

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2007

or

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

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky

(State of other jurisdiction of incorporation or organization)

601 West Market Street, Louisville, Kentucky

(Address of principal executive offices)

61-0862051

(I.R.S. Employer Identification No.)

40202

(Zip Code)

(502) 584-3600

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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, 2007, was 18,481,611 and 2,349,975, respectively. All share and per share data has been restated to reflect the five percent (5%) stock dividend that was declared in January 2007.

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1.

Financial Statements.

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 3.

Quantitative and Qualitative Disclosures about Market Risk.

Item 4.

Controls and Procedures.

PART II OTHER INFORMATION

Item 1.

Legal Proceedings.

Item 1A.

Risk Factors.

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds.

Item 4.

Submission of Matters to a Vote of Security Holders.

Item 6.

Exhibits.

EX-31.1

Section 302 Certification of Principal Executive Officer

EX-31.2

Section 302 Certification of Principal Financial Officer

EX-32.1

Certification of Principal Executive Officer Pursuant to 18 U.S.C Section 1350

EX-32.2

Certification of Principal Financial Officer Pursuant to 18 U.S.C Section 1350

SIGNATURES

PART I FINANCIAL INFORMATION**Item 1. Financial Statements.****CONSOLIDATED BALANCE SHEETS** *(in thousands)*

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

See accompanying footnotes to consolidated financial statements.

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

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

(continued)

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

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

(continued)

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

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

See accompanying footnotes to consolidated financial statements.

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

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

See accompanying footnotes to consolidated financial statements.

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

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

continued

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

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

See accompanying footnotes to consolidated financial statements.

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for quarter ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in Republic s Form 10-K for the year ended December 31, 2006.

New Accounting Standards In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) 155, *Accounting for Certain Hybrid Financial Instruments-an amendment to FASB Statements No. 133 and 140*. This Statement permits fair value re-measurement for any hybrid financial instruments, clarifies which instruments are subject to the requirements of SFAS 133, and establishes a requirement to evaluate interests in

securitized financial assets and other items. The new standard became effective January 1, 2007 and the adoption of this statement did not have a material impact on the Company's consolidated financial position or results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

2. DISCONTINUED OPERATIONS — PAYDAY LENDING

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

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

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

Balance Sheets

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

Statements of Income

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

3. SECURITIES

Securities available for sale:

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

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

Securities to be held to maturity:

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

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

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

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

December 31, 2006.

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

<i>(in thousands)</i>	March 31, 2007	December 31, 2006
Carrying value	\$ 464,409	\$ 470,777
Fair value	463,703	469,148

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

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

An analysis of the Allowance for loan losses follows:

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

Information regarding Republic's impaired loans is as follows:

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

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

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

5. DEPOSITS

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

6. FEDERAL HOME LOAN BANK (FHLB) ADVANCES

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

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

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

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

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

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

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

7. SUBORDINATED NOTE

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

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

8. OFF BALANCE SHEET RISKS, COMMITMENTS AND CONTINGENT LIABILITIES

Republic is a party to financial instruments with off balance sheet risk in the normal course of business in order to meet the financing needs of its customers. These financial instruments primarily include commitments to extend credit and standby letters of credit. The contract or notional amounts of these instruments reflect the potential future obligations of Republic pursuant to those financial instruments. Creditworthiness for all instruments is evaluated on a case by case basis in accordance with Republic's credit policies. Collateral from the customer may be required based on management's credit evaluation of the customer and may include business assets of commercial customers, as well as personal property and real estate of individual customers or guarantors.

Republic also extends binding commitments to customers and prospective customers. Such commitments assure the borrower of financing for a specified period of time at a specified rate. The risk to Republic under such loan commitments is limited by the terms of the contracts. For example, Republic may not be obligated to advance funds if the customer's financial condition deteriorates or if the customer fails to meet specific covenants. An approved but unfunded loan commitment represents a potential credit risk once the funds are advanced to the customer. This is also a liquidity risk since the customer may demand immediate cash that would require funding and interest rate risk as market interest rates may rise above the rate committed. In addition, since a portion of these loan commitments normally expire unused, the total amount of outstanding commitments at any point in time may not require future funding.

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

Standby letters of credit are conditional commitments issued by Republic to guarantee the performance of a customer to a third party. The terms and risk of loss involved in issuing standby letters of credit are similar to those involved in issuing loan commitments and extending credit. Commitments outstanding under standby letters of credit totaled \$15 million at March 31, 2007 and \$9 million at December 31, 2006.

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

9. EARNINGS PER SHARE

Class A and Class B shares participate equally in undistributed earnings. The difference in earnings per share between the two classes of common stock results solely from the 10% per share cash dividend premium paid on Class A Common Stock over that paid on Class B Common Stock.

A reconciliation of the combined Class A and Class B Common Stock numerators and denominators of the earnings per share and diluted earnings per share computations is presented below:

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

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

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

10. SEGMENT INFORMATION

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

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

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

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

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

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

11. SECURITIZATION

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

Detail of Net RAL securitization income follows:

March 31, (in thousands)	2007	2006
Net gain on sale of RALs	\$ 1,782	\$ 2,022
Increase (decrease) in securitization residual	825	(8)
Net RAL securitization income	\$ 2,607	\$ 2,014

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations of Republic Bancorp, Inc. (Republic or the Company) analyzes the major elements of Republic's consolidated balance sheets and statements of income. Republic, a bank holding company headquartered in Louisville, Kentucky, is the Parent Company of Republic Bank & Trust Company, Republic Bank (together referred to as the Bank), Republic Funding Company, Republic Invest Co. and Republic Bancorp Capital Trust. Republic Invest Co. includes its subsidiary, Republic Capital LLC. Republic Bancorp Capital Trust is a Delaware statutory business trust that is a 100%-owned unconsolidated finance subsidiary of Republic Bancorp, Inc. The consolidated financial statements also include the wholly-owned subsidiaries of Republic Bank & Trust Company: Republic Financial Services, LLC, TRS RAL Funding, LLC and Republic Insurance Agency, LLC. Republic Bank, a federally chartered thrift institution, includes its subsidiary, GulfStream Financial Properties, Inc. Management's Discussion and Analysis of Financial Condition and Results of Operations of Republic should be read in conjunction with Item 1 *Financial Statements*.

This discussion includes various forward-looking statements with respect to credit quality, including but not limited to, delinquency trends and the adequacy of the allowance for loan losses, banking products, corporate objectives, the Company's interest rate sensitivity model and other financial and business matters. Broadly speaking, forward-looking statements may include:

- projections of revenue, income, earnings per share, capital expenditures, dividends, capital structure or other financial items;
- descriptions of plans or objectives of the Company's management for future operations, products or services;
- forecasts of future economic performance; and
- descriptions of assumptions underlying or relating to any of the foregoing.

The Company may make forward-looking statements discussing management's expectations about:

- future credit losses and non-performing assets;
- the adequacy of the allowance for loans losses;
- the future value of mortgage servicing rights;
- the impact of new accounting pronouncements;
- future short-term and long-term interest rate levels and the respective impact on net interest margin, net interest spread, net income, liquidity and capital;
- legal and regulatory matters; and
- future capital expenditures.

Forward-looking statements discuss matters that are not historical facts. As forward-looking statements discuss future events or conditions, they often include words such as anticipate, believe, estimate, expect, intend, plan, project, target, can, could, may, should, expressions. Do not rely on forward-looking statements. Forward-looking statements detail management's expectations regarding the future and are not guarantees. Forward-looking statements are assumptions based on information known to management only as of the date they are made and management may not update them to reflect changes that occur subsequent to the date the statements are made.

OVERVIEW

Net income from continuing operations for the first quarter of 2007 was \$8.3 million, representing a decline of \$1.6 million or 16% compared to the same period in 2006. Diluted earnings per Class A Common Share from continuing operations declined 17% to \$0.39 for the first quarter of 2007 compared to \$0.47 for the same period in 2006.

Overall net income for the first quarter of 2007 was \$8.3 million, representing a decline of \$1.4 million or 15% compared to the same period in 2006. Diluted earnings per Class A Common Share declined 15% to \$0.39 for the first quarter of 2007 compared to \$0.46 for the same period in 2006.

Highlights for the quarter first quarter of 2007 consist of the following:

- Net income from the Company's traditional Banking business segment decreased 18% for the first quarter of 2007 compared to the same period in 2006 due primarily to continued compression of the Company's net interest margin combined with a significant increase in non interest expenses.
- Net income of the Company's Tax Refund Solutions business segment was down 15% percent for the first quarter of 2007 compared to the first quarter of 2006 due primarily to higher estimated losses associated with RALs. Total RAL volume (which includes RALs sold into the securitization) increased 38% during the first three months of 2007 compared to the same period in 2006. The increase in volume primarily related to successful sales efforts related to more aggressive profit sharing on the products.
- For the second consecutive year, the Company sold a portion of its RAL portfolio into a securitization.
- Total net interest income increased \$1.9 million or 7% during the first quarter of 2007 compared to the same period in 2006. The rise in net interest income primarily related to growth in the loan portfolio over the prior year, despite a minimal amount of growth in the portfolio for the first quarter of 2007. Traditional Bank loans increased \$188 million from March 31, 2006 to March 31, 2007.
- Service charges on deposit accounts increased \$489,000 or 13% during the first quarter of 2007 compared to the same period in 2006. The increase was attributed to growth in the Company's checking account base and an increase in the Bank's overdraft fee which became effective August 1, 2006.
- Total non interest expense increased \$3.1 million or 16% during the first quarter of 2007. This increase was primarily attributable to increases in salaries and employee benefits and other expenses. Salaries and employee benefits rose \$975,000 or 9% due to annual merit increases, stock option compensation expense, higher health insurance expenses and an increase in full time equivalent employees (FTE s). Other expenses increased \$946,000 or 58% during the first quarter of 2007 compared to the same period in 2006. Other expense for the first quarter of 2007 includes a pre-tax charge of approximately \$550,000 associated with an adverse judgment of a previously disclosed lawsuit.

BUSINESS SEGMENT COMPOSITION

As of March 31, 2007, the Company was divided into three distinct business operating segments: Banking, Tax Refund Solutions and Mortgage Banking. As discussed throughout this document, the Company substantially exited the deferred deposit business during the first quarter of 2006; therefore, the deferred deposit segment operations are presented as discontinued operations. Total assets and net income by segment for the three months ended March 31, 2007 and 2006 are presented below:

Three Months Ended March 31, 2007

<i>(in thousands)</i>	Banking	Tax Refund Solutions	Mortgage Banking	Total Continuing Operations	Discontinued Operations
Net income	\$ 3,956	\$ 4,223	\$ 127	\$ 8,306	\$
Segment assets	2,998,214	10,644	12,979	3,021,837	

Three Months Ended March 31, 2006

<i>(in thousands)</i>	Banking	Tax Refund Solutions	Mortgage Banking	Total Continuing Operations	Discontinued Operations
Net income (loss)	\$ 4,798	\$ 4,954	\$ 109	\$ 9,861	\$ (114)
Segment assets	2,724,823	7,414	5,596	2,737,833	1,090

(I) Banking

As of March 31, 2007, Republic had a total of 38 full-service banking centers with 34 located in Kentucky, two in southern Indiana and two in Pasco County, Florida. Republic Bank & Trust Company's primary market areas are located in metropolitan Louisville, central Kentucky and southern Indiana. Louisville, the largest city in Kentucky, is the location of Republic's headquarters, as well as 19 banking centers. Republic's central Kentucky market includes 15 banking centers in the following Kentucky cities: Bowling Green (1); Covington (1); Elizabethtown (1); Fort Wright (1) Frankfort (2); Georgetown (1); Lexington, the second largest city in Kentucky (5); Owensboro (2); and Shelbyville (1). Republic Bank & Trust Company also has banking centers located in New Albany and Jeffersonville, Indiana. Republic Bank has locations in Port Richey and New Port Richey, Florida. Republic also operates two Loan Production Offices (LPOs) in the Louisville, Kentucky market and one additional LPO office in Pasco County, Florida. The Louisville LPOs operate under Republic Finance, a division of Republic Bank & Trust Company. Republic Finance offers an array of loan products to individuals who may not qualify under the Bank's standard underwriting guidelines. The Company has announced plans to open additional banking centers in Florence, Crestwood and Shepherdsville, Kentucky, as well as Floyd's Knobs, Indiana.

Banking related operating revenues are derived primarily from interest earned from the Bank's loan and investment securities portfolios and fee income from loans, deposits and other banking products. The Bank has historically extended credit and provided general banking services through its banking center network to individuals and businesses. Over the past several years, the Bank has expanded into new lines of business to diversify its asset mix and further enhance its profitability. The Bank principally markets its banking products and services through the following delivery channels:

Mortgage Lending The Bank generally retains adjustable rate residential real estate loans with fixed terms up to ten years. These loans are originated through the Bank's retail banking center network and LPOs. Fixed rate residential real estate loans that are sold into the secondary market, and their accompanying servicing rights, which may be either sold or retained, are included as a component of the Company's *Mortgage Banking* segment and are discussed throughout this document.

Commercial Lending Commercial loans are primarily real estate secured and are generated through banking centers in the Bank's market areas. The Bank makes commercial loans to a variety of industries and promotes this business through focused calling programs in order to broaden relationships by providing business clients with loan, deposit and treasury management services.

Consumer Lending Traditional consumer loans made by the Bank include home improvement and home equity loans, as well as secured and unsecured personal loans. With the exception of home equity loans, which are actively marketed in conjunction with single family first lien mortgage loans, traditional consumer loan products are not actively promoted in Republic's markets.

Treasury Management Services The Bank provides various deposit products designed for business clients located throughout its market areas. Lockbox processing, business online banking, account reconciliation and Automated Clearing House (ACH) processing are additional services offered to businesses through the Treasury Management department. The *Premier First* product is the premium money market sweep account designed for business clients.

Internet Banking The Bank expands its market penetration and service delivery by offering clients Internet banking services and products through its Internet site, www.republicbank.com.

Other Banking Services The Bank also provides trust, title insurance and other related financial institution products and services.

(II) Tax Refund Solutions (TRS)

Republic Bank & Trust Company (RBT) is one of a limited number of financial institutions that facilitates the payment of federal and state tax refunds through tax preparers located throughout the U.S. RBT facilitates the payment of these tax refunds through three primary products: Refund Anticipation Loans (RALs), Electronic Refund Checks (ERCs) and Electronic Refund Deposits (ERDs). RBT offers RALs for those taxpayers who apply and qualify and RALs are repaid when the taxpayers' refunds are electronically received by RBT from the government. For those taxpayers who wish to receive their funds electronically via an ACH, RBT will provide an ERC or an ERD to the taxpayer. An ERC/ERD is issued to the taxpayer after RBT has received the tax refund from the federal or state government.

See Footnote 11 *Securitization* of Item 1 *Financial Statements* for a description of the securitization that RBT utilized during the first quarters of 2007 and 2006. This securitization represented the sale of a portion of the RAL portfolio to a financial institution and substantially eliminated the impact of the sold RALs on the regulatory capital ratios of RBT. Net RAL securitization income, which represents the gain on sale of RALs and gain/loss on securitization residual and other costs incurred by RBT on the sold loans, is classified as non interest income under the caption *Net RAL securitization income*.

See additional detail regarding TRS under Footnote 10 *Segment Information* of Item 1 *Financial Statements*.

(III) Mortgage Banking

Mortgage banking activities primarily include 15, 20 and 30-year fixed rate real estate loans that are sold into the secondary market. Since 2003, the Bank has historically retained servicing on substantially all loans sold into the secondary market. Administration of loans with the servicing retained by the Bank includes collecting principal and interest payments, escrowing funds for taxes and insurance and remitting payments to the secondary market investors. A fee is received by the Bank for performing these standard servicing functions.

See additional detail regarding mortgage banking under Footnote 10 *Segment Information* of Item 1 *Financial Statements*.

RESULTS OF OPERATIONS

Tax Refund Solutions (TRS)

The total volume of tax return refunds processed during the first quarter of the 2007 tax season increased 22% over the first quarter of the 2006 tax season primarily resulting from successful sales efforts related to more aggressive profit sharing on the products. RAL origination volume increased 38% during the first three months of 2007 compared to the same period in 2006 while ERC/ERD volume increased 13% percent for the same time periods.

For the first quarter of 2007, TRS generated \$5.3 million in net RAL fee income, compared to \$4.9 million for the same period in 2006. TRS also earned \$3.4 million in net Electronic Refund Check (ERC)/Electronic Refund Deposit (ERD) revenue during the first quarters of 2007 and 2006. Net RAL securitization income increased \$593,000 or 29% to \$2.6 million for the first quarter of 2007 compared to \$2.0 million for the same period in 2006.

For 2006 and 2007, the Company implemented a RAL securitization to provide an alternative liquidity vehicle to brokered deposits. The securitization also allowed the Company to maintain a well-capitalized status. Approximately \$347 million and \$206 million in RALs were sold through the securitization during the first quarters of 2007 and 2006. RBT used overnight borrowing lines to fund the RALs it retained on balance sheet.

While the total tax refund volume for the first quarter of 2007 increased 22% over the first quarter of 2006, overall segment net income declined \$731,000 or 15% compared to the same period due to expected higher losses associated with the RALs. During the first quarter of 2007 the Company provided \$4.0 million through its provision for loan losses for estimated losses on RALs retained on-balance sheet by the Company. This compares to \$1.4 million provided for estimated RAL losses through the provision for loan losses during the first quarter of 2006. Additionally, during the first quarters of 2007 and 2006, the Company also recorded, as a reduction to the fair value of the residual interest of the securitization, \$2.6 million and \$1.6 million for estimated losses related to RALs sold into the securitization, the initial valuations of which are reported as a reduction to the gain on sale with subsequent changes reported as an increase or decrease in the residual value.

The increase in anticipated losses associated with RALs was primarily due to higher confirmed fraud and from an increase in the amount of refunds held by the IRS for reasons such as audits and liens from prior debts. Management believes that based on information currently available, it has provided the appropriate amount of reserves for losses associated with RALs. The possibility remains, however, that payments from the IRS throughout the remainder of the year could differ from what management estimated causing an adjustment to the Company's previous allowance for loan losses. The Company believes the impact of these adjustments will be insignificant to the financial statements and will recognize such changes in subsequent quarters based on actual and changes in anticipated cash flow.

A component of net RAL securitization income represents a gain/loss on the securitization residual, which results from the quarterly adjustment to the carrying value of the residual asset. The potential exists that in the future the Company may record an additional gain or loss on the securitization residual based on its fair value. The Company believes the impact of these changes in the value of the residual interest will be insignificant to the financial statements and will recognize such changes in subsequent quarters as they are realized.

Detail of Net RAL securitization income follows:

Three Months Ended March 31, (in thousands)	2007	2006
Net gain on sale of RALs	\$ 1,782	\$ 2,022
Increase (decrease) in securitization residual	825	(8)
Net RAL securitization income	\$ 2,607	\$ 2,014

Net Interest Income

The largest categorical source of Republic's revenue is net interest income. Net interest income is the difference between interest income on interest-earning assets, such as loans and securities, and the interest expense on liabilities used to fund those assets, such as interest-bearing deposits and borrowings. Net interest income is impacted by both changes in the amount and composition of interest-earning assets and interest-bearing liabilities, as well as market interest rates.

For the first quarter of 2007, net interest income was \$27.2 million, an increase of \$1.9 million, or 7%, over the first quarter of 2006. The Company experienced a \$1.1 million, or 6% increase in net interest income within the Banking segment which was primarily related to growth in the traditional loan portfolio. Traditional Bank loans increased \$188 million from March 31, 2006 to March 31, 2007. The Company experienced a \$708,000 or 14% increase in net interest income within the TRS business segment as a result of the increased RAL volume in 2007.

The Company's net interest spread declined 19 basis points to 3.09% for first quarter of 2007 compared to the same period in 2006. The Company's net interest margin declined 12 basis points to 3.73% for the same periods. The decline in the net interest spread and margin was the result of an increase in the Company's cost of funds without a similar corresponding increase in the Company's yield on earning assets. More specifically, the Company continues to experience contraction in its

spread and margin due to an inverted interest rate yield curve in which short-term rates are higher than long term rates combined with the fact that the Company's liabilities are more sensitive to interest rate movements than its assets. The Company also faces stern competition for deposit funds in its market areas, which continues to increase its incremental cost of deposits obtained. Alternatively, when the Company is unable to gather enough deposits in its geographical market area to fund its asset growth, the Company must obtain funding from higher cost borrowing sources such as brokered deposits or Federal Home Loan Bank advances.

Based on the Company's current balance sheet structure, management believes that the net interest spread and margin in 2007 will continue to contract unless short-term rates decline significantly from current levels. Management is unable to precisely determine the negative impact of continued contraction on the Company's net interest spread and margin in the future.

For additional information on the past effect of rising short-term interest rates on Republic's net interest income, see section titled Volume/Rate Variance Analysis in this section of the document. For additional information on the potential future effect of rising short-term interest rates on Republic's net interest income, see section titled Interest Rate Sensitivity in this section of the document. For additional discussion regarding the securitization, see the section titled Tax Refund Solutions in this section of the document and Footnote 11 Securitization of Item 1 Financial Statements.

Table 1 provides detailed information as to average balances, interest income/expense and rates by major balance sheet category for the three month periods ended March 31, 2007 and 2006. Table 2 provides an analysis of the changes in net interest income attributable to changes in rates and changes in volume of interest-earning assets and interest-bearing liabilities.

27

Table 1 Average Balance Sheets and Interest Rates from Continuing Operations for the Three Months Ended March 31, 2007 and 2006

<i>(dollars in thousands)</i>	Three Months Ended March 31, 2007			Three Months Ended March 31, 2006		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Earning assets:						
Taxable investment securities(1)	\$ 577,733	\$ 7,691	5.32	% \$ 524,139	\$ 5,852	4.47 %
Tax exempt investment securities(4)	1,783	26	7.87			
Federal funds sold and other	10,266	87	3.39	5,713	57	3.99
Loans and fees(2)(3)	2,333,647	44,622	7.65	2,103,869	38,464	7.31
Total earning assets	2,923,429	52,426	7.17	2,633,721	44,373	6.74
Less: Allowance for loan losses	12,626			11,702		
Non-earning assets:						
Cash and cash equivalents	64,122			53,344		
Premises and equipment, net	35,554			32,305		
Other assets(1)	40,426			39,089		
Total assets	\$ 3,050,905			2,746,757		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
Transaction accounts	\$ 222,900	\$ 365	0.66	% \$ 293,620	\$ 824	1.12 %
Money market accounts	524,968	5,432	4.14	376,549	3,111	3.30
Time deposits	493,686	5,264	4.27	483,414	4,395	3.64
Brokered deposits	145,486	1,790	4.92	165,353	1,677	4.06
Total deposits	1,387,040	12,851	3.71	1,318,936	10,007	3.03
Repurchase agreements and other short-term borrowings	432,698	4,910	4.54	329,233	3,268	3.97
Federal Home Loan Bank advances	607,375	6,796	4.48	504,719	5,109	4.05
Subordinated note	41,240	620	6.01	41,240	620	6.01
Total interest-bearing liabilities	2,468,353	25,177	4.08	2,194,128	19,004	3.46
Non-interest-bearing liabilities and stockholders equity:						
Non-interest-bearing deposits	307,179			302,954		
Other liabilities	36,191			31,179		
Stockholders equity	239,182			219,847		
Less: Stockholders equity allocated to discontinued operations				1,351		
Total liabilities and stockholders equity	\$ 3,050,905			2,746,757		
Net interest income		\$ 27,249			\$ 25,369	
Net interest spread			3.09	%		3.28 %
Net interest margin			3.73	%		3.85 %

(1) For the purpose of this calculation, the fair market value adjustment on investment securities resulting from Statement of Financial Accounting Standard (SFAS) 115 is included as a component of other assets.

(2) The amount of loan fee income included in total interest income was \$6.3 million and \$5.7 million for the three months ended March 31, 2007 and 2006.

(3) Average balances for loans include the principal balance of non accrual loans.

(4) Yields on tax exempt securities have been computed based on a fully tax-equivalent basis using the federal income tax rate of 35%.

The following table illustrates the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities affected Republic's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume) and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

Table 2 Volume/Rate Variance Analysis from Continuing Operations

(in thousands)	Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006		
	Total Net Change	Increase/(Decrease) Due to Volume	Rate
Interest income:			
Taxable securities	\$ 1,839	\$ 638	\$ 1,201
Tax exempt securities	26	26	
Federal funds sold and other	30	30	
Loans and fees	6,158	5,401	757
Net change in interest income	8,053	6,095	1,958
Interest expense:			
Transaction accounts	(459)	(168)	(291)
Money market accounts	2,321	1,415	906
Time deposits	869	95	774
Brokered deposits	113	(217)	330
Repurchase agreements and other short-term borrowings	1,642	1,128	514
Federal Home Loan Bank advances	1,687	1,111	576
Subordinated note			
Net change in interest expense	6,173	3,364	2,809
Net change in net interest income	\$ 1,880	\$ 2,731	\$ (851)

Non interest Income

Non interest income increased \$1.3 million or 12% during the first quarter of 2007 compared to the same period in 2006, due primarily to increases in service charges on deposit accounts and an increase in net RAL securitization income.

Service charges on deposit accounts increased \$489,000 or 13% during the first quarter of 2007 compared to the same period in 2006. The increase was primarily due to growth in the Company's checking account base in conjunction with the Bank's Overdraft Honor program, which permits selected clients to overdraft their accounts up to a predetermined dollar amount (up to a maximum of \$750) for the Bank's customary overdraft fee. The Company also increased its overdraft fee by 7% in September of 2006. Included in service charges on deposits are per item overdraft fees of \$599,000 and \$450,000 for the first quarters of 2007 and 2006. Additionally, the Company's checking account base surpassed 82,000 at March 31, 2007 compared to 77,000 at March 31, 2006.

Net RAL securitization income increased \$593,000 or 29% during the first quarter of 2007 compared to the same period in 2006 primarily due to the increase in the volume of loans sold into the Company's securitization. *See additional discussion above under Tax Refund Solutions and under Footnote 10 Segment Information and Footnote 11 Securitization of Item 1. Financial Statements.*

Non interest Expenses

Non interest expenses increased \$3.1 million or 16% during the first quarter of 2007 compared to the same period in 2006, due primarily to an increase in salaries and employee benefits and increased other expenses.

Salaries and employee benefits increased \$975,000 or 9% during the quarter ended March 31, 2007 compared to the same period in 2006. The increase was primarily attributed to an increase in the Company's employee base combined with annual merit increases and higher costs associated with the Company's health insurance. End of period FTE's increased from 662 at March 31, 2006 to 769 at March 31, 2007 as the Company added to staff in both sales and support functions as a result of new banking center locations and expectations for future growth. In addition the Company also added approximately 23 FTE's in Florida as a result of the GulfStream Community Bank acquisition in October 2006.

Other expense increased \$946,000 or 58% during the first quarter of 2007 compared to the same period in 2006. The increase in other expense was primarily attributable to a pre-tax charge of approximately \$550,000 associated with an adverse judgment of a previously disclosed lawsuit. At this time, the Company is unsure if it will appeal this judgment.

COMPARISON OF FINANCIAL CONDITION AT MARCH 31, 2007 AND DECEMBER 31, 2006

Investment Securities

Securities available for sale primarily consists of U.S. Treasury and U.S. Government Agency obligations, including agency MBSs, agency collateralized mortgage obligations (CMOs) and FHLMC preferred stock. The MBSs primarily consist of hybrid mortgage securities, as well as other adjustable rate mortgage securities, underwritten and guaranteed by Ginnie Mae (GNMA), Freddie Mac (FHLMC) and Fannie Mae (FNMA). CMOs held in the investment portfolio are substantially all floating rate securities that adjust monthly. The Company primarily uses the securities portfolio as collateral for securities sold under agreements to repurchase (repurchase agreements) along with FHLB advances, to mitigate its risk position from changing interest rates. Strategies for the securities portfolio may also be influenced by economic and market conditions, loan demand, deposit mix and liquidity needs.

During the first quarter of 2007, Republic purchased \$881 million in securities and had maturities and calls of \$919 million. All of the securities purchased were agency discount notes, which the Company utilized primarily for collateral purposes. The weighted average yield on these discount notes was 5.19% with an average term of 8 days. Substantially all of the cash received from the maturities and calls of the investment securities during the quarter that was not reinvested into discount notes was utilized to pay down borrowings from the Federal Home Loan Bank.

Loan Portfolio

Net loans, primarily consisting of secured real estate loans, increased by \$8.0 million during the quarter to \$2.3 billion at March 31, 2007. Overall growth in the portfolio for Republic during the quarter was substantially less than historical experience and resulted primarily from two factors. In the residential real estate category, the Company has historically retained 5-year adjustable rate mortgage (ARM) loans in its portfolio while it has traditionally sold its 30-year fixed rate loans into the secondary market. Due to the inverted yield curve, the Company maintained a higher spread on its 5-year ARM product during the quarter as compared to its 30-year fixed rate product. As a result, Republic experienced a decrease in its production of portfolio ARM products and a corresponding increase in production of its fixed rate secondary market products. Secondly, the Company experienced a decrease in commercial real estate loan growth due primarily to a decrease in production volume combined with an above average amount of payoffs during the quarter.

Allowance for Loan Losses and Provision for Loan Losses

The allowance for loan losses as a percent of total loans increased slightly to 0.50% at March 31, 2007 compared to 0.49% at December 31, 2006. Management believes, based on information presently available, that it has adequately provided for loan losses at March 31, 2007.

The Company recorded a provision for loan losses of \$3.7 million for the quarter ended March 31, 2007, compared to a provision of \$1.3 million for the same period in 2006. Included in the provision for loan losses was \$3.5 million and \$883,000 for losses associated with RALs during the three months ended March 31, 2007 and 2006. The Banking segment provision for loan losses was \$209,000 for the first quarter of 2007 compared to \$447,000 for the same period in 2006. *For a discussion on losses associated with RALs, see section titled Tax Refund Solutions.*

An analysis of the changes in the allowance for loan losses and selected ratios follows:

31

Table 3 Summary of Loan Loss Experience

<i>(dollars in thousands)</i>	Three Months Ended	
	March 31,	2006
	2007	2006
Allowance for loan losses at beginning of period	\$ 11,218	\$ 11,009
Charge offs:		
Real estate:		
Residential	(62)	(300)
Commercial		(30)
Construction	(1)	
Commercial	(18)	
Consumer	(157)	(91)
Home equity	(28)	(54)
Tax Refund Solutions	(3,831)	(876)
Discontinued operations		(409)
Total	(4,097)	(1,760)
Recoveries:		
Real estate:		
Residential	131	28
Commercial	11	5
Construction	1	79
Commercial	52	4
Consumer	123	79
Home equity	8	3
Tax Refund Solutions	360	475
Discontinued operations		64
Total	686	737
Net loan charge offs / recoveries	(3,411)	(1,023)
Provision for loan losses from continuing operations	3,680	1,330
Provision for loan losses from discontinued operations		(293)
Allowance for loan losses at end of period	\$ 11,487	\$ 11,023
Ratios:		
Allowance for loan losses to total loans	0.50	% 0.52 %
Annualized net loan charge offs to average loans outstanding (from continuing operations)	0.58	0.13
Allowance for loan losses to non performing loans	168	184

Asset Quality

Loans, including impaired loans under SFAS 114, but excluding consumer loans, are placed on non-accrual status when they become past due 90 days or more as to principal or interest, unless they are adequately secured and in the process of collection. Past due status is based on how recently payments have been received. When loans are placed on non-accrual status, all unpaid interest is reversed from interest income and accrued interest receivable. These loans remain on non-accrual status until the borrower demonstrates the ability to become and remain current or the loan or a portion of the loan is deemed uncollectible and is charged off.

Consumer loans, exclusive of RALs, are not placed on non-accrual status but are reviewed periodically and charged off when they reach 120 days past due or at any point the loan is deemed uncollectible. RALs traditionally undergo a review in March of each year and those deemed uncollectible by management are charged off against the allowance for loan losses.

Total non performing loans to total loans increased marginally to 0.30% at March 31, 2007, from 0.28% at December 31, 2006, while the total balance of non performing loans increased by \$461,000 for the same period.

Table 4 Non performing Assets

<i>(dollars in thousands)</i>	March 31, 2007	December 31, 2006	
Loans on non-accrual status ⁽¹⁾	\$ 6,039	\$ 5,980	
Loans past due 90 days or more and still on accrual	815	413	
Total non performing loans	6,854	6,393	
Other real estate owned	213	547	
Total non performing assets	\$ 7,067	\$ 6,940	
Non performing loans to total loans	0.30	% 0.28	%
Non performing assets to total loans	0.31	0.30	

(1) Loans on non-accrual status include impaired loans. See Footnote 4 Loans of Item 1 Financial Statements for additional discussion regarding impaired loans.

Republic defines impaired loans to be those commercial real estate loans that management has classified as doubtful (collection of total amount due is improbable) or loss (all or a portion of the loan has been written off or a specific allowance for loss has been provided) or otherwise meet the definition of impaired. Republic's policy is to charge off all or that portion of its investment in an impaired loan upon a determination that it is probable the full amount will not be collected. There were no impaired loans at March 31, 2007 compared to \$525,000 at December 31, 2006.

Deposits

Total deposits increased \$12 million from December 31, 2006 to March 31, 2007 to \$1.7 billion. Interest-bearing deposits decreased \$15 million or 1%, while non interest-bearing deposits increased \$28 million or 10% from December 31, 2006 to March 31, 2007. The increase in non interest bearing was primarily related to short-term funds associated with Tax Refund Solutions. The decrease in interest-bearing accounts occurred primarily in the brokered deposit category, as maturing brokered CD's were paid off with excess cash.

Securities Sold Under Agreements to Repurchase and Other Short-term Borrowings

Securities