REPUBLIC BANCORP INC /KY/
Form 10-Q
April 20, 2011

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, 2011

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.
þ Yes o 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).
o Yes o 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 o Accelerated filer þ Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes þ 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 19, 2011, was 18,633,015 and 2,304,859, respectively.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS (in thousands) (unaudited)

	March 31, 2011	December 31, 2010
ASSETS:		
Cash and cash equivalents	$472,315	$786,371
Securities available for sale	615,169	509,755
Securities to be held to maturity (fair value of $31,255 in 2011 and $33,824 in 2010)	30,467	32,939
Mortgage loans held for sale	1,381	15,228
Loans, net of allowance for loan losses of $29,144 and $23,079 (2011 and 2010)	2,149,742	2,152,161
Federal Home Loan Bank stock, at cost	26,213	26,212
Premises and equipment, net	36,734	37,770
Goodwill	10,168	10,168
Other assets and accrued interest receivable	53,555	52,099
TOTAL ASSETS	$3,395,744	$3,622,703
LIABILITIES		
Deposits		
Non interest-bearing	$561,095	$325,375
Interest-bearing	1,463,616	1,977,317
Total deposits	2,024,711	2,302,692
Securities sold under agreements to repurchase and other short-term borrowings	259,722	319,246
Federal Home Loan Bank advances	554,837	564,877
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	74,799	23,272
Total liabilities	2,955,309	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	129,811	129,327
Retained earnings	299,435	230,987
Accumulated other comprehensive income	6,245	6,118
Total stockholders' equity	440,435	371,376
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,395,744	$3,622,703

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, 2011	2010
INTEREST INCOME:		
Loans, including fees	$88,161	$82,483
Taxable investment securities	3,592	3,745
Tax exempt investment securities	-	6
Federal Home Loan Bank stock and other	870	995
Total interest income	92,623	87,229
INTEREST EXPENSE:		
Deposits	2,938	4,319
Securities sold under agreements to repurchase and other short-term borrowings	251	240
Federal Home Loan Bank advances	4,834	5,178
Subordinated note	629	620
Total interest expense	8,652	10,357
NET INTEREST INCOME	83,971	76,872
Provision for loan losses	18,082	16,790
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	65,889	60,082
NON INTEREST INCOME:		
Service charges on deposit accounts	3,424	3,872
Electronic refund check fees	81,062	53,168
Net RAL securitization income	179	195
Mortgage banking income	816	1,012
Debit card interchange fee income	1,484	1,220
Total impairment losses on investment securities	(279)	(69)
Loss recognized in other comprehensive income	-	-
Net impairment loss recognized in earnings	(279)	(69)
Other	626	479
Total non interest income	87,312	59,877
NON INTEREST EXPENSES:		
Salaries and employee benefits	17,239	17,378
Occupancy and equipment, net	6,297	6,418
Communication and transportation	2,509	2,469

Marketing and development	904	8,592
FDIC insurance expense	1,635	1,117
Bank franchise tax expense	1,565	1,145
Data processing	748	720
Debit card interchange expense	523	649
Supplies	894	1,032
Other real estate owned expense	481	301
Charitable contributions	5,298	5,486
FHLB advance prepayment expense	-	1,531
Other	4,725	4,301
Total non interest expenses	42,818	51,139
INCOME BEFORE INCOME TAX EXPENSE	110,383	68,820
INCOME TAX EXPENSE	38,971	24,192
NET INCOME	$71,412	$44,628

(continued)

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Unrealized gain (loss) on securities available for sale, net of tax	$474	$(1,055)
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	(166)	203
Reclassification adjustment for losses or gains realized in income, net of tax	(181)	(45)
Other comprehensive income (loss)	127	(897)
COMPREHENSIVE INCOME	$71,539	$43,731
BASIC EARNINGS PER SHARE:		
Class A Common Stock	$3.41	$2.15
Class B Common Stock	3.40	2.13
DILUTED EARNINGS PER SHARE:		
Class A Common Stock	$3.40	$2.14
Class B Common Stock	3.39	2.13

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

(in thousands, except per share data)	Common Stock 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, 2011	18,628	2,307	$4,944	$ 129,327	$230,987	$ 6,118	$ 371,376
Net income	-	-	-	-	71,412	-	71,412
Net change in accumulated other comprehensive income	-	-	-	-	-	127	127
Dividend declared Common Stock:							
Class A ($0.143 per share)	-	-	-	-	(2,664)	-	(2,664)
Class B ($0.130 per share)	-	-	-	-	(300)	-	(300)
Stock options exercised, net of shares redeemed	-	-	-	-	-	-	-
Repurchase of Class A Common Stock	-	-	-	-	-	-	-
Conversion of Class B Common Stock to Class A Common Stock	3	(3)	-	-	-	-	-
Notes receivable on Common Stock, net of cash payments	-	-	-	328	-	-	328
Deferred director compensation expense - Company Stock	2	-	-	51	-	-	51
Stock based compensation expense	-	-	-	105	-	-	105
Balance, March 31, 2011	18,633	2,304	$4,944	$ 129,811	$299,435	$ 6,245	$ 440,435

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (in thousands)

	2011	2010
OPERATING ACTIVITIES:		
Net income	$71,412	$44,628
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	2,583	4,465
Provision for loan losses	18,082	16,790
Net gain on sale of mortgage loans held for sale	(708)	(868)
Origination of mortgage loans held for sale	(26,255)	(49,109)
Proceeds from sale of mortgage loans held for sale	40,810	49,621
Increase in RAL securitization residual	179	195
Paydown of trading securities	(179)	(195)
Net realized loss on sales, calls and impairment of securities	279	69
Net gain on sale of other real estate owned	(151)	(7)
Writedowns of other real estate owned	186	220
Deferred director compensation expense - Company Stock	51	46
Stock based compensation expense	105	175
Net change in other assets and liabilities:		
Accrued interest receivable	(269)	453
Accrued interest payable	(225)	(468)
Other assets	967	(13,290)
Other liabilities	51,516	40,009
Net cash provided by operating activities	158,383	92,734
INVESTING ACTIVITIES		
Purchases of securities available for sale	(149,221)	(277,787)
Purchases of Federal Home Loan Bank stock	(1)	(26)
Proceeds from calls, maturities and paydowns of securities available for sale	44,044	281,772
Proceeds from calls, maturities and paydowns of securities to be held to maturity	2,469	1,621
Proceeds from sales of other real estate owned	2,613	1,672
Net change in loans	(20,771)	(22,343)
Purchases of premises and equipment	(1,063)	(952)
Net cash provided by/(used in) investing activities	(121,930)	(16,043)
FINANCING ACTIVITIES		
Net change in deposits	(277,981)	(703,351)
Net change in securities sold under agreements to repurchase and other short-term borrowings	(59,524)	(24,469)
Payments on Federal Home Loan Bank advances	(55,040)	(117,043)
Proceeds from Federal Home Loan Bank advances	45,000	25,000
Repurchase of Common Stock	-	(62)
Net proceeds from Common Stock options exercised	-	66
Cash dividends paid	(2,964)	(2,720)
Net cash used in financing activities	(350,509)	(822,579)

NET CHANGE IN CASH AND CASH EQUIVALENTS	(314,056)	(745,888)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	786,371	1,068,179
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$472,315	$322,291

(continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)
THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (in thousands)

	2011	2010
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$8,877	$10,825
Income taxes	64	781
SUPPLEMENTAL NONCASH DISCLOSURES		
Transfers from loans to real estate acquired in settlement of loans	$5,436	$3,316

See accompanying footnotes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – MARCH 31, 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.

As of March 31, 2011, the Company was divided into three distinct business operating segments: Traditional Banking, Tax Refund Solutions and Mortgage Banking.

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.

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") 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. The Company'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 the Company has received the refund from the federal or state government. There is no credit risk or borrowing cost for the Company 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, the Company 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. The Company 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, the Company 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 the Company. The refund received from the IRS or state taxing authority, if applicable, is used by the Company 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 the Company. The funds advanced by the Company 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"

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 ASU No. 2010-20 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 March 31, 2011. The amendments in ASU No. 2011-01 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." The provisions of ASU No. 2011-02 provide additional guidance related to determining whether a creditor has granted a concession, include factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant, prohibit creditors from using the borrower's effective rate test to evaluate whether a concession has been granted to the borrower, and add factors for creditors to use in determining whether a borrower is experiencing financial difficulties. A provision in ASU No. 2011-02 also ends the FASB's deferral of the additional disclosures about troubled debt restructurings as required by ASU No. 2010-20. The provisions of ASU No. 2011-02 are effective for the Company's reporting period ending September 30, 2011. The adoption of ASU No. 2011-02 is not expected to have a material impact on the Company's statements of income and condition.

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

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 months ended March 31, 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.

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:

March 31, 2011 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$140,168	$608	$(190)	$140,586
Private label mortgage backed and other private label mortgage-related securities	5,818	360	(1,304)	4,874
Mortgage backed securities - residential	252,202	8,954	-	261,156
Collateralized mortgage obligations	207,373	1,353	(173)	208,553
Total securities available for sale	$605,561	$11,275	$(1,667)	$615,169

December 31, 2010 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$119,894	$668	$(265)	$120,297
Private label mortgage backed and other private label mortgage-related securities	6,323	211	(1,410)	5,124
Mortgage backed securities - residential	150,460	8,217	-	158,677
Collateralized mortgage obligations	223,665	2,144	(152)	225,657
Total securities available for sale	$500,342	$11,240	$(1,827)	$509,755

Mortgage backed Securities

At March 31, 2011, with the exception of the $4.9 million private label mortgage backed and other private label mortgage-related securities, all other mortgage backed securities held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Federal Home Loan Mortgage Corporation ("Freddie Mac" or "FHLMC") and Fannie Mae ("FNMA"), institutions which the government has affirmed its commitment to support. At March 31, 2011 and December 31, 2010, there were gross unrealized losses of $173,000 and $152,000 related to available for sale and held to maturity mortgage backed securities other than the private label mortgage backed and other private label mortgage-related 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 Company 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, the Company does not consider these securities to be other-than-temporarily impaired.

As mentioned throughout this filing, the Company's mortgage backed securities portfolio includes private label mortgage backed and other private label mortgage-related securities with a fair value of $4.9 million which had gross unrealized losses of approximately $1.3 million at March 31, 2011. As of March 31, 2011, the Company believes there is no further material credit loss component of other-than-temporary impairment ("OTTI") in addition to that which has already been recorded. Additionally, the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery.

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:

March 31, 2011 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$4,189	$24	$-	$4,213
Mortgage backed securities - residential	1,827	108	-	1,935
Collateralized mortgage obligations	24,451	626	-	25,077
Total securities to be held to maturity	$30,467	$758	$-	$31,225

December 31, 2010 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$4,191	$10	$(4)	$4,197
Mortgage backed securities - residential	1,930	109	-	2,039
Collateralized mortgage obligations	26,818	770	-	27,588
Total securities to be held to maturity	$32,939	$889	$(4)	$33,824

During the three month periods ended March 31, 2011 and 2010, there were no sales of securities available for sale.

The amortized cost and fair value of the investment securities portfolio by contractual maturity at March 31, 2011 follows. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are detailed separately.

	Securities available for sale		Securities held to maturity	
March 31 2011, (in thousands)	Amortized Cost	Fair Value	Carrying Value	Fair Value
Due in one year or less	$100,504	$100,783	$495	$505
Due from one year to five years	15,989	15,917	3,694	3,708
Due from five years to ten years	23,675	23,886	-	-
Private label mortgage backed and other private label mortgage-related securities	5,818	4,874	-	-
Mortgage backed securities - residential	252,202	261,156	1,827	1,935
Collateralized mortgage obligations	207,373	208,553	24,451	25,077
Total	$605,561	$615,169	$30,467	$31,225

Market Loss Analysis

Securities with unrealized losses at March 31, 2011 and December 31, 2010, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 months		12 months or more		Total	
March 31, 2011 (in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses