

REPUBLIC BANCORP INC /KY/

Form 10-Q

August 09, 2013

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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.

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	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

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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

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

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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.

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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.

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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.

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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.

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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

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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.

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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.

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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

	September 7, 2012				
	As Previously Reported		As Recasted		
(in thousands)	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:					

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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

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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.

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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.

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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	As Recasted 2012 Recast Adjustments	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	As Recasted 2012 & 2013 Recast Adjustments	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

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(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.

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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

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

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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.

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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.

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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
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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.

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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.

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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.*

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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)