

REPUBLIC BANCORP INC /KY/

Form 10-Q

August 09, 2013

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2013

or

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky

(State of 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)

(502) 584-3600

(Registrant's telephone number, including area code)

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. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

The number of shares outstanding of the registrant's Class A Common Stock and Class B Common Stock, as of July 31, 2013, was 18,522,139 and 2,260,095 respectively.

Table of Contents

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements.</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk.</u>
<u>Item 4.</u>	<u>Controls and Procedures.</u>

PART II OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings.</u>
<u>Item 1A.</u>	<u>Risk Factors.</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>
<u>Item 6.</u>	<u>Exhibits.</u>
	<u>SIGNATURES</u>

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****CONSOLIDATED BALANCE SHEETS** *(in thousands) (unaudited)*

	June 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	\$ 97,690	\$ 137,691
Securities available for sale	420,331	438,246
Securities to be held to maturity (fair value of \$55,704 in 2013 and \$46,416 in 2012)	55,169	46,010
Mortgage loans held for sale	24,174	10,614
Loans, net of allowance for loan losses of \$22,491 and \$23,729 (2013 and 2012)	2,595,538	2,626,468
Federal Home Loan Bank stock, at cost	28,342	28,377
Premises and equipment, net	32,629	33,197
Goodwill	10,168	10,168
Other real estate owned	15,248	26,203
Other assets and accrued interest receivable	37,776	37,425
TOTAL ASSETS	\$ 3,317,065	\$ 3,394,399
LIABILITIES		
Deposits		
Non interest-bearing	\$ 487,787	\$ 479,046
Interest-bearing	1,483,260	1,503,882
Total deposits	1,971,047	1,982,928
Securities sold under agreements to repurchase and other short-term borrowings	128,532	250,884
Federal Home Loan Bank advances	592,044	542,600
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	40,135	40,045
Total liabilities	2,772,998	2,857,697
STOCKHOLDERS EQUITY		
Preferred stock, no par value		
Class A Common Stock and Class B Common Stock, no par value	4,890	4,932
Additional paid in capital	132,005	132,686
Retained earnings	403,212	393,472
Accumulated other comprehensive income	3,960	5,612
Total stockholders equity	544,067	536,702
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 3,317,065	\$ 3,394,399

See accompanying footnotes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)***(in thousands, except per share data)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
INTEREST INCOME:				
Loans, including fees	\$ 31,735	\$ 30,534	\$ 63,649	\$ 105,826
Taxable investment securities	1,976	2,904	4,016	6,171
Federal Home Loan Bank stock and other	408	376	855	1,404
Total interest income	34,119	33,814	68,520	113,401
INTEREST EXPENSE:				
Deposits	975	1,213	2,030	2,752
Securities sold under agreements to repurchase and other short-term borrowings	13	118	42	230
Federal Home Loan Bank advances	3,735	3,540	7,293	7,626
Subordinated note	629	631	1,258	1,261
Total interest expense	5,352	5,502	10,623	11,869
NET INTEREST INCOME	28,767	28,312	57,897	101,532
Provision for loan losses	905	466	280	11,636
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	27,862	27,846	57,617	89,896
NON-INTEREST INCOME:				
Service charges on deposit accounts	3,498	3,286	6,708	6,589
Net refund transfer fees	1,683	6,147	13,697	77,896
Mortgage banking income	2,180	1,963	5,454	3,317
Debit card interchange fee income	1,656	1,441	3,467	2,997
Bargain purchase gain - Tennessee Commerce Bank		(96)		27,803
Bargain purchase gain - First Commercial Bank			1,324	
Gain on sale of securities available for sale				56
Other	1,766	1,345	2,658	2,237
Total non-interest income	10,783	14,086	33,308	120,895
NON-INTEREST EXPENSES:				
Salaries and employee benefits	15,086	14,313	31,200	31,284
Occupancy and equipment, net	5,315	5,144	10,892	11,218
Communication and transportation	991	961	2,021	3,622
Marketing and development	880	904	1,782	1,842
FDIC insurance expense	402	291	815	721
Bank franchise tax expense	857	703	2,572	2,634

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Data processing	792	1,195	1,508	2,416
Debit card interchange expense	718	660	1,561	1,261
Supplies	218	529	572	1,478
Other real estate owned expense	945	555	1,834	1,160
Charitable contributions	227	200	463	2,878
Legal expense	1,338	527	1,768	895
FHLB advance prepayment expense				2,436
Other	1,930	1,469	4,013	4,759
Total non-interest expenses	29,699	27,451	61,001	68,604
INCOME BEFORE INCOME TAX				
EXPENSE	8,946	14,481	29,924	142,187
INCOME TAX EXPENSE	2,827	4,903	10,449	50,137
NET INCOME	\$ 6,119	\$ 9,578	\$ 19,475	\$ 92,050
BASIC EARNINGS PER SHARE:				
Class A Common Stock	\$ 0.30	\$ 0.46	\$ 0.94	\$ 4.40
Class B Common Stock	\$ 0.28	\$ 0.44	\$ 0.91	\$ 4.37
DILUTED EARNINGS PER SHARE:				
Class A Common Stock	\$ 0.30	\$ 0.46	\$ 0.94	\$ 4.38
Class B Common Stock	\$ 0.28	\$ 0.44	\$ 0.90	\$ 4.35

See accompanying footnotes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)***(in thousands)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$ 6,119	\$ 9,578	\$ 19,475	\$ 92,050
OTHER COMPREHENSIVE INCOME				
Unrealized gain (loss) on securities available for sale	(2,566)	(63)	(2,965)	1,675
Change in unrealized loss on available for sale security for which a portion of an other-than-temporary impairment has been recognized in earnings	238	58	422	37
Reclassification adjustment for gains recognized in earnings				(55)
Net unrealized gains (losses)	(2,328)	(5)	(2,543)	1,657
Tax effect	815	2	891	(580)
Net of tax	(1,513)	(3)	(1,652)	1,077
COMPREHENSIVE INCOME	\$ 4,606	\$ 9,575	\$ 17,823	\$ 93,127

See accompanying footnotes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (UNAUDITED)****SIX MONTHS ENDED JUNE 30, 2013**

(in thousands, except per share data)	Class A Shares Outstanding	Common Stock Class B Shares Outstanding	Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance, January 1, 2013	18,694	2,271	\$ 4,932	\$ 132,686	\$ 393,472	\$ 5,612	\$ 536,702
Net income					19,475		19,475
Net change in accumulated other comprehensive income						(1,652)	(1,652)
Dividend declared Common Stock:							
Class A (\$0.341 per share)					(6,212)		(6,212)
Class B (\$0.310 per share)					(701)		(701)
Stock options exercised, net of shares redeemed	5		1	110			111
Repurchase of Class A Common Stock	(193)		(43)	(1,230)	(2,822)		(4,095)
Conversion of Class B Common Stock to Class A Common Stock	11	(11)					
Net change in notes receivable on Common Stock					76		76
Deferred director compensation expense - Company Stock	5				89		89
Stock based compensation expense - restricted stock					149		149
Stock based compensation expense - options					125		125
Balance, June 30, 2013	18,522	2,260	\$ 4,890	\$ 132,005	\$ 403,212	\$ 3,960	\$ 544,067

See accompanying footnotes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

SIX MONTHS ENDED JUNE 30, 2013 AND 2012 (in thousands)

	2013	2012
OPERATING ACTIVITIES:		
Net income	\$ 19,475	\$ 92,050
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	(216)	5,197
Provision for loan losses	280	11,636
Net gain on sale of mortgage loans held for sale	(5,408)	(3,722)
Origination of mortgage loans held for sale	(208,094)	(100,418)
Proceeds from sale of mortgage loans held for sale	199,942	104,439
Proceeds from loans repurchased by the FDIC		17,003
Net realized impairment (recovery) of mortgage servicing rights	(312)	(31)
Net realized gain on sales, calls and impairment of securities		(56)
Net gain on sale of other real estate owned	(1,311)	(419)
Writedowns of other real estate owned	884	341
Deferred director compensation expense - Company Stock	89	90
Stock based compensation expense	274	537
Bargain purchase gain on acquisition	(1,324)	(27,803)
Net change in other assets and liabilities:		
Accrued interest receivable	604	224
Accrued interest payable	11	(319)
Other assets	(2,123)	18,389
Other liabilities	723	11,231
Net cash provided by operating activities	3,494	128,369
INVESTING ACTIVITIES:		
Net cash received in FDIC-assisted transaction		846,390
Purchases of securities available for sale	(78,205)	(58,552)
Purchases of securities to be held to maturity	(15,000)	
Proceeds from calls, maturities and paydowns of securities available for sale	93,401	131,216
Proceeds from calls, maturities and paydowns of securities to be held to maturity	5,806	2,295
Proceeds from sales of securities available for sale		35,225
Proceeds from sales of Federal Home Loan Bank stock	35	48
Proceeds from sales of other real estate owned	15,055	14,597
Net change in loans	31,645	(122,704)
Net purchases of premises and equipment	(667)	(1,078)
Net cash provided by investing activities	52,070	847,437
FINANCING ACTIVITIES:		
Net change in deposits	(11,881)	(776,136)
Net change in securities sold under agreements to repurchase and other short-term borrowings	(122,352)	(35,819)
Payments of Federal Home Loan Bank advances	(556)	(566,075)
Proceeds from Federal Home Loan Bank advances	50,000	170,000
Repurchase of Common Stock	(4,095)	(147)
Net proceeds from Common Stock options exercised	111	147
Cash dividends paid	(6,792)	(6,390)
Net cash used in financing activities	(95,565)	(1,214,420)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(40,001)	(238,614)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	137,691	362,971

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$	97,690	\$	124,357
---	----	--------	----	---------

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for:

Interest	\$	10,612	\$	12,188
Income taxes		20,100		24,512

SUPPLEMENTAL NONCASH DISCLOSURES

Transfers from loans to real estate acquired in settlement of loans	\$	4,242	\$	12,078
Loans provided for sales of other real estate owned		569		564

See accompanying footnotes to consolidated financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012 (UNAUDITED) AND DECEMBER 31, 2012

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation The consolidated financial statements include the accounts of Republic Bancorp, Inc. (the Parent Company) and its wholly-owned subsidiaries: Republic Bank & Trust Company (RB&T) and Republic Bank (RB) (collectively referred together as the Bank), and Republic Invest Co. The consolidated financial statements also include the wholly-owned subsidiaries of RB&T: Republic Financial Services, LLC, TRS RAL Funding, LLC and Republic Insurance Agency, LLC. Republic Bancorp Capital Trust (RBCT) is a Delaware statutory business trust that is a wholly-owned unconsolidated finance subsidiary of Republic Bancorp, Inc. All companies are collectively referred to as Republic or the Company. All significant intercompany balances and transactions are eliminated in consolidation.

Republic Invest Co. and its subsidiary, Republic Capital LLC, were dissolved in April 2013 in connection with the full repayment by RB&T of intragroup subordinated debentures issued by Republic Capital LLC in a 2004 intragroup trust preferred transaction.

The inactive subsidiaries of RB&T: Republic Financial Services, LLC, TRS RAL Funding, LLC and Republic Insurance Agency, LLC were dissolved in the second quarter of 2013.

In May 2013, management requested regulatory approval to merge RB&T and RB under one national bank charter. With the approved internal merger, the Bank would operate with the name Republic Bank, National Association (RBNA) with the Office of the Comptroller of the Currency (OCC) as its primary regulator. The OCC is currently the primary regulator of RB, with RB&T currently regulated by the Federal Deposit Insurance Corporation (FDIC) and the Kentucky Department of Financial Institutions (KDFI).

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. For further information, refer to the consolidated financial statements and footnotes thereto included in Republic s Form 10-K for the year ended December 31, 2012.

As of June 30, 2013, the Company was divided into three distinct business operating segments: Traditional Banking, Mortgage Banking and Republic Processing Group (RPG). During the second quarter of 2012, the Company realigned the previously reported Tax Refund Solutions (TRS) segment as a division of the newly formed RPG segment. Along with the TRS division, Republic Payment Solutions (RPS) and Republic Credit Solutions (RCS) also operate as divisions of the RPG segment.

Traditional Banking and Mortgage Banking (collectively Core Banking)

Republic operates 44 banking centers, primarily in the retail banking industry, and conducts its Core Banking operations predominately in metropolitan Louisville, Kentucky; Central Kentucky; Northern Kentucky; Southern Indiana; metropolitan Tampa, Florida; metropolitan Cincinnati, Ohio; metropolitan Nashville, Tennessee; metropolitan Minneapolis, Minnesota and through an Internet banking delivery channel.

Core Banking results of operations are primarily dependent upon net interest income, which represents the difference between the interest income and fees on interest-earning assets and the interest expense on interest-bearing liabilities. Principal interest-earning Core Banking assets represent investment securities and real estate, commercial and consumer loans. Interest-bearing liabilities primarily consist of interest-bearing deposit accounts, securities sold under agreements to repurchase, as well as short-term and long-term borrowing sources. In June 2011 the Bank began offering its warehouse lending product. With this product, the Bank provides short-term, revolving credit facilities to mortgage bankers across the nation. These credit facilities are secured by single family, first lien residential real estate loans.

Table of Contents

Other sources of Core Banking income include service charges on deposit accounts, debit card interchange fee income, title insurance commissions, fees charged to customers for trust services and revenue generated from Mortgage Banking activities. Mortgage Banking activities represent both the origination and sale of loans in the secondary market and the servicing of loans for others, primarily the Federal Home Loan Mortgage Corporation (Freddie Mac or FHLMC).

Core Banking operating expenses consist primarily of salaries and employee benefits, occupancy and equipment expenses, communication and transportation costs, data processing, debit card interchange expenses, marketing and development expenses, FDIC insurance expense, and various general and administrative costs. Core Banking results of operations are significantly impacted by general economic and competitive conditions, particularly changes in market interest rates, government laws and policies and actions of regulatory agencies.

Republic Processing Group

Nationally, through RB&T, RPG facilitates the receipt and payment of federal and state tax refunds under the TRS division, primarily through refund transfers (RT s). RTs are products whereby a tax refund is issued to the taxpayer after RB&T has received the refund from the federal or state government. There is no credit risk or borrowing cost for RB&T associated with these products because they are only delivered to the taxpayer upon receipt of the tax refund directly from the governmental paying authority. Fees earned on RTs, net of rebates, are the primary source of revenue for the TRS division and the RPG segment, and are reported as non-interest income under the line item Net refund transfer fees.

The TRS division historically originated and obtained a significant source of revenue from Refund Anticipation Loans (RAL s), but terminated this product effective April 30, 2012. RALs were short-term consumer loans offered to taxpayers that were secured by the customer s anticipated tax refund, which represented the source of repayment. The fees earned on RALs for the applicable reporting period in 2012 are reported as interest income under the line item Loans, including fees .

Nationally, through RB, the RPS division is an issuing bank offering general purpose reloadable prepaid debit cards through third party program managers. Nationally, through RB&T, the RCS division is preparing to pilot short-term consumer credit products on-line.

Reclassifications and recasts Certain amounts presented in prior periods have been reclassified to conform to the current period presentation. These reclassifications had no impact on previously reported prior periods net income. Additionally, as discussed in Footnote 2 2012 *Acquisitions of Failed Banks*, during the first quarter of 2013 the Bank posted adjustments to the First Commercial Bank (FCB) acquired assets in the determination of acquisition day fair values, or (day-one) fair values, which resulted in a \$1.3 million increase to the bargain purchase gain presented.

Table of Contents

2. 2012 ACQUISITIONS OF FAILED BANKS

OVERVIEW

During 2012, the Bank acquired two failed institutions in FDIC-assisted transactions. The Bank acquired certain assets and assumed certain liabilities of Tennessee Commerce Bank (TCB) during the first quarter of 2012 and First Commercial Bank (FCB) during the third quarter of 2012. The Bank did not raise capital to complete either of these acquisitions.

The Bank determined that the acquisitions of these failed banks constituted business acquisitions as defined by Accounting Standards Codification (ASC) Topic 805, *Business Combinations*. Accordingly, the assets acquired and liabilities assumed have been presented at their estimated fair values, as required. Fair values are determined over a measurement period based on the requirements of ASC Topic 820, *Fair Value Measurements and Disclosures*. The measurement period for day-one fair values begins on the acquisition date and ends the earlier of: (a) the day management believes it has all the information necessary to determine day-one fair values; or (b) one year following the acquisition date. In many cases, the determination of these day-one fair values requires management to make material estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to recast adjustments, which are retrospective adjustments to reflect new information existing at the acquisition date affecting day-one fair values. More specifically, recast adjustments for loans and other real estate owned are made as market value data, such as appraisals, are received by the Bank. Increases or decreases to day-one fair values have been reflected with a corresponding increase or decrease to goodwill or bargain purchase gain.

Tennessee Commerce Bank

On January 27, 2012, the Bank acquired specific assets and assumed substantially all of the deposits and specific other liabilities of TCB, headquartered in Franklin, Tennessee from the FDIC, as receiver for TCB, pursuant to the terms of a Purchase and Assumption Agreement (P&A) Whole Bank; All Deposits entered into among RB&T, the FDIC as receiver of TCB and the FDIC. On January 30, 2012, TCB's sole location re-opened as a division of RB&T.

The Bank acquired approximately \$221 million in notional assets from the FDIC as receiver for TCB. In addition, the Bank also recorded a receivable from the FDIC for approximately \$785 million, which represented the net difference between the assets acquired and the liabilities assumed, adjusted for the discount the Bank received for the acquisition. The FDIC paid approximately \$771 million of this receivable on January 30, 2012 with the remaining \$14 million paid on February 15, 2012.

During the first quarter of 2012, the Bank recorded an initial bargain purchase gain of \$27.9 million as a result of the TCB acquisition. The bargain purchase gain was realized because the overall price paid by the Bank was substantially less than the fair value of the TCB assets acquired and liabilities assumed in the acquisition. In the second and third quarters of 2012, the Bank posted adjustments to the acquired assets for its FDIC-assisted acquisition in the determination of day-one fair values and recorded a net decrease to the bargain purchase gain of \$285,000, as additional information relative to the day-one fair values became available.

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Information obtained subsequent to January 27, 2012 and through September 30, 2012 was considered in forming TCB estimates of cash flows and collateral values as of the January 27, 2012 acquisition date, i.e., TCB's day-one fair values. Day-one fair values for TCB were considered final as of September 30, 2012, which is the date the Bank believed it had received all the information necessary to determine TCB's day-one fair values.

Table of Contents

A summary of the assets acquired and liabilities assumed in the TCB acquisition, including 2012 recast adjustments, follows:

Tennessee Commerce Bank

(in thousands)	January 27, 2012			
	As Previously Reported Contractual Amount	Fair Value Adjustments	2012 Recast Adjustments	As Recasted Fair Value
Assets acquired:				
Cash and cash equivalents	\$ 61,943	\$ (89)	\$ (2)	\$ 61,852
Securities available for sale	42,646			42,646
Loans to be repurchased by the FDIC, net of discount	19,800	(2,797)		17,003
Loans	79,112	(22,666)	830	57,276
Federal Home Loan Bank stock, at cost	2,491			2,491
Other real estate owned	14,189	(3,359)	(1,113)	9,717
Core deposit intangible		64		64
Discount	(56,970)	56,970		
FDIC settlement receivable	784,545			784,545
Other assets and accrued interest receivable	945	(60)		885
Total assets acquired	\$ 948,701	\$ 28,063	\$ (285)	\$ 976,479
Liabilities assumed:				
Deposits				
Non interest-bearing	\$ 19,754	\$	\$	\$ 19,754
Interest-bearing	927,641	54		927,695
Total deposits	947,395	54		947,449
Accrued income taxes payable		9,988	(100)	9,888
Other liabilities and accrued interest payable	1,306	110		1,416
Total liabilities assumed	\$ 948,701	\$ 10,152	\$ (100)	\$ 958,753
Equity				
Bargain purchase gain, net of taxes		17,911	(185)	17,726
Total liabilities assumed and equity	\$ 948,701	\$ 28,063	\$ (285)	\$ 976,479

Table of Contents

A summary of the net assets acquired from the FDIC and the estimated fair value adjustments as of the TCB acquisition date follows:

Tennessee Commerce Bank

(in thousands)	January 27, 2012			
	As Previously Reported	Second Quarter 2012 Recast Adjustments	Third Quarter 2012 Recast Adjustments	As Recasted
Assets acquired, at contractual amount	\$ 221,126	\$	\$	\$ 221,126
Liabilities assumed, at contractual amount	(948,701)			(948,701)
Net liabilities assumed per the P&A Agreement	(727,575)			(727,575)
Contractual discount	(56,970)			(56,970)
Net receivable from the FDIC	\$ (784,545)	\$	\$	\$ (784,545)
Fair value adjustments:				
Loans	\$ (22,666)	\$ 919	\$ (89)	\$ (21,836)
Discount for loans to be repurchased by the FDIC	(2,797)			(2,797)
Other real estate owned	(3,359)	(1,000)	(113)	(4,472)
Core deposit intangible	64			64
Deposits	(54)			(54)
Other assets and accrued interest receivable	(60)			(60)
All other	(199)	(15)	13	(201)
Total fair value adjustments	(29,071)	(96)	(189)	(29,356)
Discount	56,970			56,970
Bargain purchase gain, pre-tax	\$ 27,899	\$ (96)	\$ (189)	\$ 27,614

On January 27, 2012, the Bank did not immediately acquire the TCB banking facility, including outstanding lease agreements and furniture, fixtures and equipment. During the third quarter of 2012, the Bank renegotiated a new lease with the landlord related to the sole banking facility and acquired all related data processing equipment and fixed assets totaling approximately \$573,000.

First Commercial Bank

On September 7, 2012, the Bank acquired specific assets and assumed substantially all of the liabilities of FCB, headquartered in Bloomington, Minnesota from the FDIC, as receiver for FCB, pursuant to the terms of a Purchase and Assumption Agreement – Whole Bank; All Deposits, entered into among RB&T, the FDIC as receiver of FCB and the FDIC. On September 10, 2012, FCB's sole location re-opened as a division of RB&T.

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

The Bank acquired approximately \$215 million in notional assets from the FDIC as receiver for FCB. In addition, the Bank also recorded a receivable from the FDIC for approximately \$64 million, which represented the net difference between the assets acquired and the liabilities assumed adjusted for the discount the Bank received for the acquisition. The FDIC paid substantially all of this receivable to the Bank on September 10, 2012.

During the third quarter of 2012, the Bank recorded an initial bargain purchase gain of \$27.1 million as a result of the FCB acquisition. The bargain purchase gain was realized because the overall price paid by the Bank was substantially less than the fair value of the FCB assets acquired and liabilities assumed in the acquisition. During the fourth quarter of 2012, the Bank posted adjustments to the acquired assets for its FDIC-assisted acquisition in the determination of day-one fair values and recorded a net increase to the bargain purchase gain of \$712,000, as additional information relative to the day-one fair values became available. During the first quarter of 2013, the Bank posted an additional increase of \$1.3 million to the bargain purchase gain.

Table of Contents

Information obtained subsequent to September 7, 2012 and through March 31, 2013 was considered in forming FCB estimates of cash flows and collateral values as of the September 7, 2012 acquisition date, i.e., FCB's day-one fair values.

While a future recast of the FCB bargain purchase gain is possible through September 7, 2013, management does not currently anticipate additional future adjustments to the FCB bargain purchase gain, as a significant amount of information was considered available to management regarding the assets and liabilities in the acquisition and a significant amount of the assets acquired were resolved in some manner through March 31, 2013. As a result, management considered the measurement period for the FCB day-one fair values to be closed as of March 31, 2013 but reserves the right to make future adjustments if material information that existed as of the acquisition date becomes available prior to September 7, 2013.

A summary of the assets acquired and liabilities assumed in the FCB acquisition, including recast adjustments, follows:

First Commercial Bank

(in thousands)	As Previously Reported		September 7, 2012		As Recasted	
	Contractual Amount	Fair Value Adjustments	2012 & 2013 Recast Adjustments		Fair Value	
Assets acquired :						
Cash and cash equivalents	\$ 10,524	\$	\$		\$	10,524
Securities available for sale	12,002					12,002
Loans	171,744	(44,214)		2,821		130,351
Federal Home Loan Bank stock, at cost	407					407
Other real estate owned	19,360	(8,389)		(785)		10,186
Core deposit intangible		559				559
Discount	(79,412)	79,412				
FDIC settlement receivable	64,326					64,326
Other assets and accrued interest receivable	829	(95)				734
Total assets acquired	\$ 199,780	\$ 27,273	\$ 2,036		\$	229,089
Liabilities assumed:						
Deposits:						
Non interest-bearing	\$ 7,197	\$	\$		\$	7,197
Interest-bearing	189,057	(3)				189,054
Total deposits	196,254	(3)				196,251
Federal Home Loan Bank advances	3,002	63				3,065
Accrued income taxes payable		9,706		712		10,418
Other liabilities and accrued interest payable	524	101				625
Total liabilities assumed	\$ 199,780	\$ 9,867	\$ 712		\$	210,359
Equity:						

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Bargain purchase gain, net of taxes		17,406		1,324		18,730		
Total liabilities assumed and equity	\$	199,780	\$	27,273	\$	2,036	\$	229,089

Table of Contents

A summary of the net assets acquired from the FDIC and the estimated fair value adjustments as of the FCB acquisition date follows:

First Commercial Bank

(in thousands)	September 7, 2012			
	As Previously Reported	Fourth Quarter 2012 Recast Adjustments	First Quarter 2013 Recast Adjustments	As Recasted
Assets acquired, at contractual amount	\$ 214,866	\$	\$	\$ 214,866
Liabilities assumed, at contractual amount	(199,780)			(199,780)
Net liabilities assumed per the P&A Agreement	15,086			15,086
Contractual discount	(79,412)			(79,412)
Net receivable from the FDIC	\$ (64,326)	\$	\$	\$ (64,326)
Fair value adjustments:				
Loans	\$ (44,214)	\$ 423	\$ 2,398	\$ (41,393)
Other real estate owned	(8,389)	289	(1,074)	(9,174)
Core deposit intangible	559			559
Deposits	3			3
Federal Home Loan Bank advances	(63)			(63)
Other assets and accrued interest receivable	(95)			(95)
All other	(101)			(101)
Total fair value adjustments	(52,300)	712	1,324	(50,264)
Discount	79,412			79,412
Bargain purchase gain, pre-tax	\$ 27,112	\$ 712	\$ 1,324	\$ 29,148

On September 7, 2012, the Bank did not immediately acquire the FCB banking facility, including outstanding lease agreements and furniture, fixtures and equipment. The Bank acquired all data processing equipment and fixed assets totaling approximately \$328,000 during the fourth quarter of 2012. During the first quarter of 2013, the Bank renegotiated a new lease with the landlord related to the sole banking facility and acquired all related data processing equipment and fixed assets totaling approximately \$233,000.

Table of Contents

FAIR VALUE METHODS ASSOCIATED WITH THE 2012 ACQUISITIONS OF FAILED BANKS

The following is a description of the methods used to determine the fair values of significant assets and liabilities at the respective acquisition dates as presented throughout:

Cash and Due from Banks and Interest-bearing Deposits in Banks The carrying amount of these assets, adjusted for any cash items deemed uncollectible by management, was determined to be a reasonable estimate of fair value based on their short-term nature.

Investment Securities Investment securities were acquired at fair value from the FDIC. The fair values provided by the FDIC were reviewed and considered reasonable based on management's understanding of the marketplace. Federal Home Loan Bank (FHLB) stock was acquired at cost, as it is not practicable to determine its fair value given restrictions on its marketability.

With the TCB acquisition, the Bank acquired \$43 million in securities at fair value. The majority of the securities acquired were subsequently sold or called during the first quarter of 2012 with the Bank realizing a net gain on the corresponding transactions of approximately \$56,000. The Bank sold these securities because management determined that the acquired securities did not fit within the Bank's traditional investment strategies.

With the FCB acquisition, the Bank acquired \$12 million in securities at fair value. The nature of these securities acquired were consistent with the Bank's existing investment portfolio and the Bank elected not to sell these securities.

Loans Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and a discount rate reflecting current market rates for new originations of comparable loans adjusted for the risk inherent in the cash flow estimates.

Certain loans that were deemed to be collateral dependent were valued based on the fair value of the underlying collateral. These estimates were based on the most recently available real estate appraisals with certain adjustments made based on the type of property, age of appraisal, current status of the property and other related factors to estimate the current value of the collateral.

With the TCB acquisition, the Bank purchased approximately \$99 million in loans with a recasted fair value of approximately \$74 million. During 2012, the FDIC repurchased approximately \$20 million of TCB loans at a price of par less the original discount of \$3 million that the Bank received when it purchased the loans. Loans repurchased by the FDIC were valued at the contractual amount reduced by the applicable discount.

With the FCB acquisition, the Bank purchased approximately \$172 million in loans with a recasted fair value of approximately \$130 million.

Table of Contents

The composition of acquired loans as of the respective acquisition dates follows:

Tennessee Commerce Bank

(in thousands)	January 27, 2012			
	As Previously Reported Contractual Amount	Fair Value Adjustments	2012 Recast Adjustments	As Recasted Fair Value
Residential real estate	\$ 22,693	\$ (4,076)	\$ 243	\$ 18,860
Commercial real estate	18,646	(6,971)	1,988	13,663
Real estate construction	14,877	(2,681)	(1,972)	10,224
Commercial	13,224	(6,939)	496	6,781
Home equity	6,220	(606)	24	5,638
Consumer:				
Credit cards	608	(22)		586
Overdrafts	672	(621)		51
Other consumer	2,172	(750)	51	1,473
Total loans	\$ 79,112	\$ (22,666)	\$ 830	\$ 57,276

First Commercial Bank

(in thousands)	September 7, 2012			
	As Previously Reported Contractual Amount	Fair Value Adjustments	2012 & 2013 Recast Adjustments	As Recasted Fair Value
Residential real estate	\$ 48,409	\$ (9,634)	\$ 180	\$ 38,955
Commercial real estate	82,161	(12,330)	(1,746)	68,085
Real estate construction	14,918	(6,182)	316	9,052
Commercial	25,475	(16,060)	4,120	13,535
Home equity	404	(3)		401
Consumer:				
Credit cards				
Overdrafts	6			6
Other consumer	371	(5)	(49)	317
Total loans	\$ 171,744	\$ (44,214)	\$ 2,821	\$ 130,351

The following tables present the purchased loans that are included within the scope of ASC Topic 310-30, *Accounting for Purchased Loans with Deteriorated Credit Quality*, at the respective acquisition dates:

Tennessee Commerce Bank

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

(in thousands)	As Previously Reported	January 27, 2012 2012 Recast Adjustments	As Recasted
Contractually-required principal and interest payments	\$ 52,278	\$	\$ 52,278
Non-accretable difference	(21,308)	903	(20,405)
Cash flows expected to be collected	30,970	903	31,873
Accretable difference	(425)	(73)	(498)
Fair value of loans	\$ 30,545	\$ 830	\$ 31,375

Table of Contents**First Commercial Bank**

(in thousands)	As Previously Reported	September 7, 2012 2012 & 2013 Recast Adjustments	As Recasted
Contractually-required principal and interest payments	\$ 116,940	\$ 4,213	\$ 121,153
Non-accretable difference	(33,523)	4,640	(28,883)
Cash flows expected to be collected	83,417	8,853	92,270
Accretable difference	(2,827)	(1,819)	(4,646)
Fair value of loans	\$ 80,590	\$ 7,034	\$ 87,624

Core Deposit Intangible In its assumption of the deposit liabilities for the 2012 acquisitions, the Bank believed that the customer relationships associated with these deposits had intangible value, although this value was anticipated to be modest given the nature of the deposit accounts and the anticipated rapid account run-off since acquired. The Bank recorded core deposit intangible assets of \$64,000 and \$559,000 related to the TCB and FCB acquisitions. The fair value of these intangible assets were estimated based on a discounted cash flow methodology that gave appropriate consideration to type of deposit, deposit retention, cost of the deposit base and net maintenance cost attributable to customer deposits.

Other Real Estate Owned (OREO) OREO is presented at fair value, which is the estimated value that management expects to receive when the property is sold, net of related costs to sell. These estimates were based on the most recently available real estate appraisals, with certain adjustments made based on the type of property, age of appraisal, current status of the property and other related factors to estimate the current value of the property.

The Bank acquired \$14 million in OREO related to the TCB acquisition, which was initially reduced by a \$3 million fair value adjustment as of January 27, 2012. Subsequent to the first quarter, the Bank posted a net negative recast adjustment of \$1 million to OREO to mark several properties to market based on appraisals received.

The Bank acquired \$19 million in OREO related to the FCB acquisition, which was initially reduced by an \$8 million fair value adjustment as of September 7, 2012. During the fourth quarter of 2012 and the first quarter of 2013, the Bank posted net positive recast adjustments of \$289,000 and \$1.1 million to OREO to mark several properties to market based on appraisals received.

FHLB Advances The Bank acquired \$3 million in FHLB advances related to the FCB acquisition. The advances were marked to market as of the acquisition date based on early prepayment payoffs (including penalties) received from the FHLB. The Bank paid off the advances during the third quarter of 2012 at no additional loss beyond the fair value adjustment as of their date of acquisition.

Deposits The fair values used for the demand and savings deposits that comprise the acquisition accounts acquired, by definition, equal the amount payable on demand at the acquisition date. The fair values for time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered to the interest rates embedded on such time deposits.

The Bank assumed \$947 million in deposits at estimated fair value in connection with the TCB acquisition. As permitted by the FDIC, within seven days of the acquisition date, RB&T had the option to disclose to TCB's deposit customers that it was repricing the acquired deposit portfolios. In addition, depositors had the option to withdraw funds without penalty. The Bank chose to reprice all of the acquired TCB interest-bearing deposits, including transaction, time and brokered deposits with an effective date of January 28, 2012. This re-pricing triggered significant time and brokered deposit run-off consistent with management's expectations. Through June 30, 2013, approximately 97% of the assumed TCB interest-bearing deposit account balances had exited the Bank, with no penalty on the applicable time and brokered deposits. At June 30, 2013, the Bank had \$26 million of deposits associated with TCB.

Table of Contents

The Bank assumed \$196 million in deposits at estimated fair value in connection with the FCB acquisition. The Bank chose to re-price all of the acquired FCB time deposits with an effective date of October 1, 2012. This re-pricing triggered certificate of deposit run-off consistent with management's expectations. Through June 30, 2013, approximately 81% of the assumed interest-bearing deposit account balances had exited the Bank, with no penalty on the applicable time and brokered deposits. At June 30, 2013, the Bank had \$38 million of deposits associated with the FCB acquisition.

The composition of deposits assumed at fair value as of the respective acquisition dates follows:

Tennessee Commerce Bank

(in thousands)	Contractual Amount	January 27, 2012		Fair Value
		Fair Value Adjustments	Recast Adjustments	
Demand	\$ 3,190	\$	\$	\$ 3,190
Money market accounts	11,338			11,338
Savings	91,859			91,859
Individual retirement accounts*	15,486			15,486
Time deposits, \$100,000 and over*	278,825			278,825
Other certificates of deposit*	108,003	14		108,017
Brokered certificates of deposit*	418,940	40		418,980
Total interest-bearing deposits	927,641	54		927,695
Total non interest-bearing deposits	19,754			19,754
Total deposits	\$ 947,395	\$ 54	\$	\$ 947,449

First Commercial Bank

(in thousands)	Contractual Amount	September 7, 2012		Fair Value
		Fair Value Adjustments	Recast Adjustments	
Demand	\$ 4,003	\$	\$	\$ 4,003
Money market accounts	38,187			38,187
Savings				
Individual retirement accounts*	16,780			16,780
Time deposits, \$100,000 and over*	14,740			14,740
Other certificates of deposit*	62,033			62,033
Brokered certificates of deposit*	53,314	(3)		53,311
Total interest-bearing deposits	189,057	(3)		189,054
Total non interest-bearing deposits	7,197			7,197
Total deposits	\$ 196,254	\$ (3)	\$	\$ 196,251

* - denotes a time deposit

Table of Contents**3. INVESTMENT SECURITIES****Securities available for sale:**

The gross amortized cost and fair value of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

June 30, 2013 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 45,180	\$ 451	\$ (115)	\$ 45,516
Private label mortgage backed security	5,216	425		5,641
Mortgage backed securities - residential	144,733	5,331	(9)	150,055
Collateralized mortgage obligations	204,093	1,678	(1,623)	204,148
Corporate bonds	15,017		(46)	14,971
Total securities available for sale	\$ 414,239	\$ 7,885	\$ (1,793)	\$ 420,331

December 31, 2012 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 38,931	\$ 547	\$ (6)	\$ 39,472
Private label mortgage backed security	5,684	3		5,687
Mortgage backed securities - residential	190,569	6,641		197,210
Collateralized mortgage obligations	194,427	1,580	(130)	195,877
Total securities available for sale	\$ 429,611	\$ 8,771	\$ (136)	\$ 438,246

Securities to be held to maturity:

The carrying value, gross unrecognized gains and losses, and fair value of securities to be held to maturity were as follows:

June 30, 2013 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 2,348	\$ 6	\$ (17)	\$ 2,337
Mortgage backed securities - residential	524	43		567
Collateralized mortgage obligations	47,297	634	(23)	47,908
Corporate bonds	5,000		(108)	4,892

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Total securities to be held to maturity	\$	55,169	\$	683	\$	(148)	\$	55,704
---	----	--------	----	-----	----	-------	----	--------

December 31, 2012 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 4,388	\$ 27	\$	4,415
Mortgage backed securities - residential	827	63		890
Collateralized mortgage obligations	40,795	316		41,111
Total securities to be held to maturity	\$ 46,010	\$ 406	\$	46,416

Table of Contents

During the three and six months ended June 30, 2013, there were no sales or calls of securities available for sale.

During the six months ended June 30, 2012, the Bank recognized net securities gains in earnings for securities available for sale as follows:

- The Bank sold six available for sale securities acquired in the TCB acquisition with an amortized cost of \$35 million, resulting in a pre-tax gain of \$53,000 during the first quarter of 2012.
- The Bank realized \$3,000 in pre-tax gains related to unamortized discount accretion on \$10 million of callable U.S. Government agencies that were called during the first quarter of 2012 before their maturity.

The tax provision related to the Bank's realized gains totaled \$0 and \$20,000 for the three and six months ended June 30, 2012, respectively.

The amortized cost and fair value of the investment securities portfolio by contractual maturity at June 30, 2013 follows. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations whether or not there are associated call or prepayment penalties. Securities not due at a single maturity date are detailed separately.

June 30, 2013 (in thousands)	Securities available for sale		Securities held to maturity	
	Amortized Cost	Fair Value	Carrying Value	Fair Value
Due in one year or less	\$ 1,007	\$ 1,007	\$	\$
Due from one year to five years	46,666	46,981	2,348	2,337
Due from five years to ten years	12,524	12,499	5,000	4,892
Due beyond ten years				
Private label mortgage backed security	5,216	5,641		
Mortgage backed securities - residential	144,733	150,055	524	567
Collateralized mortgage obligations	204,093	204,148	47,297	47,908
Total securities	\$ 414,239	\$ 420,331	\$ 55,169	\$ 55,704

Corporate Bonds

During the quarter ended June 30, 2013, the Bank purchased \$20 million in floating rate corporate bonds with an initial weighted average yield of 1.36%. The bonds, which have a weighted average life of 7 years, were rated investment grade by accredited rating agencies as of their respective purchase dates. The total fair value of the Bank's corporate bonds represented 4% of the Bank's investment portfolio as of June 30, 2013.

Mortgage backed Securities

At June 30, 2013, with the exception of the \$5.6 million private label mortgage backed security, all other mortgage backed securities held by the Bank were issued by U.S. government-sponsored entities and agencies, primarily Freddie Mac (FHLMC) and Fannie Mae (FNMA), institutions that the government has affirmed its commitment to support. At June 30, 2013 and December 31, 2012, there were gross unrealized/unrecognized losses of \$1.6 million and \$130,000 related to available for sale mortgage backed securities. Because the decline in fair value of these mortgage backed securities is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these mortgage backed securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired.

At June 30, 2013 and December 31, 2012, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

Table of ContentsMarket Loss Analysis

Securities with unrealized losses at June 30, 2013 and December 31, 2012, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

June 30, 2013 (in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale						
U.S. Treasury securities and U.S. Government agencies	\$ 21,791	\$ (115)	\$	\$	\$ 21,791	\$ (115)
Mortgage backed securities - residential	1,150	(9)			1,150	(9)
Collateralized mortgage obligations	62,643	(1,623)			62,643	(1,623)
Corporate bonds	14,971	(46)			14,971	(46)
Total available for sale	\$ 100,555	\$ (1,793)	\$	\$	\$ 100,555	\$ (1,793)

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held to maturity						
U.S. Treasury securities and U.S. Government agencies	\$ 1,814	\$ (17)	\$	\$	\$ 1,814	\$ (17)
Collateralized mortgage obligations	9,870	(23)			9,870	(23)
Corporate bonds	4,892	(108)			4,892	(108)
Total held to maturity	\$ 16,576	\$ (148)	\$	\$	\$ 16,576	\$ (148)

December 31, 2012 (in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale						
U.S. Treasury securities and U.S. Government agencies	\$ 3,588	\$ (6)	\$	\$	\$ 3,588	\$ (6)
Collateralized mortgage obligations	20,508	(130)			20,508	(130)
Total available for sale	\$ 24,096	\$ (136)	\$	\$	\$ 24,096	\$ (136)

At June 30, 2013, the Bank's security portfolio consisted of 157 securities, 24 of which were in an unrealized loss position. At December 31, 2012, the Bank's security portfolio consisted of 153 securities, seven of which were in an unrealized loss position.

Table of Contents

Other-than-temporary impairment (OTTI)

Unrealized losses for all investment securities are reviewed to determine whether the losses are other-than-temporary. Investment securities are evaluated for OTTI on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value below amortized cost is other-than-temporary. In conducting this assessment, the Bank evaluates a number of factors including, but not limited to:

- The length of time and the extent to which fair value has been less than the amortized cost basis;
- The Bank's intent to hold until maturity or sell the debt security prior to maturity;
- An analysis of whether it is more likely than not that the Bank will be required to sell the debt security before its anticipated recovery;
- Adverse conditions specifically related to the security, an industry, or a geographic area;
- The historical and implied volatility of the fair value of the security;
- The payment structure of the security and the likelihood of the issuer being able to make payments;
- Failure of the issuer to make scheduled interest or principal payments;
- Any rating changes by a rating agency; and
- Recoveries or additional decline in fair value subsequent to the balance sheet date.

The term other-than-temporary is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a general lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized for the anticipated credit losses.

The Bank owns one private label mortgage backed security with a total carrying value of \$5.6 million at June 30, 2013. This security, with an average remaining life currently estimated at four years, is mostly backed by Alternative A first lien mortgage loans, but also has an insurance wrap or guarantee as an added layer of protection to the security holder. This asset is illiquid, and as such, the Bank determined it to be a Level 3 security in accordance with ASC Topic 820, *Fair Value Measurements and Disclosures*. Based on this determination, the Bank utilized an income valuation model (present value model) approach, in determining the fair value of the security. This approach is beneficial for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support for this investment.

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

See additional discussion regarding the Bank's private label mortgage backed security under Footnote 7 Fair Value in this section of the filing.

Pledged Investment Securities

Investment securities pledged to secure public deposits, securities sold under agreements to repurchase and securities held for other purposes, as required or permitted by law are as follows:

(in thousands)	June 30, 2013	December 31, 2012
Carrying amount	\$ 184,001	\$ 334,560
Fair value	184,480	334,843

Table of Contents**4. LOANS AND ALLOWANCE FOR LOAN LOSSES**

The composition of the loan portfolio follows:

(in thousands)	June 30, 2013	December 31, 2012
Residential real estate:		
Owner occupied	\$ 1,160,420	\$ 1,148,354
Non owner occupied	63,707	74,539
Commercial real estate	767,334	698,611
Commercial real estate - purchased whole loans	33,852	33,531
Real estate construction	50,858	80,093
Commercial	114,675	130,768
Warehouse lines of credit	177,690	216,576
Home equity	227,137	241,853
Consumer:		
Credit cards	8,656	8,716
Overdrafts	984	955
Other consumer	12,716	16,201
Total loans	2,618,029	2,650,197
Less: Allowance for loan losses	22,491	23,729
Total loans, net	\$ 2,595,538	\$ 2,626,468

2012 Acquisitions of Failed Banks

The contractual amount of the loans purchased in the TCB transaction decreased from \$79 million as of the acquisition date to \$34 million as of June 30, 2013. The carrying value of the loans purchased in the TCB transaction was \$57 million as of the acquisition date compared to \$27 million as of June 30, 2013.

The contractual amount of the loans purchased in the FCB transaction decreased from \$172 million as of the acquisition date to \$109 million as of June 30, 2013. The carrying value of the loans purchased in the FCB transaction was \$130 million as of the acquisition date compared to \$84 million as of June 30, 2013.

The composition of TCB and FCB loans outstanding at June 30, 2013 and December 31, 2012 follows:

June 30, 2013 (in thousands)	Tennessee Commerce Bank	First Commercial Bank	Total Acquired Banks
------------------------------	-------------------------------	-----------------------------	----------------------------

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Residential real estate	\$	8,859	\$	26,676	\$	35,535
Commercial real estate		12,106		50,033		62,139
Real estate construction		1,020		2,174		3,194
Commercial		334		5,135		5,469
Home equity		4,199		145		4,344
Consumer:						
Credit cards		251				251
Overdrafts		5		16		21
Other consumer		474		202		676
Total loans	\$	27,248	\$	84,381	\$	111,629

The table above is inclusive of loans originated subsequent to the respective acquisition dates.

Table of Contents

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

The tables below reconcile the contractually-required and carrying amounts of acquired TCB and FCB loans at June 30, 2013 and December 31, 2012:

June 30, 2013 (in thousands)	Tennessee Commerce Bank	First Commercial Bank	Total Acquired Banks
Contractually-required principal	\$ 33,980	\$ 109,116	\$ 143,096
Non-accretable difference	(6,127)	(23,354)	(29,481)
Accretable difference	(605)	(1,381)	(1,986)
Total carrying value of loans	\$ 27,248	\$ 84,381	\$ 111,629

December 31, 2012 (in thousands)	Tennessee Commerce Bank	First Commercial Bank	Total Acquired Banks
Contractually-required principal	\$ 41,677	\$ 139,156	\$ 180,833
Non-accretable difference	(10,394)	(28,870)	(39,264)
Accretable difference	(319)	(2,634)	(2,953)
Total carrying value of loans	\$ 30,964	\$ 107,652	\$ 138,616

See additional discussion regarding the TCB and FCB acquisitions under Footnote 2 2012 Acquisitions of Failed Banks in this section of the filing.

Table of ContentsCredit Quality Indicators

Based on the Bank's internal analysis performed, the risk category of loans by class follows:

June 30, 2013 (in thousands)	Pass	Special Mention / Watch	Substandard	Doubtful / Loss	Purchased Credit Impaired Loans Group 1*	Purchased Credit Impaired Loans Group 2**	Total Rated Loans***
Residential real estate:							
Owner occupied	\$	\$ 24,796	\$ 9,065	\$	\$ 2,644	\$ 2,417	\$ 38,922
Non owner occupied		1,358	2,511		8,721	1,951	14,541
Commercial real estate	696,233	11,057	17,860		39,252	2,932	767,334
Commercial real estate - Purchased whole loans	33,852						33,852
Real estate construction	46,383	847	1,492		2,040	96	50,858
Commercial	109,113	2,003	252		2,370	937	114,675
Warehouse lines of credit	177,690						177,690
Home equity		648	1,705				2,353
Consumer:							
Credit cards							
Overdrafts							
Other consumer		46	57		103		206
Total rated loans	\$ 1,063,271	\$ 40,755	\$ 32,942	\$	\$ 55,130	\$ 8,333	\$ 1,200,431

December 31, 2012 (in thousands)	Pass	Special Mention / Watch	Substandard	Doubtful / Loss	Purchased Credit Impaired Loans Group 1*	Purchased Credit Impaired Loans Group 2**	Total Rated Loans***
Residential real estate:							
Owner occupied	\$	\$ 25,116	\$ 8,297	\$	\$ 2,277	\$ 136	\$ 35,826
Non owner occupied		2,484	3,211		21,453	323	27,471
Commercial real estate	608,599	16,648	18,953		54,071	340	698,611
Commercial real estate - Purchased whole loans	33,531						33,531
Real estate construction	73,434	894	2,919		2,846		80,093
Commercial	121,256	2,312	525		6,315	360	130,768
Warehouse lines of credit	216,576						216,576
Home equity		648	2,346				2,994
Consumer:							
Credit cards							
Overdrafts							
Other consumer		356	53		71	1	481
Total rated loans	\$ 1,053,396	\$ 48,458	\$ 36,304	\$	\$ 87,033	\$ 1,160	\$ 1,226,351

* - *Purchased Credit Impaired loans - Group 1 (PCI-1) are performing in accordance with management's day-one performance expectations and are considered equivalent to the Bank's Special Mention/Watch classification.*

** - *Purchased Credit Impaired loans - Group 2 (PCI-2) represent former PCI-1 loans downgraded subsequent to day-one. PCI-2 loans are generally considered impaired and could require loan loss provisions.*

*** - *The above tables exclude all non-classified residential real estate and consumer loans at the respective period ends. The tables also exclude most non-classified small commercial and commercial real estate relationships totaling \$100,000 or less. These loans are not rated since they are accruing interest and not past due 80 days or more.*

Table of Contents**Allowance for Loan Losses**

Activity in the allowance for loan losses follows:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Allowance for loan losses at beginning of period	\$ 23,563	\$ 23,732	\$ 23,729	\$ 24,063
Charge offs - Traditional Banking	(2,562)	(1,957)	(3,117)	(6,224)
Charge offs - Refund Anticipation Loans		(343)		(11,097)
Total charge offs	(2,562)	(2,300)	(3,117)	(17,321)
Recoveries - Traditional Banking	445	274	860	709
Recoveries - Refund Anticipation Loans	140	338	739	3,423
Total recoveries	585	612	1,599	4,132
Net loan (charge offs) recoveries - Traditional Banking	(2,117)	(1,683)	(2,257)	(5,515)
Net loan (charge offs) recoveries - Refund Anticipation Loans	140	(5)	739	(7,674)
Net loan (charge offs) recoveries	(1,977)	(1,688)	(1,518)	(13,189)
Provision for loan losses - Traditional Banking	1,045	831	1,019	3,962
Provision for loan losses - Refund Anticipation Loans	(140)	(365)	(739)	7,674
Total provision for loan losses	905	466	280	11,636
Allowance for loan losses at end of period	\$ 22,491	\$ 22,510	\$ 22,491	\$ 22,510

The Bank's allowance calculation has historically included specific allowance allocations for qualitative factors such as:

- Changes in nature, volume and seasoning of the loan portfolio;
- Changes in experience, ability and depth of lending management and other relevant staff;
- Changes in the quality of the Bank's loan review system;
- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Changes in the volume and severity of past due, non-accrual and classified loans;

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

- Changes in the value of underlying collateral for collateral-dependent loans;
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectibility of the loan portfolio, including the condition of various market segments;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution's existing portfolio.

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Table of Contents

The following tables present the activity in the allowance for loan losses by portfolio class for the quarters ended June 30, 2013 and 2012:

Quarter Ended June 30, 2013 (in thousands)	Residential Real Estate		Commercial Real Estate	Commercial Real Estate - Purchased Whole Loans	Real Estate Construction	Commercial	Warehouse Lines of Credit
	Owner Occupied	Non Owner Occupied					
Beginning balance	\$ 6,984	\$ 924	\$ 8,781	\$ 34	\$ 3,101	\$ 727	\$ 433
Provision for loan losses	991	(173)	572		(916)	244	29
Loans charged off	(512)	(115)	(651)		(600)	(310)	
Recoveries	100	6	61		2	49	
Ending balance	\$ 7,563	\$ 642	\$ 8,763	\$ 34	\$ 1,587	\$ 710	\$ 462

(continued)

	Home Equity	Refund Anticipation Loans	Credit Cards	Consumer Overdrafts	Other Consumer	Total
Beginning balance	\$ 1,909	\$	\$ 326	\$ 209	\$ 135	\$ 23,563
Provision for loan losses	83	(140)	63	71	81	905
Loans charged off	(93)		(50)	(130)	(101)	(2,562)
Recoveries	33	140	5	99	90	585
Ending balance	\$ 1,932	\$	\$ 344	\$ 249	\$ 205	\$ 22,491

Quarter Ended June 30, 2012 (in thousands)	Residential Real Estate		Commercial Real Estate	Commercial Real Estate - Purchased Whole Loans	Real Estate Construction	Commercial	Warehouse Lines of Credit
	Owner Occupied	Non Owner Occupied					
Beginning balance	\$ 6,015	\$ 1,176	\$ 8,946	\$	\$ 2,402	\$ 1,068	\$ 150
Allocation of previously unallocated allowance	1,117	146	47				
Provision for loan losses	(223)	(425)	(440)	40	1,169	(468)	73
Loans charged off	(753)		(295)		(501)	(7)	
Recoveries	34		13		27	10	
Ending balance	\$ 6,190	\$ 897	\$ 8,271	\$ 40	\$ 3,097	\$ 603	\$ 223

(continued)

Home Equity	Refund Anticipation Loans	Credit Cards	Consumer Overdrafts	Other Consumer	Unallocated*	Total
----------------	---------------------------------	-----------------	------------------------	-------------------	--------------	-------

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Beginning balance	\$	2,720	\$	370	\$	502	\$	115	\$	268	\$	23,732
Allocation of previously unallocated allowance*		536		47		17		55		(1,965)		
Provision for loan losses		(421)		(365)		(311)		6		(134)		466
Loans charged off		(199)		(343)		(50)		(100)		(52)		(2,300)
Recoveries		55		338		4		87		44		612
Ending balance	\$	2,691	\$		\$	192	\$	125	\$	181	\$	22,510

* Allocation was made January 1, 2012 based on a methodology change to the Company's allowance for loan losses.

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Table of Contents

The following tables present the activity in the allowance for loan losses by portfolio class for the six months ended June 30, 2013 and 2012:

Six Months Ended June 30, 2013 (in thousands)	Residential Real Estate		Commercial Real Estate	Commercial Real Estate - Purchased Whole Loans	Real Estate Construction	Commercial	Warehouse Lines of Credit
	Owner Occupied	Non Owner Occupied					
Beginning balance	\$ 7,006	\$ 1,049	\$ 8,843	\$ 34	\$ 2,769	\$ 580	\$ 541
Provision for loan losses	1,071	(263)	506		(620)	386	(79)
Loans charged off	(713)	(158)	(665)		(600)	(310)	
Recoveries	199	14	79		38	54	
Ending balance	\$ 7,563	\$ 642	\$ 8,763	\$ 34	\$ 1,587	\$ 710	\$ 462

(continued)

Beginning balance	\$ 2,348	\$	\$ 210	\$ 198	\$ 151	\$	\$ 23,729
Provision for loan losses	(352)	(739)	184	127	59		280
Loans charged off	(136)		(60)	(305)	(170)		(3,117)
Recoveries	72	739	10	229	165		1,599
Ending balance	\$ 1,932	\$	\$ 344	\$ 249	\$ 205	\$	\$ 22,491

Six Months Ended June 30, 2012 (in thousands)	Residential Real Estate		Commercial Real Estate	Commercial Real Estate - Purchased Whole Loans	Real Estate Construction	Commercial	Warehouse Lines of Credit
	Owner Occupied	Non Owner Occupied					
Beginning balance	\$ 5,212	\$ 1,142	\$ 7,724	\$	\$ 3,042	\$ 1,025	\$ 104
Allocation of previously unallocated allowance	1,117	146	47				
Provision for loan losses	2,046	(367)	770	40	1,796	(433)	119
Loans charged off	(2,074)	(298)	(316)		(1,796)	(7)	
Recoveries	151	12	46		55	18	
Ending balance	\$ 6,452	\$ 635	\$ 8,271	\$ 40	\$ 3,097	\$ 603	\$ 223

(continued)

Home Equity	Refund Anticipation Loans	Credit Cards	Consumer Overdrafts	Other Consumer	Unallocated*	Total
----------------	---------------------------------	-----------------	------------------------	-------------------	--------------	-------

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Beginning balance	\$	2,984	\$	503	\$	135	\$	227	\$	1,965	\$	24,063
Allocation of previously unallocated allowance*		536		47		17		55		(1,965)		
Provision for loan losses		424		7,674		(304)		(40)		(89)		11,636
Loans charged off		(1,314)		(11,097)		(78)		(218)		(123)		(17,321)
Recoveries		61		3,423		24		231		111		4,132
Ending balance	\$	2,691	\$	192	\$	125	\$	181	\$		\$	22,510

* Allocation was made January 1, 2012 based on a methodology change to the Company's allowance for loan losses.

Table of Contents**Non-performing Loans and Non-performing Assets**

Detail of non-performing loans and non-performing assets follows:

(dollars in thousands)	June 30, 2013	December 31, 2012
Loans on non-accrual status(1)	\$ 21,922	\$ 18,506
Loans past due 90 days-or-more and still on accrual(2)	2,159	3,173
Total non-performing loans	24,081	21,679
Other real estate owned	15,248	26,203
Total non-performing assets	\$ 39,329	\$ 47,882

Credit Quality Ratios:

Non-performing loans to total loans	0.92%	0.82%
Non-performing assets to total loans (including OREO)	1.49%	1.79%
Non-performing assets to total assets	1.19%	1.41%

(1) Loans on non-accrual status include impaired loans.

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

Non-performing loans and non-performing asset balances related to the 2012 acquisitions, and included in the tables above at June 30, 2013 and December 31, 2012, are presented below:

June 30, 2013 (dollars in thousands)	Tennessee Commerce Bank	First Commercial Bank	Total Acquired Banks
Loans on non-accrual status(1)	\$ 21	\$	\$ 21
Loans past due 90 days-or-more and still on accrual(2)	250	1,909	2,159
Total non-performing loans	271	1,909	2,180
Other real estate owned	590	5,523	6,113
Total non-performing assets	\$ 861	\$ 7,432	\$ 8,293

Credit Quality Ratios - Acquired Banks:

Non-performing loans to total loans	1.95%
Non-performing assets to total loans (including OREO)	7.04%
Non-performing assets to total assets	7.04%

- (1) *Loans on non-accrual status include impaired loans.*
- (2) *All loans 90 days past due and still accruing are PCI loans accounted for under ASC 310-30.*

Table of Contents

December 31, 2012 (dollars in thousands)	Tennessee Commerce Bank	First Commercial Bank	Total Acquired Banks
Loans on non-accrual status	\$	\$	\$
Loans past due 90-days-or-more and still on accrual	801	2,372	3,173
Total non-performing loans	801	2,372	3,173
Other real estate owned	2,100	12,398	14,498
Total non-performing assets	\$ 2,901	\$ 14,770	\$ 17,671

Credit Quality Ratios - Acquired Banks:

Non-performing loans to total loans	2.29%
Non-performing assets to total loans (including OREO)	11.54%
Non-performing assets to total assets	8.73%

See additional discussion regarding the TCB and FCB acquisitions under Footnote 2 2012 Acquisitions of Failed Banks in this section of the filing.

The following table presents the recorded investment in non-accrual loans and loans past due over 90 days still on accrual by class of loans:

(in thousands)	Non-Accrual Loans		Loans Past Due 90-Days-or-More and Still Accruing Interest	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Residential real estate:				
Owner occupied	\$ 8,757	\$ 9,298	\$ 111	\$ 730
Non owner occupied	2,361	1,376		
Commercial real estate	8,742	3,756	441	712
Commercial real estate - purchased whole loans				
Real estate construction	468	1,777		531
Commercial	323	334	1,607	1,200
Warehouse lines of credit				
Home equity	1,148	1,868		
Consumer:				
Credit cards				
Overdrafts				
Other consumer	123	97		
Total	\$ 21,922	\$ 18,506	\$ 2,159	\$ 3,173

Non-accrual loans and loans past due 90-days-or-more and still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Non-accrual loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and held current for six consecutive months and future payments are reasonably assured. TDRs on non-accrual are reviewed for return to accrual status on an individual basis, with additional consideration given to the modification terms. Loans 90-days-or-more past due and still on accrual are generally only PCI loans accounted for under Accounting Standards Codification (ASC) Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*.

Table of Contents

Delinquent Loans

The following tables present the aging of the recorded investment in loans by class of loans:

June 30, 2013 (dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due *	Total Loans Past Due	Total Loans Not Past Due	Total Loans
Residential real estate:						
Owner occupied	\$ 2,504	\$ 1,188	\$ 3,942	\$ 7,634	\$ 1,152,786	\$ 1,160,420
Non owner occupied	173	1,005	1,094	2,272	61,435	63,707
Commercial real estate	808	67	1,546	2,421	764,913	767,334
Commercial real estate - purchased whole loans					33,852	33,852
Real estate construction	96		371	467	50,391	50,858
Commercial		242	1,639	1,881	112,794	114,675
Warehouse lines of credit					177,690	177,690
Home equity	372	25	758	1,155	225,982	227,137
Consumer:						
Credit cards	63	25		88	8,568	8,656
Overdrafts	167			167	817	984
Other consumer	79	33		112	12,604	12,716
Total	\$ 4,262	\$ 2,585	\$ 9,350	\$ 16,197	\$ 2,601,832	\$ 2,618,029
Delinquent loans to total loans	0.16%	0.10%	0.36%	0.62%		

December 31, 2012 (dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due *	Total Loans Past Due	Total Loans Not Past Due	Total Loans
Residential real estate:						
Owner occupied	\$ 2,210	\$ 1,978	\$ 4,712	\$ 8,900	\$ 1,139,454	\$ 1,148,354
Non owner occupied	907	1,128	864	2,899	71,640	74,539
Commercial real estate	103	486	2,051	2,640	695,971	698,611
Commercial real estate - purchased whole loans					33,531	33,531
Real estate construction		194	1,930	2,124	77,969	80,093
Commercial	222	733	1,307	2,262	128,506	130,768
Warehouse lines of credit					216,576	216,576
Home equity	521	251	882	1,654	240,199	241,853
Consumer:						
Credit cards	60	5		65	8,651	8,716
Overdrafts	167	1		168	787	955
Other consumer	102	28	2	132	16,069	16,201
Total	\$ 4,292	\$ 4,804	\$ 11,748	\$ 20,844	\$ 2,629,353	\$ 2,650,197
Delinquent loans to total loans	0.16%	0.18%	0.44%	0.79%		

Table of Contents

An aging of the recorded investment in past due loans related to the 2012 acquisitions and included in the preceding tables at June 30, 2013 and December 31, 2012, are presented below:

June 30, 2013 (dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due *	Total Loans Past Due	Total Loans Not Past Due	Total Acquired Bank Loans
Residential real estate	\$ 267	\$ 484	\$ 111	\$ 862	\$ 34,673	\$ 35,535
Commercial real estate	446		441	887	61,252	62,139
Real estate construction	96			96	3,098	3,194
Commercial			1,607	1,607	3,862	5,469
Home equity					4,344	4,344
Consumer:						
Credit cards					251	251
Overdrafts	1			1	20	21
Other consumer	7	6		13	663	676
Total	\$ 817	\$ 490	\$ 2,159	\$ 3,466	\$ 108,163	\$ 111,629
Delinquent acquired bank loans to total acquired bank loans	0.73%	0.44%	1.93%	3.10%		
December 31, 2012 (dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due *	Total Loans Past Due	Total Loans Not Past Due	Total Acquired Bank Loans
Residential real estate	\$ 159	\$ 1,430	\$ 729	\$ 2,318	\$ 42,411	\$ 44,729
Commercial real estate		165	698	863	68,910	69,773
Real estate construction		194	531	725	6,811	7,536
Commercial		732	1,215	1,947	8,742	10,689
Home equity	83			83	4,485	4,568
Consumer:						
Credit cards					321	321
Overdrafts					12	12
Other consumer	4	27		31	957	988
Total	\$ 246	\$ 2,548	\$ 3,173	\$ 5,967	\$ 132,649	\$ 138,616
Delinquent acquired bank loans to total acquired bank loans	0.18%	1.84%	2.29%	4.30%		

* - All loans greater than 90 days past due or more, excluding purchased credit impaired loans, as of June 30, 2013 and December 31, 2012 were on non-accrual status.

See additional discussion regarding the TCB and FCB acquisitions under Footnote 2 2012 Acquisitions of Failed Banks in this section of the filing.

Table of Contents**Impaired Loans**

The Bank defines impaired loans as follows:

- All loans internally classified as Substandard, Doubtful or Loss;
- All loans on non-accrual status and loans past due over 90 days still on accrual;
- All retail and commercial troubled debt restructurings (TDRs). TDRs are loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties;
- All loans classified as PCI-2; and
- Any other situation where the collection of total amount due for a loan is improbable or otherwise meets the definition of impaired.

Information regarding the Bank's impaired loans follows:

(in thousands)	June 30, 2013	December 31, 2012
Loans with no allocated allowance for loan losses	\$ 40,312	\$ 36,325
Loans with allocated allowance for loan losses	69,672	69,382
Total impaired loans	\$ 109,984	\$ 105,707
Amount of the allowance for loan losses allocated	\$ 6,040	\$ 8,531

Approximately \$27 million, or 25%, of impaired loans at June 30, 2013 were loans acquired in the Bank's 2012 acquisitions. Substantially all of these loans became classified as impaired through a modification of the original loan, which the Bank deemed to be a TDR. *See additional discussion regarding the TCB and FCB acquisitions under Footnote 2 2012 Acquisitions of Failed Banks in this section of the filing.*

Table of Contents

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio class based on impairment method as of June 30, 2013 and December 31, 2012:

June 30, 2013 (in thousands)	Residential Real Estate Owner Occupied	Residential Real Estate Non Owner Occupied	Commercial Real Estate	Commercial Real Estate - Purchased Whole Loans	Real Estate Construction	Commercial	Warehouse Lines of Credit
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment, excluding PCI loans	\$ 2,895	\$ 77	\$ 1,884	\$	\$ 102	\$ 53	\$
Collectively evaluated for impairment	4,379	519	6,694	34	1,485	391	462
Acquired with deteriorated credit quality	289	46	185			266	
Total ending allowance for loan losses	\$ 7,563	\$ 642	\$ 8,763	\$ 34	\$ 1,587	\$ 710	\$ 462
Loans:							
Impaired loans individually evaluated, excluding PCI loans	\$ 40,596	\$ 3,420	\$ 29,922	\$	\$ 2,544	\$ 4,798	\$
Loans collectively evaluated for impairment	1,114,763	49,615	695,228	33,852	46,178	106,570	177,690
Loans acquired with deteriorated credit quality	5,061	10,672	42,184		2,136	3,307	
Total ending loan balance	\$ 1,160,420	\$ 63,707	\$ 767,334	\$ 33,852	\$ 50,858	\$ 114,675	\$ 177,690

(continued)

	Home Equity	Credit Cards	Consumer Overdrafts	Other Consumer	Total
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment, excluding PCI loans	\$ 183	\$	\$	\$ 60	\$ 5,254
Collectively evaluated for impairment	1,749	344	249	145	16,451
Acquired with deteriorated credit quality					786
Total ending allowance for loan losses	\$ 1,932	\$ 344	\$ 249	\$ 205	\$ 22,491
Loans:					

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Impaired loans individually evaluated, excluding PCI loans	\$	3,204	\$		\$	149	\$	84,633
Loans collectively evaluated for impairment		223,933		8,656		984		12,464
Loans acquired with deteriorated credit quality								103
Total ending loan balance	\$	227,137	\$	8,656	\$	984	\$	12,716
								\$ 2,618,029

Table of Contents

December 31, 2012 (in thousands)	Residential Real Estate Owner Occupied	Residential Real Estate Non Owner Occupied	Commercial Real Estate	Commercial Real Estate - Purchased Whole Loans	Real Estate Construction	Commercial	Warehouse Lines of Credit
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment, excluding PCI loans	\$ 3,033	\$ 518	\$ 2,906	\$	\$ 1,157	\$ 347	\$
Collectively evaluated for impairment	3,972	527	5,924	34	1,612	232	541
Acquired with deteriorated credit quality	1	4	13			1	
Total ending allowance for loan losses	\$ 7,006	\$ 1,049	\$ 8,843	\$ 34	\$ 2,769	\$ 580	\$ 541
Loans:							
Impaired loans individually evaluated, excluding PCI loans	\$ 42,340	\$ 4,419	\$ 30,544	\$	\$ 4,000	\$ 4,578	\$
Loans collectively evaluated for impairment	1,103,601	48,344	613,656	33,531	73,247	119,515	216,576
Loans acquired with deteriorated credit quality	2,413	21,776	54,411		2,846	6,675	
Total ending loan balance	\$ 1,148,354	\$ 74,539	\$ 698,611	\$ 33,531	\$ 80,093	\$ 130,768	\$ 216,576

(continued)

	Home Equity	Credit Cards	Consumer Overdrafts	Other Consumer	Total
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment, excluding PCI loans	\$ 496	\$	\$	\$ 55	\$ 8,512
Collectively evaluated for impairment	1,852	210	198	96	15,198
Acquired with deteriorated credit quality					19
Total ending allowance for loan losses	\$ 2,348	\$ 210	\$ 198	\$ 151	\$ 23,729
Loans:					
Impaired loans individually evaluated, excluding PCI loans	\$ 3,420	\$	\$	\$ 437	\$ 89,738
Loans collectively evaluated for impairment	238,433	8,716	955	15,692	2,472,266
Loans acquired with deteriorated credit quality				72	88,193

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Total ending loan balance	\$	241,853	\$	8,716	\$	955	\$	16,201	\$	2,650,197
---------------------------	----	---------	----	-------	----	-----	----	--------	----	-----------

Table of Contents

The following tables present loans individually evaluated for impairment by class of loans as of June 30, 2013 and December 31, 2012 and for the three and six months ended June 30, 2013 and 2012. The difference between the Unpaid Principal Balance and Recorded Investment columns represents life-to-date partial write downs/charge offs taken on individual impaired credits.

(in thousands)	Unpaid Principal Balance	Ending Balance As of June 30, 2013		Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
		Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:							
Residential real estate:							
Owner occupied	\$ 9,029	\$ 9,029	\$	\$ 11,625	\$ 109	\$ 12,119	\$ 205
Non owner occupied	1,406	1,245		1,778	5	1,450	7
Commercial real estate	22,065	23,248		22,676	561	19,881	827
Commercial real estate - purchased whole loans							
Real estate construction	2,022	2,022		2,292	67	2,223	90
Commercial	1,958	2,542		3,295	62	3,568	94
Warehouse lines of credit							
Home equity	2,217	2,152		2,313	35	2,057	51
Consumer:							
Credit cards							
Overdrafts							
Other consumer	73	73		248	2	294	2
Impaired loans with an allowance recorded:							
Residential real estate:							
Owner occupied	34,991	34,619	3,185	33,254	261	32,656	481
Non owner occupied	4,364	4,294	124	3,968	47	3,854	77
Commercial real estate	25,460	24,408	2,067	24,655	497	25,204	768
Commercial real estate - purchased whole loans							
Real estate construction	2,005	2,005	102	2,759	49	2,900	73
Commercial	3,481	3,193	319	2,931	81	2,906	124
Warehouse lines of credit							
Home equity	1,052	1,052	183	1,141	7	1,385	11
Consumer:							
Credit cards							
Overdrafts							
Other consumer	102	102	60	78	1	80	1
Total impaired loans	\$ 110,225	\$ 109,984	\$ 6,040	\$ 113,013	\$ 1,784	\$ 110,577	\$ 2,811

Table of Contents

(in thousands)	Ending Balance As of December 31, 2012			Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:							
Residential real estate:							
Owner occupied	\$ 13,299	\$ 13,107	\$	\$ 24,800	\$ 23	\$ 21,775	\$ 23
Non owner occupied	955	794		1,636	37	967	37
Commercial real estate	14,293	14,293		10,486	545	6,854	574
Commercial real estate - purchased whole loans							
Real estate construction	3,090	2,085		3,827	72	2,746	72
Commercial	4,206	4,114		2,208	69	1,910	69
Warehouse lines of credit							
Home equity	1,753	1,546		859	4	726	4
Consumer:							
Credit cards							
Overdrafts							
Other consumer	386	386		63		31	
Impaired loans with an allowance recorded:							
Residential real estate:							
Owner occupied	31,709	31,458	3,034	5,829	43	4,805	244
Non owner occupied	3,695	3,625	522	1,916	35	2,040	49
Commercial real estate	26,710	26,300	2,919	27,610	217	23,497	318
Commercial real estate - purchased whole loans							
Real estate construction	3,416	3,183	1,157	4,953		7,496	
Commercial	2,858	2,858	348	2,494	22	2,619	45
Warehouse lines of credit							
Home equity	1,874	1,874	496	1,582	11	1,898	11
Consumer:							
Credit cards							
Overdrafts							
Other consumer	84	84	55				
Total impaired loans	\$ 108,328	\$ 105,707	\$ 8,531	\$ 88,263	\$ 1,078	\$ 77,364	\$ 1,446

Table of Contents**Troubled Debt Restructurings**

A TDR is the situation where, due to a borrower's financial difficulties, the Bank grants a concession to the borrower that the Bank would not otherwise have considered. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank's internal underwriting policy.

All TDRs are considered Impaired loans, including loans acquired in acquisitions of failed banks and subsequently restructured. The majority of the Bank's commercial related and construction TDRs involve a restructuring of loan terms such as a reduction in the payment amount to require only interest and escrow (if required) and/or extending the maturity date of the loan. The substantial majority of the Bank's residential real estate TDRs involve reducing the client's loan payment through a rate reduction for a set period of time based on the borrower's ability to service the modified loan payment.

Management determines whether to classify a TDR as non-performing based on its accrual status prior to modification. Non-accrual loans modified as TDRs remain on non-accrual status and continue to be reported as non-performing loans for a minimum of six months. Accruing loans modified as TDRs are evaluated for non-accrual status based on a current evaluation of the borrower's financial condition and ability and willingness to service the modified debt. At June 30, 2013 and December 31, 2012, \$14 million and \$17 million of TDRs were also non-accrual loans.

Detail of TDRs differentiated by loan type and accrual status follows:

June 30, 2013 (in thousands)	Troubled Debt Restructurings on Non-Accrual Status	Troubled Debt Restructurings on Accrual Status	Total Troubled Debt Restructurings
Residential real estate	\$ 6,757	\$ 37,869	\$ 44,626
Commercial real estate	7,016	35,374	42,390
Real estate construction	97	3,434	3,531
Commercial		4,588	4,588
Total troubled debt restructurings	\$ 13,870	\$ 81,265	\$ 95,135

December 31, 2012 (in thousands)	Troubled Debt Restructurings on Non-Accrual Status	Troubled Debt Restructurings on Accrual Status	Total Troubled Debt Restructurings
Residential real estate	\$ 7,512	\$ 36,889	\$ 44,401
Commercial real estate	5,149	31,864	37,013
Real estate construction	1,595	3,127	4,722
Commercial	2,263	4,604	6,867
Total troubled debt restructurings	\$ 16,519	\$ 76,484	\$ 93,003

Table of Contents

The Bank considers a TDR to be performing to its modified terms if the loan is in accrual status and not past due 30 days or more as of the reporting date. A summary of the categories of TDR loan modifications outstanding and respective performance under modified terms at June 30, 2013 and December 31, 2012 follows:

June 30, 2013 (in thousands)	Troubled Debt Restructurings Performing to Modified Terms	Troubled Debt Restructurings Not Performing to Modified Terms	Total Troubled Debt Restructurings
Residential real estate loans (including home equity loans):			
Interest only payments	\$ 294	\$ 906	\$ 1,200
Rate reduction	24,999	3,055	28,054
Principal deferral	5,871	2,842	8,713
Bankruptcies	4,961	1,698	6,659
Total residential TDRs	36,125	8,501	44,626
Commercial related and construction loans:			
Interest only payments	616		616
Rate reduction	17,152	6,691	23,843
Principal deferral	25,326	491	25,817
Bankruptcies		233	233
Total commercial TDRs	43,094	7,415	50,509
Total troubled debt restructurings	\$ 79,219	\$ 15,916	\$ 95,135
December 31, 2012 (in thousands)	Troubled Debt Restructurings Performing to Modified Terms	Troubled Debt Restructurings Not Performing to Modified Terms	Total Troubled Debt Restructurings
Residential real estate loans (including home equity loans):			
Interest only payments	\$ 813	\$ 624	\$ 1,437
Rate reduction	24,779	4,004	28,783
Principal deferral	8,634	2,230	10,864
Bankruptcies	2,224	1,093	3,317
Total residential TDRs	36,450	7,951	44,401
Commercial related and construction loans:			
Interest only payments	689	1,742	2,431
Rate reduction	22,918	2,966	25,884
Principal deferral	19,841	194	20,035
Bankruptcies		252	252
Total commercial TDRs	43,448	5,154	48,602
Total troubled debt restructurings	\$ 79,898	\$ 13,105	\$ 93,003

As of June 30, 2013 and December 31, 2012, 83% and 86% of the Bank's TDRs were performing according to their modified terms. The Bank had provided \$5 million and \$7 million of specific reserve allocations to customers whose loan terms have been modified in TDRs as of June 30, 2013 and December 31, 2012. Specific reserve allocations are generally assessed prior to loans being modified as a TDR, as most of these loans migrate from the Bank's internal watch list and have been specifically provided for or reserved for as part of the Bank's normal loan loss provisioning methodology. The Bank had no commitments to lend any additional material amounts to its existing TDR relationships at June 30, 2013 and December 31, 2012.

Table of Contents

A summary of the categories of TDR loan modifications that occurred during the six months ended June 30, 2013 follows:

June 30, 2013 (in thousands)	Troubled Debt Restructurings Performing to Modified Terms	Troubled Debt Restructurings Not Performing to Modified Terms	Total Troubled Debt Restructurings
Residential real estate loans (including home equity loans):			
Interest only	\$ 64	\$ 64	\$ 64
Rate reduction	1,758	641	2,399
Principal deferral	460	293	753
Bankruptcies	2,885	1,243	4,128
Total residential TDRs	5,167	2,177	7,344
Commercial related and construction loans:			
Interest only	141		141
Principal deferral	8,339		8,339
Total commercial TDRs	8,480		8,480
Total troubled debt restructurings	\$ 13,647	\$ 2,177	\$ 15,824

The table above is inclusive of loans which were TDRs at the end of the previous year and were re-modified during the current year.

As of June 30, 2013, 86% of the Bank's TDRs that occurred during 2013 were performing according to their modified terms. The Bank has provided \$869,000 in specific reserve allocations to customers whose loan terms were modified in TDRs during 2013. As stated above, specific reserves are generally assessed prior to loans being modified as a TDR, as most of these loans migrate from the Bank's internal watch list and have been specifically reserved for as part of the Bank's normal reserving methodology.

There was no change between the pre and post modification loan balances at June 30, 2013 and December 31, 2012.

Table of Contents

The following table presents loans by class modified as troubled debt restructurings within the past twelve months for which there was a subsequent payment default:

(dollars in thousands)	Number of Loans	Recorded Investment
Residential real estate:		
Owner occupied	40	\$ 5,649
Non owner occupied		
Commercial real estate	1	302
Commercial real estate - purchased whole loans		
Real estate construction		
Commercial		
Warehouse lines of credit		
Home equity	6	415
Consumer:		
Credit cards		
Overdrafts		
Other consumer	4	358
Total	51	\$ 6,724

Table of Contents**5. DEPOSITS**

Ending deposit balances at June 30, 2013 and December 31, 2012 were as follows:

(in thousands)	June 30, 2013	December 31, 2012
Demand	\$ 620,367	\$ 580,900
Money market accounts	496,010	514,698
Brokered money market accounts	34,312	35,596
Savings	66,104	62,145
Individual retirement accounts*	30,061	32,491
Time deposits, \$100,000 and over*	71,513	80,906
Other certificates of deposit*	82,649	100,036
Brokered certificates of deposit*(1)	82,244	97,110
Total interest-bearing deposits	1,483,260	1,503,882
Total non interest-bearing deposits	487,787	479,046
Total deposits	\$ 1,971,047	\$ 1,982,928

(*) Represents a time deposit.

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

The composition of deposits related to the acquisitions of failed banks outstanding at June 30, 2013 and December 31, 2012 follows:

June 30, 2013 (in thousands)	Tennessee Commerce Bank	First Commercial Bank	Total Acquired Banks
Demand	\$ 1,153	\$ 2,802	\$ 3,955
Money market accounts	2,087	13,334	15,421
Savings	5,507		5,507
Individual retirement accounts*	730	1,456	2,186
Time deposits, \$100,000 and over*	5,896	2,666	8,562
Other certificates of deposit*	3,602	5,450	9,052
Brokered certificates of deposit*(1)	3,925	5,852	9,777
Total interest-bearing deposits	22,900	31,560	54,460
Total non interest-bearing deposits	3,517	6,237	9,754
Total deposits	\$ 26,417	\$ 37,797	\$ 64,214

(*) Represents a time deposit.

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

Table of Contents

December 31, 2012 (in thousands)	Tennessee Commerce Bank	First Commercial Bank	Total Acquired Banks
Demand	\$ 10,024	\$ 5,871	\$ 15,895
Money market accounts	1,510	25,762	27,272
Savings	217		217
Individual retirement accounts*	1,166	3,269	4,435
Time deposits, \$100,000 and over*	10,822	3,267	14,089
Other certificates of deposit*	7,196	12,574	19,770
Brokered certificates of deposit*(1)	6,729	12,247	18,976
Total interest-bearing deposits	37,664	62,990	100,654
Total non interest-bearing deposits	4,240	6,812	11,052
Total deposits	\$ 41,904	\$ 69,802	\$ 111,706

(*) Represents a time deposit.

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

See additional discussion regarding the TCB and FCB acquisitions under Footnote 2 2012 Acquisitions of Failed Banks in this section of the filing.

6. FEDERAL HOME LOAN BANK (FHLB) ADVANCES

At June 30, 2013 and December 31, 2012, FHLB advances were as follows:

(dollars in thousands)	June 30, 2013	December 31, 2012
Fixed interest rate advances with a weighted average interest rate of 2.17% due through 2023	\$ 492,044	\$ 442,600
Putable fixed interest rate advances with a weighted average interest rate of 4.39% due through 2017(1)	100,000	100,000
Total FHLB advances	\$ 592,044	\$ 542,600

(1) - Represents putable advances with the FHLB. These advances have original fixed rate periods ranging from one to five years with original maturities ranging from three to ten years if not put back to the Bank earlier by the FHLB. At the end of their respective fixed rate periods and on a quarterly basis thereafter, the FHLB has the right to require payoff of the advances by the Bank at no penalty. Based on market conditions at this time, the Bank does not believe that any of its putable advances are likely to be put back to the Bank in the short-term by the FHLB.

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At June 30, 2013, Republic had available collateral to borrow an additional \$316 million from the FHLB. In addition to its borrowing line with the FHLB, Republic also had unsecured lines of credit totaling \$196 million available through various other financial institutions.

Table of Contents

Aggregate future principal payments on FHLB advances, based on contractual maturity dates are detailed below:

Year	(in thousands)	
2013	\$	35,000
2014		178,000
2015		25,000
2016		82,000
2017		125,000
Thereafter		147,044
Total	\$	592,044

The following table illustrates real estate loans pledged to collateralize advances and letters of credit with the FHLB:

(in thousands)	June 30, 2013	December 31, 2012
First lien, single family residential real estate	\$ 1,122,223	\$ 1,053,946
Home equity lines of credit	107,157	116,043
Multi-family commercial real estate	9,085	11,695

Table of Contents

7. FAIR VALUE

Fair value represents the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Bank used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Securities available for sale: For all securities available for sale, excluding the Bank's private label mortgage backed security, fair value is typically determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). With the exception of the private label mortgage backed security, all securities available for sale are classified as Level 2 in the fair value hierarchy.

The Bank's private label mortgage backed security remains extremely illiquid, and as such, the Bank classifies this security as a Level 3 security in accordance with ASC Topic 820, *Fair Value Measurements and Disclosures*. Based on this determination, the Bank utilized an income valuation model (present value model) approach, in determining the fair value of this security.

Mortgage loans held for sale: The fair value of mortgage loans held for sale is determined using quoted secondary market prices. Mortgage loans held for sale are classified as Level 2 in the fair value hierarchy.

Derivative instruments: Mortgage Banking derivatives used in the ordinary course of business primarily consist of mandatory forward sales contracts (forward contracts) and rate lock loan commitments. The fair value of the Bank's derivative instruments is primarily measured by obtaining pricing from broker-dealers recognized to be market participants. The pricing is derived from market observable inputs that can generally be verified and do not typically involve significant judgment by the Bank. Forward contracts and rate lock loan commitments are

classified as Level 2 in the fair value hierarchy.

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses for anticipated selling costs of the underlying collateral. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Table of Contents

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

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

Mortgage Servicing Rights: On a monthly basis, mortgage servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. If the carrying amount of an individual tranche exceeds fair value, impairment is recorded on that tranche so that the servicing asset is carried at fair value. The valuation model utilizes assumptions that market participants would use in estimating future net servicing income and that can generally be validated against available market data (Level 2).

Table of Contents

Assets and liabilities measured at fair value on a **recurring basis**, including financial assets and liabilities for which the Bank has elected the fair value option, are summarized below:

(in thousands)	Fair Value Measurements at June 30, 2013 Using:				Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Financial Assets:					
Securities available for sale:					
U.S. Treasury securities and U.S. Government agencies					
	\$	\$	45,516	\$	\$ 45,516
Private label mortgage backed security					
				5,641	5,641
Mortgage backed securities - residential Collateralized mortgage obligations					
			150,055		150,055
			204,148		204,148
Corporate bonds					
			14,971		14,971
Total securities available for sale	\$	\$	414,690	\$ 5,641	\$ 420,331
Mandatory forward contracts					
	\$	\$	279	\$	\$ 279
Rate lock loan commitments					
			446		446
Mortgage loans held for sale					
			24,174		24,174

(in thousands)	Fair Value Measurements at December 31, 2012 Using:				Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Financial Assets:					
Securities available for sale:					
U.S. Treasury securities and U.S. Government agencies					
	\$	\$	39,472	\$	\$ 39,472
Private label mortgage backed security					
				5,687	5,687
Mortgage backed securities - residential Collateralized mortgage obligations					
			197,210		197,210
			195,877		195,877
Total securities available for sale	\$	\$	432,559	\$ 5,687	\$ 438,246
Mandatory forward contracts					
	\$	\$	47	\$	\$ 47
Rate lock loan commitments					
			833		833
Mortgage loans held for sale					
			10,614		10,614

There were no transfers into or out of Level 1, 2 or 3 assets during the three and six months ended June 30, 2013 and 2012. All transfers between levels, if applicable, would be generally recognized at the end of each quarter.

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Table of Contents

The table below presents a reconciliation of the Bank's private label mortgage backed security. This is the only asset that was measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods ended June 30, 2013 and 2012:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Balance, beginning of period	\$ 5,688	\$ 4,520	\$ 5,687	\$ 4,542
Total gains or losses included in earnings:				
Net change in unrealized gain/(loss)	238	59	422	37
Principal paydowns	(285)		(468)	
Balance, end of period	\$ 5,641	\$ 4,579	\$ 5,641	\$ 4,579

The Bank's single private label mortgage backed security is supported by analysis prepared by an independent third party. The third party's approach to determining fair value involved the following steps: 1) detailed collateral analysis of the underlying mortgages, including consideration of geographic location, original loan-to-value and the weighted average Fair Isaac Corporation (FICO) score of the borrowers; 2) collateral performance projections for each pool of mortgages underlying the security (probability of default, severity of default, and prepayment probabilities) and 3) discounted cash flow modeling.

There were no transfers into or out of Level 3 assets during the three and six months ended June 30, 2013 and 2012.

See Footnote 3 Investment Securities for additional detail regarding the private label mortgage backed security in this section of the filing.

The following table presents quantitative information about recurring Level 3 fair value measurements at June 30, 2013 and December 31, 2012:

June 30, 2013 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range
Private label mortgage backed security	\$ 5,641	Discounted cash flow	Constant prepayment rate	0.5% - 7%
			Probability of default	3% - 6.50%
			Loss severity	60% - 85%
December 31, 2012 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range
Private label mortgage backed security	\$ 5,687	Discounted cash flow	Constant prepayment rate	1% - 6%
			Probability of default	3.50% - 7%

Loss severity

60% - 70%

The significant unobservable inputs in the fair value measurement of the Bank's single private label mortgage backed security are prepayment rates, probability of default and loss severity in the event of default. Significant fluctuations in any of those inputs in isolation would result in a significantly lower/higher fair value measurement.

Table of Contents

Assets measured at fair value on a **non-recurring basis** are summarized below:

(in thousands)	Fair Value Measurements at June 30, 2013 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Impaired loans:				
Residential real estate:				
Owner occupied	\$	\$	\$ 1,005	\$ 1,005
Commercial real estate			7,030	7,030
Real estate construction			97	97
Commercial			49	49
Total impaired loans *	\$	\$	\$ 8,181	\$ 8,181
Other real estate owned:				
Residential real estate:				
Owner occupied	\$	\$	\$ 143	\$ 143
Non owner occupied			10	10
Commercial real estate			260	260
Real estate construction			4,908	4,908
Total other real estate owned	\$	\$	\$ 5,321	\$ 5,321
Mortgage servicing rights**	\$	\$ 683	\$	\$ 683

(in thousands)	Fair Value Measurements at December 31, 2012 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Impaired loans:				
Residential real estate:				
Owner occupied	\$	\$	\$ 782	\$ 782
Non owner occupied			1,788	1,788
Commercial real estate			15,618	15,618
Real estate construction			1,552	1,552
Commercial			182	182
Home equity			303	303
Total impaired loans *	\$	\$	\$ 20,225	\$ 20,225
Other real estate owned:				
Residential real estate:				
Owner occupied	\$	\$	\$ 1,195	\$ 1,195
Non owner occupied				
Commercial real estate			1,219	1,219
Real estate construction			5,161	5,161
Total other real estate owned	\$	\$	\$ 7,575	\$ 7,575

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Mortgage servicing rights**	\$	\$	3,484	\$	\$	3,484
-----------------------------	----	----	-------	----	----	-------

* - Impaired loan balances exclude TDRs measured for impairment using the present value of future cash flows.

** - Mortgage Servicing Rights at fair value only include those tranches which were considered impaired at the reported period end.

Table of Contents

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a **non-recurring basis** at June 30, 2013 and December 31, 2012:

June 30, 2013 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans - commercial real estate	\$ 7,127	Sales comparison approach	Adjustments determined by Management for differences between the comparable sales	13% - 22% (17%)
Impaired loans - residential real estate	\$ 1,005	Sales comparison approach	Adjustments determined by Management for differences between the comparable sales	10% - 76% (14%)
Impaired loans - commercial	\$ 49	Sales comparison approach	Adjustments determined by Management for differences between the comparable sales	12% (12%)
Other real estate owned - residential	\$ 153	Sales comparison approach	Adjustments determined by Management for differences between the comparable sales	13% - 60% (35%)
Other real estate owned - commercial real estate	\$ 260	Sales comparison approach	Adjustments determined by Management for differences between the comparable sales	4% (4%)
Other real estate owned - real estate construction	\$ 635	Sales comparison approach	Adjustments determined by Management for differences between the comparable sales	26% - 47% (39%)
	\$ 4,273	Income approach	Adjustments for differences between net operating income expectations	14% (14%)

Table of Contents

December 31, 2012 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans - commercial real estate	\$ 15,230	Sales comparison approach	Adjustments determined by Management for differences between the comparable sales	0% - 50% (18%)
	\$ 1,940	Income approach	Adjustments for differences between net operating income expectations	12% - 12% (12%)
Impaired loans - residential real estate	\$ 2,873	Sales comparison approach	Adjustments determined by Management for differences between the comparable sales	2% - 60% (17%)
Impaired loans - commercial	\$ 182	Sales comparison approach	Adjustments determined by Management for differences between the comparable sales	0% - 50% (44%)
Other real estate owned - residential	\$ 1,195	Sales comparison approach	Adjustments determined by Management for differences between the comparable sales	4% - 71% (14%)
Other real estate owned - commercial real estate	\$ 1,219	Sales comparison approach	Adjustments determined by Management for differences between the comparable sales	1% - 33% (16%)
Other real estate owned - real estate construction	\$ 663	Sales comparison approach	Adjustments determined by Management for differences between the comparable sales	1% - 54% (35%)
	\$ 4,498	Income approach	Adjustments for differences between net operating income expectations	25% - 25% (25%)

The following section details impairment charges recognized during the period:

Investment Securities

During 2013 and 2012, the Bank did not realize any further impairment losses related to its single Level 3 private label mortgage backed security. See Footnote 3 *Investment Securities* for additional detail regarding the private label mortgage backed security in this section of the filing.

Table of Contents

Impaired Loans

Collateral dependent impaired loans are measured for impairment using the fair market value for reasonable disposition of the underlying collateral. The Bank's practice is to obtain new or updated appraisals on the loans subject to the initial impairment review and then to evaluate the need for an update to this value on an as necessary or possibly annual basis thereafter (depending on the market conditions impacting the value of the collateral). The Bank will discount the appraisal amount, as necessary for selling costs and past due real estate taxes. If a new or updated appraisal is not available at the time of a loan's impairment review, the Bank may apply a discount to the existing value of an old appraisal to reflect the property's current estimated value if it is believed to have deteriorated in either: (i) the physical or economic aspects of the subject property or (ii) material changes in market conditions. The review may result in an increase in the allowance for loan loss or in a partial charge-off of the loan. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using this fair value method.

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans are as follows:

(in thousands)	June 30, 2013		December 31, 2012	
Carrying amount of loans measured at fair value	\$	8,181	\$	23,070
Estimated selling costs considered in carrying amount		1,114		1,839
Valuation allowance		(1,114)		(4,684)
Total fair value	\$	8,181	\$	20,225

Other Real Estate Owned

Other real estate owned, which is carried at the lower of cost or fair value, is periodically assessed for impairment based on fair value at the reporting date. Fair value is determined from external appraisals using judgments and estimates of external professionals. Many of these inputs are not observable and, accordingly, these measurements are classified as Level 3. The fair value of the Bank's individual other real estate owned properties exceeded their carrying value at June 30, 2013 and December 31, 2012.

Details of other real estate owned carrying value and write downs follows:

(in thousands)	June 30, 2013		December 31, 2012	
Carrying value of other real estate owned	\$	15,248	\$	26,203

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Other real estate owned write-downs	\$	518	\$	115
			\$	884
			\$	341

Table of Contents**Mortgage Servicing Rights**

MSRs are carried at lower of cost or fair value with fair value determined by MSR tranche. One of 23 tranches was carried at fair value at June 30, 2013. Nine of 21 tranches were carried at fair value at December 31, 2012. Details of the tranches carried at fair value follow:

(in thousands)	June 30, 2013		December 31, 2012	
Outstanding balance	\$	716	\$	3,829
Valuation allowance		(33)		(345)
Fair value	\$	683	\$	3,484

(in thousands)	Three Months Ended June 30,			Six Months Ended June 30,				
	2013	2012	2013	2012	2013	2012		
Charge (credit) to mortgage banking income due to impairment evaluation	\$	(160)	\$	(42)	\$	(312)	\$	(31)

Mortgage Loans Held for Sale

The Bank has elected the fair value option for mortgage loans held for sale. These loans are intended for sale and the Bank believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loan and in accordance with Bank policy for such instruments. None of these loans were 90 days or more past due nor on nonaccrual as of June 30, 2013 and December 30, 2012.

As of June 30, 2013 and December 31, 2012, the aggregate fair value, contractual balance (including accrued interest), and gain or loss was as follows:

(in thousands)	June 30, 2013		December 31, 2012	
Aggregate fair value	\$	24,174	\$	10,614
Contractual balance		23,710		10,037
Gain		464		577

The total amount of gains and losses from changes in fair value included in earnings for the three and six months ended June 30, 2013 and 2012 for mortgage loans held for sale are presented in the following table:

Three Months Ended June 30,	Six Months Ended June 30,
--------------------------------	------------------------------

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

(in thousands)	2013		2012	
Interest income	\$	145	\$	53
Change in fair value		(247)		(5)
Total change in fair value	\$	(102)	\$	48

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Table of Contents

The carrying amounts and estimated fair values of all financial instruments, at June 30, 2013 and December 31, 2012 follows:

(in thousands)	Carrying Value	Fair Value Measurements at June 30, 2013 Using:			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash and cash equivalents	\$ 97,690	\$ 97,690	\$	\$	\$ 97,690
Securities available for sale	420,331		414,690	5,641	420,331
Securities to be held to maturity	55,169		55,704		55,704
Mortgage loans held for sale	24,174		24,174		24,174
Loans, net of allowance for loan losses	2,595,538			2,629,630	2,629,630
Federal Home Loan Bank stock	28,342				N/A
Accrued interest receivable	8,641		8,641		8,641
Liabilities:					
Non interest-bearing deposits	487,787		487,787		487,787
Transaction and money market deposits	1,216,793		1,216,793		1,216,793
Time deposits	266,467		268,871		268,871
Securities sold under agreements to repurchase and other short-term borrowings	128,532		128,532		128,532
Federal Home Loan Bank advances	592,044		609,308		609,308
Subordinated note	41,240		38,088		38,088
Accrued interest payable	1,414		1,414		1,414

(in thousands)	Carrying Value	Fair Value Measurements at December 31, 2012 Using:			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash and cash equivalents	\$ 137,691	\$ 137,691	\$	\$	\$ 137,691
Securities available for sale	438,246		432,559	5,687	438,246
Securities to be held to maturity	46,010		46,416		46,416
Mortgage loans held for sale	10,614		10,614		10,614
Loans, net of allowance for loan losses	2,626,468			2,702,686	2,702,686
Federal Home Loan Bank stock	28,377				N/A
Accrued interest receivable	9,245		9,245		9,245
Liabilities:					
Non interest-bearing deposits	479,046		479,046		479,046
Transaction and money market deposits	1,193,339		1,193,339		1,193,339
Time deposits	310,543		314,972		314,972
Securities sold under agreements to repurchase and other short-term borrowings	250,884		250,884		250,884
Federal Home Loan Bank advances	542,600		576,158		576,158
Subordinated note	41,240		37,917		37,917
Accrued interest payable	1,403		1,403		1,403

Table of Contents

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the Bank's estimates.

The assumptions used in the estimation of the fair value of the Company's financial instruments are explained below. Where quoted market prices are not available, fair values are based on estimates using discounted cash flow and other valuation techniques. Discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following fair value estimates cannot be substantiated by comparison to independent markets and should not be considered representative of the liquidation value of the Company's financial instruments, but rather a good-faith estimate of the fair value of financial instruments held by the Company. Certain financial instruments and all nonfinancial instruments are excluded from disclosure requirements.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and cash equivalents The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Mortgage loans held for sale The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a Level 2 classification.

Loans, net of allowance for loan losses The fair value of loans is calculated using discounted cash flows by loan type resulting in a Level 3 classification. The discount rate used to determine the present value of the loan portfolio is an estimated market rate that reflects the credit and interest rate risk inherent in the loan portfolio without considering widening credit spreads due to market illiquidity. The estimated maturity is based on the Bank's historical experience with repayments adjusted to estimate the effect of current market conditions. The allowance for loan losses is considered a reasonable discount for credit risk. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Federal Home Loan Bank stock It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Accrued interest receivable/payable The carrying amounts of accrued interest, due to their short-term nature, approximates fair value resulting in a Level 2 classification.

Deposits Fair values for certificates of deposit have been determined using discounted cash flows. The discount rate used is based on estimated market rates for deposits of similar remaining maturities and are classified as Level 2. The carrying amounts of all other deposits, due to their short-term nature, approximate their fair values and are also classified as Level 2.

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Securities sold under agreements to repurchase The carrying amount for securities sold under agreements to repurchase generally maturing within ninety days approximates its fair value resulting in a Level 2 classification.

Federal Home Loan Bank advances The fair value of the FHLB advances is obtained from the FHLB and is calculated by discounting contractual cash flows using an estimated interest rate based on the current rates available to the Company for debt of similar remaining maturities and collateral terms resulting in a Level 2 classification.

Subordinated note The fair value for subordinated debentures is calculated using discounted cash flows based upon current market spreads to LIBOR for debt of similar remaining maturities and collateral terms resulting in a Level 2 classification.

The fair value estimates presented herein are based on pertinent information available to management as of the respective period ends. Although management is not aware of any factors that would dramatically affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, estimates of fair value may differ significantly from the amounts presented.

Table of Contents**8. MORTGAGE BANKING ACTIVITIES**

Activity for mortgage loans held for sale was as follows:

June 30, (in thousands)	2013		2012	
Balance, January 1	\$	10,614	\$	4,392
Origination of mortgage loans held for sale		208,094		100,418
Proceeds from the sale of mortgage loans held for sale		(199,942)		(104,439)
Net gain on sale of mortgage loans held for sale		5,408		3,722
Balance, June 30	\$	24,174	\$	4,093

Mortgage Banking activities primarily include residential mortgage originations and servicing. The following table presents the components of Mortgage Banking income:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net gain realized on sale of mortgage loans held for sale	\$ 3,439	\$ 1,642	\$ 5,677	\$ 3,185
Net change in fair value recognized on loans held for sale	(247)	(5)	(113)	52
Net change in fair value recognized on rate lock commitments	(1,521)	579	(388)	523
Net change in fair value recognized on forward contracts	453	(182)	232	(38)
Net gain recognized	2,124	2,034	5,408	3,722
Loan servicing income	546	599	1,092	1,235
Amortization of mortgage servicing rights	(650)	(712)	(1,358)	(1,671)
Change in mortgage servicing rights valuation allowance	160	42	312	31
Net servicing income recognized	56	(71)	46	(405)
Total Mortgage Banking income	\$ 2,180	\$ 1,963	\$ 5,454	\$ 3,317

Activity for capitalized mortgage servicing rights was as follows:

June 30, (in thousands)	2013		2012	
Balance, January 1	\$	4,777	\$	6,087
Additions		1,574		904

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Amortized to expense		(1,358)		(1,671)
Change in valuation allowance		312		31
Balance, June 30	\$	5,305	\$	5,351

Table of Contents

Activity for the valuation allowance for capitalized mortgage servicing rights was as follows:

June 30, (in thousands)	2013	2012
Balance, January 1	\$ (345)	\$ (203)
Additions		(11)
Reductions credited to operations	312	42
Balance, June 30	\$ (33)	\$ (172)

Other information relating to mortgage servicing rights follows:

(dollars in thousands)	June 30, 2013	December 31, 2012
Fair value of mortgage servicing rights portfolio	\$ 6,861	\$ 5,446
Prepayment speed range	123% - 550%	112% - 550%
Discount rate	9%	9%
Weighted average default rate	1.50%	1.50%
Weighted average life in years	5.51	3.89

Mortgage Banking derivatives used in the ordinary course of business primarily consist of mandatory forward sales contracts and rate lock loan commitments. Mandatory forward contracts represent future commitments to deliver loans at a specified price and date and are used to manage interest rate risk on loan commitments and mortgage loans held for sale. Rate lock loan commitments represent commitments to fund loans at a specific rate. These derivatives involve underlying items, such as interest rates, and are designed to transfer risk. Substantially all of these instruments expire within 90 days from the date of issuance. Notional amounts are amounts on which calculations and payments are based, but which do not represent credit exposure, as credit exposure is limited to the amounts required to be received or paid.

Mandatory forward contracts also contain an element of risk in that the counterparties may be unable to meet the terms of such agreements. In the event the counterparties fail to deliver commitments or are unable to fulfill their obligations, the Bank could potentially incur significant additional costs by replacing the positions at then current market rates. The Bank manages its risk of exposure by limiting counterparties to those banks and institutions deemed appropriate by management and the Board of Directors. The Bank does not expect any counterparty to default on their obligations and therefore, the Bank does not expect to incur any cost related to counterparty default.

The Bank is exposed to interest rate risk on loans held for sale and rate lock loan commitments. As market interest rates fluctuate, the fair value of mortgage loans held for sale and rate lock commitments will decline or increase. To offset this interest rate risk, the Bank enters into derivatives such as mandatory forward contracts to sell loans. The fair value of these mandatory forward contracts will fluctuate as market interest rates fluctuate, and the change in the value of these instruments is expected to largely, though not entirely, offset the change in fair value of loans held for sale and rate lock commitments. The objective of this activity is to minimize the exposure to losses on rate loan lock commitments and loans held for sale due to market interest rate fluctuations. The net effect of derivatives on earnings will depend on risk management activities and a variety of other factors, including market interest rate volatility, the amount of rate lock commitments that close, the ability to fill the forward contracts before expiration, and the time period required to close and sell loans.

Table of Contents

The following table includes the notional amounts and fair values of mortgage loans held for sale and mortgage banking derivatives as of the period ends presented:

(in thousands)	June 30, 2013		December 31, 2012	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in Mortgage loans held for sale:				
Mortgage loans held for sale	\$ 23,710	\$ 24,174	\$ 10,037	\$ 10,614
Included in other assets:				
Rate lock loan commitments	\$ 70,447	\$ 446	\$ 48,308	\$ 833
Mandatory forward contracts	44,247	279	36,675	47
Total included in other assets	\$ 114,694	\$ 725	\$ 84,983	\$ 880

Table of Contents**9. OFF BALANCE SHEET RISKS, COMMITMENTS AND CONTINGENT LIABILITIES**

The Bank, in the normal course of business, is party to financial instruments with off balance sheet risk. These financial instruments primarily include commitments to extend credit and standby letters of credit. The contract or notional amounts of these instruments reflect the potential future obligations of the Bank pursuant to those financial instruments. Creditworthiness for all instruments is evaluated on a case by case basis in accordance with the Bank's credit policies. Collateral from the customer may be required based on the Bank's credit evaluation of the customer and may include business assets of commercial customers, as well as personal property and real estate of individual customers or guarantors.

The Bank also extends binding commitments to customers and prospective customers. Such commitments assure the borrower of financing for a specified period of time at a specified rate. The risk to the Bank under such loan commitments is limited by the terms of the contracts. For example, the Bank may not be obligated to advance funds if the customer's financial condition deteriorates or if the customer fails to meet specific covenants. An approved but unfunded loan commitment represents a potential credit risk once the funds are advanced to the customer. Unfunded loan commitments also represent liquidity risk since the customer may demand immediate cash that would require funding and interest rate risk as market interest rates may rise above the rate committed. In addition, since a portion of these loan commitments normally expire unused, the total amount of outstanding commitments at any point in time may not require future funding. Loan commitments generally have open-ended maturities and variable rates.

The table below presents the Bank's commitments, exclusive of Mortgage Banking loan commitments for each period ended:

(in thousands)	June 30, 2013	December 31, 2012
Unused warehouse lines of credit	\$ 175,310	\$ 113,924
Unused home equity lines of credit	224,688	232,719
Unused loan commitments - other	176,206	163,523
Standby letters of credit	10,294	16,985
FHLB letters of credit	11,683	11,908
Total commitments	\$ 598,181	\$ 539,059

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

At June 30, 2013 and December 31, 2012, the Bank had letters of credit from the FHLB issued on behalf of two RB&T clients. These letters of credit were used as credit enhancements for client bond offerings and reduced RB&T's available borrowing line at the FHLB. The Bank uses a blanket pledge of eligible real estate loans to secure these letters of credit.

Table of Contents

On August 1, 2011, a lawsuit was filed in the U.S. District Court for the Western District of Kentucky styled *Brenda Webb vs. Republic Bank & Trust Company d/b/a Republic Bank*, Civil Action No. 3:11-CV-00423-TBR. The Complaint was brought as a putative class action and seeks monetary damages, restitution and declaratory relief allegedly arising from the manner in which RB&T assessed overdraft fees. In the Complaint, the Plaintiff pleads six claims against RB&T alleging: breach of contract and breach of the covenant of good faith and fair dealing (Count I), unconscionability (Count II), conversion (Count III), unjust enrichment (Count IV), violation of the Electronic Funds Transfer Act and Regulation E (Count V), and violations of the Kentucky Consumer Protection Act, (Count VI). RB&T filed a Motion to Dismiss the case on January 12, 2012. In response, Plaintiff filed her Motion to Amend the Complaint on February 23, 2012. In Plaintiff's proposed Amended Complaint, Plaintiff acknowledged disclosure of the Overdraft Honor Policy and did not seek to add any claims to the Amended Complaint. However, Plaintiff divided the breach of contract and breach of the covenant of good faith and fair dealing claims into two counts (Counts One and Two). In the original Complaint, those claims were combined in Count One. RB&T filed its objection to Plaintiff's Motion to Amend. On June 16, 2012, the District Court denied the Plaintiff's Motion to Amend concluding that the Plaintiff lacked the ability to automatically amend the complaint as of right. However, the Court held that the Plaintiff could be permitted to amend if the Plaintiff could first demonstrate that her amendment would not be futile and that the Plaintiff had standing to sue despite RB&T's offer of judgment. The Court declined to rule on that issue at that time and ordered the case stayed pending a decision by the U.S. Court of Appeals for the Sixth Circuit in a case on appeal with the same standing issue. The Sixth Circuit ruled on June 11, 2013 and concluded that the offer of judgment did not moot the matter before it only because the offer of judgment in question did not afford the plaintiff complete relief. The District Court lifted the stay of this matter on June 14, 2013 and permitted Plaintiff to file her Amended Complaint. Plaintiff filed her Amended Complaint on June 21, 2013 and brought six claims: breach of contract and breach of the covenant of good faith and fair dealing (Counts I & II), unconscionability (Count III), conversion (Count IV), unjust enrichment (Count V), violation of the Electronic Funds Transfer Act, (Count VI) and violation of the Kentucky Consumer Protection Act (Count VII). RB&T filed its Motion to Dismiss the Amended Complaint on July 15, 2013. Plaintiff has not yet responded to the Motion to Dismiss.

10. EARNINGS PER SHARE

Class A and Class B shares participate equally in undistributed earnings. The difference in earnings per share between the two classes of common stock results solely from the 10% per share cash dividend premium paid on Class A Common Stock over that paid on Class B Common Stock.

A reconciliation of the combined Class A and Class B Common Stock numerators and denominators of the earnings per share and diluted earnings per share computations is presented below:

(in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$ 6,119	\$ 9,578	\$ 19,475	\$ 92,050
Weighted average shares outstanding	20,782	20,958	20,823	20,957
Effect of dilutive securities	76	59	72	77
Average shares outstanding including dilutive securities	20,858	21,017	20,895	21,034
Basic earnings per share:				
Class A Common Share	\$ 0.30	\$ 0.46	\$ 0.94	\$ 4.40
Class B Common Share	0.28	0.44	0.91	4.37
Diluted earnings per share:				

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Class A Common Share	\$	0.30	\$	0.46	\$	0.94	\$	4.38
Class B Common Share		0.28		0.44		0.90		4.35

Table of Contents

Stock options excluded from the detailed earnings per share calculation because their impact was antidilutive are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Antidilutive stock options	122,450	232,550	128,450	220,550

11. SEGMENT INFORMATION

Reportable segments are determined by the type of products and services offered and the level of information provided to the chief operating decision maker, who uses such information to review performance of various components of the business (such as branches and subsidiary banks), which are then aggregated if operating performance, products/services, and customers are similar.

As of June 30, 2013, the Company was divided into three distinct business operating segments: Traditional Banking, Mortgage Banking and Republic Processing Group (RPG). During 2012, the Company realigned the previously reported Tax Refund Solutions (TRS) segment as a division of the newly formed RPG segment. Along with the TRS division, Republic Payment Solutions (RPS) and Republic Credit Solutions (RCS) also operate as divisions of the newly formed RPG segment.

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

For the projected near-term, as the prepaid card and consumer credit programs are being established, the operating results of these divisions are expected to be immaterial to the Company s overall results of operations and will be reported as part of the RPG business operating segment. The RPS and RCS divisions will not be reported as separate business operating segments until such time, if any, that they become material to the Company s overall results of operations.

Loans, investments and deposits provide the majority of the net revenue from Traditional Banking operations, while servicing fees and loan sales provide the majority of revenue from Mortgage Banking operations. Prior to 2013, RAL fees and net RT fees provided the majority of the revenue for RPG. In 2013, net RT fees has provided, and is expected to continue to provide going forward, the majority of revenues for RPG as the Company no longer offers RALs. All Company operations are domestic.

The accounting policies used for Republic s reportable segments are the same as those described in the summary of significant accounting policies. Segment performance is evaluated using operating income. Goodwill is not allocated. Income taxes which are not segment specific are allocated based on income before income tax expense. Transactions among reportable segments are made at fair value.

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Table of Contents

Segment information for the three and six months ended June 30, 2013 and 2012 follows:

(dollars in thousands)	Three Months Ended June 30, 2013			
	Traditional Banking	Mortgage Banking	Republic Processing Group	Total Company
Net interest income	\$ 28,606	\$ 145	\$ 16	\$ 28,767
Provision for loan losses	1,045		(140)	905
Net refund transfer fees			1,683	1,683
Mortgage banking income		2,180		2,180
Other non interest income	6,660	75	185	6,920
Total non interest income	6,660	2,255	1,868	10,783
Total non interest expenses	25,443	906	3,350	29,699
Income before income tax expense	8,778	1,494	(1,326)	8,946
Income tax expense	2,768	523	(464)	2,827
Net income	\$ 6,010	\$ 971	\$ (862)	\$ 6,119
Segment end of period assets	\$ 3,277,181	\$ 29,891	\$ 9,993	\$ 3,317,065
Net interest margin	3.57%	NM	NM	3.56%

(dollars in thousands)	Three Months Ended June 30, 2012			
	Traditional Banking	Mortgage Banking	Republic Processing Group	Total Company
Net interest income	\$ 28,090	\$ 53	\$ 169	\$ 28,312
Provision for loan losses	831		(365)	466
Net refund transfer fees			6,147	6,147
Mortgage banking income		1,963		1,963
Bargain purchase gain - TCB	(96)			(96)
Other non interest income	6,036	11	25	6,072
Total non interest income	5,940	1,974	6,172	14,086
Total non interest expenses	23,590	923	2,938	27,451
Income before income tax expense	9,609	1,104	3,768	14,481
Income tax expense	3,129	386	1,388	4,903
Net income	\$ 6,480	\$ 718	\$ 2,380	\$ 9,578
Segment end of period assets	\$ 3,248,453	\$ 9,847	\$ 20,500	\$ 3,278,800
Net interest margin	3.57%	NM	NM	3.53%

Table of Contents

(dollars in thousands)	Six Months Ended June 30, 2013			
	Traditional Banking	Mortgage Banking	Republic Processing Group	Total Company
Net interest income	\$ 57,567	\$ 258	\$ 72	\$ 57,897
Provision for loan losses	1,019		(739)	280
Net refund transfer fees			13,697	13,697
Mortgage banking income		5,454		5,454
Bargain purchase gain - FCB	1,324			1,324
Other non interest income	12,057	83	693	12,833
Total non interest income	13,381	5,537	14,390	33,308
Total non interest expenses	50,625	1,769	8,607	61,001
Income before income tax expense	19,304	4,026	6,594	29,924
Income tax expense	6,732	1,409	2,308	10,449
Net income	\$ 12,572	\$ 2,617	\$ 4,286	\$ 19,475
Segment end of period assets	\$ 3,277,181	\$ 29,891	\$ 9,993	\$ 3,317,065
Net interest margin	3.58%	NM	NM	3.56%

(dollars in thousands)	Six Months Ended June 30, 2012			
	Traditional Banking	Mortgage Banking	Republic Processing Group	Total Company
Net interest income	\$ 55,962	\$ 173	\$ 45,397	\$ 101,532
Provision for loan losses	3,962		7,674	11,636
Net refund transfer fees			77,896	77,896
Mortgage banking income		3,317		3,317
Net gain on sales, calls and impairment of securities	56			56
Bargain purchase gain - TCB	27,803			27,803
Other non interest income	11,618	16	189	11,823
Total non interest income	39,477	3,333	78,085	120,895
Total non interest expenses	50,634	2,077	15,893	68,604
Income before income tax expense	40,843	1,429	99,915	142,187
Income tax expense	14,005	500	35,632	50,137
Net income	\$ 26,838	\$ 929	\$ 64,283	\$ 92,050
Segment end of period assets	\$ 3,248,453	\$ 9,847	\$ 20,500	\$ 3,278,800
Net interest margin	3.58%	NM	NM	5.73%

NM Not Meaningful

Table of Contents

12. SUBSEQUENT EVENT

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

All of the assets acquired and all of the liabilities assumed by RB&T as part of the P&A Transaction will be transferred at a price equal to HRBB's book value. As part of the P&A Transaction, RB&T will acquire HRBB non-cash assets projected to be approximately \$3 million at closing. In addition, RB&T will assume approximately \$470 million in projected customer deposits. The net amount of projected deposits less projected non-cash assets, estimated at approximately \$467 million, will be paid in cash by HRBB to RB&T at closing. RB&T will not acquire HRBB's sole banking center location in Kansas City, Missouri. In connection with the P&A Transaction, RB&T will also not acquire any of HRBB's existing intercompany contracts with H&R Block that allow HRBB to offer various H&R Block-branded financial services products to H&R Block's clients.

The completion of the P&A Transaction is subject to multiple regulatory approvals for all parties, as well as the completion of a new Joint Marketing Master Services Agreement (MSA) and a related Receivables Purchase Agreement (RPA) among RB&T and affiliates of H&R Block, Inc. The Agreement requires that all regulatory approvals must be received by September 30, 2013 in order for the P&A Transaction to occur in 2013. If any regulatory approvals are obtained after September 30, 2013, the Agreement requires that the P&A Transaction will occur between April 30, 2014 and June 18, 2014.

The parties to the Agreement submitted their respective applications for the P&A Transaction to their respective regulators on July 15, 2013, which gives the parties 77 days to receive regulatory approval under the terms of the Agreement in order for the P&A transaction to be completed in 2013. The Office of the Comptroller of the Currency (OCC) is considering RB&T's application for the P&A Transaction along with RB&T's earlier May 2013 application regarding an internal merger of RB&T and RB which includes a conversion to a national bank charter. There can be no assurance that all regulatory approvals will be obtained by all parties to the P&A Transaction within the 77 day time frame, if at all.

RB&T and affiliates of H&R Block, Inc. are currently in separate contract negotiations to enter into a new MSA and a related RPA. Pursuant to the anticipated MSA, RB&T would replace HRBB as the bank that offers H&R Block-branded financial services products to H&R Block's clients. Consistent with the framework of its existing Electronic Return Originator Oversight Plan, RB&T's responsibilities under the anticipated MSA will include, among other things, audit, compliance and third party oversight. Similar to its existing arrangement with HRBB, under the anticipated MSA affiliates of H&R Block, Inc. will provide the sales, marketing, servicing and primary information systems infrastructure for the H&R Block-branded financial services products to be offered to H&R Block's clients. As compared to the H&R Block-branded financial services products offered today by HRBB, RB&T does not anticipate material changes to the products offered, or the terms and conditions of the products it will offer, under the new MSA.

Pursuant to the anticipated RPA, a portion of the loans originated by RB&T under the MSA are expected to be participated to an H&R Block affiliate. There can be no assurance that the parties will successfully negotiate and execute the MSA and the RPA, nor can there be any assurance with respect to the final terms and conditions of these agreements.

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

In addition to the positive impact to RB&T's and the Company's overall earnings, the P&A Transaction and the anticipated MSA and RPA, if completed, are expected to impact the liquidity position of RB&T and the capital positions of RB&T and the Company, as a whole. More specifically, the cash received from the P&A Transaction, if completed, is expected to have a positive impact to the overall liquidity position of RB&T, although it would negatively impact RB&T's and the Company's Tier I leverage ratio. Similarly, the resulting growth in RB&T's and the Company's assets from the cash received in connection with the MSA during the first quarter of each year is expected to negatively impact RB&T's and the Company's first quarter Tier 1 Leverage Ratio. Neither RB&T's nor the Company's Tier 1 Leverage Ratios, however, are expected to fall below "well-capitalized" under regulatory guidelines. If RB&T became at risk to drop below the regulatory minimum to be well-capitalized for its Tier 1 Leverage Ratio, RB&T's holding company has available approximately \$120 million of funds on deposit at RB&T that it could contribute to RB&T in the form of Tier 1 common equity. Management believes the impact of the P&A Transaction and the anticipated MSA and RPA to the risk-based capital ratios of RB&T and the Company will be minimal as the substantial majority of asset growth resulting from the transactions will be from cash.

See the Company's Form 8-K filed with the Securities and Exchange Commission on July 11, 2013 for additional information on the Agreement and the ongoing contract negotiations for the MSA.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations of Republic Bancorp, Inc. (Republic or the Company) analyzes the major elements of Republic's consolidated balance sheets and statements of income. Republic, a bank holding company headquartered in Louisville, Kentucky, is the parent company of Republic Bank & Trust Company, (RB&T), Republic Bank (RB) (collectively referred together as the Bank), and Republic Invest Co. The consolidated financial statements also include the wholly-owned subsidiaries of RB&T: Republic Financial Services, LLC; TRS RAL Funding, LLC; and Republic Insurance Agency, LLC. Republic Bancorp Capital Trust is a Delaware statutory business trust that is a 100%-owned unconsolidated finance subsidiary of Republic Bancorp, Inc. Management's Discussion and Analysis of Financial Condition and Results of Operations of Republic should be read in conjunction with Part I Item 1 *Financial Statements*.

As used in this filing, the terms Republic, the Company, we, our and us refer to Republic Bancorp, Inc., and, where the context requires, Republic Bancorp, Inc. and its subsidiaries; and the term the Bank refers to the Company's subsidiary banks: RB&T and RB.

Republic and its subsidiaries operate in a heavily regulated industry. These regulatory requirements can and do affect the Company's results of operations and financial condition.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by the forward-looking statements. Actual results may differ materially from those expressed or implied as a result of certain risks and uncertainties, including, but not limited to: changes in political and economic conditions; interest rate fluctuations; competitive product and pricing pressures; equity and fixed income market fluctuations; personal and corporate customers' bankruptcies; inflation; recession; acquisitions and integrations of acquired businesses; technological changes; changes in law and regulations or the interpretation and enforcement thereof; changes in fiscal, monetary, regulatory and tax policies; monetary fluctuations; success in gaining regulatory approvals when required; as well as other risks and uncertainties reported from time to time in the Company's filings with the Securities and Exchange Commission (SEC) included under Part 1 Item 1A *Risk Factors* of the Company 2012 Annual Report on Form 10-K.

Broadly speaking, forward-looking statements include:

- projections of revenue, income, expenses, losses, earnings per share, capital expenditures, dividends, capital structure or other financial items;
- descriptions of plans or objectives for future operations, products or services;
- forecasts of future economic performance; and
- descriptions of assumptions underlying or relating to any of the foregoing.

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

The Company may make forward-looking statements discussing management's expectations about various matters, including:

- loan delinquencies; non-performing, classified, or impaired loans; and troubled debt restructurings (TDR s);
- further developments in the Bank's ongoing review of and efforts to resolve possible problem credit relationships, which could result in, among other things, additional provision for loan losses;
- deteriorating credit quality, including changes in the interest rate environment and reducing interest margins;
- future credit losses and the overall adequacy of the allowance for loan losses;
- potential write-downs of other real estate owned (OREO);
- potential recast adjustments to acquisition day fair values (day-one fair values);
- future short-term and long-term interest rates and the respective impact on net interest margin, net interest spread, net income, liquidity and capital;
- the future impact of Company strategies to mitigate interest rate risk;
- future long-term interest rates and their impact on the demand for Mortgage Banking products and warehouse lines of credit;
- the future value of mortgage servicing rights;
- the future operating performance of the Tax Refund Solutions (TRS) division;
- future Refund Transfers (RTs) volume for TRS;
- the future net revenues associated with RTs at TRS;

Table of Contents

- the future financial performance of Republic Payment Solutions (RPS);
- the future financial performance of Republic Credit Solutions (RCS);
- the potential impairment of investment securities;
- the extent to which regulations written and implemented by the Federal Bureau of Consumer Financial Protection, and other federal, state and local governmental regulation of consumer lending and related financial products and services may limit or prohibit the operation of the Company s business;
- financial services reform and other current, pending or future legislation or regulation that could have a negative effect on the Company s revenue and businesses: including Basel III capital reforms; the Dodd-Frank Act; and legislation and regulation relating to overdraft fees (and changes to the Bank s overdraft practices as a result thereof), debit card interchange fees, credit cards, and other bank services;
- the impact of new accounting pronouncements;
- legal and regulatory matters including results and consequences of regulatory guidance, litigation, administrative proceedings, rule-making, interpretations, actions and examinations;
- the future impact of Company reorganizations, including but not limited to a prospective internal merger of RB&T and RB;
- future capital expenditures;
- the strength of the U.S. economy in general and the strength of the local economies in which the Company conducts operations;
- the Bank s ability to maintain current deposit and loan levels at current interest rates;
- the Company s ability to successfully implement strategic plans, including but not limited to those related to the acquisition of two failed banks in 2012 and the acquisition of certain assets and assumption of all deposits of H&R Block Bank (the P&A Transaction);
- the ability of all parties to the July 11, 2013 Purchase & Assumption Agreement (the Agreement) to obtain regulatory approval in order to complete the related P&A Transaction within projected timeframes, if at all; and
- the ability of RB&T and affiliates of H&R Block, Inc. to negotiate a Joint Marketing Master Services Agreement (MSA) and a related Receivables Purchase Agreement (RPA).

Forward-looking statements discuss matters that are not historical facts. As forward-looking statements discuss future events or conditions, the statements often include words such as anticipate, believe, estimate, expect, intend, plan, project, target, can, could, may, similar expressions. Do not rely on forward-looking statements. Forward-looking statements detail management s expectations regarding the future and are not guarantees. Forward-looking statements are assumptions based on information known to management only as of the date the statements are made and management may not update them to reflect changes that occur subsequent to the date the statements are made.

See additional discussion under Part I Item 1 Business and Part I Item 1A Risk Factors of the Company s 2012 Annual Report on Form 10-K.

Table of Contents

RECENT DEVELOPMENTS

H&R Block Bank Purchase and Assumption Agreement

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

All of the assets acquired and all of the liabilities assumed by RB&T as part of the P&A Transaction will be transferred at a price equal to HRBB's book value. As part of the P&A Transaction, RB&T will acquire HRBB non-cash assets projected to be approximately \$3 million at closing. In addition, RB&T will assume approximately \$470 million in projected customer deposits. The net amount of projected deposits less projected non-cash assets, estimated at approximately \$467 million, will be paid in cash by HRBB to RB&T at closing. RB&T will not acquire HRBB's sole banking center location in Kansas City, Missouri. In connection with the P&A Transaction, RB&T will also not acquire any of HRBB's existing intercompany contracts with H&R Block that allow HRBB to offer various H&R Block-branded financial services products to H&R Block's clients.

The completion of the P&A Transaction is subject to multiple regulatory approvals for all parties, as well as the completion of a new Joint Marketing Master Services Agreement (MSA) and a related Receivables Purchase Agreement (RPA) among RB&T and affiliates of H&R Block, Inc. The Agreement requires that all regulatory approvals must be received by September 30, 2013 in order for the P&A Transaction to occur in 2013. If any regulatory approvals are obtained after September 30, 2013, the Agreement requires that the P&A Transaction will occur between April 30, 2014 and June 18, 2014.

The parties to the Agreement submitted their respective applications for the P&A Transaction to their respective regulators on July 15, 2013, which gives the parties 77 days to receive regulatory approval under the terms of the Agreement in order for the P&A transaction to be completed in 2013. The Office of the Comptroller of the Currency (OCC) is considering RB&T's application for the P&A Transaction along with RB&T's earlier May 2013 application regarding an internal merger of RB&T and RB which includes a conversion to a national bank charter. There can be no assurance that all regulatory approvals will be obtained by all parties to the P&A Transaction within the 77 day time frame, if at all.

RB&T and affiliates of H&R Block, Inc. are currently in separate contract negotiations to enter into a new MSA and a related RPA. Pursuant to the anticipated MSA, RB&T would replace HRBB as the bank that offers H&R Block-branded financial services products to H&R Block's clients. Consistent with the framework of its existing Electronic Return Originator Oversight Plan, RB&T's responsibilities under the anticipated MSA will include, among other things, audit, compliance and third party oversight. Similar to its existing arrangement with HRBB, under the anticipated MSA affiliates of H&R Block, Inc. will provide the sales, marketing, servicing and primary information systems infrastructure for the H&R Block-branded financial services products to be offered to H&R Block's clients. As compared to the H&R Block-branded financial services products offered today by HRBB, RB&T does not anticipate material changes to the products offered, or the terms and conditions of the products it will offer, under the new MSA.

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Pursuant to the anticipated RPA, a portion of the loans originated by RB&T under the MSA are expected to be participated to an H&R Block affiliate. There can be no assurance that the parties will successfully negotiate and execute the MSA and the RPA, nor can there be any assurance with respect to the final terms and conditions of these agreements.

On a go-forward basis, the Company estimates the combined financial impact of the Agreement, the MSA and RPA, if all are completed, to be accretive to the Company's diluted earnings per Class A and Class B share by approximately \$0.57 to \$0.75 per year. The largest benefit is expected to occur in the first quarter of each calendar year, coinciding with the tax season. The actual results will vary depending upon a number of factors, including the volumes of RB&T's H&R Block-branded financial services products sold.

Table of Contents

In addition to the positive impact to RB&T's and the Company's overall earnings, the P&A Transaction and the anticipated MSA and RPA, if completed, are expected to impact the liquidity position of RB&T and the capital positions of RB&T and the Company, as a whole. More specifically, the cash received from the P&A Transaction, if completed, is expected to have a positive impact to the overall liquidity position of RB&T, although it would negatively impact RB&T's and the Company's Tier I leverage ratio. Similarly, the resulting growth in RB&T's and the Company's assets from the cash received in connection with the MSA during the first quarter of each year is expected to negatively impact RB&T's and the Company's first quarter Tier 1 Leverage Ratio. Neither RB&T's nor the Company's Tier 1 Leverage Ratios, however, are expected to fall below well-capitalized under regulatory guidelines. If RB&T became at risk to drop below the regulatory minimum to be well-capitalized for its Tier 1 Leverage Ratio, RB&T's holding company has available approximately \$120 million of funds on deposit at RB&T that it could contribute to RB&T in the form of Tier 1 common equity. Management believes the impact of the P&A Transaction and the anticipated MSA and RPA to the risk-based capital ratios of RB&T and the Company will be minimal as the substantial majority of asset growth resulting from the transactions will be from cash.

The Company is not likely to complete additional acquisitions while it seeks to obtain regulatory approval for the P&A Transaction.

For additional information on the Agreement and the ongoing contract negotiations for the MSA, see Republic's Form 8-K filed with the Securities and Exchange Commission on July 11, 2013.

Internal Conversion and Merger

In May, 2013, the Company requested regulatory approval to merge RB&T and RB and convert to one national bank charter. With the approved internal merger, the Bank would operate with the name Republic Bank, National Association (RBNA) with the OCC as its primary regulator. The OCC is currently the primary regulator of RB, with RB&T currently regulated by the Federal Deposit Insurance Corporation (FDIC) and the Kentucky Department of Financial Institutions (KDFI).

Table of Contents**BUSINESS SEGMENT COMPOSITION**

As of June 30, 2013, the Company was divided into three distinct business operating segments: Traditional Banking, Mortgage Banking and Republic Processing Group (RPG). During 2012, the Company realigned the previously reported TRS segment as a division of the newly formed RPG segment. Along with the TRS division, Republic Payment Solutions (RPS) and Republic Credit Solutions (RCS) also operate as divisions of the newly formed RPG segment. The RPS and RCS divisions are considered immaterial for segment reporting. Net income, total assets and net interest margin by segment for the three and six months ended June 30, 2013 and 2012 are presented below:

(in thousands)	Three Months Ended June 30, 2013			
	Traditional Banking	Mortgage Banking	Republic Processing Group	Total Company
Net income	\$ 6,010	\$ 971	\$ (862)	\$ 6,119
Segment assets	3,277,181	29,891	9,993	3,317,065
Net interest margin	3.57%	NM	NM	3.56%

(in thousands)	Three Months Ended June 30, 2012			
	Traditional Banking	Mortgage Banking	Republic Processing Group	Total Company
Net income	\$ 6,480	\$ 718	\$ 2,380	\$ 9,578
Segment assets	3,248,453	9,847	20,500	3,278,800
Net interest margin	3.57%	NM	NM	3.53%

(in thousands)	Six Months Ended June 30, 2013			
	Traditional Banking	Mortgage Banking	Republic Processing Group	Total Company
Net income	\$ 12,572	\$ 2,617	\$ 4,286	\$ 19,475
Segment assets	3,277,181	29,891	9,993	3,317,065
Net interest margin	3.58%	NM	NM	3.56%

(in thousands)	Six Months Ended June 30, 2012			
	Traditional Banking	Mortgage Banking	Republic Processing Group	Total Company
Net income	\$ 26,838	\$ 929	\$ 64,283	\$ 92,050
Segment assets	3,248,453	9,847	20,500	3,278,800
Net interest margin	3.58%	NM	NM	5.73%

NM Not Meaningful

For expanded segment financial data see Footnote 11 Segment Information of Part I Item 1 Financial Statements.

Table of Contents

(I) Traditional Banking segment

As of June 30, 2013, in addition to an Internet delivery channel, Republic had 44 full-service banking centers with locations as follows:

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

- Metropolitan Minneapolis, Minnesota 1

Republic's corporate headquarters are located in Louisville, which is the largest city in Kentucky by population size.

(II) Mortgage Banking segment

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

(III) Republic Processing Group segment

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

Table of Contents

OVERVIEW (Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012)

Net income for the three months ended June 30, 2013 was \$6.1 million, representing a decrease of \$3.5 million, or 36%, compared to the same period in 2012. Diluted earnings per Class A Common Share decreased to \$0.30 for the quarter ended June 30, 2013 compared to \$0.46 for the same period in 2012.

General highlights by segment for the quarter ended June 30, 2013 consisted of the following:

Traditional Banking segment

- Net income decreased \$470,000, or 7%, for the second quarter of 2013 compared to the same period in 2012.
- Net interest income increased \$516,000, or 2%, for the second quarter of 2013 to \$28.6 million. The Traditional Banking segment net interest margin was 3.57% for the second quarter of 2013.
- Provision for loan losses was \$1.0 million for the quarter ended June 30, 2013 compared to \$831,000 for the same period in 2012.
- Total non-interest income increased \$720,000, or 12%, for the second quarter of 2013 compared to the same period in 2012.
- Total non-interest expenses increased \$1.9 million, or 8%, during the second quarter of 2013 compared to the second quarter of 2012.
- Total non-performing loans to total loans for the Traditional Banking segment was 0.92% at June 30, 2013, compared to 0.82% at December 31, 2012 and 0.90% at June 30, 2012.

Mortgage Banking segment

- Within the Mortgage Banking segment, mortgage banking income increased \$217,000, or 11%, during the second quarter of 2013 compared to the same period in 2012.

- Mortgage banking income was positively impacted by an increase in secondary market loan volume during the second quarter of 2013 compared to the same period in 2012, as the Bank initiated a \$0 closing cost promotion at the beginning of 2013.

- While long-term interest rates at June 30, 2013 were relatively low as compared to historical levels, significant increases in these rates during the latter part of the second quarter of 2013 negatively impacted new loan application volume. The rise in interest rates is expected to continue to negatively impact future loan application volume during the remainder of 2013 and beyond.

Republic Processing Group segment

- Net income decreased \$3.2 million for the second quarter of 2013 compared to the same period in 2012.

- RB&T permanently discontinued the offering of its RAL product effective April 30, 2012.

- As previously disclosed, net income at RPG was significantly negatively impacted during the second quarter and first six months of 2013 from the unilateral terminations by Liberty Tax Service (Liberty) and Jackson Hewitt Tax Service (JHI) of their contracts with RB&T.

- Due to recoveries of prior year RAL losses, RPG recorded a credit to the provision for loan losses of \$140,000 for the second quarter of 2013, compared to a net credit of \$365,000 for the same period in 2012.

- Non-interest income was \$1.9 million for the second quarter of 2013 compared to \$6.2 million for the same period in 2012.

- Non-interest expenses were \$3.4 million for the second quarter of 2013 compared to \$2.9 million for the same period in 2012.

Table of Contents

RESULTS OF OPERATIONS (Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012)

Net Interest Income

Banking operations are significantly dependent upon net interest income. Net interest income is the difference between interest income on interest-earning assets, such as loans and investment securities and the interest expense on liabilities used to fund those assets, such as interest-bearing deposits, securities sold under agreements to repurchase and Federal Home Loan Bank (FHLB) advances. Net interest income is impacted by both changes in the amount and composition of interest-earning assets and interest-bearing liabilities, as well as market interest rates.

Total Company net interest income increased \$455,000, or 2%, for the second quarter of 2013 compared to the same period in 2012. The total Company net interest margin increased three basis points from 3.53% for the second quarter of 2012 to 3.56% for the second quarter of 2013. The most significant components affecting the total Company's net interest income by business segment were as follows:

Traditional Banking segment

Net interest income within the Traditional Banking segment increased \$516,000, or 2%, for the quarter ended June 30, 2013 compared to the same period in 2012. The Traditional Banking net interest margin was 3.57% for both periods. The increase in net interest income and maintenance of the Bank's net interest margin during 2013 was primarily attributable to the following factors:

- As discussed in more detail within the *Loan Portfolio* section of this filing, the Bank began offering its Mortgage Warehouse Lending product during June of 2011. During the quarter ended June 30, 2013, the Mortgage Warehouse Lending portfolio had average loans outstanding of \$147 million achieving an average yield of 4.55% as compared to average loans outstanding of \$55 million with an average yield of 4.60% during the second quarter of 2012. As a result, interest income on warehouse lines of credit increased \$1.0 million during the second quarter of 2013 compared to the second quarter of 2012. These loans are revolving lines of credit with a term of 364 days, contain interest rate floors and adjust monthly with one month LIBOR.
- As part of its 2012 acquisition of TCB, RB&T acquired loans, net of loans put back to the FDIC, with a fair value of approximately \$57 million and an initial projected effective yield of 7.94%. The Bank accreted \$556,000 to earnings during the second quarter of 2013 from discounts on its acquired TCB portfolio compared to \$146,000 for the same period in 2012. *See additional discussion regarding the 2012 acquisitions of failed banks under Footnote 2 2012 Acquisitions of Failed Banks of Part I Item 1 Financial Statements.*
- As part of its 2012 acquisition of FCB, RB&T acquired loans with a fair value of approximately \$128 million and an initial projected effective yield of 7.36%. The Bank accreted \$1.2 million to earnings during the second quarter of 2013 from discounts on its acquired FCB portfolio with no similar accretion occurring during the second quarter of 2012, as the acquisition occurred during the third quarter of 2012. *See additional discussion regarding the 2012 acquisitions of failed banks under Footnote 2 2012 Acquisitions of Failed Banks of Part I Item 1*

Financial Statements.

The total discount accretion of \$1.8 million during the second quarter of 2013 that resulted from the TCB and FCB acquisitions positively impacted the Company's second quarter net interest margin by 22 basis points. Management projects accretion of discount that resulted from the 2012 acquisitions to be \$784,000 for the remainder of 2013. The accretion estimate for the remainder of 2013 could be positively impacted by positive workout arrangements in which RB&T receives loan payoffs for an amount greater than their respective carrying values.

Table of Contents

Exclusive of the positive impact on net interest income received by the Company for its warehouse lines of credit and its 2012 acquisitions, the Traditional Banking segment continues to experience downward repricing in its loan and investment portfolios resulting from ongoing paydowns and early payoffs. This downward repricing is expected to continue to cause compression in Republic's net interest income and net interest margin in the future. Additionally, because the FFTR (the index which many of the Bank's short-term deposit rates track) has remained at a target range between 0.00% and 0.25%, no future FFTR decreases from the Federal Open Markets Committee of the FRB are possible, exacerbating the compression to the Bank's net interest income and net interest margin caused by its repricing loans and investments. The Bank is unable to determine the ultimate negative impact to the Bank's net interest spread and margin in the future because several factors remain unknown, such as future demand for its financial products and the overall future need for liquidity, among many other factors.

For additional information on the potential future effect of changes in short-term interest rates on Republic's net interest income, see the table titled "Traditional Banking Interest Rate Sensitivity for 2013" in this section of the filing.

Republic Processing Group segment

Net interest income within the RPG segment decreased \$153,000 for the second quarter of 2013 compared to the same period in 2012. The decrease in net interest income at RPG was the direct result of the Company's discontinuation of the RAL product effective April 30, 2012.

Table 1 provides detailed total Company information as to average balances, interest income/expense and rates by major balance sheet category for the quarters ended June 30, 2013 and 2012. Table 2 provides an analysis of total Company changes in net interest income attributable to changes in rates and changes in volume of interest-earning assets and interest-bearing liabilities for the same periods.

Table of Contents**Table 1 Total Company Average Balance Sheets and Interest Rates for the Three Months Ended June 30, 2013 and 2012**

(dollars in thousands)	Three Months Ended June 30, 2013			Three Months Ended June 30, 2012		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-earning assets:						
Taxable investment securities, including FHLB stock(1)	\$ 511,225	\$ 2,293	1.79%	\$ 680,134	\$ 3,217	1.89%
Federal funds sold and other interest-earning deposits	127,696	91	0.29%	117,497	63	0.21%
Refund Anticipation Loans(2)(4)			0.00%	1,026	135	52.63%
Traditional Bank loans(2)(3)	2,590,643	31,735	4.90%	2,405,154	30,399	5.06%
Total interest-earning assets	3,229,564	34,119	4.23%	3,203,811	33,814	4.22%
Less: Allowance for loan losses	23,345			23,694		
Non interest-earning assets:						
Non interest-earning cash and cash equivalents	70,219			35,922		
Premises and equipment, net	33,336			33,674		
Other assets(1)	45,335			53,274		
Total assets	\$ 3,355,109			\$ 3,302,987		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
Transaction accounts	\$ 694,224	\$ 119	0.07%	\$ 602,613	\$ 108	0.07%
Money market accounts	511,252	148	0.12%	464,325	193	0.17%
Time deposits	188,742	323	0.68%	231,104	512	0.89%
Brokered money market and brokered CD s	121,660	385	1.27%	116,385	400	1.37%
Total deposits	1,515,878	975	0.26%	1,414,427	1,213	0.34%
Securities sold under agreements to repurchase and other short-term borrowings	149,237	13	0.03%	250,515	118	0.19%
Federal Home Loan Bank advances	588,712	3,735	2.54%	479,064	3,540	2.96%
Subordinated note	41,240	629	6.10%	41,240	631	6.12%
Total interest-bearing liabilities	2,295,067	5,352	0.93%	2,185,246	5,502	1.01%
Non interest-bearing liabilities and Stockholders equity:						