REPUBLIC BANCORP INC /KY/
Form 10-Q
November 07, 2013
Table of Contents

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 September 30, 2013

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	**61-0862051**
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
601 West Market Street, Louisville, Kentucky	**40202**
(Address of principal executive offices)	(Zip Code)

(502) 584-3600

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x 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 October 31, 2013, was 18,533,502 and 2,259,926 respectively.

Table of Contents

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 2.	Unregistered Sales of Equity Securities and Use of Proceeds.
Item 6.	Exhibits.
	SIGNATURES

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS *(in thousands) (unaudited)*

	September 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 141,585	$ 137,691
Securities available for sale	481,624	438,246
Securities to be held to maturity (fair value of $52,408 in 2013 and $46,416 in 2012)	52,057	46,010
Mortgage loans held for sale	9,803	10,614
Loans	2,553,435	2,650,197
Allowance for loan losses	(23,492)	(23,729)
Loans, net	2,529,943	2,626,468
Federal Home Loan Bank stock, at cost	28,342	28,377
Premises and equipment, net	32,626	33,197
Goodwill	10,168	10,168
Other real estate owned	15,247	26,203
Other assets and accrued interest receivable	30,486	37,425
TOTAL ASSETS	$ 3,331,881	$ 3,394,399
LIABILITIES		
Deposits		
Non interest-bearing	$ 492,126	$ 479,046
Interest-bearing	1,527,659	1,503,882
Total deposits	2,019,785	1,982,928
Securities sold under agreements to repurchase and other short-term borrowings	106,373	250,884
Federal Home Loan Bank advances	587,020	542,600
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	31,953	40,045
Total liabilities	2,786,371	2,857,697
STOCKHOLDERS EQUITY		
Preferred stock, no par value		
Class A Common Stock and Class B Common Stock, no par value	4,893	4,932
Additional paid in capital	132,728	132,686
Retained earnings	404,060	393,472
Accumulated other comprehensive income	3,829	5,612
Total stockholders equity	545,510	536,702

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	3,331,881	$	3,394,399

See accompanying footnotes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME (*UNAUDITED*)

(*in thousands, except per share data*)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
INTEREST INCOME:				
Loans, including fees	$ 31,619	$ 31,292	$ 95,268	$ 137,118
Taxable investment securities	1,984	2,483	6,000	8,654
Federal Home Loan Bank stock and other	406	353	1,261	1,757
Total interest income	34,009	34,128	102,529	147,529
INTEREST EXPENSE:				
Deposits	1,043	1,197	3,073	3,949
Securities sold under agreements to repurchase and other short-term borrowings	11	110	53	340
Federal Home Loan Bank advances	3,788	3,619	11,081	11,245
Subordinated note	628	630	1,886	1,891
Total interest expense	5,470	5,556	16,093	17,425
NET INTEREST INCOME	28,539	28,572	86,436	130,104
Provision for loan losses	2,200	2,083	2,480	13,719
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	26,339	26,489	83,956	116,385
NON-INTEREST INCOME:				
Service charges on deposit accounts	3,676	3,438	10,384	10,027
Net refund transfer fees	152	231	13,849	78,127
Mortgage banking income	1,026	2,274	6,480	5,591
Debit card interchange fee income	1,519	1,390	4,986	4,387
Bargain purchase gain - Tennessee Commerce Bank		(189)		27,614
Bargain purchase gain - First Commercial Bank		27,112	1,324	27,112
Gain on sale of securities available for sale				56
Other	1,166	589	3,824	2,826
Total non-interest income	7,539	34,845	40,847	155,740
NON-INTEREST EXPENSES:				
Salaries and employee benefits	12,226	14,921	43,426	46,205
Occupancy and equipment, net	5,462	5,718	16,354	16,936
Communication and transportation	990	1,045	3,011	4,667
Marketing and development	785	828	2,567	2,670
FDIC insurance expense	419	287	1,234	1,008
Bank franchise tax expense	707	729	3,279	3,363
Data processing	934	1,030	2,442	3,446
Debit card processing expense	655	648	2,216	1,909
Supplies	228	270	800	1,748

Other real estate owned expense		497		1,328		2,331		2,488
Charitable contributions		225		232		688		3,110
Legal expense		1,343		388		3,111		1,283
FHLB advance prepayment expense								2,436
Other		1,854		2,338		5,867		7,097
Total non-interest expenses		26,325		29,762		87,326		98,366
INCOME BEFORE INCOME TAX EXPENSE		7,553		31,572		37,477		173,759
INCOME TAX EXPENSE		2,950		10,904		13,399		61,041
NET INCOME	$	4,603	$	20,668	$	24,078	$	112,718
BASIC EARNINGS PER SHARE:								
Class A Common Stock	$	0.22	$	0.99	$	1.16	$	5.38
Class B Common Stock	$	0.21	$	0.97	$	1.12	$	5.34
DILUTED EARNINGS PER SHARE:								
Class A Common Stock	$	0.22	$	0.98	$	1.16	$	5.36
Class B Common Stock	$	0.21	$	0.97	$	1.11	$	5.32
DIVIDENDS DECLARED PER COMMON SHARE:								
Class A Common Stock	$	0.176	$	0.165	$	0.517	$	0.484
Class B Common Stock	$	0.160	$	0.150	$	0.470	$	0.440

See accompanying footnotes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (*UNAUDITED)*

(*in thousands*)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Net income	$ 4,603	$ 20,668	$ 24,078	$ 112,718
OTHER COMPREHENSIVE INCOME				
Unrealized gain (loss) on securities available for sale	(198)	649	(3,163)	2,324
Change in unrealized loss on available for sale security for which a portion of an other-than-temporary impairment has been recognized in earnings	(4)	374	418	412
Reclassification adjustment for gains recognized in earnings				(56)
Net unrealized gains (losses)	(202)	1,023	(2,745)	2,680
Tax effect	71	(358)	962	(938)
Net of tax	(131)	665	(1,783)	1,742
COMPREHENSIVE INCOME	$ 4,472	$ 21,333	$ 22,295	$ 114,460

See accompanying footnotes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY *(UNAUDITED)*

NINE MONTHS ENDED SEPTEMBER 30, 2013

(in thousands, except per share data)	Class A Shares Outstanding	Common Stock Class B Shares Outstanding	Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance, January 1, 2013	18,694	2,271	$ 4,932	$ 132,686	$ 393,472	$ 5,612	$ 536,702
Net income					24,078		24,078
Net change in accumulated other comprehensive income						(1,783)	(1,783)
Dividend declared Common Stock:							
Class A ($0.517 per share)					(9,459)		(9,459)
Class B ($0.470 per share)					(1,062)		(1,062)
Stock options exercised, net of shares redeemed	17		4	438	(147)		295
Repurchase of Class A Common Stock	(193)		(43)	(1,230)	(2,822)		(4,095)
Conversion of Class B Common Stock to Class A Common Stock	11	(11)					
Net change in notes receivable on Common Stock				281			281
Deferred director compensation expense - Company Stock	5			152			152
Stock based compensation expense - restricted stock				224			224
Stock based compensation expense - options				177			177
Balance, September 30, 2013	18,534	2,260	$ 4,893	$ 132,728	$ 404,060	$ 3,829	$ 545,510

See accompanying footnotes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS (*UNAUDITED*)

NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012 (*in thousands*)

	2013	2012
OPERATING ACTIVITIES:		
Net income	$ 24,078	$ 112,718
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	929	7,348
Provision for loan losses	2,480	13,719
Net gain on sale of mortgage loans held for sale	(6,340)	(6,541)
Origination of mortgage loans held for sale	(263,411)	(172,305)
Proceeds from sale of mortgage loans held for sale	270,562	179,853
Net realized impairment (recovery) of mortgage servicing rights	(345)	129
Net realized gain on sales, calls and impairment of securities		(56)
Net gain on sale of other real estate owned	(1,714)	(381)
Writedowns of other real estate owned	1,074	1,207
Deferred director compensation expense - Company Stock	152	140
Stock based compensation expense	401	655
Bargain purchase gains on acquisitions	(1,324)	(54,726)
Net change in other assets and liabilities:		
Accrued interest receivable	1,115	(409)
Accrued interest payable	32	(228)
Other assets	4,137	5,864
Other liabilities	(7,447)	16,347
Net cash provided by operating activities	24,379	103,334
INVESTING ACTIVITIES:		
Net cash received in FDIC-assisted transactions		921,161
Purchases of securities available for sale	(175,275)	(61,716)
Purchases of securities to be held to maturity	(15,000)	(23,115)
Proceeds from calls, maturities and paydowns of securities available for sale	129,041	193,403
Proceeds from calls, maturities and paydowns of securities to be held to maturity	8,900	3,354
Proceeds from sales of securities available for sale		38,724
Proceeds from sales of Federal Home Loan Bank stock	35	62
Proceeds from sales of other real estate owned	19,642	21,688
Net change in loans	92,881	(184,454)
Net purchases of premises and equipment	(3,275)	(2,499)
Net cash provided by investing activities	56,949	906,608
FINANCING ACTIVITIES:		
Net change in deposits	36,857	(822,074)
Net change in securities sold under agreements to repurchase and other short-term borrowings	(144,511)	(60,392)
Payments of Federal Home Loan Bank advances	(25,580)	(589,208)
Proceeds from Federal Home Loan Bank advances	70,000	205,000
Repurchase of Common Stock	(4,095)	(386)
Net proceeds from Common Stock options exercised	295	147
Cash dividends paid	(10,400)	(9,813)
Net cash used in financing activities	(77,434)	(1,276,726)
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,894	(266,784)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	137,691	362,971
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 141,585	$ 96,187

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the period for:				
Interest	$	16,061	$	17,653
Income taxes		26,674		68,603
SUPPLEMENTAL NONCASH DISCLOSURES				
Transfers from loans to real estate acquired in settlement of loans	$	8,690	$	16,018
Loans provided for sales of other real estate owned		644		591

See accompanying footnotes to consolidated financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012 (UNAUDITED) AND DECEMBER 31, 2012

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation The consolidated financial statements include the accounts of Republic Bancorp, Inc. (the Parent Company) and its wholly-owned subsidiaries: Republic Bank & Trust Company (RB&T) and Republic Bank (RB) (collectively referred together as the Bank). Republic Invest Co., a former subsidiary of RB&T, and its subsidiary, Republic Capital LLC, were dissolved in April 2013 in connection with the full repayment by RB&T of intragroup subordinated debentures issued by Republic Capital LLC in a 2004 intragroup trust preferred transaction. All companies are collectively referred to as Republic or the Company. All significant intercompany balances and transactions are eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. For further information, refer to the consolidated financial statements and footnotes thereto included in Republic s Form 10-K for the year ended December 31, 2012.

As of September 30, 2013, the Company was divided into three distinct business operating segments: Traditional Banking, Mortgage Banking and Republic Processing Group (RPG). During the second quarter of 2012, the Company realigned the previously reported Tax Refund Solutions (TRS) segment as a division of the RPG segment. Along with the TRS division, Republic Payment Solutions (RPS) and Republic Credit Solutions (RCS) also operate as divisions of the RPG segment.

Traditional Banking and Mortgage Banking (collectively Core Banking)

As of September 30, 2013, in addition to an Internet delivery channel, Republic had 45 full-service banking centers with locations as follows:

- Kentucky 34
- Metropolitan Louisville 20
- Central Kentucky 11
- Elizabethtown 1

- Frankfort 1
- Georgetown 1
- Lexington 5
- Owensboro 2
- Shelbyville 1
- Northern Kentucky 3
- Covington 1
- Florence 1
- Independence 1
- Southern Indiana 3
- Floyds Knobs 1
- Jeffersonville 1
- New Albany 1
- Metropolitan Tampa, Florida 4
- Metropolitan Cincinnati, Ohio 1
- Metropolitan Nashville, Tennessee 2
- Metropolitan Minneapolis, Minnesota 1

Table of Contents

In October 2013, Republic gave the required 90-day regulatory notice of its intentions to close its sole banking center in Palm Harbor, Florida. This location is expected to close in January 2014 with the lease for the premises expiring in February 2014.

In October 2013, Republic gave the required 90-day regulatory notice of its intentions to close its sole banking center in Minneapolis, Minnesota, which it acquired in connection with the First Commercial Bank (FCB) acquisition in September 2012. The Bank is currently under a lease for this location which is set to expire in April 2015. The Bank intends to repurpose the location as a support office until the expiration of its lease or until such time that it is able to negotiate with the landlord a buy-out of its future lease obligations. The banking center is expected to stop transacting business at the Minnesota location with deposit customers in January 2014.

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

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

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

Republic Processing Group

Nationally, through RB&T, RPG facilitates the receipt and payment of federal and state tax refunds under the TRS division, primarily through refund transfers (RT s). RTs are products whereby a tax refund is issued to the taxpayer after RB&T has received the refund from the federal or state government. There is no credit risk or borrowing costs associated with these products, because they are only delivered to the taxpayer upon receipt of the tax refund directly from the governmental paying authority. Fees earned on RTs, net of rebates, are the primary source of revenue for the TRS division and the RPG segment, and are reported as non-interest income under the line item Net refund transfer fees.

The TRS division historically originated and obtained a significant source of revenue from Refund Anticipation Loans (RAL s), but terminated this product effective April 30, 2012. RALs were short-term consumer loans offered to taxpayers that were secured by the customer s anticipated tax refund, which represented the sole source of repayment. The fees earned on RALs for the applicable reporting period in 2012 were reported as interest income under the line item Loans, including fees.

Through RB, the RPS division is an issuing bank offering general purpose reloadable prepaid debit cards through third party program managers. Through RB&T, the RCS division is piloting short-term consumer credit products.

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

Table of Contents

2. 2012 FDIC-ASSISTED ACQUISITIONS OF FAILED BANKS

OVERVIEW

During 2012, the Bank acquired two failed institutions in FDIC-assisted transactions. The Bank did not raise capital to complete either of these acquisitions.

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

Tennessee Commerce Bank (TCB)

On January 27, 2012, the Bank acquired specific assets and assumed substantially all of the deposits and specific other liabilities of TCB, headquartered in Franklin, Tennessee from the FDIC, as receiver for TCB, pursuant to the terms of a Purchase and Assumption Agreement (P&A) Whole Bank; All Deposits entered into among RB&T, the FDIC as receiver of TCB and the FDIC. On January 30, 2012, TCB s sole location re-opened as a division of RB&T.

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

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

Information obtained subsequent to January 27, 2012 and through September 30, 2012 was considered in forming TCB estimates of cash flows and collateral values as of the January 27, 2012 acquisition date, i.e., TCB s day-one fair values. Day-one fair values for TCB were considered final as of September 30, 2012, which was the date the Bank believed it had received all the information necessary to determine TCB s day-one fair values.

Table of Contents

A summary of the assets acquired and liabilities assumed in the TCB acquisition follows:

Tennessee Commerce Bank

	January 27, 2012			
	As Previously Reported		As Recasted	
(in thousands)	Contractual Amount	Fair Value Adjustments	2012 Recast Adjustments	Fair Value
Assets acquired:				
Cash and cash equivalents	$ 61,943	$ (89)	$ (2)	$ 61,852
Securities available for sale	42,646			42,646
Loans to be repurchased by the FDIC, net of discount	19,800	(2,797)		17,003
Loans	79,112	(22,666)	830	57,276
Federal Home Loan Bank stock, at cost	2,491			2,491
Other real estate owned	14,189	(3,359)	(1,113)	9,717
Core deposit intangible		64		64
Discount	(56,970)	56,970		
FDIC settlement receivable	784,545			784,545
Other assets and accrued interest receivable	945	(60)		885
Total assets acquired	$ 948,701	$ 28,063	$ (285)	$ 976,479
Liabilities assumed:				
Deposits:				
Non interest-bearing	$ 19,754	$	$	$ 19,754
Interest-bearing	927,641	54		927,695
Total deposits	947,395	54		947,449
Accrued income taxes payable		9,988	(100)	9,888
Other liabilities and accrued interest payable	1,306	110		1,416
Total liabilities assumed	$ 948,701	$ 10,152	$ (100)	$ 958,753
Equity:				
Bargain purchase gain, net of taxes		17,911	(185)	17,726
Total liabilities assumed and equity	$ 948,701	$ 28,063	$ (285)	$ 976,479

Table of Contents

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

Tennessee Commerce Bank

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

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

First Commercial Bank

On September 7, 2012, the Bank acquired specific assets and assumed substantially all of the liabilities of FCB, headquartered in Bloomington, Minnesota from the FDIC, as receiver for FCB, pursuant to the terms of a P&A Agreement Whole Bank; All Deposits, entered into among RB&T, the FDIC as receiver of FCB and the FDIC. On September 10, 2012, FCB s sole location re-opened as a division of RB&T.

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

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

Table of Contents

Information obtained subsequent to September 7, 2012 and through March 31, 2013 was considered in forming FCB estimates of cash flows and collateral values as of the September 7, 2012 acquisition date, i.e., FCB s day-one fair values. Day-one fair values for FCB were considered final as of March 31, 2013, which was the date the Bank believed it had received all the information necessary to determine FCB s day-one fair values.

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

First Commercial Bank

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

Table of Contents

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

First Commercial Bank

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

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

In October 2013, Republic gave the required 90-day regulatory notice of its intentions to close its sole banking center location in Minneapolis, Minnesota, which it acquired in connection with the FCB acquisition in September 2012. The Bank is currently under a lease for this location which is set to expire in April 2015. The Bank intends to repurpose the location as a support office until the expiration of its lease or until such time that it is able to negotiate with the landlord a buy-out of its future lease obligations. The banking center is expected to stop transacting business at the Minnesota location with deposit customers in January 2014. The core deposit intangible asset associated with the FCB acquisition totaled $289,000 at September 30, 2013. The Bank intends to accelerate the amortization of this asset in connection with its notice to repurpose the former FCB banking center.

FAIR VALUE METHODS ASSOCIATED WITH THE 2012 FDIC-ASSISTED ACQUISITIONS OF FAILED BANKS

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

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

Investment Securities Investment securities were acquired at fair value from the FDIC. The fair values provided by the FDIC were reviewed and considered reasonable based on management s understanding of the marketplace. Federal Home

Table of Contents

Loan Bank (FHLB) stock was acquired at cost, as it is not practicable to determine its fair value given restrictions on its marketability.

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

With the FCB acquisition, the Bank acquired $12 million in securities at fair value. The nature of these securities acquired was consistent with the Bank s existing investment portfolio and the Bank elected to retain these securities.

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

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

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

With the FCB acquisition, the Bank purchased approximately $172 million in loans with a recasted fair value of approximately $130 million.

Table of Contents

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

Tennessee Commerce Bank

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

First Commercial Bank

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

The following tables present the purchased loans that are included within the scope of ASC Topic 310-30, *Accounting for Purchased Loans with Deteriorated Credit Quality,* at the respective acquisition dates:

Tennessee Commerce Bank

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

Table of Contents

First Commercial Bank

(in thousands)	As Previously Reported	September 7, 2012 2012 & 2013 Recast Adjustments	As Recasted
Contractually-required principal and interest payments	$ 116,940	$ 4,213	$ 121,153
Non-accretable difference	(33,523)	4,640	(28,883)
Cash flows expected to be collected	83,417	8,853	92,270
Accretable difference	(2,827)	(1,819)	(4,646)
Fair value of loans	$ 80,590	$ 7,034	$ 87,624

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

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

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

The Bank acquired $19 million in OREO related to the FCB acquisition, which was initially reduced by an $8 million fair value adjustment as of September 7, 2012. During the fourth quarter of 2012 and the first quarter of 2013, the Bank posted a net negative recast adjustment of $785,000 to OREO to mark several properties to market based on appraisals received.

FHLB Advances The Bank acquired $3 million in FHLB advances related to the FCB acquisition. The advances were marked to market as of the acquisition date based on early prepayment payoffs (including penalties) received from the FHLB.
The Bank paid off the advances during the third quarter of 2012 at no additional loss beyond the fair value adjustment as of their date of acquisition.

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

The Bank assumed $947 million in deposits at estimated fair value in connection with the TCB acquisition. As permitted by the FDIC, within seven days of the acquisition date, RB&T had the option to disclose to TCB s deposit customers that it was repricing the acquired deposit portfolios. In addition, depositors had the option to withdraw funds without penalty. The Bank chose to reprice all of the acquired TCB interest-bearing deposits, including transaction, time and brokered deposits with an effective date of January 28, 2012. This re-pricing triggered significant time and brokered deposit run-off consistent with management s expectations.

Table of Contents

The Bank assumed $196 million in deposits at estimated fair value in connection with the FCB acquisition. The Bank chose to re-price all of the acquired FCB time deposits with an effective date of October 1, 2012. This re-pricing triggered certificate of deposit run-off consistent with management s expectations.

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

Tennessee Commerce Bank

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

First Commercial Bank

	September 7, 2012			
(in thousands)	**Contractual Amount**	**Fair Value Adjustments**	**Recast Adjustments**	**Fair Value**
Demand	$ 4,003	$	$	$ 4,003
Money market accounts	38,187			38,187
Savings				
Individual retirement accounts*	16,780			16,780
Time deposits, $100,000 and over*	14,740			14,740
Other certificates of deposit*	62,033			62,033
Brokered certificates of deposit*	53,314	(3)		53,311
Total interest-bearing deposits	189,057	(3)		189,054
Total non interest-bearing deposits	7,197			7,197
Total deposits	$ 196,254	$ (3)	$	$ 196,251

** - denotes a time deposit*

Table of Contents

3. INVESTMENT SECURITIES

Securities available for sale:

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

September 30, 2013 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 122,401	$ 615	$ (83)	$ 122,933
Private label mortgage backed security	5,036	421		5,457
Mortgage backed securities - residential	156,656	4,744	(288)	161,112
Collateralized mortgage obligations	176,625	1,629	(1,036)	177,218
Corporate bonds	15,016	2	(114)	14,904
Total securities available for sale	$ 475,734	$ 7,411	$ (1,521)	$ 481,624

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

Securities to be held to maturity:

The carrying value, gross unrecognized gains and losses, and fair value of securities to be held to maturity were as follows:

September 30, 2013 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 2,329	$ 9	$	