sections titled Results of Operations and Critical Accounting Policies and Estimates in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as Footnote 5 Securitization and Footnote 24 Segment Information of Item 8 Financial Statements and Supplementary Data for additional discussion regarding TRS.

• *RB&T has substantial risk in connection with the RAL securitization*. A residual represents the retained interest created in a securitization and typically represents the first loss position. Residuals are not typically rated by nationally recognized rating agencies. In a securitization transaction, the Company may recognize a gain on sale resulting from the related residual in the securitized loans when it sells the assets. The value assigned to the residual depends upon certain assumptions made regarding the future performance of the securitized loan portfolio, including the level of credit losses. If actual credit losses differ from the original assumptions, the value of the residual may decrease materially, possibly resulting in a charge against future earnings. Decreases in the value of the residual in the securitization due to higher than expected credit losses could have a material adverse effect on the Company s business, financial condition and results of operations.

See the sections titled Results of Operations and Critical Accounting Policies and Estimates in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as Footnote 5 Securitization and Footnote 24 Segment Information of Item 8 Financial Statements and Supplementary Data for additional discussion regarding TRS.

• *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.* The Company s Overdraft Honor program permits eligible customers to overdraft their checking accounts up to a predetermined dollar amount for the Bank s customary overdraft fee(s). Generally, to be eligible for the Overdraft Honor program, customers must qualify for one of the Company s traditional checking products when the account is opened and remain in that product for 30 days; have deposits of at least $500; and have had no overdrafts or returned deposited items. Once the eligibility requirements have been met, the client is eligible to participate in the Overdraft Honor program. If an overdraft occurs, the Company may pay the overdraft, at its discretion, up to $500 (an account in good standing after two years is eligible for up to $1,000). Under regulatory guidelines, customers utilizing the Overdraft Honor program may remain in overdraft status for no more than 45 days. Generally, an account that is overdrawn for 60 consecutive days is closed and the balance is charged off.

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

The Company assesses two types of fees related to overdrawn accounts, a fixed per item fee and a fixed daily charge for being in overdraft status. The per item fee for this service is not considered an extension of credit, but rather is considered a fee for paying checks when sufficient funds are not otherwise available. As such, it is classified on the income statement in service charges on deposits as a component of non interest income along with per item fees assessed to customers not in the Overdraft Honor program. A substantial majority of the per item fees in service charges on deposits relates to customers in the Overdraft Honor program. The daily fee assessed to the client for being in overdraft status is considered a loan fee and is thus included in interest income on loans.

The Company earns a substantial majority of its fee income related to this program from the per item fee it assesses its customers for each insufficient funds check or electronic debit presented for payment. Both the per item fee and the daily fee assessed to the account resulting from its overdraft status, if computed as a percentage of the amount overdrawn, results in a high rate of interest when annualized and are thus considered excessive by some consumer groups. The total per item fees included in service charges on deposits for 2007 and 2006 were $13.7 million and $12.1 million. The total daily overdraft charges included in interest income for 2007 and 2006 were $2.7 million and $2.1 million. Additional limitations or elimination, or adverse modifications to this program, either voluntary or involuntary, would significantly reduce Company earnings.

The Company owns $35 million of securities which the Company believes have an elevated level of credit risk and are extremely illiquid. Nationally, residential real estate values have declined. These declines in value, coupled with the reduced ability of homeowners to refinance or repay their residential real estate obligations, have led to elevated delinquencies and losses in residential real estate loans. Many of these loans have previously been securitized and sold to investors as corporate mortgage backed or other corporate mortgage-related securities. The Company owns $35 million in corporate mortgage backed and other corporate mortgage-related securities. These securities are not guaranteed by government agencies. Approximately $24 million of these securities are rated AAA by Standard & Poor s (S&P) and are backed by Alternative A first lien mortgage loans. The remaining $11 million are asset backed securities with an insurance wrap or guarantee. These asset backed securities are AA rated by S&P. Due to current market conditions, all of these assets are extremely illiquid, and as such, the market value is unable to be reasonably estimated due to the volatility in the mortgage industry. The average life of these securities is estimated to be approximately five years. At this time, management intends to hold these securities until maturity and does not believe the Company will incur any loss of principal. Further deterioration in the real estate markets and/or deterioration in the financial condition of the insurance company providing the wrap could produce a loss of principal in the future. As of the date of this filing, none of these securities have been downgraded by the applicable rating agency. *See additional discussion under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and Footnote 3 Securities of Item 8 Financial Statements and Supplementary Data.*

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. Moreover, a decline in demand for mortgage banking products could also adversely impact other programs/products such as home equity lending, title insurance commissions and service charges on deposit accounts. *See additional discussion about this product under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and Footnote 6 Mortgage Banking Activities and Footnote 24 Segment Information of Item 8 Financial Statements and Supplementary Data.*

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

The Company s insiders hold voting rights that give them significant control over matters requiring stockholder approval. The Company s Chairman, President, and Vice Chairman hold substantial amounts of the Company s Class A Common Stock and Class B Common Stock. Each share of Class A Common Stock is entitled to one vote and each share of Class B Common Stock is entitled to ten votes. This group generally votes together on matters presented to stockholders for approval. Consequently, other stockholders ability to influence the Company s actions through their vote may be limited and the non-insider stockholders may not have sufficient voting power to approve a change in control even if a significant premium is being offered for their shares. The Company cannot assure you that majority stockholders will vote their shares in accordance with your interests.

Industry Factors

Fluctuations in interest rates may negatively impact the Company s 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 (typically loans and investment securities) and the interest expenses incurred in connection with interest-bearing liabilities (typically deposits and borrowing sources). These rates are highly sensitive to many factors beyond the Company s 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 declines. 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, changes 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 customers 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 and earnings. These policies can materially affect the value of the Company s financial instruments and can also adversely affect the Company s customers and their ability to repay their outstanding loans. Also, failure to comply with laws, regulations or policies, or adverse examination findings, could result in significant penalties, negatively impact operations, or result in other sanctions against the Company.

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

The Company and the Bank are heavily regulated at both the federal and state levels. This regulatory oversight is primarily intended to protect depositors, the DIF and the banking system as a whole, not the shareholders of the Company. Changes in policies, regulations and statutes, or the interpretation thereof, could significantly impact the product offerings of Republic causing the Company to terminate or modify its product offerings in a manner that could materially adversely affect the earnings of the Company.

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

Republic is subject to regulatory capital adequacy guidelines, and if the Company fails to meet these guidelines the Company s 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 well-capitalized status under its regulatory framework, or well-managed under regulatory exam procedures, or regulatory violations, could compromise Republic s status as a Financial Holding Company and related eligibility for a streamlined review process for acquisition proposals and limit the ability of the Company to offer certain financial products.

The Company s 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, customers and other parties. In deciding whether to extend credit, including RALs, or enter into transactions with other parties, the Company relies on information furnished by, or on behalf of, customers or entities related to those customers.

Defaults in the repayment of loans may negatively impact the Company. 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 subsequent collection efforts. In certain situations where collection efforts are unsuccessful or acceptable work out arrangements cannot be reached or performed, the Company may have to charge off loans, either in part or in whole.

Prepayment of loans may negatively impact Republic s business. The Company s customers may prepay the principal amount of their outstanding loans at any time. The speeds at which such prepayments occur, as well as the size of such prepayments, are within the Company s customers discretion. If customers prepay the principal amount of their loans, and the Company is unable to lend those funds to other customers 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 34 banking centers located in Kentucky, three banking centers in southern Indiana and three in the metropolitan Tampa area.

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	57,000	L(1)
661 South Hurstbourne Parkway, Louisville	42,000	L(1)
9600 Brownsboro Road, Louisville	33,000	L(1)
5250 Dixie Highway, Louisville	5,000	O/L(2)
10100 Brookridge Village Boulevard, Louisville	5,000	O/L(2)
9101 U.S. Highway 42, Prospect	3,000	O/L(2)
11330 Main Street, Middletown	6,000	O/L(2)
3902 Taylorsville Road, Louisville	4,000	O/L(2)
3811 Ruckriegel Parkway, Louisville	4,000	O/L(2)
5125 New Cut Road, Louisville	4,000	O/L(2)
4808 Outer Loop, Louisville	4,000	O/L(2)
438 Highway 44 East, Shepherdsville	4,000	O/L(2)
4921 Brownsboro Road, Louisville	2,000	L
3950 Kresge Way, Suite 108, Louisville	1,000	L
3726 Lexington Road, Louisville	4,000	L
2028 West Broadway, Suite 105, Louisville	3,000	L
220 Abraham Flexner Way, Suite 100, Louisville	1,000	L
1420 Poplar Level Road, Louisville	3,000	O
6401 Claymont Crossing, Crestwood	4,000	L(3)
Lexington		
3098 Helmsdale Place	5,000	O/L(2)
3608 Walden Drive	4,000	O/L(2)
651 Perimeter Drive	4,000	L
2401 Harrodsburg Road	6,000	O
641 East Euclid Avenue	3,000	O
Northern Kentucky		
535 Madison Avenue, Covington	4,000	L
1945 Highland Pike, Fort Wright	3,000	L
8513 U.S. Highway 42, Florence	3,000	L(3)
2043 Centennial Boulevard, Independence	2,000	L(3)
Frankfort		
100 Highway 676	3,000	O/L(2)
1001 Versailles Road	4,000	O(5)
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	6,000	O
Georgetown, 430 Connector Road	4,000	O/L(2)

Shelbyville, 1614 Midland Trail	4,000	O/L(2)

Bank Offices	Square Footage	Owned (O)/ Leased (L)
Southern Indiana Banking Centers		
3001 Charlestown Crossing Way, Suite 5, New Albany	2,000	L
3141 Highway 62, Jeffersonville	4,000	O
4571 Duffy Road, Floyds Knobs	4,000	O/L(2)
Florida Banking Centers		
9037 U.S. Highway 19, Port Richey	8,000	O
5043 U.S. Highway 19, New Port Richey	1,000	L
34650 U.S. Highway 19, Palm Harbor	6,000	L
9100 Hudson Avenue, Hudson		O(3)
3611 Little Road, Trinity		O(4)
Support and Operations		
125 South Sixth Street, Louisville	6,000	L

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

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

(3) Location is scheduled to open in 2008.

(4) Location is scheduled to open in 2009.

(5) Location was closed in February, 2008.

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 or litigation pending or, to the knowledge of management, in which an adverse decision could result in a material adverse change in the business or consolidated financial position of Republic or the Bank.

In regard to Tax Refund Solutions (TRS), a competing financial institution that, like the Company, offers tax refund products is defending a lawsuit in the State of California relating to the enforceability of cross-collection provisions contained in its Refund Anticipation Loan (RAL) contracts with its customers. The case is styled Canieva Hood, et al. v. Santa Barbara Bank & Trust and was filed in the Santa Barbara Superior Court (Case No. 1156354) (the Hood case).

Various RAL product providers, including the Company, have entered into agreements with other RAL providers to facilitate the cross-collection of unpaid RALs from prior tax years. The Company was not named as a defendant directly in the Hood case. However, the competing banking defendant joined the Company, as well as other financial institutions, as parties to the litigation pursuant to indemnity provisions of the cross-collection contracts between the competing banking defendant and various other RAL product providers.

Although the trial court initially dismissed the Hood case on federal preemption grounds, the dismissal was overturned on appeal. The Hood case is now proceeding with various motions and pleadings, including a motion for certification of a plaintiff class.

The Company believes that the inclusion of cross-collection provisions in RAL contracts will continue to be controversial. These provisions may result in further litigation exposure as some consumer advocate groups have shown a willingness to challenge the enforceability of RAL cross-collection contract provisions.

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 2007.

PART II

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

Market and Dividend Information

Republic s Class A Common Stock is traded on The NASDAQ Global Select Stock Market® (NASDAQ) under the symbol RBCAA. The following table sets forth the high and low market value of the Class A Common Stock and the dividends declared on Class A Common Stock and Class B Common Stock during 2007 and 2006. All per share data has been restated to reflect stock dividends.

	2007			
	Market Value		Dividend	
Quarter Ended	**High**	**Low**	**Class A**	**Class B**
March 31st	**$ 23.94**	**$ 20.01**	**$ 0.0943**	**$ 0.0857**
June 30th	**22.61**	**16.08**	**0.1100**	**0.1000**
September 30th	**18.23**	**14.32**	**0.1100**	**0.1000**
December 31st	**18.00**	**14.33**	**0.1100**	**0.1000**

	2006			
	Market Value		Dividend	
Quarter Ended	**High**	**Low**	**Class A**	**Class B**
March 31st	$ 19.62	$ 17.33	$ 0.0798	$ 0.0726
June 30th	20.16	17.50	0.0943	0.0857
September 30th	21.04	18.17	0.0943	0.0857
December 31st	24.05	19.52	0.0943	0.0857

There is no established public trading market for the Company s Class B Common Stock. At February 15, 2008, the Class A Common Stock was held by 746 shareholders of record and the Class B Common Stock was held by 143 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 payment of dividends is subject to the regulatory restrictions described in Footnote 15 *Stockholders Equity and Regulatory Capital Matters* 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, 2007, the trustee held 222,546 shares of Class A Common Stock and 4,973 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 2007 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		$		
Nov. 1 Nov. 30				
Dec. 1 Dec. 31	3,321*	16.95	1,500	
Total	3,321	$ 16.95	1,500	103,053

* *Includes 1,821 shares repurchased by the Company in connection with stock option exercises.*

During 2007, the Company repurchased 527,361 shares and there were 42,226 shares exchanged for stock option exercises. During the second quarter of 2007, the Company s Board of Directors approved the repurchase of an additional 300,000 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, 2007, the Company had 103,053 shares which could be repurchased under the current stock repurchase programs.

During 2007, Republic issued approximately 6,000 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.

STOCK PERFORMANCE GRAPH

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

The following graph sets forth the cumulative total shareholder return (assuming reinvestment of dividends) on Republic s Class A Common Stock as compared to the NASDAQ Bank Stocks Index and the Standard & Poor s (S&P) 500. The graph covers the period beginning December 31, 2002 and ending December 31, 2007. The calculation of cumulative total return assumes an initial investment of $100 in Republic s Class A Common Stock and the NASDAQ Bank Stocks Index and the S&P 500 on December 31, 2002. The stock price performance shown on the graph below is not necessarily indicative of future stock price performance.

	December 31, 2002	**December 31, 2003**	**December 31, 2004**	**December 31, 2005**	**December 31, 2006**	**December 31, 2007**
Republic Bancorp Class A Common Stock	100	179	251	223	279	198
NASDAQ Bank Stocks	100	129	147	144	161	128
S&P 500	100	129	143	150	173	183

Item 6. Selected Financial Data.

The following table sets forth Republic Bancorp Inc. s selected consolidated financial data from 2003 through 2007. This information should be read in conjunction with Part II Item 7 *Management s Discussion and Analysis of Financial Condition and Results of Operations* and Part II Item 8 *Financial Statements and Supplementary Data.* Certain amounts presented in prior periods have been reclassified to conform to the current period presentation.

	As of and for the Years Ended December 31,				
(dollars in thousands, except per share data)	**2007**	**2006**	**2005**	**2004**	**2003**
Income Statement Data:					
Total interest income	**$ 199,097**	$ 176,540	$ 148,079	$ 121,443	$ 112,826
Total interest expense	**104,619**	88,242	62,432	42,052	36,551
Net interest income	**94,478**	88,298	85,647	79,391	76,275
Provision for loan losses	**6,820**	2,302	340	1,346	6,095
Non interest income	**37,792**	31,700	28,807	25,651	29,619
Non interest expenses	**87,256**	74,862	68,512	64,218	61,375
Income from continuing operations before income tax expense	**38,194**	42,834	45,602	39,478	38,424
Income tax expense from continuing operations	**13,281**	14,718	15,524	13,548	13,662
Income from continuing operations before discontinued operations, net of income tax expense *	**24,913**	28,116	30,078	25,930	24,762
Income from discontinued operations, net of income tax expense *		235	4,987	6,571	3,441
Net income	**24,913**	28,351	35,065	32,501	28,203
Balance Sheet Data:					
Total securities	**$ 580,636**	$ 561,772	$ 512,163	$ 551,593	$ 410,931
Total loans	**2,397,073**	2,298,888	2,070,608	1,789,099	1,581,952
Allowance for loan losses	**12,735**	11,218	11,009	13,554	13,959
Total assets	**3,165,359**	3,046,787	2,735,556	2,498,922	2,128,076
Total deposits	**1,968,812**	1,692,722	1,602,565	1,417,930	1,297,112
Securities sold under agreements to repurchase and other short-term borrowings	**398,296**	401,886	292,259	364,828	220,345
Federal Home Loan Bank advances	**478,550**	646,572	561,133	496,387	420,178
Subordinated note	**41,240**	41,240	41,240		
Total stockholders equity	**248,860**	237,348	213,574	196,069	169,379
Per Share Data:					
Earnings per share from continuing operations:					
Basic earnings per Class A Common Stock	**$ 1.22**	$ 1.38	$ 1.46	$ 1.25	$ 1.21
Basic earnings per Class B Common Stock	**1.18**	1.35	1.43	1.23	1.17
Diluted earnings per Class A Common Stock	**1.20**	1.35	1.40	1.20	1.18
Diluted earnings per Class B Common Stock	**1.16**	1.32	1.37	1.18	1.14
Earnings per share from discontinued operations:*					
Basic earnings per Class A Common Stock	**0.00**	0.01	0.24	0.32	0.16
Basic earnings per Class B Common Stock	**0.00**	0.00	0.24	0.32	0.17
Diluted earnings per Class A Common Stock	**0.00**	0.00	0.23	0.31	0.17

Diluted earnings per Class B Common Stock	**0.00**	0.00	0.23	0.30	0.17

(continued)

(dollars in thousands, except per share data)	2007	2006	2005	2004	2003
	As of and for the Years Ended December 31,				
Per Share Data: *(continued)*					
Earnings per share:					
Basic earnings per Class A Common Stock	**$ 1.22**	$ 1.39	$ 1.70	$ 1.57	$ 1.37
Basic earnings per Class B Common Stock	**1.18**	1.35	1.67	1.55	1.34
Diluted earnings per Class A Common Stock	**1.20**	1.35	1.63	1.51	1.35
Diluted earnings per Class B Common Stock	**1.16**	1.32	1.60	1.48	1.31
Market value per share	**16.53**	23.90	19.46	22.20	16.08
Book value per share	**12.26**	11.53	10.47	9.42	8.19
Cash dividends declared per Class A Common Stock	**0.424**	0.363	0.306	0.254	0.416
Cash dividends declared per Class B Common Stock	**0.386**	0.330	0.278	0.231	0.378
Performance Ratios:					
Return on average assets (ROA) from continuing operations	**0.81%**	0.98%	1.15%	1.14%	1.32%
Return on average assets (ROA)	**0.81**	0.99	1.33	1.40	1.47
Return on average equity (ROE) from continuing operations	**10.25**	12.46	14.24	14.23	15.16
Return on average equity (ROE)	**10.25**	12.56	16.56	17.50	16.88
Efficiency ratio from continuing operations	**66**	62	60	61	58
Yield on average earning assets	**6.69**	6.43	5.91	5.59	6.24
Cost of average interest-bearing liabilities	**4.12**	3.81	2.97	2.31	2.42
Net interest spread	**2.57**	2.62	2.94	3.28	3.82
Net interest margin	**3.17**	3.22	3.42	3.65	4.22
Asset Quality Ratios:					
Non-performing loans to total loans	**0.40%**	0.28%	0.29%	0.34%	0.82%
Allowance for loan losses to total loans	**0.53**	0.49	0.53	0.76	0.88
Allowance for loan losses to non-performing loans	**132**	175	183	221	108
Net loan charge offs to average loans from continuing operations	**0.22**	0.06	0.09	0.13	0.19
Delinquent loans to total loans	**0.69**	0.49	0.35	0.47	0.82
Capital Ratios:					
Average stockholders equity to average total assets	**7.86%**	7.91%	8.10%	8.01%	8.69%
Tier I leverage	**8.75**	8.92	9.47	8.03	8.08
Tier I risk based capital	**13.29**	13.73	14.41	12.18	11.99
Total risk based capital	**13.90**	14.30	15.03	13.03	12.99
Dividend payout ratio	**35**	26	18	16	30
Other Information:					
End of period full time equivalent employees	**727**	698	678	611	645
Number of banking centers	**40**	38	35	33	31

* *Represents the Company exiting the payday loan segment of business during 2006. See additional discussion under the sections titled Item 1 Business, and Footnote 2 Discontinued Operations and Footnote 24 Segment Information of Item 8 Financial Statements and*

Supplementary Data.

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

Management s Discussion and Analysis of Financial Condition and Results of Operations of Republic Bancorp, Inc. (Republic or the Company) analyzes the major elements of Republic s consolidated balance sheets and statements of income. Republic, a bank holding company headquartered in Louisville, Kentucky, is the Parent Company of Republic Bank & Trust Company, (RB&T), Republic Bank (collectively referred together with RB&T as the Bank), Republic Funding Company, Republic Invest Co. Republic Invest Co. includes its subsidiary, Republic Capital LLC. The consolidated financial statements also include the wholly-owned subsidiaries of RB&T: Republic Financial Services, LLC, TRS RAL Funding, LLC and Republic Insurance Agency, LLC. Republic Bancorp Capital Trust is a Delaware statutory business trust that is a 100%-owned unconsolidated finance subsidiary of Republic Bancorp, Inc. Management s Discussion and Analysis of Financial Condition and Results of Operations of Republic should be read in conjunction with Item 8 *Financial Statements and Supplementary Data,* as well as other detailed information included in this Annual Report on 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, business segments, 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 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 anticipated future cash flows of securitized Refund Anticipation Loans (RALs);
- 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, the statements often include words such as anticipate, believe, estimate, expect, intend, plan, project, target, can, could, may, similar expressions. Do not rely on forward-looking statements. Forward-looking statements detail management s expectations regarding the future and are not guarantees. Forward-looking statements are assumptions based on information known to management only as of the date the statements are made and management may not update them to reflect changes that occur subsequent to the date the statements are made. See additional discussion under the sections titled Item 1 *Business* and Item 1A *Risk Factors.*

OVERVIEW

Table 1 Summary

Year Ended December 31, (dollars in thousands, except per share data)	**2007**	**2006**	**2005**
Net income from continuing operations	**$ 24,913**	$ 28,116	$ 30,078
Diluted earnings per Class A Common Share from continuing operations	**1.20**	1.35	1.40
Diluted earnings per Class A Common Share from discontinued operations	**0.00**	0.00	0.23
Diluted earnings per Class A Common Share	**1.20**	1.35	1.63
Return on average assets (ROA) from continuing operations	**0.81%**	0.98%	1.15%
Return on average assets (ROA)	**0.81**	0.99	1.33
Return on average equity (ROE) from continuing operations	**10.25**	12.46	14.24
Return on average equity (ROE)	**10.25**	12.56	16.56

Net income from continuing operations for the year ended December 31, 2007 was $24.9 million, representing a decline of $3.2 million, or 11%, compared to the same period in 2006. Diluted earnings per Class A Common Share from continuing operations declined 11% from $1.35 for the year ended December 31, 2006 to $1.20 for the same period in 2007.

Overall net income for the year ended December 31, 2007 was $24.9 million, representing a decline of $3.4 million, or 12%, compared to the same period in 2006. Diluted earnings per Class A Common Share declined 11% to $1.20 for the year ended December 31, 2007 compared to $1.35 for the same period in 2006.

General highlights for the year ended December 31, 2007 consisted of the following:

- Republic ended the year with total assets of $3.2 billion, an increase of $119 million, or 4%, over the prior year. As of December 31, 2007, Republic was the largest Kentucky-based bank holding company.

- Total loans grew by $98 million, or 4%, from just over $2.3 billion at December 31, 2006 to nearly $2.4 billion at December 31, 2007. Growth in loans primarily occurred across three major categories: real estate construction, commercial, and home equity, as the Company continued to focus its efforts on the origination of immediately repricing loans.

- During the fourth quarter of 2007, the Company acquired approximately $272 million in brokered deposits to be utilized in the first quarter of 2008 to fund RALs. These deposits had a weighted average cost of 4.68% with a final maturity of three months. During their time outstanding before the RAL season began, the Company utilized the cash from these brokered deposits to pay off lower interest rate overnight borrowings from the Federal Home Loan Bank (FHLB) resulting in a negative spread of approximately 75 basis points.

- Net income from the Company s traditional Banking business segment decreased $1.7 million, or 7%, for the year ended December 31, 2007 compared to the same period in 2006. The decrease was due primarily to continued compression of the Company s net interest margin combined with a significant increase in non interest expenses.

- Net income from the Company s Tax Refund Solutions (TRS) business segment decreased $1.9 million, or 40%, for the year ended December 31, 2007 compared to the same period in 2006, as an increase in revenue resulting from higher RAL volume was more than offset by an increase in losses associated with RALs.

- The Company recorded a provision for loan losses of $6.8 million for the year ended December 31, 2007, compared to a provision of $2.3 million for the same period in 2006. Included in the provision for loan losses for 2007 and 2006 was $2.9 million and $34,000 for losses associated with RALs retained on-balance sheet. The increase in anticipated losses associated with RALs was primarily due to higher confirmed fraud and from an increase in the amount of refunds held by the Internal Revenue Service (IRS) for reasons such as audits and liens from prior debts. The Banking segment provision for loan losses was $3.9 million for the year ended December 31, 2007 compared to $2.3 million for the same period in 2006. The increase in the bank level provision expense was due to growth in loans, as well as an increase in classified loans and delinquencies. In addition, as general market conditions declined throughout 2007 the Company modified several qualitative factors within its allowance for loan loss calculation, contributing approximately $1.1 million to the overall increase in the provision.

- Service charges on deposit accounts increased $2.1 million, or 13%, during 2007 compared to 2006. The increase in service charges on deposit accounts was due to growth in the number of checking accounts and an increase during the second half of 2006 in the per item overdraft fees charged to customers.

- Non interest income for 2007 includes a $1.9 million non-recurring gain related to the final settlement of insurance proceeds in connection with the Company s corporate center fire which occurred in late 2006. The gain represented the difference between the total cash received from the Company s insurance provider and the net book value of the fixed assets destroyed as a result of the fire.

- Total non interest expenses increased $12.4 million, or 17%, during 2007 compared to 2006. This increase was primarily attributable to increases in salaries and employee benefits resulting from an increase in full time equivalent employees (FTEs), as well as increased infrastructure costs. The Company added staffing in both sales and support functions as a result of new banking center locations and expectations for future growth. In addition, the Company added approximately 20 FTE s in Florida as a result of the GulfStream Community Bank (GulfStream) acquisition which occurred in October 2006.

- Non interest expenses for both 2007 and 2006 benefited from a reversal of incentive compensation accruals as the Company fell short of its gross operating profit goals for the year. For the third and fourth quarters of 2007, the Company recorded total credits to incentive compensation accruals of $3.5 million compared to credits of $2.0 for the same periods in 2006.

- Republic opened three banking centers in 2007 and has announced plans to open an additional four banking centers in 2008.

Net income from continuing operations for the year ended December 31, 2006 was $28.1 million, representing a decline of $2.0 million, or 7%, compared to the same period in 2005. Diluted earnings per Class A Common Share from continuing operations declined 4% from $1.40 for the year ended December 31, 2005 to $1.35 for the same period in 2006.

Overall net income for the year ended December 31, 2006 was $28.4 million, representing a decline of $6.7 million, or 19%, compared to the same period in 2005. Diluted earnings per Class A Common Share declined 17% to $1.35 for the year ended December 31, 2006 compared to $1.63 for the same period in 2005.

General highlights for the year ended December 31, 2006 consisted of the following:

- In February 2006, the Bank substantially exited the payday loan business. For financial reporting purposes, the payday loan business segment was treated as a discontinued operation.

- Republic ended 2006 with total assets of $3.0 billion, an increase of $311 million, or 11%, over 2005.

- In October 2006, Republic acquired GulfStream with two banking centers headquartered in Port Richey, Florida. On the acquisition date, GulfStream, which began operations in 2000, had total assets of $64 million with net loans of $44 million and total deposits of $54 million. Consistent with the Company s branding initiative, the Company changed the name of GulfStream to Republic Bank in December 2006.

- Effective November 30, 2006, the Company merged Republic Bank & Trust Company of Indiana into RB&T.

- The Company opened two Northern Kentucky banking centers in 2006, representing the Company s initial entrance into the market.

- Net income from continuing operations decreased from 2005 to 2006 due primarily to a decline in Electronic Refund Check (ERC) and Electronic Refund Deposit (ERD) volume at TRS, a higher provision for loan losses within the traditional banking segment and higher overall non interest expenses across the Company.

- Total loans, primarily consisting of secured real estate loans, increased by $228 million, or 11%, for 2006. The growth in loans included $44 million in net loans acquired through the acquisition of GulfStream. The growth was primarily spread across the residential real estate, commercial real estate, real estate construction and commercial loan portfolios.

- Service charges on deposit accounts increased $2.7 million, or 19%, during 2006 compared to the same period in 2005. The increase was attributed to growth in the Company s checking account base and an increase in the Bank s overdraft fee in August of 2005 and again in September of 2006.

- ERC fees declined $2.0 million, or 33%, for 2006 compared to 2005 due primarily to the discontinuation of business with one large tax preparation software company. Because the substantial majority of the Company s tax business occurs during the first quarter of each year, the majority of the decline in ERC fees related to the first quarter of 2006.

- The Company experienced an increase in the provision for loan losses of $2.0 million for the year ended December 31, 2006 compared to the same period in the prior year. The increase was primarily in the traditional banking segment and principally related to growth in the loan portfolio during 2006 and to a large credit to the provision recorded during the second quarter of 2005 resulting from improvements in large classified loans.

- Non interest expenses increased $6.4 million, or 9%, during 2006. This increase was primarily attributable to increases in salaries and employee benefits and occupancy and equipment expense. Salaries and employee benefits rose due to annual salary increases, stock option compensation expense, higher health insurance expenses and an increase in FTE s. For the third and fourth quarters of 2006, the Company recorded total credits to incentive compensation accruals of $2.0 million compared to credits of $800,000 for the same periods in 2005. In addition, occupancy and equipment expense increased due to a one-time charge of $900,000 to reflect a change in the Company s lease accounting practices in 2006.

Tax Refund Solutions (TRS)

For 2007, TRS generated $6.0 million in net RAL fee revenue, compared to $5.2 million for the same period in 2006. TRS also earned $4.2 million and $4.1 million in net ERC/ERD revenue during 2007 and 2006. Net RAL securitization income increased $1.0 million, or 36%, to $3.8 million for 2007 compared to $2.8 million in 2006.

The total volume of tax return refunds processed during the 2007 tax season increased 19% over the 2006 tax season. RAL origination volume increased 29% during 2007 compared to the same period in 2006, while ERC/ERD volume increased 14% for the same period. The overall increase in volume was primarily achieved through successful sales efforts, combined with more aggressive rebate incentives paid on the Company s refund related products. As a percentage of total tax related revenues, RB&T s rebate incentives paid were 29.9% for 2007 compared to 28.6% for 2006.

While the total tax return volume for 2007 increased 19% over the same period in 2006, overall segment net income declined $1.9 million, or 40%, due primarily to higher losses in 2007 associated with RALs. During 2007, the Company provided $2.9 million through its provision for loan losses for losses on RALs retained on-balance sheet by the Company compared to $34,000 for 2006. Additionally, during 2007 and 2006 the Company recorded a net increase to the fair value of the residual interest of the securitization of $1.5 million and $749,000 for losses related to RALs sold into the securitization. The initial valuations for the estimated losses of the RALs sold into the securitization are reported as a reduction to the gain on sale, with subsequent changes reported as an increase or decrease in the residual value. The increase in losses associated with RALs was primarily due to higher confirmed fraud and from an increase in the amount of refunds held by the IRS for reasons such as audits and liens from prior taxpayer debts.

For 2006 and 2007, the Company implemented a RAL securitization to provide an alternative liquidity vehicle to supplement brokered deposits. In addition to providing a funding source, the purpose of the securitization was to reduce the impact to regulatory capital of the RAL portfolio, helping ensure the Company was able to maintain well-capitalized status. Approximately $347 million and $206 million in RALs were sold through the securitization during the first quarters of 2007 and 2006. RB&T used overnight borrowing lines to fund the RALs that were retained on-balance sheet. Accounting for the securitization caused comparability differences among some income and expense items when comparing income statement results for 2006 to results in 2005. The securitization had the effect of reclassifying the fee income earned and interest expense paid for securitized RALs into non interest income.

Table 2 Net RAL Securitization Income

Detail of Net RAL securitization income follows:

December 31, (in thousands)	2007	2006
Net gain on sale of RALs	**$ 2,261**	$ 2,022
Increase in securitization residual	**1,511**	749
Net RAL securitization income	**$ 3,772**	$ 2,771

On September 19, 2007, RB&T entered into a three year Program Agreement (Program Agreement) with Jackson Hewitt Inc. (JHI) and a three year Technology Services Agreement (Technology Agreement) with Jackson Hewitt Technology Services LLC (JHTSL) related to RB&T s RAL and ERC products. JHI and JHTSL are subsidiaries of Jackson Hewitt Tax Service Inc., which provides computerized preparation of federal, state and local individual income tax returns in the U.S. through a nationwide network of franchised and company-owned tax offices operating under the brand name Jackson Hewitt Tax Service®. RB&T s RAL and ERC products essentially comprise the products offered through the Company s TRS business segment.

Under the Program Agreement, JHI will process applications for TRS and under the Technology Agreement JHTSL will provide technology services to TRS as necessary to support the RAL and ERC products offered by TRS through selected Jackson Hewitt Tax Service offices. Significant terms of the agreements include:

- The Program and Technology Agreements are effective for TRS first quarter 2008 RAL and ERC tax season. TRS RAL and ERC products are substantially delivered during the first quarter of each year.

- The Program Agreement provides for TRS to be the exclusive provider of RAL and ERC products for a select group of Jackson Hewitt Tax Service offices. The Jackson Hewitt offices offering TRS products are subject to mutual agreement each year between TRS and Jackson Hewitt.

- The Program and Technology Agreements require RB&T to make minimum fixed annual payments to Jackson Hewitt with an additional variable payment schedule based on growth in the program.

- RB&T can terminate the agreements under specified circumstances.

The Company expects that the business generated from the above agreements is more likely than not to have a material positive impact on net income and earnings per share beginning with the first quarter of 2008. During 2007, the select Jackson Hewitt offices that will begin making TRS products available during 2008 produced approximately 70% of the total number of RAL and ERC products generated by TRS with others during 2007. In addition to the contracts signed with Jackson Hewitt, the Company also expects to increase its independent tax-preparer customer base significantly in 2008. Management believes that it is more likely than not that RB&T will process approximately three times the business in the TRS segment during the first quarter of 2008 as it did during the first quarter of 2007. The overall impact of the expected increase in volume to the Company s earnings for 2008 and beyond will depend upon many factors such as consumer demand for tax related products, consumer demand for Jackson Hewitt services, losses on RALs, overall product mix, and overhead cost to the Company.

See additional discussion about this product under the sections titled Item 1 Business, Item 1A Risk Factors and Footnote 5 Securitization and Footnote 24 Segment Information of Item 8 Financial Statements and Supplementary Data.

Discontinued Operations (Deferred Deposits or Payday Lending)

The Bank substantially exited the payday loan segment of business during February 2006. As a result, the Company s payday loan business has been treated as a discontinued operation and all current period and prior period data has been restated to reflect operations absent of the payday loan segment of business.

See additional discussion about this product under the sections titled Item 1 Business, and Footnote 2 Discontinued Operations and Footnote 24 Segment Information of Item 8 Financial Statements and Supplementary Data.

STAFF ACCOUNTING BULLETIN 108

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 108. SAB 108 provides guidance on quantifying and evaluating the materiality of unrecorded misstatements. SAB 108 requires that a company uses both the iron curtain and rollover approaches when quantifying misstatement amounts. Under the rollover approach, the error is quantified as the amount by which the current year income statement is misstated. The iron curtain approach, however, quantifies the error as the cumulative amount by which the current year balance sheet is misstated. The SEC Staff states that companies should quantify errors using both a balance sheet and an income statement approach and evaluate whether either of these approaches results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. Prior to the issuance of SAB 108, the Company evaluated misstatement amounts during each period using the rollover method only.

During 2006, the Company performed an analysis of its unrecorded misstatements using both the rollover and iron curtain approaches. Using the rollover method, as the Company has traditionally done, management concluded that none of its unrecorded misstatements were material to its current period or prior periods financial statements. Under the iron curtain method, however, management concluded that two of the Company s unrecorded misstatements were material to the 2006 financial statements, but using the rollover method were immaterial to its prior periods financial statements. These misstatements were related to the overaccrual of losses on RALs and the deferral of previously recorded title insurance commissions. The Company recorded a one-time entry of $547,000 to retained earnings on January 1, 2006 to correct the unrecorded misstatements on the balance sheet.

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 independent third party professionals and on various assumptions that are believed to be reasonable. Actual results may differ from those estimates made by management.

Critical accounting policies are those that management believes are the most important to the portrayal of the Company s financial condition and operating results and require management to make estimates that are difficult, subjective 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 independent third parties or available pricing, sensitivity of the estimates to changes in economic conditions and whether alternative methods of accounting may be utilized under 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 relate to:

- Allowance for loan losses
- Mortgage servicing rights
- RAL securitization and valuation of residual
- Income tax accounting
- Goodwill and other intangible assets

Allowance for Loan Losses Republic maintains an allowance for probable incurred credit losses inherent in the Company s loan portfolio, which includes overdrawn deposit accounts. Management evaluates the adequacy of the allowance for the loan losses on a monthly basis and presents and discusses the analysis with the Audit Committee and the Board of Directors on a quarterly basis. Management estimates the allowance required using past loan loss experience, the nature and size of the portfolio, 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 portfolios are more dependent upon ongoing 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 the loan type. Management evaluates the remaining loan portfolio by reviewing the historical loss rate for each respective loan type, assigning risk multiples to certain categories to account for qualitative factors including current economic conditions. Both an average five-year loss rate and a loss rate based on heavier weighting of the previous two years loss experience are reviewed in the analysis. Specialized loan categories are evaluated utilizing subjective factors in addition to the historical loss calculations 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 that may be necessary or prudent in order to reflect probable incurred losses in the total loan portfolio. As general conditions in the national real estate market declined throughout 2007 the Company modified several qualitative factors within its allowance for loan loss calculation, which contributed to an increase in the overall allowance for loan losses of approximately $1.1 million.

Based on management s calculation, an allowance of $12.7 million, or 0.53% of total loans was an adequate estimate of losses within the loan portfolio as of December 31, 2007. This estimate resulted in provision for loan losses on the income statement of $6.8 million during 2007. If the mix and amount of future charge off percentages differ significantly from those assumptions used by management in making its determination, an adjustment to the allowance for loan losses and the resulting effect on the income statement could be material.

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 in the income statement. Management considers all relevant factors, in addition to pricing considerations from other servicers, to estimate the fair value of the MSRs to be recorded when the loans are initially sold with servicing retained by the Company. The carrying value of MSRs is initially amortized in proportion to and over the estimated period of net servicing income and subsequently adjusted based on the weighted average remaining life. The amortization is recorded as a reduction to mortgage banking income. The MSR asset, net of amortization, recorded at December 31, 2007 was $6.7 million.

The carrying value of the MSRs asset is reviewed monthly for impairment based on the fair value of the MSRs, using groupings of the underlying loans by interest rates. Any impairment of a grouping would be reported as a valuation allowance. A primary factor influencing the fair value is the estimated life of the underlying loans serviced. The estimated life of the loans serviced is significantly influenced by market interest rates. During a period of declining interest rates, the fair value of the MSRs is expected to decline due to anticipated prepayments within the portfolio. Alternatively, during a period of rising interest rates, the fair value of MSRs is expected to increase as prepayments on the underlying loans would be anticipated to decline. Management utilizes an independent third party on a monthly basis to assist with the fair value estimate of the MSRs. Based on the estimated fair value at December 31, 2007 and 2006, management determined no impairment of these assets existed and no valuation allowance was necessary.

RAL Securitization and Valuation of Residual A securitization is a process by which an entity issues securities to investors, with the securities paying a return based on the cash flows from a pool of loans or other financial assets. The Company utilized a securitization structure to fund, over a four week period, a portion of the RALs originated during the first quarters of 2007 and 2006. The securitization consisted of a total of $347 million and $206 million of loans originated and sold during January and February of 2007 and 2006, respectively. The Company s continuing involvement in loans sold into the securitization was limited to only servicing of the loans. Compensation for servicing of the loans securitized was not contingent upon performance of the loans securitized.

As part of the securitization, the Company established a two step structure to handle the sale of the assets to third party investors. In the first step, a sale provided for TRS RAL Funding, LLC (TRS RAL, LLC), a qualified special purpose entity (QSPE) to purchase the assets from RB&T as Originator and Servicer. In the second step, a sale and administration agreement was entered into by and among TRS RAL, LLC and various other third parties with TRS RAL, LLC retaining a residual interest in an over-collateralization. There are no recourse obligations. The residual value related to the securitization, which is presented as a trading security on the balance sheet, was $0 at December 31, 2007 and 2006.

In the case where Republic transferred financial assets to the QSPE, a decision was made as to whether that transfer should be considered a sale. The Company concluded that the transaction was indeed a sale as defined in Statement of Financial Accounting Standards (SFAS) 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125.* This conclusion was based on, among other things, legal isolation of assets, the ability of the purchaser to pledge or sell the assets, and the absence of a right or obligation of the Company to repurchase the financial assets. By concluding the transfer was a sale, the Company reduced the negative impact of the RAL program on the Company s regulatory capital levels.

Residuals are created upon the issuance of private-label securitizations. Residuals represent the first loss position and are not typically rated by nationally recognized agencies. The value of residuals represents the future cash flows expected to be received by the Company from the excess cash flows created in the securitization transaction. In general, future cash flows are estimated by taking the coupon rate of the loans underlying the transaction, less the interest rate paid to the investors, less contractually specified fees, adjusted for the effect of estimated credit losses.

For a portion of the year, the Company retained a related residual value in the securitization and classified this as a trading asset. The initial residual interest has a weighted average life of approximately one month, and as such, substantially all of its cash flows are received by the end of the first quarter. The disposition of the remaining anticipated cash flows is expected to occur within the remainder of the year. At its initial valuation, and on a quarterly basis thereafter, the Company adjusts the carrying amount of the residual value to its fair value, which is determined based on its expected future cash flows and is significantly influenced by the anticipated credit losses of the underlying RALs.

Accounting for the valuation of retained interests in securitizations requires management s judgment since these assets are established and accounted for based on cash flow modeling techniques that require management to make estimates regarding the amount and timing of expected future cash flows, including assumptions regarding credit losses. Because the value of the assets is sensitive to changes in assumptions, the valuation of the residual is considered a critical accounting estimate.

See additional discussion about this product under the sections titled Item 1 Business, Item 1A Risk Factors and Footnote 5 Securitization and Footnote 24 Segment Information of Item 8 Financial Statements and Supplementary Data.

Income Tax Accounting Income tax liabilities or assets are established for the amount of taxes payable or refundable for the current year. Deferred tax liabilities and assets are also established for the future tax consequences of events that have been recognized in the Company s financial statements or tax returns. A deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and deductions that can be carried forward (used) in future years. The valuation of current and deferred tax liabilities and assets is considered critical as it requires management to make estimates based on provisions of the enacted tax laws. The assessment of tax assets and liabilities involves the use of estimates, assumptions, interpretations, and judgments concerning certain accounting pronouncements and federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, will not differ from management s current assessment, the impact of which could be significant to the consolidated results of operations and reported earnings. The Company believes its tax assets and liabilities are adequate and are properly recorded in the consolidated financial statements at December 31, 2007.

Goodwill and Other Intangible Assets When a company acquires a business, the purchased assets and liabilities are recorded at fair value. The fair value of most financial assets and liabilities are determined by estimating the discounted anticipated cash flows from or for the instrument using current market rates applicable to each category of instrument. Excess of consideration paid to acquire a business over the fair value of the net assets is recorded as goodwill. Errors in the estimation process of the fair value of acquired assets and liabilities will result in an overstatement or understatement of goodwill. This in turn will result in overstatement or understatement of income and expenses and, in the case of an overstatement of goodwill, could make the Company subject to an impairment charge when the overstatement is discovered in its annual assessment for impairment.

At a minimum, management is required to assess goodwill and other intangible assets annually for impairment. This assessment involves estimating cash flows for future periods, preparing analyses of market multiples for similar operations, and estimating the fair value of the reporting unit to which the goodwill is allocated. If the future cash flows were materially less than the estimates, the Company would be required to take a charge against earnings to write down the asset to the lower fair value. Based on its assessment, the Company believes its goodwill of $10.2 million and other identifiable intangibles of $420,000 are not impaired and are properly recorded in the consolidated financial statements as of December 31, 2007.

RESULTS OF OPERATIONS

Net Interest Income

The largest categorical 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 2007 vs. 2006

For 2007, net interest income was $94.5 million, an increase of $6.2 million, or 7%, over the same period in 2006. The Company experienced a $5.1 million, or 6%, increase in net interest income within the Banking segment, which was primarily related to growth in the traditional loan portfolio as detailed throughout this document. The Company also experienced a $994,000, or 18%, increase in net interest income within the TRS business segment as a result of the increased RAL volume in 2007 partially offset by the increase in expense related to the negative spread on brokered deposits it acquired. The Company s net interest spread declined 5 basis points to 2.57% for 2007 compared to 2006, while its net interest margin declined 5 basis points to 3.17% for the same period.

The decline in the net interest spread and margin for 2007 was the result of an increase in the Company s cost of funds without a similar corresponding increase in the Company s yield on interest-earning assets. More specifically, for the majority of the year, the Company continued to experience contraction in its spread and margin due to a flat and sometimes inverted interest rate yield curve in which short-term rates approximated long-term rates. The effect of a flat yield curve was magnified in Republic s financial statements because the Company s liabilities are more sensitive to interest rate movements than its assets. The Company also faced stern competition for deposit funds in its market areas, which continued to increase its incremental cost of deposits obtained. Alternatively, when the Company was unable to gather enough deposits in its geographical market areas to fund its asset growth, the Company obtained funding from higher cost borrowing sources such as brokered deposits and/or FHLB advances.

In September 2007, the Federal Open Markets Committee (FOMC) of the Federal Reserve Bank (FRB)lowered the Federal Funds Target rate by 50 basis points. This was followed up with two additional 25 basis point decreases in October and December ending the year at 4.25%. The Federal Funds Target rate is an index, which many of the Company s short-term deposit rates track. Because the Company s interest bearing liabilities continue to be more sensitive to interest rate movements than its assets, the decreases in the Federal Funds Target rate significantly benefited the Company s net interest income and net interest margin during the fourth quarter of 2007. Management believes that further rate reductions of the Federal Funds Target rate, such as the 125 basis point drop in January, 2008, by the FOMC will continue to benefit the Company s net interest income and net interest margin in the short-term. Management is unable to precisely determine the ultimate impact to the Company s net interest spread and margin in the future resulting from FOMC rate cuts because of factors such as consumer demand for the Company s products and overall need for liquidity, among many others.

Discussion of 2006 vs. 2005

For 2006, net interest income was $88.3 million, an increase of $2.7 million, or 3%, over 2005. The Company experienced a $5.9 million, or 8%, increase in net interest income within the Banking segment which was primarily related to growth in the traditional loan portfolio, particularly within the residential real estate portfolio. Total traditional Bank loans increased $235 million from December 31, 2005 to December 31, 2006. The Company experienced a $3.1 million, or 36%, decline in net interest income within the TRS business segment as a result of the RAL securitization, which effectively caused $2.8 million in net RAL fees to be classified in non interest income as these related to securitized RALs.

The Company s net interest spread declined 32 basis points to 2.62% for the year ended December 31, 2006 compared to the same period in 2005, while the Company s net interest margin declined 20 basis points to 3.22% for the same period. Approximately 15 basis points of the decline resulted from the securitization of a portion of the RAL portfolio. The remainder of the decline in net interest margin and net interest spread was the result of an increase in the Company s cost of funds without a similar corresponding increase in the Company s yield on interest-earning assets. More specifically, spread and margin contraction occurred because much of the Company s funding is/was derived from large commercial treasury management accounts that are tied to immediately repricing indices, while the majority of the Company s interest-earning assets are real estate secured loans that reprice over a longer period.

For additional information on the past effect of rising short-term interest rates on Republic s net interest income, see Table 4 Volume/Rate Variance Analysis in this section of the document. For additional information on the potential future effect of rising short-term interest rates on Republic s net interest income, see Table 23 Interest Rate Sensitivity in this section of the document. For additional discussion regarding the securitization, see the section titled Tax Refund Solutions in this section of the document and Footnote 5 Securitization of Item 8 Financial Statements and Supplementary Data.

Table 3 provides detailed information as to average balances, interest income/expense and average rates by major balance sheet category for 2007, 2006 and 2005. Table 4 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 3 Average Balance Sheets and Interest Rates for Years Ended December 31,

(dollars in thousands)	2007 Average Balance	2007 Interest	2007 Average Rate	2006 Average Balance	2006 Interest	2006 Average Rate	2005 Average Balance	2005 Interest	2005 Average Rate
ASSETS									
Earning assets:									
Taxable securities*(1)*	**$ 607,406**	**$ 31,636**	**5.21%**	$ 522,321	$ 24,755	4.74%	$ 537,500	$ 19,578	3.64%
Tax exempt securities*(4)*	**1,783**	**103**	**8.89**	1,842	96	8.02			
Federal funds sold and other	**7,437**	**416**	**5.59**	29,234	752	2.57	49,700	1,472	2.96
Loans and fees*(2)(3)*	**2,359,617**	**166,942**	**7.07**	2,192,395	150,937	6.88	1,919,269	127,029	6.62
Total earning assets	**2,976,243**	**199,097**	**6.69**	2,745,792	176,540	6.43	2,506,469	148,079	5.91
Less: Allowance for loan losses	**(11,885)**			(11,219)			(11,864)		
Non-earning assets:									
Cash and cash equivalents	**54,936**			45,906			56,278		
Premises and equipment, net	**37,052**			33,422			32,520		
Other assets*(1)*	**35,587**			40,996			31,639		
Total assets	**$ 3,091,933**			$ 2,854,897			$ 2,615,042		
LIABILITIES AND STOCKHOLDERS EQUITY									
Interest-bearing liabilities:									
Transaction accounts	**$ 222,501**	**$ 1,597**	**0.72%**	$ 253,798	$ 2,103	0.83%	$ 320,506	$ 3,166	0.99%
Money market accounts	**597,832**	**24,539**	**4.10**	424,431	16,024	3.78	316,938	7,669	2.42
Time deposits	**476,906**	**21,262**	**4.46**	478,837	18,751	3.92	483,403	16,612	3.44
Brokered deposits	**144,144**	**7,304**	**5.07**	166,930	7,396	4.43	124,470	4,256	3.42
Total deposits	**1,441,383**	**54,702**	**3.80**	1,323,996	44,274	3.34	1,245,317	31,703	2.55
Repurchase agreements and other short-term borrowings	**433,809**	**19,079**	**4.40**	374,937	15,889	4.24	359,327	9,906	2.76
Federal Home Loan Bank advances	**623,050**	**28,323**	**4.55**	575,523	25,564	4.44	480,157	19,872	4.14
Subordinated note	**41,240**	**2,515**	**6.10**	41,240	2,515	6.10	15,592	951	6.10
Total interest-bearing liabilities	**2,539,482**	**104,619**	**4.12**	2,315,696	88,242	3.81	2,100,393	62,432	2.97
Non interest-bearing liabilities and stockholders equity:									
Non interest-bearing deposits	**281,926**			285,877			290,968		
Other liabilities	**27,558**			28,150			22,404		
Stockholders equity	**242,967**			225,699			211,712		
Less: Stockholders equity allocated to discontinued Operations				(525)			(10,435)		
Total liabilities and stockholders equity	**$ 3,091,933**			$ 2,854,897			$ 2,615,042		
Net interest income		**$ 94,478**			$ 88,298			$ 85,647	
Net interest spread			**2.57%**			2.62%			2.94%

Net interest margin	**3.17%**	3.22%	3.42%

(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 loan fee income included in total interest income was $10.3 million, $8.8 million and $11.8 million for the years ended December 31, 2007, 2006 and 2005.*

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

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

Table 4 illustrates the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities impacted Republic s interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume) and (iii) net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

Table 4 Volume/Rate Variance Analysis

	Year Ended December 31, 2007 Compared to Year Ended December 31, 2006			Year Ended December 31, 2006 Compared to Year Ended December 31, 2005		
		Increase/(Decrease) Due to			Increase/(Decrease) Due to	
(in thousands)	**Total Net Change**	**Volume**	**Rate**	**Total Net Change**	**Volume**	**Rate**
Interest income:						
Taxable securities	**$ 6,881**	**$ 4,281**	**$ 2,600**	$ 5,177	$ (567)	$ 5,744
Tax exempt securities	**7**	**(3)**	**10**	96	96	
Federal funds sold and other	**(336)**	**(816)**	**480**	(720)	(546)	(174)
Loans and fees	**16,005**	**10,883**	**5,122**	23,908	19,716	4,192
Net change in interest income	**22,557**	**14,345**	**8,212**	28,461	18,699	9,762
Interest expense:						
Transaction accounts	**(506)**	**(243)**	**(263)**	(1,063)	(599)	(464)
Money market accounts	**8,515**	**7,017**	**1,498**	8,355	3,151	5,204
Time deposits	**2,511**	**(76)**	**2,587**	2,139	(158)	2,297
Brokered deposits	**(92)**	**(1,080)**	**988**	3,140	1,682	1,458
Repurchase agreements and other short-term borrowings	**3,190**	**2,571**	**619**	5,983	448	5,535
Federal Home Loan Bank advances	**2,759**	**2,150**	**609**	5,692	4,158	1,534
Subordinated note				1,564	1,564	
Net change in interest expense	**16,377**	**10,339**	**6,038**	25,810	10,246	15,564
Net change in net interest income	**$ 6,180**	**$ 4,006**	**$ 2,174**	$ 2,651	$ 8,453	$ (5,802)

Non Interest Income

Table 5 Analysis of Non Interest Income

Year Ended December 31, (dollars in thousands)	2007	2006	2005	Percent Increase/(Decrease) 2007/2006	2006/2005
Service charges on deposit accounts	**$ 18,577**	$ 16,505	$ 13,851	**13%**	19%
Electronic refund check fees	**4,189**	4,102	6,083	**2**	(33)
Net RAL securitization income	**3,772**	2,771		**36**	100
Mortgage banking income	**2,973**	2,316	2,751	**28**	(16)
Debit card interchange fee income	**4,387**	3,644	3,122	**20**	17
Title insurance commissions	**296**	762	1,756	**(61)**	(57)
Gain on sale of securities	**8**	300		**(97)**	100
Insurance settlement gain	**1,877**			**100**	
Other	**1,713**	1,300	1,244	**32**	5
Total non interest income	**$ 37,792**	$ 31,700	$ 28,807	**19**	10

Discussion of 2007 vs. 2006

Service charges on deposit accounts increased $2.1 million, or 13%, during 2007 compared to the same period in 2006. The increase was primarily due to growth in the Company s checking account base in conjunction with growth in the Bank s Overdraft Honor program, which permits selected customers to overdraft their accounts up to a predetermined dollar amount (up to a maximum of $1,000) for the Bank s customary overdraft fee. In addition to growth in the Bank s Overdraft Honor program, the Company also increased its overdraft fee by 7% in September of 2006. Included in service charges on deposits are net per item overdraft/NSF fees of $13.7 million and $12.1 million for 2007 and 2006, respectively.

Net RAL securitization income increased $1.0 million, or 36%, during 2007 compared to the same period in 2006 primarily due to the increase in the volume of loans sold into the RAL securitization. The volume of RALs securitized rose year over year due to an increase in overall originations of RALs combined with more favorable underwriting criteria within the securitization structure, which allowed the Company to securitize a higher percentage of RALs than the previous year.

Detail of Net RAL securitization income follows:

December 31, (in thousands)	2007	2006
Net gain on sale of RALs	**$ 2,261**	$ 2,022
Increase in securitization residual	**1,511**	749
Net RAL securitization income	**$ 3,772**	$ 2,771

Mortgage banking income increased $657,000, or 28%, during 2007 compared to 2006. The increase was due primarily to a $602,000, or 38%, increase in net gain on sale of loans. The increase in net gain resulted primarily from pricing strategies employed by the Company on its portfolio Adjustable Rate Mortgage (ARM) product offerings, which effectively shifted consumer demand to 15- and 30-year fixed rate products that are sold into the secondary market. The Company employed these pricing strategies due to a flat and sometimes inverted yield curve, which increased the Company s funding costs and made it less attractive to retain such loans on balance sheet. As a percentage of loans sold, net gains on sale of loans increased to 1.00% in 2007 compared to 0.81% in 2006. The increase resulted primarily from more favorable pricing strategies employed by the Company.

Debit card interchange revenue increased $743,000, or 20%, consistent with the overall growth in customer base and transaction volume. The increase in debit card interchange income was substantially offset by a $600,000 increase in interchange non interest expenses.

During the fourth quarter of 2007, the Company sold one U.S. Treasury Bill security resulting in a gain of $8,000. During the fourth quarter of 2006, the Company sold a portion of the available for sale Freddie Mac (FHLMC) preferred stock totaling $5 million, realizing a gain on sale of securities of $300,000. There were no securities available for sale sold during 2005.

The Company recorded a non recurring insurance settlement gain of $1.9 million in 2007 related to the final settlement of insurance proceeds in connection with the Company s corporate center fire which occurred in late 2006. The gain represented the difference between the total cash received from the Company s insurance provider and the net book value of the fixed assets destroyed as a result of the fire.

Discussion of 2006 vs. 2005

Service charges on deposit accounts increased $2.7 million, or 19%, during 2006 compared to 2005. The increase was primarily due to growth in the Company s checking account base in conjunction with the Bank s Overdraft Honor program, which permits selected customers to overdraft their accounts up to a predetermined dollar amount for the Bank s customary overdraft fee. The Company also increased its overdraft fee by 7% in August of 2005 and again by a similar amount in September of 2006. Included in service charges on deposits were per item overdraft fees of $12.1 million and $9.9 million for years ended December 31, 2006 and 2005.

Electronic Refund Check (ERC) fees decreased $2.0 million, or 33%, to $4.1 million during the year ended December 31, 2006 compared to the same period in 2005. This decrease was due to a 27% decline in ERC/ERD volume from the prior year resulting primarily from the discontinuation of a business relationship with one large integrated software partner.

Net RAL securitization income was $2.8 million for the year ended December 31, 2006, as the Company completed its first securitization of a portion of the RAL portfolio during the first quarter of the year.

Mortgage banking income decreased $435,000 during 2006 due primarily to a $682,000 decline in net gain on sale of loans which was partially offset by a $247,000 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 2005 resulting primarily from an increase in longer-term interest rates. As a percentage of loans sold, net gains decreased to 0.81% in 2006 compared to 0.92% in 2005. The decrease in net gain on sale of loans as a percentage of loans sold resulted primarily from competitive pricing pressures and costs absorbed by the Company in connection with its fixed closing costs product that ranged from $299 to $599.

Title insurance commissions declined $994,000, or 57%, during 2006 due primarily to an accounting change in accordance with SFAS 91, corrected in prior year financial statements through SAB 108. See the section titled *Staff Accounting Bulletin 108* in this section of the document and Footnote 1 *Summary of Significant Accounting Principles* of Item 8 *Financial Statements and Supplementary Data* for additional information.

Non Interest Expenses

Table 6 Analysis of Non Interest Expenses

Percent Increase/(Decrease)

Year Ended December 31, (dollars in thousands)	2007	2006	2005	2007/2006	2006/2005
Salaries and employee benefits	**$ 44,162**	$ 40,412	$ 36,731	**9%**	10%
Occupancy and equipment, net	**17,904**	15,541	13,654	**15**	14
Communication and transportation	**3,785**	2,750	3,000	**38**	(8)
Marketing and development	**3,287**	2,459	2,489	**34**	(1)
Bank franchise tax expense	**2,552**	1,902	1,822	**34**	4
Data processing	**2,675**	2,171	1,871	**23**	16
Debit card interchange	**2,263**	1,663	1,357	**36**	23
Supplies	**1,749**	1,271	1,133	**38**	12
Other	**8,879**	6,693	6,455	**33**	4
Total non interest expenses	**$ 87,256**	$ 74,862	$ 68,512	**17**	9

Discussion of 2007 vs. 2006

Salaries and employee benefits increased $3.8 million, or 9%, during 2007 compared to 2006. This increase was primarily attributable to an increase in the Company s employee base combined with annual salary increases and higher costs associated with the Company s health insurance. End of period FTE s increased from 698 at December 31, 2006 to 727 at December 31, 2007, as the Company added to staff in both sales and support functions as a result of new banking center locations and expectations for future growth in the traditional Banking segment, as well as TRS. In addition, the Company experienced a full year s effect in 2007 of the 20 FTE increase in Florida resulting from the GulfStream acquisition in October 2006.

Occupancy and equipment expense increased $2.4 million, or 15%, during 2007 compared to the same period in 2006. The increases in occupancy and equipment were primarily associated with growth in the Company s infrastructure and banking center network, as well as increased leasing costs and service agreements for the Company s core technology, telecommunications and operating systems.

Communication and transportation increased $1.0 million, or 38%, during 2007 compared to 2006 primarily due to enhancements to the Company s telecommunication carrier networks, as well as banking center expansion. The Company also experienced increased freight and postage primarily due to TRS. The majority of the increase was incurred during the fourth quarter in preparation for the upcoming tax refund processing season.

Marketing and development increased $828,000, or 34%, during 2007 compared to 2006. Approximately one half of this increase was related to the Company s new Debit Card Rewards program, which allows debit card users to earn points that can be used toward the purchase consumer goods.

Bank franchise tax expense increased $650,000, or 34%, consistent with the overall growth in the Company s taxable deposit and capital bases.

Data processing expense increased $504,000, or 23%, during 2007 compared to 2006. Approximately $250,000 of this increase resulted from the Company s new business on-line banking system. Approximately $100,000 of this increase was related to an increase in the number of users utilizing the Company s retail internet delivery and consumer on-line bill payment systems.

Debit card interchange expense increased $600,000, or 36%, during 2007 compared to 2006. The increase in expense resulted from growth in the number of debit card transactions processed by the Company.

Other expense increased $2.2 million, or 33%, during 2007 compared to the same period in 2006 primarily due to the following items:

- Travel increased approximately $234,000, primarily related to TRS and new locations in Florida.

- Legal expense increased approximately $845,000, primarily related to the settlement of a previously disclosed lawsuit.

- Third party audit and professional fees increased approximately $182,000, primarily due to routine services associated with TRS. Included in these services was an annual review of the RAL underwriting by a third party consultant and routine annual audits of tax preparation offices nationwide.

- Fraud losses increased approximately $383,000, resulting primarily from two customer identity thefts.

- Core deposit amortization increased approximately $106,000, resulting from the acquisition of GulfStream in October 2006.

- Reimbursement of foreign ATM fees increased approximately $369,000, primarily related to growth in the Company s new promotional demand deposit accounts which offer unlimited free foreign ATM transactions.

Discussion of 2006 vs. 2005

Salaries and employee benefits increased $3.7 million, or 10%, from 2005 to 2006. The increase was primarily attributable to annual salary increases, stock option compensation expense and higher costs associated with the Company s health insurance. In addition, end of period FTE s increased from 678 at December 31, 2005 to 698 at December 31, 2006. The increase in salaries and employee benefits was moderated by $1.1 million and $800,000 in credits to incentive compensation accruals posted during the fourth quarters of 2006 and 2005. The Company recorded stock option expense of $844,000 during the year ended December 31, 2006 related to the prospective adoption of SFAS 123R on January 1, 2006.

Occupancy and equipment expense increased $1.9 million, or 14%, during 2006 compared to 2005. Approximately $900,000 of the increase was due to a one-time charge related to a change in the Company s lease accounting practices. The remaining increase was attributable to increased rent and leasehold improvements for the Company s operations areas, as well as increased leasing costs and service agreements for the Company s technology and operating systems.

FINANCIAL CONDITION

Investment Securities

Table 7 Investment Securities Portfolio

December 31, (in thousands)	2007	2006	2005
Securities available for sale (fair value):			
U.S. Treasury securities and U.S Government agencies	**$ 160,275**	$ 286,272	$ 330,294
Freddie Mac preferred stock	**1,541**	2,064	
Corporate mortgage backed securities and other corporate mortgage-related securities	**32,475**	45,210	20,000
Mortgage backed securities, including CMOs	**334,459**	170,181	97,571
Total securities available for sale	**528,750**	503,727	447,865
Securities to be held to maturity (carrying value):			
U.S. Treasury securities and U.S Government agencies	**4,672**	8,586	12,110
Obligations of states and political subdivisions	**383**	383	
Mortgage backed securities, including CMOs	**46,831**	49,076	52,188
Total securities to be held to maturity	**51,886**	58,045	64,298
Total investment securities	**$ 580,636**	$ 561,772	$ 512,163

Securities available for sale primarily consists of U.S. Treasury and U.S. Government Agency obligations, including agency mortgage backed securities (MBSs), agency collateralized mortgage obligations (CMOs), corporate mortgage backed and other corporate mortgage-related securities and FHLMC preferred stock. The agency MBSs primarily consist of hybrid mortgage securities, as well as other adjustable rate mortgage securities, underwritten and guaranteed by Ginnie Mae (GNMA), FHLMC and Fannie Mae (FNMA). Agency 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) and to mitigate its risk position from rising interest rates.

Strategies for the securities portfolio may also be influenced by economic and market conditions, loan demand, deposit mix and liquidity needs.

Nationally, residential real estate values have declined. These declines in value, coupled with the reduced ability of homeowners to refinance or repay their residential real estate obligations, have led to elevated delinquencies and losses in residential real estate loans. Many of these loans have previously been securitized and sold to investors as corporate mortgage backed or other corporate mortgage-related securities. The Company owns $35 million in corporate mortgage backed and other corporate mortgage-related securities. These securities are not guaranteed by government agencies. Approximately $24 million of these securities are rated AAA by Standard & Poor s (S&P) and are backed by Alternative A first lien mortgage loans. The remaining $11 million are asset backed securities with an insurance wrap or guarantee. These asset backed securities are AA rated by S&P. Due to current market conditions, all of these assets are extremely illiquid, and as such, the market value is unable to be reasonably estimated due to the volatility in the mortgage industry. The average life of these securities is currently estimated to be approximately five years. At this time, management intends to hold these securities until maturity and does not believe the Company will incur any loss of principal. Further deterioration in the real estate markets and/or deterioration in the financial condition of the insurance company providing the wrap could produce a loss of principal in the future. As of the date of this filing, none of these securities have been downgraded by the applicable rating agency.

Approximately $380 million of the Company s agency mortgage related MBS investment portfolio and $165 million of the Company s agency portfolio represents securities guaranteed by government agencies such as FHLMC and have first lien 1-4 family home mortgage loans as their underlying collateral. Approximately $259 million of these securities were purchased at a market premium above par. The current unamortized premium of these securities was $1.4 million at December 31, 2007. While the Company believes the overall risk of principal loss within this portfolio is minimal due to the agency guarantees, these securities are subject to substantial prepayment risk in a declining interest rate environment because the underlying loans are subject to refinancing. Prepayments in excess of those projected when the securities were originally purchased could cause the final yield received by the Company to be substantially lower due to the acceleration of previous amortization. In addition, the cash received from these prepaying securities would likely be reinvested into lower yielding investment products, further reducing the Company s profitability on its securities portfolio. Management projects various prepayment scenarios in the many interest sensitivity analyses it performs. At this time, however, management is unable to precisely estimate the amount of prepayment activity the Company will experience within its investment portfolio in the short-term. *For additional information on the potential future effect of changing short-term interest rates on Republic s net interest income, see Table 23 Interest Rate Sensitivity in this section of the document.*

Detail of Mortgage Backed Securities at December 31, 2007 was as follows

Table 8 Mortgage Backed Securities

December 31, 2007 (in thousands)		**Amortized Cost**		**Fair Value**
Agency mortgage backed securities	**$**	**322,488**	**$**	**324,446**
Corporate mortgage backed and other corporate mortgage-related securities		**34,644**		**32,475**
Agency collateralized mortgage obligations		**56,646**		**57,720**
Total mortgage backed securities	**$**	**413,778**	**$**	**414,641**

In addition, the Company holds agency structured notes in the investment portfolio which consist of step up bonds. These investments are predominantly classified as available for sale. The amortized cost and fair value of structured notes is as follows:

December 31, (in thousands)		**2007**		**2006**
Amortized cost	**$**	**8,172**	$	70,784
Fair value		**8,217**		70,529

During 2007, Republic purchased $3.71 billion in available for sale securities and had maturities and calls of $3.66 billion. A substantial majority of the securities purchased were agency discount notes, which the Company utilized primarily for collateral purposes. The weighted average yield on these discount notes was 4.98% with an average term of 11 days.

Table 9 Securities Available for Sale

December 31, 2007 (in thousands)	Amortized Cost	Fair Value	Weighted Average Yield	Average Maturity in Years
U.S. Treasury securities and U.S. Government agencies:				
Due in one year or less	$ 95,833	$ 95,777	4.44%	0.41
Due from one to five years	59,278	59,986	5.19	1.61
Due from five to ten years	4,413	4,512	5.53	3.88
Total U.S. Treasury securities and U.S. Government agencies	159,524	160,275	4.75	0.95
Total Freddie Mac preferred stock	2,000	1,541	5.73	22.76
Total corporate mortgage backed and other corporate mortgage-related securities	34,644	32,475	6.00	1.76
Total mortgage backed securities, including CMOs*	332,303	334,459	5.39	14.87
Total securities available for sale	$ 528,471	$ 528,750	5.24	9.84

Table 10 Securities to be Held to Maturity

December 31, 2007 (in thousands)	Carrying Value	Fair Value	Weighted Average Yield	Average Maturity in Years
U.S. Treasury securities and U.S. Government agencies:				
Due from one to five years	$ 4,672	$ 4,679	3.89%	1.30
Obligations of states and political subdivisions:				
Due from five to ten years	383	408	6.00	5.50
Total mortgage backed securities, including CMOs*	46,831	47,707	6.00	15.30
Total securities to be held to maturity	$ 51,886	$ 52,794	5.81	13.96

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

Loan Portfolio

Net loans, primarily consisting of secured real estate loans, increased by $97 million during 2007 to $2.4 billion at December 31, 2007. Overall growth in the portfolio for Republic during 2007 was less than historical experience and resulted primarily from two factors. In the residential real estate category, the Company retained 5-year ARM loans in its portfolio while it historically sold its 15-, 20- and 30-year fixed rate loans into the secondary market. Due to the flat and sometimes inverted yield curve, the Company maintained a higher spread on its 5-year ARM product offerings during 2007 compared to its 30-year fixed rate product. As a result, Republic experienced a decrease in its production of portfolio ARM products and a corresponding increase in production of its fixed rate secondary market products. Secondly, the Company experienced slower growth in the commercial real estate category due primarily to an above historical average amount of payoffs during 2007.

At December 31, 2007, commercial real estate loans comprised 27% of the total gross loan portfolio and were 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 $6 million, or 1%, from December 31, 2006.

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 2007 and 2006. The promotional closing costs were increased to $599 in December 2007. Overall, residential real estate loans decreased $5 million, or less than 1%, from December 31, 2006.

The majority of the Company s growth within its loan portfolio during 2007 occurred in the real estate construction, commercial loan and home equity categories. Overall, real estate construction loans increased $58 million, commercial loans increased $24 million, and home equity loans increased $22 million. Substantially all of these loans are immediately repricing and float with an index such as the Prime or LIBOR rates. Despite the likelihood of a declining interest rate environment in the short-term, origination of immediately repricing loans remains a primary focus of management due to the Company s negative sensitivity to rising interest rates. Management s current intent is to substantially increase over the next five years the percentage of loans on its balance sheet that immediately reprice in a changing interest rate environment.

Table 11 Loan Portfolio Composition

December 31, (in thousands)	2007	2006	2005	2004	2003
Residential real estate	**$ 1,168,591**	$ 1,173,813	$ 1,056,175	$ 851,736	$ 762,000
Commercial real estate	**658,987**	652,773	575,922	495,827	442,083
Real estate construction	**163,700**	105,318	84,850	70,220	70,897
Commercial	**90,741**	66,559	46,562	36,807	34,553
Consumer	**33,310**	40,408	34,677	31,022	29,462
Overdrafts	**1,238**	1,377	852	1,344	988
Deferred deposits (Payday loans), Discontinued Operations			5,779	35,631	27,584
Home equity	**280,506**	258,640	265,895	267,231	215,088
Total loans	**$ 2,397,073**	$ 2,298,888	$ 2,070,712	$ 1,789,818	$ 1,582,655

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

Table 12 Selected Loan Distribution

December 31, 2007 (in thousands)	Total	One Year Or Less	Over One Through Five Years	Over Five Years
Fixed rate maturities:				
Real estate:				
Residential	**$ 406,125**	**$ 60,354**	**$ 205,037**	**$ 140,734**
Commercial	**126,180**	**34,947**	**63,377**	**27,856**
Construction	**51,183**	**41,140**	**10,033**	**10**
Commercial	**40,120**	**12,185**	**22,880**	**5,055**

Consumer, including overdrafts	**28,331**	**13,265**	**4,919**	**10,147**
Home equity	**4,817**	**2,836**	**250**	**1,731**
Total fixed	**$ 656,756**	**$ 164,727**	**$ 306,496**	**$ 185,533**
Variable rate repricing:				
Real estate:				
Residential	**$ 762,466**	**$ 324,627**	**$ 424,579**	**$ 13,260**
Commercial	**532,807**	**297,136**	**235,529**	**142**
Construction	**112,517**	**105,277**	**3,342**	**3,898**
Commercial	**50,621**	**50,452**		**169**
Consumer	**6,217**	**6,217**		
Home equity	**275,689**	**275,689**		
Total variable	**$ 1,740,317**	**$ 1,059,398**	**$ 663,450**	**$ 17,469**

Allowance for Loan Losses and Provision for Loan Losses

The allowance for loan losses as a percent of total loans increased slightly to 0.53% at December 31, 2007 compared to 0.49% at December 31, 2006. In general, the increase in the allowance for loan losses as a percentage of total loans was primarily attributable to reserves required for growth in the loan portfolio and an adjustment of $1.1 million related to the modification of several qualitative factors within the allowance calculation as a result of generally deteriorating real estate market conditions. Management believes, based on information presently available, that it has adequately provided for loan losses at December 31, 2007.

For discussion of Republic s methodology for determining the adequacy of the allowance for loan losses, see the section titled Critical Accounting Policies and Estimates in this section of the document.

Discussion of loan loss provision in 2007 vs. 2006

The Company recorded a provision for loan losses of $6.8 million for 2007 compared to a provision of $2.3 million for the same period in 2006. Included in the provision for loan losses in 2007 and 2006 were $2.9 million and $34,000 for losses associated with RALs. The increase in anticipated losses associated with RALs was primarily due to higher confirmed fraud losses and from an increase in the amount of refunds held by the IRS for reasons such as audits and liens from prior debts. The Banking segment provision for loan losses increased to $3.9 million for 2007 compared to $2.3 million for 2006 due to growth in loans, as well as an increase in classified loans and delinquencies. In addition, as general real estate market conditions declined throughout 2007 the Company modified several qualitative factors within its allowance for loan loss calculation, which contributed to an increase in the overall allowance for loan losses of approximately $1.1 million.

Discussion of loan loss provision in 2006 vs. 2005

The Company experienced an increase in the provision for loan losses of $2.0 million for the year ended December 31, 2006 compared to the same period in the prior year. The traditional banking segment increased $2.9 million primarily due to growth in the loan portfolio during 2006 and a large credit recorded to the provision during the second quarter of 2005 associated with improvements in a few large classified loans.

Also included in the provision for loan losses for the year ended December 31, 2006 was a $855,000 reduction in losses associated with RALs retained by the Company. The decrease in the provision associated with RALs during 2006 resulted primarily from the securitization of a portion of the RAL portfolio during the first quarter of 2006.

See additional discussion regarding TRS under the following: Item 1A Risk Factors, under the sections titled Results of Operations and Critical Accounting Policies and Estimates in this section of the document and Results of Operations and Footnote 5 Securitization and Footnote 24 Segment Information of Item 8 Financial Statements and Supplementary Data.

Table 13 Summary of Loan Loss Experience

Year Ended December 31, (dollars in thousands)	2007	2006	2005	2004	2003
Allowance for loan losses at beginning of year	**$ 11,218**	$ 11,009	$ 13,554	$ 13,959	$ 10,148
Addition resulting from the acquisition of GulfStream		387			
Charge offs:					
Real estate:					
Residential	**(553)**	(601)	(448)	(444)	(670)
Commercial	**(493)**	(270)	(162)	(177)	(1,223)
Construction	**(158)**	(72)	(84)		(135)
Commercial	**(132)**	(215)		(22)	(50)
Consumer	**(1,531)**	(1,117)	(697)	(868)	(994)
Home equity	**(397)**	(264)	(91)	(177)	(155)
Tax Refund Solutions	**(4,246)**	(1,358)	(2,213)	(3,404)	(2,300)
Discontinued operations		(409)	(212)		
Total	**(7,510)**	(4,306)	(3,907)	(5,092)	(5,527)
Recoveries:					
Real estate:					
Residential	**102**	138	176	151	448
Commercial	**213**	65	87	284	1,074
Construction	**1**	86	34	35	300
Commercial	**59**	13	32	43	100
Consumer	**446**	425	289	348	366
Home equity	**37**	49	35	56	26
Tax Refund Solutions	**1,349**	1,323	1,257	2,022	450
Discontinued operations		82	14		
Total	**2,207**	2,181	1,924	2,939	2,764
Net loan charge offs / recoveries	**(5,303)**	(2,125)	(1,983)	(2,153)	(2,763)
Provision for loan losses from continuing operations	**6,820**	2,302	340	1,346	6,095
Provision for loan losses from discontinued operations		(355)	(902)	402	479
Allowance for loan losses at end of year	**$ 12,735**	$ 11,218	$ 11,009	$ 13,554	$ 13,959
Ratios:					
Allowance for loan losses to total loans	**0.53%**	0.49%	0.53%	0.76%	0.88%
Allowance for loan losses to non-performing loans	**132**	175	183	221	108
Allowance for loan losses to non-performing assets	**122**	162	170	200	108

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 or future allowance allocation.

Table 14 Management s Allocation of the Allowance for Loan Losses

	2007		2006		2005		2004		2003	
December 31, (dollars in thousands)	**Allowance**	**Percent of Loans to Total Loans**	**Allowance**	**Percent of Loans to Total Loans**	**Allowance**	**Percent of Loans to Total Loans**	**Allowance**	**Percent of Loans to Total Loans**	**Allowance**	**Percent of Loans to Total Loans**
Residential real estate	**$ 1,333**	**49%**	$ 1,138	51%	$ 793	51%	$ 761	48%	$ 1,009	48%
Commercial real estate	**7,417**	**27**	7,105	28	7,086	28	8,100	28	7,804	28
Real estate construction	**278**	**7**	204	5	101	4	58	4	551	4
Commercial	**993**	**4**	241	3	163	2	107	2	237	2
Consumer	**378**	**1**	377	2	761	2	2,422	4	2,104	4
Home equity	**371**	**12**	188	11	186	13	187	14	131	14
Unallocated	**1,965**		1,965		1,919		1,919		2,123	
Total	**$ 12,735**	**100%**	$ 11,218	100%	$ 11,009	100%	$ 13,554	100%	$ 13,959	100%

Asset Quality

The Company maintains a watch list of commercial loans and reviews those loans on a regular basis. Generally, assets are designated as watch list loans to ensure more frequent monitoring. The assets are reviewed to ensure proper earning status and management strategy. If it is determined that there is serious doubt as to performance in accordance with original terms of the contract, then the loan is placed on non accrual.

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

Consumer loans, exclusive of RALs, are not placed on non-accrual status but are reviewed periodically and charged off when the loans reach 120 days past due or at any point the loan is deemed uncollectible. RALs traditionally undergo a review in March of each year and those deemed uncollectible are charged off against the allowance for loan losses.

Total non-performing loans to total loans increased to 0.40% at December 31, 2007, from 0.28% at December 31, 2006, while the total balance of non-performing loans increased by $3.2 million for the same period. The increase was substantially concentrated within the commercial real estate category. Republic is generally well secured on its real estate loans and management does not anticipate a substantial increase in losses resulting from the current rise in the level of non-performing loans at this time.

Table 15 Non-performing Loans and Non-performing Assets

As of December 31, (dollars in thousands)	2007	2006	2005	2004	2003
Loans on non-accrual status*(1)*	**$ 8,303**	$ 5,980	$ 5,725	$ 5,763	$ 12,466
Loans past due 90 days or more and still on accrual	**1,318**	413	295	371	473
Total non-performing loans	**9,621**	6,393	6,020	6,134	12,939
Other real estate owned	**795**	547	452	657	
Total non-performing assets	**$ 10,416**				