

REPUBLIC BANCORP INC /KY/
Form 10-Q
May 09, 2013

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 March 31, 2013

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.)
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601 West Market Street, Louisville, Kentucky (Address of principal executive offices)	40202 (Zip Code)
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(502) 584-3600
(Registrant's telephone number, including area code)

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

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

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

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

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

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

The number of shares outstanding of the registrant's Class A Common Stock and Class B Common Stock, as of April 30, 2013, was 18,518,387 and 2,267,847, respectively.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS (in thousands) (unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	\$207,451	\$137,691
Securities available for sale	421,443	438,246
Securities to be held to maturity (fair value of \$52,758 in 2013 and \$46,416 in 2012)	52,283	46,010
Mortgage loans held for sale	20,726	10,614
Loans, net of allowance for loan losses of \$23,563 and \$23,729 (2013 and 2012)	2,575,079	2,626,468
Federal Home Loan Bank stock, at cost	28,342	28,377
Premises and equipment, net	33,535	33,197
Goodwill	10,168	10,168
Other real estate owned	18,689	26,203
Other assets and accrued interest receivable	33,642	37,425
TOTAL ASSETS	\$3,401,358	\$3,394,399
LIABILITIES		
Deposits		
Non interest-bearing	\$524,149	\$479,046
Interest-bearing	1,547,647	1,503,882
Total deposits	2,071,796	1,982,928
Securities sold under agreements to repurchase and other short-term borrowings	120,217	250,884
Federal Home Loan Bank advances	572,570	542,600
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	52,800	40,045
Total liabilities	2,858,623	2,857,697
STOCKHOLDERS' EQUITY		
Preferred stock, no par value	-	-
Class A Common Stock and Class B Common Stock, no par value	4,889	4,932
Additional paid in capital	131,671	132,686
Retained earnings	400,702	393,472
Accumulated other comprehensive income	5,473	5,612
Total stockholders' equity	542,735	536,702
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$3,401,358	\$3,394,399

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended March 31,	
	2013	2012
INTEREST INCOME:		
Loans, including fees	\$31,914	\$75,292
Taxable investment securities	2,040	3,267
Federal Home Loan Bank stock and other	447	1,028
Total interest income	34,401	79,587
INTEREST EXPENSE:		
Deposits	1,055	1,539
Securities sold under agreements to repurchase and other short-term borrowings	29	112
Federal Home Loan Bank advances	3,558	4,086
Subordinated note	629	630
Total interest expense	5,271	6,367
NET INTEREST INCOME	29,130	73,220
Provision for loan losses	(625)	11,170
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	29,755	62,050
NON-INTEREST INCOME:		
Service charges on deposit accounts	3,210	3,303
Net refund transfer fees	12,014	71,749
Mortgage banking income	3,274	1,354
Debit card interchange fee income	1,811	1,556
Bargain purchase gain - Tennessee Commerce Bank	-	27,899
Bargain purchase gain - First Commercial Bank	1,324	-
Gain on sale of securities available for sale	-	56
Other	892	892
Total non interest income	22,525	106,809
NON-INTEREST EXPENSES:		
Salaries and employee benefits	16,114	16,971
Occupancy and equipment, net	5,577	6,074
Communication and transportation	1,030	2,661
Marketing and development	902	938
FDIC insurance expense	413	430
Bank franchise tax expense	1,715	1,931
Data processing	716	1,221
Debit card interchange expense	843	601
Supplies	354	949
Other real estate owned expense	889	605
Charitable contributions	236	2,678
Legal expense	430	368
FHLB advance prepayment expense	-	2,436
Other	2,083	3,290
Total non interest expenses	31,302	41,153

INCOME BEFORE INCOME TAX EXPENSE	20,978	127,706
INCOME TAX EXPENSE	7,622	45,234
NET INCOME	\$13,356	\$82,472

BASIC EARNINGS PER SHARE:

Class A Common Stock	\$0.64	\$3.94
Class B Common Stock	\$0.63	\$3.92

DILUTED EARNINGS PER SHARE:

Class A Common Stock	\$0.64	\$3.92
Class B Common Stock	\$0.62	\$3.90

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands, except per share data)

		Three Months Ended March 31,	
	2013	2012	
Net income	\$ 13,356	\$ 82,472	
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized gain (loss) on securities available for sale	(398)	1,739	
Change in unrealized losses on securities available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings	184	(22)	
Reclassification adjustment for gains recognized in earnings	-	(55)	
Net unrealized gains (losses)	(214)	1,662	
Tax effect	75	(582)	
Net of tax	(139)	1,080	
COMPREHENSIVE INCOME	\$ 13,217	\$ 83,552	

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2013

(in thousands, except per share data)	Class A Shares	Common Stock Class B Shares	Additional Paid In		Retained	Accumulated Other Comprehensive	Total Stockholders'
	Outstanding	Outstanding	Amount	Capital	Earnings	Income	Equity
Balance, January 1, 2013	18,694	2,271	\$ 4,932	\$ 132,686	\$ 393,472	\$ 5,612	\$ 536,702
Net income	-	-	-	-	13,356	-	13,356
Net change in accumulated other comprehensive income	-	-	-	-	-	(139)	(139)
Dividend declared Common Stock:							
Class A (\$0.165 per share)	-	-	-	-	(2,965)	-	(2,965)
Class B (\$0.150 per share)	-	-	-	-	(340)	-	(340)
Stock options exercised, net of shares redeemed	-	-	-	-	-	-	-
Repurchase of Class A Common Stock	(193)	-	(43)	(1,230)	(2,821)	-	(4,094)
Conversion of Class B Common Stock to Class A Common Stock	7	(7)	-	-	-	-	-
Net change in notes receivable on Common Stock	-	-	-	25	-	-	25
Deferred director compensation expense - Company Stock	5	-	-	51	-	-	51

Stock based compensation expense - restricted stock	-	-	-	74	-	-	74
Stock based compensation expense - options	-	-	-	65	-	-	65
Balance, March 31, 2013	18,513	2,264	\$ 4,889	\$ 131,671	\$ 400,702	\$ 5,473	\$ 542,735

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2013 AND 2012 (in thousands)

	2013	2012
OPERATING ACTIVITIES:		
Net income	\$ 13,356	\$ 82,472
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	462	3,057
Provision for loan losses	(625)	11,170
Net gain on sale of mortgage loans held for sale	(3,284)	(1,688)
Origination of mortgage loans held for sale	(84,593)	(53,855)
Proceeds from sale of mortgage loans held for sale	77,765	55,476
Net realized impairment (recovery) of mortgage servicing rights	(152)	12
Net realized gain on sales, calls and impairment of securities	-	(56)
Net gain on sale of other real estate owned	(277)	(137)
Writedowns of other real estate owned	366	226
Deferred director compensation expense - Company Stock	51	54
Stock based compensation expense	139	402
Bargain purchase gains on acquisitions	(1,324)	(27,899)
Net change in other assets and liabilities:		
Accrued interest receivable	309	(699)
Accrued interest payable	30	(168)
Other assets	2,862	7,832
Other liabilities	12,782	42,143
Net cash provided by operating activities	17,867	118,342
INVESTING ACTIVITIES:		
Net cash received in FDIC-assisted transactions	-	846,399
Purchases of securities available for sale	(19,697)	(2,688)
Purchases of securities to be held to maturity	(10,000)	-
Proceeds from calls, maturities and paydowns of securities available for sale	36,476	54,652
Proceeds from calls, maturities and paydowns of securities to be held to maturity	3,710	1,031
Proceeds from sales of securities available for sale	-	35,224
Proceeds from sales of Federal Home Loan Bank stock	35	-
Proceeds from sales of other real estate owned	8,261	6,270
Net change in loans	54,016	(73,072)
Net purchases of premises and equipment	(1,573)	(1,371)
Net cash provided by investing activities	71,228	866,445
FINANCING ACTIVITIES:		
Net change in deposits	88,868	(632,628)
Net change in securities sold under agreements to repurchase and other short-term borrowings	(130,667)	(4,512)
Payments of Federal Home Loan Bank advances	(30)	(541,037)
Proceeds from Federal Home Loan Bank advances	30,000	20,000
Repurchase of Common Stock	(4,094)	-
Net proceeds from Common Stock options exercised	-	117
Cash dividends paid	(3,412)	(3,194)

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Net cash used in financing activities	(19,335)	(1,161,254)
NET CHANGE IN CASH AND CASH EQUIVALENTS	69,760	(176,467)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	137,691	362,971
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 207,451	\$ 186,504
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$5,302	\$6,535
Income taxes	2,169	1,037
SUPPLEMENTAL NONCASH DISCLOSURES		
Transfers from loans to real estate acquired in settlement of loans	\$897	\$8,722
Loans provided for sales of other real estate owned	61	382

See accompanying footnotes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – MARCH 31, 2013 AND 2012 (UNAUDITED) AND DECEMBER 31, 2012

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The consolidated financial statements include the accounts of Republic Bancorp, Inc. (the “Parent Company”) and its wholly-owned subsidiaries: Republic Bank & Trust Company (“RB&T”) and Republic Bank (“RB”) (collectively referred together as the “Bank”), and Republic Invest Co. 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 (“GAAP”) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. For further information, refer to the consolidated financial statements and footnotes thereto included in Republic’s Form 10-K for the year ended December 31, 2012.

As of March 31, 2013, the Company was divided into three distinct business operating segments: Traditional Banking, Mortgage Banking and Republic Processing Group (“RPG”). During the second quarter of 2012, the Company realigned the previously reported Tax Refund Solutions (“TRS”) segment as a division of the newly formed RPG segment. Along with the TRS division, Republic Payment Solutions (“RPS”) and Republic Credit Solutions (“RCS”) also operate as divisions of the RPG segment.

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

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

Effective January 27, 2012, RB&T acquired specific assets and assumed substantially all of the deposits and certain other liabilities of Tennessee Commerce Bank (“TCB”), headquartered in Franklin, Tennessee from the Federal Deposit Insurance Corporation (“FDIC”), as receiver for TCB. This acquisition of a failed bank represented a single banking center located in metropolitan Nashville and was RB&T’s initial entrance into the Tennessee market. See additional discussion under Footnote 2 “2012 Acquisitions of Failed Banks” in this section of the filing.

Effective September 7, 2012 RB&T acquired specific assets and assumed substantially all of the liabilities of First Commercial Bank (“FCB”), headquartered in Bloomington, Minnesota from the FDIC, as receiver for FCB. This acquisition of a failed bank represented a single banking center located in metropolitan Minneapolis and was RB&T’s initial entrance into the Minnesota market. See additional discussion under Footnote 2 “2012 Acquisitions of Failed Banks” in this section of the filing.

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

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

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

Republic Processing Group

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

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

2. 2012 ACQUISITIONS OF FAILED BANKS

OVERVIEW

Republic implemented an acquisition strategy in early 2012 to selectively grow its franchise as a complement to its internal growth strategies. During 2012, RB&T acquired two failed institutions in FDIC-assisted transactions. RB&T acquired certain assets and assumed certain liabilities of Tennessee Commerce Bank (“TCB”) during the first quarter of 2012 and First Commercial Bank (“FCB”) during the third quarter of 2012. The Company did not raise capital to complete either of these acquisitions.

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

Tennessee Commerce Bank

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

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

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

Information obtained subsequent to January 27, 2012 and through September 30, 2012 was considered in forming TCB estimates of cash flows and collateral values as of the January 27, 2012 acquisition date, i.e., TCB's day-one fair values. Day-one fair values for TCB were considered final as of September 30, 2012, which is the date RB&T believed it had all the information necessary to determine TCB's day-one fair values.

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

Tennessee Commerce Bank

January 27, 2012

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

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

Tennessee Commerce Bank

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

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

First Commercial Bank

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

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

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

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

While future recasts of the FCB bargain purchase gain are possible, management does not currently anticipate additional future adjustments to the FCB bargain purchase gain, as a significant amount of information is now available to management regarding the assets and liabilities in the acquisition and a significant amount of the assets acquired have been resolved in some manner. As a result, management considers the measurement period for the FCB day-one fair values to be closed as of March 31, 2013 but reserves the right to make future adjustments if material information that existed as of the acquisition date of September 7, 2012 becomes available.

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

First Commercial Bank		September 7, 2012		
	As Previously Reported		As Recasted	
	Contractual	Fair Value	2012 & 2013	
(in thousands)	Amount	Adjustments	Recast	Fair
Assets acquired :			Adjustments	Value
Cash and cash equivalents	\$ 10,524	\$-	\$-	\$ 10,524
Securities available for sale	12,002	-	-	12,002
Loans	171,744	(44,214)	2,821	130,351
Federal Home Loan Bank stock, at cost	407	-	-	407
Other assets and accrued interest receivable	829	(95)	-	734
Other real estate owned	19,360	(8,389)	(785)	10,186
Core deposit intangible	-	559	-	559
Discount	(79,412)	79,412	-	-
FDIC settlement receivable	64,326	-	-	64,326
Total assets acquired	\$ 199,780	\$ 27,273	\$ 2,036	\$ 229,089
Liabilities assumed:				
Deposits:				
Non interest-bearing	\$ 7,197	\$-	\$-	\$ 7,197
Interest-bearing	189,057	(3)	-	189,054
Total deposits	196,254	(3)	-	196,251
Federal Home Loan Bank advances	3,002	63	-	3,065
Accrued income taxes payable	-	9,706	712	10,418
Other liabilities and accrued interest payable	524	101	-	625
Total liabilities assumed	\$ 199,780	\$ 9,867	\$ 712	\$ 210,359
Equity:				
Bargain purchase gain, net of taxes	-	17,406	1,324	18,730

Total liabilities assumed and equity	\$199,780	\$27,273	\$2,036	\$229,089
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A summary of the net assets acquired from the FDIC and the estimated fair value adjustments as of the FCB acquisition date follows:

First Commercial Bank

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

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

FAIR VALUE METHODS ASSOCIATED WITH THE ACQUISITIONS OF FAILED BANKS

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

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

Investment Securities – Investment securities were acquired at fair value from the FDIC. The fair values provided by the FDIC were reviewed and considered reasonable based on RB&T's understanding of the marketplace. FHLB stock was acquired at cost, as it is not practicable to determine its fair value given restrictions on its marketability.

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

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

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

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

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

With the FCB acquisition, RB&T purchased approximately \$172 million in loans with a fair value of approximately \$128 million.

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

Tennessee Commerce Bank

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

First Commercial Bank

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

The following tables present the purchased loans that are included within the scope of ASC Topic 310-30 at the respective acquisition dates:

Tennessee Commerce Bank

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

First Commercial Bank

September 7, 2012
2012 & 2013

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

The following table presents a rollforward of the accretable discount on the purchased loans within the scope of ASC Topic 310-30 for the three months ended March 31, 2013:

(in thousands)	Tennessee Commerce Bank	First Commercial Bank	Total Acquired Banks
Balance as of January 1, 2013	\$ (319)	\$ (2,912)	\$ (3,231)
Transfers between non-accretable and accretable	(984)	-	(984)
Accreted/(Amortized) into interest income on loans, including loan fees	991	641	1,632
Net recast adjustment	-	283	283
Ending balance, March 31, 2013	\$ (312)	\$ (1,988)	\$ (2,300)

Changes between the accretable and non-accretable components within the respective measurement periods for FCB were deemed to be the result of facts and circumstances that existed the day of the acquisition and became known to RB&T after the fact. Thus, any adjustments between the two categories within the measurement period were deemed to be recast adjustments to the bargain purchase gain.

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

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

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

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

FHLB Advances – RB&T acquired \$3 million in FHLB advances related to the FCB acquisition. The advances were marked to market as of the acquisition date based on their early termination penalties as of that date. RB&T paid off the advances during the third quarter of 2012 at no additional loss beyond the fair value adjustment as of their date of acquisition.

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

RB&T assumed \$947 million in deposits at estimated fair value in connection with the TCB acquisition. As permitted by the FDIC, within seven days of the acquisition date, RB&T had the option to disclose to TCB's deposit customers that it was repricing the acquired deposit portfolios. In addition, depositors had the option to withdraw funds without penalty. RB&T chose to re-price all of the acquired TCB interest-bearing deposits, including transaction, time and brokered deposits with an effective date of January 28, 2012. This re-pricing triggered time and brokered deposit run-off consistent with management's expectations. Through March 31, 2013, approximately 97% of the assumed TCB interest-bearing deposit account balances had exited RB&T, with no penalty on the applicable time and brokered deposits. At March 31, 2013, RB&T had \$34 million of deposits remaining from the TCB acquisition.

RB&T assumed \$196 million in deposits at estimated fair value in connection with the FCB acquisition. RB&T chose to re-price all of the acquired FCB time deposits with an effective date of October 1, 2012. This re-pricing triggered certificate of deposit run-off consistent with management's expectations. Through March 31, 2013, approximately 74% of the assumed interest-bearing deposit account balances had exited RB&T, with no penalty on the applicable time and brokered deposits. At March 31, 2013, RB&T had \$56 million of deposits remaining from the FCB acquisition.

The composition of deposits assumed at fair value as of the respective 2012 acquisition dates follows:

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

First Commercial Bank (in thousands)	Contractual Amount	September 7, 2012		Fair Value
		Fair Value Adjustments	Recast Adjustments	
Demand	\$4,003	\$-	\$-	\$4,003
Money market accounts	38,187	-	-	38,187
Savings	-	-	-	-
Individual retirement accounts*	16,780	-	-	16,780
Time deposits, \$100,000 and over*	14,740	-	-	14,740

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Other certificates of deposit*	62,033	-	-	62,033
Brokered certificates of deposit*	53,314	(3) -	53,311
Total interest-bearing deposits	189,057	(3) -	189,054
Total non interest-bearing deposits	7,197	-	-	7,197
Total deposits	\$196,254	\$(3) \$-	\$196,251

* - denotes a time deposit

3. INVESTMENT SECURITIES

Securities available for sale:

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

March 31, 2013 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and				
U.S. Government agencies	\$ 38,954	\$ 454	\$ (4)	\$ 39,404
Private label mortgage backed security	5,501	187	-	5,688
Mortgage backed securities - residential	171,021	6,186	-	177,207
Collateralized mortgage obligations	197,547	2,003	(406)	199,144
Total securities available for sale	\$ 413,023	\$ 8,830	\$ (410)	\$ 421,443

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

Mortgage backed Securities

At March 31, 2013, with the exception of the \$5.7 million private label mortgage backed security, all other mortgage backed securities held by the Bank were issued by U.S. government-sponsored entities and agencies, primarily Freddie Mac and Fannie Mae ("FNMA"), institutions that the government has affirmed its commitment to support. At March 31, 2013 and December 31, 2012, there were gross unrealized/unrecognized losses of \$406,000 and \$130,000 related to available for sale mortgage backed securities. Because the decline in fair value of these mortgage backed securities is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these mortgage backed securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired.

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:

	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
March 31, 2013 (in thousands)				
U.S. Treasury securities and U.S. Government agencies	\$2,366	\$ 16	\$ -	\$2,382
Mortgage backed securities - residential	548	46	-	594
Collateralized mortgage obligations	49,369	413	-	49,782
Total securities to be held to maturity	\$52,283	\$ 475	\$ -	\$52,758

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

During the three months ended March 31, 2013, there were no sales or calls of securities available for sale.

During the three months ended March 31, 2012, the Bank recognized net securities gains in earnings for securities available for sale as follows:

The Bank sold six available for sale securities acquired in the TCB acquisition with an amortized cost of \$35 million, resulting in a pre-tax gain of \$53,000 during the first quarter of 2012.

The Bank realized \$3,000 in pre-tax gains related to unamortized discount accretion on \$10 million of callable U.S. Government agencies that were called during the first quarter of 2012 before their maturity.

The tax provision related to the Bank's realized gains totaled \$0 and \$20,000 for the three ended March 31, 2013 and 2012, respectively.

The amortized cost and fair value of the investment securities portfolio by contractual maturity at March 31, 2013 follows. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations whether or not there are associated call or prepayment penalties. Securities not due at a single maturity date are detailed separately.

March 31, 2013 (in thousands)	Securities available for sale		Securities held to maturity	
	Amortized Cost	Fair Value	Carrying Value	Fair Value
Due in one year or less	\$1,000	\$1,001	\$521	\$528
Due from one year to five years	35,419	35,869	1,845	1,854
Due from five years to ten years	2,535	2,534	-	-
Due beyond ten years	-	-	-	-
Private label mortgage backed security	5,501	5,688	-	-
Mortgage backed securities - residential	171,021	177,207	548	594
Collateralized mortgage obligations	197,547	199,144	49,369	49,782
Total securities	\$413,023	\$421,443	\$52,283	\$52,758

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

Market Loss Analysis

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

March 31, 2013 (in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and U.S. Government agencies	\$ 2,007	\$ (4)	\$ -	\$ -	\$ 2,007	\$ (4)
Mortgage backed securities - residential, including Collateralized mortgage obligations	33,559	(406)	-	-	33,559	(406)
Total	\$ 35,566	\$ (410)	\$ -	\$ -	\$ 35,566	\$ (410)

December 31, 2012 (in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

U.S. Treasury securities
and

U.S. Government agencies	\$ 3,588	\$ (6)	\$ -	\$ -	\$ 3,588	\$ (6)
Mortgage backed securities - residential, including						
Collateralized mortgage obligations	20,508	(130)	-	-	20,508	(130)
Total	\$ 24,096	\$ (136)	\$ -	\$ -	\$ 24,096	\$ (136)

At March 31, 2013, the Bank's security portfolio consisted of 155 securities, six of which were in an unrealized loss position. At December 31, 2012, the Bank's security portfolio consisted of 153 securities, seven of which were in an unrealized loss position.

Other-than-temporary impairment (“OTTI”)

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

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

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

Nationally, residential real estate values have declined significantly since 2007. These declines in value, coupled with the reduced ability of certain homeowners to refinance or repay their residential real estate obligations, have led to elevated delinquencies and losses in residential real estate loans. Many of these loans have previously been securitized and sold to investors as private label mortgage backed securities. The Bank owns one private label mortgage backed security with a total carrying value of \$5.7 million at March 31, 2013. This security is mostly backed by “Alternative A” first lien mortgage loans and is backed with an insurance “wrap” or guarantee with an average life currently estimated at four years. Due to current market conditions, this asset remains extremely illiquid, and as such, the Bank determined it to be a Level 3 security in accordance with ASC Topic 820, Fair Value Measurements and Disclosures. Based on this determination, the Bank utilized an income valuation model (present value model) approach, in determining the fair value of the security. This approach is beneficial for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management’s best estimate is used. Management’s best estimate consists of both internal and external support for this investment.

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

Pledged Investment Securities

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

		December 31,
(in thousands)	March 31, 2013	2012

Carrying amount	\$	260,494	\$	334,560
Fair value		260,895		334,843

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the loan portfolio follows:

(in thousands)	March 31, 2013	December 31, 2012
Residential real estate:		
Owner occupied	\$ 1,155,207	\$ 1,148,354
Non owner occupied	69,035	74,539
Commercial real estate	697,517	698,611
Commercial real estate - purchased whole loans	33,690	33,531
Real estate construction	82,545	80,093
Commercial	131,235	130,768
Warehouse lines of credit	173,018	216,576
Home equity	233,458	241,853
Consumer:		
Credit cards	8,255	8,716
Overdrafts	903	955
Other consumer	13,779	16,201
Total loans	2,598,642	2,650,197
Less: Allowance for loan losses	23,563	23,729
Total loans, net	\$ 2,575,079	\$ 2,626,468

2012 Acquisitions of Failed Banks

The contractual amount of the loans purchased in the TCB transaction decreased from \$79 million as of the acquisition date to \$36 million as of March 31, 2013. The carrying value of the loans purchased in the TCB transaction was \$57 million as of the acquisition date compared to \$28 million as of March 31, 2013.

The contractual amount of the loans purchased in the FCB transaction decreased from \$172 million as of the acquisition date to \$121 million as of March 31, 2013. The carrying value of the loans purchased in the FCB transaction was \$130 million as of the acquisition date compared to \$95 million as of March 31, 2013.

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

March 31, 2013 (in thousands)	Tennessee Commerce Bank	First Commercial Bank	Total Acquired Banks
Residential real estate	\$ 10,585	\$ 28,099	\$ 38,684
Commercial real estate	9,847	56,168	66,015
Real estate construction	1,592	2,585	4,177
Commercial	1,194	7,347	8,541
Home equity	4,310	106	4,416
Consumer:			-

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Credit cards	297	-	297
Overdrafts	6	3	9
Other consumer	522	260	782
Total gross loans	\$ 28,353	\$ 94,568	\$ 122,921

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

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

March 31, 2013 (in thousands)	Tennessee Commerce Bank	First Commercial Bank	Total Acquired Banks
Contractually-required principal	\$ 36,191	\$ 121,369	\$ 157,560
Non-accretable difference	(7,526)	(24,813)	(32,339)
Accretable difference	(312)	(1,988)	(2,300)
Carrying value of loans	\$ 28,353	\$ 94,568	\$ 122,921

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

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

March 31, 2013 (in thousands)	Pass	Special Mention / Watch	Substandard	Doubtful / Loss	Purchased Credit Impaired Loans Group 1	Purchased Credit Impaired Loans Group 2	Total Rated Loans*
Residential real estate:							
Owner occupied	\$-	\$24,163	\$9,976	\$-	\$4,856	\$136	\$39,131
Non owner occupied	-	1,340	3,580	-	13,814	416	19,150
Commercial real estate	619,458	13,013	19,266	-	45,595	185	697,517
Commercial real estate -							
Purchased whole loans	33,690	-	-	-	-	-	33,690
Real estate construction	75,685	985	2,909	-	2,626	340	82,545
Commercial Warehouse lines of credit	123,243	2,056	627	-	5,245	64	131,235
Home equity	173,018	-	-	-	-	-	173,018
Consumer:	-	684	2,202	-	-	-	2,886
Credit cards	-	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-	-
Other consumer	-	368	2	-	116	-	486
Total rated loans	\$1,025,094	\$42,609	\$38,562	\$-	\$72,252	\$1,141	\$1,179,658
December 31, 2012 (in thousands)	Pass	Special Mention / Watch	Substandard	Doubtful / Loss	Purchased Credit Impaired Loans Group 1	Purchased Credit Impaired Loans Group 2	Total Rated Loans*
Residential real estate:							
Owner occupied	\$-	\$25,116	\$8,297	\$-	\$2,277	\$136	\$35,826
Non owner occupied	-	2,484	3,211	-	21,453	323	27,471
Commercial real estate	608,599	16,648	18,953	-	54,071	340	698,611

Commercial real estate -

Purchased whole loans	33,531	-	-	-	-	-	33,531
Real estate construction	73,434	894	2,919	-	2,846	-	80,093
Commercial Warehouse lines	121,256	2,312	525	-	6,315	360	130,768
of credit	216,576	-	-	-	-	-	216,576
Home equity	-	648	2,346	-	-	-	2,994
Consumer:							
Credit cards	-	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-	-
Other consumer	-	356	53	-	71	1	481
Total rated loans	\$1,053,396	\$48,458	\$36,304	\$-	\$87,033	\$1,160	\$1,226,351

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

Allowance for Loan Losses

Activity in the allowance for loan losses follows:

(in thousands)	Three Months Ended March 31,	
	2013	2012
Allowance for loan losses at beginning of period	\$23,729	\$24,063
Charge offs - Traditional Banking	(554)	(4,267)
Charge offs - Refund Anticipation Loans	-	(10,754)
Total charge offs	(554)	(15,021)
Recoveries - Traditional Banking	414	435
Recoveries - Refund Anticipation Loans	599	3,085
Total recoveries	1,013	3,520
Net loan charge offs (recoveries) - Traditional Banking	(140)	(3,832)
Net loan charge offs (recoveries) - Refund Anticipation Loans	599	(7,669)
Net loan charge offs (recoveries)	459	(11,501)
Provision for loan losses - Traditional Banking	(26)	3,131
Provision for loan losses - Refund Anticipation Loans	(599)	8,039
Total provision for loan losses	(625)	11,170
Allowance for loan losses at end of period	\$23,563	\$23,732

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

- Changes in nature, volume and seasoning of the loan portfolio;
- Changes in experience, ability, and depth of lending management and other relevant staff;
- Changes in the quality of the Bank's loan review system;
- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Changes in the volume and severity of past due, nonaccrual and classified loans;
- Changes in the value of underlying collateral for collateral-dependent loans;
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectibility of the loan portfolio, including the condition of various market segments;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution's existing portfolio.

The following tables present the activity in the allowance for loan losses by portfolio class for the three months ended March 31, 2013 and 2012:

Three Months Ended March 31, 2013 (in thousands)	Residential Real Estate			Commercial Real Estate -	Real Estate	Warehouse	
	Owner	Non Owner	Commercial	Purchased	Estate	Lines of	
	Occupied	Occupied	Real Estate	Whole Loans	Construction	Commercial	Credit
Beginning balance	\$ 7,006	\$ 1,049	\$ 8,843	\$ 34	\$ 2,769	\$ 580	\$ 541
Provision for loan losses	80	(90)	(66)	-	296	142	(108)
Loans charged off	(200)	(43)	(14)	-	-	-	-
Recoveries	98	8	18	-	36	5	-
Ending balance	\$ 6,984	\$ 924	\$ 8,781	\$ 34	\$ 3,101	\$ 727	\$ 433

(continued)	Refund			Consumer	Other		Total
	Home Equity	Anticipation Loans	Credit Cards	Overdrafts	Consumer	Consumer	
Beginning balance	\$ 2,348	\$ -	\$ 210	\$ 198	\$ 151		\$ 23,729
Provision for loan losses	(435)	(599)	121	56	(22)		(625)
Loans charged off	(43)	-	(10)	(175)	(69)		(554)
Recoveries	39	599	5	130	75		1,013
Ending balance	\$ 1,909	\$ -	\$ 326	\$ 209	\$ 135		\$ 23,563

Three Months Ended March 31, 2012 (in thousands)	Residential Real Estate			Commercial Real Estate -	Real Estate	Warehouse	
	Owner	Non Owner	Commercial	Purchased	Estate	Lines of	
	Occupied	Occupied	Real Estate	Whole Loans	Construction	Commercial	Credit
Beginning balance	\$ 5,212	\$ 1,142	\$ 7,724	\$ -	\$ 3,042	\$ 1,025	\$ 104
Allocation of previously unallocated allowance	1,164	146	-	-	-	-	-
Provision for loan losses	1,152	(88)	1,163	-	627	35	46
Loans charged off	(1,583)	(36)	(21)	-	(1,295)	-	-

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Recoveries	117	12	33	-	28	8	-
Ending balance	\$ 6,062	\$ 1,176	\$ 8,899	\$ -	\$ 2,402	\$ 1,068	\$ 150
(continued)							
	Home Equity	Refund Anticipation Loans	Credit Cards	Consumer Overdrafts	Other Consumer	Unallocated	Total
Beginning balance	\$ 2,984	\$ -	\$ 503	\$ 135	\$ 227	\$ 1,965	\$ 24,063
Allocation of previously unallocated allowance	536	-	47	17	55	(1,965)	-
Provision for loan losses	309	8,039	(40)	(63)	(10)	-	11,170
Loans charged off	(1,115)	(10,754)	(28)	(118)	(71)	-	(15,021)
Recoveries	6	3,085	20	144	67	-	3,520
Ending balance	\$ 2,720	\$ 370	\$ 502	\$ 115	\$ 268	\$ -	\$ 23,732

Non-performing Loans and Non-performing Assets

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

(dollars in thousands)	March 31, 2013	December 31, 2012
Loans on non-accrual status(1)	\$ 18,161	\$ 18,506
Loans past due 90 days or more and still on accrual	2,752	3,173
Total non-performing loans	20,913	21,679
Other real estate owned	18,689	26,203
Total non-performing assets	\$ 39,602	\$ 47,882

Credit Quality Ratios:

Non-performing loans to total loans	0.80	%	0.82	%
Non-performing assets to total loans (including OREO)				