REPUBLIC BANCORP INC /KY/
Form 10-Q
May 10, 2007

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 March 31, 2007

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)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x 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 April 30, 2007, was 18,481,611 and 2,349,975, respectively. All share and per share data has been restated to reflect the five percent (5%) stock dividend that was declared in January 2007.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS *(in thousands)*

	March 31, 2007 *(unaudited)*	December 31, 2006
ASSETS:		
Cash and cash equivalents	$ 78,447	$ 81,613
Trading securities	659	
Securities available for sale	466,752	503,727
Securities to be held to maturity (fair value of $58,447 in 2007 and $58,824 in 2006)	57,666	58,045
Mortgage loans held for sale	12,914	5,724
Loans, net of allowance for loan losses of $11,487 and $11,218 (2007 and 2006)	2,297,634	2,289,670
Federal Home Loan Bank stock, at cost	23,453	23,111
Premises and equipment, net	36,019	36,560
Goodwill	10,025	10,016
Other assets and accrued interest receivable	38,268	38,321
TOTAL ASSETS	$ 3,021,837	$ 3,046,787
LIABILITIES:		
Deposits:		
Non-interest-bearing	$ 306,923	$ 279,026
Interest-bearing	1,398,240	1,413,696
Total deposits	1,705,163	1,692,722
Securities sold under agreements to repurchase and other short-term borrowings	445,055	401,886
Federal Home Loan Bank advances	548,528	646,572
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	37,418	27,019
Total liabilities	2,777,404	2,809,439
STOCKHOLDERS EQUITY:		
Preferred stock, no par value		
Class A Common Stock and Class B Common Stock, no par value	4,901	4,683
Additional paid in capital	120,292	97,394
Retained earnings	121,003	137,673
Unearned shares in Employee Stock Ownership Plan	(891)	(1,011)
Accumulated other comprehensive loss	(872)	(1,391)
Total stockholders equity	244,433	237,348
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 3,021,837	$ 3,046,787

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (*UNAUDITED*)
(*in thousands, except per share data*)

	Three Months Ended March 31, 2007	2006
INTEREST INCOME:		
Loans, including fees	$ 44,622	$ 38,464
Taxable securities	6,774	5,135
Tax exempt securities	26	
Federal Home Loan Bank stock and other	1,004	774
Total interest income	52,426	44,373
INTEREST EXPENSE:		
Deposits	12,851	10,007
Securities sold under agreements to repurchase and other short-term borrowings	4,910	3,268
Federal Home Loan Bank advances	6,796	5,109
Subordinated note	620	620
Total interest expense	25,177	19,004
NET INTEREST INCOME	27,249	25,369
Provision for loan losses	3,680	1,330
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	23,569	24,039
NON INTEREST INCOME:		
Service charges on deposit accounts	4,152	3,663
Electronic refund check fees	3,429	3,428
Net RAL securitization income	2,607	2,014
Mortgage banking income	542	455
Debit card interchange fee income	1,004	840
Other	400	439
Total non interest income	12,134	10,839
NON INTEREST EXPENSES:		
Salaries and employee benefits	12,343	11,368
Occupancy and equipment, net	4,047	3,723
Communication and transportation	948	707
Marketing and development	821	580
Bankshares tax	663	556
Data processing	586	530
Debit card interchange expense	517	388
Supplies	458	348
Other	2,587	1,641
Total non interest expenses	22,970	19,841

(*continued*)

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME *(UNAUDITED) (continued)*
(in thousands, except per share data)

	Three Months Ended March 31, 2007	2006
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	$ 12,733	$ 15,037
INCOME TAX EXPENSE FROM CONTINUING OPERATIONS	4,427	5,176
INCOME FROM CONTINUING OPERATIONS BEFORE DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE	8,306	9,861
INCOME FROM DISCONTINUED OPERATIONS BEFORE INCOME TAX EXPENSE		(174)
INCOME TAX EXPENSE FROM DISCONTINUED OPERATIONS		(60)
INCOME FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE		(114)
NET INCOME	$ 8,306	$ 9,747
OTHER COMPREHENSIVE INCOME, NET OF TAX:		
Unrealized gain (loss) on securities available for sale	$ 519	$ (160)
Less: Reclassification of realized amount		
Net unrealized gain (loss) recognized in comprehensive income	519	(160)
COMPREHENSIVE INCOME	$ 8,825	$ 9,587

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CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME *(UNAUDITED) (continued)*
(in thousands, except per share data)

	Three Months Ended March 31, 2007	2006
BASIC EARNINGS PER SHARE FROM CONTINUING OPERATIONS:		
Class A Common Stock	$ 0.40	$ 0.48
Class B Common Stock	0.40	0.48
BASIC EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS:		
Class A Common Stock	$ 0.00	$ 0.00
Class B Common Stock	0.00	(0.01)
BASIC EARNINGS PER SHARE:		
Class A Common Stock	$ 0.40	$ 0.48
Class B Common Stock	0.40	0.47
DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS:		
Class A Common Stock	$ 0.39	$ 0.47
Class B Common Stock	0.38	0.46
DILUTED EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS:		
Class A Common Stock	$ 0.00	$ (0.01)
Class B Common Stock	0.00	0.00
DILUTED EARNINGS PER SHARE:		
Class A Common Stock	$ 0.39	$ 0.46
Class B Common Stock	0.38	0.46

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (*UNAUDITED*)
(*in thousands, except per share data*)

(in thousands, except per share data)	**Common Stock Class A Shares Outstanding**	**Class B Shares Outstanding**	**Amount**	**Additional Paid In Capital**	**Retained Earnings**	**Unearned Shares in Employee Stock Ownership Plan**	**Accumulated Other Comprehensive Loss**	**Total Stockholders Equity**
BALANCE, January 1, 2007	18,242	2,350	$ 4,683	$ 97,394	$ 137,673	$ (1,011)	$ (1,391)	$ 237,348
FIN 48 adjustment					(359)			(359)
Net income					8,306			8,306
Net change in accumulated other comprehensive loss							519	519
Dividend declared Common Stock:								
Class A ($0.094 per share)					(1,723)			(1,723)
Class B ($0.086 per share)					(201)			(201)
Stock options exercised, net of shares redeemed	13		3	70				73
Shares committed to be released under the Employee Stock Ownership Plan	11			130		120		250
Stock dividend			215	22,478	(22,693)			
Note receivable on common stock, net of cash payments				(96)				(96)
Deferred compensation expense				43				43
Stock option expense				273				273
BALANCE, March 31, 2007	18,266	2,350	$ 4,901	$ 120,292	$ 121,003	$ (891)	$ (872)	$ 244,433

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (*UNAUDITED*)
THREE MONTHS ENDED MARCH 31, 2007 AND 2006 (*in thousands*)

	2007	2006
OPERATING ACTIVITIES:		
Net income	$ 8,306	$ 9,747
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	1,728	1,836
Federal Home Loan Bank stock dividends	(342)	(310)
Provision for loan losses, including provision from discontinued operations	3,680	1,037
Net gain on sale of mortgage loans held for sale	(343)	(278)
Origination of mortgage loans held for sale	(56,020)	(26,454)
Proceeds from sale of mortgage loans held for sale	49,173	26,558
Net gain on sale of RALs	(1,782)	(2,022)
(Increase) decrease in residual value of securitized RALs	(825)	8
Origination of RALs sold	(350,414)	(213,423)
Proceeds from sale of RALs	321,407	194,550
Paydown of trading securities	32,480	20,887
Net accretion of premiums on securities	(1,123)	(801)
Net gain on sale of other real estate owned	(39)	(22)
Deferred director compensation expense	43	43
Employee Stock Ownership Plan expense	250	195
Stock option expense	273	216
Changes in other assets and liabilities:		
Accrued interest receivable	(2,017)	(1,355)
Accrued interest payable	(1,743)	(548)
Other assets	(213)	557
Other liabilities	11,573	5,860
Net cash provided by operating activities	14,052	16,281
INVESTING ACTIVITIES:		
Purchases of securities available for sale	(880,255)	(650,450)
Proceeds from calls, maturities and paydowns of securities available for sale	919,089	700,112
Proceeds from calls, maturities and paydowns of securities to be held to maturity	366	444
Proceeds from sales of other real estate owned	548	325
Net increase in loans	(11,885)	(55,178)
Purchases of premises and equipment, net	(801)	(1,843)
Net cash provided by (used in) investing activities	27,062	(6,590)
FINANCING ACTIVITIES:		
Net change in deposits	12,440	33,830
Net change in securities sold under agreements to repurchase and other short-term borrowings	43,169	22,412
Payments on Federal Home Loan Bank advances	(198,044)	(182,120)
Proceeds from Federal Home Loan Bank advances	100,000	115,500
Net proceeds from Common Stock options exercised	73	88
Cash dividends paid	(1,918)	(1,618)
Net cash used in financing activities	(44,280)	(11,908)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,166)	(2,217)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	81,613	77,169
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 78,447	$ 74,952

continued

CONSOLIDATED STATEMENTS OF CASH FLOWS (*UNAUDITED*) *(continued)*
THREE MONTHS ENDED MARCH 31, 2007 AND 2006 (*in thousands*)

	2007	2006
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:	$ 26,921	$ 19,578
Interest	321	34
Income taxes		
SUPPLEMENTAL NONCASH DISCLOSURES:		
Transfers from loans to real estate acquired in settlement of loans	$ 175	$ 350
Retained securitization residual	36,598	22,956

See accompanying footnotes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2007 AND 2006 (UNAUDITED) AND DECEMBER 31, 2006

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

Republic operates 38 banking centers, primarily in the retail banking industry, and conducts its operations predominately in metropolitan Louisville, Kentucky, central Kentucky, southern Indiana, Pasco County, Florida (Metropolitan Tampa) and through an Internet banking software application. Republic also operates two Loan Production Offices (LPOs) in the Louisville, Kentucky market and one additional LPO office in Pasco County, Florida. Republic s consolidated results of operations are 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 assets represent securities and real estate mortgage, commercial and consumer loans. Interest-bearing liabilities primarily consist of interest-bearing deposit accounts and short-term and long-term borrowings.

Other sources of banking income include service charges on deposit accounts, fees charged to customers for trust services and revenue generated from mortgage banking activities, which represents the origination and sale of loans in the secondary market and servicing loans for others.

Republic s operating expenses consist primarily of salaries and employee benefits, occupancy and equipment expenses, communication and transportation costs, marketing and development expenses and other general and administrative costs. Republic s results of operations are significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory agencies.

Republic Bank & Trust Company is one of a limited number of financial institutions which facilitate the payment of federal and state tax refunds through tax preparers located throughout the U.S. The Company facilitates the payment of these tax refunds through three primary products: Refund Anticipation Loans (RALs), Electronic Refund Checks (ERCs) and Electronic Refund Deposits (ERDs). RALs are classified as consumer loans. ERCs and ERDs are products whereby Republic Bank & Trust Company transmits, via a check or electronic deposit, a taxpayer s refund once it is received from the respective state or federal government.

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 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 quarter ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. 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, 2006.

New Accounting Standards In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) 155, *Accounting for Certain Hybrid Financial Instruments-an amendment to FASB Statements No. 133 and 140.* This Statement permits fair value re-measurement for any hybrid financial instruments, clarifies which instruments are subject to the requirements of SFAS 133, and establishes a requirement to evaluate interests in securitized financial assets and other items. The new standard became effective January 1, 2007 and the adoption of this statement did not have a material impact on the Company s consolidated financial position or results of operations.

In March 2006, the FASB issued SFAS 156, *Accounting for Servicing of Financial Assets-an amendment of FASB Statement No. 140.* This Statement provides the following: 1) revised guidance on when a servicing asset and servicing liability should be recognized; 2) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; 3) permits an entity to elect to measure servicing assets and servicing liabilities at fair value for each reporting date and report changes in fair value in earnings in the period in which the changes occur; 4) upon initial adoption, permits a one time reclassification of available for sale securities to trading securities for securities which are identified as offsetting the entity s exposure to changes in the fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value; and 5) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional footnote disclosures. This standard became effective January 1, 2007 and the Company elected not to recognize existing servicing rights at their fair value. Therefore, the adoption of this statement did not impact the Company s consolidated financial position or results of operations.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements.* This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective January 1, 2008. The Company has not completed its evaluation of the impact of the adoption of this standard.

On February 15, 2007, the FASB issued a statement to allow companies to record certain financial assets and financial liabilities at full fair value if they so choose. Statement 159, The *Fair Value Option for Financial Assets and Financial Liabilities*, was issued to mitigate volatility in reported earnings caused by an accounting model utilizing multiple measurement attributes. The adoption of the fair value option is recorded as a cumulative-effect adjustment to the opening balance of retained earnings, which would be January 1, 2008 for the Company. Upon adoption, the difference between the carrying amount and the fair value of the items chosen is removed from the balance sheet and included in the cumulative-effect adjustment. Subsequent changes in fair value are recorded through the income statement. On September 15, 2006, the FASB issued a statement to address fair value measurements. Statement 157, *Fair Value Measurements*, requires changes to how certain instruments are measured, both those for which fair value is elected and those where generally accepted accounting principles require use of fair value. The effective date for both statements is the beginning of the first fiscal year beginning after November 15, 2007, which is January 1, 2008 for the Company or one year earlier should the Company elect to do so by April 30, 2007. The Company did not elect to early adopt these standards and as such, they will both apply beginning January 1, 2008.

In September 2006, the FASB Emerging Issues Task Force (EITF) finalized Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements.* This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. This issue is effective for fiscal years beginning after December 15, 2007. The Company has not completed its evaluation of the impact of the adoption of this standard.

In September 2006, the FASB EITF finalized Issue No. 06-5, *Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 (Accounting for Purchases of Life Insurance).* This issue requires that a policyholder consider contractual terms of a life insurance policy in determining the amount that could be realized under the insurance contract. It also requires that if the contract provides for a greater surrender value if all individual policies in a group are surrendered at the same time, that the surrender value be determined based on the assumption that policies will be surrendered on an individual basis. Lastly, the issue discusses whether the cash surrender value should be discounted when the policyholder is contractually limited in its ability to surrender a policy. This issue is effective for fiscal years beginning after December 15, 2006. The adoption of this standard did not have a material impact upon the Company.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48), which prescribes a recognition threshold and measurement attribute for an uncertain tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted the provisions of FIN 48 on January 1, 2007 and recognized a decrease in stockholders equity of $359,000 for unrecognized state income tax expense.

Securitization The Company utilized a securitization structure to fund a portion of the RALs originated during the first quarter of 2007 and 2006. The securitization consisted of a total of $347 million and $206 million in loans over a four week period in January and February of 2007 and 2006. The Company s continuing involvement in loans sold into the securitization was limited to only servicing of the loans. Compensation for servicing of the loans securitized is not contingent upon performance of the loans securitized.

Generally, from mid January to the end of February of each year, RALs which meet certain underwriting criteria related to refund amount and Earned Income Tax Credit amount are classified as loans held for sale upon origination and sold into the securitization. All other RALs originated are retained by the Company. There are no loans held for sale as of any quarter end. The Company retained a related residual value in the securitization, which is classified as a trading asset. The initial residual interest has a weighted average life of approximately one month, and as such, substantially all of its cash flows are received by the end of the first quarter. The disposition of the remaining anticipated cash flows are expected to occur within the remainder of the year. At its initial valuation and on a quarterly basis thereafter, the Company adjusts the carrying amount of the residual value to its fair value, which is determined based on its expected future cash flows and is significantly influenced by the anticipated credit losses of the underlying RALs.

The Company concluded that the transaction was a sale as defined in SFAS 140. This conclusion was based on, among other things, legal isolation of assets, the ability of the purchaser to pledge or sell the assets, and the absence of a right or obligation of the Company to repurchase the financial assets.

Reclassifications Certain amounts presented in prior periods have been reclassified to conform to the current period presentation. All prior period share and per share data have been restated to reflect the five percent (5%) stock dividend that was declared in January 2007.

In February 2006, the Company substantially exited the payday loan segment of business. This has been treated as a discontinued operation for financial reporting purposes in accordance with SFAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* and all applicable current period and prior period data has been restated to reflect operations absent the payday loan segment of business. There has been no financial impact related to the discontinued operation in 2007.

In prior period financial statement filings, the Company classified daily fees associated with overdrawn deposit accounts within service charges on deposits along with per item overdraft fees. In 2006, the Company reclassified daily overdraft fees into loan fees, which is included as a component of interest income on loans. All prior period amounts presented have been reclassified to conform to current period presentation.

2. DISCONTINUED OPERATIONS PAYDAY LENDING

By letter to Republic Bank & Trust Company dated February 17, 2006, the FDIC cited inherent risks associated with payday lending activities and requested that the Board of Directors consider terminating this line of business. Consequently, on February 24, 2006, Republic Bank & Trust Company and ACE Cash Express, Inc. (ACE) amended the agreement regarding Republic Bank & Trust Company s payday loan activities in Texas, Pennsylvania and Arkansas. With respect to Texas, Republic Bank & Trust Company ceased offering payday loans the week of February 27, 2006. With respect to Arkansas and Pennsylvania, Republic Bank & Trust Company ceased offering payday loans on June 30, 2006. The Company did not incur any additional costs related to the termination of the ACE contract and does not anticipate incurring any additional costs in the future. The Company had no payday loans outstanding related to the above contract at March 31, 2007 and December 31, 2006.

By letter to Republic Bank & Trust Company of Indiana dated February 17, 2006, the FDIC cited inherent risks associated with payday lending activities and asked the Board of Directors to consider terminating this line of business. Republic Bank & Trust Company of Indiana voluntarily elected to terminate its Internet payday loan program the week of February 20, 2006. The Internet payday loan program began operating in July 2006 and remained in a developmental stage until its termination date. The Company had no payday loans outstanding related to the above program at March 31, 2007 and December 31, 2006.

The following table illustrates the financial statements of the discontinued operation:

Balance Sheets

(dollars in thousands)	**March 31, 2007**	**December 31, 2006**
Cash and cash equivalents	$	$
Loans		
Less Allowance for loan losses		
Net Loans		
Other assets and accrued interest receivable		
Total assets	$	$
Deposits	$	$
Federal Home Loan Bank advances		
Total liabilities		
Allocated equity		
Total liabilities and allocated equity	$	$

Statements of Income

(dollars in thousands)	**Three Months Ended March 31, 2007**	**2006**
Interest income:		
Loans, including fees	$	$ 507
Total interest income		507
Interest expense:		
Federal Home Loan Bank advances		26
Total interest expense		26
Net interest income		481
Provision for loan losses		(293)
Net interest income after provision		774
Non interest income:		
Service charges on deposit accounts		
Total non interest income		
Non interest expense:		
Salaries and employee benefits		112
Occupancy and equipment, net		115
Marketing and development		108
Data processing expense		130
Other		483
Total non interest expenses		948
Income before income tax expense		(174)
Income tax expense		(60)
Net income	$	$ (114)

3. SECURITIES

Securities available for sale:

March 31, 2007 *(in thousands)*	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Treasury securities and U.S. Government agencies	$ 262,085	$ 172	$ (1,618)	$ 260,639
FHLMC preferred stock	2,000	140		2,140
Mortgage backed securities, including CMOs	204,007	933	(967)	203,973
Total securities available for sale	$ 468,092	$ 1,245	$ (2,585)	$ 466,752

December 31, 2006 *(in thousands)*	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Treasury securities and U.S. Government agencies	$ 287,789	$ 156	$ (1,673)	$ 286,272
FHLMC preferred stock	2,000	64		2,064
Mortgage backed securities, including CMOs	216,080	774	(1,463)	215,391
Total securities available for sale	$ 505,869	$ 994	$ (3,136)	$ 503,727

Securities to be held to maturity:

March 31, 2007 *(in thousands)*	**Carrying Value**	**Gross Unrecognized Gains**	**Gross Unrecognized Losses**	**Fair Value**
U.S. Treasury securities and U.S. Government agencies	$ 8,577	$	$ (40)	$ 8,537
Obligations of states and political subdivisions	383	16		399
Mortgage backed securities, including CMOs	48,706	1,059	(224)	49,541
Total securities to be held to maturity	$ 57,666	$ 1,075	$ (264)	$ 58,477

December 31, 2006 *(in thousands)*	**Carrying Value**	**Gross Unrecognized Gains**	**Gross Unrecognized Losses**	**Fair Value**
U.S. Treasury securities and U.S. Government agencies	$ 8,586	$	$ (50)	$ 8,536
Obligations of states and political subdivisions	383	16		399
Mortgage backed securities, including CMOs	49,076	1,057	(244)	49,889
Total securities to be held to maturity	$ 58,045	$ 1,073	$ (294)	$ 58,824

Trading securities consisting of residual interest in the RAL securitization totaled $659,000 and $0 at March 31, 2007 and

December 31, 2006.

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)	**March 31, 2007**	**December 31, 2006**
Carrying value	$ 464,409	$ 470,777
Fair value	463,703	469,148

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

(in thousands)	**March 31, 2007**	**December 31, 2006**
Residential real estate	$ 1,168,879	$ 1,173,813
Commercial real estate	658,687	654,773
Real estate construction	107,941	105,318
Commercial	68,939	66,559
Consumer	44,843	40,408
Overdrafts	861	1,377
Home equity	258,971	258,640
Total loans	2,309,121	2,300,888
Less:		
Allowance for loan losses	11,487	11,218
Loans, net	$ 2,297,634	$ 2,289,670

An analysis of the Allowance for loan losses follows:

	Three Months Ended March 31	
(in thousands)	**2007**	**2006**
Balance, at beginning of period	$ 11,218	$ 11,009
Provision for loan losses from continuing operations	3,680	1,330
Provision for loan losses from discontinued operations		(293)
Charge offs Banking	(266)	(475)
Charge offs Tax Refund Solutions	(3,831)	(876)
Charge offs Discontinued operations		(409)
Recoveries Banking	326	198
Recoveries Tax Refund Solutions	360	475
Recoveries Discontinued operations		64
Balance, at end of period	$ 11,487	$ 11,023

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Information regarding Republic s impaired loans is as follows:

(in thousands)	**March 31, 2007**	**December 31, 2006**
Loans with no allocated allowance for loan losses	$	$
Loans with allocated allowance for loan losses		525
Total	$	$ 525
Amount of the allowance for loan losses allocated		$ 120
Average investment in impaired loans		872
Interest income recognized during impairment		
Interest income recognized on a cash basis on impaired loans		

Detail of non performing loans and non performing assets is as follows:

(dollars in thousands)	**March 31, 2007**	**December 31, 2006**
Loans on non-accrual status	$ 6,039	$ 5,980
Loans past due 90 days or more and still on accrual	815	413
Total non performing loans	6,854	6,393
Other real estate owned	213	547
Total non performing assets	$ 7,067	$ 6,940
Non performing loans to total loans	0.30 %	0.28 %
Non performing assets to total loans	0.31	0.30

5. DEPOSITS

(in thousands)	**March 31, 2007**	**December 31, 2006**
Demand (NOW and SuperNOW)	$ 197,736	$ 197,225
Money market accounts	526,346	498,943
Internet money market accounts	15,255	18,135
Savings	37,193	37,690
Individual retirement accounts	54,533	54,180
Certificates of deposit, $100,000 and over	164,868	171,706
Other certificates of deposit	277,386	269,828
Brokered deposits	124,923	165,989
Total interest-bearing deposits	1,398,240	1,413,696
Total non interest-bearing deposits	306,923	279,026
Total	$ 1,705,163	$ 1,692,722

6. FEDERAL HOME LOAN BANK (FHLB) ADVANCES

(in thousands)	March 31, 2007	December 31, 2006
FHLB convertible fixed interest rate advances with a weighted average interest rate of 4.59%*(1)*	$ 150,000	$ 50,000
Overnight FHLB advances		98,000
FHLB fixed interest rate advances with a weighted average interest rate of 4.39% due through 2035	398,528	498,572
Total FHLB advances	$ 548,528	$ 646,572

(1) Represents convertible 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 converted earlier by the FHLB. At the end of their respective fixed rate periods, the FHLB has the right to convert the borrowings to floating rate advances tied to LIBOR or the Company can prepay the borrowings at no penalty. All of these advances are currently eligible to be converted on their quarterly repricing date. During the first quarter of 2007, the Company entered into $100 million of convertible advances that are not eligible to be called for 36 months. Based on market conditions at this time, management believes that $50 million of these advances could be converted into floating rate advances during 2007.

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At March 31, 2007, Republic had available collateral to borrow an additional $324 million from the FHLB. Republic also has unsecured lines of credit totaling $202 million available through various other financial institutions.

Aggregate future principal payments on FHLB advances, based on contractual maturity dates are detailed below. Convertible fixed rate advances have been included with the 2007 maturities.

Year	*(in thousands)*
2007	155,000
2008	138,500
2009	107,000
2010	42,370
2011	
Thereafter	105,658
Total	$ 548,528

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

(in thousands)	March 31, 2007	December 31, 2006
First lien, single family residential	$ 842,000	$ 842,000
Home equity lines of credit	82,000	82,000
Multi-family, commercial real estate	22,000	43,000

7. SUBORDINATED NOTE

In 2005, Republic Bancorp Capital Trust (RBCT), an unconsolidated trust subsidiary of Republic Bancorp, Inc., issued $40 million in Trust Preferred Securities (TPS). The TPS mature on September 30, 2035 and are redeemable at the Company s option after ten years. The TPS pay a fixed interest rate for 10 years and adjust with LIBOR thereafter. The subordinated debentures are currently treated as Tier 1 Capital for regulatory purposes and the related interest expense, currently payable quarterly at the annual rate of 6.015%, is included in the consolidated financial statements.

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

8. OFF BALANCE SHEET RISKS, COMMITMENTS AND CONTINGENT LIABILITIES

Republic is a party to financial instruments with off balance sheet risk in the normal course of business in order to meet the financing needs of its customers. 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 Republic pursuant to those financial instruments. Creditworthiness for all instruments is evaluated on a case by case basis in accordance with Republic s credit policies. Collateral from the customer may be required based on management 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.

Republic 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 Republic under such loan commitments is limited by the terms of the contracts. For example, Republic 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. This is also a 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.

As of March 31, 2007, exclusive of mortgage banking loan commitments, Republic had outstanding loan commitments totaling $534 million, which included unfunded home equity lines of credit totaling $326 million. As of December 31, 2006, exclusive of mortgage banking loan commitments, Republic had outstanding loan commitments totaling $476 million, which included unfunded home equity lines of credit totaling $315 million. These commitments generally have variable rates.

Standby letters of credit are conditional commitments issued by Republic 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. Commitments outstanding under standby letters of credit totaled $15 million at March 31, 2007 and $9 million at December 31, 2006.

At March 31, 2007 and December 31, 2006, Republic had $72 million in letters of credit from the FHLB issued on behalf of the Bank s clients. Approximately $12 million of these letters of credit were used as credit enhancements for client bond offerings at March 31, 2007 and December 31, 2006. The remaining $60 million letter of credit was used to collateralize a public funds deposit, which the Company classifies in short-term borrowings at March 31, 2007 and December 31, 2006. These letters of credit reduce Republic s available borrowing line at the FHLB by the above total amount. Republic uses a blanket pledge of eligible real estate loans to secure the letters of credit.

9. 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 March 31, 2007**	**2006**
Net income from continuing operations	$ 8,306	$ 9,861
Net income from discontinued operations		(114)
Net income, basic and diluted	8,306	9,747
Weighted average shares outstanding	20,602	20,457
Effect of dilutive securities	594	566
Average shares outstanding including dilutive securities	21,196	21,023
Basic earnings per share from continuing operations:		
Class A Common Share	$ 0.40	$ 0.48
Class B Common Share	0.40	0.48
Diluted earnings per share from continuing operations:		
Class A Common Share	$ 0.39	$ 0.47
Class B Common Share	0.38	0.46
Basic earnings per share from discontinued operations:		
Class A Common Share	$ 0.00	$ 0.00
Class B Common Share	0.00	(0.01)
Diluted earnings per share from discontinued operations:		
Class A Common Share	$ 0.00	$ (0.01)
Class B Common Share	0.00	0.00
Basic earnings per share:		
Class A Common Share	$ 0.40	$ 0.48
Class B Common Share	0.40	0.47
Diluted earnings per share:		
Class A Common Share	$ 0.39	$ 0.46
Class B Common Share	0.38	0.46

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

	Three Months Ended March 31, 2007	**2006**
Antidilutive stock options	370,510	237,335

10. SEGMENT INFORMATION

The reportable segments are determined by the type of products and services offered, distinguished between banking operations, mortgage banking operations and Tax Refund Solutions. As discussed throughout this document, the Company substantially exited the deferred deposit business during the first quarter of 2006; therefore, its deferred deposit segment operations are presented as discontinued operations. Loans, investments and deposits provide the majority of revenue from banking operations; servicing fees and loan sales provide the majority of revenue from mortgage banking operations; RAL fees, ERC/ERD fees and Net RAL securitization income provide the majority of the revenue from Tax Refund Solutions; and fees for providing deferred deposits or payday loans have historically represented the primary revenue source for the deferred deposit segment. All Company segments are domestic.

The accounting policies used for Republic s reportable segments are the same as those described in the summary of significant accounting policies. Income taxes are allocated based on income before income tax expense. Transactions among reportable segments are made at fair value.

Segment information for the three months ended March 31, 2007 follows:

	Three Months Ended March 31, 2007				
(in thousands)	**Banking**	**Tax Refund Solutions**	**Mortgage Banking**	**Total Continuing Operations**	**Discontinued Operations**
Net interest income	$ 21,231	$ 5,919	$ 99	$ 27,249	$
Provision for loan losses	209	3,471		3,680	
Electronic Refund Check fees		3,429		3,429	
Net RAL securitization income		2,607		2,607	
Mortgage banking income			542	542	
Other revenue	5,779	1	(224)	5,556	
Income tax expense	2,108	2,251	68	4,427	
Net income	3,956	4,223	127	8,306	
Segment assets	2,998,214	10,644	12,979	3,021,837	

	Three Months Ended March 31, 2006				
(in thousands)	**Banking**	**Tax Refund Solutions**	**Mortgage Banking**	**Total Continuing Operations**	**Discontinued Operations**
Net interest income	$ 20,112	$ 5,211	$ 46	$ 25,369	$ 481
Provision for loan losses	447	883		1,330	(293)
Electronic Refund Check fees		3,428		3,428	
Net RAL securitization income		2,014		2,014	
Mortgage banking income			455	455	
Other revenue	5,072	2	(132)	4,942	
Income tax expense (benefit)	2,519	2,600	57	5,176	(60)
Net income (loss)	4,798	4,954	109	9,861	(114)
Segment assets	2,724,823	7,414	5,596	2,737,833	1,090

11. SECURITIZATION

In January 2006, the Company established a special purpose wholly owned Subsidiary Corporation of Republic Bank & Trust Company named TRS RAL Funding, LLC (TRS RAL, LLC) to securitize a portion of the RAL portfolio which was sold to an independent third party during the first quarters of 2007 and 2006. The Company established a two step structure to handle the sale of the assets to third party investors. In the first step, a sale provides for TRS RAL, LLC, a Special Purpose Entity, to purchase the assets from Republic Bank & Trust Company as Originator and Servicer. TRS RAL, LLC is a wholly owned subsidiary of Republic Bank & Trust Company. In the second step, a sale and administration agreement is entered into by and among TRS RAL, LLC, a third party conduit investor and a third party administrative agent, conduit agent, and committed purchaser. The third party conduit investor purchased all eligible loans with TRS RAL, LLC retaining a residual interest in an over collateralization. The residual value related to the securitization, which is presented as a trading security on the balance sheet, was $659,000 and $0 at March 31, 2007 and December 31, 2006.

Detail of Net RAL securitization income follows:

March 31, *(in thousands)*	**2007**	**2006**
Net gain on sale of RALs	$ 1,782	$ 2,022
Increase (decrease) in securitization residual	825	(8)
Net RAL securitization income	$ 2,607	$