

REPUBLIC BANCORP INC /KY/
Form 10-Q
July 28, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

or

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. 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 22, 2011, was 18,653,989 and 2,300,469, respectively.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS (in thousands) (unaudited)

	June 30, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	\$130,262	\$786,371
Securities available for sale	603,895	509,755
Securities to be held to maturity (fair value of \$30,727 in 2011 and \$33,824 in 2010)	30,064	32,939
Loans held for sale	21,456	15,228
Loans, net of allowance for loan losses of \$25,931 and \$23,079 (2011 and 2010)	2,196,766	2,152,161
Federal Home Loan Bank stock, at cost	26,153	26,212
Premises and equipment, net	36,183	37,770
Goodwill	10,168	10,168
Other assets and accrued interest receivable	49,623	52,099
TOTAL ASSETS	\$3,104,570	\$3,622,703
LIABILITIES		
Deposits		
Non interest-bearing	\$380,970	\$325,375
Interest-bearing	1,409,691	1,977,317
Total deposits	1,790,661	2,302,692
Deposits held for sale	35,383	-
Securities sold under agreements to repurchase and other short-term borrowings	218,227	319,246
Federal Home Loan Bank advances	519,799	564,877
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	53,517	23,272
Total liabilities	2,658,827	3,251,327
STOCKHOLDERS' EQUITY		
Preferred stock, no par value	-	-
Class A Common Stock and Class B Common Stock, no par value	4,944	4,944
Additional paid in capital	130,245	129,327
Retained earnings	304,772	230,987
Accumulated other comprehensive income	5,782	6,118
Total stockholders' equity	445,743	371,376
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$3,104,570	\$3,622,703

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME AND
COMPREHENSIVE INCOME (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
INTEREST INCOME:				
Loans, including fees	\$29,843	\$32,708	\$118,004	\$115,191
Taxable investment securities	4,093	3,720	7,685	7,465
Tax exempt investment securities	-	4	-	10
Federal Home Loan Bank stock and other	523	455	1,393	1,450
Total interest income	34,459	36,887	127,082	124,116
INTEREST EXPENSE:				
Deposits	2,272	3,101	5,210	7,420
Securities sold under agreements to repurchase and other short-term borrowings	173	244	424	484
Federal Home Loan Bank advances	4,556	4,858	9,390	10,036
Subordinated note	629	631	1,258	1,251
Total interest expense	7,630	8,834	16,282	19,191
NET INTEREST INCOME	26,829	28,053	110,800	104,925
Provision for loan losses	(439)	2,980	17,643	19,770
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	27,268	25,073	93,157	85,155
NON INTEREST INCOME:				
Service charges on deposit accounts	3,736	3,983	7,160	7,855
Electronic refund check fees	6,584	5,052	87,646	58,220
Net RAL securitization income	19	25	198	220
Mortgage banking income	924	1,403	1,740	2,415
Debit card interchange fee income	1,493	1,312	2,977	2,532
Gain on sale of securities available for sale	1,907	-	1,907	-
	-			
Total impairment losses on investment securities	-	(57)	(279)	(126)
Gain recognized in other comprehensive income	-	-	-	-
Net securities gain (loss) recognized in earnings	-	(57)	(279)	(126)
Other	705	586	1,331	1,065
Total non interest income	15,368	12,304	102,680	72,181
NON INTEREST EXPENSES:				

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Salaries and employee benefits	13,250	12,966	30,489	30,344
Occupancy and equipment, net	5,001	5,053	11,298	11,471
Communication and transportation	878	719	3,387	3,188
Marketing and development	868	802	1,772	9,394
FDIC insurance expense	1,165	782	2,800	1,899
Bank franchise tax expense	714	645	2,279	1,790
Data processing	817	598	1,565	1,318
Debit card interchange expense	601	286	1,124	935
Supplies	314	346	1,208	1,378
Other real estate owned expense	378	502	859	803
Charitable contributions	234	296	5,532	5,782
Legal expense	979	346	2,339	740
Accrued FDIC civil money penalty	2,000	-	2,000	-
FHLB advance prepayment expense	-	-	-	1,531
Other	1,327	1,304	4,692	5,211
Total non interest expenses	28,526	24,645	71,344	75,784
INCOME BEFORE INCOME TAX EXPENSE	14,110	12,732	124,493	81,552
INCOME TAX EXPENSE	5,447	4,335	44,418	28,527
NET INCOME	\$8,663	\$8,397	\$80,075	\$53,025

(continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
OTHER COMPREHENSIVE INCOME, NET OF TAX				
Unrealized gain (loss) on securities available for sale, net of tax	\$ 1,084	\$ 2,132	\$ 1,227	\$ 1,078
Change in unrealized losses on securities available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings, net of tax	(307)	222	(142)	425
Realized amount on securities sold, net	(1,240)		(1,240)	-
Reclassification adjustment for losses or gains realized in income, net of tax	-	(37)	(181)	(82)
Other comprehensive income (loss)	(463)	2,317	(336)	1,421
COMPREHENSIVE INCOME	\$ 8,200	\$ 10,714	\$ 79,739	\$ 54,446
BASIC EARNINGS PER SHARE:				
Class A Common Stock	\$ 0.42	\$ 0.40	\$ 3.83	\$ 2.55
Class B Common Stock	0.40	0.39	3.80	2.52
DILUTED EARNINGS PER SHARE:				
Class A Common Stock	\$ 0.41	\$ 0.40	\$ 3.82	\$ 2.54
Class B Common Stock	0.40	0.39	3.79	2.51

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2011

(in thousands, except per share data)	Common Stock		Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Class A Shares Outstanding	Class B Shares Outstanding					
Balance, January 1, 2011	18,628	2,307	\$ 4,944	\$ 129,327	\$ 230,987	\$ 6,118	\$ 371,376
Net income	-	-	-	-	80,075	-	80,075
Net change in accumulated other comprehensive income	-	-	-	-	-	(336)	(336)
Dividend declared Common Stock:							
Class A (\$0.297 per share)	-	-	-	-	(5,534)	-	(5,534)
Class B (\$0.270 per share)	-	-	-	-	(622)	-	(622)
Stock options exercised, net of shares redeemed	5	-	-	107	(31)	-	76
Repurchase of Class A Common Stock	(7)	-	-	(45)	(103)	-	(148)
Conversion of Class B Common Stock to Class A Common Stock	7	(7)	-	-	-	-	-
Notes receivable on Common Stock, net of cash payments	-	-	-	590	-	-	590
Deferred director compensation expense - Company Stock	2	-	-	86	-	-	86
Stock based compensation expense	-	-	-	180	-	-	180

Balance, June 30, 2011	18,635	2,300	\$ 4,944	\$ 130,245	\$ 304,772	\$ 5,782	\$ 445,743
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See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (in thousands)

	2011	2010
OPERATING ACTIVITIES:		
Net income	\$80,075	\$53,025
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	3,748	6,267
Provision for loan losses	17,643	19,770
Net gain on sale of mortgage loans held for sale	(1,465)	(2,176)
Origination of mortgage loans held for sale	(52,558)	(114,438)
Proceeds from sale of mortgage loans held for sale	62,084	118,750
Increase in RAL securitization residual	(198)	(220)
Paydown of trading securities	198	220
Net realized (gain) loss on sales, calls and impairment of securities	(1,628)	126
Net gain on sale of other real estate owned	(244)	(100)
Writedowns of other real estate owned	227	604
Deferred director compensation expense - Company Stock	86	73
Stock based compensation expense	180	297
Net change in other assets and liabilities:		
Accrued interest receivable	(163)	(293)
Accrued interest payable	(437)	(648)
Other assets	1,479	7,668
Other liabilities	30,127	13,586
Net cash provided by operating activities	139,154	102,511
INVESTING ACTIVITIES:		
Purchases of securities available for sale	(348,236)	(427,450)
Purchases of securities to be held to maturity	-	(185)
Purchases of Federal Home Loan Bank stock	(1)	(26)
Proceeds from calls, maturities and paydowns of securities available for sale	122,668	323,146
Proceeds from calls, maturities and paydowns of securities to be held to maturity	2,927	8,715
Proceeds from sales of securities available for sale	133,813	-
Proceeds from sales of Federal Home Loan Bank Stock	60	-
Proceeds from sales of other real estate owned	6,552	4,539
Purchase of commercial real estate loans	(32,650)	-
Net change in loans	(49,871)	41,824
Purchases of premises and equipment	(1,780)	(1,444)
Net cash used in investing activities	(166,518)	(50,881)
FINANCING ACTIVITIES:		
Net change in deposits	(477,579)	(776,628)
Net change in securities sold under agreements to repurchase and other short-term borrowings	(100,088)	2,474
Payments on Federal Home Loan Bank advances	(45,078)	(117,124)
Proceeds from Federal Home Loan Bank advances	-	45,000
Repurchase of Common Stock	(148)	(334)
Net proceeds from Common Stock options exercised	76	730
Cash dividends paid	(5,928)	(5,438)

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Net cash used in financing activities	(628,745)	(851,320)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(656,109)	(799,690)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	786,371	1,068,179
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 130,262	\$ 268,489

(continued)

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)
 SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (in thousands)

	2011	2010
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$16,719	\$19,839
Income taxes	22,116	12,488

SUPPLEMENTAL NONCASH DISCLOSURES

Transfers from loans to real estate acquired in settlement of loans	\$6,574	\$6,630
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See accompanying footnotes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2011 AND 2010 (UNAUDITED) AND
DECEMBER 31, 2010

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 (collectively referred together with RB&T as the “Bank”), Republic Funding Company and Republic Invest Co. Republic Invest Co. includes its subsidiary, Republic Capital LLC. The consolidated financial statements also include the wholly-owned subsidiaries of RB&T: Republic Financial Services, LLC, TRS RAL Funding, LLC and Republic Insurance Agency, LLC. Republic Bancorp Capital Trust (“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.

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 the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. 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, 2010.

As of June 30, 2011, the Company was divided into three distinct business operating segments: Traditional Banking, Mortgage Banking and Tax Refund Solutions.

Traditional Banking and Mortgage Banking (collectively “Core Banking”)

Republic operates 43 banking centers, primarily in the retail banking industry, and conducts its operations predominately in metropolitan Louisville, Kentucky, central Kentucky, northern Kentucky, southern Indiana, metropolitan Tampa, Florida, metropolitan Cincinnati, Ohio 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 mortgage, 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.

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. Additionally, in June 2011, Republic commenced business in its newly established warehouse lending division. Through this division, the Bank provides short-term, revolving credit facilities to mortgage bankers secured by single 1-4 family real estate loans.

Republic’s Core Banking operating expenses consist primarily of salaries and employee benefits, occupancy and equipment expenses, communication and transportation costs, marketing and development expenses, Federal Deposit Insurance Corporation (“FDIC”) insurance expense, bank franchise tax expense, data processing, debit card interchange expense and other general and administrative costs. Republic’s 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.

Tax Refund Solutions

Republic, through its Tax Refund Solutions (“TRS”) business operating segment, is one of a limited number of financial institutions that facilitates the payment of federal and state tax refund products through third-party tax preparers located throughout the U.S., as well as tax-preparation software providers. TRS’s three primary tax-related products include: Electronic Refund Checks (“ERCs” or “ARs”), Electronic Refund Deposits (“ERDs” or “ARDs”) and Refund Anticipation Loans (“RALs”). Substantially all of the business generated by TRS occurs in the first quarter of the year. TRS traditionally operates at a loss during the second half of the year, during which the segment incurs costs preparing for the following year’s first quarter tax season.

ERCs/ERDs 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 refund directly from the Internal Revenue Service (“IRS”). Fees earned on ERCs/ERDs are reported as non interest income under the line item “Electronic Refund Check fees.”

RALs are short-term consumer loans offered to taxpayers that are secured by the customer’s anticipated tax refund, which represents the source of repayment. Prior to 2011, RB&T historically underwrote the RAL application utilizing the Debt Indicator (the “DI”) from the IRS, in combination with an automated underwriting model utilizing information contained in the taxpayer’s tax return. The DI, which typically indicates whether an individual taxpayer will have any portion of the refund offset for delinquent tax or other debts, such as unpaid child support or federally funded student loans, has historically been a significant underwriting component. On August 5, 2010, the IRS issued a news release stating that it would no longer provide tax preparers and associated financial institutions with the DI beginning with the first quarter 2011 tax season. RB&T modified its underwriting and application requirement criteria for the first quarter 2011 tax season to adjust for the loss of access to the DI.

If a consumer’s RAL application is approved, RB&T advances \$1,500 of the taxpayer’s refund. As part of the RAL application process, each taxpayer signs an agreement directing the applicable taxing authority to send the taxpayer’s refund directly to RB&T. The refund received from the IRS or state taxing authority, if applicable, is used by RB&T to pay off the RAL. Any amount due the taxpayer above the amount of the RAL is remitted to the taxpayer once the refund is received by RB&T. The funds advanced by RB&T are generally repaid by the applicable taxing authority within two weeks. The fees earned on RALs are reported as interest income under the line item “Loans, including fees.”

For additional discussion regarding TRS, see the following sections:

- Part I Item 1 “Financial Statements:”
 - o Footnote 3 “Loans and Allowance for Loan Losses”
 - o Footnote 4 “Deposits”
 - o Footnote 8 “Off Balance Sheet Risks, Commitments and Contingent Liabilities”
 - o Footnote 10 “Segment Information”
 - o Footnote 11 “Regulatory Matters”
- Part II Item 1A “Risk Factors”

Recently Issued Accounting Pronouncements

In January 2011, the FASB issued ASU No. 2011-01, “Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20.” The provisions of this ASU required the disclosure of more granular information on the nature and extent of troubled debt restructurings and their effect on the allowance for loan and lease losses effective for the Company’s reporting period ended June 30, 2011. The amendments in this ASU defer the effective date related to these disclosures, enabling creditors to provide such disclosures after the FASB completes their project clarifying the guidance for determining what constitutes a troubled debt restructuring. As the provisions of this ASU only defer the effective date of disclosure requirements related to troubled debt restructurings, the adoption of this ASU will have no impact on the Company’s statements of income and condition.

In April, 2011, the FASB issued ASU No. 2011-02, “A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring.” This ASU intended to provide additional guidance to assist creditors in determining whether a restructuring of a receivable meets the criteria to be considered a troubled debt restructuring. The amendments in this ASU are effective for the first interim or annual period beginning on or after June 15, 2011, and are to be applied retrospectively to the beginning of the annual period of adoption. As a result of applying these

amendments, an entity may identify receivables that are newly considered impaired. Early adoption is permitted. The Company intends to adopt the methodologies prescribed by this ASU by the date required, and is continuing to evaluate the impact of adoption of this ASU.

In April, 2011, the FASB issued ASU No. 2011-03, "Reconsideration of Effective Control for Repurchase Agreements." The amendments in this ASU remove from the assessment of effective control the criteria relating to the transferor's ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. The amendments in this ASU also eliminate the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. The guidance in this ASU is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The Company will adopt the methodologies prescribed by this ASU by the date required, and does not anticipate that the ASU will have a material effect on its financial position or results of operations.

In May, 2011, the FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments in this ASU generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs. The amendments in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company will adopt the methodologies prescribed by this ASU by the date required, and does not anticipate that the ASU will have a material effect on its financial position or results of operations.

In June, 2011, the FASB issued ASU No. 2011-05, "Amendments to Topic 220, Comprehensive Income." Under the amendments in this ASU, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this ASU should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. Due to the recency of this pronouncement, the Company is evaluating its timing of adoption of ASU 2011-05, but will adopt the ASU retrospectively by the due date.

Reclassifications – Certain amounts presented in prior periods have been reclassified to conform to the current period presentation.

2. 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 (loss) were as follows:

	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2011 (in thousands)				
U.S. Treasury securities and U.S. Government agencies	\$214,240	\$1,020	\$(239)	\$215,021
Private label mortgage backed and other private label mortgage-related securities	5,819	-	(1,417)	4,402
Mortgage backed securities - residential	160,677	8,279	(14)	168,942
Collateralized mortgage obligations	214,264	1,550	(284)	215,530
Total securities available for sale	\$595,000	\$10,849	\$(1,954)	\$603,895
December 31, 2010 (in thousands)				
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value