

REPUBLIC BANCORP INC /KY/  
Form 10-Q  
August 09, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2006

or

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

Commission File Number: 0-24649

**REPUBLIC BANCORP, INC.**

(Exact name of registrant as specified in its charter)

**Kentucky**

(State of other jurisdiction of incorporation or organization)

**61-0862051**

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

**601 West Market Street, Louisville, Kentucky**

(Address of principal executive offices)

**40202**

(Zip Code)

**(502) 584-3600**

(Registrant's telephone number, including area code)

**Not Applicable**

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

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

Indicate by check mark whether the registrant 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.

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17,284,323 shares of Class A Common Stock, no par value and 2,243,823 shares of Class B Common Stock, no par value were outstanding at July 31, 2006, the latest practicable date.

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SIGNATURES

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

	<b>June 30, 2006 (unaudited)</b>	<b>December 31, 2005</b>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 74,843	\$ 77,169
Securities available for sale	384,232	447,865
Securities to be held to maturity (fair value of \$57,791 in 2006 and \$64,402 in 2005)	58,141	64,298
Mortgage loans held for sale	4,162	6,582
Loans, net of allowance for loan losses of \$10,760 and \$11,009 (2006 and 2005)	2,182,722	2,049,647
Federal Home Loan Bank stock, at cost	22,351	21,595
Premises and equipment, net	32,062	31,786
Other assets and accrued interest receivable	42,166	36,614
<b>TOTAL ASSETS</b>	<b>\$ 2,800,679</b>	<b>\$ 2,735,556</b>
<b>LIABILITIES:</b>		
Deposits:		
Non-interest-bearing	\$ 279,800	\$ 286,484
Interest-bearing	1,321,336	1,316,081
Total deposits	1,601,136	1,602,565
Securities sold under agreements to repurchase and other short-term borrowings	323,334	292,259
Federal Home Loan Bank borrowings	582,378	561,133
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	26,977	24,785
<b>Total liabilities</b>	<b>2,575,065</b>	<b>2,521,982</b>
<b>STOCKHOLDERS EQUITY:</b>		
Preferred stock, no par value		
Class A Common Stock and Class B Common Stock, no par value	4,666	4,475
Additional paid in capital	96,331	77,295
Retained earnings	129,663	136,381
Unearned shares in Employee Stock Ownership Plan	(1,244)	(1,468)
Accumulated other comprehensive loss	(3,802)	(3,109)
<b>Total stockholders equity</b>	<b>225,614</b>	<b>213,574</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 2,800,679</b>	<b>\$ 2,735,556</b>

See accompanying footnotes to consolidated financial statements.



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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>INTEREST INCOME:</b>				
Loans, including fees	\$ 35,360	\$ 28,320	\$ 73,219	\$ 63,221
Securities	5,116	4,462	10,251	8,927
Federal Home Loan Bank stock and other	609	620	1,383	1,402
Total interest income	41,085	33,402	84,853	73,550
<b>INTEREST EXPENSE:</b>				
Deposits	10,502	7,373	20,509	14,265
Securities sold under agreements to repurchase and other short-term borrowings	3,724	2,450	6,992	4,577
Federal Home Loan Bank borrowings	5,870	4,612	10,979	9,246
Subordinated note	627		1,247	
Total interest expense	20,723	14,435	39,727	28,088
<b>NET INTEREST INCOME</b>	<b>20,362</b>	<b>18,967</b>	<b>45,126</b>	<b>45,462</b>
Provision for loan losses	573	(867 )	1,903	723
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>19,789</b>	<b>19,834</b>	<b>43,223</b>	<b>44,739</b>
<b>NON INTEREST INCOME:</b>				
Service charges on deposit accounts	4,615	3,793	8,728	7,055
Electronic refund check fees	523	833	3,951	5,828
Net gain on sale of refund anticipation loans	404		2,418	
Mortgage banking income	487	726	942	1,352
Debit card interchange fee income	899	794	1,739	1,524
Title insurance commissions	403	435	695	785
Other	370	312	651	694
Total non interest income	7,701	6,893	19,124	17,238
<b>NON INTEREST EXPENSES:</b>				
Salaries and employee benefits	10,056	9,430	21,424	18,965
Occupancy and equipment, net	3,660	3,332	7,383	6,688
Communication and transportation	595	633	1,302	1,503
Marketing and development	605	513	1,185	1,044
Bankshares tax	546	430	1,102	860
Data processing	564	431	1,094	850
Debit card interchange expense	385	344	773	655
Supplies	310	284	658	525
Other	1,472	1,431	3,113	2,993
Total non interest expenses	18,193	16,828	38,034	34,083

	Three Months Ended		Six Months Ended	
	June 30, 2006	2005	June 30, 2006	2005
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE</b>	9,297	9,899	24,313	27,894
<b>INCOME TAX EXPENSE FROM CONTINUING OPERATIONS</b>	3,335	3,318	8,504	9,528
<b>INCOME FROM CONTINUING OPERATIONS BEFORE DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE</b>	5,962	6,581	15,809	18,366
<b>INCOME (LOSS) FROM DISCONTINUED OPERATIONS BEFORE INCOME TAX EXPENSE</b>	(3 )	2,057	(177 )	4,398
<b>INCOME TAX EXPENSE (BENEFIT) FROM DISCONTINUED OPERATIONS</b>	(2 )	694	(62 )	1,502
<b>INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE (BENEFIT)</b>	(1 )	1,363	(115 )	2,896
<b>NET INCOME</b>	\$ 5,961	\$ 7,944	\$ 15,694	\$ 21,262
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX:</b>				
Change in unrealized gain (loss) on securities	\$ (533 )	\$ 1,259	\$ (693 )	\$ (1,078 )
Less: Reclassification of realized amount				
Net unrealized gain (loss) recognized in comprehensive income	(533 )	1,259	(693 )	(1,078 )
<b>COMPREHENSIVE INCOME</b>	\$ 5,428	\$ 9,203	\$ 15,001	\$ 20,184

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005

**BASIC EARNINGS PER SHARE FROM CONTINUING OPERATIONS:**

Class A Common Stock	\$ 0.31	\$ 0.33	\$ 0.81	\$ 0.93
Class B Common Stock	0.30	0.32	0.80	0.91

**BASIC EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS:**

Class A Common Stock		0.07	(0.01 )	0.15
Class B Common Stock		0.06	(0.01 )	0.13

**BASIC EARNINGS PER SHARE:**

Class A Common Stock	0.31	0.40	0.81	1.07
Class B Common Stock	0.30	0.39	0.79	1.06

**DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS:**

Class A Common Stock	0.30	0.32	0.79	0.89
Class B Common Stock	0.29	0.31	0.77	0.87

**DILUTED EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS:**

Class A Common Stock		0.07	(0.01 )	0.14
Class B Common Stock		0.06	(0.01 )	0.13

**DILUTED EARNINGS PER SHARE:**

Class A Common Stock	0.30	0.38	0.79	1.03
Class B Common Stock	0.29	0.38	0.77	1.01

*See accompanying footnotes to consolidated financial statements.*



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

(in thousands, except per share data)	Common Stock Class A Shares Outstanding	Class B Shares Outstanding	Amount	Additional Paid In Capital	Retained Earnings	Unearned Shares in Employee Stock Ownership Plan	Accumulated Other Comprehensive Loss	Total Stockholders Equity
BALANCE, January 1, 2006	17,188	2,249	\$ 4,475	\$ 77,295	\$ 136,381	\$ (1,468 )	\$ (3,109 )	\$ 213,574
Net income					15,694			15,694
Net change in accumulated other comprehensive loss							(693 )	(693 )
Dividend declared Common Stock:								
Class A (\$0.183 per share)					(3,157 )			(3,157 )
Class B (\$0.166 per share)					(372 )			(372 )
Stock options exercised, net of shares redeemed	91		21	606	(350 )			277
Repurchase of Class A Common Stock	(29 )		(7 )	(144 )	(424 )			(575 )
Conversion of Class B Common Stock to Class A Common Stock	5	(5 )						
Shares committed to be released under the Employee Stock Ownership Plan	20			172		224		396
Stock dividend			177	17,932	(18,109 )			
Notes receivable on common stock, net of cash payments				2				2
Deferred compensation expense				65				65
Stock option expense				403				403
BALANCE, June 30, 2006	17,275	2,244	\$ 4,666	\$ 96,331	\$ 129,663	\$ (1,244 )	\$ (3,802 )	\$ 225,614

*See accompanying footnotes to consolidated financial statements.*

**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
**SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (in thousands)**

	2006	2005
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 15,694	\$ 21,262
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net	2,367	2,260
Federal Home Loan Bank stock dividends	(618)	(464)
Provision for loan losses, including provision from discontinued operations	1,583	1,617
Net gain on sale of mortgage loans held for sale	(559)	(1,056)
Origination of mortgage loans held for sale	(59,281)	(84,549)
Proceeds from sale of mortgage loans held for sale	62,260	92,731
Net gain on sale of refund anticipation loans	2,418	
Origination of refund anticipation loans sold	213,423	
Proceeds from sale of refund anticipation loans	(215,841)	
Employee Stock Ownership Plan expense	396	445
Deferred compensation plan expense	65	57
Stock option expense	403	
Changes in other assets and liabilities:		
Other assets and accrued interest receivable	(2,243)	(9,507)
Other liabilities and accrued interest payable	1,714	10,720
Net cash provided by operating activities	21,781	33,516
<b>INVESTING ACTIVITIES:</b>		
Purchases of securities available for sale	(1,058,070)	(2,321,492)
Purchases of Federal Home Loan Bank stock	(138)	(298)
Proceeds from calls, maturities and paydowns of securities available for sale	1,121,918	2,355,505
Proceeds from calls, maturities and paydowns of securities to be held to maturity	6,143	28,102
Net increase in loans	(135,146)	(160,325)
Investment in new market tax credits	(3,040)	(8,992)
Purchases of premises and equipment, net	(3,139)	(961)
Net cash used in investing activities	(71,472)	(108,461)
<b>FINANCING ACTIVITIES:</b>		
Net change in deposits	(1,429)	81,834
Net change in securities sold under agreements to repurchase and other short-term borrowings	31,075	(27,368)
Payments on Federal Home Loan Bank borrowings	(197,355)	(22,863)
Proceeds from Federal Home Loan Bank borrowings	218,600	44,281
Common Stock repurchases	(575)	(199)
Net proceeds from Common Stock options exercised	277	32
Cash dividends paid	(3,228)	(2,743)
Net cash provided by financing activities	47,365	72,974
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,326)</b>	<b>(1,971)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>77,169</b>	<b>77,850</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 74,843</b>	<b>\$ 75,879</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest	\$ 39,111	\$ 27,002
Income taxes	6,868	7,744
<b>SUPPLEMENTAL NONCASH DISCLOSURES:</b>		
Transfers from loans to real estate acquired in settlement of loans	\$ 490	\$ 199

*See accompanying footnotes to consolidated financial statements.*

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005 (UNAUDITED) AND DECEMBER 31, 2005

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 & Trust Company of Indiana (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: TRS RAL Funding LLC, Republic Financial Services, LLC and Republic Insurance Agency, LLC. All companies are collectively referred to as Republic or the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for quarter and six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. 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, 2005.

**New Accounting Standards** In March 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standard ( SFAS ) No. 156 Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities-a replacement of FASB Statement No. 125* that changes the accounting for all servicing rights which are recorded as the result of purchasing a servicing right or selling a loan with servicing retained. SFAS No. 156 amends the current accounting guidance for servicing rights in that it allows companies to carry their servicing rights at fair value, where presently servicing rights are assessed for impairment based on their fair value at each reporting date, using lower of cost or market value. This pronouncement is effective January 1, 2007, although adoption is permitted earlier. The Company currently plans to adopt this standard on January 1, 2007.

See Footnote 2 regarding the new accounting pronouncement related to stock options that has impacted Republic's consolidated financial statements during 2006.

In June 2006, the FASB issued FASB Interpretation ( FIN ) No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a 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, disclosures and transition. FIN 48 is effective beginning in 2007. The Company is in the process of evaluating the impact, if any, the adoption of FIN 48 will have on the Company's financial statements.

**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 the first quarter of 2006.

In February 2006, the Company substantially exited the payday loan segment of business. The payday loan segment of business 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 of the payday loan segment of business.



## 2. STOCK PLANS AND STOCK BASED COMPENSATION

At June 30, 2006, the Company had two stock option plans and a director deferred compensation plan. The stock option plans consist of the 1995 Stock Option Plan ( 1995 Plan ) and the 2005 Stock Incentive Plan ( 2005 Plan ). With regard to the 1995 Plan, no additional grants were made in 2006 and none will be made in the future. The 2005 Plan permits the grant of stock options and restricted stock awards for up to 3,150,000 shares, of which 3,098,000 shares remain available for issue with 52,000 allocated at June 30, 2006. All shares issued under the above mentioned plans came from authorized and unissued shares.

Effective January 1, 2006, the Company adopted SFAS No. 123R, Share Based Payment. The Company elected to utilize the modified prospective transition method; therefore, prior period results were not restated. Prior to the adoption of SFAS 123R, stock based compensation expense related to stock options was not recognized in the results of operations if the exercise price was at least equal to the market value of the common stock on the grant date, in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. All stock options have an exercise price that is at least equal to the fair market value of the Company's stock on the date the options were granted. As a result, the recognition of stock based compensation expense was limited to the expense attributed to the director deferred compensation plan.

SFAS 123R requires all share based payments to employees, including grants of employee stock options, to be recognized as compensation expense over the service period (generally the vesting period) in the consolidated financial statements based on the fair value of the options. For options with graded vesting, the Company values the stock option grants and recognizes compensation expense as if each vesting portion of the award was a separate award. Under the modified prospective method, unvested awards and awards that were granted, modified, or settled on or after January 1, 2006 are measured and accounted for in accordance with SFAS 123R. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount recognized.

Under the stock option plans, certain key employees are granted options to purchase shares of Republic's Common Stock at fair value at the date of the grant. Options granted generally become fully exercisable at the end of five to six years of continued employment and must be exercised within one year from the date they become exercisable. There were no Class B stock options outstanding at June 30, 2006 and December 31, 2005.

The following table summarizes stock option activity:

	Three Months Ended June 30, 2006		2005		Six Months Ended June 30, 2006		2005	
	Options Class A Shares	Weighted Average Price Per Share	Options Class A Shares	Weighted Average Price Per Share	Options Class A Shares	Weighted Average Price Per Share	Options Class A Shares	Weighted Average Price Per Share
Outstanding at beginning of period	1,597,299	\$ 11.91	1,746,629	\$ 11.30	1,686,442	\$ 11.60	1,760,805	\$ 11.29
Granted			43,050	21.55			43,050	21.55
Exercised	(30,669 )	8.01	(10,125 )	11.23	(114,715 )	6.34	(17,358 )	11.23
Forfeited	(122,358 )	11.06	(23,353 )	15.25	(127,455 )	11.11	(30,296 )	13.83
Outstanding at end of period	1,444,272	\$ 12.06	1,756,201	\$ 11.50	1,444,272	\$ 12.06	1,756,201	\$ 11.50

The following table details stock options outstanding:

(dollars in thousands except per share data)		June 30, 2006
Stock options vested and currently exercisable:		
Number		62,783
Weighted average exercise price		\$ 7.25
Aggregate intrinsic value		\$ 838
Weighted average remaining life (in years)		0.67
Total Options Outstanding:		
Aggregate intrinsic value		\$ 12,400
Weighted average remaining life (in years)		3.06

The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of the Company's Common Stock as of the reporting date. Stock option compensation expense is recorded as a component of salaries and employee benefits in the consolidated income statement. Since the stock options are incentive stock options and there were no disqualifying dispositions, no tax benefit related to this expense was recognized. No options were granted or modified during the three and six month periods ended June 30, 2006. For the three and six month periods ended June 30, 2005, 43,050 options were granted and no options were modified. The following table provides further detail regarding intrinsic value of options exercised, stock option compensation expense and options granted.

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Intrinsic value of options exercised	\$ 360	\$ 105	\$ 1,530	\$ 202
Stock option compensation expense recorded	\$ 188	\$	\$ 404	\$
Options granted		43,050		43,050

Non executive officer employees had loans outstanding of \$706,000 and \$708,000 at June 30, 2006 and December 31, 2005 that were originated to fund stock option exercises.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes based stock option valuation model. This model requires the input of subjective assumptions that will usually have a significant impact on the fair value estimate. Expected volatilities are based on historical volatility of Republic's stock, and other factors. Expected dividends are based on dividend trends and the market price of Republic's stock price at grant. Republic uses historical data to estimate option exercises and employee terminations within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve at the time of grant. There were no options granted during the three and six month periods ended June 30, 2006.

SFAS 123R requires the recognition of stock based compensation for the number of awards that are ultimately expected to vest. As a result, recognized stock option compensation expense was reduced for estimated forfeitures prior to vesting primarily based on the historical annual forfeiture rate of 3%. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances. Prior to January 1, 2006, actual forfeitures were accounted for as they occurred for purposes of required pro forma stock compensation disclosures.

Unrecognized stock option compensation expense related to unvested awards (net of estimated forfeitures) for the remainder of 2006 and beyond is estimated as follows:

Year	(in thousands)
July December 2006	\$ 432
2007	674
2008	502
2009	334
2010	85
2011	13
Total	\$ 2,040

In November 2004, the Company's Board of Directors approved a Non Qualified Deferred Compensation Plan. The Plan governs the deferral of board and committee fees of non-employee members of the Board of Directors. Members of the Board of Directors may defer up to 100% of their board and committee fees for a specified period ranging from two to five years. The value of the deferred compensation account is deemed invested in Company stock and is immediately vested. On a quarterly basis, the Company reserves shares of Republic's stock within the Company's stock option plan for ultimate distribution to Directors at the end of the deferral period. The Plan has not and will not materially impact the Company, as Director compensation expense will continue to be recorded when incurred.

The following table presents information on director deferred compensation shares outstanding for the periods shown:

	Three Months Ended June 30, 2006			Six Months Ended June 30, 2006			2005	
	Deferred Shares	Weighted Average Market Price at Date of Deferral	Deferred Shares	Weighted Average Market Price at Date of Deferral	Deferred Shares	Weighted Average Market Price at Date of Deferral	Deferred Shares	Weighted Average Market Price at Date of Deferral
Balance, beginning of period	7,951	\$ 20.47	1,529	\$ 21.16	5,845	\$ 20.51		\$
Awarded	1,051	20.60	1,187	20.68	3,157	20.41	2,716	20.95
Released								
Balance, end of period	9,002	20.47	2,716	20.95	9,002	20.47	2,716	20.95

Director deferred compensation has been expensed as follows:

(dollars in thousands)	Three Months Ended June 30, 2006		Six Months Ended June 30, 2006	
	2006	2005	2006	2005
Director Deferred Compensation Expense	\$ 22	\$ 25	\$ 64	\$ 57



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The following table illustrates the effect on net income and earnings per share if expense was measured using the fair value recognition provisions of SFAS 123R for the three and six month periods ended June 30, 2005:

(dollars in thousands, except per share data)	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income, as reported	\$ 7,944	\$ 21,262
Deduct:		
Stock based compensation expense determined under the fair value based method, net of tax	227	453
Pro forma net income	\$ 7,717	\$ 20,809
Earnings per share from continuing operations, as reported:		
Class A Common Share	\$ 0.33	\$ 0.93
Class B Common Share	0.32	0.91
Earnings per share, as reported:		
Class A Common Share	0.40	1.07
Class B Common Share	0.39	1.06
Pro forma basic earnings per share from continuing operations:		
Class A Common Share	0.32	0.90
Class B Common Share	0.31	0.89
Pro forma basic earnings per share:		
Class A Common Share	0.39	1.05
Class B Common Share	0.38	1.04
Diluted earnings per share from continuing operations, as reported:		
Class A Common Share	0.32	0.89
Class B Common Share	0.31	0.87
Diluted earnings per share, as reported:		
Class A Common Share	0.38	1.03
Class B Common Share	0.38	1.01
Pro forma diluted earnings per share from continuing operations:		
Class A Common Share	0.31	0.87
Class B Common Share	0.30	0.85
Pro forma diluted earnings per share:		
Class A Common Share	0.37	1.01
Class B Common Share	0.37	0.99

**3. 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 payday loans outstanding of \$423,000 related to the above contract at June 30, 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 2005 and remained in a developmental stage until its termination date. The Company had no payday loans outstanding related to the above program at June 30, 2006.

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

**Balance Sheets**

(dollars in thousands)	June 30, 2006	December 31, 2005
Cash and cash equivalents	\$ 326	\$ 730
Loans	423	5,779
Less Allowance for loan losses	32	682
Net Loans	391	5,097
Premises and equipment, net		40
Other assets and accrued interest receivable	23	81
<b>Total assets</b>	<b>\$ 740</b>	<b>\$ 5,948</b>
Deposits	\$ 84	\$ 459
Federal Home Loan Bank borrowings	339	5,320
<b>Total liabilities</b>	<b>423</b>	<b>5,779</b>
Allocated equity	317	169
<b>Total liabilities and allocated equity</b>	<b>\$ 740</b>	<b>\$ 5,948</b>

**Statements of Income**

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
<b>Interest income:</b>				
Loans, including fees	\$ 18	\$ 3,320	\$ 525	\$ 6,581
<b>Total interest income</b>	<b>18</b>	<b>3,320</b>	<b>525</b>	<b>6,581</b>
<b>Interest expense:</b>				
Federal Home Loan Bank borrowings	4	211	30	380
<b>Total interest expense</b>	<b>4</b>	<b>211</b>	<b>30</b>	<b>380</b>
Net interest income	14	3,109	495	6,201
Provision for loan losses	(27)	664	(320)	894
<b>Net interest income after provision</b>	<b>41</b>	<b>2,445</b>	<b>815</b>	<b>5,307</b>
<b>Non interest income:</b>				
Service charges on deposit accounts		8		18
<b>Total non interest income</b>		<b>8</b>		<b>18</b>
<b>Non interest expense:</b>				
Salaries and employee benefits	8	62	120	126
Occupancy and equipment, net			115	
Marketing and development			108	
Data processing expense			130	
Other	36	334	519	801
<b>Total non interest expenses</b>	<b>44</b>	<b>396</b>	<b>992</b>	<b>927</b>
Gross operating profit (loss)	(3)	2,057	(177)	4,398
Income tax expense (benefit)	(2)	694	(62)	1,502
<b>Net income (loss)</b>	<b>\$ (1)</b>	<b>\$ 1,363</b>	<b>\$ (115)</b>	<b>\$ 2,896</b>



**4. SECURITIES****Securities available for sale:**

<b>June 30, 2006 (in thousands)</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. Treasury securities and U.S. Government agencies	\$ 249,713	\$	\$ (3,281 )	\$ 246,432
Mortgage backed securities, including CMOs	140,368	98	(2,666 )	137,800
<b>Total securities available for sale</b>	<b>\$ 390,081</b>	<b>\$ 98</b>	<b>\$ (5,947 )</b>	<b>\$ 384,232</b>

<b>December 31, 2005 (in thousands)</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. Treasury securities and U.S. Government agencies	\$ 333,348	\$ 13	\$ (3,067 )	\$ 330,294
Mortgage backed securities, including CMOs	119,300	130	(1,859 )	117,571
<b>Total securities available for sale</b>	<b>\$ 452,648</b>	<b>\$ 143</b>	<b>\$ (4,926 )</b>	<b>\$ 447,865</b>

**Securities to be held to maturity:**

<b>June 30, 2006 (in thousands)</b>	<b>Amortized Cost</b>	<b>Gross Unrecognized Gains</b>	<b>Gross Unrecognized Losses</b>	<b>Fair Value</b>
U.S. Treasury securities and U.S. Government agencies	\$ 7,110	\$	\$ (124 )	\$ 6,986
Mortgage backed securities, including CMOs	51,031	279	(505 )	50,805
<b>Total securities to be held to maturity</b>	<b>\$ 58,141</b>	<b>\$ 279</b>	<b>\$ (629 )</b>	<b>\$ 57,791</b>

<b>December 31, 2005 (in thousands)</b>	<b>Amortized Cost</b>	<b>Gross Unrecognized Gains</b>	<b>Gross Unrecognized Losses</b>	<b>Fair Value</b>
U.S. Treasury securities and U.S. Government agencies	\$ 12,110	\$	\$ (131 )	\$ 11,979
Mortgage backed securities, including CMOs	52,188	525	(290 )	52,423
<b>Total securities to be held to maturity</b>	<b>\$ 64,298</b>	<b>\$ 525</b>	<b>\$ (421 )</b>	<b>\$ 64,402</b>

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

<b>(in thousands)</b>	<b>June 30, 2006</b>	<b>December 31, 2005</b>
Amortized cost	\$ 407,577	\$ 400,986
Fair value	401,964	397,255

## 5. LOANS AND ALLOWANCE FOR LOAN LOSSES

(in thousands)	June 30, 2006	December 31, 2005
Residential real estate	\$ 1,141,051	\$ 1,056,175
Commercial real estate	609,937	565,970
Real estate construction	91,032	84,850
Commercial	58,126	46,562
Consumer	36,993	35,529
Deferred deposits ( Payday loans ), Discontinued operations	423	5,779
Home equity	255,929	265,895
Total loans	2,193,491	2,060,760
Less:		
Unearned interest income and unamortized loan fees	9	104
Allowance for loan losses	10,760	11,009
Loans, net	\$ 2,182,722	\$ 2,049,647

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

(in thousands)	June 30, 2006	December 31, 2005
First lien, single family residential	\$ 1,008,000	\$ 938,000
Home equity lines of credit	161,000	169,000
Multi-family, commercial real estate	50,000	56,000

An analysis of the Allowance for loan losses follows:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Allowance for loan losses at beginning of period	\$ 11,023	\$ 13,821	\$ 11,009	\$ 13,554
Provision for loan losses from continuing operations	573	(867)	1,903	723
Provision for loan losses from discontinued operations	(27)	664	(320)	894
Charge offs Banking	(686)	(288)	(1,161)	(634)
Charge offs Tax Refund Solutions	(482)	(285)	(1,358)	(2,213)
Charge offs Discontinued operations			(409)	
Recoveries Banking	125	241	323	362
Recoveries Tax Refund Solutions	219	96	694	696
Recoveries Discontinued operations	15		79	
Allowance for loan losses at end of period	\$ 10,760	\$ 13,382	\$ 10,760	\$ 13,382

Information regarding Republic's impaired loans follows:

(in thousands)	June 30, 2006	December 31, 2005
Loans with no allocated allowance for loan losses	\$	\$
Loans with allocated allowance for loan losses	1,744	1,856
Total	\$ 1,744	\$ 1,856

No additional funds are committed to be advanced in connection with the above impaired loans.

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

(dollars in thousands)	June 30, 2006	December 31, 2005
Loans on non-accrual status	\$ 6,569	\$ 5,725
Loans past due 90 days or more and still on accrual	564	295
Total non performing loans	7,133	6,020
Other real estate owned	55	452
Total non performing assets	\$ 7,188	\$ 6,472
Non performing loans to total loans	0.33	% 0.29 %
Non performing assets to total loans	0.33	0.31

## 6. DEPOSITS

(in thousands)	June 30, 2006	December 31, 2005
Demand (NOW and SuperNOW)	\$ 204,016	\$ 262,714
Money market accounts	386,787	322,421
Internet money market accounts	17,241	33,864
Savings	44,319	43,548
Individual retirement accounts	52,036	48,954
Certificates of deposit, \$100,000 and over	153,805	168,777
Other certificates of deposit	263,808	282,609
Brokered deposits	199,324	153,194
Total interest-bearing deposits	1,321,336	1,316,081
Total non interest-bearing deposits	279,800	286,484
Total	\$ 1,601,136	\$ 1,602,565

**7. FEDERAL HOME LOAN BANK ( FHLB ) BORROWINGS**

(in thousands)	June 30, 2006	December 31, 2005
FHLB convertible fixed interest rate advances with a weighted average interest rate of 4.93%(1) due through 2011	\$ 60,000	\$ 90,000
Overnight FHLB borrowings with a weighted average interest rate of 5.31%	158,600	117,000
FHLB fixed interest rate advances with a weighted average interest rate of 4.07% due through 2010	363,778	354,133
<b>Total FHLB borrowings</b>	<b>\$ 582,378</b>	<b>\$ 561,133</b>

(1) Represents convertible borrowings with the FHLB. These borrowings 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. The Company has \$60 million in these advances that are currently eligible to be converted on their quarterly repricing date. Based on market conditions at this time, management does not believe these advances are likely to be converted in the short-term.

FHLB borrowings are collateralized by a blanket pledge of eligible real estate loans. At June 30, 2006, Republic had available collateral to borrow an additional \$191 million from the FHLB. Republic also has unsecured lines of credit totaling \$175 million available through various financial institutions.

Aggregate future principal payments on FHLB borrowings, based on contractual maturity date or expected call for the remainder of 2006 and beyond is as follows:

Year	(in thousands)
July - December 2006	\$ 243,600
2007	90,000
2008	118,500
2009	82,000
2010	42,370
Thereafter	5,908
<b>Total</b>	<b>\$ 582,378</b>

**8. 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.



**9. OFF BALANCE SHEET RISKS, COMMITMENTS AND CONTINGENT LIABILITIES**

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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 June 30, 2006, exclusive of mortgage banking loan commitments, Republic had outstanding loan commitments totaling \$455 million, which included unfunded home equity lines of credit totaling \$282 million. As of December 31, 2005, exclusive of mortgage banking loan commitments, Republic had outstanding loan commitments totaling \$475 million, which included unfunded home equity lines of credit totaling \$269 million.

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 \$10 million at June 30, 2006 and December 31, 2005.

At June 30, 2006 and December 31, 2005 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. The remaining \$60 million letter of credit was used to collateralize a public funds deposit, which the Company classifies in short-term borrowings. 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.

### **10. 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 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:

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(in thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30, 2006	2005	June 30, 2006	2005
Net income from continuing operations	\$ 5,962	\$ 6,581	\$ 15,809	\$ 18,366
Net income from discontinued operations	(1 )	1,363	(115 )	2,896
Net income, basic and diluted	5,961	7,944	15,694	21,262
Weighted average shares outstanding	19,517	19,842	19,500	19,840
Effect of dilutive securities	513	810	528	850
Average shares outstanding including dilutive securities	20,030	20,652	20,028	20,690
Basic earnings per share from continuing operations:				
Class A Common Stock	\$ 0.31	\$ 0.33	\$ 0.81	\$ 0.93
Class B Common Stock	0.30	0.32	0.80	0.91
Diluted earnings per share from continuing operations:				
Class A Common Stock	\$ 0.30	\$ 0.32	\$ 0.79	\$ 0.89
Class B Common Stock	0.29	0.31	0.77	0.87
Basic earnings per share from discontinued operations:				
Class A Common Stock	\$	\$ 0.07	\$ (0.01 )	\$ 0.15
Class B Common Stock		0.06	(0.01 )	0.13
Diluted earnings per share from discontinued operations:				
Class A Common Stock	\$	\$ 0.07	\$ (0.01 )	\$ 0.14
Class B Common Stock		0.06	(0.01 )	0.13