

REPUBLIC BANCORP INC /KY/
Form 10-Q
August 09, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 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 July 31, 2016, was 18,616,863 and 2,245,184.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	June 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	\$ 142,979	\$ 210,082
Securities available for sale	514,846	517,058
Securities held to maturity (fair value of \$36,336 in 2016 and \$39,196 in 2015)	36,181	38,727
Mortgage loans held for sale, at fair value	12,280	4,083
Mortgage loans held for sale, at lower of cost or fair value	74,430	—
Consumer loans held for sale, at fair value	6,826	—
Consumer loans held for sale, at the lower of cost or fair value	1,122	514
Loans	3,691,323	3,326,610
Allowance for loan and lease losses	(29,308)	(27,491)
Loans, net	3,662,015	3,299,119
Federal Home Loan Bank stock, at cost	28,208	28,208
Premises and equipment, net	42,956	31,106
Goodwill	16,313	10,168
Other real estate owned	1,503	1,220
Bank owned life insurance	60,986	52,817
Other assets and accrued interest receivable	46,277	37,187
TOTAL ASSETS	\$ 4,646,922	\$ 4,230,289
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 867,095	\$ 634,863
Interest-bearing	1,988,952	1,852,614
Total deposits	2,856,047	2,487,477
Securities sold under agreements to repurchase and other short-term borrowings	126,124	395,433
Federal Home Loan Bank advances	987,500	699,500
Subordinated note	45,364	41,240
Other liabilities and accrued interest payable	36,864	30,092

Total liabilities	4,051,899	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	137,315	136,910
Retained earnings	449,487	432,673
Accumulated other comprehensive income	3,315	2,049
Total stockholders' equity	595,023	576,547
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,646,922	\$ 4,230,289

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
INTEREST INCOME:				
Loans, including fees	\$ 37,746	\$ 33,616	\$ 79,175	\$ 65,207
Taxable investment securities	1,983	1,779	3,875	3,552
Federal Home Loan Bank stock and other	411	327	1,105	724
Total interest income	40,140	35,722	84,155	69,483
INTEREST EXPENSE:				
Deposits	1,347	1,021	2,739	2,165
Securities sold under agreements to repurchase and other short-term borrowings	15	17	40	55
Federal Home Loan Bank advances	2,973	2,997	5,926	5,925
Subordinated note	228	629	439	1,258
Total interest expense	4,563	4,664	9,144	9,403
NET INTEREST INCOME	35,577	31,058	75,011	60,080
Provision for loan and lease losses	1,814	904	7,000	1,089
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	33,763	30,154	68,011	58,991
NONINTEREST INCOME:				
Service charges on deposit accounts	3,282	3,247	6,422	6,286
Net refund transfer fees	1,909	1,907	18,987	17,242
Mortgage banking income	1,560	1,224	2,821	2,577
Interchange fee income	2,217	2,044	4,340	4,238
Republic Processing Group program fees	664	169	963	397
Gain on call of security available for sale	—	88	—	88
Net gains (losses) on other real estate owned	80	(155)	328	(274)
Increase in cash surrender value of bank owned life insurance	369	353	708	702
Other	721	608	1,154	1,215
Total noninterest income	10,802	9,485	35,723	32,471
NONINTEREST EXPENSES:				

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Salaries and employee benefits	17,814	14,323	34,897	29,600
Occupancy and equipment, net	5,109	5,142	10,528	10,343
Communication and transportation	872	771	1,945	1,817
Marketing and development	1,190	977	1,697	1,562
FDIC insurance expense	480	474	1,138	1,148
Bank franchise tax expense	647	847	3,098	3,248
Data processing	1,543	1,092	2,876	2,058
Interchange related expense	1,047	931	1,951	1,938
Supplies	240	219	689	580
Other real estate owned expense	116	120	196	339
Legal and professional fees	604	528	1,427	2,143
Other	2,204	1,741	3,965	3,463
Total noninterest expenses	31,866	27,165	64,407	58,239
INCOME BEFORE INCOME TAX EXPENSE	12,699	12,474	39,327	33,223
INCOME TAX EXPENSE	4,359	4,154	13,252	11,115
NET INCOME	\$ 8,340	\$ 8,320	\$ 26,075	\$ 22,108
BASIC EARNINGS PER SHARE:				
Class A Common Stock	\$ 0.40	\$ 0.40	\$ 1.26	\$ 1.07
Class B Common Stock	\$ 0.37	\$ 0.37	1.14	0.97
DILUTED EARNINGS PER SHARE:				
Class A Common Stock	\$ 0.40	\$ 0.40	\$ 1.26	\$ 1.07
Class B Common Stock	\$ 0.37	\$ 0.36	1.14	0.97
DIVIDENDS DECLARED PER COMMON SHARE:				
Class A Common Stock	\$ 0.209	\$ 0.198	\$ 0.407	\$ 0.385
Class B Common Stock	\$ 0.190	\$ 0.180	0.370	0.350

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$ 8,340	\$ 8,320	\$ 26,075	\$ 22,108
OTHER COMPREHENSIVE INCOME				
Change in fair value of derivatives used for cash flow hedges	(219)	175	(790)	(221)
Reclassification amount for derivative losses realized in income	86	103	173	204
Change in unrealized gain (loss) on securities available for sale	416	(1,056)	2,708	182
Reclassification adjustment for gain on security available for sale recognized in earnings	—	(88)	—	(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	1	(4)	(148)	(26)
Net unrealized gains (losses)	284	(870)	1,943	51
Tax effect	(97)	304	(677)	(18)
Total other comprehensive income, net of tax	187	(566)	1,266	33
COMPREHENSIVE INCOME	\$ 8,527	\$ 7,754	\$ 27,341	\$ 22,141

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

SIX MONTHS ENDED JUNE 30, 2016

(in thousands)	Common Stock		Amount	Additional Paid In Capital	Retained Earnings	Accumulated	
	Class A Shares Outstanding	Class B Shares Outstanding				Other Comprehensive Income	Total Stockholders' Equity
Balance, January 1, 2016	18,652	2,245	\$ 4,915	\$ 136,910	\$ 432,673	\$ 2,049	\$ 576,547
Net income	—	—	—	—	26,075	—	26,075
Net change in accumulated other comprehensive income	—	—	—	—	—	1,266	1,266
Dividends declared Common Stock:							
Class A Shares	—	—	—	—	(7,579)	—	(7,579)
Class B Shares	—	—	—	—	(831)	—	(831)
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	—	—	—	2	—	—	2
Deferred director compensation expense -	4	—	—	100	—	—	100

Class A
Common Stock

Stock based compensation expense - performance stock units	—	—	—	254	—	—	254
Stock based compensation expense - restricted stock	(2)	—	—	117	—	—	117
Stock based compensation expense - stock options	—	—	—	126	—	—	126
Balance, June 30, 2016	18,617	2,245	\$ 4,906	\$ 137,315	\$ 449,487	\$ 3,315	\$ 595,023

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six Months Ended	
	June 30,	
	2016	2015
OPERATING ACTIVITIES:		
Net income	\$ 26,075	\$ 22,108
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization on investment securities, net	279	380
Accretion on loans, deposits and core deposit intangible, net	(1,301)	(1,649)
Depreciation of premises and equipment	3,465	3,251
Amortization of mortgage servicing rights	683	716
Provision for loan and lease losses	7,000	1,089
Net gain on sale of mortgage loans held for sale	(2,560)	(2,353)
Origination of mortgage loans held for sale	(95,787)	(96,008)
Proceeds from sale of mortgage loans held for sale	90,150	94,472
Net gain on sale of consumer loans held for sale	(839)	(246)
Origination of consumer loans held for sale	(129,027)	(24,410)
Proceeds from sale of consumer loans held for sale	122,432	23,114
Net realized gain on sales, calls and impairment of securities	—	(88)
Net gain realized on sale of other real estate owned	(328)	(430)
Writedowns of other real estate owned	—	704
Deferred director compensation expense - Company Stock	100	109
Stock based compensation expense	497	203
Increase in cash surrender value of bank owned life insurance	(708)	(702)
Net change in other assets and liabilities:		
Accrued interest receivable	(174)	(131)
Accrued interest payable	12	(55)
Other assets	211	(1,859)
Other liabilities	(2,731)	581
Net cash provided by operating activities	17,449	18,796
INVESTING ACTIVITIES:		
Net change in cash for acquisition of Cornerstone Bancorp, Inc.	(9,088)	—
Purchases of securities available for sale	(390,079)	(889,325)
Proceeds from calls, maturities and paydowns of securities available for sale	394,575	868,424
Proceeds from calls, maturities and paydowns of securities held to maturity	2,866	2,342
Net change in outstanding warehouse lines of credit	(199,348)	(169,474)
Purchase of non-business-acquisition loans, including premiums paid	(47,986)	(63,163)
Net change in other loans	(7,726)	(48,458)
Proceeds from redemption of Federal Home Loan Bank stock	224	—
Proceeds from sales of other real estate owned	1,727	7,009
Net purchases of premises and equipment	(3,088)	(2,507)
Net cash used in investing activities	(257,923)	(295,152)

FINANCING ACTIVITIES:

Net change in deposits	163,899	221,428
Net change in securities sold under agreements to repurchase and other short-term borrowings	(269,309)	(126,283)
Payments of Federal Home Loan Bank advances	(207,000)	(208,000)
Proceeds from Federal Home Loan Bank advances	495,000	417,000
Repurchase of Common Stock	(1,134)	(327)
Net proceeds from Common Stock options exercised	80	119
Cash dividends paid	(8,165)	(7,693)
Net cash provided by financing activities	173,371	296,244

NET CHANGE IN CASH AND CASH EQUIVALENTS	(67,103)	19,888
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	210,082	72,878
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 142,979	\$ 92,766

SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION:

Cash paid during the period for:

Interest	\$ 9,115	\$ 9,458
Income taxes	12,771	6,130

SUPPLEMENTAL NONCASH DISCLOSURES:

Transfers from loans to real estate acquired in settlement of loans	\$ 1,938	\$ 1,922
Transfers from loans held for investment to held for sale	74,430	—
Loans provided for sales of other real estate owned	256	2,962

See accompanying footnotes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 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 eight 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 the 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.

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 six months ended June 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 June 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.

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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 June 30, 2016, in addition to Internet Banking and Correspondent Lending delivery channels, 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.

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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.

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 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 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.”

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Accounting Standards Update (“ASU”) ASU No. 2016-4, Liabilities – Extinguishments of Liabilities (Topic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products

Prepaid stored-value products are products in physical and digital forms with stored monetary values that are issued for the purpose of being commonly accepted as payment for goods or services. In some cases, a prepaid stored-value product may be unused wholly or partially for an indefinite time period. This unused value is commonly referred to as “breakage.” Although Subtopic 405-20, Liabilities—Extinguishments of Liabilities, includes derecognition guidance for both financial liabilities and nonfinancial liabilities, there currently is diversity in the methodology used to recognize breakage.

ASU 2016-4 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, Revenue from Contracts with Customers.

The guidance in ASU 2016-4 is effective for the Company for fiscal years beginning after December 15, 2017. The Company does not project this guidance to have a material impact on its financial statements.

ASU No. 2016-5, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships

ASU 2016-5 clarifies that a change in the counterparty to a derivative instrument that has been designated as the 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.

The guidance in ASU 2016-5 is effective for the Company for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. The Company does not project this guidance to have a material impact on its financial statements.

ASU No. 2016-9, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting

ASU 2016-9 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.

The guidance in this ASU is effective for the Company for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. The Company does not project this guidance to have a material impact on its financial statements.

ASU No. 2016-11, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

ASU 2016-11 amends guidance on reporting credit losses for assets held at amortized-cost basis and available-for-sale debt securities.

For assets held at amortized cost basis, this ASU eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized-cost basis of the financial assets to present the net amount expected to be collected.

For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP; however, Topic 326 will require that credit losses be presented as an allowance rather than as a write-down.

This ASU affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

The guidance in this ASU is effective for the Company for fiscal years beginning after December 15, 2019, and interim periods within those annual periods. The Company expects a substantial, but yet undetermined, increase in its allowance for loan and lease losses upon implementation of this ASU.

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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 preliminary fair value adjustments necessary to adjust those acquired assets and assumed liabilities to fair value, and the preliminary 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 adjustment.

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

(in thousands)	May 17, 2016 As Recorded by Cornerstone	Fair Value Adjustments (1)	As Recorded by Republic (1)
Assets acquired:			
Cash and cash equivalents	\$ 22,707	\$ —	\$ 22,707
Investment securities	329	—	329
Loans	195,136	(5,525)	a 189,611
Allowance for loan and lease losses	(1,955)	1,955	a —
Loans, net	193,181	(3,570)	189,611
Federal Home Loan Bank stock, at cost	224	—	224
Premises and equipment, net	7,770	4,457	b 12,227
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

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Total assets acquired	\$ 236,044	\$ 2,018	\$ 238,062
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	25,650
Cash consideration paid			(31,795)
Goodwill			\$ 6,145

(1) The Company's acquisition of Cornerstone closed on May 17, 2016. Accordingly, the fair value adjustments shown are preliminary estimates of the purchase accounting adjustments. Management is continuing to evaluate each of these fair value adjustments and may revise one or more of such fair value adjustments in future periods based on this continuing evaluation. To the extent that any of these preliminary fair value adjustments are revised in future periods, the resultant fair values and the amount of goodwill recorded by the Company will change.

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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.

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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 six months ended June 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 June 30, 2016			Six Months Ended June 30, 2016		
	Non-Acquisition Related	Acquisition-Related	Total	Non-Acquisition Related	Acquisition-Related	Total
INTEREST INCOME:						
Loans, including fees	\$ 1,055	\$ —	\$ 1,055	\$ 1,055	\$ —	\$ 1,055
Taxable investment securities	203	—	203	203	—	203
Total interest income	1,258	—	1,258	1,258	—	1,258
INTEREST EXPENSE:						
Deposits	67	—	67	67	—	67
Interbank borrowings	251	—	251	251	—	251
Subordinated note	12	—	12	12	—	12
Total interest expense	330	—	330	330	—	330
NET INTEREST INCOME	928	—	928	928	—	928
Provision for loan and lease losses	86	—	86	86	—	86
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	842	—	842	842	—	842
NONINTEREST INCOME:						
Service charges on deposit accounts	37	—	37	37	—	37
Interchange fee income	19	—	19	19	—	19
Other	36	—	36	36	—	36
Total noninterest income	92	—	92	92	—	92
NONINTEREST EXPENSES:						
Salaries and employee benefits	419	274	a 693	419	274	a 693

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Occupancy and equipment, net	96	—		96	100	—		100
Communication and transportation	29	10	b	39	30	10	b	40
Marketing and development	27	—		27	27	—		27
FDIC insurance expense	19	—		19	19	—		19
Data processing	14	289	c	303	31	417	c	448
Supplies	6	12	d	18	7	20	d	27
Legal and professional fees	28	88	e	116	29	150	e	179
Other	65	31	f	96	68	31	f	99
Total noninterest expenses	703	704		1,407	730	902		1,632
INCOME (LOSS) BEFORE								
INCOME TAX EXPENSE	231	(704)		(473)	204	(902)		(698)
INCOME TAX EXPENSE								
(BENEFIT)	68	(211)		(143)	60	(271)		(211)
NET INCOME (LOSS)	\$ 163	\$ (493)		\$ (330)	\$ 144	\$ (631)		\$ (487)

Explanation of acquisition-related items:

- a. Severance payouts and signing bonuses for former Cornerstone employees.
- b. Notices to former Cornerstone stakeholders of change in ownership and merger-related travel.
- c. Core system conversion-related costs.
- d. Costs to update forms and supplies to RBT brand.
- e. Includes legal, audit, tax and other acquisition related consulting costs.
- f. Includes amortization of core deposit intangible asset.

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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:

June 30, 2016 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 296,407	\$ 1,943	\$ (10)	\$ 298,340
Private label mortgage backed security	3,999	947	—	4,946
Mortgage backed securities - residential	85,544	3,026	(9)	88,561
Collateralized mortgage obligations	101,655	674	(261)	102,068
Freddie Mac preferred stock	—	254	—	254
Community Reinvestment Act mutual fund	2,500	53	—	2,553
Corporate bonds	15,006	20	(52)	14,974
Trust preferred security	3,427	—	(277)	3,150
Total securities available for sale	\$ 508,538	\$ 6,917	\$ (609)	\$ 514,846

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:

June 30, 2016 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 511	\$ 5	\$ —	\$ 516
Mortgage backed securities - residential	162	13	—	175
Collateralized mortgage obligations	30,433	288	(69)	30,652
Corporate bonds	5,075	—	(82)	4,993
Total securities held to maturity	\$ 36,181	\$ 306	\$ (151)	\$ 36,336

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 June 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.

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Sales of Securities Available for Sale

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

During the three and six months ended June 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 June 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.

June 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	\$ 60,393	\$ 60,626	\$ —	\$ —
Due from one year to five years	241,020	242,740	5,586	5,509
Due from five years to ten years	10,000	9,948	—	—
Due beyond ten years	3,427	3,150	—	—
Private label mortgage backed security	3,999	4,946	—	—
Mortgage backed securities - residential	85,544	88,561	162	175
Collateralized mortgage obligations	101,655	102,068	30,433	30,652
Freddie Mac preferred stock	—	254	—	—
Community Reinvestment Act mutual fund	2,500	2,553	—	—
Total securities	\$ 508,538	\$ 514,846	\$ 36,181	\$ 36,336

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 June 30, 2016, the Company’s unrealized gain for its Freddie Mac preferred stock totaled \$254,000.

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 June 30, 2016 and December 31, 2015.

Mortgage Backed Securities and Collateralized Mortgage Obligations

At June 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”), institutions that the government has affirmed its commitment to support. At June 30, 2016 and December 31, 2015, there were gross unrealized losses of \$270,000 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 be OTTI.

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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 this security.

Unrealized-Loss Analysis

Securities with unrealized losses at June 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, are as follows:

June 30, 2016 (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	\$ 9,989	\$ (10)	\$ —	\$ —	\$ 9,989	\$ (10)
Mortgage backed securities - residential	—	—	5,004	(9)	5,004	(9)
Collateralized mortgage obligations	23,015	(133)	14,070	(128)	37,085	(261)
Corporate bonds	9,948	(52)	—	—	9,948	(52)
Trust preferred security	3,150	(277)	—	—	3,150	(277)
Total securities available for sale	\$ 46,102	\$ (472)	\$ 19,074	\$ (137)	\$ 65,176	\$ (609)

December 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	\$ 191,584	\$ (433)	\$ 9,914	\$ (61)	\$ 201,498	\$ (494)
Mortgage backed securities - residential	5,727	(95)	—	—	5,727	(95)

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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)

June 30, 2016 (in thousands)	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:						
Collateralized mortgage obligations	\$ 7,725	\$ (69)	\$ —	\$ —	\$ 7,725	\$ (69)
Corporate bonds	—	—	4,993	(82)	4,993	(82)
Total securities held to maturity	\$ 7,725	\$ (69)	\$ 4,993	\$ (82)	\$ 12,718	\$ (151)

December 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 held to maturity:						
Corporate bonds	\$ 4,998	\$ (2)	\$ —	—	\$ 4,998	\$ (2)
Total securities held to maturity	\$ 4,998	\$ (2)	\$ —	\$ —	\$ 4,998	\$ (2)

At June 30, 2016, the Bank's security portfolio consisted of 174 securities, 20 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.

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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 June 30, 2016. This security, with an average remaining life currently estimated at five 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)	June 30, 2016	December 31, 2015
Carrying amount	\$ 204,614	\$ 489,598
Fair value	204,885	490,074

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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.

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

In addition to loans originated by Republic with the intent to sell, the Company may, from time to time, reclassify loans from held for investment to the held-for-sale class. In June 2016, management decided to sell \$74 million of mortgage loans originated through the Bank's Correspondent Lending channel in order to further enhance its overall liquidity position. The final cash settlement for this sale occurred in late July 2016.

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 June 30, 2016	Six Months Ended June 30, 2016
Balance, beginning of period	\$ 415	\$ —
Origination of consumer loans held for sale	13,242	13,657
Proceeds from the sale of consumer loans held for sale	(6,958)	(6,958)
Net gain on sale of consumer loans held for sale	127	127
Balance, end of period	\$ 6,826	\$ 6,826

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance, beginning of period	\$ 566	\$ —	\$ 514	\$ —
Origination of consumer loans held for sale	71,717	19,898	115,370	21,969
Proceeds from the sale of consumer loans held for sale	(71,441)	(18,456)	(115,474)	(20,673)
Net gain on sale of consumer loans held for sale	280	100	712	246
Balance, end of period	\$ 1,122	\$ 1,542	\$ 1,122	\$ 1,542

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5. LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The composition of the loan portfolio at period end follows:

(in thousands)	June 30, 2016	December 31, 2015
Residential real estate:		
Owner occupied	\$ 1,052,357	\$ 1,081,934
Owner occupied - correspondent*	162,269	249,344
Non owner occupied	145,803	116,294
Commercial real estate	973,061	824,887
Commercial real estate - purchased whole loans*	36,085	35,674
Construction & land development	80,398	66,500
Commercial & industrial	248,286	229,721
Lease financing receivables	10,976	8,905
Warehouse lines of credit	586,077	386,729
Home equity	324,437	289,194
Consumer:		
RPG loans*	12,198	7,204
Credit cards	11,884	11,068
Overdrafts	1,458	685
Purchased whole loans*	8,145	5,892
Other consumer	37,889	12,579
Total loans**	3,691,323	3,326,610
Allowance for loan and lease losses	(29,308)	(27,491)
Total loans, net	\$ 3,662,015	\$ 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 June 30, 2016 and December 31, 2015:

(in thousands)	June 30, 2016	December 31, 2015
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Contractual receivable	\$ 3,697,531	\$ 3,329,741
Unearned income(1)	(926)	(741)
Unamortized premiums(2)	3,210	3,792
Unaccreted discounts(3)	(11,500)	(7,860)
Net unamortized deferred origination fees and costs	3,008	1,678
Carrying value of loans	\$ 3,691,323	\$ 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 2012 FDIC-assisted transactions.

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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 75% of such loans as of June 30, 2016 secured by collateral in the state of California.

In addition to mortgage loans acquired through its Correspondent Lending channel, the Bank also acquires 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 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 six months ended June 30, 2016 and 2015.

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Residential real estate:				
Owner occupied - correspondent*	\$ 23,043	\$ 43,632	\$ 43,564	\$ 62,802
Consumer:				
Purchased whole loans*	1,756	—	4,422	361
Total purchased loans	\$ 24,799	\$ 43,632	\$ 47,986	\$ 63,163

* 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:

(in thousands)	May 17, 2016			Acquisition-Day Fair Value
	Contractual Receivable	Non-accretable Amount	Accretable Amount	

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Residential real estate:				
Owner occupied	17,934	—	(430)	17,504
Non owner occupied	11,392	—	(124)	11,268
Commercial real estate	107,213	—	(1,549)	105,664
Construction & land development	18,277	—	(504)	17,773
Commercial & industrial	11,462	—	(208)	11,254
Home equity	20,652	—	(362)	20,290
Consumer and other	2,347	—	(203)	2,144
Total loans - ASC 310-20	189,277	—	(3,380)	185,897
Residential real estate:				
Owner occupied	516	(209)	(7)	300
Non owner occupied	1,525	(297)	(153)	1,075
Commercial real estate	3,191	(1,099)	(190)	1,902
Construction & land development	175	—	—	175
Commercial & industrial	66	(49)	1	18
Home equity	382	(128)	(11)	243
Consumer and other	4	(3)	—	1
Total loans - ASC 310-30 - purchased-credit-impaired loans	5,859	(1,785)	(360)	3,714
Total loans	\$ 195,136	\$ (1,785)	\$ (3,740)	\$ 189,611

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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 June 30, 2016 and December 31, 2015:

(in thousands)	June 30, 2016	December 31, 2015
Contractually-required principal	\$ 21,074	\$ 18,250
Non-accretable amount	(2,416)	(1,582)
Accretable amount	(4,087)	(4,125)
Carrying value of loans	\$ 14,571	\$ 12,543

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

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance, beginning of period	\$ (3,853)	\$ (2,170)	\$ (4,125)	\$ (2,297)
Transfers between non-accretable and accretable	(44)	(3,378)	(499)	(3,354)
Net accretion into interest income on loans, including loan fees	170	1,225	897	1,328
Generated from acquisition of Cornerstone Bancorp, Inc.	(360)	—	(360)	—
Balance, end of period	\$ (4,087)	\$ (4,323)	\$ (4,087)	\$ (4,323)

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Credit Quality Indicators

Based on the Bank's internal analyses performed as of June 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:

June 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	\$ —	\$ 27,371	\$ 14,449	\$ —	\$ 1,108	\$ —	\$ 42,928
Owner occupied - correspondent	—	—	—	—	—	—	—
Non owner occupied	—	721	858	—	1,348	—	2,927
Commercial real estate	948,545	6,952	5,750	—	11,814	—	973,061
Commercial real estate - purchased whole loans	36,085	—	—	—	—	—	36,085
Construction & land development	79,124	465	809	—	—	—	80,398
Commercial & industrial	246,968	869	394	—	55	—	248,286
Lease financing receivables	10,976	—	—	—	—	—	10,976
Warehouse lines of credit	586,077	—	—	—	—	—	586,077
Home equity	—	110	1,709	—	244	—	2,063
Consumer:							
RPG loans	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—
Purchased whole loans	—	—	—	—	—	—	—
Other consumer	—	26	62	—	2	—	90
Total rated loans	\$ 1,907,775	\$ 36,514	\$ 24,031	\$ —	\$ 14,571	\$ —	\$ 1,982,891

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*Special Mention and Substandard loans included \$177,000 and \$719,000 that 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, home equity and consumer loans.

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
Total rated loans	\$ 1,525,771	\$ 31,312	\$ 27,833	\$ —	\$ 12,543	\$ —	\$ 1,597,459

*Special Mention and Substandard loans included \$180,000 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 table excludes all non-classified residential real estate, home equity and consumer loans.

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Allowance for Loan and Lease Losses

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

(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Allowance, beginning of period	\$ 31,475	\$ 24,631	\$ 27,491	\$ 24,410
Charge-offs - Core Banking	(804)	(685)	(1,416)	(1,177)
Charge-offs - RPG	(3,943)	(21)	(5,194)	(26)
Total charge-offs	(4,747)	(706)	(6,610)	(1,203)
Recoveries - Core Banking	377	377	705	715
Recoveries - RPG	389	42	722	237
Total recoveries	766	419	1,427	952
Net (charge-offs) recoveries - Core Banking	(427)	(308)	(711)	(462)
Net (charge-offs) recoveries - RPG	(3,554)	21	(4,472)	211
Net (charge-offs) recoveries	(3,981)	(287)	(5,183)	(251)
Provision - Core Banking	1,278	717	1,776	1,092
Provision - RPG	536	187	5,224	(3)
Total provision	1,814	904	7,000	1,089
Allowance, end of period	\$ 29,308	\$ 25,248	\$ 29,308	\$ 25,248

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

Three Months Ended June 30, 2016 (in thousands)	Residential Real Estate			Commercial				Lease & Financing Receivables
	Owner	Occupied	Non Owner	Commercial	Purchased	Construction	Commercial	
	Occupied	Correspondent	Occupied	Real Estate	Whole Loans	Land Development	Industrial	
Beginning balance	\$ 8,049	\$ 607	\$ 1,095	\$ 7,642	\$ 36	\$ 1,348	\$ 1,384	\$ 97
Provision	(160)	(15)	(51)	48	—	(16)	387	18
Charge-offs	(73)	—	—	—	—	—	(330)	—
Recoveries	77	—	8	79	—	—	—	—
Ending balance	\$ 7,893	\$ 592	\$ 1,052	\$ 7,769	\$ 36	\$ 1,332	\$ 1,441	\$ 115

(continued)	Warehouse	Home	Consumer	Credit	Overdrafts	Purchased	Other	Total
	Lines of Credit		RPG			Loans	Whole Loans	
Beginning balance	\$ 985	\$ 3,054	\$ 5,469	\$ 466	\$ 450	\$ 565	\$ 228	\$ 31,475
Provision	480	(67)	536	37	489	28	100	1,814
Charge-offs	—	(49)	(3,943)	(50)	(171)	(64)	(67)	(4,747)
Recoveries	—	78	389	3	56	6	70	766
Ending balance	\$ 1,465	\$ 3,016	\$ 2,451	\$ 456	\$ 824	\$ 535	\$ 331	\$ 29,308

Three Months Ended June 30, 2016 (in thousands)	Residential Real Estate			Commercial				Lease & Financing Receivables
	Owner	Occupied	Non Owner	Commercial	Purchased	Construction	Commercial	
	Occupied	Correspondent	Occupied	Real Estate	Whole Loans	Land Development	Industrial	

Three Months
Ended
June 30, 2015
(in thousands)

	Occupied	Correspondent	Occupied	Real Estate	Whole Loans	Land Development	Industrial	Receivables
Beginning balance	\$ 8,629	\$ 579	\$ 920	\$ 7,553	\$ 35	\$ 958	\$ 1,157	\$ 40
Provision	(313)	29	10	353	—	142	52	36
Charge-offs	(178)	—	(29)	(147)	—	—	(27)	—
Recoveries	64	—	3	81	—	—	9	—
Ending balance	\$ 8,202	\$ 608	\$ 904	\$ 7,840	\$ 35	\$ 1,100	\$ 1,191	\$ 76

(continued)	Warehouse Lines of Credit	Home Equity	Consumer RPG Loans	Credit Cards	Overdrafts	Purchased Whole Loans	Other Consumer	Total
Beginning balance	\$ 1,058	\$ 2,708	\$ 44	\$ 362	\$ 245	\$ 184	\$ 159	\$ 24,631
Provision	164	56	187	40	57	83	8	904
Charge-offs	—	(21)	(21)	(31)	(103)	(60)	(89)	(706)
Recoveries	—	22	42	28	87	—	83	419
Ending balance	\$ 1,222	\$ 2,765	\$ 252	\$ 399	\$ 286	\$ 207	\$ 161	\$ 25,248

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

Six Months Ended June 30, 2016 (in thousands)	Residential Real Estate			Commercial				Lease Financing Receivables
	Owner	Occupied	Non Owner	Commercial Real Estate	Purchased Whole Loans	Construction & Land Development	Commercial & Industrial	
	Occupied	Correspondent	Occupied	Real Estate	Whole Loans	Land Development	Industrial	
Beginning balance	\$ 8,301	\$ 623	\$ 1,052	\$ 7,636	\$ 36	\$ 1,303	\$ 1,455	\$ 89
Provision	(298)	(31)	(8)	68	—	53	312	26
Charge-offs	(261)	—	—	(41)	—	(44)	(330)	—
Recoveries	151	—	8	106	—	20	4	—
Ending balance	\$ 7,893	\$ 592	\$ 1,052	\$ 7,769	\$ 36	\$ 1,332	\$ 1,441	\$ 115

(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	498	—	5,224	58	673	260	165	7,000
Charge-offs	—	(84)	(5,194)	(62)	(332)	(123)	(139)	(6,610)
Recoveries	—	104	722	12	132	6	162	1,427
Ending balance	\$ 1,465	\$ 3,016	\$ 2,451	\$ 456	\$ 824	\$ 535	\$ 331	\$ 29,308

	Residential Real Estate			Commercial				Lease Financing Receivables
	Owner	Occupied	Non Owner	Commercial Real Estate	Purchased Whole Loans	Construction & Land Development	Commercial & Industrial	
	Owner	Occupied	Non Owner	Commercial Real Estate	Whole Loans	Land Development	Industrial	

Six Months
Ended
June 30, 2015
(in thousands)

	Occupied	Correspondent	Occupied	Real Estate	Whole Loans	Land Development	Industrial	Receivables
Beginning balance	\$ 8,565	\$ 567	\$ 837	\$ 7,740	\$ 34	\$ 926	\$ 1,167	\$ 25
Provision	(173)	41	90	164	1	174	42	51
Charge-offs	(314)	—	(29)	(154)	—	—	(56)	—
Recoveries	124	—	6	90	—	—	38	—
Ending balance	\$ 8,202	\$ 608	\$ 904	\$ 7,840	\$ 35	\$ 1,100	\$ 1,191	\$ 76

(continued)	Warehouse Lines of Credit	Home Equity	Consumer RPG Loans	Credit Cards	Overdrafts	Purchased Whole Loans	Other Consumer	Total
Beginning balance	\$ 799	\$ 2,730	\$ 44	\$ 285	\$ 382	\$ 185	\$ 124	\$ 24,410
Provision	423	48	(3)	144	(22)	94	15	1,089
Charge-offs	—	(72)	(26)	(71)	(249)	(72)	(160)	(1,203)
Recoveries	—	59	237	41	175	—	182	952
Ending balance	\$ 1,222	\$ 2,765	\$ 252	\$ 399	\$ 286	\$ 207	\$ 161	\$ 25,248

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Nonperforming Loans and Nonperforming Assets

Detail of nonperforming loans and nonperforming assets follows:

(dollars in thousands)	June 30, 2016	December 31, 2015
Loans on nonaccrual status*	\$ 18,778	\$ 21,712
Loans past due 90-days-or-more and still on accrual**	1,178	224
Total nonperforming loans	19,956	21,936
Other real estate owned	1,503	1,220
Total nonperforming assets	\$ 21,459	\$ 23,156

Credit Quality Ratios:

Nonperforming loans to total loans	0.54	%	0.66	%
Nonperforming assets to total loans (including OREO)	0.58		0.70	
Nonperforming assets to total assets	0.46		0.55	

*Loans on nonaccrual status include impaired loans.

**For all periods presented, loans past due 90-days-or-more and still accruing consist entirely of PCI 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*	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Residential real estate:				
Owner occupied	\$ 12,600	\$ 13,197	\$ —	\$ —
Owner occupied - correspondent	—	—	—	—
Non owner occupied	851	935	972	—
Commercial real estate	3,529	3,941	206	224
Commercial real estate - purchased whole loans	—	—	—	—
Construction & land development	83	1,589	—	—
Commercial & industrial	394	194	—	—

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Lease financing receivables	—	—	—	—
Warehouse lines of credit	—	—	—	—
Home equity	1,258	1,793	—	—
Consumer:				
RPG loans	—	—	—	—
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Purchased whole loans	—	—	—	—
Other consumer	63	63	—	—
Total	\$ 18,778	\$ 21,712	\$ 1,178	\$ 224

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

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Delinquent Loans

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

June 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	\$ 1,709	\$ 1,588	\$ 2,808	\$ 6,105	\$ 1,046,252	\$ 1,052,357
Owner occupied - correspondent	—	—	—	—	162,269	162,269
Non owner occupied	9	—	972	981	144,822	145,803
Commercial real estate	720	—	665	1,385	971,676	973,061
Commercial real estate - purchased whole loans	—	—	—	—	36,085	36,085
Construction & land development	—	—	—	—	80,398	80,398
Commercial & industrial	381	—	—	381	247,905	248,286
Lease financing receivables	—	—	—	—	10,976	10,976
Warehouse lines of credit	—	—	—	—	586,077	586,077
Home equity	235	44	629	908	323,529	324,437
Consumer:						
RPG loans	382	23	14	419	11,779	12,198
Credit cards	19	23	—	42	11,842	11,884
Overdrafts	199	1	—	200	1,258	1,458
Purchased whole loans	74	54	20	148	7,997	8,145
Other consumer	23	15	—	38	37,851	37,889
Total	\$ 3,751	\$ 1,748	\$ 5,108	\$ 10,607	\$ 3,680,716	\$ 3,691,323
Delinquency ratio***	0.10 %	0.05 %	0.14 %	0.29 %		

December 31, 2015 (dollars in thousands)	30 - 59 Days Delinquent	60 - 89 Days Delinquent	90 or More Days Delinquent*	Total Delinquent**	Total Current	Total
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Residential real estate:

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Owner occupied	\$ 1,960	\$ 1,044	\$ 3,878	\$ 6,882	\$ 1,075,052	\$ 1,081,934
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, 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.

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Impaired Loans

Information regarding the Bank's impaired loans follows:

(in thousands)	June 30, 2016	December 31, 2015
Loans with no allocated Allowance	\$ 24,237	\$ 26,143
Loans with allocated Allowance	34,610	39,980
Total impaired loans	\$ 58,847	\$ 66,123
Amount of the Allowance	\$ 4,937	\$ 5,427

Approximately \$6 million and \$7 million of impaired loans at June 30, 2016 and December 31, 2015 were PCI loans. Approximately \$896,000 and \$1 million of impaired loans at June 30, 2016 and December 31, 2015 were formerly PCI loans that became classified as "Impaired" through a post-acquisition troubled debt restructuring.

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

June 30, 2016 (in thousands)	Residential Real Estate			Commercial Real Estate - Purchased	Commercial Construction & Development		Commercial & Industrial	Lease & Financing Receivables
	Owner Occupied	Owner Occupied - Correspondent	Non Owner Occupied		Real Estate	Whole Loans		
Allowance: Ending Allowance balance: Individually evaluated for impairment, excluding PCI loans	\$ 3,599	\$ —	\$ 70	\$ 288	\$ —	\$ 131	\$ 182	\$ —
Collectively evaluated for impairment PCI loans with post acquisition impairment	4,218	592	975	6,965	36	1,201	1,259	115
PCI loans without post acquisition impairment	76	—	7	516	—	—	—	—
	—	—	—	—	—	—	—	—
Total ending Allowance:	\$ 7,893	\$ 592	\$ 1,052	\$ 7,769	\$ 36	\$ 1,332	\$ 1,441	\$ 115
Loans: Impaired loans individually evaluated, excluding PCI loans	\$ 36,722	\$ —	\$ 1,305	\$ 11,524	\$ —	\$ 902	\$ 487	\$ —
Loans collectively evaluated for impairment	1,014,527	162,269	143,150	949,723	36,085	79,496	247,744	10,976

PCI loans with post acquisition impairment	724	—	273	5,092	—	—	—	—
PCI loans without post acquisition impairment	384	—	1,075	6,722	—	—	55	—
Total ending loan balance	\$ 1,052,357	\$ 162,269	\$ 145,803	\$ 973,061	\$ 36,085	\$ 80,398	\$ 248,286	\$ 10,976

(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 Collectively evaluated for impairment	\$ —	\$ 53	\$ —	\$ —	\$ —	\$ —	\$ 15	\$ 4,338
PCI loans with post acquisition impairment	1,465	2,963	2,451	456	824	535	316	24,371
PCI loans without post acquisition impairment	—	—	—	—	—	—	—	599
Total ending Allowance:	\$ 1,465	\$ 3,016	\$ 2,451	\$ 456	\$ 824	\$ 535	\$ 331	\$ 29,308
Loans: Impaired loans individually evaluated,	\$ —	\$ 1,730	\$ —	\$ —	\$ —	\$ —	\$ 88	\$ 52,758

excluding PCI loans Loans collectively evaluated for impairment	586,077	322,463	12,198	11,884	1,458	8,145	37,799	3,623,994
PCI loans with post acquisition impairment	—	—	—	—	—	—	—	6,089
PCI loans without post acquisition impairment	—	244	—	—	—	—	2	8,482
Total ending loan balance	\$ 586,077	\$ 324,437	\$ 12,198	\$ 11,884	\$ 1,458	\$ 8,145	\$ 37,889	\$ 3,691,323

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	Residential Real Estate Owner Occupied	Residential Real Estate Non Owner Occupied	Commercial Real Estate - Purchased	Commercial Real Estate - Construction	Commercial & Financial Lease Receivables	Commercial & Financial Industrial Receivables	Commercial & Financial Lease Receivables	Commercial & Financial Lease Receivables
December 31, 2015 (in thousands)	Owner Occupied	- Correspondent	Non Owner Occupied	Commercial Real Estate	Whole Loans	Land Development	Commercial & Financial Industrial	Commercial & Financial Lease Receivables
Allowance:								
Pending Allowance								
Balance:								
Individually valuated for impairment, excluding PCI loans	\$ 3,820	\$ —	\$ 78	\$ 339	\$ —	\$ 159	\$ 196	\$ —
Collectively valuated 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 valuated, excluding PCI loans	\$ 39,041	\$ —	\$ 2,351	\$ 12,441	\$ —	\$ 2,717	\$ 322	\$ —
Loans collectively valuated 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 PCI loans with post acquisition impairment	967	2,896	1,699	448	351	392	127	22,064
PCI loans without post acquisition impairment	—	—	—	—	—	—	—	719
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 PCI loans with post acquisition impairment	386,729	286,878	7,204	11,068	685	5,892	12,493	3,254,793
PCI loans without post	—	—	—	—	—	—	—	6,849
	—	—	—	—	—	—	—	5,694

acquisition
impairment

Total ending loan balance	\$ 386,729	\$ 289,194	\$ 7,204	\$ 11,068	\$ 685	\$ 5,892	\$ 12,579	\$ 3,326,610
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The following tables present loans individually evaluated for impairment by class of loans as of June 30, 2016 and December 31, 2015 and for the three and six months ended June 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 June 30, 2016			Three Months Ended June 30, 2016		Six Months Ended June 30, 2016			
	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	\$ 15,197	\$ 14,118	\$ —	\$ 13,481	\$ 30	\$ —	\$ 13,406	\$ 61	\$ —
Owner occupied - correspondent	—	—	—	—	—	—	—	—	—
Non owner occupied	981	936	—	1,475	1	—	1,626	3	—
Commercial real estate	7,399	6,697	—	7,157	92	—	7,019	199	—
Commercial real estate - purchased whole loans	—	—	—	—	—	—	—	—	—
Construction & land development	476	476	—	476	5	—	1,007	10	—
Commercial & industrial	635	305	—	158	2	—	111	4	—
Lease financing receivables	—	—	—	—	—	—	—	—	—
Warehouse lines of credit	—	—	—	—	—	—	—	—	—
Home equity	1,799	1,657	—	1,924	6	—	1,978	12	—
Consumer:									
RPG loans	—	—	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—	—

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Purchased whole loans	—	—	—	—	—	—	—	—	—
Other consumer	48	48	—	94	—	—	77	—	—
Impaired loans with an allowance recorded:									
Residential real estate:									
Owner occupied	23,348	23,328	3,675	23,808	211	—	24,488	422	—
Owner occupied - correspondent	—	—	—	—	—	—	—	—	—
Non owner occupied	642	642	77	841	7	—	963	16	—
Commercial real estate	9,922	9,919	804	9,254	115	—	9,670	232	—
Commercial real estate - purchased whole loans	—	—	—	—	—	—	—	—	—
Construction & land development	426	426	131	431	5	—	504	10	—
Commercial & industrial	182	182	182	845	—	—	1,062	—	—
Lease financing receivables	—	—	—	—	—	—	—	—	—
Warehouse lines of credit	—	—	—	—	—	—	—	—	—
Home equity	74	73	53	93	—	—	138	—	—
Consumer:									
RPG loans	—	—	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—	—
Purchased whole loans	—	—	—	—	—	—	—	—	—
Other consumer	40	40	15	44	—	—	43	—	—
Total impaired loans	\$ 61,169	\$ 58,847	\$ 4,937	\$ 60,081	\$ 474	\$ —	\$ 62,092	\$ 969	\$ —

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(in thousands)	As of December 31, 2015			Three Months Ended June 30, 2015		Six Months Ended June 30, 2015			Cash Basis Interest Income
	Unpaid Principal Balance	Recorded Investment	Allowance Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	Average Investment	Interest Income Recognized	
Impaired loans with no related allowance recorded:									
Residential real estate:									
Owner occupied	\$ 14,287	\$ 13,256	\$ —	\$ 9,152	\$ 192	\$ —	\$ 7,769	\$ 387	\$ —
Owner occupied - correspondent	—	—	—	—	—	—	—	—	—
Non owner occupied	1,978	1,928	—	2,494	45	—	2,268	90	—
Commercial real estate	7,406	6,743	—	11,697	136	—	14,039	277	—
Commercial real estate - purchased whole loans	—	—	—	—	—	—	—	—	—
Construction & land development	2,067	2,067	—	2,122	33	—	2,138	67	—
Commercial & industrial Lease financing receivables	18	18	—	2,589	25	—	3,251	51	—
Warehouse lines of credit	—	—	—	—	—	—	—	—	—
Home equity Consumer:	2,263	2,087	—	2,285	41	—	2,030	83	—
RPG loans	—	—	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—	—
Purchased whole loans	—	—	—	—	—	—	—	—	—
Other consumer	44	44	—	19	1	—	19	2	—

Impaired loans with an allowance recorded:										
Residential real estate:										
Owner occupied	25,896	25,850	3,830	31,677	243	—	33,436	487	—	
Owner occupied - correspondent	—	—	—	—	—	—	—	—	—	
Non owner occupied	1,231	1,208	174	2,435	24	—	3,007	48	—	
Commercial real estate	10,546	10,504	830	11,804	143	—	13,085	287	—	
Commercial real estate - purchased whole loans	—	—	—	—	—	—	—	—	—	
Construction & land development	650	650	159	673	10	—	580	20	—	
Commercial & industrial	1,497	1,497	318	2,331	50	—	1,890	101	—	
Lease financing receivables	—	—	—	—	—	—	—	—	—	
Warehouse lines of credit	—	—	—	—	—	—	—	—	—	
Home equity	258	229	100	389	2	—	419	4	—	
Consumer:										
RPG loans	—	—	—	—	—	—	—	—	—	
Credit cards	—	—	—	—	—	—	—	—	—	
Overdrafts	—	—	—	—	—	—	—	—	—	
Purchased whole loans	—	—	—	—	—	—	—	—	—	
Other consumer	42	42	16	51	—	—	59	—	—	
Total impaired loans	\$ 68,183	\$ 66,123	\$ 5,427	\$ 79,718	\$ 945	\$ —	\$ 83,990	\$ 1,904	\$ —	

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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 six 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 June 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
June 30, 2016 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate	75	\$ 7,210	216	\$ 24,974	291	\$ 32,184
Commercial real estate	7	3,063	17	7,794	24	10,857
Construction & land development	1	83	4	819	5	902
Commercial & industrial	1	182	3	93	4	275
Total troubled debt restructurings	84	\$ 10,538	240	\$ 33,680	324	\$ 44,218

	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

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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 June 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	Recorded	Number of	Recorded	Number of	Recorded
June 30, 2016 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate loans (including home equity loans):						
Interest only payments	1	\$ 11	1	\$ 510	2	\$ 521
Rate reduction	177	23,059	45	5,078	222	28,137
Principal deferral	8	659	8	749	16	1,408
Legal modification	21	795	30	1,323	51	2,118
Total residential TDRs	207	24,524	84	7,660	291	32,184
Commercial related and construction/land development loans:						
Interest only payments	4	1,166	1	445	5	1,611
Rate reduction	8	4,901	3	715	11	5,616
Principal deferral	12	2,638	5	2,169	17	4,807
Total commercial TDRs	24	8,705	9	3,329	33	12,034
Total troubled debt restructurings	231	\$ 33,229	93	\$ 10,989	324	\$ 44,218

	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
December 31, 2015 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
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

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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 June 30, 2016 and December 31, 2015, 75% 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 June 30, 2016 and December 31, 2015. The Bank had no commitments to lend any additional material amounts to its existing TDR relationships at June 30, 2016 or December 31, 2015.

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A summary of the categories of TDR loan modifications and respective performance as of June 30, 2016 and 2015 that were modified during the three months ended June 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
June 30, 2016 (dollars in thousands)						
Residential real estate loans (including home equity loans):						
Interest only payments	—	\$ —	—	\$ —	—	\$ —
Rate reduction	1	133	2	98	3	231
Principal deferral	—	—	—	—	—	—
Legal modification	—	—	—	—	—	—
Total residential TDRs	1	133	2	98	3	231
Commercial related and construction/land development loans:						
Interest only payments	—	—	—	—	—	—
Rate reduction	—	—	—	—	—	—
Principal deferral	—	—	—	—	—	—
Total commercial TDRs	—	—	—	—	—	—
Total troubled debt restructurings	1	\$ 133	2	\$ 98	3	\$ 231

	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
June 30, 2015 (dollars in thousands)						
Residential real estate loans (including home equity loans):						
Interest only payments	—	\$ —	—	\$ —	—	\$ —
Rate reduction	—	—	2	308	2	308
Principal deferral	—	—	1	24	1	24
Legal modification	—	—	2	55	2	55

Total residential TDRs	—	—	5	387	5	387
Commercial related and construction/land development loans:						
Interest only payments	1	92	—	—	1	92
Rate reduction	2	833	1	57	3	890
Principal deferral	4	884	1	201	5	1,085
Total commercial TDRs	7	1,809	2	258	9	2,067
Total troubled debt restructurings	7	\$ 1,809	7	\$ 645	14	\$ 2,454

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 June 30, 2016 and 2015, 58% and 74% of the Bank's TDRs that occurred during the second quarters of 2016 and 2015 were performing according to their modified terms. The Bank provided approximately \$29,000 and \$221,000 in specific reserve allocations to clients whose loan terms were modified in TDRs during the second quarters of 2016 and 2015.

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

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A summary of the categories of TDR loan modifications and respective performance as of June 30, 2016 and 2015 that were modified during the six months ended June 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
June 30, 2016 (dollars in thousands)						
Residential real estate loans (including home equity loans):						
Interest only payments	—	\$ —	—	\$ —	—	\$ —
Rate reduction	3	187	3	153	6	340
Principal deferral	—	—	—	—	—	—
Legal modification	2	88	2	78	4	166
Total residential TDRs	5	275	5	231	10	506
Commercial related and construction/land development loans:						
Interest only payments	—	—	—	—	—	—
Rate reduction	—	—	—	—	—	—
Principal deferral	—	—	—	—	—	—
Total commercial TDRs	—	—	—	—	—	—
Total troubled debt restructurings	5	\$ 275	5	\$ 231	10	\$ 506

	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
June 30, 2015 (dollars in thousands)						
Residential real estate loans (including home equity loans):						
Interest only payments	1	\$ 622	—	\$ —	1	\$ 622
Rate reduction	4	403	5	465	9	868
Principal deferral	—	—	2	48	2	48
Legal modification	—	—	5	290	5	290

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Total residential TDRs	5	1,025	12	803	17	1,828
Commercial related and construction/land development loans:						
Interest only payments	3	467	—	—	3	467
Rate reduction	2	833	2	1,825	4	2,658
Principal deferral	6	884	1	201	7	1,085
Total commercial TDRs	11	2,184	3	2,026	14	4,210
Total troubled debt restructurings	16	\$ 3,209	15	\$ 2,829	31	\$ 6,038

As of June 30, 2016 and 2015, 54% and 53% of the Bank's TDRs that occurred during the first six months of 2016 and 2015 were performing according to their modified terms. The Bank provided approximately \$45,000 and \$635,000 in specific reserve allocations to clients whose loan terms were modified in TDRs during the first six months of 2016 and 2015.

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

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

	Three Months Ended			Six Months Ended			Recorded
	June 30, 2016	2015		June 30, 2016	2015		
(dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment	Investment
	Recorded	Number of	Recorded	Number of	Recorded	Number of	Recorded
Residential real estate:							
Owner occupied	1	\$ 94	6	\$ 432	5	\$ 258	11
Owner occupied - correspondent	—	—	—	—	—	—	—
Non owner occupied	—	—	—	—	—	—	—
Commercial real estate	—	—	—	—	2	140	—
Commercial real estate - purchased	—	—	—	—	—	—	—
whole loans	—	—	—	—	—	—	—
Construction & land development	—	—	—	—	—	—	—
Commercial & industrial	—	—	—	—	—	—	—
Lease financing receivables	—	—	—	—	—	—	—
Warehouse lines of credit	—	—	—	—	—	—	—
Home equity	1	4	—	—	1	4	—
Consumer:							
RPG loans	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—
Purchased whole loans	—	—	—	—	—	—	—
Other consumer	—	—	—	—	—	—	—
Total	2	\$ 98	6	\$ 432	8	\$ 402	11
							\$ 753

Foreclosures

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

(in thousands)	June 30, 2016	December 31, 2015
Residential real estate	\$ 1,017	\$ 478
Commercial real estate	300	442
Construction & land development	186	300
Total other real estate owned	\$ 1,503	\$ 1,220

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 June 30, 2016 and December 31, 2015:

(in thousands)	June 30, 2016	December 31, 2015
Recorded investment in consumer residential real estate mortgage loans in the process of foreclosure	\$ 3,103	\$ 4,602

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Easy Advances

The Company's RPG segment offered its new EA product through the TRS division during the first quarter of 2016. Altogether, TRS originated \$123 million in EAs during the first quarter of 2016. The provision for loss on EAs equated to 2.61% of total EA originations for the six months ended June 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 June 30, 2016, all EAs originated had been either charged-off or collected.

Information regarding EAs follows:

(dollars in thousands)	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016	
Easy Advances originated	\$ —	\$ 123,231	
Provision for Easy Advances	(354)	3,220	
Easy Advances net charged-offs	2,815	3,220	
Easy Advances net charge-offs to total Easy Advances originated	NA	2.61	%

NA - Not applicable

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6. DEPOSITS

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

(in thousands)	June 30, 2016	December 31, 2015
Demand	\$ 825,833	\$ 783,054
Money market accounts	576,753	501,059
Brokered money market accounts	160,029	200,126
Savings	152,608	117,408
Individual retirement accounts*	42,358	36,016
Time deposits, \$250 and over*	46,901	42,775
Other certificates of deposit*	143,365	127,878
Brokered certificates of deposit*	41,105	44,298
Total interest-bearing deposits	1,988,952	1,852,614
Total noninterest-bearing deposits	867,095	634,863
Total deposits	\$ 2,856,047	\$ 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.

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7. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND OTHER SHORT-TERM BORROWINGS

Securities sold under agreements to repurchase consist of short-term excess funds from correspondent banks, repurchase agreements and overnight liabilities to deposit clients arising from the Bank's treasury management program. While comparable to deposits in their transactional nature, these overnight liabilities to clients are in the form of repurchase agreements. Repurchase agreements collateralized by securities 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. Should the fair value of currently pledged securities fall below the associated repurchase agreements, the Bank would be required to pledge additional securities. To mitigate the risk of under collateralization, the Bank typically pledges at least two percent more in securities than the associated repurchase agreements. All such securities are under the Bank's control.

At June 30, 2016 and December 31, 2015, all securities sold under agreements to repurchase had overnight maturities. Information regarding securities sold under agreements to repurchase follows:

(dollars in thousands)	June 30, 2016		December 31, 2015	
Outstanding balance at end of period	\$	126,124	\$	395,433
Weighted average interest rate at end of period		0.02 %		0.02 %
Fair value of securities pledged:				
U.S. Treasury securities and U.S. Government agencies	\$	41,137	\$	244,707
Mortgage backed securities - residential		62,029		82,666
Collateralized mortgage obligations		70,070		130,821
Total securities pledged	\$	173,236	\$	458,194
(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Average outstanding balance during the period	\$ 267,574	\$ 335,530	\$ 337,636	\$ 363,321
Average interest rate during the period	0.02 %	0.02 %	0.02 %	0.03 %
Maximum outstanding at any month end during the period	\$ 263,228	\$ 340,196	\$ 367,373	\$ 408,955

8. FEDERAL HOME LOAN BANK ADVANCES

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

(in thousands)	June 30, 2016	December 31, 2015
Overnight advances	\$ 495,000	\$ 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 1.62% due through 2023	382,500	439,500
Putable fixed interest rate advances with a weighted average interest rate of 4.39% due through 2017*	100,000	100,000
Total FHLB advances	\$ 987,500	\$ 699,500

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

Maximum outstanding at any month end during the period	\$ 495,000	\$ 387,000	\$ 495,000	\$ 387,000
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The following table illustrates real estate loans pledged to collateralize advances and letters of credit with the FHLB:

(in thousands)	June 30, 2016	December 31, 2015
First lien, single family residential real estate	\$ 1,238,761	\$ 1,346,663
Home equity lines of credit	286,595	272,863
Multi-family commercial real estate	15,808	10,227

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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)	June 30, 2016	December 31, 2015
Unused warehouse lines of credit	\$ 219,632	\$ 304,379
Unused home equity lines of credit	317,481	282,007
Unused loan commitments - other	411,696	329,232
Commitments to purchase loans*	11,966	22,590
Standby letters of credit	15,865	12,740
Total commitments	\$ 976,640	\$ 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.

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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 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 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, 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 in November 2015 and considers the most recent price at which similar instruments were traded to approximate market value at June 30, 2016. The Company’s TRUP is considered highly illiquid and also valued using Level 3 inputs.

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 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.

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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: 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, 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 can generally be validated against available market data (Level 2). There were no MSR tranches carried at fair value at June 30, 2016 and December 31, 2015.

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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 June 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	\$ —	\$ 298,340	\$ —	\$ 298,340
Private label mortgage backed security	—	—	4,946	4,946
Mortgage backed securities - residential	—	88,561	—	88,561
Collateralized mortgage obligations	—	102,068	—	102,068
Freddie Mac preferred stock	—	254	—	254
Community Reinvestment Act mutual fund	2,553	—	—	2,553
Corporate bonds	—	14,974	—	14,974
Trust preferred security	—	—	3,150	3,150
Total securities available for sale	\$ 2,553	\$ 504,197	\$ 8,096	\$ 514,846
Mortgage loans held for sale	\$ —	\$ 12,280	\$ —	\$ 12,280
Consumer loans held for sale	—	—	6,826	6,826
Rate lock commitments	—	841	—	841
Interest rate swap agreements	—	1,826	—	1,826
Financial liabilities:				
Mandatory forward contracts	\$ —	\$ 223	\$ —	\$ 223
Interest rate swap agreements	—	3,043	—	3,043

(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

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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

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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 six months ended June 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 June 30, 2016 and 2015:

(in thousands)	Three Months		Six Months	
	Ended June 30, 2016	2015	Ended June 30, 2016	2015
Balance, beginning of period	\$ 4,983	\$ 5,235	\$ 5,132	\$ 5,250
Total gains or losses included in earnings:				
Net change in unrealized gain	1	(4)	(148)	(26)
Recovery of actual losses previously recorded	—	—	—	35
Principal paydowns	(38)	—	(38)	(28)
Balance, end of period	\$ 4,946	\$ 5,231	\$ 4,946	\$ 5,231

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 June 30, 2016 and December 31, 2015:

June 30, 2016 (dollars in thousands)	Fair	Valuation		
	Value	Technique	Unobservable Inputs	Range
Private label mortgage backed security	\$ 4,946	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%

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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 six months ended June 30, 2016:

(in thousands)	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Balance, beginning of period	\$ 3,400	\$ 3,405
Total gains or losses included in earnings:		
Net change in unrealized loss	(250)	(255)
Balance, end of period	\$ 3,150	\$ 3,150

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 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 June 30, 2016 and December 31, 2015.

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

(in thousands)	June 30, 2016	December 31, 2015
Aggregate fair value	\$ 12,280	\$ 4,083
Contractual balance	12,092	3,993
Unrealized gain	188	90

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

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest income	\$ 40	\$ 57	\$ 72	\$ 113
Change in fair value	39	(81)	98	97
Total included in earnings	\$ 79	\$ (24)	\$ 170	\$ 210

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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 June 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 six months ended June 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 June 30, 2016:

June 30, 2016 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range
Consumer loans held for sale	\$ 6,826	Contractual Terms	(1) Net Premium	0.9%
			(2) Discounted Sales	5.0%

As of June 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)	June 30, 2016
Aggregate fair value	\$ 6,826
Contractual balance	6,464
Unrealized gain	362

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

(in thousands)	Three and Six Months Ended June 30, 2016
Interest income	\$ 161
Change in fair value	362
Total included in earnings	\$ 523

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

(in thousands)	Fair Value Measurements at June 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	\$ —	\$ —	\$ 4,594	\$ 4,594
Non owner occupied	—	—	15	15
Commercial real estate	—	—	3,366	3,366
Home equity	—	—	822	822
Total impaired loans*	\$ —	\$ —	\$ 8,797	\$ 8,797
Premises and equipment	\$ —	\$ —	\$ 1,119	\$ 1,119

(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
Commercial real estate	—	—	442	442
Construction & land development	—	—	300	300
Total other real estate owned	\$ —	\$ —	\$ 870	\$ 870

Premises and equipment	\$ —	\$ —	\$ 1,185	\$ 1,185
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* 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.

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

June 30, 2016 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans - residential real estate owner occupied	\$ 4,594	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 53% (6%)
Impaired loans - residential real estate non owner occupied	\$ 15	Sales comparison approach	Adjustments determined for differences between comparable sales	0% (0%)
Impaired loans - commercial real estate	\$ 1,849	Sales comparison approach	Adjustments determined for differences between comparable sales	3% - 42% (15%)
Impaired loans - commercial real estate	\$ 1,517	Income approach	Adjustments for differences between net operating income expectations	17% (17%)
Impaired loans - home equity	\$ 822	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 34% (19%)
Premises and equipment	\$ 1,119	Sales comparison approach	Adjustments determined for differences between comparable sales	5% (5%)

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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%)

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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)	June 30, 2016	December 31, 2015
Carrying amount of loans measured at fair value	\$ 7,797	\$ 8,162
Estimated selling costs considered in carrying amount	1,050	946
Valuation allowance	(50)	(100)
Total fair value	\$ 8,797	\$ 9,008

(in thousands)	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Provisions for loss on collateral dependent impaired loans	\$ 47	\$ (92)	\$ 92	\$ 69

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)	June 30, 2016	December 31, 2015
Other real estate owned carried at fair value	\$ —	\$ 870
Other real estate owned carried at cost	1,503	350
Total carrying value of other real estate owned	\$ 1,503	\$ 1,220

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Other real estate owned write-downs during the period	\$ —	\$ 220	\$ —	\$ 704

Premises and Equipment

The Company closed its Hudson, Florida banking center in 2015. Since closing, the Hudson premises have been carried at its fair value less estimated selling costs. The Hudson premises were written down \$33,000 during the three months ended June 30, 2016 and 2015 and \$66,000 during the six months ended June 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.

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

(in thousands)	Carrying Value	Fair Value Measurements at June 30, 2016:			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash and cash equivalents	\$ 142,979	\$ 142,979	\$ —	\$ —	\$ 142,979
Securities available for sale	514,846	2,553	504,197	8,096	514,846
Securities held to maturity	36,181	—	36,336	—	36,336
Mortgage loans held for sale, at fair value	12,280	—	12,280	—	12,280
Mortgage loans held for sale, at lower of cost or fair value	74,430	—	—	75,750	75,750
Consumer loans held for sale, at fair value	6,826	—	—	6,826	6,826
Consumer loans held for sale, at the lower of cost or fair value	1,122	—	1,122	—	1,122
Loans, net	3,662,015	—	—	3,699,699	3,699,699
Federal Home Loan Bank stock	28,208	—	—	—	NA
Accrued interest receivable	9,871	—	9,871	—	9,871
Liabilities:					
Noninterest-bearing deposits	\$ 867,095	—	\$ 867,095	—	\$ 867,095
Transaction deposits	1,715,223	—	1,715,223	—	1,715,223
Time deposits	273,729	—	275,859	—	275,859
Securities sold under agreements to repurchase and other short-term borrowings	126,124	—	126,124	—	126,124
Federal Home Loan Bank advances	987,500	—	1,000,662	—	1,000,662
Subordinated note	45,364	—	36,625	—	36,625
Accrued interest payable	1,258	—	1,258	—	1,258

(in thousands)	Carrying Value	Fair Value Measurements at December 31, 2015:			Total Fair Value
		Level 1	Level 2	Level 3	

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Assets:

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

Liabilities:

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

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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.

Mortgage loans held for sale, at lower of cost or fair value – Mortgage loans held for sale at the lower of cost or fair value were sold in July 2016. These loans were carried at amortized cost as of June 30, 2016, with their fair value based on the actual gain recognized upon sale, a Level 3 classification.

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.

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11. MORTGAGE BANKING ACTIVITIES

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

(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Balance, beginning of period	\$ 7,148	\$ 12,748	\$ 4,083	\$ 6,388
Origination of mortgage loans held for sale	58,795	50,173	95,787	96,008
Proceeds from the sale of mortgage loans held for sale	(55,128)	(53,775)	(90,150)	(94,472)
Net gain on sale of mortgage loans held for sale	1,465	1,131	2,560	2,353
Balance, end of period	\$ 12,280	\$ 10,277	\$ 12,280	\$ 10,277

The following table presents the components of Mortgage Banking income:

(in thousands)	Three Months		Six Months Ended	
	Ended June 30, 2016	2015	June 30, 2016	2015
Net gain realized on sale of mortgage loans held for sale	\$ 1,266	\$ 1,209	\$ 2,107	\$ 2,098
Net change in fair value recognized on loans held for sale	39	(81)	98	97
Net change in fair value recognized on rate lock commitments	260	(121)	535	126
Net change in fair value recognized on forward contracts	(100)	124	(180)	32
Net gain recognized	1,465	1,131	2,560	2,353
Loan servicing income	473	471	944	940
Amortization of mortgage servicing rights	(378)	(378)	(683)	(716)
Net servicing income recognized	95	93	261	224
Total Mortgage Banking income	\$ 1,560	\$ 1,224	\$ 2,821	\$ 2,577

Activity for capitalized mortgage servicing rights was as follows:

(in thousands)	Three Months		Six Months Ended	
	Ended June 30, 2016	2015	June 30, 2016	2015
Balance, beginning of period	\$ 4,891	\$ 4,864	\$ 4,912	\$ 4,813
Additions	485	485	769	874
Amortized to expense	(378)	(378)	(683)	(716)
Balance, end of period	\$ 4,998	\$ 4,971	\$ 4,998	\$ 4,971

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

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Other information relating to mortgage servicing rights follows:

(dollars in thousands)	June 30, 2016	December 31, 2015
Fair value of mortgage servicing rights portfolio	\$ 6,675	\$ 7,242
Monthly prepayment rate of unpaid principal balance*	109% - 366%	105% - 369%
Discount rate	10%	10%
Weighted average default rate	1.50%	1.50%
Weighted average life in years	5.51	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)	June 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	\$ 12,092	\$ 12,280	\$ 3,993	\$ 4,083
Included in other assets:				
Rate lock loan commitments	\$ 37,118	\$ 841	\$ 21,580	\$ 306
Included in other liabilities:				
Mandatory forward contracts	\$ 33,733	\$ 223	\$ 19,232	\$ 25

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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 (loss). 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 June 30, 2016 and December 31, 2015:

(dollars in thousands)	Notional Amount	Pay Rate	Receive Rate	Term	June 30, 2016	Unrealized Gain (Loss)	December 31, 2015	Unrealized Gain (Loss)
					Assets / (Liabilities)	AOCI	Assets / (Liabilities)	in AOCI
Interest rate swap on money market deposits	\$ 10,000	2.17 %	1M LIBOR	12/2013 - 12/2020	\$ (590)	\$ (383)	\$ (289)	\$ (188)

Interest rate swap on FHLB advance	10,000	2.33 %	3M LIBOR	12/2013 -	12/2020	(627)	(408)	(311)	(202)
	\$ 20,000					\$ (1,217)	\$ (791)	\$ (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 six months ended June 30, 2016 and 2015:

(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Interest rate swap on money market deposits	\$ 43	\$ 50	\$ 86	\$ 99
Interest rate swap on FHLB advance	43	53	87	105
Total interest expense on swap transactions	\$ 86	\$ 103	\$ 173	\$ 204

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

(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Gains (Losses) recognized in OCI on derivative (effective portion)	\$ (219)	\$ 175	\$ (790)	\$ (221)
Losses reclassified from OCI on derivative (effective portion)	\$ (86)	\$ (103)	\$ (173)	\$ (204)
Gains (losses) recognized in income on derivative (ineffective portion)	\$ —	\$ —	\$ —	\$ —

The estimated net amount of the existing losses reported in AOCI at June 30, 2016 expected to be reclassified into earnings within the next 12 months is \$218,000.

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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 June 30, 2016 and December 31, 2015 is included in the following table:

(in thousands)	Bank Position	June 30, 2016		December 31, 2015	
		Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swaps with Bank clients	Pay variable/receive fixed	\$ 25,573	\$ 1,826	\$ 25,927	\$ 400
Offsetting interest rate swaps with institutional swap dealer	Pay fixed/receive variable	25,573	(1,826)	25,927	(400)
Total		\$ 51,146	\$ —	\$ 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 investment securities pledged as collateral by the Bank to cover such net loss positions totaled \$2.9 million and \$1.5 million at June 30, 2016 and December 31, 2015.

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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		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Net income	\$ 8,340	\$ 8,320	\$ 26,075	\$ 22,108
Weighted average shares outstanding	20,947	20,860	20,956	20,859
Effect of dilutive securities	11	81	10	80
Average shares outstanding including dilutive securities	20,958	20,941	20,966	20,939
Basic earnings per share:				
Class A Common Stock	\$ 0.40	\$ 0.40	\$ 1.26	\$ 1.07
Class B Common Stock	\$ 0.37	\$ 0.37	1.14	0.97
Diluted earnings per share:				
Class A Common Stock	\$ 0.40	\$ 0.40	\$ 1.26	\$ 1.07
Class B Common Stock	\$ 0.37	\$ 0.36	1.14	0.97

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

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Antidilutive stock options	10,000	14,250	10,000	14,250

Average antidilutive stock options	7,500	14,250	8,150	14,250
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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 the date the options were granted.

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 June 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	(5,900)	24.47		
Outstanding, June 30, 2016	318,500	\$ 24.49	4.28	\$ 1,001,000
Fully vested and expected to vest	318,500	\$ 24.49	4.28	\$ 1,001,000
Exercisable (vested) at June 30, 2016	4,000	\$ 20.77	0.72	\$ 27,000

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Information related to stock options for each period follows:

(in thousands, except per share data)	Three Months		Six Months	
	Ended June 30, 2016	2015	Ended June 30, 2016	2015
Intrinsic value of options exercised	\$ 2	\$ —	\$ 18	\$ 54
Cash received from options exercised, net of shares redeemed	25	—	80	119
Weighted-average fair value per share of options granted	3.27	3.59	3.27	3.59

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 June 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, June 30, 2016	77,000	\$ 20.02
Fully vested and expected to vest	77,000	\$ 20.02
Vested at June 30, 2016	—	\$ —

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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 June 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, June 30, 2016	55,000	\$ 23.08
Fully vested and expected to vest	55,000	\$ 23.08
Vested at June 30, 2016	—	\$ —

Expense Related to the 2015 Stock Incentive Plan

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

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(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Stock option expense	\$ 64	\$ 51	\$ 126	\$ 56
Restricted stock award expense	45	74	117	147
Performance stock unit expense	127	—	254	—
Total expense	\$ 236	\$ 125	\$ 497	\$ 203

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	\$ 131	\$ 141	\$ 253	\$ 525
2017	259	258	507	1,024
2018	256	120	198	574
2019	145	12	—	157
2020	32	8	—	40
2021	1	2	—	3
Total	\$ 824	\$ 541	\$ 958	\$ 2,323

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15. OTHER COMPREHENSIVE INCOME

OCI components and related tax effects were as follows:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Available for Sale Securities:				
Change in unrealized gain (loss) on securities available for sale	\$ 416	\$ (1,056)	\$ 2,708	\$ 182
Reclassification adjustment for gain on security available for sale recognized in earnings	—	(88)	—	(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	1	(4)	(148)	(26)
Net unrealized gains (losses)	417	(1,148)	2,560	68
Tax effect	(145)	401	(893)	(23)
Net of tax	272	(747)	1,667	45
Cash Flow Hedges:				
Change in fair value of derivatives used for cash flow hedges	(219)	175	(790)	(221)
Reclassification amount for derivative losses realized in income	86	103	173	204
Net unrealized gains (losses)	(133)	278	(617)	(17)
Tax effect	48	(97)	216	5
Net of tax	(85)	181	(401)	(12)
Total other comprehensive income components, net of tax	\$ 187	\$ (566)	\$ 1,266	\$ 33

Significant amounts reclassified out of each component of AOCI for the three and six months ended June 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		Six Months Ended	
		June 30, 2016	2015	June 30, 2016	2015

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Available for Sale Securities:

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

Cash Flow Hedges:

Interest rate swap on money market deposits	Interest expense on deposits	(43)	(50)	(86)	(99)
Interest rate swap on FHLB advance	Interest expense on FHLB advances	(43)	(53)	(87)	(105)
Total derivative losses on cash flow hedges	Total interest expense	(86)	(103)	(173)	(204)
Tax effect	Income tax expense	30	36	61	71
Net of tax	Net income	(56)	(67)	\$ (112)	\$ (133)
Net of tax, total all reclassification amounts	Net income	\$ (56)	\$ (10)	\$ (112)	\$ (76)

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

(in thousands)	December 31, 2015	2016 Change	June 30, 2016
Unrealized gain on securities available for sale	\$ 1,727	\$ 1,763	\$ 3,490
Unrealized gain on security available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings	712	(96)	616
Unrealized loss on cash flow hedge	(390)	(401)	(791)
Total unrealized gain	\$ 2,049	\$ 1,266	\$ 3,315

(in thousands)	December 31, 2014	2015 Change	June 30, 2015
Unrealized gain on securities available for sale	\$ 3,839	\$ 61	\$ 3,900
Unrealized gain on security available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings	792	(16)	776
Unrealized loss on cash flow hedge	(316)	(12)	(328)
Total unrealized gain	\$ 4,315	\$ 33	\$ 4,348

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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 June 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 Lending	Loans, investments and deposits

		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.

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

(dollars in thousands)	Three Months Ended June 30, 2016			Total Core Banking	Republic Processing Group	Total Company
	Traditional Banking	Warehouse Lending	Mortgage Banking			
Net interest income	\$ 29,537	\$ 3,790	\$ 40	\$ 33,367	\$ 2,210	\$ 35,577
Provision for loan and lease losses	798	480	—	1,278	536	1,814
Net refund transfer fees	—	—	—	—	1,909	1,909
Mortgage banking income	—	—	1,560	1,560	—	1,560
Republic Processing Group program fees	—	—	—	—	664	664
Other noninterest income	6,371	5	63	6,439	230	6,669
Total noninterest income	6,371	5	1,623	7,999	2,803	10,802