

REPUBLIC BANCORP INC /KY/

Form 10-Q

May 08, 2015

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

or

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

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky

(State of other jurisdiction of incorporation or organization)

61-0862051

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

601 West Market Street, Louisville, Kentucky

(Address of principal executive offices)

40202

(Zip Code)

(502) 584-3600

(Registrant's telephone number, including area code)

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 twelve 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 twelve months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

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

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

The number of shares outstanding of the registrant's Class A Common Stock and Class B Common Stock, as of April 30, 2015, was 18,615,567 and 2,245,492.

Table of Contents

TABLE OF CONTENTS

<u>PART I FINANCIAL INFORMATION</u>		3
<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>	61
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk.</u>	97
<u>Item 4.</u>	<u>Controls and Procedures.</u>	97
<u>PART II OTHER INFORMATION</u>		97
<u>Item 1.</u>	<u>Legal Proceedings.</u>	97
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	98
<u>Item 6.</u>	<u>Exhibits.</u>	99
	<u>SIGNATURES</u>	100

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

	March 31, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	\$ 136,349	\$ 72,878
Securities available for sale	464,145	435,911
Securities held to maturity (fair value of \$45,133 in 2015 and \$45,807 in 2014)	44,574	45,437
Mortgage loans held for sale, at fair value	12,748	6,388
Loans	3,155,436	3,040,495
Allowance for loan and lease losses	(24,631)	(24,410)
Loans, net	3,130,805	3,016,085
Federal Home Loan Bank stock, at cost	28,208	28,208
Premises and equipment, net	31,817	32,987
Premises, held for sale	1,284	1,317
Goodwill	10,168	10,168
Other real estate owned	6,736	11,243
Bank owned life insurance	51,764	51,415
Other assets and accrued interest receivable	33,589	34,976
TOTAL ASSETS	\$ 3,952,187	\$ 3,747,013
LIABILITIES		
Deposits:		
Non interest-bearing	\$ 666,166	\$ 502,569
Interest-bearing	1,714,051	1,555,613
Total deposits	2,380,217	2,058,182
Securities sold under agreements to repurchase and other short-term borrowings	332,534	356,108
Federal Home Loan Bank advances	596,500	707,500
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	32,225	25,252
Total liabilities	3,382,716	3,188,282
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	4,904
Additional paid in capital	135,168	134,889
Retained earnings	424,483	414,623
Accumulated other comprehensive income	4,914	4,315

Total stockholders' equity		569,471	558,731
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	3,952,187	\$ 3,747,013

See accompanying footnotes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)***(in thousands, except per share data)*

	Three Months Ended March,	
	2015	2014
INTEREST INCOME:		
Loans, including fees	\$ 31,591	\$ 30,162
Taxable investment securities	1,773	1,859
Federal Home Loan Bank stock and other	397	476
Total interest income	33,761	32,497
INTEREST EXPENSE:		
Deposits	1,144	978
Securities sold under agreements to repurchase and other short-term borrowings	38	22
Federal Home Loan Bank advances	2,928	3,564
Subordinated note	629	629
Total interest expense	4,739	5,193
NET INTEREST INCOME	29,022	27,304
Provision for loan and lease losses	185	(703)
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	28,837	28,007
NON INTEREST INCOME:		
Service charges on deposit accounts	3,039	3,295
Net refund transfer fees	15,335	14,388
Mortgage banking income	1,353	486
Interchange fee income	2,194	2,044
Net gain (loss) on other real estate owned	(119)	(482)
Increase in cash surrender value of bank owned life insurance	349	191
Other	835	793
Total non interest income	22,986	20,715
NON INTEREST EXPENSES:		
Salaries and employee benefits	15,277	14,483
Occupancy and equipment, net	5,201	5,822
Communication and transportation	1,046	1,026
Marketing and development	585	528
FDIC insurance expense	674	569
Bank franchise tax expense	2,401	2,339
Data processing	966	797
Interchange related expense	1,007	997
Supplies	361	440
Other real estate owned expense	219	390
Legal and professional fees	1,615	1,011
Other	1,722	1,797

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Total non interest expenses	31,074	30,199
INCOME BEFORE INCOME TAX EXPENSE	20,749	18,523
INCOME TAX EXPENSE	6,961	6,539
NET INCOME	\$ 13,788	\$ 11,984
BASIC EARNINGS PER SHARE:		
Class A Common Stock	\$ 0.66	\$ 0.58
Class B Common Stock	\$ 0.65	\$ 0.56
DILUTED EARNINGS PER SHARE:		
Class A Common Stock	\$ 0.66	\$ 0.58
Class B Common Stock	\$ 0.64	\$ 0.56
DIVIDENDS DECLARED PER COMMON SHARE:		
Class A Common Stock	\$ 0.187	\$ 0.176
Class B Common Stock	\$ 0.170	\$ 0.160

See accompanying footnotes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)***(in thousands)*

	Three Months Ended March,	
	2015	2014
Net income	\$ 13,788	\$ 11,984
OTHER COMPREHENSIVE INCOME		
Change in fair value of derivatives used for cash flow hedges	(396)	(339)
Reclassification amount for derivative losses realized in income	101	100
Change in unrealized gain (loss) on securities available for sale	1,238	2
Change in unrealized gain on security available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings	(22)	54
Net unrealized gains (losses)	921	(183)
Tax effect	(322)	63
Total other comprehensive income (loss), net of tax	599	(120)
COMPREHENSIVE INCOME	\$ 14,387	\$ 11,864

See accompanying footnotes to consolidated financial statements.

[Table of Contents](#)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2015

(in thousands)	Class A Shares Outstanding	Common Stock Class B Shares Outstanding	Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance, January 1, 2015	18,603	2,245	\$ 4,904	\$ 134,889	\$ 414,623	\$ 4,315	\$ 558,731
Net income					13,788		13,788
Net change in accumulated other comprehensive income						599	599
Dividend declared Common Stock:							
Class A Shares					(3,481)		(3,481)
Class B Shares					(382)		(382)
Stock options exercised, net of shares redeemed	8		2	182	(65)		119
Net change in notes receivable on Class A Common Stock				(48)			(48)
Deferred director compensation expense - Class A Common Stock	5			67			67
Stock based compensation - restricted stock				73			73
Stock based compensation expense - options				5			5
Balance, March 31, 2015	18,616	2,245	\$ 4,906	\$ 135,168	\$ 424,483	\$ 4,914	\$ 569,471

See accompanying footnotes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (in thousands)**

	Three Months Ended March,	
	2015	2014
OPERATING ACTIVITIES:		
Net income	\$ 13,788	\$ 11,984
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization on investment securities, net	154	283
Accretion on loans, net	(310)	(2,650)
Depreciation of premises and equipment	1,577	1,363
Amortization of mortgage servicing rights	338	314
Provision for loan and lease losses	185	(703)
Net gain on sale of mortgage loans held for sale	(1,222)	(498)
Origination of mortgage loans held for sale	(45,835)	(14,110)
Proceeds from sale of mortgage loans held for sale	40,697	15,700
Net gain realized on sale of other real estate owned	(365)	(402)
Writedowns of other real estate owned	484	884
Deferred director compensation expense - Company Stock	67	53
Stock based compensation expense	78	106
Increase in cash surrender value of bank owned life insurance	(349)	(191)
Net change in other assets and liabilities:		
Accrued interest receivable	(78)	270
Accrued interest payable	9	(112)
Other assets	1,127	8,256
Other liabilities	6,329	157
Net cash provided by operating activities	16,674	20,704
INVESTING ACTIVITIES:		
Purchases of securities available for sale	(767,299)	(30,000)
Proceeds from maturities and paydowns of securities available for sale	740,141	45,868
Proceeds from maturities and paydowns of securities held to maturity	850	1,472
Net change in outstanding warehouse lines of credit	(103,724)	13,314
Purchase of loans, including premiums paid	(19,531)	
Net change in other loans	10,370	1,910
Proceeds from redemption of Federal Home Loan Bank stock		32
Proceeds from sales of other real estate owned	2,630	2,627
Net purchases of premises and equipment	(374)	(1,403)
Purchase of bank owned life insurance		(5,000)
Net cash (used in)/provided by investing activities	(136,937)	28,820
FINANCING ACTIVITIES:		
Net change in deposits	322,035	93,355
Net change in securities sold under agreements to repurchase and other short-term borrowings	(23,574)	56,619
Payments of Federal Home Loan Bank advances	(198,000)	(48,000)
Proceeds from Federal Home Loan Bank advances	87,000	25,000
Repurchase of Common Stock		(347)
Net proceeds from Common Stock options exercised	119	20
Cash dividends paid	(3,846)	(3,648)
Net cash provided by used in financing activities	183,734	122,999
NET CHANGE IN CASH AND CASH EQUIVALENTS	63,471	172,523
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	72,878	170,863

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$	136,349	\$	343,386
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SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION:

Cash paid during the period for:

Interest	\$	4,730	\$	5,305
Income taxes		585		397

SUPPLEMENTAL NONCASH DISCLOSURES:

Transfers from loans to real estate acquired in settlement of loans	\$	332	\$	3,070
Loans provided for sales of other real estate owned		2,090		149

See accompanying footnotes to consolidated financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2015 and 2014 (UNAUDITED) AND DECEMBER 31, 2014

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, which was formed during the third quarter of 2014, is a wholly-owned insurance subsidiary of the Company. The Captive provides property and casualty insurance coverage to the Company and the Bank as well as five 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. 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 months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. 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, 2014.

As of March 31, 2015, 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 Warehouse segment was reported as a division of the Traditional Banking segment prior to the fourth quarter of 2014, but realized the quantitative and qualitative nature of a segment by the end of 2014. All prior periods have been reclassified to conform to the current presentation.

Traditional Banking, Warehouse Lending and Mortgage Banking (collectively Core Banking)

As of March 31, 2015 in addition to Internet Banking and Correspondent Lending delivery channels, Republic had 40 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 2
- Metropolitan Cincinnati, Ohio 1
- Metropolitan Nashville, Tennessee 2

Table of Contents

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, increase 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 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 began acquiring single family, first lien mortgage loans for investment through its Correspondent Lending channel in May 2014. Correspondent Lending generally involves the Bank acquiring, primarily from its Warehouse clients, closed loans that meet the Bank's specifications. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium.

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.

Republic Processing Group

All divisions of the RPG segment operate through the Bank. Nationally, RPG facilitates the receipt and payment of federal and state tax refunds under the Tax Refund Solutions (TRS) division, primarily through refund transfers (RTs). 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 the primary source of revenue for the TRS division and the RPG segment, and are reported as non interest income under the line item Net refund transfer fees.

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The TRS division historically originated and obtained a significant source of revenue from Refund Anticipation Loans (RAL s), but terminated this product effective April 30, 2012. RALs were short-term consumer loans offered to taxpayers that were secured by the client s anticipated tax refund, which represented the sole source of repayment. While RALs were terminated in 2012, TRS may receive recoveries from previously charged-off RALs.

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

The Republic Credit Solutions (RCS) division offers short-term consumer credit products.

Table of Contents**2. INVESTMENT SECURITIES****Securities Available for Sale**

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

March 31, 2015 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 186,819	\$ 1,119	\$ (1)	\$ 187,937
Private label mortgage backed security	4,037	1,198		5,235
Mortgage backed securities - residential	112,764	5,330	(121)	117,973
Collateralized mortgage obligations	136,172	1,144	(709)	136,607
Freddie Mac preferred stock		271		271
Mutual fund	1,000	27		1,027
Corporate bonds	15,011	84		15,095
Total securities available for sale	\$ 455,803	\$ 9,173	\$ (831)	\$ 464,145

December 31, 2014 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 146,625	\$ 312	\$ (15)	\$ 146,922
Private label mortgage backed security	4,030	1,220		5,250
Mortgage backed securities - residential	118,836	5,511	(91)	124,256
Collateralized mortgage obligations	143,283	1,034	(1,146)	143,171
Freddie Mac preferred stock		231		231
Mutual fund	1,000	18		1,018
Corporate bonds	15,011	52		15,063
Total securities available for sale	\$ 428,785	\$ 8,378	\$ (1,252)	\$ 435,911

Securities Held to Maturity

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

March 31, 2015 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
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U.S. Treasury securities and U.S. Government agencies	\$	1,549	\$	12	\$	(5)	\$	1,556
Mortgage backed securities - residential		145		19				164
Collateralized mortgage obligations		37,880		600				38,480
Corporate bonds		5,000				(67)		4,933
Total securities held to maturity	\$	44,574	\$	631	\$	(72)	\$	45,133

December 31, 2014 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 1,747	\$ 1	\$ (7)	\$ 1,741
Mortgage backed securities - residential	147	20		167
Collateralized mortgage obligations	38,543	423	(4)	38,962
Corporate bonds	5,000		(63)	4,937
Total securities held to maturity	\$ 45,437	\$ 444	\$ (74)	\$ 45,807

Table of Contents

At March 31, 2015 and December 31, 2014, 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.

Sales of Securities Available for Sale

During the three months ended March 31, 2015 and 2014, there were no sales or calls of securities available for sale.

Investment Securities by Contractual Maturity

The amortized cost and fair value of the investment securities portfolio by contractual maturity at March 31, 2015 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.

March 31, 2015 (in thousands)	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Carrying Value	Fair Value
Due in one year or less	\$ 10,043	\$ 10,085	\$ 1,027	\$ 1,039
Due from one year to five years	181,787	182,901	522	517
Due from five years to ten years	10,000	10,046	5,000	4,933
Due beyond ten years				
Private label mortgage backed security	4,037	5,235		
Mortgage backed securities - residential	112,764	117,973	145	164
Collateralized mortgage obligations	136,172	136,607	37,880	38,480
Freddie Mac preferred stock		271		
Mutual fund	1,000	1,027		
Total securities	\$ 455,803	\$ 464,145	\$ 44,574	\$ 45,133

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-temporarily impaired (OTTI) charge of \$2.1 million in 2008. The OTTI charge brought the carrying value of the stock to \$0. During the second quarter of 2014, based on active trading volume of Freddie Mac preferred stock, the Company determined it appropriate to record an unrealized gain to Other Comprehensive Income (OCI) related to its Freddie Mac preferred stock holdings. Based on the stock's market closing price as of March 31, 2015, the Company's unrealized gain for its Freddie Mac preferred stock totaled \$271,000.

Mortgage Backed Securities and Collateralized Mortgage Obligations

At March 31, 2015, with the exception of the \$5.2 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), institutions that the government has affirmed its commitment to support. At March 31, 2015 and December 31, 2014, there were gross unrealized losses of \$830,000 and \$1.2 million related to available for sale mortgage backed securities and CMOs. Because the decline in fair value of these securities is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these mortgage backed securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be OTTI.

Table of ContentsMarket Loss Analysis

Securities with unrealized losses at March 31, 2015 and December 31, 2014, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

March 31, 2015 (in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available for sale:						
U.S. Treasury securities and U.S. Government agencies	\$	\$	\$ 999	\$ (1)	\$ 999	\$ (1)
Mortgage backed securities - residential	7,145	(121)			7,145	(121)
Collateralized mortgage obligations	2,507	(31)	52,491	(678)	54,998	(709)
Total securities available for sale	\$ 9,652	\$ (152)	\$ 53,490	\$ (679)	\$ 63,142	\$ (831)

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities held to maturity:						
U.S. Treasury securities and U.S. Government agencies	\$ 517	\$ (5)	\$	\$	\$ 517	\$ (5)
Corporate bonds			4,933	(67)	4,933	(67)
Total securities held to maturity	\$ 517	\$ (5)	\$ 4,933	\$ (67)	\$ 5,450	\$ (72)

December 31, 2014 (in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available for sale:						
U.S. Treasury securities and U.S. Government agencies	\$ 2,089	\$ (15)	\$	\$	\$ 2,089	\$ (15)
Mortgage backed securities - residential	7,535	(91)			7,535	(91)
Collateralized mortgage obligations	46,058	(881)	12,534	(265)	58,592	(1,146)
Total securities available for sale	\$ 55,682	\$ (987)	\$ 12,534	\$ (265)	\$ 68,216	\$ (1,252)

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities held to maturity:						
	\$ 517	\$ (7)	\$	\$	\$ 517	\$ (7)

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U.S. Treasury securities
and U.S. Government
agencies

Collateralized mortgage obligations	9,045	(4)			9,045	(4)
Corporate bonds	4,936	(63)			4,936	(63)
Total securities held to maturity	\$ 14,498	\$ (74)	\$	\$	\$ 14,498	\$ (74)

Table of Contents

At March 31, 2015, the Bank's security portfolio consisted of 159 securities, 14 of which were in an unrealized loss position. At December 31, 2014, the Bank's security portfolio consisted of 157 securities, 17 of which were in an unrealized loss position.

Other-than-temporary impairment (OTTI)

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

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

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

The Bank owns one private label mortgage backed security with a total carrying value of \$5.2 million at March 31, 2015. This security, with an average remaining life currently estimated at three 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

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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 6 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)	March 31, 2015		December 31, 2014	
Carrying amount	\$	413,731	\$	409,868
Fair value		414,350		410,307

Table of Contents**3. LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES**

The composition of the loan portfolio at March 31, 2015 and December 31, 2014 follows:

(in thousands)	March 31, 2015	December 31, 2014
Residential real estate:		
Owner occupied	\$ 1,096,008	\$ 1,118,341
Owner occupied - correspondent*	231,451	226,628
Non owner occupied	98,476	96,492
Commercial real estate	778,179	772,309
Commercial real estate - purchased whole loans*	35,086	34,898
Construction & land development	40,104	38,480
Commercial & industrial	172,017	157,339
Lease financing receivables	4,004	2,530
Warehouse lines of credit	423,155	319,431
Home equity	248,830	245,679
Consumer:		
RPG loans	4,109	4,095
Credit cards	9,946	9,573
Overdrafts	777	1,180
Purchased whole loans*	4,321	4,626
Other consumer	8,973	8,894
Total loans**	3,155,436	3,040,495
Allowance for loan and lease losses	(24,631)	(24,410)
Total loans, net	\$ 3,130,805	\$ 3,016,085

* - Identifies loans to borrowers located primarily outside of the Bank's historical 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 table below reconciles the contractually receivable and carrying amounts of loans at March 31, 2015 and December 31, 2014:

(in thousands)	March 31, 2015	December 31, 2014
Contractually receivable	\$ 3,164,578	\$ 3,050,599
Unearned income(1)	(425)	(174)
Unamortized premiums(2)	4,242	4,490
Unaccreted discounts(3)	(14,322)	(15,675)
Net unamortized deferred origination fees and costs	1,363	1,255
Carrying value of loans	\$ 3,155,436	\$ 3,040,495

(1) - Relates to lease financing receivables.

(2) - Premiums predominately relate to loans acquired through the Bank's Correspondent Lending channel.

(3) - Discounts predominately relate to loans acquired in the Bank's 2012 FDIC-assisted transactions.

Table of ContentsLoan Purchases

In May 2014, the Bank began acquiring single family, first lien mortgage loans for investment within its loan portfolio through its Correspondent Lending channel. Correspondent Lending generally involves the Bank acquiring, primarily from Warehouse clients, closed loans that meet the Bank's specifications. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium. Loans acquired through the Correspondent Lending channel generally reflect borrowers outside of the Bank's historical market footprint, with 76% of such loans as of March 31, 2015 secured by collateral in the state of California.

In addition to secured mortgage loans acquired through its Correspondent Lending channel, the Bank also began acquiring unsecured consumer installment loans for investment from a third-party originator in April 2014. Such consumer loans are purchased at par and are selected by the Bank based on certain underwriting characteristics.

The table below reflects the purchased activity of single family, first lien mortgage loans and unsecured consumer loans, by class, during the first quarter of 2015. No purchases of these types of loans were made during the first quarter of 2014.

(in thousands)	Loan Purchase Activity*	
	Three Months Ended March 31,	
	2015	2014
Residential real estate:		
Owner occupied - correspondent	\$ 19,170	\$
Consumer:		
Purchased whole loans	361	
Total purchased loans	\$ 19,531	\$

* - Represents origination amount, inclusive of purchase premiums, where applicable.

Purchased Credit Impaired (PCI) Loans

PCI loans acquired during the Bank's 2012 FDIC-assisted transactions are accounted for under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*.

The table below reconciles the contractually required and carrying amounts of PCI loans at March 31, 2015 and December 31, 2014:

(in thousands)	March 31, 2015	December 31, 2014
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Contractually-required principal	\$	25,699	\$	26,571
Non-accretable amount		(6,470)		(6,784)
Accretable amount		(2,170)		(2,297)
Carrying value of loans	\$	17,059	\$	17,490

Table of Contents

The following table presents a rollforward of the accretable amount on PCI loans for the three months ended March 31, 2015 and 2014:

(in thousands)	Three Months Ended March 31,	
	2015	2014
Balance, beginning of period	\$ (2,297)	\$ (3,457)
Transfers between non-accretable and accretable	24	(1,311)
Net accretion into interest income on loans, including loan fees	103	2,003
Balance, end of period	\$ (2,170)	\$ (2,765)

Table of Contents

Credit Quality Indicators

Based on the Bank's internal analyses performed as of March 31, 2015 and December 31, 2014, 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, 2014:

March 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	\$	\$ 25,298	\$ 15,534	\$	\$ 1,148	\$	\$ 41,980
Owner occupied - correspondent							
Non owner occupied		1,561	2,404		1,633		5,598
Commercial real estate	744,881	7,741	12,905		12,652		778,179
Commercial real estate - purchased whole loans	35,086						35,086
Construction & land development	36,879	118	2,701		406		40,104
Commercial & industrial	168,472	2,122	205		1,218		172,017
Lease financing receivables	4,004						4,004
Warehouse lines of credit	423,155						423,155
Home equity			2,690				2,690
Consumer:							
RPG loans							
Credit cards							
Overdrafts							
Purchased whole loans							
Other consumer		11	34		2		47
Total	\$ 1,412,477	\$ 36,851	\$ 36,473	\$	\$ 17,059	\$	\$ 1,502,860

* - At March 31, 2015, Special Mention and Substandard loans included \$184,000 and \$4 million, respectively, which were removed from PCI accounting in accordance with ASC 310-30-35-13 due to a post-acquisition troubled debt restructuring.

** - The above table excludes all non-classified residential real estate and consumer loans at the respective period ends. The table also excludes most non-classified small Commercial and Industrial (C&I) and Commercial Real Estate (CRE) relationships totaling \$100,000 or less. These loans are not rated by the Company since they are accruing interest and are not past due 80-days-or-more.

Table of Contents

December 31, 2014 (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	\$	\$ 26,828	\$ 14,586	\$	\$ 1,205	\$	\$ 42,619
Owner occupied - correspondent							
Non owner occupied		844	2,886		1,709		5,439
Commercial real estate	736,012	7,838	15,636		12,823		772,309
Commercial real estate - purchased whole loans	34,898						34,898
Construction & land development	35,339	120	2,525		496		38,480
Commercial & industrial	153,362	625	2,108		1,244		157,339
Lease financing receivables	2,530						2,530
Warehouse lines of credit	319,431						319,431
Home equity			2,220				2,220
Consumer:							
RPG loans							
Credit cards							
Overdrafts							
Purchased whole loans							
Other consumer		13	38		13		64
Total	\$ 1,281,572	\$ 36,268	\$ 39,999	\$	\$ 17,490	\$	\$ 1,375,329

* - At December 31, 2014, Special Mention and Substandard loans included \$443,000 and \$6 million, respectively, which were removed from PCI accounting in accordance with ASC 310-30-35-13 due to a post-acquisition troubled debt restructuring.

** - The above table excludes all non-classified residential real estate and consumer loans at the respective period ends. The table also excludes most non-classified small C&I and CRE relationships totaling \$100,000 or less. These loans are not rated by the Company since they are accruing interest and are not past due 80-days-or-more.

Table of ContentsAllowance for Loan and Lease Losses

Activity in the allowance for loan and leases (Allowance) follows:

(in thousands)	Three Months Ended March 31,	
	2015	2014
Allowance, beginning of period	\$ 24,410	\$ 23,026
Charge offs - Core Banking	(492)	(912)
Charge offs - RPG	(5)	
Total charge offs	(497)	(912)
Recoveries - Core Banking	338	493
Recoveries - RPG	195	463
Total recoveries	533	956
Net (charge offs) recoveries - Core Banking	(154)	(419)
Net (charge offs) recoveries - RPG	190	463
Net (charge offs) recoveries	36	44
Provision for loan and lease losses (Provision) - Core Banking	375	(240)
Provision - RPG	(190)	(463)
Total Provision	185	(703)
Allowance, end of period	\$ 24,631	\$ 22,367

The Allowance calculation includes the following qualitative factors, which are considered in combination with the Bank's historical loss rates in determining the general loss reserve within the Allowance:

- Changes in nature, volume and seasoning of the portfolio;
- Changes in experience, ability and depth of lending management and other relevant staff;
- Changes in the quality of the Bank's credit review system;
- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;

- Changes in the volume and severity of past due, non-performing and classified loans and leases;
- Changes in the value of underlying collateral for collateral-dependent loans and leases;
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of portfolios, including the condition of various market segments;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution's existing portfolio.

Table of Contents

The following tables present the activity in the Allowance by portfolio class for the three months ended March 31, 2015 and 2014:

Three Months Ended March 31, 2015 (in thousands)	Residential Real Estate			Commercial Real Estate -			Lease		
	Owner Occupied	Owner Occupied- Correspondent	Non Owner Occupied	Commercial Real Estate	Purchased Whole Loans	Construction & Land Development	Commercial & Industrial	Financing Receivables	
Beginning balance	\$ 8,565	\$ 567	\$ 837	\$ 7,740	\$ 34	\$ 926	\$ 1,167	\$ 25	
Provision	140	12	80	(189)	1	32	(10)	15	
Charge offs	(136)			(7)			(29)		
Recoveries	60		3	9			29		
Ending balance	\$ 8,629	\$ 579	\$ 920	\$ 7,553	\$ 35	\$ 958	\$ 1,157	\$ 40	

(continued)	Warehouse Lines of Credit	Home Equity	RPG Loans	Credit Cards	Consumer Overdrafts	Purchased Whole Loans	Other Consumer	Total	
Beginning balance	\$ 799	\$ 2,730	\$ 44	\$ 285	\$ 382	\$ 185	\$ 124	\$ 24,410	
Provision	259	(8)	(190)	104	(79)	11	7	185	
Charge offs		(51)	(5)	(40)	(146)	(12)	(71)	(497)	
Recoveries		37	195	13	88		99	533	
Ending balance	\$ 1,058	\$ 2,708	\$ 44	\$ 362	\$ 245	\$ 184	\$ 159	\$ 24,631	

Three Months Ended March 31, 2014 (in thousands)	Residential Real Estate			Commercial Real Estate -			Lease		
	Owner Occupied	Owner Occupied- Correspondent	Non Owner Occupied	Commercial Real Estate	Purchased Whole Loans	Construction & Land Development	Commercial & Industrial	Financing Receivables	
Beginning balance	\$ 7,816	\$	\$ 1,023	\$ 8,309	\$ 34	\$ 1,296	\$ 1,089	\$	
Provision	118		(30)	(178)		(88)	(57)		
Charge offs	(217)		(15)	(372)		(17)			
Recoveries	34		6	142		1	48		
Ending balance	\$ 7,751	\$	\$ 984	\$ 7,901	\$ 34	\$ 1,192	\$ 1,080	\$	

(continued)	Warehouse Lines of Credit	Home Equity	RPG Loans	Credit Cards	Consumer Overdrafts	Purchased Whole Loans	Other Consumer	Total	
Beginning balance	\$ 449	\$ 2,396	\$	\$ 289	\$ 199	\$	\$ 126	\$ 23,026	
Provision	28		(463)	(18)	47		(62)	(703)	
Charge offs		(66)		(5)	(151)		(69)	(912)	
Recoveries		41	463	10	117		94	956	
Ending balance	\$ 477	\$ 2,371	\$	\$ 276	\$ 212	\$	\$ 89	\$ 22,367	

Table of Contents**Non-performing Loans and Non-performing Assets**

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

(dollars in thousands)	March 31, 2015	December 31, 2014
Loans on non-accrual status(1)	\$ 24,423	\$ 23,337
Loans past due 90-days-or-more and still on accrual(2)	572	322
Total non-performing loans	24,995	23,659
Other real estate owned	6,736	11,243
Total non-performing assets	\$ 31,731	\$ 34,902
Credit Quality Ratios:		
Non-performing loans to total loans	0.79%	0.78%
Non-performing assets to total loans (including OREO)	1.00%	1.14%
Non-performing assets to total assets	0.80%	0.93%

(1) Loans on non-accrual status include impaired loans.

(2) All loans past due 90-days-or-more and still accruing are PCI loans accounted for under ASC 310-30.

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

(dollars in thousands)	March 31, 2015	Non-Accrual December 31, 2014	Past Due 90-Days-or-More and Still Accruing Interest* March 31, 2015	December 31, 2014
Residential real estate:				
Owner occupied	\$ 12,759	\$ 10,903	\$ 274	\$ 322
Owner occupied - correspondent				
Non owner occupied	1,559	2,352	298	
Commercial real estate	5,952	6,151		
Commercial real estate - purchased whole loans				
Construction & land development	1,990	1,990		
Commercial & industrial		169		
Lease financing receivables				
Warehouse lines of credit				
Home equity	2,077	1,678		
Consumer:				
RPG loans				

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Credit cards

Overdrafts

Purchased whole loans

Other consumer		86		94					
Total	\$	24,423	\$	23,337	\$	572	\$	322	

* - For all periods presented, loans past due 90-days-or-more and still on accrual consist entirely of PCI loans.

Non-accrual 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. Non-accrual 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 non-accrual status are reviewed for return to accrual status on an individual basis, with additional consideration given to performance under the modified terms.

Table of ContentsDelinquent Loans

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

March 31, 2015 (dollars in thousands)	30 - 59 Days Delinquent	60 - 89 Days Delinquent	90 or More Days Delinquent*	Total Delinquent	Total Not Delinquent	Total
Residential real estate:						
Owner occupied	\$ 3,152	\$ 1,504	\$ 3,721	\$ 8,377	\$ 1,087,631	\$ 1,096,008
Owner occupied - correspondent					231,451	231,451
Non owner occupied	483	68	308	859	97,617	98,476
Commercial real estate	66	56	2,261	2,383	775,796	778,179
Commercial real estate - purchased whole loans					35,086	35,086
Construction & land development			1,990	1,990	38,114	40,104
Commercial & industrial					172,017	172,017
Lease financing receivables					4,004	4,004
Warehouse lines of credit					423,155	423,155
Home equity	55	225	1,176	1,456	247,374	248,830
Consumer:						
RPG loans	133	35		168	3,941	4,109
Credit cards	52	26		78	9,868	9,946
Overdrafts	104			104	673	777
Purchased whole loans	30		9	39	4,282	4,321
Other consumer	46	11		57	8,916	8,973
Total	\$ 4,121	\$ 1,925	\$ 9,465	\$ 15,511	\$ 3,139,925	\$ 3,155,436
Delinquency ratio**	0.13%	0.06%	0.30%	0.49%		

December 31, 2014 (dollars in thousands)	30 - 59 Days Delinquent	60 - 89 Days Delinquent	90 or More Days Delinquent*	Total Delinquent	Total Not Delinquent	Total
Residential real estate:						
Owner occupied	\$ 3,039	\$ 1,329	\$ 3,640	\$ 8,008	\$ 1,110,333	\$ 1,118,341
Owner occupied - correspondent					226,628	226,628
Non owner occupied	36	635	105	776	95,716	96,492
Commercial real estate	585		2,387	2,972	769,337	772,309
Commercial real estate - purchased whole loans					34,898	34,898
Construction & land development			1,990	1,990	36,490	38,480
Commercial & industrial	211			211	157,128	157,339
Lease financing receivables					2,530	2,530
Warehouse lines of credit					319,431	319,431
Home equity	706	158	498	1,362	244,317	245,679
Consumer:						
RPG loans	107	34		141	3,954	4,095
Credit cards	124	10		134	9,439	9,573

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Overdrafts	178			178	1,002	1,180
Purchased whole loans	12			12	4,614	4,626
Other consumer	38	29		67	8,827	8,894
Total	\$ 5,036	\$ 2,195	\$ 8,620	\$ 15,851	\$ 3,024,644	\$ 3,040,495
Delinquency ratio**	0.17%	0.07%	0.28%	0.52%		

* - All loans, excluding PCI loans, 90-days-or-more past due as of March 31, 2015 and December 31, 2014 were on non-accrual status.

** - Represents total loans past due by aging category divided by total loans.

Table of Contents

Impaired Loans

The Bank defines impaired loans as follows:

- All loans internally rated as Substandard, Doubtful or Loss;
- All loans internally rated in a PCI category with cash flows that have deteriorated from management's initial acquisition day estimate;
- All loans on non-accrual status and non-PCI loans past due 90 days-or-more still on accrual;
- All retail and commercial TDRs; and
- Any other situation where the full collection of the total amount due for a loan is improbable or otherwise meets the definition of impaired.

See the section titled "Credit Quality Indicators" in this section of the filing for additional discussion regarding the Bank's loan classification structure.

Information regarding the Bank's impaired loans follows:

(in thousands)	March 31, 2015	December 31, 2014
Loans with no allocated allowance for loan losses	\$ 29,941	\$ 32,560
Loans with allocated allowance for loan losses	53,069	53,620
Total impaired loans	\$ 83,010	\$ 86,180
Amount of the allowance for loan losses allocated	\$ 5,136	\$ 5,564

Approximately \$9 million and \$10 million of impaired loans at March 31, 2015 and December 31, 2014 were PCI loans. Approximately \$4 million and \$6 million of impaired loans at March 31, 2015 and December 31, 2014 were formerly PCI loans which 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 March 31, 2015 and December 31, 2014:

March 31, 2015 (in thousands)	Residential Real Estate			Commercial Real Estate	Commercial Real Estate -		Construction & Commercial & Industrial	Lease Financing Receivables
	Owner Occupied	Owner Occupied - Correspondent	Non Owner Occupied		Purchased Whole Loans	Land Development		
Allowance:								
Ending Allowance balance:								
Individually evaluated for impairment, excluding PCI loans	\$ 3,061	\$	\$ 162	\$ 832	\$	\$ 187	\$ 205	\$
Collectively evaluated for impairment	5,529	579	682	6,350	35	771	905	40
PCI loans with post acquisition impairment	39		76	371			47	
PCI loans without post acquisition impairment								
Total ending Allowance:	\$ 8,629	\$ 579	\$ 920	\$ 7,553	\$ 35	\$ 958	\$ 1,157	\$ 40
Loans:								
Impaired loans individually evaluated, excluding PCI loans	\$ 40,747	\$	\$ 3,988	\$ 19,875	\$	\$ 2,802	\$ 3,822	\$
Loans collectively evaluated for impairment	1,054,112	231,451	92,856	745,652	35,086	36,896	166,977	4,004
PCI loans with post acquisition impairment	668		1,513	5,713			1,147	
PCI loans without post acquisition impairment	481		119	6,939		406	71	
Total ending loan balance	\$ 1,096,008	\$ 231,451	\$ 98,476	\$ 778,179	\$ 35,086	\$ 40,104	\$ 172,017	\$ 4,004

(continued)	Warehouse Lines of Credit	Home Equity	RPG Loans	Credit Cards	Consumer Overdrafts	Purchased Whole Loans	Other Consumer	Total
Allowance:								
Ending Allowance balance:								
Individually evaluated for impairment, excluding PCI loans	\$	\$ 121	\$	\$	\$	\$	\$ 35	\$ 4,603
Collectively evaluated for impairment	1,058	2,587	44	362	245	184	124	19,495
PCI loans with post acquisition impairment								533
PCI loans without post acquisition impairment								
Total ending Allowance:	\$ 1,058	\$ 2,708	\$ 44	\$ 362	\$ 245	\$ 184	\$ 159	\$ 24,631

Loans:

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Impaired loans individually evaluated, excluding PCI loans	\$		\$	2,690	\$		\$		\$		\$	45	\$	73,969		
Loans collectively evaluated for impairment		423,155		246,140		4,109		9,946		777		4,321		8,926		3,064,408
PCI loans with post acquisition impairment																9,041
PCI loans without post acquisition impairment														2		8,018
Total ending loan balance	\$	423,155	\$	248,830	\$	4,109	\$	9,946	\$	777	\$	4,321	\$	8,973	\$	3,155,436

Table of Contents

December 31, 2014 (in thousands)	Residential Real Estate			Commercial Real Estate -			Lease		
	Owner Occupied	Owner Occupied - Non Owner Correspondent	Owner Occupied	Commercial Real Estate	Purchased Whole Loans	Construction & Development	Commercial & Industrial	Financing Receivables	
Allowance:									
Ending Allowance balance:									
Individually evaluated for impairment, excluding PCI loans	\$ 3,251	\$	\$ 101	\$ 913	\$	\$ 187	\$ 302	\$	
Collectively evaluated for impairment	5,264	567	672	6,462	34	739	800		25
PCI loans with post acquisition impairment	50		64	365			65		
PCI loans without post acquisition impairment									
Total ending Allowance:	\$ 8,565	\$ 567	\$ 837	\$ 7,740	\$ 34	\$ 926	\$ 1,167	\$	25
Loans:									
Impaired loans individually evaluated, excluding PCI loans	\$ 41,265	\$	\$ 3,388	\$ 22,521	\$	\$ 2,627	\$ 4,319	\$	
Loans collectively evaluated for impairment	1,075,871	226,628	91,395	736,965	34,898	35,357	151,776		2,530
PCI loans with post acquisition impairment	725		1,554	6,341			1,158		
PCI loans without post acquisition impairment	480		155	6,482		496	86		
Total ending loan balance	\$ 1,118,341	\$ 226,628	\$ 96,492	\$ 772,309	\$ 34,898	\$ 38,480	\$ 157,339	\$	2,530

(continued)	Warehouse			Consumer			Other		
	Lines of Credit	Home Equity	RPG Loans	Credit Cards	Overdrafts	Purchased Whole Loans	Consumer	Total	
Allowance:									
Ending Allowance balance:									
Individually evaluated for impairment, excluding PCI loans	\$	\$ 225	\$	\$	\$	\$	\$ 40	\$	5,019
Collectively evaluated for impairment	799	2,505	44	285	382	185	83		18,846
PCI loans with post acquisition impairment							1		545
PCI loans without post acquisition impairment									
Total ending Allowance:	\$ 799	\$ 2,730	\$ 44	\$ 285	\$ 382	\$ 185	\$ 124	\$	24,410
Loans:									
Impaired loans individually evaluated, excluding PCI loans	\$	\$ 2,220	\$	\$	\$	\$	\$ 52	\$	76,392

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Loans collectively evaluated for impairment	319,431	243,459	4,095	9,573	1,180	4,626	8,829	2,946,613
PCI loans with post acquisition impairment							10	9,788
PCI loans without post acquisition impairment							3	7,702
Total ending loan balance	\$ 319,431	\$ 245,679	\$ 4,095	\$ 9,573	\$ 1,180	\$ 4,626	\$ 8,894	\$ 3,040,495

Table of Contents

The following tables present loans individually evaluated for impairment by class of loans as of March 31, 2015 and December 31, 2014 and for the three months ended March 31, 2015 and 2014. 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 March 31, 2015			Three Months Ended March 31, 2015		Cash Basis Interest Income Recognized
	Unpaid Principal Balance	Recorded Investment	Allowance Allocated	Average Recorded Investment	Interest Income Recognized	
Impaired loans with no related allowance recorded:						
Residential real estate:						
Owner occupied	\$ 5,981	\$ 5,566	\$	\$ 5,881	\$ 50	\$
Owner occupied - correspondent						
Non owner occupied	2,690	2,588		2,402	8	
Commercial real estate	15,002	13,990		15,119	120	
Commercial real estate - purchased whole loans						
Construction & land development	2,124	2,124		2,134	3	
Commercial & industrial	3,618	3,618		3,781	55	
Lease financing receivables						
Warehouse lines of credit						
Home equity	2,210	2,055		1,935	7	
Consumer:						
RPG loans						
Credit cards						
Overdrafts						
Purchased whole loans						
Other consumer						
Impaired loans with an allowance recorded:						
Residential real estate:						
Owner occupied	36,341	35,849	3,100	35,822	225	
Owner occupied - correspondent						
Non owner occupied	2,913	2,913	238	2,820	35	
Commercial real estate	11,659	11,598	1,203	12,106	107	
Commercial real estate - purchased whole loans						
Construction & land development	678	678	187	581	9	
Commercial & industrial	1,351	1,351	252	1,443	18	
Lease financing receivables						
Warehouse lines of credit						
Home equity	759	635	121	521	1	
Consumer:						
RPG loans						
Credit cards						
Overdrafts						
Purchased whole loans						
Other consumer	45	45	35	54		
Total impaired loans	\$ 85,371	\$ 83,010	\$ 5,136	\$ 84,599	\$ 638	\$

Table of Contents

(in thousands)	As of December 31, 2014			Three Months Ended March 31, 2014		Cash Basis Interest Income Recognized
	Unpaid Principal Balance	Recorded Investment	Allowance Allocated	Average Recorded Investment	Interest Income Recognized	
Impaired loans with no related allowance recorded:						
Residential real estate:						
Owner occupied	\$ 6,598	\$ 6,196	\$	\$ 6,960	\$ 52	\$
Owner occupied - correspondent						
Non owner occupied	2,368	2,215		1,306	8	
Commercial real estate	17,282	16,248		20,288	197	
Commercial real estate - purchased whole loans						
Construction & land development	2,144	2,144		2,084	1	
Commercial & industrial	3,943	3,943		4,233	59	
Lease financing receivables						
Warehouse lines of credit						
Home equity	1,969	1,814		1,758	9	
Consumer:						
RPG loans						
Credit cards						
Overdrafts						
Purchased whole loans						
Other consumer				9		
Impaired loans with an allowance recorded:						
Residential real estate:						
Owner occupied	36,361	35,794	3,301	34,475	244	
Owner occupied - correspondent						
Non owner occupied	2,755	2,727	165	6,589	71	
Commercial real estate	12,653	12,614	1,278	23,197	190	
Commercial real estate - purchased whole loans						
Construction & land development	483	483	187	594	6	
Commercial & industrial	1,534	1,534	367	1,785	3	
Lease financing receivables						
Warehouse lines of credit						
Home equity	452	406	225	740	2	
Consumer:						
RPG loans						
Credit cards						
Overdrafts						
Purchased whole loans						
Other consumer	62	62	41	85		
Total impaired loans	\$ 88,604	\$ 86,180	\$ 5,564	\$ 104,103	\$ 842	\$

Table of Contents**Troubled Debt Restructurings**

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. 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 its debt in the foreseeable future without the modification. This evaluation is performed under 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 of time 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.

Non-accrual loans modified as TDRs typically remain on non-accrual status and continue to be reported as non-performing loans for a minimum of six months. Accruing loans modified as TDRs are evaluated for non-accrual status based on a current evaluation of the borrower's financial condition and ability and willingness to service the modified debt. At March 31, 2015 and December 31, 2014, \$15 million and \$14 million of TDRs were on non-accrual status.

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

March 31, 2015 (dollars in thousands)	Troubled Debt Restructurings on Non-Accrual Status		Troubled Debt Restructurings on Accrual Status		Total Troubled Debt Restructurings	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential real estate	84	\$ 7,698	238	\$ 31,013	322	\$ 38,711
Commercial real estate	8	4,972	24	12,509	32	17,481
Construction & land development	2	1,990	7	812	9	2,802
Commercial & industrial			7	3,822	7	3,822
Total troubled debt restructurings	94	\$ 14,660	276	\$ 48,156	370	\$ 62,816

December 31, 2014 (dollars in thousands)	Troubled Debt Restructurings on Non-Accrual Status		Troubled Debt Restructurings on Accrual Status		Total Troubled Debt Restructurings	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential real estate	74	\$ 7,166	250	\$ 31,966	324	\$ 39,132
Commercial real estate	8	5,030	30	14,502	38	19,532
Construction & land development	2	1,990	6	637	8	2,627
Commercial & industrial			8	3,975	8	3,975

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Total troubled debt restructurings	84	\$	14,186	294	\$	51,080	378	\$	65,266
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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 March 31, 2015 and December 31, 2014 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
March 31, 2015 (dollars in thousands)						
Residential real estate loans (including home equity loans):						
Interest only payments	3	\$ 838	5	\$ 422	8	\$ 1,260
Rate reduction	186	25,685	46	5,709	232	31,394
Principal deferral	10	936	7	811	17	1,747
Legal modifications	34	2,706	31	1,604	65	4,310
Total residential TDRs	233	30,165	89	8,546	322	38,711
Commercial related and construction/land development loans:						
Interest only payments	9	3,290	2	899	11	4,189
Rate reduction	12	6,396	6	3,711	18	10,107
Principal deferral	13	5,605	6	4,204	19	9,809
Total commercial TDRs	34	15,291	14	8,814	48	24,105
Total troubled debt restructurings	267	\$ 45,456	103	\$ 17,360	370	\$ 62,816
December 31, 2014 (dollars in thousands)						
Residential real estate loans (including home equity loans):						
Interest only payments	2	\$ 218	4	\$ 389	6	\$ 607
Rate reduction	173	25,080	61	7,376	234	32,456
Principal deferral	12	1,408	5	349	17	1,757
Legal modifications	33	2,675	34	1,637	67	4,312
Total residential TDRs	220	29,381	104	9,751	324	39,132
Commercial related and construction/land development loans:						
Interest only payments	10	4,170	2	926	12	5,096
Rate reduction	19	9,043	3	1,915	22	10,958
Principal deferral	14	5,820	6	4,260	20	10,080
Total commercial TDRs	43	19,033	11	7,101	54	26,134
Total troubled debt restructurings	263	\$ 48,414	115	\$ 16,852	378	\$ 65,266

Table of Contents

As of March 31, 2015 and December 31, 2014, 72% and 74% of the Bank's TDRs were performing according to their modified terms. The Bank had provided \$4 million and \$4 million of specific reserve allocations to customers whose loan terms have been modified in TDRs as of March 31, 2015 and December 31, 2014. Specific reserve allocations are generally assessed prior to loans being modified as a TDR, as most of these loans migrate from the Bank's internal watch list and have been specifically provided for or reserved for as part of the Bank's normal loan and lease provisioning methodology. The Bank has not committed to lend any additional material amounts to its existing TDR relationships at March 31, 2015 or December 31, 2014.

Table of Contents

A summary of the categories of TDR loan modifications and respective performance as of March 31, 2015 and 2014 that were modified during the three months ended March 31, 2015 and 2014 follows:

March 31, 2015 (dollars in thousands)	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
Residential real estate loans (including home equity loans):						
Interest only payments	1	\$ 621		\$	1	\$ 621
Rate reduction	4	408	3	160	7	568
Principal deferral			1	25	1	25
Legal modifications			1	140	1	140
Total residential TDRs	5	1,029	5	325	10	1,354
Commercial related and construction/land development loans:						
Interest only payments	3	468			3	468
Rate reduction			1	1,730	1	1,730
Principal deferral			1	56	1	56
Total commercial TDRs	3	468	2	1,786	5	2,254
Total troubled debt restructurings	8	\$ 1,497	7	\$ 2,111	15	\$ 3,608

March 31, 2014 (dollars in thousands)	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
Residential real estate loans (including home equity loans):						
Interest only payments		\$	1	\$ 2	1	\$ 2
Rate reduction	13	1,102	3	1,134	16	2,236
Principal deferral	3	299			3	299
Legal modifications	20	2,070	11	664	31	2,734
Total residential TDRs	36	3,471	15	1,800	51	5,271
Commercial related and construction/land development loans:						
Interest only payments	3	718			3	718
Rate reduction	2	2,352	1	1,134	3	3,486
Principal deferral	2	968	1	1,908	3	2,876
Total commercial TDRs	7	4,038	2	3,042	9	7,080
Total troubled debt restructurings	43	\$ 7,509	17	\$ 4,842	60	\$ 12,351

Table of Contents

As of March 31, 2015 and 2014, 42% and 61% of the Bank's TDRs that occurred during the first quarters of 2015 and 2014 were performing according to their modified terms. The Bank provided \$476,000 and \$358,000 in specific reserve allocations to customers whose loan terms were modified in TDRs during the first quarters of 2015 and 2014. As stated above, specific reserves are generally assessed prior to loans being modified as a TDR, as most of these loans migrate from the Bank's internal watch list and have been specifically reserved for as part of the Bank's normal reserving methodology.

There were no significant changes between the pre and post modification loan balances for the three months ending March 31, 2015 and March 31, 2014.

Table of Contents

The following tables present loans by class modified as troubled debt restructurings within the previous twelve months of March 31, 2015 and 2014 and for which there was a payment default during the three months ended March 31, 2015 and 2014:

March 31, 2015 (dollars in thousands)	Number of Loans	Recorded Investment
Residential real estate:		
Owner occupied	5	\$ 324
Owner occupied - correspondent		
Non owner occupied		
Commercial real estate	1	56
Commercial real estate - purchased whole loans		
Construction & land development		
Commercial & industrial		
Lease financing receivables		
Warehouse lines of credit		
Home equity		
Consumer:		
RPG loans		
Credit cards		
Overdrafts		
Purchased whole loans		
Other consumer		
Total	6	\$ 380

March 31, 2014 (dollars in thousands)	Number of Loans	Recorded Investment
Residential real estate:		
Owner occupied	12	\$ 1,747
Owner occupied - correspondent		
Non owner occupied		
Commercial real estate	1	1,134
Commercial real estate - purchased whole loans		
Construction & land development		
Commercial & industrial		
Lease financing receivables		
Warehouse lines of credit		
Home equity	2	28
Consumer:		
RPG loans		
Credit cards		
Overdrafts		
Purchased whole loans		
Other consumer		
Total	15	\$ 2,909

Table of Contents

The following table presents the carrying amount of foreclosed properties held at March 31, 2015 and December 31, 2014 as a result of the Bank obtaining physical possession of such properties:

(in thousands)	March 31, 2015	December 31, 2014
Residential real estate	\$ 1,634	\$ 3,209
Commercial real estate	1,908	3,324
Construction & land development	3,194	4,710
Total other real estate owned	\$ 6,736	\$ 11,243

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 March 31, 2015 and December 31, 2014:

(in thousands)	March 31, 2015	December 31, 2014
Recorded investment in consumer residential real estate mortgage loans in the process of foreclosure	\$ 2,978	\$ 2,466

Table of Contents**4. DEPOSITS**

Ending deposit balances at March 31, 2015 and December 31, 2014 were as follows:

(in thousands)	March 31, 2015	December 31, 2014
Demand	\$ 733,727	\$ 691,787
Money market accounts	486,360	471,339
Brokered money market accounts	137,389	35,649
Savings	102,116	91,625
Individual retirement accounts*	35,884	28,771
Time deposits, \$250,000 and over*	41,777	56,556
Other certificates of deposit*	122,481	104,010
Brokered certificates of deposit*(1)	54,317	75,876
Total interest-bearing deposits	1,714,051	1,555,613
Total non interest-bearing deposits	666,166	502,569
Total deposits	\$ 2,380,217	\$ 2,058,182

(*) Represents a time deposit.

(1) Includes brokered deposits less than, equal to and greater than \$250,000.

5. FEDERAL HOME LOAN BANK (FHLB) ADVANCES

At March 31, 2015 and December 31, 2014, FHLB advances were as follows:

(dollars in thousands)	March 31, 2015	December 31, 2014
Overnight advance with an interest rate of 0.15% due on April 1, 2015	\$ 57,000	\$ 198,000
Variable interest rate advance indexed to 3-Month LIBOR plus 0.14% due on December 19, 2015	10,000	10,000
Fixed interest rate advances with a weighted average interest rate of 1.70% due through 2023	429,500	399,500
Putable fixed interest rate advances with a weighted average interest rate of 4.39% due through 2017(1)	100,000	100,000
Total FHLB advances	\$ 596,500	\$ 707,500

(1) - Represents putable advances with the FHLB. These advances have original fixed rate periods ranging from one to five years with original maturities ranging from three to ten years if not put back to the Bank earlier by the FHLB. At the end of their respective fixed rate periods and

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on a quarterly basis thereafter, the FHLB has the right to require payoff of the advances by the Bank at no penalty. Based on market conditions at this time, the Bank does not believe that any of its puttable advances are likely to be put back to the Bank in the short-term by the FHLB.

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At March 31, 2015 and December 31, 2014, Republic had available collateral to borrow an additional \$555 million and \$452 million, respectively, from the FHLB. In addition to its borrowing line with the FHLB, Republic also had unsecured lines of credit totaling \$166 million through various other financial institutions as of March 31, 2015 and December 31, 2014. The total outstanding borrowings on such unsecured lines were \$15 million and \$0 at March 31, 2015 and December 31, 2014.

Table of Contents

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
2015	\$ 77,000	0.49%
2016	82,000	1.74%
2017	145,000	3.44%
2018	117,500	1.53%
2019	100,000	1.80%
2020	45,000	1.84%
Thereafter	30,000	1.95%
Total	\$ 596,500	1.98%

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

(in thousands)	March 31, 2015	December 31, 2014
First lien, single family residential real estate	\$ 1,320,054	\$ 1,333,811
Home equity lines of credit	103,912	103,064
Multi-family commercial real estate	14,968	12,682

Table of Contents

6. 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 the fair value of each type of financial instrument:

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

Except for the Bank's mutual fund investment and its private label mortgage backed security, 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 2 Investment Securities for additional discussion regarding the Bank's private label mortgage backed security.

Mortgage loans held for sale: 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.

Derivative instruments: 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 used for interest rate risk management: Interest rate swaps are recorded at fair value on a recurring basis. The Company utilizes interest rate swap agreements as part of the management of interest rate risk to modify the repricing characteristics of certain portions of the Company's interest-bearing liabilities. The Company values its interest rate swaps using Bloomberg Valuation Service's derivative pricing functions and therefore classifies such valuations as Level 2. Valuations of these interest rate swaps are also received from the relevant counterparty and validated against internal 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. 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 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, held for sale: Premises held for sale are accounted for at the lower of cost or fair value less estimated costs to sell. Fair value is 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. 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.

Appraisals for both collateral-dependent impaired loans 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, MSRs are evaluated for impairment based upon the fair value of the MSRs as compared to carrying amount. If the carrying amount of an individual grouping exceeds fair value, impairment is recorded and the respective individual tranche is carried at fair value. If the carrying amount of an individual grouping 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 that can generally be validated against available market data (Level 2).

Table of Contents

Assets and liabilities measured at fair value on a **recurring basis** as of March 31, 2015 and December 31, 2014, including financial assets and liabilities for which the Bank has elected the fair value option, are summarized below:

	Fair Value Measurements at March 31, 2015 Using:				
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		Total Fair Value
Financial assets:					
Securities available for sale:					
U.S. Treasury securities and U.S. Government agencies	\$	\$	187,937	\$	\$ 187,937
Private label mortgage backed security				5,235	5,235
Mortgage backed securities - residential		117,973			117,973
Collateralized mortgage obligations		136,607			136,607
Freddie Mac preferred stock		271			271
Mutual fund	1,027				1,027
Corporate bonds		15,095			15,095
Total securities available for sale	\$ 1,027	\$ 457,883	\$ 5,235	\$	464,145
Mortgage loans held for sale	\$	\$ 12,748	\$	\$	12,748
Rate lock commitments		497			497
Financial liabilities:					
Mandatory forward contracts		125			125
Interest rate swap agreements		783			783

	Fair Value Measurements at December 31, 2014 Using:				
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		Total Fair Value
Financial assets:					
Securities available for sale:					
U.S. Treasury securities and U.S. Government agencies	\$	\$ 146,922	\$	\$	146,922
Private label mortgage backed security			5,250		5,250
Mortgage backed securities - residential		124,256			124,256
Collateralized mortgage obligations		143,171			143,171
Freddie Mac preferred stock		231			231
Mutual fund	1,018				1,018
Corporate bonds		15,063			15,063
Total securities available for sale	\$ 1,018	\$ 429,643	\$ 5,250	\$	435,911
Mortgage loans held for sale	\$	\$ 6,388	\$	\$	6,388
Rate lock commitments		250			250

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Financial liabilities:

Mandatory forward contracts	33	33
Interest rate swap agreements	488	488

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 months ended March 31, 2015 and 2014.

Table of Contents**Private Label Mortgage Backed Security**

The table below presents a reconciliation of the Bank's private label mortgage backed security. This is the only asset that was measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods ended March 31, 2015 and 2014:

(in thousands)	Three Months Ended March 31,	
	2015	2014
Balance, beginning of period	\$ 5,250	\$ 5,485
Total gains or losses included in earnings:		
Net change in unrealized gain	(22)	54
Recovery of actual losses previously recorded	35	32
Principal paydowns	(28)	(301)
Balance, end of period	\$ 5,235	\$ 5,270

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 table presents quantitative information about recurring Level 3 fair value measurements at March 31, 2015 and December 31, 2014:

March 31, 2015 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range
Private label mortgage backed security	\$ 5,235	Discounted cash flow	(1) Constant prepayment rate (2) Probability of default (2) Loss severity	(1.5)% - 6.5% 3.0% - 9.1% 60% - 90%
December 31, 2014 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range
Private label mortgage backed security	\$ 5,250	Discounted cash flow	(1) Constant prepayment rate	0.5% - 6.5%