

REPUBLIC BANCORP INC /KY/  
Form 10-Q  
November 09, 2016  
Table of Contents

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 September 30, 2016

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      40202  
(Address of principal executive offices)      (Zip Code)

Registrant's telephone number, including area code: (502) 584-3600

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

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

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

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

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

The number of shares outstanding of the registrant's Class A Common Stock and Class B Common Stock, as of October 31, 2016, was 18,616,873 and 2,245,174.

---

Table of Contents

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements.</u>	3
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u>	69
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk.</u>	110
<u>Item 4.</u>	<u>Controls and Procedures.</u>	110

PART II — OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings.</u>	110
<u>Item 1A.</u>	<u>Risk Factors</u>	111
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	112
<u>Item 6.</u>	<u>Exhibits.</u>	113
	<u>SIGNATURES</u>	114

Table of Contents

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements.

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 302,167	\$ 210,082
Securities available for sale	489,905	517,058
Securities held to maturity (fair value of \$34,651 in 2016 and \$39,196 in 2015)	34,539	38,727
Mortgage loans held for sale, at fair value	8,442	4,083
Consumer loans held for sale, at fair value	1,691	—
Consumer loans held for sale, at the lower of cost or fair value	1,093	514
Loans	3,823,031	3,326,610
Allowance for loan and lease losses	(30,436)	(27,491)
Loans, net	3,792,595	3,299,119
Federal Home Loan Bank stock, at cost	28,208	28,208
Premises and equipment, net	43,385	31,106
Goodwill	16,300	10,168
Other real estate owned	2,435	1,220
Bank owned life insurance	61,392	52,817
Other assets and accrued interest receivable	45,125	37,187
<b>TOTAL ASSETS</b>	<b>\$ 4,827,277</b>	<b>\$ 4,230,289</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 947,602	\$ 634,863
Interest-bearing	2,188,291	1,852,614
Total deposits	3,135,893	2,487,477
Securities sold under agreements to repurchase and other short-term borrowings	152,458	395,433
Federal Home Loan Bank advances	862,500	699,500
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	34,626	30,092

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

Total liabilities	4,226,717	3,653,742
Commitments and contingent liabilities (Footnote 9)	—	—
STOCKHOLDERS' EQUITY		
Preferred stock, no par value	—	—
Class A Common Stock and Class B Common Stock, no par value	4,906	4,915
Additional paid in capital	137,682	136,910
Retained earnings	454,998	432,673
Accumulated other comprehensive income	2,974	2,049
Total stockholders' equity	600,560	576,547
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,827,277	\$ 4,230,289

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,		Nine Months Ended September 30,	
	2016	2015	2016	2015
<b>INTEREST INCOME:</b>				
Loans, including fees	\$ 41,597	\$ 34,040	\$ 120,772	\$ 99,247
Taxable investment securities	1,942	1,733	5,817	5,285
Federal Home Loan Bank stock and other	395	334	1,500	1,058
Total interest income	43,934	36,107	128,089	105,590
<b>INTEREST EXPENSE:</b>				
Deposits	1,620	1,068	4,359	3,233
Securities sold under agreements to repurchase and other short-term borrowings	11	17	51	72
Federal Home Loan Bank advances	2,664	2,982	8,590	8,907
Subordinated note	241	616	680	1,874
Total interest expense	4,536	4,683	13,680	14,086
<b>NET INTEREST INCOME</b>	<b>39,398</b>	<b>31,424</b>	<b>114,409</b>	<b>91,504</b>
Provision for loan and lease losses	2,489	2,233	9,489	3,322
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES</b>	<b>36,909</b>	<b>29,191</b>	<b>104,920</b>	<b>88,182</b>
<b>NONINTEREST INCOME:</b>				
Service charges on deposit accounts	3,416	3,399	9,838	9,685
Net refund transfer fees	132	97	19,119	17,339
Mortgage banking income	3,081	972	5,902	3,549
Interchange fee income	2,415	1,967	6,755	6,205
Republic Processing Group program fees	979	474	1,942	871
Gain on call of security available for sale	—	—	—	88
Net gains (losses) on other real estate owned	(137)	(8)	191	(282)
Increase in cash surrender value of bank owned life insurance	406	348	1,114	1,050
Other	1,009	557	2,163	1,772
Total noninterest income	11,301	7,806	47,024	40,277
<b>NONINTEREST EXPENSES:</b>				

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

Salaries and employee benefits	18,068	15,297	52,965	44,897
Occupancy and equipment, net	5,631	5,217	16,159	15,560
Communication and transportation	1,029	951	2,974	2,768
Marketing and development	1,076	756	2,773	2,318
FDIC insurance expense	345	474	1,483	1,622
Bank franchise tax expense	846	846	3,944	4,094
Data processing	1,659	959	4,535	3,017
Interchange related expense	1,118	909	3,069	2,847
Supplies	280	229	969	809
Other real estate owned expense	159	146	355	485
Legal and professional fees	539	653	1,965	2,796
FHLB advance prepayment penalty	846	—	846	—
Other	1,938	1,801	5,904	5,264
Total noninterest expenses	33,534	28,238	97,941	86,477
INCOME BEFORE INCOME TAX EXPENSE	14,676	8,759	54,003	41,982
INCOME TAX EXPENSE	4,848	3,119	18,100	14,234
NET INCOME	\$ 9,828	\$ 5,640	\$ 35,903	\$ 27,748
BASIC EARNINGS PER SHARE:				
Class A Common Stock	\$ 0.47	\$ 0.27	\$ 1.73	\$ 1.34
Class B Common Stock	0.43	0.25	1.58	1.22
DILUTED EARNINGS PER SHARE:				
Class A Common Stock	\$ 0.47	\$ 0.27	\$ 1.73	\$ 1.34
Class B Common Stock	0.43	0.25	1.57	1.22
DIVIDENDS DECLARED PER COMMON SHARE:				
Class A Common Stock	\$ 0.209	\$ 0.198	\$ 0.616	\$ 0.583
Class B Common Stock	0.190	0.180	0.560	0.530

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,	
	2016	2015	2016	2015
Net income	\$ 9,828	\$ 5,640	\$ 35,903	\$ 27,748
<b>OTHER COMPREHENSIVE INCOME</b>				
Change in fair value of derivatives used for cash flow hedges	127	(503)	(663)	(724)
Reclassification amount for derivative losses realized in income	83	100	256	304
Change in unrealized gain (loss) on securities available for sale	(788)	488	1,920	670
Reclassification adjustment for gain on security available for sale recognized in earnings	—	—	—	(88)
Change in unrealized gain on security available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings	57	(58)	(91)	(84)
Net unrealized gains (losses)	(521)	27	1,422	78
Tax effect	180	(11)	(497)	(29)
Total other comprehensive income, net of tax	(341)	16	925	49
<b>COMPREHENSIVE INCOME</b>	<b>\$ 9,487</b>	<b>\$ 5,656</b>	<b>\$ 36,828</b>	<b>\$ 27,797</b>

See accompanying footnotes to consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

NINE MONTHS ENDED SEPTEMBER 30, 2016

(in thousands)	Common Stock		Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Class A Shares Outstanding	Class B Shares Outstanding					
Balance, January 1, 2016	18,652	2,245	\$ 4,915	\$ 136,910	\$ 432,673	\$ 2,049	\$ 576,547
Net income	—	—	—	—	35,903	—	35,903
Net change in accumulated other comprehensive income	—	—	—	—	—	925	925
Dividends declared Common Stock:							
Class A Shares	—	—	—	—	(11,469)	—	(11,469)
Class B Shares	—	—	—	—	(1,258)	—	(1,258)
Stock options exercised, net of shares redeemed	4	—	—	80	—	—	80
Repurchase of Class A Common Stock	(41)	—	(9)	(274)	(851)	—	(1,134)
Net change in notes receivable on Class A Common Stock	—	—	—	63	—	—	63
Deferred director compensation expense - Class A Common Stock	4	—	—	149	—	—	149
Stock based compensation expense - performance stock	—	—	—	381	—	—	381

units

Stock based compensation expense - restricted stock	(2)	—	—	189	—	—	189
Stock based compensation expense - stock options	—	—	—	184	—	—	184
Balance, September 30, 2016	18,617	2,245	\$ 4,906	\$ 137,682	\$ 454,998	\$ 2,974	\$ 600,560

See accompanying footnotes to consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine Months Ended September 30,	
	2016	2015
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 35,903	\$ 27,748
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization on investment securities, net	425	506
Accretion on loans, deposits and core deposit intangible, net	(1,813)	(2,422)
Depreciation of premises and equipment	5,414	4,965
Amortization of mortgage servicing rights	1,200	1,057
Provision for loan and lease losses	9,489	3,322
Net gain on sale of mortgage loans held for sale	(5,647)	(3,189)
Origination of mortgage loans held for sale	(154,607)	(128,026)
Proceeds from sale of mortgage loans held for sale	154,766	129,077
Net gain on sale of consumer loans held for sale	(1,768)	(909)
Origination of consumer loans held for sale	(248,430)	(86,218)
Proceeds from sale of consumer loans held for sale	247,928	86,473
Net realized gain on sales, calls and impairment of securities	—	(88)
Net gain realized on sale of other real estate owned	(392)	(734)
Writedowns of other real estate owned	200	1,016
Net gain on sale of banking center	—	(28)
Deferred director compensation expense - Company Stock	149	171
Stock based compensation expense	754	311
Increase in cash surrender value of bank owned life insurance	(1,114)	(1,050)
Net change in other assets and liabilities:		
Accrued interest receivable	(83)	(228)
Accrued interest payable	(219)	(95)
Other assets	(3,064)	(1,709)
Other liabilities	(724)	5,336
Net cash provided by operating activities	38,367	35,286
<b>INVESTING ACTIVITIES:</b>		
Net change in cash for acquisition of Cornerstone Bancorp, Inc.	(9,088)	—
Purchases of securities available for sale	(400,079)	(994,305)
Proceeds from calls, maturities and paydowns of securities available for sale	428,649	968,812
Proceeds from calls, maturities and paydowns of securities held to maturity	4,504	4,357
Net change in outstanding warehouse lines of credit	(274,457)	(74,117)
Purchase of non-business-acquisition loans, including premiums paid	(48,876)	(87,619)
Net change in other loans	(62,932)	(96,916)
Proceeds from redemption of Federal Home Loan Bank stock	224	—
Proceeds from sale of mortgage loans transferred to held for sale	72,330	—
Proceeds from sales of other real estate owned	2,660	7,880

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

Proceeds from sale of banking center	—	1,623
Net purchases of premises and equipment	(5,466)	(2,312)
Net cash used in investing activities	(292,531)	(272,597)
<b>FINANCING ACTIVITIES:</b>		
Net change in deposits	443,745	309,648
Net change in securities sold under agreements to repurchase and other short-term borrowings	(242,975)	(46,484)
Payments of Federal Home Loan Bank advances	(267,000)	(208,000)
Proceeds from Federal Home Loan Bank advances	430,000	212,000
Payoff of subordinated note, net of common security interest	(4,000)	—
Repurchase of Common Stock	(1,134)	(477)
Net proceeds from Common Stock options exercised	80	244
Cash dividends paid	(12,467)	(11,767)
Net cash provided by financing activities	346,249	255,164
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>92,085</b>	<b>17,853</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>210,082</b>	<b>72,878</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 302,167</b>	<b>\$ 90,731</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest	\$ 13,882	\$ 14,181
Income taxes	18,956	12,219
<b>SUPPLEMENTAL NONCASH DISCLOSURES:</b>		
Transfers from loans to real estate acquired in settlement of loans	\$ 3,939	\$ 2,713
Transfers from loans held for investment to held for sale	71,201	—
Loans provided for sales of other real estate owned	256	2,962

See accompanying footnotes to consolidated financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – SEPTEMBER 30, 2016 and 2015 AND DECEMBER 31, 2015 (UNAUDITED)

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” or the “Bank”) and Republic Insurance Services, Inc. (the “Captive”). The Bank is a Kentucky-based, state chartered non-member financial institution. The Captive is a wholly-owned insurance subsidiary of the Company that provides property and casualty insurance coverage to the Company and the Bank as well as 10 other third-party insurance captives for which insurance may not be available or economically feasible. Republic Bancorp Capital Trust (“RBCT”) is a Delaware statutory business trust that is a wholly-owned unconsolidated finance subsidiary of Republic Bancorp, Inc. As a result of its acquisition of Cornerstone Bancorp, Inc. on May 17, 2016, Republic Bancorp, Inc. became the 100% successor owner of Cornerstone Capital Trust 1 (“CCT1”), an unconsolidated finance subsidiary. As permitted under the terms of CCT1’s governing documents, the Company redeemed these securities at the par amount of approximately \$4 million, without penalty, on September 15, 2016.

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 (“GAAP”) 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. 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, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. 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, 2015.

As of September 30, 2016, the Company was divided into four distinct business operating segments: Traditional Banking, Warehouse Lending (“Warehouse”), Mortgage Banking and Republic Processing Group (“RPG”). Management considers the first three segments to collectively constitute “Core Bank” or “Core Banking” activities. The RPG segment includes the following divisions: Tax Refund Solutions (“TRS”), Refund Payment Solutions (“RPS”) and Republic Credit Solutions (“RCS”). TRS generates the majority of RPG’s income, with the relatively smaller divisions of RPG, RPS and RCS, considered immaterial for separate and independent segment reporting. All divisions of the RPG segment operate through the Bank.



Table of Contents

Core Bank (includes Traditional Banking, Warehouse Lending and Mortgage Banking segments)

The Traditional Banking segment provides traditional banking products primarily to customers in the Company's market footprint. As of September 30, 2016, Republic had 44 full-service banking centers with locations as follows:

- Kentucky — 32
- Metropolitan Louisville — 19
- Central Kentucky — 8
- Elizabethtown — 1
- Frankfort — 1
- Georgetown — 1
- Lexington — 4
- Shelbyville — 1
- Western Kentucky — 2
- Owensboro — 2
- Northern Kentucky — 3
- Covington — 1
- Florence — 1
- Independence — 1
- Southern Indiana — 3
- Floyds Knobs — 1
- Jeffersonville — 1
- New Albany — 1
- Metropolitan Tampa, Florida — 6
- Metropolitan Cincinnati, Ohio — 1
- Metropolitan Nashville, Tennessee — 2

Republic's headquarters are located in Louisville, which is the largest city in Kentucky, based on population.

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 commercial and consumer loans primarily secured by real estate and/or personal property. 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. Federal Home Loan Bank ("FHLB") advances have traditionally been a significant borrowing source for the Bank.

Other sources of Core Banking income include service charges on deposit accounts, debit and credit card interchange fee income, title insurance commissions, fees charged to clients for trust services, increases in the cash surrender value of Bank Owned Life Insurance ("BOLI") 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, interchange related expenses, marketing and development expenses, Federal Deposit Insurance Corporation (“FDIC”) insurance expense, franchise tax expense and various other 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.

The Core Bank provides short-term, revolving credit facilities to mortgage bankers across the Nation through its Warehouse segment in the form of warehouse lines of credit. These credit facilities are secured by single family, first lien residential real estate loans. Outstanding balances on these credit facilities may be subject to significant fluctuations consistent with the overall market demand for mortgage loans.

Primarily from its Warehouse clients, the Core Bank acquires single family, first lien mortgage loans that meet the Core Bank’s specifications through its Correspondent Lending channel. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium.

Table of Contents

Republic Processing Group

Tax Refund Solutions division — Republic, through its TRS division, is one of a limited number of financial institutions that facilitates the receipt and payment of federal and state tax refunds through third-party tax preparers located throughout the Nation, as well as tax-preparation software providers. Substantially all of the business generated by the TRS division occurs in the first half of the year. The TRS division traditionally operates at a loss during the second half of the year, during which time the division incurs costs preparing for the upcoming year’s first quarter tax season.

Refund Transfers (“RTs”) are products whereby a tax refund is issued to the taxpayer after the Bank has received the refund from the federal or state government. There is no credit risk or borrowing cost 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 reported as noninterest income under the line item “Net refund transfer fees.”

TRS offered its new Easy Advance (“EA”) tax credit product during the first quarter of 2016. The EA product had the following features during the period it was offered through February 29, 2016:

- An advance amount of \$750 per taxpayer customer;
- No EA fee charged to the taxpayer customer;
- All fees for the product were paid by the tax preparer or tax software company (collectively, the “Tax Providers”) with a restriction prohibiting the Tax Providers from passing along the fees to the taxpayer customer;
- No requirement that the taxpayer customer pay for another bank product, such as an RT;
- Multiple funds disbursement methods, including direct deposit, prepaid card, check or the Walmart Direct2Cash® product, based on the taxpayer customer’s election;
- Repayment of the EA to the Bank was deducted from the taxpayer customer’s tax refund proceeds; and
- If an insufficient refund to repay the EA occurred:
  - o there was no recourse to the taxpayer customer,
  - o no negative credit reporting on the taxpayer customer, and
  - o no collection efforts against the taxpayer customer.

Fees paid by the Tax Providers to the Company for the EA product are reported as interest income on loans under the line item “Loans, including fees.” During 2016, EAs were generally repaid within three weeks after the taxpayer customer’s tax return was submitted to the applicable tax authority. Provisions for loss on EAs were estimated when advances were made, with all loss provisions made in the first quarter of 2016. Unpaid EAs were charged-off within 81 days after the taxpayer customer’s tax return was submitted to the applicable tax authority, with the majority of charge-offs recorded during the second quarter of 2016.

Republic Payment Solutions division — The RPS division is an issuing bank offering general-purpose reloadable prepaid cards through third-party program managers.

The Company reports fees related to RPS programs under “Republic Processing Group program fees.” Additionally, the Company’s portion of interchange revenue generated by prepaid card transactions is reported as noninterest income under “Interchange fee income.”

Republic Credit Solutions division — The RCS division offers short-term consumer credit products. In general, the credit products are unsecured, small dollar consumer loans with maturities of 30-days-or-more, and are dependent on various factors including the consumer’s ability to repay.

The Company reports RCS loans originated for investment under “Loans,” while loans originated for sale are reported under “Consumer loans held for sale.” The Company reports interest income and loan origination fees earned on RCS loans under “Loans, including fees,” while any gains or losses on sale reported as noninterest income under “Republic Processing Group program fees.”

Table of Contents

## Accounting Standards Updates (“ASUs”)

The following ASUs were issued during the nine months ended September 30, 2016 and are considered relevant to the Company’s financial statements:

ASU. No.	Topic	Nature of Update	Date Adoption Required	Method of Adoption	Expected Impact to Company's Financial Statements
2016-2	Leases (Topic 842)	Most leases are considered operating leases, which are not accounted for on the lessees’ balance sheets. The significant change under this ASU is that those operating leases will be recorded on the balance sheet.	January 1, 2019	Modified-retrospective approach, which includes a number of optional practical expedients.	Currently under analysis.
2016-4	Liabilities – Extinguishments of Liabilities (Topic 405-20)	Provides that liabilities related to the sale of prepaid stored-value products are financial liabilities and provide a narrow scope exception to the guidance in Subtopic 405-20 to require that breakage for those liabilities be accounted for consistent with the breakage guidance in Topic 606.	January 1, 2018	Modified-retrospective or a fully retrospective approach.	Immaterial
2016-5	Derivatives and Hedging (Topic 815)	Clarifies that a change in the counterparty to a derivative instrument that has been designated as the	January 1, 2017	Prospective or modified-retrospective approach.	Immaterial

hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria (including those in paragraphs 815-20-35-14 through 35-18 of the Accounting Standards Codification) continue to be met.

2016-9	Compensation – Stock Compensation (Topic 718)	Provides simplification in areas of accounting for share-based payments, including: the income tax consequences; classification of awards as either equity or liabilities; and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities.	January 1, 2017	Certain elements are applied retrospectively, some prospectively.	Immaterial
2016-13	Financial Instruments – Credit Losses (Topic 326)	Amends guidance on reporting credit losses for assets held at amortized-cost basis and available-for-sale debt securities.	January 1, 2020	Modified-retrospective approach.	Substantial, yet fully undetermined, increase in allowance for credit losses.
2016-15	Statement of Cash Flows (Topic 230)	Provides additional guidance for preparation of a cash flow statement.	January 1, 2018	Retrospective transition unless impractical.	Immaterial



Table of Contents

## 2. ACQUISITION OF CORNERSTONE BANCORP, INC.

## OVERVIEW

On May 17, 2016, the Company completed its acquisition of Cornerstone Bancorp, Inc. (“Cornerstone”), and its wholly-owned bank subsidiary Cornerstone Community Bank (“CCB”), for approximately \$32 million in cash. The primary reason for the acquisition of Cornerstone was to expand the Company’s footprint in the Tampa, Florida metropolitan statistical area.

## ACQUISITION SUMMARY

The following table provides a summary of the assets acquired and liabilities assumed as recorded by Cornerstone, the previously reported preliminary fair value adjustments necessary to adjust those acquired assets and assumed liabilities to fair value, recast adjustments to those previously reported preliminary fair values, and the fair values of those assets and liabilities as recorded by the Company. As provided for under GAAP, management has up to 12 months following the date of acquisition to finalize the fair values of the acquired assets and assumed liabilities. The preliminary fair value adjustments and the preliminary resultant fair values shown in the following table continue to be evaluated by management and may be subject to further recast adjustments.

## Acquisition of Cornerstone Bancorp, Inc. - Summary of Assets Acquired and Liabilities Assumed

(in thousands)	May 17, 2016		As Recasted	As Recorded by Republic
	As Previously Reported			
	As Recorded by Cornerstone	Fair Value Adjustments (1)	Recast Adjustments (1)	
Assets acquired:				
Cash and cash equivalents	\$ 22,707	\$ —	\$ —	\$ 22,707
Investment securities	329	—	—	329
Loans	195,136	(5,525)	a 13	a 189,624
Allowance for loan and lease losses	(1,955)	1,955	a —	—
Loans, net	193,181	(3,570)	13	189,624
Federal Home Loan Bank stock, at cost	224	—	—	224
Premises and equipment, net	7,770	4,457	b —	12,227

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

Core deposit intangible	—	1,205	c	—	1,205
Deferred income taxes	3,714	(74)	d	—	3,640
Bank owned life insurance	7,461	—		—	7,461
Other assets and accrued interest receivable	658	—		—	658
Total assets acquired	\$ 236,044	\$ 2,018		\$ 13	\$ 238,075
Liabilities assumed:					
Deposits					
Noninterest-bearing	\$ 52,908	\$ —		\$ —	\$ 52,908
Interest-bearing	152,257	92	e	—	152,349
Total deposits	205,165	92		—	205,257
Subordinated note	4,124	—		—	4,124
Other liabilities and accrued interest payable	2,244	787	f	—	3,031
Total liabilities assumed	211,533	879		—	212,412
Net assets acquired	\$ 24,511	\$ 1,139		\$ 13	25,663
Cash consideration paid					(31,795)
Goodwill					\$ 6,132

(1) The Company's acquisition of Cornerstone closed on May 17, 2016. The fair value adjustments reported are preliminary estimates based on information obtained subsequent to May 17, 2016 and through September 30, 2016. Management is continuing to evaluate each of its estimates and may provide additional recast adjustments in future periods based on this continuing evaluation. To the extent that additional recast adjustments are posted in future periods, the resultant fair values and the amount of goodwill recorded by the Company will change.



Table of Contents

Explanation of preliminary fair value adjustments:

- a. Adjustment reflects the fair value adjustment based on the Company's evaluation of the acquired loan portfolio and to eliminate the recorded allowance for loan losses.
- b. Adjustment reflects the fair value adjustment based on the Company's evaluation of the premises and equipment acquired.
- c. Adjustment reflects the fair value adjustment for the core deposit intangible asset recorded as a result of the acquisition.
- d. This adjustment reflects the differences in the carrying values of acquired assets and assumed liabilities for financial reporting purposes and their basis for federal income tax purposes.
- e. Adjustment reflects the fair value adjustment based on the Company's evaluation of the assumed time deposits.
- f. Adjustment reflects the amount needed to adjust other liabilities to estimated fair value and to record certain liabilities directly attributable to the acquisition of Cornerstone.

Goodwill of approximately \$6 million, which is the excess of the merger consideration over the fair value of net assets acquired, is expected to be recorded in the Cornerstone acquisition and is the result of expected operational synergies and other factors. This goodwill is all attributable to the Company's Traditional Banking segment and is not expected to be deductible for tax purposes. To the extent that management revises any of the above fair value adjustments as a result of its continuing evaluation, the amount of goodwill recorded in the Cornerstone acquisition will change.

Table of Contents

## CORNERSTONE CONTRIBUTION FOR THE REPORTING PERIOD

The Company's consolidated statements of income include the impact of the Company's Cornerstone acquisition for the three and nine months ended September 30, 2016. The results of operations of the assets acquired and liabilities assumed in the Company's Cornerstone acquisition, inclusive of any pre-acquisition related costs, are summarized in the following table:

(in thousands)	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Non-Acquisition Related	Acquisition-Related	Total	Non-Acquisition Related	Acquisition-Related	Total
<b>INTEREST INCOME:</b>						
Loans, including fees	\$ 2,348	\$ 34	a \$ 2,382	\$ 3,403	\$ 34	a \$ 3,437
Taxable investment securities	547	—	547	750	—	750
Total interest income	2,895	34	2,929	4,153	34	4,187
<b>INTEREST EXPENSE:</b>						
Deposits	144	(5)	b 139	215	(9)	b 206
Borrowings	848	—	848	1,099	—	1,099
Subordinated note	25	—	25	37	—	37
Total interest expense	1,017	(5)	1,012	1,351	(9)	1,342
NET INTEREST INCOME	1,878	39	1,917	2,802	43	2,845
Provision for loan and lease losses	9	—	9	95	—	95
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	1,869	39	1,908	2,707	43	2,750
<b>NONINTEREST INCOME:</b>						
Service charges on deposit accounts	86	—	86	123	—	123
Interchange fee income	57	—	57	76	—	76
Other	140	—	140	176	—	176
Total noninterest income	283	—	283	375	—	375
<b>NONINTEREST EXPENSES:</b>						
Salaries and employee benefits	831	—	831	1,250	274	c 1,524

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

Occupancy and equipment, net	225	—	225	325	—		325
Communication and transportation	67	—	67	97	10	d	107
Marketing and development	100	—	100	127	—		127
FDIC insurance expense	11	—	11	30	—		30
Data processing	3	212	e 215	—	663	e	663
Supplies	24	—	24	31	20	f	51
Legal and professional fees	11	—	11	40	150	g	190
Other	152	45	h 197	220	76	h	296
Total noninterest expenses	1,424	257	1,681	2,120	1,193		3,313
INCOME (LOSS) BEFORE							
INCOME TAX EXPENSE	728	(218)	510	962	(1,150)		(188)
INCOME TAX EXPENSE							
(BENEFIT)	218	(67)	151	288	(348)		(60)
NET INCOME (LOSS)	\$ 510	\$ (151)	\$ 359	\$ 674	\$ (802)		\$ (128)

Explanation of acquisition-related items:

- a. Accretion of loan discounts.
- b. Amortization of deposit premiums.
- c. Severance payouts and signing bonuses for former Cornerstone employees.
- d. Notices to former Cornerstone stakeholders of change in ownership and merger-related travel.
- e. Primarily core system conversion-related costs.
- f. Costs to update forms and supplies to RB&T brand.
- g. Includes legal, audit, tax and other acquisition related consulting costs.
- h. Includes amortization of core deposit intangible asset.

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 (“AOCI”) were as follows:

September 30, 2016 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 286,295	\$ 1,350	\$ —	\$ 287,645
Private label mortgage backed security	3,864	1,004	—	4,868
Mortgage backed securities - residential	78,048	2,814	(30)	80,832
Collateralized mortgage obligations	95,173	660	(238)	95,595
Freddie Mac preferred stock	—	193	—	193
Community Reinvestment Act mutual fund	2,500	44	—	2,544
Corporate bonds	15,005	123	—	15,128
Trust preferred security	3,438	—	(338)	3,100
Total securities available for sale	\$ 484,323	\$ 6,188	\$ (606)	\$ 489,905

December 31, 2015 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 286,914	\$ 59	\$ (494)	\$ 286,479
Private label mortgage backed security	4,037	1,095	—	5,132
Mortgage backed securities - residential	88,968	3,395	(95)	92,268
Collateralized mortgage obligations	113,972	748	(1,052)	113,668
Freddie Mac preferred stock	—	173	—	173
Community Reinvestment Act mutual fund	1,000	11	—	1,011
Corporate bonds	15,009	16	(103)	14,922
Trust preferred security	3,405	—	—	3,405
Total securities available for sale	\$ 513,305	\$ 5,497	\$ (1,744)	\$ 517,058

## Securities Held to Maturity

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

September 30, 2016 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 509	\$ 7	\$ —	\$ 516
Mortgage backed securities - residential	160	12	—	172
Collateralized mortgage obligations	28,795	254	(76)	28,973
Corporate bonds	5,075	—	(85)	4,990
Total securities held to maturity	\$ 34,539	\$ 273	\$ (161)	\$ 34,651

December 31, 2015 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 515	\$ 1	\$ —	\$ 516
Mortgage backed securities - residential	53	6	—	59
Collateralized mortgage obligations	33,159	464	—	33,623
Corporate bonds	5,000	—	(2)	4,998
Total securities held to maturity	\$ 38,727	\$ 471	\$ (2)	\$ 39,196

At September 30, 2016 and December 31, 2015, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of stockholders' equity.

Table of Contents

## Sales of Securities Available for Sale

During the three and nine months ended September 30, 2016 there were no gains or losses on sales or calls of securities available for sale.

During the three months ended September 30, 2015 there were no gains on securities available for sale. During the nine months ended September 30, 2015 there was a gain of \$88,000 on the call of one security available for sale.

## Investment Securities by Contractual Maturity

The amortized cost and fair value of the investment securities portfolio by contractual maturity at September 30, 2016 follows. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are detailed separately.

September 30, 2016 (in thousands)	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Carrying Value	Fair Value
Due in one year or less	\$ 96,170	\$ 96,479	\$ 509	\$ 516
Due from one year to five years	195,130	196,203	5,075	4,990
Due from five years to ten years	10,000	10,091	—	—
Due beyond ten years	3,438	3,100	—	—
Private label mortgage backed security	3,864	4,868	—	—
Mortgage backed securities - residential	78,048	80,832	160	172
Collateralized mortgage obligations	95,173	95,595	28,795	28,973
Freddie Mac preferred stock	—	193	—	—
Community Reinvestment Act mutual fund	2,500	2,544	—	—
Total securities	\$ 484,323	\$ 489,905	\$ 34,539	\$ 34,651

## Freddie Mac Preferred Stock

During 2008, the U.S. Treasury, the Federal Reserve Board and the Federal Housing Finance Agency (“FHFA”) announced that the FHFA was placing Freddie Mac under conservatorship and giving management control to the

FHFA. The Bank contemporaneously determined that its 40,000 shares of Freddie Mac preferred stock were fully impaired and recorded an other-than-temporary impairment (“OTTI”) charge of \$2.1 million in 2008. The OTTI charge brought the carrying value of the stock to \$0. In 2014, based on active trading volume of Freddie Mac preferred stock, the Company determined it appropriate to record an unrealized gain to AOCI related to its Freddie Mac preferred stock holdings. Based on the stock’s market closing price as of September 30, 2016, the Company’s unrealized gain for its Freddie Mac preferred stock totaled \$193,000.

#### Corporate Bonds

The Bank maintains a portfolio of corporate bonds, \$75,000 of which were obtained on May 17, 2016 in connection with the Bank’s acquisition of CCB. The remaining corporate bonds were rated “investment grade” by accredited rating agencies as of their respective purchase dates. The total fair value of the Bank’s corporate bonds represented 4% of the Bank’s investment portfolio as of September 30, 2016 and December 31, 2015.

#### Mortgage Backed Securities and Collateralized Mortgage Obligations

At September 30, 2016, with the exception of the \$4.9 million private label mortgage backed security, all other mortgage backed securities and collateralized mortgage obligations (“CMOs”) held by the Bank were issued by U.S. government-sponsored entities and agencies, primarily Freddie Mac and the Federal National Mortgage Association (“Fannie Mae” or “FNMA”). At September 30, 2016 and December 31, 2015, there were gross unrealized losses of \$268,000 and \$1.1 million related to available for sale mortgage backed securities and CMOs. Because these unrealized losses are attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to have other-than-temporary impairment (“OTTI”).

Table of Contents

## Trust Preferred Security

During the fourth quarter of 2015, the Parent Company purchased a \$3 million floating rate trust preferred security (“TRUP”) at a price of 68% of par. The coupon on this security is based on the 3-month LIBOR rate plus 159 basis points, giving the Parent Company an expected yield to maturity of 4.27% when considering the discount. The Company performed an initial analysis prior to acquisition and performs ongoing analysis of the credit risk of the underlying borrower in relation to its TRUP.

## Unrealized-Loss Analysis

Securities with unrealized losses at September 30, 2016 and December 31, 2015, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

	Less than 12 months		12 months or more		Total	
	Unrealized		Unrealized		Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
September 30, 2016 (in thousands)						
Securities available for sale:						
Mortgage backed securities - residential	\$ —	\$ —	\$ 4,619	\$ (30)	\$ 4,619	\$ (30)
Collateralized mortgage obligations	20,765	(64)	17,557	(174)	38,322	(238)
Trust preferred security	3,100	(338)	—	—	3,100	(338)
Total securities available for sale	\$ 23,865	\$ (402)	\$ 22,176	\$ (204)	\$ 46,041	\$ (606)
December 31, 2015 (in thousands)						
Securities available for sale:						
U.S. Treasury securities and U.S. Government agencies	\$ 191,584	\$ (433)	\$ 9,914	\$ (61)	\$ 201,498	\$ (494)
Mortgage backed securities - residential	5,727	(95)	—	—	5,727	(95)



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

Collateralized mortgage obligations	6,831	(212)	35,869	(840)	42,700	(1,052)
Corporate bonds	9,896	(103)	—	—	9,896	(103)
Total securities available for sale	\$ 214,038	\$ (843)	\$ 45,783	\$ (901)	\$ 259,821	\$ (1,744)

September 30, 2016 (in thousands)	Less than 12 months Unrealized		12 months or more Unrealized		Total Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Securities held to maturity:						
Collateralized mortgage obligations	\$ 74,312	\$ (76)	\$ —	\$ —	\$ 74,312	\$ (76)
Corporate bonds	—	—	4,915	(85)	4,915	(85)
Total securities held to maturity	\$ 74,312	\$ (76)	\$ 4,915	\$ (85)	\$ 79,227	\$ (161)

December 31, 2015 (in thousands)	Less than 12 months Unrealized		12 months or more Unrealized		Total Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Securities held to maturity:						
Corporate bonds	\$ 4,998	\$ (2)	\$ —	—	\$ 4,998	\$ (2)
Total securities held to maturity	\$ 4,998	\$ (2)	\$ —	\$ —	\$ 4,998	\$ (2)

At September 30, 2016, the Bank's security portfolio consisted of 173 securities, 19 of which were in an unrealized loss position.

At December 31, 2015, the Bank's security portfolio consisted of 162 securities, 34 of which were in an unrealized loss position.



Table of Contents

Other-than-temporary impairment (“OTTI”)

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

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

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

The Bank owns one private label mortgage backed security with a total carrying value of \$4.9 million at September 30, 2016. This security, with an average remaining life currently estimated at four years, is mostly backed by “Alternative A” first lien mortgage loans, but also has an insurance “wrap” or guarantee as an added layer of protection to the security holder. This asset is illiquid, and as such, the Bank determined it to be a Level 3 security in accordance with Accounting Standards Codification (“ASC”) Topic 820, Fair Value Measurements and Disclosures. Based on this determination, the Bank utilized an income valuation model (“present value model”) approach, in determining the fair value of the security. This approach is beneficial for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management’s best estimate is used. Management’s best estimate consists of both internal and external support for this investment.

See additional discussion regarding the Bank’s private label mortgage backed security under Footnote 10 “Fair Value” in this section of the filing.

Pledged Investment Securities

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

(in thousands)	September 30, 2016	December 31, 2015
Carrying amount	\$ 205,553	\$ 489,598
Fair value	205,773	490,074

Table of Contents

## 4. LOANS HELD FOR SALE

In the ordinary course of business, the Bank originates for sale mortgage loans and short-term consumer loans. Mortgage loans originated for sale are primarily originated and sold into the secondary market through the Bank's Mortgage Banking operations, while short-term consumer loans originated for sale are originated and sold through the RCS division of the Company's RPG segment.

## Mortgage Loans Held for Sale, at Fair Value

See additional detail regarding mortgage loans originated for sale, at fair value under Footnote 11 "Mortgage Banking Activities" of this section of the filing.

## Consumer Loans Held for Sale, at Fair Value

During the first quarter of 2016, RCS initiated a short-term installment loan program, in which the Company sells 100% of the receivables approximately 21 days after origination. The Company carries these loans at fair value, with the loans marked to market on a monthly basis, and any changes in their fair value reported as a component of "Republic Processing Group program fees."

Activity for consumer loans held for sale and carried at fair value was as follows:

(in thousands)	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Balance, beginning of period	\$ 6,826	\$ —
Origination of consumer loans held for sale	20,057	33,714
Proceeds from the sale of consumer loans held for sale	(25,397)	(32,355)
Net gain on sale of consumer loans held for sale	205	332
Balance, end of period	\$ 1,691	\$ 1,691

## Consumer Loans Held for Sale, at Lower of Cost or Fair Value

RCS originates for sale its short-term, line-of-credit product and its credit-card product. The Bank sells 90% of the balances maintained through these products within two days of loan origination and retains a 10% interest. The short-term, line-of-credit product represents the substantial majority of activity in consumer loans held for sale and carried at the lower of cost or fair value, as RCS moved beyond the pilot phase for this product in June 2015. In December 2015, RCS began piloting its credit-card product. Any gains or losses on sale of such products are reported as a component of "Republic Processing Group program fees."

Activity for consumer loans held for sale and carried at the lower of cost or market value was as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Balance, beginning of period	\$ 1,122	\$ 1,542	\$ 514	\$ —
Origination of consumer loans held for sale	99,346	66,320	214,716	86,218
Proceeds from the sale of consumer loans held for sale	(100,099)	(67,871)	(215,573)	(86,473)
Net gain on sale of consumer loans held for sale	724	663	1,436	909
Balance, end of period	\$ 1,093	\$ 654	\$ 1,093	\$ 654

Table of Contents

## 5. LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The composition of the loan portfolio at period end follows:

(in thousands)	September 30, 2016	December 31, 2015
Residential real estate:		
Owner occupied	\$ 1,028,471	\$ 1,081,934
Owner occupied - correspondent*	159,955	249,344
Non owner occupied	149,610	116,294
Commercial real estate	999,852	824,887
Commercial real estate - purchased whole loans*	36,085	35,674
Construction & land development	94,289	66,500
Commercial & industrial	250,094	229,721
Lease financing receivables	12,186	8,905
Warehouse lines of credit	661,186	386,729
Home equity	335,116	289,194
Consumer:		
RPG loans*	16,453	7,204
Credit cards	12,581	11,068
Overdrafts	795	685
Purchased whole loans*	6,895	5,892
Other consumer	59,463	12,579
Total loans**	3,823,031	3,326,610
Allowance for loan and lease losses	(30,436)	(27,491)
Total loans, net	\$ 3,792,595	\$ 3,299,119

\*Identifies loans to borrowers located primarily outside of the Bank's market footprint.

\*\*Total loans are presented inclusive of premiums, discounts and net loan origination fees and costs. See table directly below for expanded detail.

The following table reconciles the contractually receivable and carrying amounts of loans at September 30, 2016 and December 31, 2015:

(in thousands)	September 30, 2016	December 31, 2015
----------------	--------------------	-------------------

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

Contractual receivable	\$ 3,828,586	\$ 3,329,741
Unearned income(1)	(963)	(741)
Unamortized premiums(2)	2,036	3,792
Unaccreted discounts(3)	(10,146)	(7,860)
Net unamortized deferred origination fees and costs	3,518	1,678
Carrying value of loans	\$ 3,823,031	\$ 3,326,610

---

- (1) Unearned income relates to lease financing receivables.
- (2) Premiums predominately relate to loans acquired through the Bank's Correspondent Lending channel.
- (3) Unaccreted discounts include accretable and non-accretable discounts and predominately relate to loans acquired in the Bank's 2016 Cornerstone acquisition and its 2012 FDIC-assisted transactions.



Table of Contents

## Loan Purchases

The Core Bank acquires for investment single family, first lien mortgage loans that meet the Core Bank's specifications through its Correspondent Lending channel. The loans acquired through the Correspondent Lending channel are primarily purchased from the Core Bank's Warehouse clients, with substantially all loans purchased at a premium. Loans acquired through the Correspondent Lending channel generally reflect borrowers outside of the Bank's market footprint, with 73% of such loans as of September 30, 2016 secured by collateral in the state of California.

In addition to mortgage loans acquired through its Correspondent Lending channel, the Bank has acquired in the past unsecured consumer installment loans for investment from a third-party originator. Such consumer loans were purchased at par and were selected by the Bank based on certain underwriting specifications.

The following table reflects the purchased activity of single family, first lien mortgage loans and unsecured consumer loans, by class, during the three and nine months ended September 30, 2016 and 2015.

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
Residential real estate:				
Owner occupied - correspondent*	\$ 9,631	\$ 22,003	\$ 44,454	\$ 84,804
Consumer:				
Purchased whole loans*	—	2,453	4,422	2,815
Total purchased loans	\$ 9,631	\$ 24,456	\$ 48,876	\$ 87,619

\* Represents origination amount, inclusive of applicable purchase premiums.

## Loans Acquired in Cornerstone Acquisition

The following table summarizes loans acquired in the Company's May 17, 2016 Cornerstone acquisition, recasted as of September 30, 2016:

May 17, 2016

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

(in thousands)	Contractual Receivable	Non-accretable Amount	Accretable Amount	Acquisition-Day Fair Value
Residential real estate:				
Owner occupied	17,901	—	143	18,044
Non owner occupied	11,196	—	(108)	11,088
Commercial real estate	106,089	—	(1,541)	104,548
Construction & land development	18,277	—	(505)	17,772
Commercial & industrial	11,462	—	(226)	11,236
Home equity	20,652	—	(373)	20,279
Consumer and other	2,347	—	(234)	2,113
Total loans - ASC 310-20	187,924	—	(2,844)	185,080
Residential real estate:				
Owner occupied	549	(198)	(7)	344
Non owner occupied	1,721	(285)	(167)	1,269
Commercial real estate	4,315	(1,626)	(197)	2,492
Construction & land development	175	—	—	175
Commercial & industrial	66	(98)	1	(31)
Home equity	382	(78)	(11)	293
Consumer and other	4	(2)	—	2
Total loans - ASC 310-30 - purchased-credit-impaired loans	7,212	(2,287)	(381)	4,544
Total loans	\$ 195,136	\$ (2,287)	\$ (3,225)	\$ 189,624

Table of Contents

## Purchased-Credit-Impaired (“PCI”) Loans

The Bank acquired PCI loans on May 17, 2016 in its Cornerstone acquisition and during the year ended December 31, 2012 in two FDIC-assisted transactions. PCI loans are accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality.

Management utilized the following criteria in determining which loans were classified as PCI loans for its May 17, 2016 Cornerstone acquisition:

- Loans for which the Bank assigned a non-accretable discount
- Loans classified as nonaccrual when acquired
- Loans past due 90+ days when acquired

The following table reconciles the contractually required and carrying amounts of all PCI loans at September 30, 2016 and December 31, 2015:

(in thousands)	September 30, 2016	December 31, 2015
Contractually-required principal	\$ 19,612	\$ 18,250
Non-accretable amount	(1,853)	(1,582)
Accretable amount	(3,860)	(4,125)
Carrying value of loans	\$ 13,899	\$ 12,543

The following table presents a rollforward of the accretable amount on all PCI loans for the three and nine months ended September 30, 2016 and 2015:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Balance, beginning of period	\$ (4,087)	\$ (4,323)	\$ (4,125)	\$ (2,297)
Transfers between non-accretable and accretable	179	(573)	(299)	(3,927)
Net accretion into interest income on loans, including loan fees Generated from acquisition of Cornerstone Bancorp, Inc. (recasted)	48	684	945	2,012
	—	—	(381)	—

Balance, end of period	\$ (3,860)	\$ (4,212)	\$ (3,860)	\$ (4,212)
------------------------	------------	------------	------------	------------

Table of Contents

## Credit Quality Indicators

Based on the Bank's internal analyses performed as of September 30, 2016 and December 31, 2015, the following tables reflect loans by risk category. Risk categories are defined in the Company's Annual Report on Form 10-K for the year ended December 31, 2015:

September 30, 2016 (in thousands)	Pass	Special Mention*	Substandard*	Doubtful Loss	Purchased Credit Impaired /Loans - Group 1	Purchased Credit Impaired Loans - Substandard	Total Rated Loans**
Residential real estate:							
Owner occupied	\$ —	\$ 22,952	\$ 14,708	\$ —	\$ 2,509	\$ —	\$ 40,169
Owner occupied - correspondent	—	—	—	—	—	—	—
Non owner occupied	—	398	1,104	—	793	—	2,295
Commercial real estate	979,008	5,656	4,816	—	10,372	—	999,852
Commercial real estate - purchased whole loans	36,085	—	—	—	—	—	36,085
Construction & land development	93,397	92	800	—	—	—	94,289
Commercial & industrial	249,035	853	176	—	30	—	250,094
Lease financing receivables	12,186	—	—	—	—	—	12,186
Warehouse lines of credit	661,186	—	—	—	—	—	661,186
Home equity	—	109	1,941	—	194	—	2,244
Consumer:							
RPG loans	—	—	82	—	—	—	82
Credit cards	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—
Purchased whole loans	—	—	107	—	—	—	107
Other consumer	—	24	58	—	1	—	83
Total rated loans	\$ 2,030,897	\$ 30,084	\$ 23,792	\$ —	\$ 13,899	\$ —	\$ 2,098,672

December 31, 2015 (in thousands)	Pass	Special Mention*	Substandard*	Doubtful Loss	Purchased Credit Impaired Loans - Group 1	Purchased Credit Impaired Loans - Substandard	Total Rated Loans**
Residential real estate:							
Owner occupied	\$ —	\$ 24,301	\$ 14,577	\$ —	\$ 560	\$ —	\$ 39,438
Owner occupied - correspondent	—	—	—	—	—	—	—
Non owner occupied	—	860	1,557	—	785	—	3,202
Commercial real estate	803,369	5,070	6,530	—	9,918	—	824,887
Commercial real estate - Purchased whole loans	35,674	—	—	—	—	—	35,674
Construction & land development	63,750	96	2,621	—	33	—	66,500
Commercial & industrial	227,344	936	194	—	1,247	—	229,721
Lease financing receivables	8,905	—	—	—	—	—	8,905
Warehouse lines of credit	386,729	—	—	—	—	—	386,729
Home equity	—	21	2,296	—	—	—	2,317
Consumer:							
RPG loans	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—
Purchased whole loans	—	—	—	—	—	—	—
Other consumer	—	28	58	—	—	—	86
<b>Total rated loans</b>	<b>\$ 1,525,771</b>	<b>\$ 31,312</b>	<b>\$ 27,833</b>	<b>\$ —</b>	<b>\$ 12,543</b>	<b>\$ —</b>	<b>\$ 1,597,459</b>

\*At September 30, 2016 and December 31, 2015, Special Mention included \$176,000 and \$180,000 and Substandard included \$1 million and \$1 million that were removed from PCI accounting in accordance with ASC 310-30-35-13 due to a post-acquisition troubled debt restructuring.

\*\* The above tables exclude all non-classified residential real estate, home equity and consumer loans. The Bank does not formally risk rate certain consumer loans, but for the table above, considers such loans to be substandard if nonaccrual or 90-days-or-more past due.



Table of Contents

## Allowance for Loan and Lease Losses

Activity in the allowance for loan and lease losses (“Allowance”) follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Allowance, beginning of period	\$ 29,308	\$ 25,248	\$ 27,491	\$ 24,410
Charge-offs - Core Banking	(723)	(676)	(2,139)	(1,853)
Charge-offs - RPG	(1,352)	(182)	(6,546)	(208)
Total charge-offs	(2,075)	(858)	(8,685)	(2,061)
Recoveries - Core Banking	480	312	1,185	1,027
Recoveries - RPG	234	24	956	261
Total recoveries	714	336	2,141	1,288
Net (charge-offs) recoveries - Core Banking	(243)	(364)	(954)	(826)
Net (charge-offs) recoveries - RPG	(1,118)	(158)	(5,590)	53
Net (charge-offs) recoveries	(1,361)	(522)	(6,544)	(773)
Provision - Core Banking	477	1,100	2,253	2,192
Provision - RPG	2,012	1,133	7,236	1,130
Total provision	2,489	2,233	9,489	3,322
Allowance, end of period	\$ 30,436	\$ 26,959	\$ 30,436	\$ 26,959



Table of Contents

The following tables present the activity in the Allowance by portfolio class for the three months ended September 30, 2016 and 2015:

Three Months Ended September 30, 2016 (in thousands)	Residential Real Estate Owner			Commercial Real Estate -			Lease	
	Owner	Occupied	Non Owner	Commercial	Purchase	Construction	Commercial	Financing
	Occupied	Correspondent	Occupied	Real Estate	Whole Loans	Land Development	Industrial	Receivables
Beginning balance	\$ 7,893	\$ 592	\$ 1,052	\$ 7,769	\$ 36	\$ 1,332	\$ 1,441	\$ 115
Provision	(562)	(200)	113	192	—	66	(182)	13
Charge-offs	(56)	—	—	—	—	—	—	—
Recoveries	142	—	—	34	—	10	121	—
Ending balance	\$ 7,417	\$ 392	\$ 1,165	\$ 7,995	\$ 36	\$ 1,408	\$ 1,380	\$ 128

(continued)	Warehouse		Consumer		Overdrafts	Purchased		Other	Total
	Lines of Credit	Home Equity	RPG Loans	Credit Cards		Whole Loans	Consumer		
Beginning balance	\$ 1,465	\$ 3,016	\$ 2,451	\$ 456	\$ 824	\$ 535	\$ 331	\$ 29,308	
Provision	188	633	2,012	105	(34)	38	107	2,489	
Charge-offs	—	(145)	(1,352)	(91)	(239)	(93)	(99)	(2,075)	
Recoveries	—	31	234	17	55	9	61	714	
Ending balance	\$ 1,653	\$ 3,535	\$ 3,345	\$ 487	\$ 606	\$ 489	\$ 400	\$ 30,436	

Three Months Ended	Residential Real Estate Owner			Commercial Real Estate -			Lease	
	Owner	Occupied	Non Owner	Commercial	Purchase	Construction	Commercial	Financing
	Occupied	Correspondent	Occupied	Real Estate	Whole Loans	Land Development	Industrial	Receivables

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

September 30, 2015  
(in thousands)

Beginning balance	\$ 8,202	\$ 608	\$ 904	\$ 7,840	\$ 35	\$ 1,100	\$ 1,191	\$ 76
Provision	330	7	83	200	—	31	235	7
Charge-offs	(153)	—	(97)	(27)	—	—	—	—
Recoveries	76	—	—	—	—	—	18	—
Ending balance	\$ 8,455	\$ 615	\$ 890	\$ 8,013	\$ 35	\$ 1,131	\$ 1,444	\$ 83

(continued)	Warehouse Lines of Credit	Home Equity	Consumer RPG Loans	Credit Cards	Overdrafts	Purchased Whole Loans	Other Consumer	Total
Beginning balance	\$ 1,222	\$ 2,765	\$ 252	\$ 399	\$ 286	\$ 207	\$ 161	\$ 25,248
Provision	(238)	124	1,133	40	138	154	(11)	2,233
Charge-offs	—	(110)	(182)	(30)	(152)	(25)	(82)	(858)
Recoveries	—	54	24	6	63	1	94	336
Ending balance	\$ 984	\$ 2,833	\$ 1,227	\$ 415	\$ 335	\$ 337	\$ 162	\$ 26,959

Table of Contents

The following tables present the activity in the Allowance by portfolio class for the nine months ended September 30, 2016 and 2015:

Nine Months Ended September 30, 2016 (in thousands)	Residential Real Estate Owner			Commercial Real Estate -			Lease	
	Owner	Occupied	Non Owner	Commercial	Purchase	Construction	Commercial	Financing
	Occupied	Correspondent	Occupied	Real Estate	Whole Loans	Land Development	Industrial	Receivables
Beginning balance	\$ 8,301	\$ 623	\$ 1,052	\$ 7,636	\$ 36	\$ 1,303	\$ 1,455	\$ 89
Provision	(860)	(231)	105	260	—	119	130	39
Charge-offs	(317)	—	—	(41)	—	(44)	(330)	—
Recoveries	293	—	8	140	—	30	125	—
Ending balance	\$ 7,417	\$ 392	\$ 1,165	\$ 7,995	\$ 36	\$ 1,408	\$ 1,380	\$ 128

(continued)	Warehouse Lines of Credit	Home Equity	Consumer RPG Loans	Credit Cards	Overdrafts	Purchased Whole Loans	Other Consumer	Total
Beginning balance	\$ 967	\$ 2,996	\$ 1,699	\$ 448	\$ 351	\$ 392	\$ 143	\$ 27,491
Provision	686	633	7,236	163	639	298	272	9,489
Charge-offs	—	(229)	(6,546)	(153)	(571)	(216)	(238)	(8,685)
Recoveries	—	135	956	29	187	15	223	2,141
Ending balance	\$ 1,653	\$ 3,535	\$ 3,345	\$ 487	\$ 606	\$ 489	\$ 400	\$ 30,436

Nine Months Ended September 30, 2015 (in thousands)	Residential Real Estate Owner			Commercial Real Estate -			Lease	
	Owner	Occupied	Non Owner	Commercial	Purchase	Construction	Commercial	Financing
	Occupied	Correspondent	Occupied	Real Estate	Whole Loans	Land Development	Industrial	Receivables

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

Beginning balance	\$ 8,565	\$ 567	\$ 837	\$ 7,740	\$ 34	\$ 926	\$ 1,167	\$ 25
Provision	157	48	173	364	1	205	277	58
Charge-offs	(467)	—	(126)	(181)	—	—	(56)	—
Recoveries	200	—	6	90	—	—	56	—
Ending balance	\$ 8,455	\$ 615	\$ 890	\$ 8,013	\$ 35	\$ 1,131	\$ 1,444	\$ 83

(continued)	Warehouse Lines of Credit	Home Equity	Consumer RPG Loans	Credit Cards	Overdrafts	Purchased Whole Loan	Other Consumer	Total
Beginning balance	\$ 799	\$ 2,730	\$ 44	\$ 285	\$ 382	\$ 185	\$ 124	\$ 24,410
Provision	185	172	1,130	184	116	248	4	3,322
Charge-offs	—	(182)	(208)	(101)	(401)	(97)	(242)	(2,061)
Recoveries	—	113	261	47	238	1	276	1,288
Ending balance	\$ 984	\$ 2,833	\$ 1,227	\$ 415	\$ 335	\$ 337	\$ 162	\$ 26,959

Table of Contents

## Nonperforming Loans and Nonperforming Assets

Detail of nonperforming loans and nonperforming assets follows:

(dollars in thousands)	September 30, 2016	December 31, 2015
Loans on nonaccrual status*	\$ 17,769	\$ 21,712
Loans past due 90-days-or-more and still on accrual**	223	224
Total nonperforming loans	17,992	21,936
Other real estate owned	2,435	1,220
Total nonperforming assets	\$ 20,427	\$ 23,156

## Credit Quality Ratios:

Nonperforming loans to total loans	0.47	%	0.66	%
Nonperforming assets to total loans (including OREO)	0.53		0.70	
Nonperforming assets to total assets	0.42		0.55	

\*Loans on nonaccrual status include impaired loans.

\*\*Loans past due 90-days-or-more and still accruing consist of PCI loans or smaller balance consumer loans.

The following table presents the recorded investment in nonaccrual loans and loans past due 90-days-or-more and still on accrual by class of loans:

(in thousands)	Nonaccrual		Past Due 90-Days-or-More and Still Accruing Interest*	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Residential real estate:				
Owner occupied	\$ 11,947	\$ 13,197	\$ 34	\$ —
Owner occupied - correspondent	—	—	—	—
Non owner occupied	837	935	—	—
Commercial real estate	3,305	3,941	—	224
Commercial real estate - purchased whole loans	—	—	—	—
Construction & land development	80	1,589	—	—
Commercial & industrial	176	194	—	—

Lease financing receivables	—	—	—	—
Warehouse lines of credit	—	—	—	—
Home equity	1,365	1,793	—	—
Consumer:				
RPG loans	—	—	82	—
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Purchased whole loans	—	—	107	—
Other consumer	59	63	—	—
Total	\$ 17,769	\$ 21,712	\$ 223	\$ 224

\* Loans past due 90-days-or-more and still accruing consist of PCI loans or smaller balance consumer loans.

Nonaccrual loans and loans past due 90-days-or-more and still on accrual include both smaller balance, primarily retail, homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Nonaccrual loans are typically returned to accrual status when all the principal and interest amounts contractually due are brought current and held current for six consecutive months and future contractual payments are reasonably assured. Troubled Debt Restructurings (“TDRs”) on nonaccrual status are reviewed for return to accrual status on an individual basis, with additional consideration given to performance under the modified terms.

Table of Contents

## Delinquent Loans

The following tables present the aging of the recorded investment in loans by class of loans:

September 30, 2016 (dollars in thousands)	30 - 59 Days Delinquent	60 - 89 Days Delinquent	90 or More Days Delinquent*	Total Delinquent**	Total Current	Total
Residential real estate:						
Owner occupied	\$ 2,168	\$ 1,029	\$ 1,848	\$ 5,045	\$ 1,023,426	\$ 1,028,471
Owner occupied - correspondent	—	—	—	—	159,955	159,955
Non owner occupied	287	—	9	296	149,314	149,610
Commercial real estate	17	—	419	436	999,416	999,852
Commercial real estate - purchased whole loans	—	—	—	—	36,085	36,085
Construction & land development	41	—	—	41	94,248	94,289
Commercial & industrial Lease financing receivables	—	—	—	—	250,094	250,094
Warehouse lines of credit	—	—	—	—	12,186	12,186
Home equity Consumer:	912	426	357	1,695	661,186	661,186
RPG loans	561	21	82	664	333,421	335,116
Credit cards	23	5	—	28	15,789	16,453
Overdrafts	185	—	—	185	12,553	12,581
Purchased whole loans	127	50	107	284	610	795
Other consumer	33	7	—	40	6,611	6,895
					59,423	59,463
<b>Total</b>	<b>\$ 4,354</b>	<b>\$ 1,538</b>	<b>\$ 2,822</b>	<b>\$ 8,714</b>	<b>\$ 3,814,317</b>	<b>\$ 3,823,031</b>
Delinquency ratio***	0.11 %	0.04 %	0.07 %	0.23 %		

December 31, 2015 (dollars in thousands)	30 - 59 Days Delinquent	60 - 89 Days Delinquent	90 or More Days Delinquent*	Total Delinquent**	Total Current	Total
Residential real estate:						
Owner occupied	\$ 1,960	\$ 1,044	\$ 3,878	\$ 6,882	\$ 1,075,052	\$ 1,081,934

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

Owner occupied - correspondent	—	—	—	—	249,344	249,344
Non owner occupied	14	—	39	53	116,241	116,294
Commercial real estate	178	—	933	1,111	823,776	824,887
Commercial real estate - purchased whole loans	—	—	—	—	35,674	35,674
Construction & land development	—	—	1,500	1,500	65,000	66,500
Commercial & industrial	299	—	—	299	229,422	229,721
Lease financing receivables	—	—	—	—	8,905	8,905
Warehouse lines of credit	—	—	—	—	386,729	386,729
Home equity	206	1	1,186	1,393	287,801	289,194
Consumer:						
RPG loans	246	—	—	246	6,958	7,204
Credit cards	10	2	—	12	11,056	11,068
Overdrafts	133	—	—	133	552	685
Purchased whole loans	5	42	—	47	5,845	5,892
Other consumer	37	18	—	55	12,524	12,579
Total	\$ 3,088	\$ 1,107	\$ 7,536	\$ 11,731	\$ 3,314,879	\$ 3,326,610
Delinquency ratio***	0.09 %	0.03 %	0.23 %	0.35 %		

\*All loans past due 90-days-or-more, excluding PCI loans and small balance consumer loans, were on nonaccrual status.

\*\*Delinquent status may be determined by either the number of days past due or number of payments past due.

\*\*\*Represents total loans 30-days-or-more past due by aging category divided by total loans.



Table of Contents

## Impaired Loans

Information regarding the Bank's impaired loans follows:

(in thousands)	September 30, 2016	December 31, 2015
Loans with no allocated Allowance	\$ 22,292	\$ 26,143
Loans with allocated Allowance	32,789	39,980
Total impaired loans	\$ 55,081	\$ 66,123
Amount of the Allowance	\$ 5,009	\$ 5,427

Approximately \$4 million and \$7 million of impaired loans at September 30, 2016 and December 31, 2015 were PCI loans. Approximately \$1 million and \$1 million of impaired loans at September 30, 2016 and December 31, 2015 were formerly PCI loans that became classified as "Impaired" through a post-acquisition troubled debt restructuring.

Table of Contents

The following tables present the balance in the Allowance and the recorded investment in loans by portfolio class based on impairment method as of September 30, 2016 and December 31, 2015:

September 30, 2016 (thousands)	Residential Real Estate			Commercial Real Estate - Commercial	Commercial Real Estate - Purchased		Lease & Financing Receivable	
	Owner Occupied	Owner Occupied - Correspondent	Non Owner Occupied		Construction	Industrial		
Allowance:								
Pending Allowance								
Individually evaluated for impairment, including PCI loans	\$ 3,397	\$ —	\$ 103	\$ 358	\$ —	\$ 122	\$ 176	\$ —
Collectively evaluated for impairment	4,006	392	1,003	7,257	36	1,286	1,204	128
PCI loans with post acquisition impairment	14	—	59	380	—	—	—	—
PCI loans without post acquisition impairment	—	—	—	—	—	—	—	—
Total ending allowance:	\$ 7,417	\$ 392	\$ 1,165	\$ 7,995	\$ 36	\$ 1,408	\$ 1,380	\$ 128
Loans:								
paired loans								
Individually evaluated, including PCI loans	\$ 35,109	\$ —	\$ 1,331	\$ 11,035	\$ —	\$ 891	\$ 254	\$ —
Loans collectively evaluated for impairment	990,853	159,955	147,486	978,445	36,085	93,398	249,810	12,180
PCI loans with post acquisition impairment	454	—	535	3,428	—	—	—	—
PCI loans without post acquisition impairment	2,055	—	258	6,944	—	—	30	—

Total ending loan allowance	\$ 1,028,471	\$ 159,955	\$ 149,610	\$ 999,852	\$ 36,085	\$ 94,289	\$ 250,094	\$ 12,180
-----------------------------	--------------	------------	------------	------------	-----------	-----------	------------	-----------

(continued)	Warehouse Lines of Credit	Home Equity	Consumer RPG Loans	Credit Cards	Purchased Overdrafts	Other Loans	Other Consumer	Total
Allowance: Ending Allowance balance: Individually evaluated for impairment, excluding PCI loans	\$ —	\$ 386	\$ —	\$ —	\$ —	\$ —	\$ 14	\$ 4,556
Collectively evaluated for impairment PCI loans with post acquisition impairment	1,653	3,149	3,345	487	606	489	386	25,427
PCI loans without post acquisition impairment	—	—	—	—	—	—	—	453
	—	—	—	—	—	—	—	—
Total ending Allowance:	\$ 1,653	\$ 3,535	\$ 3,345	\$ 487	\$ 606	\$ 489	\$ 400	\$ 30,436
Loans: Impaired loans individually evaluated, excluding PCI loans	\$ —	\$ 1,961	\$ —	\$ —	\$ —	\$ —	\$ 83	\$ 50,664
Loans collectively evaluated for impairment	661,186	332,961	16,453	12,581	795	6,895	59,379	3,758,468
	—	—	—	—	—	—	—	4,417

PCI loans with post acquisition impairment								
PCI loans without post acquisition impairment	—	194	—	—	—	—	1	9,482
Total ending loan balance	\$ 661,186	\$ 335,116	\$ 16,453	\$ 12,581	\$ 795	\$ 6,895	\$ 59,463	\$ 3,823,031

Table of Contents

	Residential Real Estate Owner Occupied	Residential Real Estate Non Owner Occupied	Commercial Real Estate - Purchased	Commercial Real Estate - Construction	Commercial & Financial Whole Loans	Commercial & Financial Land Development	Commercial & Financial Industrial	Commercial & Financial Lease Receivables
December 31, 2015 (in thousands)	Owner Occupied	- Correspondent	Non Owner Occupied	Commercial Real Estate	Commercial Purchased	Commercial Construction	Commercial & Financial Industrial	Commercial & Financial Lease Receivables
Allowance:								
Ending Allowance								
Balance:								
Individually evaluated for impairment, excluding PCI loans	\$ 3,820	\$ —	\$ 78	\$ 339	\$ —	\$ 159	\$ 196	\$ —
Collectively evaluated for impairment	4,471	623	878	6,806	36	1,144	1,137	89
PCI loans with post acquisition impairment	10	—	96	491	—	—	122	—
PCI loans without post acquisition impairment	—	—	—	—	—	—	—	—
Total ending allowance:	\$ 8,301	\$ 623	\$ 1,052	\$ 7,636	\$ 36	\$ 1,303	\$ 1,455	\$ 89
Loans:								
Impaired loans								
Individually evaluated, excluding PCI loans	\$ 39,041	\$ —	\$ 2,351	\$ 12,441	\$ —	\$ 2,717	\$ 322	\$ —
Loans collectively evaluated for impairment	1,042,334	249,344	113,158	802,528	35,674	63,750	228,151	8,905
PCI loans with post acquisition impairment	65	—	785	4,806	—	—	1,193	—
PCI loans without post acquisition impairment	494	—	—	5,112	—	33	55	—
Total ending loan balance	\$ 1,081,934	\$ 249,344	\$ 116,294	\$ 824,887	\$ 35,674	\$ 66,500	\$ 229,721	\$ 8,905

(continued)	Warehouse Lines of Credit	Home Equity	Consumer RPG Loans	Credit Cards	Overdrafts	Purchased Whole Loans	Other Consumer	Total
Allowance: Ending Allowance balance: Individually evaluated for impairment, excluding PCI loans	\$ —	\$ 100	\$ —	\$ —	\$ —	\$ —	\$ 16	\$ 4,708
Collectively evaluated for impairment	967	2,896	1,699	448	351	392	127	22,064
PCI loans with post acquisition impairment	—	—	—	—	—	—	—	719
PCI loans without post acquisition impairment	—	—	—	—	—	—	—	—
Total ending Allowance:	\$ 967	\$ 2,996	\$ 1,699	\$ 448	\$ 351	\$ 392	\$ 143	\$ 27,491
Loans: Impaired loans individually evaluated, excluding PCI loans	\$ —	\$ 2,316	\$ —	\$ —	\$ —	\$ —	\$ 86	\$ 59,274
Loans collectively evaluated for impairment	386,729	286,878	7,204	11,068	685	5,892	12,493	3,254,793
PCI loans with post acquisition impairment	—	—	—	—	—	—	—	6,849

PCI loans without post acquisition impairment	—	—	—	—	—	—	—	5,694
Total ending loan balance	\$ 386,729	\$ 289,194	\$ 7,204	\$ 11,068	\$ 685	\$ 5,892	\$ 12,579	\$ 3,326,610

Table of Contents

The following tables present loans individually evaluated for impairment by class of loans as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015. The difference between the “Unpaid Principal Balance” and “Recorded Investment” columns represents life-to-date partial write downs/charge offs taken on individual impaired credits.

(in thousands)	As of September 30, 2016			Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016			Cash Basis Interest Recognized
	Unpaid Principal Balance	Recorded Investment	Allowance Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	
Impaired loans with no related allowance recorded: Residential real estate: Owner occupied	\$ 13,628	\$ 13,285	\$ —	\$ 13,702	\$ 37	\$ —	\$ 13,376	\$ 104	\$ —
Owner occupied - correspondent	—	—	—	—	—	—	—	—	—
Non owner occupied	867	845	—	891	—	—	1,431	—	—
Commercial real estate	6,001	6,000	—	6,349	32	—	6,764	109	—
Commercial real estate - purchased whole loans	—	—	—	—	—	—	—	—	—
Construction & land development	476	476	—	476	5	—	874	15	—
Commercial & industrial	78	78	—	192	2	—	103	5	—
Lease financing receivables	—	—	—	—	—	—	—	—	—
Warehouse lines of credit	—	—	—	—	—	—	—	—	—
Home equity	1,722	1,563	—	1,610	3	—	1,874	14	—
Consumer: RPG loans	—	—	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—	—



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

Purchased whole loans	—	—	—	—	—	—	—	—	—
Other consumer	55	45	—	47	—	—	69	—	—
Impaired loans with an allowance recorded:									
Residential real estate:									
Owner occupied	22,298	22,278	3,411	22,803	204	—	23,936	600	—
Owner occupied - correspondent	—	—	—	—	—	—	—	—	—
Non owner occupied	1,021	1,021	162	832	11	—	977	31	—
Commercial real estate	8,466	8,463	738	9,191	93	—	9,369	280	—
Commercial real estate - purchased whole loans	—	—	—	—	—	—	—	—	—
Construction & land development	415	415	122	421	5	—	482	15	—
Commercial & industrial	176	176	176	179	—	—	841	—	—
Lease financing receivables	—	—	—	—	—	—	—	—	—
Warehouse lines of credit	—	—	—	—	—	—	—	—	—
Home equity	410	398	386	236	5	—	203	11	—
Consumer:									
RPG loans	—	—	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—	—
Purchased whole loans	—	—	—	—	—	—	—	—	—
Other consumer	60	38	14	39	—	—	42	1	—
Total impaired loans	\$ 55,673	\$ 55,081	\$ 5,009	\$ 56,968	\$ 397	\$ —	\$ 60,341	\$ 1,185	\$ —

Table of Contents

(in thousands)	As of December 31, 2015			Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015			Cash Basis	Cash Basis
	Unpaid Principal Balance	Recorded Investment	Allowance Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	
Impaired loans with no related allowance recorded:										
Residential real estate:										
Owner occupied	\$ 14,287	\$ 13,256	\$ —	\$ 12,404	\$ 12	\$ —	\$ 9,142	\$ 46	\$ —	
Owner occupied - correspondent	—	—	—	—	—	—	—	—	—	
Non owner occupied	1,978	1,928	—	2,210	8	—	2,306	25	—	
Commercial real estate	7,406	6,743	—	8,939	78	—	12,029	228	—	
Commercial real estate - purchased whole loans	—	—	—	—	—	—	—	—	—	
Construction & land development	2,067	2,067	—	2,096	1	—	2,115	4	—	
Commercial & industrial	18	18	—	1,546	24	—	2,663	74	—	
Lease financing receivables	—	—	—	—	—	—	—	—	—	
Warehouse lines of credit	—	—	—	2,374	—	—	—	—	—	
Home equity	2,263	2,087	—	—	6	—	2,154	17	—	
Consumer:										
RPG loans	—	—	—	—	—	—	—	—	—	
Credit cards	—	—	—	—	—	—	—	—	—	
Overdrafts	—	—	—	—	—	—	—	—	—	
Purchased whole loans	—	—	—	—	—	—	—	—	—	
Other consumer	44	44	—	42	—	—	32	—	—	

Impaired loans with an allowance recorded: Residential real estate: Owner occupied	25,896	25,850	3,830	26,984	219	—	31,403	657	—
Owner occupied - correspondent	—	—	—	—	—	—	—	—	—
Non owner occupied	1,231	1,208	174	1,947	24	—	2,384	72	—
Commercial real estate	10,546	10,504	830	11,706	96	—	11,906	288	—
Commercial real estate - purchased whole loans	—	—	—	—	—	—	—	—	—
Construction & land development	650	650	159	663	9	—	622	27	—
Commercial & industrial	1,497	1,497	318	3,278	47	—	2,360	142	—
Lease financing receivables	—	—	—	—	—	—	—	—	—
Warehouse lines of credit	—	—	—	—	—	—	—	—	—
Home equity	258	229	100	151	1	—	336	2	—
Consumer: RPG loans	—	—	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—	—
Purchased whole loans	—	—	—	—	—	—	—	—	—
Other consumer	42	42	16	56	—	—	55	—	—
Total impaired loans	\$ 68,183	\$ 66,123	\$ 5,427	\$ 74,396	\$ 525	\$ —	\$ 79,507	\$ 1,582	\$ —

Table of Contents

## Troubled Debt Restructurings

A TDR is a situation where, due to a borrower's financial difficulties, the Bank grants a concession to the borrower that the Bank would not otherwise have considered. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of their debt in the foreseeable future without the modification. This evaluation is performed in accordance with the Bank's internal underwriting policy.

All TDRs are considered "Impaired," including PCI loans subsequently restructured. The majority of the Bank's commercial related and construction TDRs involve a restructuring of financing terms such as a reduction in the payment amount to require only interest and escrow (if required) and/or extending the maturity date of the debt. The substantial majority of the Bank's residential real estate TDR concessions involve reducing the client's loan payment through a rate reduction for a set period based on the borrower's ability to service the modified loan payment. Retail loans may also be classified as TDRs due to legal modifications, such as bankruptcies.

Nonaccrual loans modified as TDRs typically remain on nonaccrual status and continue to be reported as nonperforming loans for a minimum of nine months. Accruing loans modified as TDRs are evaluated for nonaccrual status based on a current evaluation of the borrower's financial condition and ability and willingness to service the modified debt. At September 30, 2016 and December 31, 2015, \$11 million and \$12 million of TDRs were on nonaccrual status.

Detail of TDRs differentiated by loan type and accrual status follows:

	Troubled Debt Restructurings on Nonaccrual Status		Troubled Debt Restructurings on Accrual Status		Total Troubled Debt Restructurings	
	Number of	Recorded	Number of	Recorded	Number of	Recorded
September 30, 2016 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate	79	\$ 7,467	205	\$ 23,271	284	\$ 30,738
Commercial real estate	7	3,017	16	7,532	23	10,549
Construction & land development	1	80	4	811	5	891
Commercial & industrial	1	176	2	78	3	254
Total troubled debt restructurings	88	\$ 10,740	227	\$ 31,692	315	\$ 42,432

	Troubled Debt Restructurings on Nonaccrual Status		Troubled Debt Restructurings on Accrual Status		Total Troubled Debt Restructurings	
	Number of	Recorded	Number of	Recorded	Number of	Recorded
December 31, 2015 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate	74	\$ 7,365	233	\$ 27,844	307	\$ 35,209
Commercial real estate	9	3,324	17	8,008	26	11,332
Construction & land development	2	1,589	6	1,128	8	2,717
Commercial & industrial	1	194	5	128	6	322
Total troubled debt restructurings	86	\$ 12,472	261	\$ 37,108	347	\$ 49,580

Table of Contents

The Bank considers a TDR to be performing to its modified terms if the loan is in accrual status and not past due 30-days-or-more as of the reporting date. A summary of the categories of TDR loan modifications outstanding and respective performance under modified terms at September 30, 2016 and December 31, 2015 follows:

	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
September 30, 2016 (dollars in thousands)						
Residential real estate loans (including home equity loans):						
Interest only payments	1	\$ 10	1	\$ 502	2	\$ 512
Rate reduction	159	20,229	55	6,616	214	26,845
Principal deferral	8	651	7	293	15	944
Legal modification	22	988	31	1,449	53	2,437
Total residential TDRs	190	21,878	94	8,860	284	30,738
Commercial related and construction/land development loans:						
Interest only payments	3	974	1	430	4	1,404
Rate reduction	11	2,606	5	2,133	16	4,739
Principal deferral	8	4,841	3	710	11	5,551
Total commercial TDRs	22	8,421	9	3,273	31	11,694
Total troubled debt restructurings	212	\$ 30,299	103	\$ 12,133	315	\$ 42,432
December 31, 2015 (dollars in thousands)						
Residential real estate loans (including home equity loans):						
Interest only payments	2	\$ 631	—	\$ —	2	\$ 631
Rate reduction	183	24,734	46	5,650	229	30,384

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

Principal deferral	9	789	7	771	16	1,560
Legal modification	30	1,226	30	1,408	60	2,634
Total residential TDRs	224	27,380	83	7,829	307	35,209
Commercial related and construction/land development loans:						
Interest only payments	6	1,517	1	481	7	1,998
Rate reduction	10	5,021	3	727	13	5,748
Principal deferral	12	2,726	8	3,899	20	6,625
Total commercial TDRs	28	9,264	12	5,107	40	14,371
Total troubled debt restructurings	252	\$ 36,644	95	\$ 12,936	347	\$ 49,580

As of September 30, 2016 and December 31, 2015, 71% and 74% of the Bank's TDRs were performing according to their modified terms. The Bank had provided \$4 million and \$5 million of specific reserve allocations to clients whose loan terms have been modified in TDRs as of September 30, 2016 and December 31, 2015. The Bank had no commitments to lend any additional material amounts to its existing TDR relationships at September 30, 2016 or December 31, 2015.

Table of Contents

A summary of the categories of TDR loan modifications by respective performance as of September 30, 2016 and 2015 that were modified during the three months ended September 30, 2016 and 2015 follows:

	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
September 30, 2016 (dollars in thousands)						
Residential real estate loans (including home equity loans):						
Interest only payments	—	\$ —	—	\$ —	—	\$ —
Rate reduction	1	262	—	—	1	262
Principal deferral	—	—	—	—	—	—
Legal modification	3	263	1	135	4	398
Total residential TDRs	4	525	1	135	5	660
Commercial related and construction/land development loans:						
Interest only payments	—	—	—	—	—	—
Rate reduction	1	88	1	137	2	225
Principal deferral	—	—	1	1,504	1	1,504
Total commercial TDRs	1	88	2	1,641	3	1,729
Total troubled debt restructurings	5	\$ 613	3	\$ 1,776	8	\$ 2,389

	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
September 30, 2015 (dollars in thousands)						
Residential real estate loans (including home equity loans):						
Interest only payments	—	\$ —	—	\$ —	—	\$ —
Rate reduction	2	195	—	—	2	195
Principal deferral	—	—	—	—	—	—
Legal modification	2	130	1	63	3	193



Total residential TDRs	4	325	1	63	5	388
Commercial related and construction/land development loans:						
Interest only payments	—	—	—	—	—	—
Rate reduction	—	—	—	—	—	—
Principal deferral	—	—	1	1,621	1	1,621
Total commercial TDRs	—	—	1	1,621	1	1,621
Total troubled debt restructurings	4	\$ 325	2	\$ 1,684	6	\$ 2,009

The tables above are inclusive of loans that were TDRs at the end of previous periods and were re-modified, e.g., a maturity date extension during the current period.

As of September 30, 2016 and 2015, 26% and 16% of the Bank's TDRs that occurred during the third quarters of 2016 and 2015 were performing according to their modified terms. The Bank provided approximately \$75,000 and \$9,000 in specific reserve allocations to clients whose loan terms were modified in TDRs during the third quarters of 2016 and 2015.

There was no significant change between the pre and post modification loan balances for the three months ending September 30, 2016 and 2015.

Table of Contents

A summary of the categories of TDR loan modifications by respective performance as of September 30, 2016 and 2015 that were modified during the nine months ended September 30, 2016 and 2015 follows:

	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
	Number of	Recorded	Number of	Recorded	Number of	Recorded
September 30, 2016 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate loans (including home equity loans):						
Interest only payments	—	\$ —	—	\$ —	—	\$ —
Rate reduction	5	494	3	151	8	645
Principal deferral	—	—	—	—	—	—
Legal modification	5	350	3	212	8	562
Total residential TDRs	10	844	6	363	16	1,207
Commercial related and construction/land development loans:						
Interest only payments	—	—	—	—	—	—
Rate reduction	1	88	1	137	2	225
Principal deferral	—	—	1	1,504	1	1,504
Total commercial TDRs	1	88	2	1,641	3	1,729
Total troubled debt restructurings	11	\$ 932	8	\$ 2,004	19	\$ 2,936

	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
	Number of	Recorded	Number of	Recorded	Number of	Recorded
September 30, 2015 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate loans (including home equity loans):						
Interest only payments	1	\$ 621	—	\$ —	1	\$ 621
Rate reduction	6	594	5	455	11	1,049
Principal deferral	—	—	2	46	2	46
Legal modification	2	130	5	300	7	430

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

Total residential TDRs	9	1,345	12	801	21	2,146
Commercial related and construction/land development loans:						
Interest only payments	1	170	—	—	1	170
Rate reduction	1	825	—	—	1	825
Principal deferral	3	724	2	1,722	5	2,446
Total commercial TDRs	5	1,719	2	1,722	7	3,441
Total troubled debt restructurings	14	\$ 3,064	14	\$ 2,523	28	\$ 5,587

The tables above are inclusive of loans that were TDRs at the end of previous periods and were re-modified, e.g., a maturity date extension during the current period.

As of September 30, 2016 and 2015, 32% and 55% of the Bank's TDRs that occurred during the first nine months of 2016 and 2015 were performing according to their modified terms. The Bank provided approximately \$109,000 and \$75,000 in specific reserve allocations to clients whose loan terms were modified in TDRs during the first nine months of 2016 and 2015.

There was no significant change between the pre and post modification loan balances for the nine months ending September 30, 2016 and 2015.

Table of Contents

The following table presents loans by class modified as troubled debt restructurings within the previous 12 months of September 30, 2016 and 2015 and for which there was a payment default during the three and/or nine months ended September 30, 2016 and 2015.

(dollars in thousands)	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016			2015		
	Loans	Investment	Recorded Number of Loans	Investment	Loans	Investment	Recorded Number of Loans	Investment	
Residential real estate:									
Owner occupied	3	\$ 150	2	\$ 513	4	\$ 359	13	\$ 1,252	
Owner occupied - correspondent	—	—	—	—	—	—	—	—	
Non owner occupied	—	—	—	—	—	—	—	—	
Commercial real estate	—	—	4	2,306	1	88	4	2,306	
Commercial real estate - purchased whole loans	—	—	—	—	—	—	—	—	
Construction & land development	—	—	—	—	—	—	—	—	
Commercial & industrial	—	—	—	—	—	—	—	—	
Lease financing receivables	—	—	—	—	—	—	—	—	
Warehouse lines of credit	—	—	—	—	—	—	—	—	
Home equity	1	135	—	—	1	135	—	—	
Consumer:									
RPG loans	—	—	—	—	—	—	—	—	
Credit cards	—	—	—	—	—	—	—	—	
Overdrafts	—	—	—	—	—	—	—	—	
Purchased whole loans	—	—	—	—	—	—	—	—	
	—	—	—	—	—	—	—	—	

Other  
consumer

Total	4	\$ 285	6	\$ 2,819	6	\$ 582	17	\$ 3,558
-------	---	--------	---	----------	---	--------	----	----------

Foreclosures

The following table presents the carrying amount of foreclosed properties held at September 30, 2016 and December 31, 2015 as a result of the Bank obtaining physical possession of such properties:

(in thousands)	September 30, 2016	December 31, 2015
Residential real estate	\$ 2,230	\$ 478
Commercial real estate	—	442
Construction & land development	205	300
Total other real estate owned	\$ 2,435	\$ 1,220

Table of Contents

The following table presents the recorded investment in consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction as of September 30, 2016 and December 31, 2015:

(in thousands)	September 30, 2016	December 31, 2015
Recorded investment in consumer residential real estate mortgage loans in the process of foreclosure	\$ 1,287	\$ 4,602

## Easy Advances

The Company's RPG segment offered its new EA product through the TRS division during the first quarter of 2016. TRS originated \$123 million in EAs during the first quarter of 2016. The provision for loss on EAs equated to 2.54% of total EA originations for the nine months ended September 30, 2016. The Company based its provision for loss on EAs on prior year IRS funding patterns with adjustments based on current year IRS funding patterns. At September 30, 2016, all EAs originated had been either charged-off or collected.

Information regarding EAs follows:

(dollars in thousands)	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016	
Easy Advances originated	\$ —	\$ 123,230	
Provision for Easy Advances	—	3,127	
Easy Advances net charged-offs	—	3,127	
Easy Advances net charge-offs to total Easy Advances originated	NA	2.54	%

NA - Not applicable



Table of Contents

## 6. DEPOSITS

Ending deposit balances at September 30, 2016 and December 31, 2015 were as follows:

(in thousands)	September 30, 2016	December 31, 2015
Demand	\$ 868,081	\$ 783,054
Money market accounts	544,225	501,059
Brokered money market accounts	357,776	200,126
Savings	159,946	117,408
Individual retirement accounts*	42,342	36,016
Time deposits, \$250 and over*	45,311	42,775
Other certificates of deposit*	140,700	127,878
Brokered certificates of deposit*	29,910	44,298
Total interest-bearing deposits	2,188,291	1,852,614
Total noninterest-bearing deposits	947,602	634,863
Total deposits	\$ 3,135,893	\$ 2,487,477

\*Represents a time deposit.

The following table summarizes deposits acquired in the Company's May 17, 2016 Cornerstone acquisition:

(in thousands)	May 17, 2016		
	Contractual Principal	Fair Value Adjustment	Acquisition-Day Fair Value
Demand	\$ 59,507	\$ —	\$ 59,507
Money market accounts	53,773	—	53,773
Savings	12,352	—	12,352
Individual retirement accounts*	3,897	13	3,910
Time deposits, \$250 and over*	3,385	12	3,397
Other certificates of deposit*	19,343	67	19,410
Total interest-bearing deposits	152,257	92	152,349
Total noninterest-bearing deposits	52,908	—	52,908
Total deposits	\$ 205,165	\$ 92	\$ 205,257



\*Represents a time deposit.

40

---



## 8. FEDERAL HOME LOAN BANK ADVANCES

At September 30, 2016 and December 31, 2015, FHLB advances were as follows:

(in thousands)	September 30, 2016	December 31, 2015
Overnight advances	\$ 430,000	\$ 150,000
Variable interest rate advance indexed to 3-Month LIBOR plus 0.14% due on December 20, 2016	10,000	10,000
Fixed interest rate advances with a weighted average interest rate of 1.64% due through 2023	372,500	439,500
Putable fixed interest rate advances with a weighted average interest rate of 4.39% due through 2017*	50,000	100,000
Total FHLB advances	\$ 862,500	\$ 699,500

\*On a quarterly basis, the FHLB has the right to require payoff of these advances by the Bank at no penalty.

Table of Contents

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. The Company incurred an \$846,000 prepayment penalty on payoff of \$50 million in FHLB advances for the three and nine months ended September 30, 2016, with no similar penalty incurred in the prior periods.

FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At September 30, 2016 and December 31, 2015, Republic had available borrowing capacity of \$312 million and \$567 million, respectively, from the FHLB. In addition to its borrowing capacity with the FHLB, Republic also had unsecured lines of credit totaling \$170 million available through various other financial institutions as of September 30, 2016 and December 31, 2015.

Aggregate future principal payments on FHLB advances based on contractual maturity and the weighted average cost of such advances are detailed below:

Year (dollars in thousands)	Principal	Weighted Average Rate	
2016 (Overnight)	\$ 430,000	0.40	%
2016	25,000	1.09	
2017	95,000	2.95	
2018	117,500	1.53	
2019	100,000	1.80	
2020	65,000	1.78	
2021	20,000	1.86	
Thereafter	10,000	2.14	
Total	\$ 862,500	1.18	

Due to their nature, the Bank considers average balance information more meaningful than period-end balances for its overnight borrowings from the FHLB. Information regarding short-term overnight FHLB advances follows:

(dollars in thousands)	September 30, 2016	December 31, 2015
Outstanding balance at end of period	\$ 430,000	\$ 150,000
Weighted average interest rate at end of period	0.40 %	0.35 %

Three Months Ended

Nine Months Ended

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

(dollars in thousands)	September 30, 2016		September 30, 2015	
Average outstanding balance during the period	\$ 99,946	\$ 87,009	\$ 78,960	\$ 78,240
Average interest rate during the period	0.44 %	0.17 %	0.42 %	0.16 %
Maximum outstanding at any month end during the period	\$ 430,000	\$ 182,000	\$ 495,000	\$ 387,000

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

(in thousands)	September 30, 2016	December 31, 2015
First lien, single family residential real estate	\$ 1,213,275	\$ 1,346,663
Home equity lines of credit	301,159	272,863
Multi-family commercial real estate	9,692	10,227

Table of Contents

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

The Company, in the normal course of business, is party to financial instruments with off balance sheet risk. 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 the Company pursuant to those financial instruments. Creditworthiness for all instruments is evaluated on a case-by-case basis in accordance with the Company's credit policies. Collateral from the client may be required based on the Company's credit evaluation of the client and may include business assets of commercial clients, as well as personal property and real estate of individual clients or guarantors.

The Company also extends binding commitments to clients and prospective clients. Such commitments assure a borrower of financing for a specified period of time at a specified rate. Additionally, the Company makes binding purchase commitments to third-party loan correspondent originators. These commitments assure that the Company will purchase a loan from such correspondent originators at a specific price for a specific period of time. The risk to the Company under such loan commitments is limited by the terms of the contracts. For example, the Company may not be obligated to advance funds if the client's financial condition deteriorates or if the client fails to meet specific covenants.

An approved but unfunded loan commitment represents a potential credit risk and a liquidity risk, since the Company's client(s) may demand immediate cash that would require funding. In addition, unfunded loan commitments represent interest rate risk as market interest rates may rise above the rate committed to the Company's client. 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.

The following table presents the Company's commitments, exclusive of Mortgage Banking loan commitments, for each period ended:

(in thousands)	September 30, 2016	December 31, 2015
Unused warehouse lines of credit	\$ 259,761	\$ 304,379
Unused home equity lines of credit	329,576	282,007
Unused loan commitments - other	521,663	329,232
Commitments to purchase loans*	3,795	22,590
Standby letters of credit	15,743	12,740
Total commitments	\$ 1,130,538	\$ 950,948

\*Commitments made through the Bank's Correspondent Lending channel.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a client 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. In addition to credit risk, the Company also has liquidity risk associated with standby letters of credit because funding for these obligations could be required immediately. The Company does not deem this risk to be material.

Table of Contents

10. FAIR VALUE

Fair value represents the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Bank used the following methods and significant assumptions to estimate fair value:

Securities available for sale: Quoted market prices in an active market are available for the Bank's Community Reinvestment Act ("CRA") mutual fund investment and fall within Level 1 of the fair value hierarchy.

Except for the Bank's CRA mutual fund investment, its private label mortgage backed security and its TRUP investment, the fair value of securities available for sale is typically determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The Bank's private label mortgage backed security remains illiquid, and as such, the Bank classifies this security as a Level 3 security in accordance with ASC Topic 820, Fair Value Measurements and Disclosures. Based on this determination, the Bank utilized an income valuation model (present value model) approach in determining the fair value of this security.



See in this section of the filing under Footnote 3 “Investment Securities” for additional discussion regarding the Bank’s private label mortgage backed security.

The Company acquired its TRUP investment in November 2015 and considered the most recent bid price for the same instrument to approximate market value at September 30, 2016. The Company’s TRUP investment is considered highly illiquid and also valued using Level 3 inputs, as the most recent bid price for this instrument is not always considered generally observable.

Mortgage loans held for sale, at fair value: The fair value of mortgage loans held for sale is determined using quoted secondary market prices. Mortgage loans held for sale are classified as Level 2 in the fair value hierarchy.

Consumer loans held for sale, at fair value: During 2016, RCS initiated a short-term installment loan program and elected to carry all loans originated through this program at fair value. Such loans are generally sold within 21 days of origination, with their fair value based on contractual terms, Level 3 inputs.

Mortgage Banking derivatives: Mortgage Banking derivatives used in the ordinary course of business primarily consist of mandatory forward sales contracts (“forward contracts”) and interest rate lock loan commitments. The fair value of the Bank’s derivative instruments is primarily measured by obtaining pricing from broker-dealers recognized to be market participants. The pricing is derived from market observable inputs that can generally be verified and do not typically involve significant judgment by the Bank. Forward contracts and rate-lock loan commitments are classified as Level 2 in the fair value hierarchy.

Interest rate swap agreements: Interest rate swaps are recorded at fair value on a recurring basis. The Company values its interest rate swaps using a third-party valuation service and classifies such valuations as Level 2. Valuations of these interest rate swaps are also received from the relevant counterparty and validated against the Company’s calculations. The Company has considered counterparty credit risk in the valuation of its interest rate swap assets and has considered its own credit risk in the valuation of its interest rate swap liabilities.

## Table of Contents

Impaired loans: Collateral-dependent impaired loans generally reflect partial charge-downs to their respective fair value, which is commonly based on recent real estate appraisals or broker price opinions (“BPOs”). These appraisals or BPOs may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the process by the independent experts to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower’s financial statements or aging reports, adjusted or discounted based on management’s historical knowledge, changes in market conditions from the time of the valuation, and management’s expertise and knowledge of the client and client’s business, resulting in a Level 3 fair value classification. Collateral-dependent loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Premises and Equipment carried at fair value: Premises and equipment are accounted for at the lower of cost less accumulated depreciation or fair value less estimated costs to sell. The fair value of Bank premises are commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches, including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments may be significant and typically result in a Level 3 classification of the inputs for determining fair value.

Other real estate owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals or BPOs. These appraisals or BPOs may utilize a single approach or a combination of approaches, including comparable sales and the income approach. Adjustments are routinely made in the process by the independent experts to adjust for differences between the comparable sales and income data available. Such adjustments may be significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for collateral-dependent impaired loans, impaired premises and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Bank. Once the appraisal is received, a member of the Bank’s Credit Administration Department reviews the assumptions and approaches utilized in the appraisal, as well as the overall resulting fair value in comparison with independent data sources, such as recent market data or industry-wide statistics. On at least an annual basis, the Bank performs a back test of collateral appraisals by comparing actual selling prices on recent collateral sales to the most recent appraisal of such collateral. Back tests are performed for each collateral class, e.g., residential real estate or commercial real estate, and may lead to additional adjustments to the value of unliquidated collateral of similar class.

Mortgage servicing rights: On at least a quarterly basis, MSR’s are evaluated for impairment based upon the fair value of the MSR’s as compared to carrying amount. If the carrying amount of an individual tranche exceeds fair value, impairment is recorded and the respective individual tranche is carried at fair value. If the carrying amount of an individual tranche does not exceed fair value, impairment is reversed if previously recognized and the carrying value

of the individual tranche is based on the amortization method. The valuation model utilizes assumptions that market participants would use in estimating future net servicing income and can generally be validated against available market data (Level 2). There were no MSR tranches carried at fair value at September 30, 2016 and December 31, 2015.

Table of Contents

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Bank has elected the fair value option, are summarized below:

(in thousands)	Fair Value Measurements at September 30, 2016 Using:			Total Fair Value
	Quoted Prices Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Financial assets:				
Securities available for sale:				
U.S. Treasury securities and U.S. Government agencies	\$ —	\$ 287,645	\$ —	\$ 287,645
Private label mortgage backed security	—	—	4,868	4,868
Mortgage backed securities - residential	—	80,832	—	80,832
Collateralized mortgage obligations	—	95,595	—	95,595
Freddie Mac preferred stock	—	193	—	193
Community Reinvestment Act mutual fund	2,544	—	—	2,544
Corporate bonds	—	15,128	—	15,128
Trust preferred security	—	—	3,100	3,100
Total securities available for sale	\$ 2,544	\$ 479,393	\$ 7,968	\$ 489,905
Mortgage loans held for sale	\$ —	\$ 8,442	\$ —	\$ 8,442
Consumer loans held for sale	—	—	1,691	1,691
Rate lock commitments	—	910	—	910
Interest rate swap agreements	—	1,736	—	1,736
Financial liabilities:				
Mandatory forward contracts	\$ —	\$ 130	\$ —	\$ 130
Interest rate swap agreements	—	2,772	—	2,772

(in thousands)	Fair Value Measurements at December 31, 2015 Using:			Total Fair Value
	Quoted Prices Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Financial assets:				
Securities available for sale:				
U.S. Treasury securities and U.S. Government agencies	\$ —	\$ 286,479	\$ —	\$ 286,479
Private label mortgage backed security	—	—	5,132	5,132

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

Mortgage backed securities - residential	—	92,268	—	92,268
Collateralized mortgage obligations	—	113,668	—	113,668
Freddie Mac preferred stock	—	173	—	173
Community Reinvestment Act mutual fund	1,011	—	—	1,011
Corporate bonds	—	14,922	—	14,922
Trust preferred security	—	—	3,405	3,405
Total securities available for sale	\$ 1,011	\$ 507,510	\$ 8,537	\$ 517,058
Mortgage loans held for sale	\$ —	\$ 4,083	\$ —	\$ 4,083
Rate lock commitments	—	306	—	306
Interest rate swap agreements	—	400	—	400
Financial liabilities:				
Mandatory forward contracts	\$ —	\$ 25	\$ —	\$ 25
Interest rate swap agreements	—	1,000	—	1,000

Table of Contents

All transfers between levels are generally recognized at the end of each quarter. There were no transfers into or out of Level 1, 2 or 3 assets during the three and nine months ended September 30, 2016 and 2015.

## Private Label Mortgage Backed Security

The following table presents a reconciliation of the Bank's private label mortgage backed security measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods ended September 30, 2016 and 2015:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Balance, beginning of period	\$ 4,946	\$ 5,231	\$ 5,132	\$ 5,250
Total gains or losses included in earnings:				
Net change in unrealized gain	57	(58)	(91)	(84)
Recovery of actual losses previously recorded	—	—	—	35
Principal paydowns	(135)	—	(173)	(28)
Balance, end of period	\$ 4,868	\$ 5,173	\$ 4,868	\$ 5,173

The fair value of the Bank's single private label mortgage backed security is supported by analysis prepared by an independent third party. The third party's approach to determining fair value involved several steps: 1) detailed collateral analysis of the underlying mortgages, including consideration of geographic location, original loan-to-value and the weighted average Fair Isaac Corporation ("FICO") score of the borrowers; 2) collateral performance projections for each pool of mortgages underlying the security (probability of default, severity of default, and prepayment probabilities); and 3) discounted cash flow modeling.

The significant unobservable inputs in the fair value measurement of the Bank's single private label mortgage backed security are prepayment rates, probability of default and loss severity in the event of default. Significant fluctuations in any of those inputs in isolation would result in a significantly lower/higher fair value measurement.

The following tables present quantitative information about recurring Level 3 fair value measurement inputs for the Bank's single private label mortgage backed security at September 30, 2016 and December 31, 2015:

September 30, 2016 (dollars in thousands)	Fair	Valuation		
	Value	Technique	Unobservable Inputs	Range
Private label mortgage backed security	\$ 4,868	Discounted cash flow	(1) Constant prepayment rate	0.0% - 6.5%
			(2) Probability of default	3.0% - 9.0%
			(3) Loss severity	60% - 90%

December 31, 2015 (dollars in thousands)	Fair	Valuation		
	Value	Technique	Unobservable Inputs	Range
Private label mortgage backed security	\$ 5,132	Discounted cash flow	(1) Constant prepayment rate	0.0% - 6.5%
			(2) Probability of default	3.0% - 9.0%
			(3) Loss severity	60% - 90%

Table of Contents

## Trust Preferred Security

The Company invested in its TRUP in November 2015. The following table presents a reconciliation of the Company's TRUP measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2016:

(in thousands)	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Balance, beginning of period	\$ 3,150	\$ 3,405
Total gains or losses included in earnings:		
Net change in unrealized loss	(50)	(305)
Balance, end of period	\$ 3,100	\$ 3,100

The fair value of the Company's TRUP investment is based on the most recent bid price for this instrument, as provided by a third-party broker.

## Mortgage Loans Held for Sale

The Bank has elected the fair value option for mortgage loans held for sale. These loans are intended for sale and the Bank believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loans and in accordance with Bank policy for such instruments. None of these loans were past due 90-days-or-more or on nonaccrual as of September 30, 2016 and December 31, 2015.

As of September 30, 2016 and December 31, 2015, the aggregate fair value, contractual balance, and unrealized gain was as follows:

(in thousands)	September 30, 2016	December 31, 2015
Aggregate fair value	\$ 8,442	\$ 4,083
Contractual balance	8,197	3,993
Unrealized gain	245	90



The total amount of gains and losses from changes in fair value included in earnings for the three and nine months ended September 30, 2016 and 2015 for mortgage loans held for sale are presented in the following table:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest income	\$ 76	\$ 67	\$ 148	\$ 180
Change in fair value	57	10	155	107
Total included in earnings	\$ 133	\$ 77	\$ 303	\$ 287

Table of Contents

## Consumer Loans Held for Sale

During 2016, RCS initiated a short-term installment loan program and elected to carry all loans originated through this program at fair value. Such loans are generally sold within 21 days of origination, with their fair value based on contractual terms. Interest income is recorded based on the contractual terms of the loan and in accordance with Bank policy for such instruments. None of these loans were past due 90-days-or-more or on nonaccrual as of September 30, 2016.

A reconciliation of the Company's consumer loans held for sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2016 is included in Footnote 4 of this section of the filing.

The significant unobservable inputs in the fair value measurement of the Bank's short-term installment loans are the net contractual premiums and level of loans sold at a discount price. Significant fluctuations in any of those inputs in isolation would result in a significantly lower/higher fair value measurement.

The following table presents quantitative information about recurring Level 3 fair value measurement inputs for short-term installment loans as of September 30, 2016:

September 30, 2016 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range
Consumer loans held for sale	\$ 1,691	Contractual Terms	(1) Net Premium	0.9%
			(2) Discounted Sales	5.0%

As of September 30, 2016, the aggregate fair value, contractual balance, and unrealized gain on consumer loans held for sale, at fair value, was as follows:

(in thousands)	September 30, 2016
Aggregate fair value	\$ 1,691
Contractual balance	1,608
Unrealized gain	83

The total amount of net gains from changes in fair value included in earnings for the three and nine months ended September 30, 2016 for consumer loans held for sale, at fair value, are presented in the following table:

(in thousands)	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Interest income	\$ 378	\$ 537
Change in fair value	(279)	83
Total included in earnings	\$ 99	\$ 620

Table of Contents

Assets measured at fair value on a non-recurring basis are summarized below:

(in thousands)	Fair Value Measurements at September 30, 2016 Using:			Total Fair Value
	Quoted Prices for Identifiable Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans:				
Residential real estate:				
Owner occupied	\$ —	\$ —	\$ 3,555	\$ 3,555
Non owner occupied	—	—	9	9
Commercial real estate	—	—	3,217	3,217
Home equity	—	—	383	383
Total impaired loans*	\$ —	\$ —	\$ 7,164	\$ 7,164
Other real estate owned:				
Construction & land development	\$ —	\$ —	\$ 205	\$ 205
Total other real estate owned	\$ —	\$ —	\$ 205	\$ 205
Premises and equipment	\$ —	\$ —	\$ 1,086	\$ 1,086

(in thousands)	Fair Value Measurements at December 31, 2015 Using:			Total Fair Value
	Quoted Prices for Identifiable Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans:				
Residential real estate:				
Owner occupied	\$ —	\$ —	\$ 3,631	\$ 3,631
Non owner occupied	—	—	689	689
Commercial real estate	—	—	3,443	3,443
Home equity	—	—	1,245	1,245
Total impaired loans*	\$ —	\$ —	\$ 9,008	\$ 9,008
Other real estate owned:				
Residential real estate	\$ —	\$ —	\$ 128	\$ 128

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

Commercial real estate	—	—	442	442
Construction & land development	—	—	300	300
Total other real estate owned	\$ —	\$ —	\$ 870	\$ 870
Premises and equipment	\$ —	\$ —	\$ 1,185	\$ 1,185

---

\* The difference between the carrying value and the fair value of impaired loans measured at fair value is reconciled in a subsequent table of this Footnote.

Table of Contents

The following tables present quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis:

September 30, 2016 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans - residential real estate owner occupied	\$ 3,555	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 53% (6%)
Impaired loans - residential real estate non owner occupied	\$ 9	Sales comparison approach	Adjustments determined for differences between comparable sales	0% (0%)
Impaired loans - commercial real estate	\$ 1,713	Sales comparison approach	Adjustments determined for differences between comparable sales	3% - 42% (19%)
Impaired loans - commercial real estate	\$ 1,504	Income approach	Adjustments for differences between net operating income expectations	17% (17%)
Impaired loans - home equity	\$ 383	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 29% (15%)
Other real estate owned - construction & land development	\$ 205	Sales comparison approach	Adjustments determined for differences between comparable sales	60% (60%)
Premises and equipment	\$ 1,086	Sales comparison approach	Adjustments determined for differences between comparable sales	5% (5%)

Table of Contents

December 31, 2015 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans - residential real estate owner occupied	\$ 3,631	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 53% (7%)
Impaired loans - residential real estate non owner occupied	\$ 689	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 1% (1%)
Impaired loans - commercial real estate	\$ 1,839	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 58% (19%)
Impaired loans - commercial real estate	\$ 1,604	Income approach	Adjustments for differences between net operating income expectations	17% (17%)
Impaired loans - home equity	\$ 1,245	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 29% (20%)
Other real estate owned - residential real estate	\$ 128	Sales comparison approach	Adjustments determined for differences between comparable sales	18% (18%)
Other real estate owned - commercial real estate	\$ 442	Sales comparison approach	Adjustments determined for differences between comparable sales	12% - 23% (13%)
Other real estate owned - construction & land development	\$ 300	Sales comparison approach	Adjustments determined for differences between comparable sales	49% (49%)
Premises and equipment	\$ 1,185	Sales comparison approach	Adjustments determined for differences between comparable sales	5% (5%)

Table of Contents

## Impaired Loans

Collateral-dependent impaired loans are generally measured for impairment using the fair value for reasonable disposition of the underlying collateral. The Bank's practice is to obtain new or updated appraisals or BPOs on the loans subject to the initial impairment review and then to evaluate the need for an update to this value on an as necessary or possibly annual basis thereafter (depending on the market conditions impacting the value of the collateral). The Bank may discount the valuation amount as necessary for selling costs and past due real estate taxes. If a new or updated appraisal or BPO is not available at the time of a loan's impairment review, the Bank may apply a discount to the existing value of an old valuation to reflect the property's current estimated value if it is believed to have deteriorated in either: (i) the physical or economic aspects of the subject property or (ii) material changes in market conditions. The impairment review generally results in a partial charge-off of the loan if fair value less selling costs are below the loan's carrying value. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Impaired collateral-dependent loans are as follows:

(in thousands)	September 30, 2016	December 31, 2015
Carrying amount of loans measured at fair value	\$ 6,446	\$ 8,162
Estimated selling costs considered in carrying amount	752	946
Valuation allowance	(34)	(100)
Total fair value	\$ 7,164	\$ 9,008

(in thousands)	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	2015	2015	2015	2015
Provisions for loss on collateral-dependent, impaired loans	\$ (16)	\$ 17	\$ (40)	\$ 73

## Other Real Estate Owned

Other real estate owned, which is carried at the lower of cost or fair value, is periodically assessed for impairment based on fair value at the reporting date. Fair value is determined from external appraisals or BPOs using judgments and estimates of external professionals. Many of these inputs are not observable and, accordingly, these measurements are classified as Level 3.



Details of other real estate owned carrying value and write downs follow:

(in thousands)	September 30, 2016		December 31, 2015	
Other real estate owned carried at fair value	\$	205	\$	870
Other real estate owned carried at cost		2,230		350
Total carrying value of other real estate owned	\$	2,435	\$	1,220

  

(in thousands)	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
Other real estate owned write-downs during the period	\$	200	\$	312
			\$	200
			\$	1,016

#### Premises and Equipment

The Company closed its Hudson, Florida banking center in 2015. Since closing, the Hudson property has been carried at fair value less estimated selling costs. The Hudson property was written down \$33,000 during the three months ended September 30, 2016 and 2015 and \$99,000 during the nine months ended September 30, 2016 and 2015. Fair value was determined from an external appraisal using judgments and estimates. Many of these inputs are not observable and, accordingly, these measurements are classified as Level 3.

Table of Contents

The carrying amounts and estimated fair values of all financial instruments at September 30, 2016 and December 31, 2015 follows:

(in thousands)	Carrying Value	Fair Value Measurements at September 30, 2016:			Total Fair Value
		Level 1	Level 2	Level 3	
<b>Assets:</b>					
Cash and cash equivalents	\$ 302,167	\$ 302,167	\$ —	\$ —	\$ 302,167
Securities available for sale	489,905	2,544	479,393	7,968	489,905
Securities held to maturity	34,539	—	34,651	—	34,651
Mortgage loans held for sale, at fair value	8,442	—	8,442	—	8,442
Consumer loans held for sale, at fair value	1,691	—	—	1,691	1,691
Consumer loans held for sale, at the lower of cost or fair value	1,093	—	1,093	—	1,093
Loans, net	3,792,595	—	—	3,821,130	3,821,130
Federal Home Loan Bank stock	28,208	—	—	—	NA
Accrued interest receivable	9,780	—	9,780	—	9,780
<b>Liabilities:</b>					
Noninterest-bearing deposits	\$ 947,602	—	\$ 947,602	—	\$ 947,602
Transaction deposits	1,930,028	—	1,930,028	—	1,930,028
Time deposits	258,263	—	260,002	—	260,002
Securities sold under agreements to repurchase and other short-term borrowings	152,458	—	152,458	—	152,458
Federal Home Loan Bank advances	862,500	—	868,148	—	868,148
Subordinated note	41,240	—	31,169	—	31,169
Accrued interest payable	1,027	—	1,027	—	1,027

(in thousands)	Carrying Value	Fair Value Measurements at December 31, 2015:			Total Fair Value
		Level 1	Level 2	Level 3	
<b>Assets:</b>					

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

Cash and cash equivalents	\$ 210,082	\$ 210,082	\$ —	\$ —	\$ 210,082
Securities available for sale	517,058	1,011	507,510	8,537	517,058
Securities held to maturity	38,727	—	39,196	—	39,196
Mortgage loans held for sale, at fair value	4,083	—	4,083	—	4,083
Consumer loans held for sale, at the lower of cost or fair value	514	—	514	—	514
Loans, net	3,299,119	—	—	3,332,608	3,332,608
Federal Home Loan Bank stock	28,208	—	—	—	NA
Accrued interest receivable	9,233	—	9,233	—	9,233
<b>Liabilities:</b>					
Noninterest-bearing deposits	\$ 634,863	—	\$ 634,863	—	\$ 634,863
Transaction deposits	1,601,647	—	1,601,647	—	1,601,647
Time deposits	250,967	—	250,882	—	250,882
Securities sold under agreements to repurchase and other short-term borrowings	395,433	—	395,433	—	395,433
Federal Home Loan Bank advances	699,500	—	708,722	—	708,722
Subordinated note	41,240	—	33,358	—	33,358
Accrued interest payable	1,229	—	1,229	—	1,229

---

NA - Not applicable

## Table of Contents

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the Bank's estimates.

The assumptions used in the estimation of the fair value of the Company's financial instruments are explained below. Where quoted market prices are not available, fair values are based on estimates using discounted cash flow and other valuation techniques. Discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following fair value estimates cannot be substantiated by comparison to independent markets and should not be considered representative of the liquidation value of the Company's financial instruments, but rather a good-faith estimate of the fair value of financial instruments held by the Company.

In addition to those previously disclosed, the following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and cash equivalents — The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Consumer loans held for sale, at lower of cost or fair value – Consumer loans held for sale at the lower of cost or fair value constitute short-term consumer loans generally sold within two business days of origination. The carrying amounts of these loans, due to their short-term nature, approximate fair value and result in a Level 2 classification.

Loans, net of Allowance — The fair value of loans is calculated using discounted cash flows by loan type resulting in a Level 3 classification. The discount rate used to determine the present value of the loan portfolio is an estimated market rate that reflects the credit and interest rate risk inherent in the loan portfolio without considering widening credit spreads due to market illiquidity. The estimated maturity is based on the Bank's historical experience with repayments adjusted to estimate the effect of current market conditions. The Allowance is considered a reasonable discount for credit risk. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Federal Home Loan Bank stock — It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Accrued interest receivable/payable — The carrying amounts of accrued interest, due to their short-term nature, approximate fair value and result in a Level 2 classification.

Deposits — Fair values for time deposits have been determined using discounted cash flows. The discount rate used is based on estimated market rates for deposits of similar remaining maturities and are classified as Level 2. The carrying amounts of all other deposits, due to their short-term nature, approximate their fair values and are also classified as Level 2.

Securities sold under agreements to repurchase and other short-term borrowings — The carrying amount for securities sold under agreements to repurchase and other short-term borrowings generally maturing within ninety days approximates its fair value resulting in a Level 2 classification.

Federal Home Loan Bank advances — The fair value of the FHLB advances is obtained from the FHLB and is calculated by discounting contractual cash flows using an estimated interest rate based on the current rates available to the Company for debt of similar remaining maturities and collateral terms resulting in a Level 2 classification.

Subordinated note — The fair value for the subordinated note is calculated using discounted cash flows based upon current market spreads to London Interbank Borrowing Rate (“LIBOR”) for debt of similar remaining maturities and collateral terms resulting in a Level 2 classification.

The fair value estimates presented herein are based on pertinent information available to management as of the respective period ends. Although management is not aware of any factors that would dramatically affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, estimates of fair value may differ significantly from the amounts presented.

Table of Contents

## 11. MORTGAGE BANKING ACTIVITIES

Activity for mortgage loans held for sale, at fair value, was as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Balance, beginning of period	\$ 12,280	\$ 10,277	\$ 4,083	\$ 6,388
Origination of mortgage loans held for sale	58,820	32,018	154,607	128,026
Transferred from held for investment to held for sale	71,201	—	71,201	—
Proceeds from the sale of mortgage loans held for sale	(136,946)	(34,605)	(227,096)	(129,077)
Net gain on sale of mortgage loans held for sale	3,087	836	5,647	3,189
Balance, end of period	\$ 8,442	\$ 8,526	\$ 8,442	\$ 8,526

The following table presents the components of Mortgage Banking income:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net gain realized on sale of mortgage loans held for sale	\$ 1,754	\$ 926	\$ 3,861	\$ 3,024
Net gain realized on sale of mortgage loans transferred from held for investment to held for sale during the period	1,129	—	1,129	—
Net change in fair value recognized on loans held for sale	57	10	155	107
Net change in fair value recognized on rate lock commitments	69	(37)	604	89
Net change in fair value recognized on forward contracts	78	(63)	(102)	(31)
Net gain recognized	3,087	836	5,647	3,189
Loan servicing income	511	477	1,455	1,417
Amortization of mortgage servicing rights	(517)	(341)	(1,200)	(1,057)
Net servicing income recognized	(6)	136	255	360
Total Mortgage Banking income	\$ 3,081	\$ 972	\$ 5,902	\$ 3,549

Activity for capitalized mortgage servicing rights was as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Balance, beginning of period	\$ 4,998	\$ 4,971	\$ 4,912	\$ 4,813
Additions	857	338	1,626	1,212
Amortized to expense	(517)	(341)	(1,200)	(1,057)
Balance, end of period	\$ 5,338	\$ 4,968	\$ 5,338	\$ 4,968

There was no balance or activity in the valuation allowance for capitalized mortgage servicing rights for the three and nine months ended September 30, 2016 and 2015.

Table of Contents

Other information relating to mortgage servicing rights follows:

(dollars in thousands)	September 30, 2016	December 31, 2015
Fair value of mortgage servicing rights portfolio	\$ 6,868	\$ 7,242
Monthly prepayment rate of unpaid principal balance*	108% - 456%	105% - 369%
Discount rate	12%	10%
Weighted average default rate	1.50%	1.50%
Weighted average life in years	5.56	6.38

\* Rates are applied to individual tranches with similar characteristics.

Mortgage Banking derivatives used in the ordinary course of business primarily consist of mandatory forward sales contracts and interest rate lock loan commitments. Mandatory forward contracts represent future commitments to deliver loans at a specified price and date and are used to manage interest rate risk on loan commitments and mortgage loans held for sale. Interest rate lock loan commitments represent commitments to fund loans at a specific rate. These derivatives involve underlying items, such as interest rates, and are designed to transfer risk. Substantially all of these instruments expire within 90 days from the date of issuance. Notional amounts are amounts on which calculations and payments are based, but which do not represent credit exposure, as credit exposure is limited to the amounts required to be received or paid.

Mandatory forward contracts also contain an element of risk in that the counterparties may be unable to meet the terms of such agreements. In the event the counterparties fail to deliver commitments or are unable to fulfill their obligations, the Bank could potentially incur significant additional costs by replacing the positions at then current market rates. The Bank manages its risk of exposure by limiting counterparties to those banks and institutions deemed appropriate by management and the Board of Directors. The Bank does not expect any counterparty to default on their obligations and therefore, the Bank does not expect to incur any cost related to counterparty default.

The Bank is exposed to interest rate risk on loans held for sale and rate lock loan commitments. As market interest rates fluctuate, the fair value of mortgage loans held for sale and rate lock commitments will decline or increase. To offset this interest rate risk the Bank enters into derivatives, such as mandatory forward contracts to sell loans. The fair value of these mandatory forward contracts will fluctuate as market interest rates fluctuate, and the change in the value of these instruments is expected to largely, though not entirely, offset the change in fair value of loans held for sale and rate lock commitments. The objective of this activity is to minimize the exposure to losses on rate-loan lock commitments and loans held for sale due to market interest rate fluctuations. The net effect of derivatives on earnings will depend on risk management activities and a variety of other factors, including: market interest rate volatility; the amount of rate lock commitments that close; the ability to fill the forward contracts before expiration; and the time period required to close and sell loans.



The following table includes the notional amounts and fair values of mortgage loans held for sale at fair value and mortgage banking derivatives as of the period ends presented:

(in thousands)	September 30, 2016		December 31, 2015	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in Mortgage loans held for sale:				
Mortgage loans held for sale, at fair value	\$ 8,197	\$ 8,442	\$ 3,993	\$ 4,083
Included in other assets:				
Rate lock loan commitments	\$ 39,683	\$ 910	\$ 21,580	\$ 306
Included in other liabilities:				
Mandatory forward contracts	\$ 40,056	\$ 130	\$ 19,232	\$ 25

Table of Contents

## 12. INTEREST RATE SWAPS

Interest rate swap derivatives are reported at fair value in other assets or other liabilities. The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as part of a cash flow hedging relationship. For a derivative designated as a cash flow hedge, the effective portion of the derivative's unrealized gain or loss is recorded as a component of other comprehensive income ("OCI"). For derivatives not designated as hedges, the gain or loss is recognized in current period earnings.

## Interest Rate Swaps Used as Cash Flow Hedges

The Bank entered into two interest rate swap agreements ("swaps") during 2013 as part of its interest rate risk management strategy. The Bank designated the swaps as cash flow hedges intended to reduce the variability in cash flows attributable to either FHLB advances tied to the 3-month LIBOR or the overall changes in cash flows on certain money market deposit accounts tied to 1-month LIBOR. The counterparty for both swaps met the Bank's credit standards and the Bank believes that the credit risk inherent in the swap contracts is not significant.

The swaps were determined to be fully effective during all periods presented; therefore, no amount of ineffectiveness was included in net income. The aggregate fair value of the swaps is recorded in other liabilities with changes in fair value recorded in OCI. The amount included in AOCI would be reclassified to current earnings should the hedge no longer be considered effective. The Bank expects the hedges to remain fully effective during the remaining term of the swaps.

The following table reflects information about swaps designated as cash flow hedges as of September 30, 2016 and December 31, 2015:

(dollars in thousands)	Notional Amount	Pay Rate	Receive Rate	Term	September 30, 2016		December 31, 2015	
					Assets / (Liabilities)	Unrealized Gain (Loss) AOCI	Assets / (Liabilities)	Unrealized Gain (Loss) in AOCI
Interest rate swap on money market deposits	\$ 10,000	2.17 %	1M LIBOR	12/2013 - 12/2020	\$ (495)	\$ (322)	\$ (289)	\$ (188)

Interest rate swap on FHLB advance	10,000	2.33 %	3M LIBOR	12/2013 -	12/2020	(512)	(332)	(311)	(202)
	\$ 20,000					\$ (1,007)	\$ (654)	\$ (600)	\$ (390)

The following table reflects the total interest expense recorded on these swap transactions in the consolidated statements of income for the three and nine months ended September 30, 2016 and 2015:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Interest rate swap on money market deposits	\$ 42	\$ 49	\$ 128	\$ 148
Interest rate swap on FHLB advance	41	51	128	156
Total interest expense on swap transactions	\$ 83	\$ 100	\$ 256	\$ 304

The following table presents the net gains (losses) recorded in OCI and the consolidated statements of income relating to the swaps designated as cash flow hedges for the three and nine months ended September 30, 2016 and 2015:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Gains (Losses) recognized in OCI on derivative (effective portion)	\$ 127	\$ (503)	\$ (663)	\$ (724)
Losses reclassified from OCI on derivative (effective portion)	(83)	(100)	(256)	(304)
Gains (losses) recognized in income on derivative (ineffective portion)	—	—	—	—

The estimated net amount of the existing losses reported in AOCI at September 30, 2016 expected to be reclassified into earnings within the next 12 months is \$290,000.



Table of Contents

## Non-hedge Interest Rate Swaps

The Bank enters into interest rate swaps to facilitate client transactions and meet their financing needs. Upon entering into these instruments to meet client needs, the Bank enters into offsetting positions in order to minimize the Bank's interest rate risk. These swaps are derivatives, but are not designated as hedging instruments, and therefore changes in fair value are reported in current year earnings.

Interest rate swap contracts involve the risk of dealing with counterparties and their ability to meet contractual terms. When the fair value of a derivative instrument contract is positive, this generally indicates that the counter party or client owes the Bank, and results in credit risk to the Bank. When the fair value of a derivative instrument contract is negative, the Bank owes the client or counterparty, and therefore, has no credit risk.

A summary of the Bank's interest rate swaps related to clients as of September 30, 2016 and December 31, 2015 is included in the following table:

(in thousands)	Bank Position	September 30, 2016		December 31, 2015	
		Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swaps with Bank clients	Pay variable/receive fixed	\$ 28,867	\$ 1,736	\$ 25,927	\$ 400
Offsetting interest rate swaps with institutional swap dealer	Pay fixed/receive variable	28,867	(1,765)	25,927	(400)
Total		\$ 57,734	\$ (29)	\$ 51,854	\$ —

The Bank is required to pledge securities as collateral when the Bank is in a net loss position for all swaps with dealer counterparties when such net loss positions exceed \$250,000. The fair value of cash or investment securities pledged as collateral by the Bank to cover such net loss positions totaled \$3.3 million and \$1.5 million at September 30, 2016 and December 31, 2015.

Table of Contents

## 13. 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:

(in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$ 9,828	\$ 5,640	\$ 35,903	\$ 27,748
Weighted average shares outstanding	20,925	20,848	20,946	20,856
Effect of dilutive securities	13	86	11	80
Average shares outstanding including dilutive securities	20,938	20,934	20,957	20,936
Basic earnings per share:				
Class A Common Stock	\$ 0.47	\$ 0.27	\$ 1.73	\$ 1.34
Class B Common Stock	0.43	0.25	1.58	1.22
Diluted earnings per share:				
Class A Common Stock	\$ 0.47	\$ 0.27	\$ 1.73	\$ 1.34
Class B Common Stock	0.43	0.25	1.57	1.22

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Antidilutive stock options	5,000	23,000	7,500	323,100

Average antidilutive stock options	2,500	20,300	5,000	186,969
------------------------------------	-------	--------	-------	---------

Table of Contents

14. STOCK PLANS AND STOCK BASED COMPENSATION

In January 2015, the Company's Board of Directors adopted the Republic Bancorp, Inc. 2015 Stock Incentive Plan (the "2015 Plan"), which became effective April 2015 when the Company's shareholders approved the 2015 Plan. The 2015 Plan replaced the Company's 2005 Stock Incentive Plan, which expired March 2015.

The number of authorized shares under the 2015 Plan is fixed at 3,000,000, with such number subject to adjustment in the event of certain events, such as stock dividends, stock splits or the like. There is a minimum three-year vesting period for awards granted to employees under the 2015 Plan that vest based solely on the completion of a specified period of service, with options generally exercisable five to six years after the issue date. Stock options generally must be exercised within one year from the date the options become exercisable and have an exercise price that is at least equal to the fair market value of the Company's stock on their grant date.

All shares issued under the above-mentioned plans were from authorized and reserved unissued shares. The Company has a sufficient number of authorized and reserved unissued shares to satisfy all anticipated option exercises. There are no Class B stock options outstanding or available for exercise under the Company's plans.

Stock Options

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.

All share-based payments to employees, including grants of employee stock options, are recognized as compensation expense over the service period (generally the vesting period) in the consolidated financial statements based on their fair values.

The following table summarizes stock option activity from January 1, 2015 through September 30, 2016:



	Options Class A Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, January 1, 2015	155,000	\$ 20.15		
Granted	323,400	24.51		
Exercised	(97,750)	19.77		
Forfeited or expired	(57,250)	21.43		
Outstanding, December 31, 2015	323,400	\$ 24.40	4.70	\$ 650,000
Outstanding, January 1, 2016	323,400	\$ 24.40		
Granted	5,000	26.43		
Exercised	(4,000)	20.12		
Forfeited or expired	(11,800)	24.47		
Outstanding, September 30, 2016	312,600	\$ 24.49	4.03	\$ 2,061,211
Fully vested and expected to vest	312,600	\$ 24.49	4.03	\$ 2,061,211
Exercisable (vested) at September 30, 2016	4,000	\$ 20.77	0.47	\$ 41,240

Table of Contents

Information related to stock options for each period follows:

(in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Intrinsic value of options exercised	\$ —	\$ 26	\$ 18	\$ 81
Cash received from options exercised, net of shares redeemed	—	125	80	244
Weighted-average fair value per share of options granted	—	3.52	3.27	3.58

## Restricted Stock Awards

Restricted stock awards generally vest five to six years after issue, with accelerated vesting due to “change in control” or “death or disability of a participant” as defined and outlined in the 2015 Plan.

The following table summarizes restricted stock awards activity from January 1, 2015 through September 30, 2016:

	Restricted Stock Awards	Weighted-average grant date fair value per share
Outstanding, January 1, 2015	80,500	\$ 19.85
Granted	2,500	25.19
Forfeited	(4,000)	19.85
Earned and issued	—	—
Outstanding, December 31, 2015	79,000	\$ 20.02
Outstanding, January 1, 2016	79,000	\$ 20.02
Granted	—	—
Forfeited	(2,000)	19.85
Earned and issued	—	—
Outstanding, September 30, 2016	77,000	\$ 20.02
Fully vested and expected to vest	77,000	\$ 20.02
Vested at September 30, 2016	—	\$ —



Table of Contents

## Performance Stock Units

The Company first granted performance stock units (“PSUs”) under the 2015 Plan in January 2016. Shares of stock underlying the PSUs may be earned over a four-year performance period commencing on January 1, 2017 and ending on December 31, 2020 as follows:

- If the Company achieves a Return on Average Assets (“ROAA”), as defined in the award agreement, of 1.25% for a calendar year in the performance period, then between March 1 and March 15 of the following year, provided that the recipient is still employed in good standing on the payment date, the Company will issue shares of fully-vested stock to the participant equal to 50% of the number of the PSUs initially granted to the participant; and
- If the ROAA of 1.25% is met again at the end of another calendar year during the remaining term of the performance period, the Company will similarly issue fully vested stock in an amount equal to the remaining 50% of the initial PSUs granted to the participant.

The following table summarizes PSU activity from January 1, 2016 through September 30, 2016:

	Performance Stock Units	Weighted-average grant date fair value per share
Outstanding, January 1, 2016	—	\$ —
Granted	55,000	23.08
Forfeited	—	—
Earned and issued	—	—
Outstanding, September 30, 2016	55,000	\$ 23.08
Fully vested and expected to vest	55,000	\$ 23.08
Vested at September 30, 2016	—	\$ —

## Expense Related to the 2015 Stock Incentive Plan

The Company recorded expense related to the 2015 Plan for the three and nine months ended September 30, 2016 and 2015 as follows:

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

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
Stock option expense	\$ 58	\$ 48	\$ 184	\$ 104
Restricted stock award expense	72	60	189	207
Performance stock unit expense	127	—	381	—
Total expense	\$ 257	\$ 108	\$ 754	\$ 311

Unrecognized expenses related to unvested awards (net of estimated forfeitures) under the 2015 Plan are estimated as follows:

(in thousands)	Stock Options	Restricted Stock Awards	Performance Stock Units	Total
2016	\$ 64	\$ 71	\$ 127	\$ 262
2017	253	258	507	1,018
2018	251	120	198	569
2019	143	12	—	155
2020	32	8	—	40
2021	1	2	—	3
Total	\$ 744	\$ 471	\$ 832	\$ 2,047

Table of Contents

## 15. OTHER COMPREHENSIVE INCOME

OCI components and related tax effects were as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
<b>Available for Sale Securities:</b>				
Change in unrealized gain (loss) on securities available for sale	\$ (788)	\$ 488	\$ 1,920	\$ 670
Reclassification adjustment for gain on security available for sale recognized in earnings	—	—	—	(88)
Change in unrealized gain on security available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings	57	(58)	(91)	(84)
Net unrealized gains (losses)	(731)	430	1,829	498
Tax effect	255	(151)	(640)	(175)
Net of tax	(476)	279	1,189	323
<b>Cash Flow Hedges:</b>				
Change in fair value of derivatives used for cash flow hedges	127	(503)	(663)	(724)
Reclassification amount for derivative losses realized in income	83	100	256	304
Net unrealized gains (losses)	210	(403)	(407)	(420)
Tax effect	(75)	140	143	146
Net of tax	135	(263)	(264)	(274)
Total other comprehensive income components, net of tax	\$ (341)	\$ 16	\$ 925	\$ 49

Significant amounts reclassified out of each component of AOCI for the three and nine months ended September 30, 2016 and 2015:

(in thousands)	Affected Line Items in the Consolidated Statements of Income	Amounts Reclassified From Accumulated Other Comprehensive Income			
		Three Months Ended		Nine Months Ended	
		September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015

Available for Sale Securities:

Gain on call of security available for sale	Noninterest income	\$ —	\$ —	\$ —	\$ 88
Tax effect	Income tax expense	—	—	—	(31)
Net of tax	Net income	—	—	—	57

Cash Flow Hedges:

Interest rate swap on money market deposits	Interest expense on deposits	(42)	(49)	(128)	(148)
Interest rate swap on FHLB advance	Interest expense on FHLB advances	(41)	(51)	(128)	(156)
Total derivative losses on cash flow hedges	Total interest expense	(83)	(100)	(256)	(304)
Tax effect	Income tax expense	29	35	90	106
Net of tax	Net income	(54)	(65)	\$ (166)	\$ (198)
Net of tax, total all reclassification amounts	Net income	\$ (54)	\$ (65)	\$ (166)	\$ (141)

Table of Contents

The following is a summary of the AOCI balances, net of tax:

(in thousands)	2016		September 30, 2016
	December 31, 2015	Change	
Unrealized gain on securities available for sale	\$ 1,727	\$ 1,247	\$ 2,974
Unrealized gain on security available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings	712	(58)	654
Unrealized loss on cash flow hedge	(390)	(264)	(654)
Total unrealized gain	\$ 2,049	\$ 925	\$ 2,974

(in thousands)	2015		September 30, 2015
	December 31, 2014	Change	
Unrealized gain on securities available for sale	\$ 3,839	\$ 378	\$ 4,217
Unrealized gain on security available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings	792	(55)	737
Unrealized loss on cash flow hedge	(316)	(274)	(590)
Total unrealized gain	\$ 4,315	\$ 49	\$ 4,364



Table of Contents

## 16. SEGMENT INFORMATION

Reportable segments are determined by the type of products and services offered and the level of information provided to the chief operating decision maker, who uses such information to review performance of various components of the business (such as banking centers and business units), which are then aggregated if operating performance, products/services, and clients are similar.

As of September 30, 2016, the Company was divided into four distinct operating segments: Traditional Banking, Warehouse Lending (“Warehouse”), Mortgage Banking and Republic Processing Group (“RPG”). Management considers the first three segments to collectively constitute “Core Bank” or “Core Banking” activities. Correspondent Lending operations are considered part of the Traditional Banking segment. The RPG segment includes the following divisions: Tax Refund Solutions (“TRS”), Republic Payment Solutions (“RPS”) and Republic Credit Solutions (“RCS”). TRS generates the majority of RPG’s income, with the relatively smaller divisions of RPG, RPS and RCS, considered immaterial for separate and independent segment reporting. All divisions of the RPG segment operate through the Bank.

The nature of segment operations and the primary drivers of net revenues by reportable segment are provided below:

Segment:	Nature of Operations:	Primary Drivers of Net Revenues:
Traditional Banking	Provides traditional banking products to clients primarily in its market footprint via its network of banking centers and primarily to clients outside of its market footprint via its Internet and Correspondent	Loans, investments and deposits

		Lending delivery channels.	
	Warehouse Lending	Provides short-term, revolving credit facilities to mortgage bankers across the Nation.	Mortgage warehouse lines of credit
Core Banking	Mortgage Banking	Primarily originates, sells and services long-term, single family, first lien residential real estate loans primarily to clients in its market footprint.	Loan sales and servicing
	Republic Processing Group	The TRS division facilitates the receipt and payment of federal and state tax refund products. The RPS division offers general-purpose reloadable cards. The RCS division offers short-term credit products. RPG products are primarily provided to clients outside of the Bank's market footprint.	Refund transfers and unsecured, small-dollar consumer loans

The accounting policies used for Republic's reportable segments are the same as those described in the summary of significant accounting policies in the Company's 2015 Annual Report on Form 10-K. Segment performance is evaluated using operating income. Goodwill is not allocated. Income taxes are generally allocated based on income before income tax expense unless specific segment allocations can be reasonably made. Transactions among reportable segments are made at carrying value.



Table of Contents

Segment information for the three months ended September 30, 2016 and 2015 follows:

(dollars in thousands)	Three Months Ended September 30, 2016			Total Core Banking	Republic Processing Group	Total Company				
	Traditional Banking	Warehouse Lending	Mortgage Banking							
Net interest income	\$ 31,134	\$ 4,924	\$ 76	\$ 36,134	\$ 3,264	\$ 39,398				
Provision for loan and lease losses	289	188	—	477	2,012	2,489				
Net refund transfer fees	—	—	—	—	132	132				
Mortgage banking income	—	—	3,081	3,081	—	3,081				
Republic Processing Group program fees	—	—	—	—	979	979				
Other noninterest income	6,899	4	57	6,960	149	7,109				
Total noninterest income	6,899	4	3,138	10,041	1,260	11,301				
Total noninterest expenses	28,939	727	1,184	30,850	2,684	33,534				
Income (loss) before income tax expense	8,805	4,013	2,030	14,848	(172)	14,676				
Income tax expense (benefit)	2,707	1,493	710	4,910	(62)	4,848				
Net income (loss)	\$ 6,098	\$ 2,520	\$ 1,320	\$ 9,938	\$ (110)	\$ 9,828				
Segment end of period assets	\$ 4,109,464	\$ 660,410	\$ 15,003	\$ 4,784,877	\$ 42,400	\$ 4,827,277				
Net interest margin	3.35	%	3.63	%	NM	3.38	%	NM	3.65	%

Three Months Ended September 30, 2015  
Core Banking

Total

Republic

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

(dollars in thousands)	Traditional Banking	Warehouse Lending	Mortgage Banking	Core Banking	Processing Group	Total Company
Net interest income	\$ 27,612	\$ 3,308	\$ 67	\$ 30,987	\$ 437	\$ 31,424
Provision for loan and lease losses	1,338	(238)	—	1,100	1,133	2,233
Net refund transfer fees	—	—	—	—	97	97
Mortgage banking income	—	—	972	972	—	972
Republic Processing Group program fees	—	—	—	—	474	474
Gain on call of security available for sale	—	—	—	—	—	—
Other noninterest income	6,115	8	76	6,199	64	6,263
Total noninterest income	6,115	8	1,048	7,171	635	7,806
Total noninterest expenses	24,109	663	1,151	25,923	2,315	28,238
Income (loss) before income tax expense	8,280	2,891	(36)	11,135	(2,376)	8,759
Income tax expense (benefit)	2,879	1,174	(13)	4,040	(921)	3,119
Net income (loss)	\$ 5,401	\$ 1,717	\$ (23)	\$ 7,095	\$ (1,455)	\$ 5,640
Segment end of period assets	\$ 3,600,230	\$ 393,110	\$ 13,832	\$ 4,007,172	\$ 28,805	\$ 4,035,977
Net interest margin	3.25 %	3.62 %	NM	3.29 %	NM	3.31 %

Segment assets are reported as of the respective period ends while income and margin data are reported for the respective periods.

NM — Not Meaningful

Table of Contents

Segment information for the nine months ended September 30, 2016 and 2015 follows:

(dollars in thousands)	Nine Months Ended September 30, 2016					Republic Processing Group	Total Company			
	Core Banking			Total Core Banking						
	Traditional Banking	Warehouse Lending	Mortgage Banking							
Net interest income	\$ 89,279	\$ 11,369	\$ 148	\$ 100,796	\$ 13,613	\$ 114,409				
Provision for loan and lease losses	1,567	686	—	2,253	7,236	9,489				
Net refund transfer fees	—	—	—	—	19,119	19,119				
Mortgage banking income	—	—	5,902	5,902	—	5,902				
Republic Processing Group program fees	—	—	—	—	1,942	1,942				
Other noninterest income	19,380	14	212	19,606	455	20,061				
Total noninterest income	19,380	14	6,114	25,508	21,516	47,024				
Total noninterest expenses	81,551	2,157	3,576	87,284	10,657	97,941				
Income before income tax expense	25,541	8,540	2,686	36,767	17,236	54,003				
Income tax expense	7,733	3,174	940	11,847	6,253	18,100				
Net income	\$ 17,808	\$ 5,366	\$ 1,746	\$ 24,920	\$ 10,983	\$ 35,903				
Segment end of period assets	\$ 4,109,464	\$ 660,410	\$ 15,003	\$ 4,784,877	\$ 42,400	\$ 4,827,277				
Net interest margin	3.22	%	3.64	%	NM	3.26	%	NM	3.62	%

Nine Months Ended September 30, 2015  
Core Banking

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

(dollars in thousands)	Traditional Banking	Warehouse Lending	Mortgage Banking	Total Core Banking	Republic Processing Group	Total Company	
Net interest income	\$ 80,369	\$ 9,354	\$ 180	\$ 89,903	\$ 1,601	\$ 91,504	
Provision for loan and lease losses	2,007	185	—	2,192	1,130	3,322	
Net refund transfer fees	—	—	—	—	17,339	17,339	
Mortgage banking income	—	—	3,549	3,549	—	3,549	
Republic Processing Group program fees	—	—	—	—	871	871	
Gain on call of security available for sale	88	—	—	88	—	88	
Other noninterest income	17,286	19	231	17,536	894	18,430	
Total noninterest income	17,374	19	3,780	21,173	19,104	40,277	
Total noninterest expenses	71,351	1,846	3,710	76,907	9,570	86,477	
Income before income tax expense	24,385	7,342	250	31,977	10,005	41,982	
Income tax expense	7,813	2,732	87	10,632	3,602	14,234	
Net income	\$ 16,572	\$ 4,610	\$ 163	\$ 21,345	\$ 6,403	\$ 27,748	
Segment end of period assets	\$ 3,600,230	\$ 393,110	\$ 13,832	\$ 4,007,172	\$ 28,805	\$ 4,035,977	
Net interest margin	3.23	%	3.58	%	NM	3.26	%

Segment assets are reported as of the respective period ends while income and margin data are reported for the respective periods.

NM — Not Meaningful





Table of Contents

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 financial holding company headquartered in Louisville, Kentucky, is the parent company of Republic Bank & Trust Company ("RB&T" or the "Bank") and Republic Insurance Services, Inc. (the "Captive"). The Bank is a Kentucky-based, state chartered non-member financial institution.

The Captive is a wholly-owned insurance subsidiary of the Company that provides property and casualty insurance coverage to the Company and the Bank as well as 10 other third-party insurance captives for which insurance may not be available or economically feasible.

Republic Bancorp Capital Trust ("RBCT") is a Delaware statutory business trust that is a 100%-owned unconsolidated finance subsidiary of Republic. As a result of its acquisition of Cornerstone Bancorp, Inc. on May 17, 2016, Republic Bancorp, Inc. became the 100% successor owner of Cornerstone Capital Trust 1 ("CCT1"), an unconsolidated finance subsidiary. As permitted under the terms of CCT1's governing documents, the Company redeemed these securities at the par amount of approximately \$4 million, without penalty, on September 15, 2016.

Management's Discussion and Analysis of Financial Condition and Results of Operations of Republic should be read in conjunction with Part I Item 1 "Financial Statements."

As used in this filing, the terms "Republic," the "Company," "we," "our" and "us" refer to Republic Bancorp, Inc., and, where the context requires, Republic Bancorp, Inc. and its subsidiaries; and the term the "Bank" refers to the Company's subsidiary bank, RB&T.

Forward-looking statements discuss matters that are not historical facts. As forward-looking statements discuss future events or conditions, the statements often include words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "target," "can," "could," "may," "should," "will," "would," "potential," or similar 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 the statements are made and management may not update them to reflect changes that occur subsequent to the date the statements are made.

Broadly speaking, forward-looking statements include:

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

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by the forward-looking statements. Actual results may differ materially from those expressed or implied as a result of certain risks and uncertainties, including, but not limited to the following:

- changes in political and economic conditions;
- the magnitude and frequency of changes to the Federal Funds Target Rate (“FFTR”) implemented by the Federal Open Market Committee (“FOMC”) of the Federal Reserve Bank (“FRB”);
- long-term and short-term interest rate fluctuations as well as the overall steepness of the yield curve;
  - competitive product and pricing pressures in each of the Company’s business segments;
- equity and fixed income market fluctuations;
- client bankruptcies and loan defaults;
- inflation;
- recession;
- future acquisitions;

## Table of Contents

- integrations of acquired businesses;
- changes in technology;
- changes in applicable laws and regulations or the interpretation and enforcement thereof;
- changes in fiscal, monetary, regulatory and tax policies;
- changes in accounting standards;
- monetary fluctuations;
- changes to the Company's overall internal control environment;
- success in gaining regulatory approvals when required;
- information security breaches or cyber security attacks involving either the Company or one of the Company's third-party service providers;
- as well as other risks and uncertainties reported from time to time in the Company's filings with the Securities and Exchange Commission ("SEC"), including Part 1 Item 1A "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and Part II Item IA "Risk Factors" of this filing.

## MEMORYBANK

On October 25, 2016, the Bank opened the "digital doors" of MemoryBank, a national branchless banking platform transacting business at [www.mymemorybank.com](http://www.mymemorybank.com). MemoryBank is a separately branded division of the Bank, which from a marketing perspective, focuses on technologically savvy customers that prefer to carry larger balances in highly-liquid bank accounts.

Additional MemoryBank features include the following:

- **Higher Returns:** MemoryBank's initial product, the EarnMore account, offers a 1.0% Annual Percentage Yield plus an additional 0.5% bonus on all deposits for the first year to qualifying customers, with no minimum balance to begin earning.
- **FDIC Insurance:** As a division of RB&T, MemoryBank provides its account holders the peace of mind that comes with their accounts being FDIC insured up to the applicable limit.
- **Universal Access:** MemoryBank clients have access to over 75,000 surcharge-free automated teller machines ("ATMs") in the U.S. In addition, MemoryBank customers also have access to over 10,000 international surcharge-free ATMs.
- **Password-free login:** Eyeprint and fingerprint identification offer secure smart device login without the hassle of a password.

- Mobile deposits: MemoryBank customers can take a picture of a check with a mobile device to direct deposit into their MemoryBank account.

During its current start-up phase, MemoryBank will utilize different strategies to test market itself in three different metropolitan areas in order to determine the most efficient strategy to promote its product nationally. Currently, management has no definitive time for a national marketing campaign of the MemoryBank brand. While MemoryBank does not have a loan product offering available, management is currently evaluating different loan products for a potential offering in 2017.

For more about MemoryBank and expanded detail on the EarnMore account, including qualifications, features and limitations, visit [www.mymemorybank.com](http://www.mymemorybank.com).

Table of Contents

## BUSINESS SEGMENT COMPOSITION

As of September 30, 2016, the Company was divided into four distinct operating segments: Traditional Banking, Warehouse Lending (“Warehouse”), Mortgage Banking and Republic Processing Group (“RPG”). Management considers the first three segments to collectively constitute “Core Bank” or “Core Banking” activities.

Table 1 — Segment Information

		Three months ended September 30, 2016						
		Core Banking						
(dollars in thousands)		Traditional Banking	Warehouse Lending	Mortgage Banking	Total Core Banking		Republic Processing Group	Total Company
Net income (loss)		\$ 6,098	\$ 2,520	\$ 1,320	\$ 9,938		\$ (110)	\$ 9,828
Total assets		4,109,464	660,410	15,003	4,784,877		42,400	4,827,277
Net interest margin		3.35 %	3.63 %	NM	3.38 %		NM	3.65 %
		Three months ended September 30, 2015						
		Core Banking						
(dollars in thousands)		Traditional Banking	Warehouse Lending	Mortgage Banking	Total Core Banking		Republic Processing Group	Total Company
Net income (loss)		\$ 5,401	\$ 1,717	\$ (23)	\$ 7,095		\$ (1,455)	\$ 5,640
Total assets		3,600,230	393,110	13,832	4,007,172		28,805	4,035,977
Net interest margin		3.25 %	3.62 %	NM	3.29 %		NM	3.31 %
		Nine Months Ended September 30, 2016						
		Core Banking						
		Traditional	Warehouse	Mortgage	Total Core		Republic Processing	Total

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

(dollars in thousands)	Banking	Lending	Banking	Banking	Group	Company
Net income	\$ 17,808	\$ 5,366	\$ 1,746	\$ 24,920	\$ 10,983	\$ 35,903
Total assets	4,109,464	660,410	15,003	4,784,877	42,400	4,827,277
Net interest margin	3.22 %	3.64 %	NM	3.26 %	NM	3.62 %

Nine Months Ended September 30, 2015

Core Banking

(dollars in thousands)	Traditional Banking	Warehouse Lending	Mortgage Banking	Total Core Banking	Republic Processing Group	Total Company
Net income	\$ 16,572	\$ 4,610	\$ 163	\$ 21,345	\$ 6,403	\$ 27,748
Total assets	3,600,230	393,110	13,832	4,007,172	28,805	4,035,977
Net interest margin	3.23 %	3.58 %	NM	3.26 %	NM	3.26 %

Segment assets are reported as of the respective period ends while income and margin data are reported for the respective periods.

NM — Not Meaningful

For expanded segment financial data see Footnote 16 “Segment Information” of Part I Item 1 “Financial Statements.”

Table of Contents

(I) Traditional Banking segment

The Traditional Banking segment provides traditional banking products primarily to customers in the Company's market footprint. As of September 30, 2016, Republic had 44 full-service banking centers with locations as follows:

Kentucky — 32

Metropolitan Louisville — 19

Central Kentucky — 8

Elizabethtown — 1

Frankfort — 1

Georgetown — 1

Lexington — 4

Shelbyville — 1

Western Kentucky — 2

Owensboro — 2

Northern Kentucky — 3

Covington — 1

Florence — 1

Independence — 1

Southern Indiana — 3

Floyds Knobs — 1

Jeffersonville — 1

New Albany — 1

Metropolitan Tampa, Florida — 6

Metropolitan Cincinnati, Ohio — 1

Republic's headquarters are located in Louisville, which is the largest city in Kentucky based on population.

With the launch of MemoryBank on October 25, 2016, the Traditional Banking segment began marketing the EarnMore deposit account to customers outside of its traditional market footprint under its MemoryBank brand at [www.mymemorybank.com](http://www.mymemorybank.com). As of September 30, 2016 and through the date of this filing, generally all Traditional Banking products and services, except for the EarnMore deposit account, were offered through the Company's traditional RB&T brand.

The Bank's principal lending activities consists of the following:

**Retail Mortgage Lending** — Through its retail banking centers detailed above, its Correspondent Lending channel and its Internet Banking channel, the Bank originates single family, residential real estate loans. In addition, the Bank originates home equity amortizing loans ("HEAL") and home equity lines of credit ("HELOCs") through its retail banking centers. All such loans are generally collateralized by owner-occupied property.

**Commercial Lending** — The Bank's Commercial and Corporate Banking department (the "CCB Department") is composed of Corporate Banking, Commercial Finance, Municipal Lending, and Republic Realty. Corporate Banking's marketing focus is locally-based companies within the Bank's market footprint, typically with revenues of \$15 million to \$150 million. Commercial and industrial ("C&I") loans typically include those secured by General Business Assets ("GBA"), which consist of equipment, accounts receivable, inventory, and other business assets owned by the borrower/guarantor. The Commercial Finance Group targets financing for equipment, typically ranging from \$100,000 to \$500,000 per unit financed with five to seven year terms. The Municipal Lending Area responds to financing requests from cities and counties, largely in the state of Kentucky and in southern Indiana. Republic Realty is focused on originating stabilized commercial real estate ("CRE") loans with low leverage and strong cash flows.

In the previous two years, while continuing to increase its total commercial-related loan portfolio, the Bank has strived to diversify its commercial loan mix by increasing the ratio of C&I loans to total commercial loans and conversely decreasing the ratio of CRE loans to total commercial loans.



Table of Contents

Construction and Land Development Lending — The Bank originates residential construction real estate loans to finance the construction of single family dwellings. Such loans also are made to contractors to build single-family dwellings under contract or directly to consumers. Construction loans are generally offered on the same basis as other single family, first lien residential real estate loans, except that a larger percentage down payment is typically required.

The Bank also originates land development loans to real estate developers for the acquisition, development and construction of commercial projects.

Internet Lending — The Bank accepts online loan applications for its RB&T brand through its website at [www.republicbank.com](http://www.republicbank.com). Historically, the majority of loans originated through the internet have been within the Bank's traditional markets of Kentucky and Indiana. Other states where loans are marketed include California, Colorado, Florida, Georgia, Illinois, Michigan, Minnesota, North Carolina, Ohio, Tennessee and Virginia, as well as the District of Columbia.

Correspondent Lending — Primarily from its Warehouse clients, the Core Bank acquires for investment single family, first lien mortgage loans that meet the Core Bank's specifications through its Correspondent Lending channel. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium.

Consumer Lending — Traditional consumer loans made by the Bank include home improvement and home equity loans, as well as other secured and unsecured personal loans in addition to credit cards. With the exception of home equity loans, which are actively marketed in conjunction with single family, first lien residential real estate loans, other traditional consumer loan products, while available, are not and have not been actively promoted in the Bank's markets.

The Bank may, from time to time, acquire unsecured consumer installment loans for investment from a third-party originator. Such consumer loans are purchased at par and are selected by the Bank based on certain underwriting characteristics.

Indirect Lending – In the fourth quarter of 2015, the Bank initiated a formal indirect lending division to grow its presence in the consumer auto loan market. The program involves establishing relationships with automobile dealers in the Bank's market footprint and obtaining consumer auto loans in a low-cost delivery method. As a result of its success in Indirect Auto Lending, the Bank intends to enter Dealer Floor Plan lending during the fourth quarter of 2016.

The Bank's other Traditional Banking activities generally consists of the following:

Private Banking — The Bank provides financial products and services to high net worth individuals through its Private Banking Department. The Bank’s Private Banking officers have extensive banking experience and are trained to meet the unique financial needs of this clientele.

Treasury Management Services — The Bank provides various deposit products designed for commercial business clients located throughout its market areas. Lockbox processing, business on-site deposit, business on-line banking, Internet bill pay, payroll processing, virtual vault, courier service, controlled disbursement accounts, corporate purchasing credit cards, account reconciliation and Automated Clearing House (“ACH”) processing are additional services offered to commercial businesses through the Bank’s Treasury Management Department.

Internet Banking — The Bank expands its market penetration and service delivery of its RB&T brand by offering clients Internet Banking services and products through its website, [www.republicbank.com](http://www.republicbank.com). The Bank promotes the EarnMore account solely through its Memory Bank brand at [www.mymemorybank.com](http://www.mymemorybank.com).

Mobile Banking — The Bank allows clients to easily and securely access and manage their accounts through its mobile banking application.

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

Bank Acquisitions — The Bank maintains an acquisition strategy to selectively grow its franchise as a complement to its organic growth strategies.

See additional detail regarding the Traditional Banking segment under Footnote 16 “Segment Information” of Part I Item 1 “Financial Statements.”

Table of Contents

(II) Warehouse Lending segment

The Bank provides short-term, revolving credit facilities to mortgage bankers across the Nation through mortgage warehouse lines of credit. These credit facilities are secured by single family, first lien residential real estate loans. The credit facility enables the mortgage banking clients to close single family, first lien residential real estate loans in their own name and temporarily fund their inventory of these closed loans until the loans are sold to investors approved by the Bank or purchased by the Bank through its Correspondent Lending channel. Individual loans are expected to remain on the warehouse line for an average of 15 to 30 days. Interest income and loan fees are accrued for each individual loan during the time the loan remains on the warehouse line and collected when the loan is sold. The Bank receives the sale proceeds of each loan directly from the investor and applies the funds to pay off the warehouse advance and related accrued interest and fees. The remaining proceeds are credited to the mortgage banking client.

See additional detail regarding the Warehouse Lending segment under Footnote 16 “Segment Information” of Part I Item 1 “Financial Statements.”

(III) Mortgage Banking segment

Mortgage Banking activities primarily include 15-, 20- and 30-year fixed-term single family, first lien residential real estate loans that are sold into the secondary market, primarily to the Federal Home Loan Mortgage Corporation (“FHLMC” or “Freddie Mac”). The Bank typically retains servicing on these loans. Administration of loans with servicing retained by the Bank includes collecting principal and interest payments, escrowing funds for property taxes and property insurance and remitting payments to secondary market investors. A fee is received by the Bank for performing these standard servicing functions.

See additional detail regarding Mortgage Banking under Footnote 11 “Mortgage Banking Activities” and Footnote 16 “Segment Information” of Part I Item 1 “Financial Statements.”

(IV) Republic Processing Group segment

All divisions of the RPG segment operate through the Bank.

Tax Refund Solutions (“TRS”)division — Republic, through its TRS division, is one of a limited number of financial institutions that facilitates the receipt and payment of federal and state tax refund products through third-party tax preparers located throughout the Nation, as well as tax-preparation software providers. Substantially all of the business generated by the TRS division occurs in the first half of the year. The TRS division traditionally operates at a loss during the second half of the year, during which time the division incurs costs preparing for the upcoming year’s

first quarter tax season.

Refund Transfers (“RTs”) are products whereby a tax refund is issued to the taxpayer after the Bank has received the refund from the federal or state government. There is no credit risk or borrowing cost associated with these products because they are only delivered to the taxpayer upon receipt of the refund directly from the governmental paying authority.

#### “Easy Advance” Product

Since RB&T’s discontinuance of Refund Anticipation Loans (“RALs”) in April 2012, the tax industry, as a whole, has continued to make credit alternatives available to its customer base each year, including the availability of RALs in various states through finance companies. One credit alternative to a traditional RAL the industry has developed is a product that allows a taxpayer to receive an advance of a portion of their refund with no additional fee paid by the taxpayer, and all fees for the advance being paid by the tax preparer or tax software company (collectively, the “Tax Providers”) to the lenders that offer this product.

TRS offered its new Easy Advance (“EA”) tax credit product during the first quarter of 2016. The EA product had the following features during the period it was offered through February 29, 2016:

- An advance amount of \$750 per taxpayer customer;
- No EA fee charged to the taxpayer customer;
- All fees for the product were paid by the Tax Providers with a restriction prohibiting the Tax Providers from passing along the fees to the taxpayer customer;
- No requirement that the taxpayer customer pay for another bank product, such as an RT;

Table of Contents

- Multiple funds disbursement methods, including direct deposit, prepaid card, check or the Walmart Direct2Cash® product, based on the taxpayer customer's election;
- Repayment of the EA to the Bank was deducted from the taxpayer customer's tax refund proceeds; and
- If an insufficient refund to repay the EA occurred:
  - o there was no recourse to the taxpayer customer,
  - o no negative credit reporting on the taxpayer customer, and
  - o no collection efforts against the taxpayer customer.

Fees paid by the Tax Providers to the Company for the EA product are reported as interest income on loans. EAs during 2016 were generally repaid within three weeks after the taxpayer customer's tax return was submitted to the applicable tax authority. Provisions for loss on EAs were estimated when advances were made, with all loss provisions made in the first quarter of 2016. Unpaid EAs were charged-off within 81 days after the taxpayer customer's tax return was submitted to the applicable tax authority, with the majority of charge-offs recorded during the second quarter of 2016.

The Company intends to make available an EA product for the first quarter 2017 tax season. Management currently plans for the EA product offering for the first quarter 2017 tax season to have more than one advance amount and a different price structure to the Electronic Return Originator ("ERO") based on the amount borrowed by the taxpayer. All other features of the product are expected to remain substantially the same as those from the first quarter 2016 tax season.

See additional detail regarding the EA product under Footnote 5 "Loans and Allowance for Loan and Lease Losses" of Part I Item 1 "Financial Statements" and additional discussion regarding the RPG segment and the EA under Part II Item 1A "Risk Factors."

Republic Payment Solutions ("RPS") division — The RPS division is an issuing bank offering general-purpose reloadable prepaid cards through third party program managers. For the projected near-term, as the prepaid card program matures, the operating results of the RPS division are expected to be immaterial to the Company's overall results of operations and will be reported as part of the RPG segment. The RPS division will not be reported as a separate segment until such time, if any, that it meets reporting thresholds.

Republic Credit Solutions ("RCS") division — The RCS division offers short-term consumer credit products. In general, the credit products are unsecured, small-dollar consumer loans with maturities of 30 days-or-more, and are dependent on various factors including the consumer's ability to repay. The RCS division will not be reported as a separate segment until such time, if any, that it meets reporting thresholds.

Table of Contents

OVERVIEW (Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015)

Total Company net income for the third quarter of 2016 was \$9.8 million, a \$4.2 million, or 74%, increase from the same period in 2015. Diluted earnings per Class A Common Share increased to \$0.47 for the quarter ended September 30, 2016 compared from \$0.27 for the same period in 2015.

General highlights by business segment for the quarter ended September 30, 2016 consisted of the following:

Traditional Banking segment

- Net income increased \$697,000, or 13%, for the third quarter of 2016 compared to the same period in 2015.
- Net interest income increased \$3.5 million, or 13%, for the third quarter of 2016 compared to the same period in 2015.
- The Traditional Banking Provisions for Loan and Lease Losses (“Provision”) was \$289,000 for the third quarter of 2016 compared to \$1.3 million for the same period in 2015.
- Total noninterest income increased \$784,000, or 13%, for the third quarter of 2016 compared to the same period in 2015.
- Total noninterest expense increased \$4.8 million, or 20%, during the third quarter of 2016 compared to the third quarter of 2015.

Warehouse Lending segment

- Net income increased \$803,000, or 47%, for the third quarter of 2016 compared to the same period in 2015.
- Net interest income increased \$1.6 million, or 49%, for the third quarter of 2016 compared to the same period in 2015.
-

The Warehouse Provision was a charge of \$188,000 for the third quarter of 2016 compared to a credit of \$238,000 for the same period in 2015.

#### Mortgage Banking segment

- Within the Mortgage Banking segment, mortgage banking income increased \$2.1 million, or 217%, during the third quarter of 2016 compared to the same period in 2015, with \$1.1 million of the increase attributable to a bulk loan sale of \$71 million representing a portion of the Company's correspondent loan portfolio during the third quarter of 2016.
- Overall, excluding the aforementioned bulk loan sale, Republic's proceeds from the sale of secondary market loans totaled \$65 million during the third quarter of 2016 compared to \$35 million during the same period in 2015.

#### Republic Processing Group segment

- Net loss improved \$1.3 million, or 92%, for the third quarter of 2016 compared to the same period in 2015.
- Net interest income increased \$2.8 million for the third quarter of 2016 compared to the same period in 2015.
- Overall, RPG recorded a net charge to the Provision of \$2.0 million during the third quarter of 2016, compared to a net charge of \$1.1 million for the same period in 2015.
- Noninterest income increased \$625,000 for the third quarter of 2016 compared to the same period in 2015.
- Noninterest expenses were \$2.7 million for the third quarter of 2016 compared to \$2.3 million for the same period in 2015.

Table of Contents

RESULTS OF OPERATIONS (Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015)

Net Interest Income

Banking operations are significantly dependent upon net interest income. Net interest income is the difference between interest income on interest-earning assets, such as loans and investment securities and the interest expense on interest-bearing liabilities used to fund those assets, such as interest-bearing deposits, securities sold under agreements to repurchase and Federal Home Loan Bank (“FHLB”) advances. 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.

Total Company net interest income increased \$8.0 million, or 25%, during the third quarter of 2016 compared to the same period in 2015. The primary driver of the increase in total Company net interest income was growth in the Company’s quarterly average loans. The total Company net interest margin increased to 3.65% during the third quarter of 2016 compared to 3.31% for the same period in 2015.

The most significant components affecting the total Company’s net interest income by business segment follow:

Traditional Banking segment

Net interest income within the Traditional Banking segment increased \$3.5 million, or 13%, for the quarter ended September 30, 2016 compared to the same period in 2015. The Traditional Banking net interest margin was 3.35% for the third quarter of 2016, an increase of 10 basis points from the same period in 2015.

The increases in the Traditional Bank’s net interest income and net interest margin during the third quarter of 2016 were primarily attributable to the following factors:

- Average Traditional Bank loans outstanding, excluding loans from the Company’s May 17, 2016 Cornerstone Bancorp, Inc. (“Cornerstone”) acquisition and its 2012 FDIC-assisted transactions, were \$2.9 billion with a weighted average yield of 4.12% during the third quarter of 2016 compared to \$2.8 billion with a weighted average yield of 4.08% during the third quarter of 2015. The overall effect of these changes in rate and volume was an increase of \$3.8 million in interest income. This increase in average loans for the third quarter of 2016 over the third quarter of 2015 was driven primarily by growth in the Bank’s CRE, C&I, HELOC and Indirect Auto portfolios over the



previous 12 months.

- Net interest income related to the Company's May 17, 2016 Cornerstone acquisition contributed \$1.9 million to the Traditional Bank's overall net interest income during the third quarter of 2016. Loan accretion income related to the Cornerstone acquisition was approximately \$34,000 for the quarter. See additional detail regarding the Company's acquisition of Cornerstone Bancorp, Inc. under Footnote 2 "Acquisition of Cornerstone Bancorp, Inc." of Part I Item 1 "Financial Statements."
- Net interest income related to loans from the Company's 2012 FDIC-assisted transactions was lower during the third quarter of 2016 compared to the same period in 2015 primarily due to a lower rate of favorable payoffs and paydowns on the portfolio during the third quarter of 2016. When loans from these transactions are paid off, all unearned discount on such loans is immediately accreted into income. Accretion income during the third quarter of 2016 from this portfolio was \$47,000 compared to \$703,000 for the same period in 2015. Overall, the average balance of the portfolio was \$19 million with a yield of 7.08% during the third quarter of 2016 compared to \$29 million with a yield of 16.70% for 2015. The overall effect of these changes in rate and volume was a decrease of \$892,000 in interest income.
- The Company's subordinated note related to RBCT paid a fixed interest rate of 6.015% through September 30, 2015 and adjusted to LIBOR plus 1.42% thereafter. During the third quarter of 2016, the note's coupon rate was 2.05% based on the LIBOR index, or approximately 4.00% lower than the note's coupon rate during the third quarter of 2015. The lower rate equated to \$400,000 less in interest expense for the third quarter of 2016 compared to the same period in 2015. This subordinated note matures on December 31, 2035 and is currently redeemable at the Company's option on a quarterly basis. The Company elected not to redeem its subordinated note on October 1, 2016.

## Table of Contents

The FFTR, the index that many of the Bank's short-term deposit rates track, increased for the first time in nine years during December 2015. Additionally, the FOMC of the Federal Reserve Bank ("FRB") has provided further guidance that additional FFTR increases are possible during the remainder of 2016. While an increase in short-term interest rates is generally believed by management to be favorable to the Bank's net interest income and net interest margin in the near-term, such increases in short-term interest rates could have a negative impact to net interest income and net interest margin if the Bank is unable to maintain its overall funding costs at those levels assumed in its interest rate risk model or the yield curve flattens causing the spread between long-term interest rates and short-term interest rates to decrease. Unknown variables, which may impact the Bank's net interest income and net interest margin in the future, include, but are not limited to, the actual steepness of the yield curve, future demand for the Bank's financial products and the Bank's overall future liquidity needs.

### Warehouse Lending segment

Net interest income within the Warehouse Lending segment increased \$1.6 million, or 49%, for the third quarter of 2016 compared to the same period in 2015. The increase in net interest income was partially attributable to higher average outstanding balances and partially to higher weighted average loan yield for the current period as compared to the same period in 2015. Total Warehouse line commitments increased to \$915 million at September 30, 2016 from \$653 million at September 30, 2015, with the Company continuing to grow its Warehouse client base over the previous 12 months. Furthermore, average line usage on Warehouse commitments increased to 62% during the third quarter of 2016 compared to 56% during the third quarter of 2015. Usage rates during both quarters benefitted from continued low, long-term mortgage rates during the periods. The yield for Warehouse lines of credit during the third quarter of 2016 increased 16 basis points from the same period in 2015, as the Warehouse yield was positively impacted by an increase in short-term interest rates.

Overall, average outstanding Warehouse lines of credit during the third quarter of 2016 increased \$178 million, or 49%, compared to the same period in 2015. Average outstanding warehouse lines were \$543 million during the third quarter of 2016 with a weighted average yield of 4.02%, compared to average outstanding lines of \$365 million with a weighted average yield of 3.86% for the same period in 2015.

### Republic Processing Group segment

Net interest income within the RPG segment increased \$2.8 million for the third quarter of 2016 compared to the same period in 2015. The increase in RPG's net interest income was primarily attributable to growth in short-term, consumer credit products through the RCS division of RPG. Such products contributed \$3.2 million of net interest income during the third quarter of 2016 compared to \$423,000 for the same period in 2015. This increase was primarily driven by the previously reported growth in one of RCS' loan programs, which moved beyond its pilot phase during June of 2015.

See additional detail regarding RCS loan sales under Footnote 4 “Loans Held for Sale” of Part I Item 1 “Financial Statements.”

Table of Contents

Table 2 — Total Company Average Balance Sheets and Interest Rates for the Three Months Ended September 30, 2016 and 2015

(dollars in thousands)	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015				
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate		
<b>ASSETS</b>								
Interest-earning assets:								
Taxable investment securities, including FHLB stock(1)	\$ 554,508	\$ 2,216	1.60	%	\$ 533,956	\$ 2,039	1.53	%
Federal funds sold and other interest-earning deposits	58,910	122	0.83		30,633	28	0.37	
RPG Easy Advance loans and fees(2)	—	—	—		—	—	—	
Other RPG loans and fees(2)(3)	18,855	3,201	67.91		8,317	439	21.11	
Warehouse lines of credit and fees(2)(3)	542,894	5,457	4.02		365,291	3,525	3.86	
All other loans and fees(2)(3)	3,140,344	32,936	4.20		2,861,449	30,076	4.20	
Total interest-earning assets	4,315,511	43,932	4.07		3,799,646	36,107	3.80	
Allowance for loan and lease losses	(29,544)				(26,032)			
Noninterest-earning assets:								
Noninterest-earning cash and cash equivalents	74,055				62,422			
Premises and equipment, net	43,506				32,727			
Bank owned life insurance	61,225				51,963			
Other assets(1)	67,205				50,775			
Total assets	\$ 4,531,958				\$ 3,971,501			
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>								

Interest-bearing liabilities:								
Transaction accounts	\$ 1,012,417	\$ 275	0.11	%	\$ 863,630	\$ 148	0.07	%
Money market accounts	552,115	289	0.21		491,486	194	0.16	
Time deposits	230,386	560	0.97		202,531	505	1.00	
Brokered money market and brokered certificates of deposit	360,371	497	0.55		182,906	221	0.48	
Total interest-bearing deposits	2,155,289	1,621	0.30		1,740,553	1,068	0.25	
Securities sold under agreements to repurchase and other short-term borrowings	215,343	10	0.02		363,905	17	0.02	
Federal Home Loan Bank advances	584,946	2,662	1.82		616,509	2,982	1.93	
Subordinated note	44,288	241	2.18		41,240	616	5.97	
Total interest-bearing liabilities	2,999,866	4,534	0.60		2,762,207	4,683	0.68	
Noninterest-bearing liabilities and stockholders' equity:								
Noninterest-bearing deposits	900,432				609,641			
Other liabilities	30,617				22,468			
Stockholders' equity	601,043				577,185			
Total liabilities and stockholders' equity	\$ 4,531,958				\$ 3,971,501			
Net interest income		\$ 39,398				\$ 31,424		
Net interest spread			3.47	%			3.12	%
Net interest margin			3.65	%			3.31	%

- 
- (1) For the purpose of this calculation, the fair market value adjustment on investment securities resulting from ASC Topic 320, Investments — Debt and Equity Securities, is included as a component of other assets.
  - (2) The total amount of loan fee income included in total interest income was \$4.8 million and \$2.5 million for the three months ended September 30, 2016 and 2015.
  - (3) Average balances for loans include the principal balance of nonaccrual loans and loans held for sale, and are inclusive of all loan premiums, discounts, fees and costs.



Table of Contents

Table 3 illustrates the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities impacted 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) 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 3 — Total Company Volume/Rate Variance Analysis for the Three Months Ended September 30, 2016 and 2015

(in thousands)	Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015		
	Total Net Change	Increase / (Decrease) Due to Volume	Rate
Interest income:			
Taxable investment securities, including FHLB stock	\$ 177	\$ 80	\$ 97
Federal funds sold and other interest-earning deposits	94	40	54
RPG Easy Advance fees	—	—	—
Other RPG loans and fees	2,762	1,005	1,757
Warehouse lines of credit and fees	1,932	1,780	152
All other loans and fees	2,860	2,926	(66)
Net change in interest income	7,825	5,831	1,994
Interest expense:			
Transaction accounts	127	29	98
Money market accounts	95	26	69
Time deposits	55	68	(13)
Brokered money market and brokered certificates of deposit	276	241	35
Securities sold under agreements to repurchase and other short-term borrowings	(7)	(7)	—
Federal Home Loan Bank advances	(320)	(149)	(171)
Subordinated note	(375)	43	(418)
Net change in interest expense	(149)	251	(400)
Net change in net interest income	\$ 7,974	\$ 5,580	\$ 2,394

## Provision for Loan and Lease Losses

The total Company recorded a Provision of \$2.5 million for the third quarter of 2016, compared to \$2.2 million for the same period in 2015. The significant components comprising the Company's Provision by business segment were as follows:

### Traditional Banking segment

The Traditional Banking Provision during the third quarter of 2016 was \$289,000, compared to \$1.3 million for the third quarter of 2015. An analysis of the Provision for the third quarter of 2016 compared to the same period in 2015 follows:

- Related to the Bank's pass-rated and non-rated credits, the Bank recorded net charges of \$499,000 and \$1.0 million to the Provision for the third quarters of 2016 and 2015. Loan growth primarily drove the net charges to the Provision in both periods.
- Related to the Bank's loans rated Substandard and Special Mention, the Bank recorded a net credit to the Provision of \$65,000 for the third quarter of 2016 compared to a net charge of \$224,000 to the Provision during the third quarter 2015. The net charge during the third quarter of 2015 was the result of an increase in the assumed lives for a portion of the Bank's retail



Table of Contents

Troubled Debt Restructurings (“TDRs”) based on an updated analysis of recent payment histories of these loans. The longer assumed lives on such loans increased the impairment for these loans measured under the cash flow method.

- Related to purchased-credit-impaired (“PCI”) loans, the Bank recorded a net credit of \$145,000 to the Provision during the third quarter of 2016 compared to a net charge of \$67,000 for the same period in 2015. Charges generally reflect projected shortfalls in cash flows below initial acquisition-day estimates for PCI loans, while credits are primarily attributable to generally positive dispositions.

As a percentage of total loans, the Traditional Banking Allowance for Loan and Lease Losses (“Allowance”) was 0.81% at September 30, 2016 compared to 0.85% at both December 31, 2015 and September 30, 2015. The Company believes, based on information presently available, that it has adequately provided for its loan portfolio within its Allowance at September 30, 2016.

See the sections titled “Allowance for Loan and Lease Losses” and “Asset Quality” in this section of the filing under “Comparison of Financial Condition” for additional discussion regarding the Provision and the Bank’s credit quality.

Warehouse Lending segment

The Warehouse Provision was a charge of \$188,000 for the third quarter of 2016, a \$426,000 increase from the same period in 2015. Provision expense for both periods reflected changes in general reserves consistent with changes in outstanding balances. Outstanding Warehouse balances increased \$75 million during the third quarter of 2016 compared to a decrease of \$95 million during the third quarter of 2015.

As a percentage of total Warehouse outstanding balances, the Warehouse Allowance was 0.25% at September 30, 2016, December 31, 2015 and September 30, 2015. The Company believes, based on information presently available, that it has adequately provided for Warehouse loan losses at September 30, 2016.

Republic Processing Group segment

RPG recorded a net charge to the Provision of \$2.0 million during the third quarter of 2016, an increase of \$879,000 compared to same period in 2015. The Bank recorded charges of \$2.1 million and \$1.2 million to the Provision during the third quarters of 2016 and 2015 associated with growth in the RCS division’s short-term, consumer loans as one of its programs moved beyond its pilot phase during June 2015 and has continued to grow modestly since.

Partially offsetting the Provision related to RCS loans, the TRS division recorded net recoveries of \$88,000 during the third quarter of 2016 on its EA product and its former Refund Anticipation Loan (“RAL”) product. The EA product was first offered during the first quarter of 2016, while the RAL product was discontinued after the 2012 tax season. TRS recorded similar recoveries of \$21,000 on the RAL product during the third quarter of 2015.

While RPG loans generally return higher yields, they also present a greater credit risk than Traditional Banking loan products. As a percentage of total RPG loans, the RPG Allowance was 20.33% at September 30, 2016 compared to 23.25% at December 31, 2015 and 23.92% at September 30, 2015. The Company believes, based on information presently available, that it has adequately provided for RPG loan losses at September 30, 2016.

Table of Contents

Table 4 — Summary of Loan and Lease Loss Experience for the Three Months Ended September 30, 2016 and 2015

(dollars in thousands)	Three Months Ended September 30,	
	2016	2015
Allowance at beginning of period	\$ 29,308	\$ 25,248
Charge-offs:		
Residential real estate		
Owner occupied	(56)	(153)
Owner occupied - correspondent	—	—
Non owner occupied	—	(97)
Commercial real estate	—	(27)
Commercial real estate - purchased whole loans	—	—
Construction & land development	—	—
Commercial & industrial	—	—
Lease financing receivables	—	—
Warehouse lines of credit	—	—
Home equity	(145)	(110)
Consumer:		
RPG loans	(1,352)	(182)
Credit cards	(91)	(30)
Overdrafts	(239)	(152)
Purchased whole loans	(93)	(25)
Other consumer	(99)	(82)
Total charge-offs	(2,075)	(858)
Recoveries:		
Residential real estate		
Owner occupied	142	76
Owner occupied - correspondent	—	—
Non owner occupied	—	—
Commercial real estate	34	—
Commercial real estate - purchased whole loans	—	—
Construction & land development	10	—
Commercial & industrial	121	18
Lease financing receivables	—	—
Warehouse lines of credit	—	—
Home equity	31	54
Consumer:		
RPG loans	234	24
Credit cards	17	6
Overdrafts	55	63

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

Purchased whole loans	9	1
Other consumer	61	94
Total recoveries	714	336
Net loan charge-offs	(1,361)	(522)
Provision - Core Banking	477	1,100
Provision - RPG	2,012	1,133
Total Provision	2,489	2,233
Allowance at end of period	\$ 30,436	\$ 26,959

Credit Quality Ratios:

Allowance to total loans	0.80	%	0.82	%
Allowance to nonperforming loans	169		116	
Net loan charge-offs to average loans (annualized) - Total Company	0.15		0.06	
Net loan charge-offs to average loans (annualized) - Core Bank	0.03		0.05	

Table of Contents

Noninterest Income

Total Company noninterest income increased \$3.5 million, or 45%, during the third quarter of 2016 compared to the same period in 2015. The most significant components comprising the total Company's increase in noninterest income by business segment were as follows:

Traditional Banking segment

Traditional Banking segment noninterest income increased \$784,000, or 13%, for the third quarter of 2016 compared to the same period in 2015. The most significant categories affecting the change in noninterest income for the quarter were as follows:

- Interchange fees increased \$499,000, primarily due to an increase in debit card interchange revenue. The higher revenue for debit card transactions was primarily the result of growth in retail checking accounts and an increase in customer use of signature-based transactions, which grew 12% when comparing the third quarter of 2016 to the same period in 2015.
- Other income increased \$292,000 during the third quarter of 2016 compared to the same period in 2015, as the Bank achieved certain contractual performance measures during the third quarter of 2016 that resulted in supplemental payments from its issuing credit and debit card brand.

Service charges on deposit accounts remained at \$3.4 million for the third quarter of 2016 compared the same period in 2015. The Bank earns a substantial majority of its fee income related to its overdraft service program from the per item fee it assesses its customers for each insufficient funds check or electronic debit presented for payment. The total per item fees, net of refunds, included in service charges on deposits for the quarters ended September 30, 2016 and 2015 were \$2.1 million and \$2.0 million. The total daily overdraft charges, net of refunds, included in interest income for the quarters ended September 30, 2016 and 2015 were \$445,000 and \$434,000.

Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income increased \$2.1 million, or 217%, during the third quarter of 2016 compared to the same period in 2015, with \$1.1 million of the increase attributable to a bulk loan sale of \$71 million representing a portion of the Company's correspondent loan portfolio during the third quarter of 2016. Overall, excluding the aforementioned bulk loan sale, Republic's proceeds from the sale of secondary market loans totaled \$65 million during the third quarter of 2016 compared to \$35 million during the same period in 2015. Republic's net gains as a percentage of loans sold decreased from 2.42% during the third quarter of 2015 to 2.25% during the third quarter of 2016. Volume during the third quarters of 2016 and 2015 benefited from continued low, long-term mortgage interest rates.

#### Republic Processing Group segment

Within the RPG segment, noninterest income increased \$625,000, or 98%, during the third quarter of 2016 compared to the same period in 2015. The increase is primarily due to a \$505,000 increase in program fees from short-term, consumer loans originated and sold through the RCS division of RPG. The increase in RPG program fees resulted from the previously reported increase in volume from one of the RCS' small-dollar consumer loan programs. As part of this program, the Company retains a 10% ownership in the loans originated and sells a 90% participation interest in these loans. During the third quarter of 2016, the Company sold approximately \$100 million of loans from this program compared to \$68 million during the third quarter of 2015.

Table of Contents

Noninterest Expenses

Total Company noninterest expenses increased \$5.3 million, or 19%, during the third quarter of 2016 compared to the same period in 2015. The most significant components comprising the increase in noninterest expense by business segment were as follows:

Traditional Banking segment

For the third quarter of 2016 compared to the same period in 2015, Traditional Banking noninterest expenses increased \$4.8 million, or 20%. The most significant categories affecting the change in noninterest expense for the quarter were as follows:

- Salaries and benefits expense increased \$2.5 million, primarily due to an increase of 116 full-time-equivalent (“FTE”) employees from September 30, 2015 to September 30, 2016. A total of 36 of these additions was directly attributable to the Company’s Cornerstone acquisition. The remaining increase of 80 FTEs was driven by additional staffing needed to implement the Company’s strategic initiatives.
- Data processing expenses increased \$626,000, with \$212,000 of the increase attributable to the Company’s Cornerstone acquisition. The remainder of the increase was spread across multiple loan and deposit platforms and was due to growth in the Company’s overall customer base.
- The Traditional Bank incurred a prepayment penalty of \$846,000 during the quarter related to the payoff of \$50 million in long-term Federal Home Loan Bank advances. The Traditional Bank expects to recover the amount of this penalty through a reduction in interest expense over what would have been the remaining original term of these advances. These advances carried an interest rate of 4.39% and an original maturity of March 9, 2017.

See additional detail regarding the Company’s acquisition of Cornerstone Bancorp, Inc. under Footnote 2 “Acquisition of Cornerstone Bancorp, Inc.” of Part I Item 1 “Financial Statements.”

Republic Processing Group segment

Within the RPG segment, noninterest expenses increased \$369,000, or 16%, during the third quarter of 2016 compared to the same period in 2015. The increase is primarily due to a \$334,000 increase in salaries and benefits expense, driven by additional staff added during the year to support growth in the TRS and RCS divisions.

OVERVIEW (Nine months Ended September 30, 2016 Compared to Nine months Ended September 30, 2015)

Total Company net income for the first nine months of 2016 was \$35.9 million, representing an increase of \$8.2 million, or 29%, compared to the same period in 2015. Diluted earnings per Class A Common Share increased to \$1.73 for the nine months ended September 30, 2016 compared to \$1.34 for the same period in 2015.

General highlights by business segment for the nine months ended September 30, 2016 consisted of the following:

Traditional Banking segment

- Net income increased \$1.2 million, or 7%, for the nine months ended of 2016 compared to the same period in 2015.
- Net interest income increased \$8.9 million, or 11%, for the first nine months of 2016 compared to the same period in 2015.
- The Traditional Banking Provision was \$1.6 million for the first nine months of 2016 compared to \$2.0 million for the same period in 2015.
- Total noninterest income increased \$2.0 million, or 12%, for the first nine months of 2016 compared to the same period in 2015.
- Total noninterest expense increased \$10.2 million, or 14%, during the first nine months of 2016 compared to the first nine months of 2015.



Table of Contents

Warehouse Lending segment

- Net income increased \$756,000, or 16%, for the first nine months of 2016 compared to the same period in 2015.
- Net interest income increased \$2.0 million, or 22%, for the first nine months of 2016 compared to the same period in 2015.
- The Warehouse Provision was \$686,000 for the first nine months of 2016 compared to \$185,000 for the same period in 2015.

Mortgage Banking segment

- Within the Mortgage Banking segment, mortgage banking income increased \$2.4 million, or 66%, during the first nine months of 2016 compared to the same period in 2015, with \$1.1 million of the increase attributable to a bulk loan sale of \$71 million representing a portion of the Company's correspondent loan portfolio during the third quarter of 2016.
- Overall, excluding the aforementioned bulk loan sale, Republic's proceeds from the sale of secondary market loans totaled \$155 million during the first nine months of 2016 compared to \$129 million during the same period in 2015. Volume during both periods benefited from continued low, long-term mortgage interest rates.

Republic Processing Group segment

- Net income increased \$4.6 million, or 72%, for the first nine months of 2016 compared to the same period in 2015.
- Net interest income increased \$12.0 million for the first nine months of 2016 compared to the same period in 2015.
- Overall, RPG recorded a net charge to the Provision of \$7.2 million during the first nine months of 2016, compared to net charge of \$1.1 million for the same period in 2015.
  - Noninterest income increased \$2.4 million, or 13%, for the first nine months of 2016 compared to the same period in 2015.

Noninterest expenses were \$10.7 million for the first nine months of 2016 compared to \$9.6 million for the same period in 2015, a \$1.1 million, or 11% increase.

RESULTS OF OPERATIONS (Nine months Ended September 30, 2016 Compared to Nine months Ended September 30, 2015)

Net Interest Income

Banking operations are significantly dependent upon net interest income. Net interest income is the difference between interest income on interest-earning assets, such as loans and investment securities and the interest expense on interest-bearing liabilities used to fund those assets, such as interest-bearing deposits, securities sold under agreements to repurchase and FHLB advances. 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.

Total Company net interest income increased \$22.9 million, or 25%, during the first nine months of 2016 compared to the same period in 2015. The primary drivers of the increase in total Company net interest income were the introduction of the EA product and growth in the Company's average loans. The total Company net interest margin increased to 3.62% during the first nine months of 2016 compared to 3.26% for the same period in 2015, with higher margins on the Company's newly introduced EA product and its RCS small-dollar consumer loan programs the primary drivers of the increase in the Company's net interest margin.

Table of Contents

The most significant components affecting the total Company's net interest income by business segment follow:

Traditional Banking segment

Net interest income within the Traditional Banking segment increased \$8.9 million, or 11%, for the nine months ended September 30, 2016 compared to the same period in 2015. The Traditional Banking net interest margin was 3.22% for the first nine months of 2016, a decrease of one basis point from the same period in 2015.

The increase in the Traditional Bank's net interest income and the decrease in the net interest margin during the first nine months of 2016 were primarily attributable to the following factors:

- Average Traditional Bank loans outstanding, excluding loans from the Company's May 17, 2016 Cornerstone acquisition and the 2012 FDIC-assisted transactions, were \$2.9 billion with a weighted average yield of 4.07% during the first nine months of 2016 compared to \$2.7 billion with a weighted average yield of 4.07% during the same period in 2015. The overall effect of this change in volume was an increase of \$5.3 million in interest income. This increase in average loans for the first nine months of 2016 over the same period in 2015 was driven primarily by growth in the Bank's CRE, C&I and HELOC portfolios over the previous 12 months.
- Net interest income related to the Company's May 17, 2016 Cornerstone acquisition contributed \$2.8 million to the Traditional Bank's overall net interest income during the first nine months of 2016. Loan accretion income related to the Cornerstone acquisition was approximately \$34,000 for the first nine months of 2016. See additional detail regarding the Company's acquisition of Cornerstone Bancorp, Inc. under Footnote 2 "Acquisition of Cornerstone Bancorp, Inc." of Part I Item 1 "Financial Statements."
- Net interest income related to loans from the Company's 2012 FDIC-assisted transactions was lower during the first nine months of 2016 compared to the same period in 2015 primarily due to a lower rate of favorable payoffs and paydowns on the portfolio. When loans from these transactions are paid off, all unearned discount on such loans is immediately accreted into income. Accretion income during the first nine months of 2016 from this portfolio was \$966,000 compared to \$2.1 million for the same period in 2015. Overall, the average balance of the portfolio was \$21 million with a yield of 12.80% during the first nine months of 2016 compared to \$34 million with a yield of 14.20% for 2015. The overall effect of these changes in rate and volume was a decrease of \$1.6 million in interest income.
- The Company's subordinated note related to RBCT paid a fixed interest rate of 6.015% through September 30, 2015 and adjusted to LIBOR plus 1.42% thereafter. During the first nine months of 2016, the note's coupon rate was based on the LIBOR index and approximately 4.00% lower than the note's coupon rate during the first nine months of 2015. The lower rate equated to \$1.2 million less in interest expense for the first nine months of 2016 compared to the same period in 2015. This subordinated note matures on December 31, 2035 and is redeemable at the Company's

option on a quarterly basis. The Company elected not to redeem its subordinated note on October 1, 2016.

The FFTR increased for the first time in nine years during December 2015. Additionally, the FOMC of the FRB has provided further guidance that additional FFTR increases are possible during the remainder of 2016. While an increase in short-term interest rates is generally believed by management to be favorable to the Bank's net interest income and net interest margin in the near-term, such increases in short-term interest rates could have a negative impact to net interest income and net interest margin if the Bank is unable to maintain its overall funding costs at those levels assumed in its interest rate risk model or the yield curve flattens causing the spread between long-term interest rates and short-term interest rates to decrease. Unknown variables, which may impact the Bank's net interest income and net interest margin in the future, include, but are not limited to, the actual steepness of the yield curve, future demand for the Bank's financial products and the Bank's overall future liquidity needs.

#### Warehouse Lending segment

Net interest income within the Warehouse Lending segment increased \$2.0 million, or 22%, for the first nine months of 2016 compared to the same period in 2015. The increase in net interest income was partially attributable to higher average outstanding balances and partially to higher weighted average loan yield for the current period as compared to the same period in 2015. Total Warehouse line commitments increased to \$915 million at September 30, 2016 from \$653 million at September 30, 2015, with the Company continuing to grow its Warehouse client base over the previous 12 months. Further, average line usage on Warehouse commitments remained relatively high at 56% during the first nine months of 2016 compared to 57% during the same period in 2015. Usage rates during both periods benefitted from continued low, long-term mortgage rates during the periods. The yield for Warehouse

Table of Contents

lines of credit during the first nine months of 2016 increased 20 basis points from the same period in 2015, as the Warehouse yield was positively impacted by an increase in short-term interest rates.

Overall, average outstanding Warehouse lines of credit during the first nine months of 2016 increased \$69 million, or 20%, compared to the same period in 2015. Average outstanding warehouse lines were \$417 million during the first nine months of 2016 with a weighted average yield of 4.02%, compared to average outstanding lines of \$348 million with a weighted average yield of 3.82% for the same period in 2015.

Republic Processing Group segment

Net interest income within the RPG segment increased \$12.0 million for the first nine months of 2016 compared to the same period in 2015. The increase in RPG's net interest income was primarily attributed to the following factors:

- The TRS division's newly introduced EA product earned \$5.2 million in interest income during the first nine months of 2016, with the substantial majority of this income earned during the first quarter of 2016.

See additional detail regarding the EA product under Footnote 5 "Loans and Allowance for Loan and Lease Losses" of Part I Item 1 "Financial Statements."

- The TRS division had a short-term commercial loan relationship with one of the Company's third-party program managers in the tax business. TRS earned \$1.1 million in loan fees from this relationship during the first nine months of 2016 compared to \$700,000 in loan fees for the same period in 2015.
- Short-term, consumer credit products through the RCS division of RPG earned \$7.0 million in net interest income during the first nine months of 2016 compared to \$1.6 million for the same period in 2015. The increase was driven by the previously discussed growth in one of its RCS loan programs.

Table of Contents

Table 5 — Total Company Average Balance Sheets and Interest Rates for the Nine months Ended September 30, 2016 and 2015

(dollars in thousands)	Nine Months Ended September 30, 2016			Nine Months Ended September 30, 2015		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<b>ASSETS</b>						
Interest-earning assets:						
Taxable investment securities, including FHLB stock(1)	\$ 571,740	\$ 6,611	1.54 %	\$ 530,114	\$ 6,188	1.56 %
Federal funds sold and other interest-earning deposits	147,180	706	0.64	67,960	155	0.30
RPG Easy Advance loans and fees(2)	7,040	5,210	98.67	—	—	—
Other RPG loans and fees(2)(3)	20,431	8,053	52.55	9,266	1,520	21.87
Outstanding Warehouse lines of credit and fees(2)(3)	416,665	12,569	4.02	348,052	9,972	3.82
All other loans and fees(2)(3)	3,048,861	94,940	4.15	2,791,520	87,755	4.19
Total interest-earning assets	4,211,917	128,089	4.05	3,746,912	105,590	3.76
Allowance for loan and lease losses	(29,451)			(25,114)		
Noninterest-earning assets:						
Noninterest-earning cash and cash equivalents	105,537			87,084		
Premises and equipment, net	36,986			33,361		
Bank owned life insurance	57,112			51,951		
Other assets(1)	58,780			53,016		
Total assets	\$ 4,440,881			\$ 3,947,210		

LIABILITIES AND  
STOCKHOLDERS'  
EQUITYInterest-bearing  
liabilities:

Transaction accounts	\$ 941,138	\$ 660	0.14	%	\$ 826,870	\$ 403	0.06	%
Money market accounts	542,888	790	0.29		486,249	563	0.15	
Time deposits	220,403	1,668	1.51		198,697	1,397	0.94	
Brokered money market and brokered certificates of deposit	309,768	1,241	0.80		182,072	870	0.64	

Total interest-bearing deposits	2,014,197	4,359	0.43		1,693,888	3,233	0.25	
------------------------------------	-----------	-------	------	--	-----------	-------	------	--

Securities sold under agreements to repurchase and other short-term borrowings	296,574	51	0.03		363,518	72	0.03	
Federal Home Loan Bank advances	588,109	8,590	2.92		610,571	8,907	1.95	
Subordinated note	42,926	680	3.17		41,240	1,874	6.06	

Total interest-bearing liabilities	2,941,806	13,680	0.93		2,709,217	14,086	0.69	
---------------------------------------	-----------	--------	------	--	-----------	--------	------	--

Noninterest-bearing  
liabilities and  
Stockholders' equity:

Noninterest-bearing deposits	874,060				643,128			
Other liabilities	29,779				21,383			
Stockholders' equity	595,236				573,482			
Total liabilities and stock-holders' equity	\$ 4,440,881				\$ 3,947,210			

Net interest income		\$ 114,409				\$ 91,504		
---------------------	--	------------	--	--	--	-----------	--	--

Net interest spread			3.12	%			3.07	%
---------------------	--	--	------	---	--	--	------	---

Net interest margin			3.62	%			3.26	%
---------------------	--	--	------	---	--	--	------	---

- 
- (1) For the purpose of this calculation, the fair market value adjustment on investment securities resulting from ASC Topic 320, Investments — Debt and Equity Securities, is included as a component of other assets.
  - (2) The total amount of loan fee income included in total interest income was \$18.3 million and \$7.2 million for the nine months ended September 30, 2016 and 2015.
  - (3) Average balances for loans include the principal balance of nonaccrual loans and loans held for sale, and are inclusive of all loan premiums, discounts, fees and costs.





Table of Contents

Table 6 illustrates the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities impacted 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) 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 6 — Total Company Volume/Rate Variance Analysis for the Nine months Ended September 30, 2016 and 2015

(in thousands)	Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015		
	Total Net Change	Increase / (Decrease) Due to Volume	Rate
Interest income:			
Taxable investment securities, including FHLB stock	\$ 423	\$ 482	\$ (59)
Federal funds sold and other interest-earning deposits	551	284	267
RPG Easy Advance fees	5,210	5,210	—
RPG loans and fees	6,533	3,019	3,514
Outstanding Warehouse lines of credit and fees	2,597	2,048	549
All other loans and fees	7,185	8,020	(835)
Net change in interest income	22,499	19,063	3,436
Interest expense:			
Transaction accounts	257	62	195
Money market accounts	227	71	156
Time deposits	271	159	112
Brokered money market and brokered certificates of deposit	371	530	(159)
Securities sold under agreements to repurchase and other short-term borrowings	(21)	(13)	(8)
Federal Home Loan Bank advances	(317)	(329)	12
Subordinated note	(1,194)	74	(1,268)
Net change in interest expense	(406)	554	(960)
Net change in net interest income	\$ 22,905	\$ 18,509	\$ 4,396



Table of Contents

Provision for Loan and Lease Losses

The Company recorded a Provision of \$9.5 million for the first nine months 2016, compared to \$3.3 million for the same period in 2015. The significant components comprising the Company's Provision by business segment were as follows:

Traditional Banking segment

The Traditional Banking Provision during the first nine months of 2016 was \$1.6 million, compared to \$2.0 million for the first nine months of 2015. An analysis of the Provision for the first nine months of 2016 compared to the same period in 2015 follows:

- Related to the Bank's pass-rated and non-rated credits, the Bank recorded net charges of \$1.7 million and \$1.1 million to the Provision for the first nine months of 2016 and 2015. Loan growth primarily drove the net charges to the Provision in both periods.
- Related to the Bank's loans rated Substandard and Special Mention, the Bank recorded net charges of \$113,000 and \$883,000 to the Provision during the first nine months of 2016 and 2015. As previously reported, the Bank recorded a significant provision of \$330,000 related to one C&I relationship during the second quarter of 2016, with this provision partially offset by a recovery of \$96,000 to the same loan during the third quarter of 2016 and improvements in other loans rated Substandard and Special Mention during the first nine months of 2016. The net charge during 2015 was the result of an increase in the assumed lives for a large portion of the Bank's retail TDRs based on an updated analysis of the payment histories of these loans. The longer assumed lives on such loans increased the impairment for these loans measured under the cash flow method.
- Related to PCI loans, the Bank recorded a net credit of \$266,000 to the Provision during the first nine months of 2016 compared to a net charge of \$35,000 during the same period in 2015. Charges generally reflect projected shortfalls in cash flows below initial acquisition-day estimates for PCI loans, while credits are primarily attributable to generally positive dispositions.

As a percentage of total loans, the Traditional Banking Allowance was 0.81% at September 30, 2016 compared to 0.85% at both December 31, 2015 and September 30, 2015. The Company believes, based on information presently available, that it has adequately provided for its loan portfolio within its Allowance at September 30, 2016.

See the sections titled "Allowance for Loan and Lease Losses" and "Asset Quality" in this section of the filing under "Comparison of Financial Condition" for additional discussion regarding the Provision and the Bank's credit quality.

Warehouse Lending segment

The Warehouse Provision was \$686,000 for the first nine months of 2016, a \$501,000 increase from the same period in 2015. Provision expense for both periods reflects general reserves for growth in outstanding balances. Outstanding Warehouse balances grew \$274 million during the first nine months of 2016 compared to growth of \$74 million during the first nine months of 2015.

As a percentage of total Warehouse outstanding balances, the Warehouse Allowance was 0.25% at September 30, 2016, December 31, 2015 and September 30, 2015. The Company believes, based on information presently available, that it has adequately provided for Warehouse loan losses at September 30, 2016.

Table of Contents

Republic Processing Group segment

RPG recorded a net charge to the Provision of \$7.2 million during the first nine months of 2016, an increase of \$6.1 million compared to same period in 2015. The increase in Provision was primarily attributable to the introduction of the EA product during the first nine months of 2016 and general loss reserves for growth in loans originated through the RCS division.

See additional detail regarding the Easy Advance (“EA”) product under Footnote 5 “Loans and Allowance for Loan and Lease Losses” of Part I Item 1 “Financial Statements.”

The TRS division of RPG recorded a provision for loan loss of \$3.1 million during the first nine months of 2016 on its new EA product. Of the \$123 million in EAs originated during 2016, all were either collected or charged off at September 30, 2016. Partially offsetting the Provision related to EAs, the TRS division recorded recoveries of \$296,000 during the first nine months of 2016 on its former RAL product, which was discontinued after the 2012 tax season. This compares to \$256,000 of RAL recoveries during the same period in 2015. While the RAL product was discontinued after the 2012 tax season, the Bank still receives recoveries of previously charged-off RALs.

The Bank also recorded charges of \$4.3 million and \$1.4 million to the Provision during the first nine months of 2016 and 2015 associated with growth in the RCS division’s short-term consumer loans.

While RPG loans generally return higher yields, they also present a greater credit risk than Traditional Banking loan products. As a percentage of total RPG loans, the RPG Allowance was 20.33% at September 30, 2016 compared to 23.25% at December 31, 2015 and 23.92% at September 30, 2015. The Company believes, based on information presently available, that it has adequately provided for RPG loan losses at September 30, 2016.

Table of Contents

Table 7 — Summary of Loan and Lease Loss Experience for the Nine months Ended September 30, 2016 and 2015

(dollars in thousands)	Nine Months Ended	
	September 30, 2016	2015
Allowance at beginning of period	\$ 27,491	\$ 24,410
Charge-offs:		
Residential real estate		
Owner occupied	(317)	(467)
Owner occupied - correspondent	—	—
Non owner occupied	—	(126)
Commercial real estate	(41)	(181)
Commercial real estate - purchased whole loans	—	—
Construction & land development	(44)	—
Commercial & industrial	(330)	(56)
Lease financing receivables	—	—
Warehouse lines of credit	—	—
Home equity	(229)	(182)
Consumer:		
RPG loans	(6,546)	(208)
Credit cards	(153)	(101)
Overdrafts	(571)	(401)
Purchased whole loans	(216)	(97)
Other consumer	(238)	(242)
Total charge-offs	(8,685)	(2,061)
Recoveries:		
Residential real estate		
Owner occupied	293	200
Owner occupied - correspondent	—	—
Non owner occupied	8	6
Commercial real estate	140	90
Commercial real estate - purchased whole loans	—	—
Construction & land development	30	—
Commercial & industrial	125	56
Lease financing receivables	—	—
Warehouse lines of credit	—	—
Home equity	135	113
Consumer:		
RPG loans	956	261
Credit cards	29	47
Overdrafts	187	238

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

Purchased whole loans	15	1
Other consumer	223	276
Total recoveries	2,141	1,288
Net loan charge-offs	(6,544)	(773)
Provision - Core Banking	2,253	2,192
Provision - RPG	7,236	1,130
Total Provision	9,489	3,322
Allowance at end of period	\$ 30,436	\$ 26,959

Credit Quality Ratios:

Allowance to total loans	0.80	%	0.82	%
Allowance to nonperforming loans	169		116	
Net loan charge-offs to average loans (annualized) - Total Company	0.25		0.03	
Net loan charge-offs to average loans (annualized) - Core Bank	0.04		0.04	

Table of Contents

Noninterest Income

Total Company noninterest income increased \$6.7 million, or 17%, during the first nine months of 2016 compared to the same period in 2015. The most significant components comprising the total Company's increase in noninterest income by business segment were as follows:

Traditional Banking segment

Traditional Banking segment noninterest income increased \$2.0 million, or 12%, for the first nine months of 2016 compared to the same period in 2015. The most significant categories affecting the change in noninterest income for the first nine months were as follows:

- Interchange fees increased \$1.3 million primarily due to an increase in debit card interchange revenue. The higher revenue for debit card transactions was primarily the result of growth in retail checking accounts and an increase in customer use of signature-based transactions, which grew 12% when comparing the first nine months of 2016 to the same period in 2015.
- Net gains (losses) on Other Real Estate Owned ("OREO") improved \$473,000, as the Bank's OREO required \$200,000 in mark-to-market writedowns during the first nine months of 2016 compared to approximately \$1.0 million in such charges during the same period in 2015. Partially offsetting the difference related to mark-to-market charges was a decrease of \$342,000 in net realized gains on the final disposition of OREO during the first nine months of 2016 when compared to the same period in 2015.

Service charges on deposit accounts increased from \$9.7 million for the first nine months of 2015 to \$9.8 million for the first nine months of 2016. The Bank earns a substantial majority of its fee income related to its overdraft service program from the per item fee it assesses its customers for each insufficient funds check or electronic debit presented for payment. The total per item fees, net of refunds, included in service charges on deposits for the nine months ended September 30, 2016 and 2015 were \$5.7 million and \$5.5 million. The total daily overdraft charges, net of refunds, included in interest income remained at \$1.2 million for the nine months ended September 30, 2016 and 2015.

Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income increased \$1.4 million, or 66%, during the first nine months of 2016 compared to the same period in 2015, with \$1.1 million of the increase attributable to a bulk loan sale of \$71 million representing a portion of the Company's correspondent loan portfolio during the third quarter of



2016.

Overall, excluding the aforementioned bulk loan sale, Republic's proceeds from the sale of secondary market loans totaled \$155 million during the first nine months of 2016 compared to \$129 million during the same period in 2015. Republic's net gains as a percentage of loans sold increased from 2.47% during the first nine months of 2015 to 2.49% during the first nine months of 2016. Volume during the first nine months of 2016 and 2015 benefited from continued low, long-term mortgage interest rates.

#### Republic Processing Group segment

Within the RPG segment, noninterest income increased \$2.4 million during the first nine months of 2016 compared to the same period in 2015. The increase was primarily due to a \$1.8 million, or 10%, increase in net RT revenue from the first nine months of 2015, primarily driven by an increase in RT volume.

Additionally, RPG program fees increased \$1.1 million to \$1.9 million for the first nine months of 2016 compared to \$871,000 for the same period in 2015. The increase in RPG program fees resulted from the previously reported increase in volume from one of the RCS' small-dollar consumer loan programs. As part of this program, the Company retains a 10% ownership in the loans originated and sells a 90% participation interest in these loans. During the first nine months of 2016, the Company sold approximately \$213 million of loans from this program compared to \$86 million during the first nine months of 2015.

Table of Contents

Noninterest Expenses

Total Company noninterest expenses increased \$11.5 million, or 13%, during the first nine months of 2016 compared to the same period in 2015. The most significant components comprising the increase in noninterest expense by business segment were as follows:

Traditional Banking segment

For the first nine months of 2016 compared to the same period in 2015, Traditional Banking noninterest expenses increased \$10.2 million, or 14%. The following factors drove the increase:

- Salaries and benefits expense increased \$6.5 million, primarily due to an increase of 116 FTEs from September 30, 2015 to September 30, 2016. A total of 36 of these additions was directly attributable to the Company's Cornerstone acquisition. The remaining increase of 80 FTEs was driven by additional staffing needed to implement the Company's strategic initiatives.
- Data processing expenses increased \$1.4 million, or 56%, with \$663,000 of the increase attributable to the Company's Cornerstone acquisition. The remainder of the increase was spread across multiple loan and deposit platforms and was due to growth in the Company's overall customer base.
  - Occupancy expense increased \$709,000, or 5%, with \$325,000 of the increase attributable to the Company's Cornerstone acquisition. The remaining increase of \$384,000 primarily reflects a 5% increase in rental costs and recent renovations to the Traditional Bank's premises and equipment in the previous 12 months, which drove a 7% increase in depreciation expense.
- Interchange-related expense increased \$522,000, or 23%, consistent with the increases in debit card and credit card transaction volume over the previous 12 months.
- Marketing expenses increased \$414,000, or 19%, partially driven by new sponsorship agreements with two professional sports teams in the Company's market footprint and partially driven by increased promotions of RB&T branded products through the Company's Internet banking platform.
- Legal and professional fees decreased \$523,000 during the first nine months of 2016 compared to the same period in 2015 primarily due to higher legal expenses incurred during the prior year related to the Company's Cornerstone acquisition.



Table of Contents

## COMPARISON OF FINANCIAL CONDITION AT September 30, 2016 AND December 31, 2015

## Loan Portfolio

Table 8 — Loan Portfolio Composition

(in thousands)	September 30, 2016	December 31, 2015
Residential real estate:		
Owner occupied	\$ 1,028,471	\$ 1,081,934
Owner occupied - correspondent*	159,955	249,344
Non owner occupied	149,610	116,294
Commercial real estate	999,852	824,887
Commercial real estate - purchased whole loans*	36,085	35,674
Construction & land development	94,289	66,500
Commercial & industrial	250,094	229,721
Lease financing receivables	12,186	8,905
Warehouse lines of credit	661,186	386,729
Home equity	335,116	289,194
Consumer:		
RPG loans*	16,453	7,204
Credit cards	12,581	11,068
Overdrafts	795	685
Purchased whole loans*	6,895	5,892
Other consumer	59,463	12,579
Total loans**	3,823,031	3,326,610
Allowance for loan and lease losses	(30,436)	(27,491)
<b>Total loans, net</b>	<b>\$ 3,792,595</b>	<b>\$ 3,299,119</b>

\* Identifies loans to borrowers located primarily outside of the Bank's market footprint.

\*\* Total loans are presented inclusive of premiums, discounts and net loan origination fees and costs.

Gross loans increased by \$496 million, or 15%, during 2016 to \$3.8 billion at September 30, 2016, primarily driven by \$274 million in growth in outstanding Warehouse lines of credit and \$190 million in loans from the Company's Cornerstone acquisition.

See additional detail regarding the Company's acquisition of Cornerstone Bancorp, Inc. under Footnote 2 "Acquisition of Cornerstone Bancorp, Inc." of Part I Item 1 "Financial Statements."

#### Warehouse Lines of Credit

As of September 30, 2016, the Bank had \$661 million outstanding on total committed Warehouse credit lines of \$915 million. As of December 31, 2015, the Bank had \$387 million outstanding on total committed Warehouse credit lines of \$728 million. The \$187 million increase in committed lines generally reflects growth in the number of Warehouse clients combined with a 25% increase in the average line amount. The \$274 million increase in outstanding balances reflects the impact of the growth in committed lines combined with a favorable mortgage rate environment that drove higher usage rates on outstanding Warehouse lines as of September 30, 2016.

Due to the volatility and seasonality of the mortgage market, it is difficult to project future outstanding balances of Warehouse lines of credit. The growth of the Bank's Warehouse Lending business greatly depends on the overall mortgage market and typically follows industry trends. Since its entrance into this business segment during 2011, the Bank has experienced volatility in the Warehouse portfolio consistent with overall demand for mortgage products. Weighted average quarterly usage rates on the Bank's Warehouse lines have ranged from a low of 31% during the fourth quarter of 2013 to a high of 64% during the second quarter of 2015. On an annual basis, weighted average usage rates on the Bank's Warehouse lines have ranged from a low of 40% during 2013 to a high of 55% during 2015.

## Table of Contents

### Correspondent Loans

In July 2016, the Bank sold \$71 million of mortgage loans previously originated through its Correspondent Lending channel in order to enhance its overall liquidity position and recorded a \$1.1 million gain on this sale.

### Allowance for Loan and Lease Losses (“Allowance”)

The Bank maintains an Allowance for probable incurred credit losses inherent in the Bank’s loan portfolio, which includes overdrawn deposit accounts. Management evaluates the adequacy of the Allowance on a monthly basis and presents and discusses the analysis with the Audit Committee and the Board of Directors on a quarterly basis.

The Allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component is based on historical loss experience adjusted for qualitative factors.

U.S. Generally Accepted Accounting Principles (“GAAP”) recognizes three methods to measure specific loan impairment, including:

- Cash Flow Method — The recorded investment in the loan is measured against the present value of expected future cash flows discounted at the effective interest rate. The Bank employs this method for a significant portion of its impaired TDRs. Impairment amounts under this method are reflected in the Bank’s Allowance as specific reserves on the respective impaired loan. These specific reserves are adjusted quarterly based upon reevaluation of the expected future cash flows and changes in the recorded investment.
- Collateral Method — The recorded investment in the loan is measured against the fair value of the collateral value less applicable selling costs. The Bank employs the fair value of collateral method for its impaired loans when repayment is based solely on the sale of or the operations of the underlying collateral. Collateral fair value is typically based on the most recent real estate valuation on file. Measured impairment under this method is generally charged off unless the loan is a smaller balance, homogeneous mortgage loan. The Bank’s selling costs for its collateral dependent loans typically range from 10-13% of the fair value of the underlying collateral, depending on the asset class. Selling costs are not applicable for collateral dependent loans whose repayment is based solely on the operations of the underlying collateral.
- Market Value Method — The recorded investment in the loan is measured against the loan’s obtainable market value. The Bank does not currently employ this technique, as it is typically found impractical.

In addition to obtaining appraisals at the time of origination, the Bank typically updates appraisals and/or broker price opinions for loans with potential impairment. Updated valuations for commercial related credits exhibiting an increased risk of loss are typically obtained within one year of the previous valuation. Collateral values for past due residential mortgage loans and home equity loans are generally updated prior to a loan becoming 90 days delinquent, but no more than 180 days past due. When measuring impairment, to the extent updated collateral values cannot be obtained due to the lack of recent comparable sales or for other reasons, the Bank discounts the valuation of the collateral primarily based on the age of the appraisal and the real estate market conditions of the location of the underlying collateral.

The general component of the Allowance covers loans collectively evaluated for impairment and is based on historical loss experience, with potential adjustments for current relevant qualitative factors. Historical loss experience is determined by loan performance and class and is based on the actual loss history experienced by the Bank. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are included in the general component unless the loans are classified as TDRs or on nonaccrual.

As this analysis, or any similar analysis, is an imprecise measure of loss, the Allowance is subject to ongoing adjustments. Therefore, management will often take into account other significant factors that may be necessary or prudent in order to reflect probable incurred losses in the total loan portfolio.

The Bank's Allowance increased \$3 million, or 11%, during the first nine months of 2016 to \$30 million at September 30, 2016, primarily driven by reserves for growth in RCS small-dollar credit products and general growth in Core Bank portfolios.

Table of Contents

As a percent of total loans, the Allowance decreased to 0.80% at September 30, 2016 compared to 0.83% at December 31, 2015. The following factors drove the decrease in ratio of Allowance to total loans:

- The \$190 million of loan growth as a result of the Company's Cornerstone acquisition required no loss reserves at September 30, 2016, as such loans were acquired and recorded at their fair value, with estimated losses accounted for in that fair value.
- Loan growth during the first nine months of 2016 was substantially driven by an increase in outstanding Warehouse lines of credit. Warehouse lines receive a relatively low loss estimate of 0.25%, as this product has experienced no losses in its five-year history.

## Asset Quality

## Classified and Special Mention Loans

The Bank applies credit quality indicators, or "ratings," to individual loans based on internal Bank policies. Such internal policies are informed by regulatory standards. Loans rated "Loss," "Doubtful," "Substandard" and PCI-Substandard ("PCI-Sub") are considered "Classified." Loans rated "Special Mention" or PCI Group 1 ("PCI-1") are considered Special Mention. The Bank's Classified and Special Mention loans decreased \$4 million during the first nine months of 2016, primarily due to the payoffs and paydowns of Substandard loans during the period.

Table 9 — Classified and Special Mention Loans

(in thousands)	September 30, 2016	December 31, 2015
Loss	\$ —	\$ —
Doubtful	—	—
Substandard	23,792	27,833
Purchased Credit Impaired - Substandard	—	—
Total Classified Loans	23,792	27,833
Special Mention	30,084	31,312
Purchased Credit Impaired - Group 1	13,899	12,543
Total Special Mention Loans	43,983	43,855
Total Classified and Special Mention Loans	\$ 67,775	\$ 71,688



## Nonperforming Loans

Nonperforming loans include loans on nonaccrual status and loans past due 90-days-or-more and still accruing. Impaired loans that are not placed on nonaccrual status are not included as nonperforming loans. The nonperforming loan category includes TDRs totaling approximately \$11 million and \$12 million at September 30, 2016 and December 31, 2015. Generally, all nonperforming loans are considered impaired.

Nonperforming loans to total loans decreased to 0.47% at September 30, 2016 from 0.66% at December 31, 2015, as the total balance of nonperforming loans decreased by \$4 million, or 18%, while total loans increased \$496 million, or 15% during the first nine months of 2016.

Table of Contents

Table 10 — Nonperforming Loans and Nonperforming Assets Summary

(dollars in thousands)	September 30, 2016		December 31, 2015	
Loans on nonaccrual status*	\$	17,769	\$	21,712
Loans past due 90-days-or-more and still on accrual**		223		224
Total nonperforming loans		17,992		21,936
Other real estate owned		2,435		1,220
Total nonperforming assets	\$	20,427	\$	23,156
Credit Quality Ratios:				
Nonperforming loans to total loans		0.47	%	0.66
Nonperforming assets to total loans (including OREO)		0.53		0.70
Nonperforming assets to total assets		0.42		0.55

\*Loans on nonaccrual status include impaired loans. See Footnote 5 “Loans and Allowance for Loan and Lease Losses” of Part I Item 1 “Financial Statements” for additional discussion regarding impaired loans.

\*\* Loans past due 90-days-or-more and still accruing consist of PCI loans or smaller balance consumer loans.

Approximately \$14 million, or 81%, of the Bank’s total nonperforming loans at September 30, 2016 was concentrated in the residential real estate category, with the underlying collateral predominantly located in the Bank’s primary market area of Kentucky. The Bank’s nonperforming residential real estate concentration was \$16 million, or 73%, as of December 31, 2015.

Approximately \$3 million, or 19%, of the Bank’s total nonperforming loans was concentrated in the CRE and construction and land development portfolios as of September 30, 2016, compared to \$6 million, or 26%, at December 31, 2015. While CRE is the primarily collateral for such loans, the Bank also obtains in many cases, at the time of origination, personal guarantees from the principal borrowers and secured liens on the guarantors’ primary residences.

Table 11 — Nonperforming Loan Composition

September 30, 2016	December 31, 2015
Percent of Total	Percent of Total

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

(dollars in thousands)	Balance	Loan Class	Balance	Loan Class
Residential real estate				
Owner occupied	\$ 11,981	1.16%	\$ 13,197	1.22%
Owner occupied - correspondent	—	—	—	—
Non owner occupied	837	0.56	935	0.80
Commercial real estate	3,305	0.33	4,165	0.50
Commercial real estate - purchased whole loans	—	—	—	—
Construction & land development	80	0.08	1,589	2.39
Commercial & industrial	176	0.07	194	0.08
Lease financing receivables	—	—	—	—
Warehouse lines of credit	—	—	—	—
Home equity	1,365	0.41	1,793	0.62
Consumer:				
RPG loans	82	0.50	—	—
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Purchased whole loans	107	1.55	—	—
Other consumer	59	0.10	63	0.50
 Total nonperforming loans	 \$ 17,992	 0.47	 \$ 21,936	 0.66

Table of Contents

Table 12 — Stratification of Nonperforming Loans

September 30, 2016 (dollars in thousands)	Number of Nonperforming Loans and Recorded Investment							Total Balance
	No.	Balance ≤ \$100	No.	Balance > \$100 & ≤ \$500	No.	Balance > \$500	No.	
Residential real estate:								
Owner occupied	121	\$ 5,519	29	\$ 5,310	2	\$ 1,152	152	\$ 11,981
Owner occupied - correspondent	—	—	—	—	—	—	—	—
Non owner occupied	5	43	—	—	1	794	6	837
Commercial real estate	2	65	5	1,222	2	2,018	9	3,305
Commercial real estate - purchased whole loans	—	—	—	—	—	—	—	—
Construction & land development	1	80	—	—	—	—	1	80
Commercial & industrial	—	—	1	176	—	—	1	176
Lease financing receivables	—	—	—	—	—	—	—	—
Warehouse lines of credit	—	—	—	—	—	—	—	—
Home equity	26	582	5	783	—	—	31	1,365
Consumer:								
RPG loans	1,250	82	—	—	—	—	1,250	82
Credit cards	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—
Purchased whole loans	13	107	—	—	—	—	13	107
Other consumer	21	59	—	—	—	—	21	59
<b>Total</b>	<b>1,439</b>	<b>\$ 6,537</b>	<b>40</b>	<b>\$ 7,491</b>	<b>5</b>	<b>\$ 3,964</b>	<b>1,484</b>	<b>\$ 17,992</b>

December 31, 2015 (dollars in thousands)	Number of Nonperforming Loans and Recorded Investment							Total Balance
	No.	Balance ≤ \$100	No.	Balance > \$100 & ≤ \$500	No.	Balance > \$500	No.	
Residential real estate:								
Owner occupied	125	\$ 6,313	34	\$ 6,287	1	\$ 597	160	\$ 13,197
	—	—	—	—	—	—	—	—

Owner occupied - correspondent								
Non owner occupied	5	87	—	—	1	848	6	935
Commercial real estate	2	69	8	1,972	3	2,124	13	4,165
Commercial real estate - purchased whole loans	—	—	—	—			—	—
Construction & land development	1	89	—	—	1	1,500	2	1,589
Commercial & industrial	—	—	1	194	—	—	1	194
Lease financing receivables	—	—	—	—	—	—	—	—
Warehouse lines of credit	—	—	—	—	—	—	—	—
Home equity	25	530	6	1,263	—	—	31	1,793
Consumer:								
RPG loans	—	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—
Purchased whole loans	—	—	—	—	—	—	—	—
Other consumer	19	63	—	—	—	—	19	63
Total	177	\$ 7,151	49	\$ 9,716	6	\$ 5,069	232	\$ 21,936

Table of Contents

Approximately \$7 million in nonperforming loans at December 31, 2015, were removed from the nonperforming loan classification during the first nine months of 2016. Approximately \$209,000, or 3%, of these loans were removed from the nonperforming category because they were charged-off. Approximately \$3 million, or 39%, in loan balances were transferred to OREO, with \$4 million, or 58%, refinanced at other financial institutions.

Based on the Bank's review of its loan portfolio at September 30, 2016, management believes that its reserves are adequate to absorb probable losses on all nonperforming loans.

Table 13 — Rollforward of Nonperforming Loan Activity

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Nonperforming loans at beginning of period	\$ 19,956	\$ 24,624	\$ 21,936	\$ 23,659
Loans added to nonperforming status	1,946	1,648	4,293	8,089
Loans removed from nonperforming status (see table below)	(3,446)	(2,628)	(7,153)	(7,652)
Principal paydowns	(464)	(458)	(1,084)	(910)
Nonperforming loans at end of period	\$ 17,992	\$ 23,186	\$ 17,992	\$ 23,186

Table 14 — Detail of Loans Removed from Nonperforming Status

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Loans charged-off	\$ (144)	\$ (14)	\$ (209)	\$ (176)
Loans transferred to OREO	(2,041)	(411)	(2,786)	(1,950)
Loans refinanced at other institutions	(1,261)	(1,618)	(4,158)	(3,781)
Loans returned to accrual status	—	(585)	—	(1,745)
Total nonperforming loans removed from nonperforming status	\$ (3,446)	\$ (2,628)	\$ (7,153)	\$ (7,652)

Table of Contents

## Delinquent Loans

Delinquent loans to total loans decreased to 0.23% at September 30, 2016, from 0.35% at December 31, 2015, as the total balance of delinquent loans decreased by \$3 million, or 26%, while total loans increased \$496 million, or 15%. With the exception of PCI loans, all Traditional Bank loans past due 90-days-or-more as of September 30, 2016 and December 31, 2015 were on nonaccrual status.

The composition of the Bank's delinquent loans follows:

Table 15 — Delinquent Loan Composition(1)

(dollars in thousands)	September 30, 2016		December 31, 2015	
	Balance	Percent of Total Loan Class	Balance	Percent of Total Loan Class
Residential real estate				
Owner occupied	\$ 5,045	0.49 %	\$ 6,882	0.64 %
Owner occupied - correspondent	—	—	—	—
Non owner occupied	296	0.20	53	0.05
Commercial real estate	436	0.04	1,111	0.13
Commercial real estate - purchased whole loans	—	—	—	—
Construction & land development	41	0.04	1,500	2.26
Commercial & industrial	—	—	299	0.13
Lease financing receivables	—	—	—	—
Warehouse lines of credit	—	—	—	—
Home equity	1,695	0.51	1,393	0.48
Consumer:				
RPG loans	664	4.04	246	3.41
Credit cards	28	0.22	12	0.11
Overdrafts	185	23.27	133	19.42
Purchased whole loans	284	4.12	47	0.80
Other consumer	40	0.07	55	0.44
Total delinquent loans	\$ 8,714	0.23	\$ 11,731	0.35

\*Represents total loans 30-days-or-more past due. Delinquent status may be determined by either the number of days past due or number of payments past due.

As detailed in the preceding table, past due loans concentrated within the residential real estate category decreased \$1 million, or 16%, from December 31, 2015 to September 30, 2016, while construction & land development, CRE and C&I delinquencies decreased \$2 million, or 84%, for the same period.



Table of Contents

Approximately \$9 million in delinquent loans at December 31, 2015, were removed from delinquent status as of September 30, 2016. Approximately \$69,000, or 1%, of these loans were removed from the delinquent category because they were charged-off. Approximately \$3 million, or 28%, in loan balances were transferred to OREO with \$3 million, or 37%, refinanced at other financial institutions. The remaining \$3 million, or 34%, in delinquent loans were paid current in 2016.

Table 16 — Rollforward of Delinquent Loan Activity

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Delinquent loans at beginning of period	\$ 10,607	\$ 11,355	\$ 11,731	\$ 15,851
Loans that became delinquent during the period	3,361	4,690	5,749	5,823
Delinquent loans removed from delinquent status (see table below)	(5,440)	(3,835)	(9,302)	(9,575)
Change in principal balance of loans delinquent in both periods*	186	(214)	536	(103)
Delinquent loans at end of period	\$ 8,714	\$ 11,996	\$ 8,714	\$ 11,996

\*Includes relatively-small consumer portfolios, e.g., credit cards.

Table 17 — Detail of Delinquent Loans Removed From Delinquent Status

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Loans charged-off	\$ (24)	\$ (176)	\$ (69)	\$ (232)
Loans transferred to OREO	(1,360)	(558)	(2,605)	(1,946)
Loans refinanced at other institutions	(2,724)	(1,185)	(3,476)	(3,347)
Loans paid current	(1,332)	(1,916)	(3,152)	(4,050)
Total delinquent loans removed from delinquent status	\$ (5,440)	\$ (3,835)	\$ (9,302)	\$ (9,575)



Table of Contents

## Impaired Loans and Troubled Debt Restructurings

The Bank's policy is to charge-off all or that portion of its recorded investment in a collateral dependent impaired credit upon a determination that it is probable the full amount of contractual principal and interest will not be collected. Impaired loans totaled \$55 million at September 30, 2016 compared to \$66 million at December 31, 2015, a decrease of \$11 million during the first nine months of 2016.

A TDR is the situation where, due to a borrower's financial difficulties, the Bank grants a concession to the borrower that the Bank would not otherwise have considered. The majority of the Bank's TDRs involve a restructuring of loan terms such as a temporary reduction in the payment amount to require only interest and escrow (if required) and/or extending the maturity date of the debt. Nonaccrual loans modified as TDRs remain on nonaccrual status and continue to be reported as nonperforming loans. Accruing loans modified as TDRs are evaluated for nonaccrual status based on a current evaluation of the borrower's financial condition, and ability and willingness to service the modified debt. As of September 30, 2016, the Bank had \$42 million in TDRs, of which \$11 million were also on nonaccrual status. As of December 31, 2015, the Bank had \$50 million in TDRs, of which \$12 million were also on nonaccrual status.

The composition of the Bank's impaired loans follows:

Table 18 — Impaired Loan Composition

(in thousands)	September 30, 2016	December 31, 2015
Troubled debt restructurings	\$ 42,432	\$ 49,580
Impaired loans (which are not TDRs)	12,649	16,543
Total impaired loans	\$ 55,081	\$ 66,123

See Footnote 5 "Loans and Allowance for Loan and Lease Losses" of Part I Item 1 "Financial Statements" for additional discussion regarding impaired loans and TDRs.

Table of Contents

## Other Real Estate Owned

Table 19 — Stratification of Other Real Estate Owned

September 30, 2016 (dollars in thousands)	Number of OREO Properties and Carrying Value Range							Total Carrying Value
	No.	Carrying Value ≤ \$100	No.	Carrying Value > \$100 & ≤ \$500	No.	Carrying Value > \$500	No.	
Residential real estate	6	\$ 1,989	3	\$ 241	—	\$ —	9	\$ 2,230
Construction & land development	1	205	—	—	—	—	1	205
Total	7	\$ 2,194	3	\$ 241	—	\$ —	10	\$ 2,435

December 31, 2015 (dollars in thousands)	Number of OREO Properties and Carrying Value Range							Total Carrying Value
	No.	Carrying Value ≤ \$100	No.	Carrying Value > \$100 & ≤ \$500	No.	Carrying Value > \$500	No.	
Residential real estate	3	\$ 193	2	\$ 285	—	\$ —	5	\$ 478
Commercial real estate	1	54	1	388	—	—	2	442
Construction & land development	—	—	1	300	—	—	1	300
Total	4	\$ 247	4	\$ 973	—	\$ —	8	\$ 1,220

Table 20 — Rollforward of Other Real Estate Owned Activity

Three Months Ended September 30,	Nine Months Ended September 30,
--	------------------------------------

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

(in thousands)	2016	2015	2016	2015
OREO at beginning of period	\$ 1,503	\$ 2,920	\$ 1,220	\$ 11,243
Transfer from loans to OREO	2,001	791	3,939	2,713
Proceeds from sale*	(933)	(871)	(2,916)	(10,842)
Net gain on sale	64	304	392	734
Writedowns	(200)	(312)	(200)	(1,016)
OREO at end of period	\$ 2,435	\$ 2,832	\$ 2,435	\$ 2,832

\* Inclusive of non-cash proceeds where the Bank financed the sale of the property.

The fair value of OREO represents the estimated value that management expects to receive when the property is sold, net of related costs to sell. These estimates are 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 relevant factors to estimate the current value of the property.

#### Bank Owned Life Insurance (“BOLI”)

BOLI offers tax advantaged noninterest income to help the Bank offset employee benefits expenses. The Company carried \$61 million and \$53 million of BOLI on its consolidated balance sheet at September 30, 2016 and December 31, 2015. The Bank obtained \$7 million in BOLI in its May 17, 2016 Cornerstone acquisition.

Table of Contents

## Deposits

Table 21 — Deposit Composition

(in thousands)	September 30, 2016	December 31, 2015
Demand	\$ 868,081	\$ 783,054
Money market accounts	544,225	501,059
Brokered money market accounts	357,776	200,126
Savings	159,946	117,408
Individual retirement accounts*	42,342	36,016
Time deposits, \$250 and over*	45,311	42,775
Other certificates of deposit*	140,700	127,878
Brokered certificates of deposit*	29,910	44,298
Total interest-bearing deposits	2,188,291	1,852,614
Total noninterest-bearing deposits	947,602	634,863
Total deposits	\$ 3,135,893	\$ 2,487,477

\* Represents a time deposit.

Total Company deposits increased \$648 million, or 26%, from December 31, 2015 to \$3.1 billion at September 30, 2016. Total Company interest-bearing deposits increased \$336 million, or 18%, while total Company noninterest bearing deposits increased \$313 million, or 49%.

The Company assumed \$205 million in deposits through its May 17, 2016 Cornerstone acquisition, including approximately \$152 million in interest-bearing deposits and \$53 million in noninterest-bearing deposits. Outside of the Company's Cornerstone acquisition and a \$158 million increase in brokered money market deposits, increases in balances for several large corporate clients drove the Company's overall increase in deposits for the first nine months of 2016.

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

Securities Sold under Agreements to Repurchase ("SSUARs") are collateralized by securities and are treated as financings; accordingly, the securities involved with the agreements are recorded as assets and are held by a

safekeeping agent and the obligations to repurchase the securities are reflected as liabilities. All securities underlying the agreements are under the Bank's control.

SSUARs decreased approximately \$243 million, or 61%, during the first nine months of 2016, with two large corporate clients accounting for \$176 million, or 72%, of the decrease. The first client transferred approximately \$113 million in funds to a competing financial institution as a result of proposed changes by the Bank to the client's account structure. The second client reflected a decrease of \$63 million during the period due to normal seasonal cash flow needs. The substantial majority of SSUARs are indexed to immediately repricing indices such as the Fed Funds Target Rate.

#### Federal Home Loan Bank Advances

FHLB advances increased \$163 million, or 23%, from December 31, 2015 to \$863 million at September 30, 2016. The Bank held \$430 million in overnight advances at a rate of 0.40% as of September 30, 2016, compared to \$150 million in overnight advances at a rate of 0.35% held at December 31, 2015.

The Bank obtained no additional long-term fixed rate advances during the first nine months of 2016, while \$117 million of advances were repaid during the period. Of the repaid advances, \$67 million of advances at a rate of 1.88% were paid off at maturity, while \$50 million at a rate of 4.39% were terminated early with a prepayment penalty of \$846,000. The Bank expects to recover the amount of this penalty through a reduction in interest expense over what would have been the remaining original term of these advances.

## Table of Contents

The Company's usage of overnight FHLB advances increased during the first nine months of 2016 primarily due to significant growth in outstanding warehouse lines credit. Management anticipates its usage of FHLB overnight advances will continue to strongly correlate with fluctuations in outstanding warehouse lines for the remainder of 2016.

Overall use of FHLB advances during a given year is dependent upon many factors including asset growth, deposit growth, current earnings, and expectations of future interest rates, among others. If a meaningful amount of the Bank's loan originations in the future have repricing terms longer than five years, management will likely elect to borrow additional funds to mitigate its risk of future increases in market interest rates. Whether the Bank ultimately does so, and how much in advances it extends out, will be dependent upon circumstances at that time. If the Bank does obtain longer-term FHLB advances for interest rate risk mitigation, it will have a negative impact on then current earnings. The amount of the negative impact will be dependent upon the dollar amount, coupon and final maturity of the advances obtained.

### Interest Rate Swaps

#### Interest Rate Swaps Used as Cash Flow Hedges

The Bank entered into two interest rate swap agreements during 2013 as part of its interest rate risk management strategy. The Bank designated the swaps as cash flow hedges intended to reduce the variability in cash flows attributable to either FHLB advances tied to the 3-month the LIBOR or the overall changes in cash flows on certain money market deposit accounts tied to one-month LIBOR. The counterparty for both swaps met the Bank's credit standards and the Bank believes that the credit risk inherent in the swap contracts is not significant.

#### Non-hedge Interest Rate Swaps

During 2015, the Bank began entering into interest rate swaps to facilitate client transactions and meet their financing needs. Upon entering into these instruments, the Bank enters into offsetting positions in order to minimize the Bank's interest rate risk. These swaps are derivatives, but are not designated as hedging instruments, and therefore changes in fair value are reported in current year earnings.

See Footnote 12 "Interest Rate Swaps" of Part I Item 1 "Financial Statements" for additional discussion regarding the Bank's interest rate swaps.



## Liquidity

The Bank had a loan to deposit ratio (excluding brokered deposits) of 139% at September 30, 2016 and 148% at December 31, 2015. At September 30, 2016 and December 31, 2015, the Company had cash and cash equivalents on-hand of \$302 million and \$210 million. In addition, the Bank had available borrowing capacity of \$312 million and \$567 million from the FHLB at September 30, 2016 and December 31, 2015. In addition to its borrowing capacity with the FHLB, the Bank's liquidity resources included unencumbered securities of \$323 million and \$69 million as of September 30, 2016 and December 31, 2015 and unsecured lines of credit totaling \$170 million available through various other financial institutions as of September 30, 2016 and December 31, 2015. During October 2016, the Company's unsecured borrowing lines were reduced to \$150 million, as a \$20 million unsecured borrowing line was terminated.

The Bank maintains sufficient liquidity to fund routine loan demand and routine deposit withdrawal activity. Liquidity is managed by maintaining sufficient liquid assets in the form of investment securities. Funding and cash flows can also be realized by the sale of securities available for sale, principal paydowns on loans and MBSs and proceeds realized from loans held for sale. The Bank's liquidity is impacted by its ability to sell certain investment securities, which is limited due to the level of investment securities that are needed to secure public deposits, securities sold under agreements to repurchase, FHLB borrowings, and for other purposes, as required by law. At September 30, 2016 and December 31, 2015, these pledged investment securities had a fair value of \$206 million and \$490 million. Republic's banking centers and its website, [www.republicbank.com](http://www.republicbank.com), provide access to retail deposit markets. These retail deposit products, if offered at attractive rates, have historically been a source of additional funding when needed. If the Bank were to lose a significant funding source, such as a few major depositors, or if any of its lines of credit were canceled, or if the Bank cannot obtain brokered deposits, the Bank would be compelled to offer market leading deposit interest rates to meet its funding and liquidity needs.

## Table of Contents

At September 30, 2016, the Bank had approximately \$552 million in deposits from 65 large non-sweep deposit relationships where the individual relationship individually exceeded \$2 million. The 20 largest non-sweep deposit relationships represented approximately \$405 million, or 13%, of the Company's total deposit balances at September 30, 2016. These accounts do not require collateral; therefore, cash from these accounts can generally be utilized to fund the loan portfolio. If any of these balances were moved from the Bank, the Bank would likely utilize overnight borrowing lines in the short-term to replace the balances. On a longer-term basis, the Bank would likely utilize brokered deposits to replace withdrawn balances. Based on past experience utilizing brokered deposits, the Bank believes it can quickly obtain brokered deposits if needed. The overall cost of gathering brokered deposits, however, could be substantially higher than the Traditional Bank deposits they replace, potentially decreasing the Bank's earnings.

Due to the its on-going success of growing loans during the previous 12 months and its overall use of non-core funding sources, the Bank has approached, and in some cases fallen short of, its minimum internal policy limits for liquidity management, as set forth by the Bank's Board of Directors. In addition, the Bank's Board of Directors adopted an internal liquidity policy in January 2016 with an additional liquidity ratio requirement related to unencumbered liquid assets to total assets. As of September 30, 2016, the Bank was in compliance with all Board-approved liquidity policies.

## Capital

Total stockholders' equity increased from \$577 million at December 31, 2015 to \$601 million at September 30, 2016. The increase in stockholders' equity was primarily attributable to net income earned during 2016 reduced by cash dividends declared.

See Part II, Item 2. "Unregistered Sales of Equity Securities and Use of Proceeds" for additional detail regarding stock repurchases and stock buyback programs.

Capital Standards — Effective January 1, 2015 the Company and the Bank became subject to the capital regulations in accordance with Basel III. These regulations established higher minimum risk-based capital ratio requirements, a new common equity Tier 1 risk-based capital ratio and a new capital conservation buffer. The regulations included revisions to the definition of capital and changes in the risk-weighting of certain assets. For prompt corrective action, the new regulations establish definitions of "well capitalized" as a 6.5% Common Equity Tier 1 Risk Based Capital ratio, an 8.0% Tier 1 Risk Based Capital ratio, a 10.0% Total Risk Based Capital ratio and a 5.0% Tier 1 Leverage ratio.

Additionally, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, the Company and Bank must hold a capital conservation buffer

composed of Common Equity Tier 1 Risk Based capital above their minimum risk-based capital requirements. The capital conservation buffer phases in over time based on the following schedule: a capital conservation buffer of .0625% effective January 1, 2016; 1.25% effective January 1, 2017; 1.875% effective January 1, 2018; and a fully phased in capital conservation buffer of 2.5% on January 1, 2019.

**Common Stock** — The Class A Common Shares are entitled to cash dividends equal to 110% of the cash dividend paid per share on Class B Common Stock. Class A Common Shares have one vote per share and Class B Common shares have ten votes per share. Class B Common Shares may be converted, at the option of the holder, to Class A Common shares on a share for share basis. The Class A Common Shares are not convertible into any other class of Republic's capital stock.

**Dividend Restrictions** — The Parent Company's principal source of funds for dividend payments are dividends received from RB&T. Banking regulations limit the amount of dividends that may be paid to the Parent Company by the Bank without prior approval of the respective states' banking regulators. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years. At September 30, 2016, RB&T could, without prior approval, declare dividends of approximately \$54 million.

**Regulatory Capital Requirements** — The Parent Company and the Bank are subject to various regulatory capital requirements administered by banking regulators. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on Republic's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Parent Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off balance sheet items, as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Table of Contents

Banking regulators have categorized the Bank as well-capitalized. To be categorized as well-capitalized, the Bank must maintain minimum Total Risk Based, Common Equity Tier I Risk Based, Tier I Risk Based and Tier I Leverage Capital ratios. Regulatory agencies measure capital adequacy within a framework that makes capital requirements, in part, dependent on the individual risk profiles of financial institutions. Republic continues to exceed the regulatory requirements for Total Risk Based Capital, Common Equity Tier I Risk Based, Tier I Risk Based Capital and Tier I Leverage Capital. Republic and the Bank intend to maintain a capital position that meets or exceeds the “well-capitalized” requirements as defined by the FRB and the FDIC, in addition to the Capital Conservation Buffer. Republic’s average stockholders’ equity to average assets ratio was 13.40% at September 30, 2016 compared to 14.33% at December 31, 2015. Formal measurements of the capital ratios for Republic and the Bank are performed by the Company at each quarter end.

In 2005, Republic Bancorp Capital Trust (“RBCT”), an unconsolidated trust subsidiary of Republic, was formed and issued \$40 million in Trust Preferred Securities (“TPS”). The sole asset of RBCT represents the proceeds of the offering loaned to Republic in exchange for a subordinated note with similar terms to the TPS. The RBCT TPS are treated as part of Republic’s Tier I Capital.

The subordinated note and related interest expense are included in Republic’s consolidated financial statements. The subordinated note paid a fixed interest rate of 6.015% through September 30, 2015 and adjusted to 3-month LIBOR plus 1.42% on a quarterly basis thereafter. The subordinated note matures on December 31, 2035 and is redeemable at the Company’s option on a quarterly basis. The Company chose not to redeem the subordinated note on October 1, 2016, and is currently carrying the note at a cost of LIBOR plus 1.42%.

As a result of its acquisition of Cornerstone Bancorp, Inc. on May 17, 2016, Republic became the 100% successor owner of Cornerstone Capital Trust 1 (“CCT1”), an unconsolidated finance subsidiary. In 2006, CCT1 issued \$4 million of adjustable-rate TPS due December 15, 2036. As permitted under the terms of CCT1’s governing documents, the Company redeemed these securities at the par amount of approximately \$4 million, without penalty, on September 15, 2016.

Table 22 — Capital Ratios

(dollars in thousands)	As of September 30, 2016		As of December 31, 2015	
	Actual Amount	Ratio	Actual Amount	Ratio
Total capital to risk weighted assets				

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

Republic Bancorp, Inc.	\$ 647,144	16.55 %	\$ 631,820	20.58 %
Republic Bank & Trust Company	545,968	13.98	494,575	16.12
Common equity tier 1 capital to risk weighted				
Republic Bancorp, Inc.	\$ 578,277	14.79 %	\$ 564,329	18.39 %
Republic Bank & Trust Company	515,532	13.20	467,084	15.23
Tier 1 (core) capital to risk weighted assets				
Republic Bancorp, Inc.	\$ 616,708	15.77 %	\$ 604,329	19.69 %
Republic Bank & Trust Company	515,532	13.20	467,084	15.23
Tier 1 leverage capital to average assets				
Republic Bancorp, Inc.	\$ 616,708	13.67 %	\$ 604,329	14.82 %
Republic Bank & Trust Company	515,532	11.45	467,084	11.46

Table of Contents

Asset/Liability Management and Market Risk

Asset/liability management is designed to ensure safety and soundness, maintain liquidity, meet regulatory capital standards and achieve acceptable net interest income based on the Bank's risk tolerance. Interest rate risk is the exposure to adverse changes in net interest income as a result of market fluctuations in interest rates. The Bank, on an ongoing basis, monitors interest rate and liquidity risk in order to implement appropriate funding and balance sheet strategies. Management considers interest rate risk to be a significant risk to the Bank's overall earnings and balance sheet.

The interest sensitivity profile of the Bank at any point in time will be impacted by a number of factors. These factors include the mix of interest sensitive assets and liabilities, as well as their relative pricing schedules. It is also influenced by changes in market interest rates, deposit and loan balances and other factors.

The Bank utilizes earnings simulation models as tools to measure interest rate sensitivity, including both a static and dynamic earnings simulation model. A static simulation model is based on current exposures and assumes a constant balance sheet. In contrast, a dynamic simulation model relies on detailed assumptions regarding changes in existing business lines, new business, and changes in management and customer behavior. While the Bank runs the static simulation model as one measure of interest rate risk, historically, the Bank has utilized a dynamic earnings simulation model as its primary interest rate risk tool to measure the potential changes in market interest rates and their subsequent effects on net interest income for a one year time period. This dynamic model projects a "Base" case net interest income over the next twelve months and the effect to net interest income of instantaneous movements in interest rates between various basis point increments equally across all points on the yield curve. Many assumptions based on growth expectations and on the historical behavior of the Bank's deposit and loan rates and their related balances in relation to changes in interest rates are incorporated into this dynamic model. These assumptions are inherently uncertain and, as a result, the dynamic model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to the actual timing, magnitude and frequency of interest rate changes, the actual timing and magnitude of changes in loan and deposit balances, as well as the actual changes in market conditions and the application and timing of various management strategies as compared to those projected in the various simulated models. Additionally, actual results could differ materially from the model if interest rates do not move equally across all points on the yield curve.

As of September 30, 2016, a dynamic simulation model was run for increases in interest rates from "Up 100" basis points to "Up 400" basis points. A simulation for declining interest rates as of September 30, 2016 was not considered meaningful and is not presented by the Bank because decreases in the Fed Funds Target Rate were considered unlikely as of September 30, 2016. The Federal Open Market Committee raised the FFTR for the first time in nine years during December 2015 from between 0.00% and 0.25% to 0.25% and 0.50%, with further guidance suggesting that increases to the FFTR were more likely than not during 2016.

The following table illustrates the Bank's projected percent change from its Base net interest income over the period beginning October 1, 2016 and ending September 30, 2017 based on instantaneous movements in interest rates equally across all points on the yield curve. The Bank's dynamic earnings simulation model excludes all loan fees and the impact of the RPG business segment.

Table 23 — Bank Interest Rate Sensitivity as of September 30, 2016

	Increase in Rates			
	100 Basis Points	200 Basis Points	300 Basis Points	400 Basis Points
% Change from base net interest income	3.57 %	3.61 %	3.35 %	2.10 %
Board policy limit on % change from base	(4.00)	(8.00)	(12.00)	(16.00)

The Board of Directors of the Bank has established separate and distinct policy limits for acceptable percent changes in the Bank's net interest income based on modeled changes in market interest rates. Historically, if model projections of the percent change in net interest income fall outside Board approved limits at a given point in time or are projected to fall outside such limits based on certain trends, the Bank has taken certain actions intended either to bring model projections back within Board approved limits or explain how future anticipated events will correct the current situation. These actions have included, but are not limited to, restructuring of interest earning assets and interest bearing liabilities, seeking additional fixed rate term FHLB advances, executing interest rate swaps and modifying the pricing or terms of loans, leases and deposits. These actions have historically had a negative impact on current earnings.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Information required by this item is included under Part I, Item 2., “Management’s Discussion and Analysis of Financial Condition and Results of Operation.”

Item 4. Controls and Procedures.

As of the end of the period covered by this report, an evaluation was carried out by Republic Bancorp, Inc.’s management, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

In the ordinary course of operations, Republic and the Bank are defendants in various legal proceedings. There is no proceeding pending or threatened litigation, to the knowledge of management, in which an adverse decision could result in a material adverse change in the business or consolidated financial position of Republic or the Bank.



Table of Contents

Item 1A. Risk Factors.

FACTORS THAT MAY AFFECT FUTURE RESULTS

Except for the additional risk factor information described below, there have been no material changes in our risk factors as previously disclosed in Part 1, “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. You should carefully consider the risk factors discussed below and in our 2015 Form 10-K, which could materially affect our business, financial condition or future results.

REPUBLIC PROCESSING GROUP (“RPG”) SEGMENT

Republic Bancorp, Inc.’s (“Republic” or the “Company”) lines of business and products not typically associated with Traditional Banking expose earnings to additional risks and uncertainties. The RPG segment is comprised of three distinct divisions: Tax Refund Solutions (“TRS”), Republic Payment Solutions (“RPS”) and Republic Credit Solutions (“RCS”).

Management plans to offer the Easy Advance product in 2017 with different minimum and maximum amounts than its 2016 offering. This change, along with additional due diligence measures implemented by the federal and state governments, which will delay the timing of individual tax refund payments or possibly deny those individual payments outright, could present an increased credit risk to the Company. TRS offered its EA tax credit product for the first time during the first quarter of 2016, with repayment of the EA to the Bank deducted from the taxpayer’s tax refund proceeds. For the first quarter 2016 tax season through September 30, 2016, the Company recorded \$5.2 million in interest income from EAs and experienced net EA charge-offs of \$3.1 million. In contrast to the singular \$750 EA amount offered during 2016, management is planning to lower the minimum EA to amounts below \$750 and increase the maximum EA to amounts greater than \$750 during 2017.

Additionally, to protect against fraudulent tax returns, the federal government and many state governments have enacted laws and procedures that provide for additional due diligence by the applicable governmental authority prior to issuing an income tax refund. This additional due diligence will drive a longer period of time between the filing of a tax return and the receipt of the corresponding refund. The federal government, specifically as a result of the PATH Act, has announced that taxpayers filing tax returns with certain characteristics will not receive their corresponding refunds before February 15, 2017. These funding delays will negatively impact the Company’s ability to make mid-season modifications to its EA underwriting model based on then-current year IRS funding patterns, because the substantial majority of all EAs will be issued prior to February 15, 2017. In addition, these enhanced due diligence measures implemented by the federal and state governments could prevent the taxpayer’s refund from being issued altogether. These governmental changes by themselves, or in combination with management’s changes to the EA offering amounts, could have a material negative impact on the performance of the EA product and therefore on the

Company's financial statements if the loss rate on the EA product increases materially.

See additional detail regarding the EA product under Footnote 5 "Loans and Allowance for Loan and Lease Losses" of Part I Item 1 "Financial Statements."

111

---

Table of Contents

## Item 2.Unregistered Sales of Equity Securities and Use of Proceeds.

Details of Republic's Class A Common Stock purchases during the third quarter of 2016 are included in the following table:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs
July 1 - July 31	—	\$ —	—	
August 1 - August 31	—	—	—	
September 1 - September 30	—	—	—	
Total	—	\$ —	—	252,400

The Company repurchased none of its shares during the third quarter of 2016. Additionally, there were no shares exchanged for stock option exercises during this period. During 2011, the Company's Board of Directors amended its existing share repurchase program by approving the repurchase of 300,000 additional shares from time to time, as market conditions are deemed attractive to the Company. The repurchase program will remain effective until the total number of shares authorized is repurchased or until Republic's Board of Directors terminates the program. As of September 30, 2016, the Company had 252,400 shares that could be repurchased under its current share repurchase programs.

During the third quarter of 2016, there were 10 shares of Class A Common Stock issued upon conversion of shares of Class B Common Stock by stockholders of Republic in accordance with the share-for-share conversion provision option of the Class B Common Stock. The exemption from registration of newly issued Class A Common Stock relies upon Section (3)(a)(9) of the Securities Act of 1933.

There were no equity securities of the registrant sold without registration during the quarter covered by this report.

Table of Contents

Item 6.Exhibits.

The following exhibits are filed or furnished as a part of this report:

Exhibit Number	Description of Exhibit
3(i)	Articles of Incorporation of Registrant, as amended (Incorporated by reference to Exhibit 3(i) to the Registrant's Form 8-K filed October 13, 2016 (Commission File Number: 0-24649))
31.1	Certification of Principal Executive Officer pursuant to the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to the Sarbanes-Oxley Act of 2002
32*	Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive data files: (i) Consolidated Balance Sheets at September 30, 2016 and December 31, 2015, (ii) Consolidated Statements of Income and Comprehensive Income for the Three and Nine Months Ended September 30, 2016 and 2015, (iii) Consolidated Statement of Stockholders' Equity for the Nine Months Ended September 30, 2016, (iv) Consolidated Statements of Cash Flows for the Nine months Ended September 30, 2016 and 2015 and (v) Notes to Consolidated Financial Statements

---

\* This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REPUBLIC BANCORP, INC.  
(Registrant)

Principal Executive Officer:

November 9, 2016 /s/ Steven E. Trager  
By: Steven E. Trager  
Chairman and Chief Executive Officer

Principal Financial Officer:

November 9, 2016 /s/ Kevin Sipes  
By: Kevin Sipes  
Executive Vice President, Chief Financial  
Officer and Chief Accounting Officer