

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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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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,<br>2016    | December 31,<br>2015 |
|---|---------------------|----------------------|
| <b>ASSETS</b>   |                     |                      |
| 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               |
| <b>TOTAL ASSETS</b>   | <b>\$ 4,646,922</b> | <b>\$ 4,230,289</b>  |
| <b>LIABILITIES</b>  |                     |                      |
| 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)         | —                   | —                   |
| <b>STOCKHOLDERS' EQUITY</b>                                 |                     |                     |
| 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             |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>           | <b>\$ 4,646,922</b> | <b>\$ 4,230,289</b> |

See accompanying footnotes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

|  | Three Months<br>Ended<br>June 30, |               | Six Months Ended<br>June 30, |               |
|--|-----------------------------------|---------------|------------------------------|---------------|
|  | 2016                              | 2015          | 2016                         | 2015          |
| <b>INTEREST INCOME:</b>  |                                   |               |                              |               |
| 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        |
| <b>INTEREST EXPENSE:</b>   |                                   |               |                              |               |
| 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         |
| <b>NET INTEREST INCOME</b>   | <b>35,577</b>                     | <b>31,058</b> | <b>75,011</b>                | <b>60,080</b> |
| Provision for loan and lease losses  | 1,814                             | 904           | 7,000                        | 1,089         |
| <b>NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES</b>           | <b>33,763</b>                     | <b>30,154</b> | <b>68,011</b>                | <b>58,991</b> |
| <b>NONINTEREST INCOME:</b>   |                                   |               |                              |               |
| 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        |
| <b>NONINTEREST EXPENSES:</b>   |                                   |               |                              |               |

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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           |
| <b>INCOME BEFORE INCOME TAX EXPENSE</b>     | <b>12,699</b>   | <b>12,474</b>   | <b>39,327</b>    | <b>33,223</b>    |
| <b>INCOME TAX EXPENSE</b>                   | <b>4,359</b>    | <b>4,154</b>    | <b>13,252</b>    | <b>11,115</b>    |
| <b>NET INCOME</b>                           | <b>\$ 8,340</b> | <b>\$ 8,320</b> | <b>\$ 26,075</b> | <b>\$ 22,108</b> |
| <b>BASIC EARNINGS PER SHARE:</b>            |                 |                 |                  |                  |
| Class A Common Stock                        | \$ 0.40         | \$ 0.40         | \$ 1.26          | \$ 1.07          |
| Class B Common Stock                        | \$ 0.37         | \$ 0.37         | 1.14             | 0.97             |
| <b>DILUTED EARNINGS PER SHARE:</b>          |                 |                 |                  |                  |
| Class A Common Stock                        | \$ 0.40         | \$ 0.40         | \$ 1.26          | \$ 1.07          |
| Class B Common Stock                        | \$ 0.37         | \$ 0.36         | 1.14             | 0.97             |
| <b>DIVIDENDS DECLARED PER COMMON SHARE:</b> |                 |                 |                  |                  |
| 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<br>June 30, |                 | Six Months Ended<br>June 30, |                  |
|--|--------------------------------|-----------------|------------------------------|------------------|
|  | 2016                           | 2015            | 2016                         | 2015             |
| Net income   | \$ 8,340                       | \$ 8,320        | \$ 26,075                    | \$ 22,108        |
| <b>OTHER COMPREHENSIVE INCOME</b>  |                                |                 |                              |                  |
| 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               |
| <b>COMPREHENSIVE INCOME</b>  | <b>\$ 8,527</b>                | <b>\$ 7,754</b> | <b>\$ 27,341</b>             | <b>\$ 22,141</b> |

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<br>Paid In<br>Capital | Retained<br>Earnings | Accumulated                      |                                  |
|--|----------------------------------|----------------------------------|----------|----------------------------------|----------------------|----------------------------------|----------------------------------|
|  | Class A<br>Shares<br>Outstanding | Class B<br>Shares<br>Outstanding |          |                                  |                      | Other<br>Comprehensive<br>Income | Total<br>Stockholders'<br>Equity |
| Balance,<br>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<br>accumulated<br>other<br>comprehensive<br>income   | —                                | —                                | —        | —                                | —                    | 1,266                            | 1,266                            |
| Dividends<br>declared<br>Common<br>Stock:                          |                                  |                                  |          |                                  |                      |                                  |                                  |
| Class A Shares   | —                                | —                                | —        | —                                | (7,579)              | —                                | (7,579)                          |
| Class B Shares   | —                                | —                                | —        | —                                | (831)                | —                                | (831)                            |
| Stock options<br>exercised, net<br>of shares<br>redeemed           | 4                                | —                                | —        | 80                               | —                    | —                                | 80                               |
| Repurchase of<br>Class A<br>Common Stock                           | (41)                             | —                                | (9)      | (274)                            | (851)                | —                                | (1,134)                          |
| Net change in<br>notes<br>receivable on<br>Class A<br>Common Stock | —                                | —                                | —        | 2                                | —                    | —                                | 2                                |
| Deferred<br>director<br>compensation<br>expense -                  | 4                                | —                                | —        | 100                              | —                    | —                                | 100                              |

Class A  
Common Stock

|  |        |       |          |            |            |          |            |
|--|--------|-------|----------|------------|------------|----------|------------|
| Stock based<br>compensation<br>expense -<br>performance<br>stock units | —      | —     | —        | 254        | —          | —        | 254        |
| Stock based<br>compensation<br>expense -<br>restricted stock           | (2)    | —     | —        | 117        | —          | —        | 117        |
| Stock based<br>compensation<br>expense - stock<br>options              | —      | —     | —        | 126        | —          | —        | 126        |
| Balance,<br>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      |
| <b>OPERATING ACTIVITIES:</b>  |                  |           |
| 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    |
| <b>INVESTING ACTIVITIES:</b>  |                  |           |
| 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<br>As Recorded<br>by Cornerstone | Fair Value<br>Adjustments (1) | As Recorded<br>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                            |

|  |            |          |            |
|--|------------|----------|------------|
| 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   |

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(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<br>June 30, 2016 |                     |          | Six Months Ended<br>June 30, 2016 |                     |          |
|---|-------------------------------------|---------------------|----------|-----------------------------------|---------------------|----------|
|   | Non-Acquisition<br>Related          | Acquisition-Related | Total    | Non-Acquisition<br>Related        | Acquisition-Related | Total    |
| <b>INTEREST INCOME:</b>   |                                     |                     |          |                                   |                     |          |
| 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    |
| <b>INTEREST EXPENSE:</b>  |                                     |                     |          |                                   |                     |          |
| 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<br>AFTER PROVISION FOR LOAN<br>AND LEASE LOSSES | 842                                 | —                   | 842      | 842                               | —                   | 842      |
| <b>NONINTEREST INCOME:</b>  |                                     |                     |          |                                   |                     |          |
| Service charges on deposit<br>accounts                              | 37                                  | —                   | 37       | 37                                | —                   | 37       |
| Interchange fee income  | 19                                  | —                   | 19       | 19                                | —                   | 19       |
| Other   | 36                                  | —                   | 36       | 36                                | —                   | 36       |
| Total noninterest income  | 92                                  | —                   | 92       | 92                                | —                   | 92       |
| <b>NONINTEREST EXPENSES:</b>  |                                     |                     |          |                                   |                     |          |
| 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<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>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<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>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<br>Months<br>Ended<br>June 30,<br>2016 | Six<br>Months<br>Ended<br>June 30,<br>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<br>June 30, |          | Six Months Ended<br>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            |
| <br>  |               |                   |
| Total loans**                                   | 3,691,323     | 3,326,610         |
| Allowance for loan and lease losses             | (29,308)      | (27,491)          |
| <br>  |               |                   |
| 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 |

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- (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<br>June 30, |           | Six Months Ended<br>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<br>Fair Value |
|----------------|---------------------------|--------------------------|----------------------|-------------------------------|
|                | Contractual<br>Receivable | Non-accretable<br>Amount | Accretable<br>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      |
| <br>   |            |            |            |            |
| Total loans - ASC 310-20                                   | 189,277    | —          | (3,380)    | 185,897    |
| <br>   |            |            |            |            |
| 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          |
| <br>   |            |            |            |            |
| Total loans - ASC 310-30 - purchased-credit-impaired loans | 5,859      | (1,785)    | (360)      | 3,714      |
| <br>   |            |            |            |            |
| 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<br>June 30, |            | Six Months Ended<br>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<br>(in thousands)                | Pass                | Special<br>Mention* | Substandard*     | Doubtful<br>Loss | Purchased<br>Credit<br>Impaired<br>/Loans -<br>Group 1 | Purchased<br>Credit<br>Impaired<br>Loans -<br>Substandard | Total<br>Rated<br>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                        |
| <b>Total rated loans</b>                       | <b>\$ 1,907,775</b> | <b>\$ 36,514</b>    | <b>\$ 24,031</b> | <b>\$ —</b>      | <b>\$ 14,571</b>                                       | <b>\$ —</b>   | <b>\$ 1,982,891</b>       |

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

\*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,<br>2016   | 2015      | June 30,<br>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<br>June 30, 2016<br>(in thousands) | Residential Real Estate |               |           | Commercial  |             |                  |            | Lease<br>& Financing<br>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 | Equity   | RPG Loans | Cards  |            | Whole Loans | Consumer |           |
| 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<br>June 30, 2016<br>(in thousands) | Residential Real Estate |               |           | Commercial  |             |                  |            | Lease<br>& Financing<br>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<br>Lines of<br>Credit | Home<br>Equity | Consumer<br>RPG<br>Loans | Credit<br>Cards | Overdrafts | Purchased<br>Whole Loans | Other<br>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       | Home     | Consumer  | Credit | Overdrafts | Purchased   | Other    | Total     |
|-------------------|-----------------|----------|-----------|--------|------------|-------------|----------|-----------|
|                   | Lines of Credit | Equity   | RPG Loans | Cards  |            | Whole Loans | Consumer |           |
| 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 |

| 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              |                             |

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<br>Lines of<br>Credit | Home<br>Equity | Consumer<br>RPG<br>Loans | Credit<br>Cards | Overdrafts | Purchased<br>Whole Loans | Other<br>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               | —   | —                 |

|                             |           |           |          |        |
|-----------------------------|-----------|-----------|----------|--------|
| 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<br>(dollars in thousands)           | 30 - 59<br>Days<br>Delinquent | 60 - 89<br>Days<br>Delinquent | 90 or More<br>Days<br>Delinquent* | Total<br>Delinquent** | Total<br>Current | Total        |
|---|-------------------------------|-------------------------------|-----------------------------------|-----------------------|------------------|--------------|
| Residential real estate:                          |                               |                               |                                   |                       |                  |              |
| Owner occupied                                    | \$ 1,709                      | \$ 1,588                      | \$ 2,808                          | \$ 6,105              | \$ 1,046,252     | \$ 1,052,357 |
| Owner occupied -<br>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 -<br>purchased whole loans | —                             | —                             | —                                 | —                     | 36,085           | 36,085       |
| Construction & land<br>development                | —                             | —                             | —                                 | —                     | 80,398           | 80,398       |
| Commercial &<br>industrial                        | 381                           | —                             | —                                 | 381                   | 247,905          | 248,286      |
| Lease financing<br>receivables                    | —                             | —                             | —                                 | —                     | 10,976           | 10,976       |
| Warehouse lines of<br>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<br>(dollars in thousands) | 30 - 59<br>Days<br>Delinquent | 60 - 89<br>Days<br>Delinquent | 90 or More<br>Days<br>Delinquent* | Total<br>Delinquent** | Total<br>Current | Total |
|---|-------------------------------|-------------------------------|-----------------------------------|-----------------------|------------------|-------|
|---|-------------------------------|-------------------------------|-----------------------------------|-----------------------|------------------|-------|

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 -<br>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 -<br>purchased whole loans | —               | —               | —               | —                | 35,674              | 35,674              |
| Construction & land<br>development                | —               | —               | 1,500           | 1,500            | 65,000              | 66,500              |
| Commercial &<br>industrial                        | 299             | —               | —               | 299              | 229,422             | 229,721             |
| Lease financing<br>receivables                    | —               | —               | —               | —                | 8,905               | 8,905               |
| Warehouse lines of<br>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              |
| <b>Total</b>                                      | <b>\$ 3,088</b> | <b>\$ 1,107</b> | <b>\$ 7,536</b> | <b>\$ 11,731</b> | <b>\$ 3,314,879</b> | <b>\$ 3,326,610</b> |
| 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<br>(in<br>thousands)  | Residential Real Estate |                                      |                       | Commercial<br>Real Estate -<br>Purchased | Commercial<br>Construction & Development |             | Commercial & Industrial | Lease<br>& Financing<br>Receivables |
|---|-------------------------|--------------------------------------|-----------------------|--|--|-------------|-------------------------|-------------------------------------|
|   | Owner<br>Occupied       | Owner<br>Occupied -<br>Correspondent | Non Owner<br>Occupied |  | Real Estate                              | Whole Loans |                         |                                     |
| Allowance:<br>Ending<br>Allowance<br>balance:<br>Individually<br>evaluated for<br>impairment,<br>excluding<br>PCI loans | \$ 3,599                | \$ —                                 | \$ 70                 | \$ 288                                   | \$ —                                     | \$ 131      | \$ 182                  | \$ —                                |
| Collectively<br>evaluated for<br>impairment<br>PCI loans<br>with post<br>acquisition<br>impairment                      | 4,218                   | 592                                  | 975                   | 6,965                                    | 36                                       | 1,201       | 1,259                   | 115                                 |
| PCI loans<br>without post<br>acquisition<br>impairment  | 76                      | —                                    | 7                     | 516                                      | —  | —           | —                       | —                                   |
|   | —                       | —                                    | —                     | —  | —  | —           | —                       | —                                   |
| Total ending<br>Allowance:  | \$ 7,893                | \$ 592                               | \$ 1,052              | \$ 7,769                                 | \$ 36                                    | \$ 1,332    | \$ 1,441                | \$ 115                              |
| Loans:<br>Impaired<br>loans<br>individually<br>evaluated,<br>excluding<br>PCI loans                                     | \$ 36,722               | \$ —                                 | \$ 1,305              | \$ 11,524                                | \$ —                                     | \$ 902      | \$ 487                  | \$ —                                |
| Loans<br>collectively<br>evaluated for<br>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<br>Lines of<br>Credit | Home<br>Equity | Consumer<br>RPG<br>Loans | Credit<br>Cards | Overdrafts | Purchased<br>Whole Loans | Other<br>Consumer | Total     |
|--|---------------------------------|----------------|--------------------------|-----------------|------------|--------------------------|-------------------|-----------|
| Allowance:<br>Ending<br>Allowance<br>balance:<br>Individually<br>evaluated<br>for<br>impairment,<br>excluding<br>PCI loans<br>Collectively<br>evaluated<br>for<br>impairment | \$ —                            | \$ 53          | \$ —                     | \$ —            | \$ —       | \$ —                     | \$ 15             | \$ 4,338  |
| PCI loans<br>with post<br>acquisition<br>impairment  | 1,465                           | 2,963          | 2,451                    | 456             | 824        | 535                      | 316               | 24,371    |
| PCI loans<br>without post<br>acquisition<br>impairment   | —                               | —              | —                        | —               | —          | —                        | —                 | 599       |
| Total ending<br>Allowance:   | \$ 1,465                        | \$ 3,016       | \$ 2,451                 | \$ 456          | \$ 824     | \$ 535                   | \$ 331            | \$ 29,308 |
| Loans:<br>Impaired<br>loans<br>individually<br>evaluated,  | \$ —                            | \$ 1,730       | \$ —                     | \$ —            | \$ —       | \$ —                     | \$ 88             | \$ 52,758 |

|   |            |            |           |           |          |          |           |              |
|---|------------|------------|-----------|-----------|----------|----------|-----------|--------------|
| excluding<br>PCI loans<br>Loans<br>collectively<br>evaluated<br>for<br>impairment | 586,077    | 322,463    | 12,198    | 11,884    | 1,458    | 8,145    | 37,799    | 3,623,994    |
| PCI loans<br>with post<br>acquisition<br>impairment                               | —          | —          | —         | —         | —        | —        | —         | 6,089        |
| PCI loans<br>without post<br>acquisition<br>impairment                            | —          | 244        | —         | —         | —        | —        | 2         | 8,482        |
| Total ending<br>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<br>Owner<br>Occupied | Residential Real Estate<br>Non Owner<br>Occupied | Commercial<br>Real Estate -<br>Purchased | Commercial<br>Real Estate -<br>Construction | Commercial & Financial<br>Lease<br>Receivables | Commercial & Financial<br>Lease<br>Receivables | Commercial & Financial<br>Lease<br>Receivables | Commercial & Financial<br>Lease<br>Receivables |
|--|--|--|--|---|--|--|--|--|
| December 31, 2015<br>(in thousands)  | Owner<br>Occupied                            | -<br>Correspondent                               | Commercial<br>Real Estate                | Whole Loans<br>Land Development             | Commercial & Financial<br>Lease<br>Receivables | Commercial & Financial<br>Lease<br>Receivables | Commercial & Financial<br>Lease<br>Receivables | Commercial & Financial<br>Lease<br>Receivables |
| Allowance:<br>Allowance<br>Allowance:<br>individually<br>valuated for<br>impairment,<br>excluding PCI<br>loans | \$ 3,820                                     | \$ —   | \$ 78                                    | \$ 339                                      | \$ —   | \$ 159   | \$ 196   | \$ —   |
| Collectively<br>valuated for<br>impairment   | 4,471  | 623  | 878                                      | 6,806                                       | 36   | 1,144  | 1,137  | 89   |
| PCI loans with<br>post acquisition<br>impairment   | 10   | —  | 96                                       | 491   | —  | —  | 122  | —  |
| PCI loans without<br>post acquisition<br>impairment  | —  | —  | —  | —   | —  | —  | —  | —  |
| Total ending<br>allowance:   | \$ 8,301                                     | \$ 623   | \$ 1,052                                 | \$ 7,636                                    | \$ 36  | \$ 1,303                                       | \$ 1,455                                       | \$ 89  |
| Loans:<br>Impaired loans<br>individually<br>valuated,<br>excluding PCI<br>loans                                | \$ 39,041                                    | \$ —   | \$ 2,351                                 | \$ 12,441                                   | \$ —   | \$ 2,717                                       | \$ 322   | \$ —   |
| Loans collectively<br>valuated for<br>impairment   | 1,042,334                                    | 249,344  | 113,158                                  | 802,528                                     | 35,674   | 63,750   | 228,151  | 8,905  |
| PCI loans with<br>post acquisition<br>impairment   | 65   | —  | 785                                      | 4,806                                       | —  | —  | 1,193  | —  |
| PCI loans without<br>post acquisition<br>impairment  | 494  | —  | —  | 5,112                                       | —  | 33   | 55   | —  |
| Total ending loan<br>balance   | \$ 1,081,934                                 | \$ 249,344                                       | \$ 116,294                               | \$ 824,887                                  | \$ 35,674                                      | \$ 66,500                                      | \$ 229,721                                     | \$ 8,905                                       |

| (continued)  | Warehouse<br>Lines of<br>Credit | Home<br>Equity | Consumer<br>RPG<br>Loans | Credit<br>Cards | Overdrafts | Purchased<br>Whole Loans | Other<br>Consumer | Total     |
|--|---------------------------------|----------------|--------------------------|-----------------|------------|--------------------------|-------------------|-----------|
| Allowance:<br>Ending<br>Allowance<br>balance:<br>Individually<br>evaluated<br>for<br>impairment,<br>excluding<br>PCI loans | \$ —                            | \$ 100         | \$ —                     | \$ —            | \$ —       | \$ —                     | \$ 16             | \$ 4,708  |
| Collectively<br>evaluated<br>for<br>impairment<br>PCI loans<br>with post<br>acquisition<br>impairment                      | 967                             | 2,896          | 1,699                    | 448             | 351        | 392                      | 127               | 22,064    |
| PCI loans<br>without post<br>acquisition<br>impairment   | —                               | —              | —                        | —               | —          | —                        | —                 | 719       |
|  | —                               | —              | —                        | —               | —          | —                        | —                 | —         |
| Total ending<br>Allowance:   | \$ 967                          | \$ 2,996       | \$ 1,699                 | \$ 448          | \$ 351     | \$ 392                   | \$ 143            | \$ 27,491 |
| Loans:<br>Impaired<br>loans<br>individually<br>evaluated,<br>excluding<br>PCI loans  | \$ —                            | \$ 2,316       | \$ —                     | \$ —            | \$ —       | \$ —                     | \$ 86             | \$ 59,274 |
| Loans<br>collectively<br>evaluated<br>for<br>impairment<br>PCI loans<br>with post<br>acquisition<br>impairment             | 386,729                         | 286,878        | 7,204                    | 11,068          | 685        | 5,892                    | 12,493            | 3,254,793 |
| PCI loans<br>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<br>June 30, 2016         |                        |                        | Three Months Ended<br>June 30, 2016 |                                  | Six Months Ended<br>June 30, 2016              |                                   |                                  |  |
|---|--------------------------------|------------------------|------------------------|-------------------------------------|----------------------------------|--|-----------------------------------|----------------------------------|--|
|   | Unpaid<br>Principal<br>Balance | Recorded<br>Investment | Allowance<br>Allocated | Average<br>Recorded<br>Investment   | Interest<br>Income<br>Recognized | Cash Basis<br>Interest<br>Income<br>Recognized | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized | Cash Basis<br>Interest<br>Income<br>Recognized |
| Impaired loans<br>with no related<br>allowance<br>recorded: |                                |                        |                        |                                     |                                  |  |                                   |                                  |  |
| Residential<br>real estate:                                 |                                |                        |                        |                                     |                                  |  |                                   |                                  |  |
| Owner<br>occupied   | \$ 15,197                      | \$ 14,118              | \$ —                   | \$ 13,481                           | \$ 30                            | \$ —   | \$ 13,406                         | \$ 61                            | \$ —   |
| Owner<br>occupied -<br>correspondent                        | —                              | —                      | —                      | —                                   | —                                | —  | —                                 | —                                | —  |
| Non owner<br>occupied                                       | 981                            | 936                    | —                      | 1,475                               | 1                                | —  | 1,626                             | 3                                | —  |
| Commercial<br>real estate                                   | 7,399                          | 6,697                  | —                      | 7,157                               | 92                               | —  | 7,019                             | 199                              | —  |
| Commercial<br>real estate -<br>purchased<br>whole loans     | —                              | —                      | —                      | —                                   | —                                | —  | —                                 | —                                | —  |
| Construction &<br>land<br>development                       | 476                            | 476                    | —                      | 476                                 | 5                                | —  | 1,007                             | 10                               | —  |
| Commercial &<br>industrial                                  | 635                            | 305                    | —                      | 158                                 | 2                                | —  | 111                               | 4                                | —  |
| Lease<br>financing<br>receivables                           | —                              | —                      | —                      | —                                   | —                                | —  | —                                 | —                                | —  |
| Warehouse<br>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<br>December 31, 2015     |                        |                        | Three Months Ended<br>June 30, 2015 |                                  | Six Months Ended<br>June 30, 2015              |                                   |                                  | Cash Basis<br>Interest<br>Income |
|---|--------------------------------|------------------------|------------------------|-------------------------------------|----------------------------------|--|-----------------------------------|----------------------------------|----------------------------------|
|   | Unpaid<br>Principal<br>Balance | Recorded<br>Investment | Allowance<br>Allocated | Average<br>Recorded<br>Investment   | Interest<br>Income<br>Recognized | Cash Basis<br>Interest<br>Income<br>Recognized | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |                                  |
| Impaired loans<br>with no related<br>allowance<br>recorded:     |                                |                        |                        |                                     |                                  |  |                                   |                                  |                                  |
| Residential<br>real estate:                                     |                                |                        |                        |                                     |                                  |  |                                   |                                  |                                  |
| Owner<br>occupied   | \$ 14,287                      | \$ 13,256              | \$ —                   | \$ 9,152                            | \$ 192                           | \$ —   | \$ 7,769                          | \$ 387                           | \$ —                             |
| Owner<br>occupied -<br>correspondent                            | —                              | —                      | —                      | —                                   | —                                | —  | —                                 | —                                | —                                |
| Non owner<br>occupied   | 1,978                          | 1,928                  | —                      | 2,494                               | 45                               | —  | 2,268                             | 90                               | —                                |
| Commercial<br>real estate                                       | 7,406                          | 6,743                  | —                      | 11,697                              | 136                              | —  | 14,039                            | 277                              | —                                |
| Commercial<br>real estate -<br>purchased<br>whole loans         | —                              | —                      | —                      | —                                   | —                                | —  | —                                 | —                                | —                                |
| Construction &<br>land<br>development                           | 2,067                          | 2,067                  | —                      | 2,122                               | 33                               | —  | 2,138                             | 67                               | —                                |
| Commercial &<br>industrial<br>Lease<br>financing<br>receivables | 18                             | 18                     | —                      | 2,589                               | 25                               | —  | 3,251                             | 51                               | —                                |
| Warehouse<br>lines of credit                                    | —                              | —                      | —                      | —                                   | —                                | —  | —                                 | —                                | —                                |
| Home equity<br>Consumer:  | 2,263                          | 2,087                  | —                      | 2,285                               | 41                               | —  | 2,030                             | 83                               | —                                |
| RPG loans   | —                              | —                      | —                      | —                                   | —                                | —  | —                                 | —                                | —                                |
| Credit cards  | —                              | —                      | —                      | —                                   | —                                | —  | —                                 | —                                | —                                |
| Overdrafts  | —                              | —                      | —                      | —                                   | —                                | —  | —                                 | —                                | —                                |
| Purchased<br>whole loans  | —                              | —                      | —                      | —                                   | —                                | —  | —                                 | —                                | —                                |
| Other<br>consumer   | 44                             | 44                     | —                      | 19                                  | 1                                | —  | 19                                | 2                                | —                                |

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

| (dollars in thousands)                         | Three Months Ended<br>June 30, |              |          | Six Months Ended<br>June 30, |          |               | Recorded   |               |
|--|--------------------------------|--------------|----------|------------------------------|----------|---------------|------------|---------------|
|  | 2016                           | 2015         |          | 2016                         | 2015     |               |            |               |
|  | Recorded                       | Number of    | Recorded | Number of                    | Recorded | Number of     | Recorded   |               |
|  | Loans                          | Investment   | Loans    | Investment                   | Loans    | Investment    | Investment |               |
| Residential real estate:                       |                                |              |          |                              |          |               |            |               |
| Owner occupied                                 | 1                              | \$ 94        | 6        | \$ 432                       | 5        | \$ 258        | 11         | \$ 753        |
| 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                                 | —                              | —            | —        | —                            | —        | —             | —          | —             |
| <b>Total</b>                                   | <b>2</b>                       | <b>\$ 98</b> | <b>6</b> | <b>\$ 432</b>                | <b>8</b> | <b>\$ 402</b> | <b>11</b>  | <b>\$ 753</b> |

## 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<br>Months<br>Ended<br>June 30,<br>2016 | Six<br>Months<br>Ended<br>June 30,<br>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                                       | % |

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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            |
| <br>                               |               |                   |
| Total interest-bearing deposits    | 1,988,952     | 1,852,614         |
| Total noninterest-bearing deposits | 867,095       | 634,863           |
| <br>                               |               |                   |
| 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<br>Principal | Fair Value<br>Adjustment | Acquisition-Day<br>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                        |
| <br>                               |                          |                          |                               |
| Total interest-bearing deposits    | 152,257                  | 92                       | 152,349                       |
| Total noninterest-bearing deposits | 52,908                   | —                        | 52,908                        |
| <br>                               |                          |                          |                               |
| 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<br>June 30, |            | Six Months Ended<br>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.

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Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At June 30, 2016 and December 31, 2015, Republic had available borrowing capacity of \$203 million and \$567 million, respectively, from the FHLB. In addition to its borrowing capacity with the FHLB, Republic also had unsecured lines of credit totaling \$170 million available through various other financial institutions as of June 30, 2016 and December 31, 2015.

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

| Year (dollars in thousands) | Principal  | Weighted<br>Average<br>Rate |   |
|-----------------------------|------------|-----------------------------|---|
| 2016 (Overnight)            | \$ 495,000 | 0.42                        | % |
| 2016                        | 35,000     | 0.93                        |   |
| 2017                        | 145,000    | 3.44                        |   |
| 2018                        | 117,500    | 1.53                        |   |
| 2019                        | 100,000    | 1.80                        |   |
| 2020                        | 65,000     | 1.78                        |   |
| 2021                        | 20,000     | 1.86                        |   |
| Thereafter                  | 10,000     | 2.14                        |   |
| Total                       | \$ 987,500 | 1.29                        |   |

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

| (dollars in thousands)                          | June 30, 2016                  |            | December 31, 2015            |           |
|---|--------------------------------|------------|------------------------------|-----------|
| Outstanding balance at end of period            | \$ 495,000                     |            | \$ 150,000                   |           |
| Weighted average interest rate at end of period | 0.42                           | %          | 0.35                         | %         |
|   | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |           |
| (dollars in thousands)                          | 2016                           | 2015       | 2016                         | 2015      |
| Average outstanding balance during the period   | \$ 128,846                     | \$ 111,193 | \$ 68,352                    | \$ 73,783 |
| Average interest rate during the period         | 0.40                           | %          | 0.15                         | %         |

|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Maximum outstanding at any month end during the period | \$ 495,000 | \$ 387,000 | \$ 495,000 | \$ 387,000 |
|--|------------|------------|------------|------------|

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

| (in thousands)                                    | 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, MSR’s are evaluated for impairment based upon the fair value of the MSR’s as compared to carrying amount. If the carrying amount of an individual 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<br>June 30, 2016 Using:                      |   |  | Total<br>Fair<br>Value |
|---|---|---|--|------------------------|
|   | Quoted Prices<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(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<br>December 31, 2015 Using:                  |   |  | Total<br>Fair<br>Value |
|---|---|---|--|------------------------|
|   | Quoted Prices<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(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 |
| <br>                                     |          |            |          |            |
| Mortgage loans held for sale             | \$ —     | \$ 4,083   | \$ —     | \$ 4,083   |
| Rate lock commitments                    | —        | 306        | —        | 306        |
| Interest rate swap agreements            | —        | 400        | —        | 400        |
| <br>                                     |          |            |          |            |
| 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<br>June 30,<br>2016 | 2015     | Ended<br>June 30,<br>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<br>Months<br>Ended<br>June 30,<br>2016 | Six<br>Months<br>Ended<br>June 30,<br>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<br>Ended<br>June 30, |         | Six Months<br>Ended<br>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<br>and Six<br>Months<br>Ended<br>June 30,<br>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<br>June 30, 2016 Using:       |  |  | Total<br>Fair<br>Value |
|--------------------------|--|--|--|------------------------|
|                          | Quoted Prices<br>for Identifiable<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(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<br>December 31, 2015 Using:   |  |  | Total<br>Fair<br>Value |
|---------------------------------|--|--|--|------------------------|
|                                 | Quoted Prices<br>for Identifiable<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(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<br>Ended<br>June 30,<br>2016 |         | Six Months<br>Ended<br>June 30,<br>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<br>Ended<br>June 30, |        | Six Months<br>Ended<br>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   |                  |
| <b>Assets:</b>   |                |   |            |           |                  |
| 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            |
| <b>Liabilities:</b>  |                |   |            |           |                  |
| 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,<br>2016   | 2015      | June 30,<br>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<br>June 30,<br>2016 | 2015     | June 30,<br>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<br>June 30,<br>2016 | 2015     | June 30,<br>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<br>Amount | Fair Value | Notional<br>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       | December 31, 2015      | Unrealized          |
|---|-----------------|----------|--------------|-------------------|------------------------|------------------|------------------------|---------------------|
|   |                 |          |              |                   | Assets / (Liabilities) | Gain (Loss) AOCI | Assets / (Liabilities) | Gain (Loss) 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<br>- | 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<br>Amount | Fair<br>Value | Notional<br>Amount | Fair<br>Value |
| Interest rate swaps with Bank clients                            | Pay variable/receive<br>fixed | \$ 25,573          | \$ 1,826      | \$ 25,927          | \$ 400        |
| Offsetting interest rate swaps with<br>institutional swap dealer | Pay fixed/receive<br>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,<br>2016   | 2015     | June 30,<br>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              |        | Six Months                |        |
|----------------------------|---------------------------|--------|---------------------------|--------|
|                            | Ended<br>June 30,<br>2016 | 2015   | Ended<br>June 30,<br>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<br>Class A<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>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,<br>2016 | 2015 | Ended June 30,<br>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<br>Stock Awards | Weighted-average<br>grant date fair<br>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<br>Stock Units | Weighted-average<br>grant date fair<br>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<br>Ended<br>June 30, |        | Six Months<br>Ended<br>June 30, |        |
|--------------------------------|-----------------------------------|--------|---------------------------------|--------|
|                                | 2016                              | 2015   | 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<br>Options | Restricted<br>Stock Awards | Performance<br>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<br>June 30, |            | Six Months Ended<br>June 30, |        |
|--|--------------------------------|------------|------------------------------|--------|
|  | 2016                           | 2015       | 2016                         | 2015   |
| <b>Available for Sale Securities:</b>  |                                |            |                              |        |
| 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     |
| <b>Cash Flow Hedges:</b>   |                                |            |                              |        |
| 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<br>Consolidated<br>Statements of Income | Amounts Reclassified From<br>Accumulated<br>Other Comprehensive Income |      |                  |      |
|----------------|--|--|------|------------------|------|
|                |  | Three Months<br>Ended  |      | Six Months Ended |      |
|                |  | June 30,<br>2016   | 2015 | June 30,<br>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<br>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<br>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<br>Core<br>Banking | Republic<br>Processing<br>Group | Total<br>Company |   |    |      |   |
|---|----------------------------------|----------------------|---------------------|--------------------------|---------------------------------|------------------|---|----|------|---|
|   | Traditional<br>Banking           | Warehouse<br>Lending | Mortgage<br>Banking |                          |                                 |                  |   |    |      |   |
| Net interest income                       | \$ 29,537                        | \$ 3,790             | \$ 40               | \$ 33,367                | \$ 2,210                        | \$ 35,577        |   |    |      |   |
| Provision for loan and<br>lease losses    | 798                              | 480                  | —                   | 1,278                    | 536                             | 1,814            |   |    |      |   |
| Net refund transfer<br>fees               | —                                | —                    | —                   | —                        | 1,909                           | 1,909            |   |    |      |   |
| Mortgage banking<br>income                | —                                | —                    | 1,560               | 1,560                    | —                               | 1,560            |   |    |      |   |
| Republic Processing<br>Group program fees | —                                | —                    | —                   | —                        | 664                             | 664              |   |    |      |   |
| Other noninterest<br>income               | 6,371                            | 5                    | 63                  | 6,439                    | 230                             | 6,669            |   |    |      |   |
| Total noninterest<br>income               | 6,371                            | 5                    | 1,623               | 7,999                    | 2,803                           | 10,802           |   |    |      |   |
| Total noninterest<br>expenses             | 27,737                           | 735                  | 1,152               | 29,624                   | 2,242                           | 31,866           |   |    |      |   |
| Income before income<br>tax expense       | 7,373                            | 2,580                | 511                 | 10,464                   | 2,235                           | 12,699           |   |    |      |   |
| Income tax expense                        | 2,413                            | 958                  | 179                 | 3,550                    | 809                             | 4,359            |   |    |      |   |
| Net income                                | \$ 4,960                         | \$ 1,622             | \$ 332              | \$ 6,914                 | \$ 1,426                        | \$ 8,340         |   |    |      |   |
| Segment end of period<br>assets           | \$ 3,989,769                     | \$ 585,441           | \$ 18,133           | \$ 4,593,343             | \$ 53,579                       | \$ 4,646,922     |   |    |      |   |
| Net interest margin                       | 3.23                             | %                    | 3.67                | %                        | NM                              | 3.28             | % | NM | 3.43 | % |

## Three Months Ended June 30, 2015

## Core Banking

|  | Traditional | Warehouse | Mortgage | Total<br>Core | Republic<br>Processing | Total |
|--|-------------|-----------|----------|---------------|------------------------|-------|
|--|-------------|-----------|----------|---------------|------------------------|-------|

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| (dollars in thousands)                      | Banking      |   | Lending    |   | Banking   |  | Banking      |   | Group     | Company      |   |
|---|--------------|---|------------|---|-----------|--|--------------|---|-----------|--------------|---|
| Net interest income                         | \$ 26,999    |   | \$ 3,505   |   | \$ 57     |  | \$ 30,561    |   | \$ 497    | \$ 31,058    |   |
| Provision for loan and lease losses         | 553          |   | 164        |   | —         |  | 717          |   | 187       | 904          |   |
| Net refund transfer fees                    | —            |   | —          |   | —         |  | —            |   | 1,907     | 1,907        |   |
| Mortgage banking income                     | —            |   | —          |   | 1,224     |  | 1,224        |   | —         | 1,224        |   |
| Republic Processing Group program fees      | —            |   | —          |   | —         |  | —            |   | 169       | 169          |   |
| Gain on call of security available for sale | 88           |   | —          |   | —         |  | 88           |   | —         | 88           |   |
| Other noninterest income                    | 5,774        |   | 6          |   | 71        |  | 5,851        |   | 246       | 6,097        |   |
| Total noninterest income                    | 5,862        |   | 6          |   | 1,295     |  | 7,163        |   | 2,322     | 9,485        |   |
| Total noninterest expenses                  | 23,835       |   | 610        |   | 1,274     |  | 25,719       |   | 1,446     | 27,165       |   |
| Income before income tax expense            | 8,473        |   | 2,737      |   | 78        |  | 11,288       |   | 1,186     | 12,474       |   |
| Income tax expense                          | 2,648        |   | 958        |   | 27        |  | 3,633        |   | 521       | 4,154        |   |
| Net income                                  | \$ 5,825     |   | \$ 1,779   |   | \$ 51     |  | \$ 7,655     |   | \$ 665    | \$ 8,320     |   |
| Segment end of period assets                | \$ 3,520,996 |   | \$ 488,356 |   | \$ 15,635 |  | \$ 4,024,987 |   | \$ 41,232 | \$ 4,066,219 |   |
| Net interest margin                         | 3.28         | % | 3.53       | % | NM        |  | 3.31         | % | NM        | 3.32         | % |

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

NM — Not Meaningful

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

| (dollars in thousands)                    | Six Months Ended June 30, 2016 |                      |                     | Total<br>Core<br>Banking | Republic<br>Processing<br>Group | Total<br>Company |   |    |      |   |
|---|--------------------------------|----------------------|---------------------|--------------------------|---------------------------------|------------------|---|----|------|---|
|   | Traditional<br>Banking         | Warehouse<br>Lending | Mortgage<br>Banking |                          |                                 |                  |   |    |      |   |
| Net interest income                       | \$ 58,145                      | \$ 6,445             | \$ 72               | \$ 64,662                | \$ 10,349                       | \$ 75,011        |   |    |      |   |
| Provision for loan and<br>lease losses    | 1,278                          | 498                  | —                   | 1,776                    | 5,224                           | 7,000            |   |    |      |   |
| Net refund transfer<br>fees               | —                              | —                    | —                   | —                        | 18,987                          | 18,987           |   |    |      |   |
| Mortgage banking<br>income                | —                              | —                    | 2,821               | 2,821                    | —                               | 2,821            |   |    |      |   |
| Republic Processing<br>Group program fees | —                              | —                    | —                   | —                        | 963                             | 963              |   |    |      |   |
| Other noninterest<br>income               | 12,481                         | 10                   | 155                 | 12,646                   | 306                             | 12,952           |   |    |      |   |
| Total noninterest<br>income               | 12,481                         | 10                   | 2,976               | 15,467                   | 20,256                          | 35,723           |   |    |      |   |
| Total noninterest<br>expenses             | 52,612                         | 1,430                | 2,392               | 56,434                   | 7,973                           | 64,407           |   |    |      |   |
| Income before income<br>tax expense       | 16,736                         | 4,527                | 656                 | 21,919                   | 17,408                          | 39,327           |   |    |      |   |
| Income tax expense                        | 5,026                          | 1,681                | 230                 | 6,937                    | 6,315                           | 13,252           |   |    |      |   |
| Net income                                | \$ 11,710                      | \$ 2,846             | \$ 426              | \$ 14,982                | \$ 11,093                       | \$ 26,075        |   |    |      |   |
| Segment end of period<br>assets           | \$ 3,989,769                   | \$ 585,441           | \$ 18,133           | \$ 4,593,343             | \$ 53,579                       | \$ 4,646,922     |   |    |      |   |
| Net interest margin                       | 3.15                           | %                    | 3.65                | %                        | NM                              | 3.19             | % | NM | 3.60 | % |

Six Months Ended June 30, 2015  
Core Banking

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| (dollars in thousands)                            | Traditional<br>Banking | Warehouse<br>Lending | Mortgage<br>Banking | Total<br>Core<br>Banking | Republic<br>Processing<br>Group | Total<br>Company |   |    |      |   |
|---|------------------------|----------------------|---------------------|--------------------------|---------------------------------|------------------|---|----|------|---|
| Net interest income                               | \$ 52,757              | \$ 6,046             | \$ 113              | \$ 58,916                | \$ 1,164                        | \$ 60,080        |   |    |      |   |
| Provision for loan and<br>lease losses            | 669                    | 423                  | —                   | 1,092                    | (3)                             | 1,089            |   |    |      |   |
| Net refund transfer<br>fees                       | —                      | —                    | —                   | —                        | 17,242                          | 17,242           |   |    |      |   |
| Mortgage banking<br>income                        | —                      | —                    | 2,577               | 2,577                    | —                               | 2,577            |   |    |      |   |
| Republic Processing<br>Group program fees         | —                      | —                    | —                   | —                        | 397                             | 397              |   |    |      |   |
| Gain on call of<br>security available for<br>sale | 88                     | —                    | —                   | 88                       | —                               | 88               |   |    |      |   |
| Other noninterest<br>income                       | 11,171                 | 11                   | 155                 | 11,337                   | 830                             | 12,167           |   |    |      |   |
| Total noninterest<br>income                       | 11,259                 | 11                   | 2,732               | 14,002                   | 18,469                          | 32,471           |   |    |      |   |
| Total noninterest<br>expenses                     | 47,242                 | 1,183                | 2,559               | 50,984                   | 7,255                           | 58,239           |   |    |      |   |
| Income before income<br>tax expense               | 16,105                 | 4,451                | 286                 | 20,842                   | 12,381                          | 33,223           |   |    |      |   |
| Income tax expense                                | 4,934                  | 1,558                | 100                 | 6,592                    | 4,523                           | 11,115           |   |    |      |   |
| Net income  | \$ 11,171              | \$ 2,893             | \$ 186              | \$ 14,250                | \$ 7,858                        | \$ 22,108        |   |    |      |   |
| Segment end of period<br>assets                   | \$ 3,520,996           | \$ 488,356           | \$ 15,635           | \$ 4,024,987             | \$ 41,232                       | \$ 4,066,219     |   |    |      |   |
| Net interest margin                               | 3.22                   | %                    | 3.56                | %                        | NM                              | 3.25             | % | NM | 3.23 | % |

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

NM — Not Meaningful



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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations of Republic Bancorp, Inc. ("Republic" or the "Company") analyzes the major elements of Republic's consolidated balance sheets and statements of income. Republic, a financial holding company headquartered in Louisville, Kentucky, is the parent company of Republic Bank & Trust Company ("RB&T" or the "Bank") and Republic Insurance Services, Inc. (the "Captive"). The Bank is a Kentucky-based, state chartered non-member financial institution.

The Captive is a wholly-owned insurance subsidiary of the Company that provides property and casualty insurance coverage to the Company and the Bank as well as 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 100%-owned unconsolidated finance subsidiary of Republic. 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. As permitted under the terms of CCT1's governing documents, the Company notified the CCT1 trustee that it will redeem these securities at the par amount of approximately \$4 million, without penalty, on September 15, 2016.

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

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

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by the forward-looking statements. Actual results may differ materially from those expressed or implied as a result of certain risks and uncertainties, including, but not limited to: changes in political and economic conditions; interest rate fluctuations; competitive product and pricing pressures; equity and fixed income market fluctuations; client bankruptcies; inflation; recession; acquisitions and integrations of acquired businesses; technological changes; changes in law and regulations or the interpretation and enforcement thereof; changes in fiscal, monetary, regulatory and tax policies; monetary fluctuations; success in gaining regulatory approvals when required; information security breaches or cyber security attacks involving either the Company or one of the Company's

third-party service providers; as well as other risks and uncertainties reported from time to time in the Company's filings with the Securities and Exchange Commission ("SEC"), including Part 1 Item 1A "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Broadly speaking, forward-looking statements include:

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

The Company may make forward-looking statements discussing management's expectations about various matters, including:

- loan delinquencies; non-performing, classified, or impaired loans; and troubled debt restructurings ("TDRs");
- further developments in the Bank's ongoing review of and efforts to resolve possible problem credit relationships, which could result in, among other things, additional Provisions for Loan and Lease Losses ("Provision");
- future credit quality, credit losses and the overall adequacy of the Allowance for Loan and Lease Losses ("Allowance");
- potential impairment charges or write-downs of other real estate owned ("OREO") or impaired premises and equipment;
- future short-term and long-term interest rates and the respective impact on net interest income, net interest spread, net income, liquidity, capital and economic value of equity ("EVE");
- the future impact of Company strategies to mitigate interest rate risk;



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- future long-term interest rates and their impact on the demand for Mortgage Banking products, Warehouse lines of credit and Correspondent Lending products;
- the future value of mortgage servicing rights (“MSRs”);
- the potential impairment of investment securities;
- the growth in the Bank’s loan portfolio, in general, and overall mix of such portfolio;
- the growth in loans originated through the Bank’s Correspondent Lending delivery channel;
- intentions to sell loans originated through the Bank’s Correspondent Lending delivery channel;
- the growth in the Bank’s Warehouse Lending (“Warehouse”) portfolio;
- usage rates on Warehouse lines of credit;
- the volatility of the Bank’s Warehouse portfolio outstanding balances;
- the Bank’s ability to maintain and/or grow deposits;
- the concentrations and volatility of the Bank’s securities sold under agreements to repurchase (“SSUARs”);
- the Company’s intentions regarding its Trust Preferred Securities (“TPS”);
- the Company’s ability to successfully implement strategic plans, including, but not limited to, those related to recent or future business acquisitions;
- future accretion of discounts on loans acquired in the Company’s May 17, 2016 acquisition of Cornerstone Bancorp, Inc. (“Cornerstone”) or the Bank’s 2012 FDIC-assisted transactions and the effect of such accretion on the Bank’s net interest income and net interest margin;
- future amortization of premiums on loans acquired through the Bank’s Correspondent Lending channel and the effect of such amortization on the Bank’s net interest income and net interest margin;
- the future financial performance of Tax Refund Solutions (“TRS”), a division of the Republic Processing Group (“RPG”) segment;
- future Refund Transfer (“RT”) volume for TRS;
- the future net revenue associated with RTs at TRS;
- future Easy Advance (“EA”) charge-offs at TRS;
- the future financial performance of Republic Payment Solutions (“RPS”), a division of RPG;
- the future financial performance of Republic Credit Solutions (“RCS”), a division of RPG;
- the extent to which regulations written and implemented by the Consumer Financial Protection Bureau (“CFPB”), and other federal, state and local governmental regulation of consumer lending and related financial products and services, may limit or prohibit the operation of the Company’s business;
- financial services reform and other current, pending or future legislation or regulation that could have a negative effect on the Company’s revenue and businesses, including but not limited to, Basel III capital reforms; the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”); and legislation and regulation relating to overdraft fees (and changes to the Bank’s overdraft practices as a result thereof), interchange fees, credit card income, and other bank services;
- the impact of new accounting pronouncements;
- legal and regulatory matters including results and consequences of regulatory guidance, litigation, administrative proceedings, rule-making, interpretations, actions and examinations;
- future capital expenditures; and
  - the strength of the U.S. economy in general and the strength of the local and regional economies in which the Company conducts operations.

Forward-looking statements discuss matters that are not historical facts. As forward-looking statements discuss future events or conditions, the statements often include words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “project,” “target,” “can,” “could,” “may,” “should,” “will,” “would,” “potential,” or similar expressions. Do not rely on forward-looking statements. Forward-looking statements detail management’s expectations regarding the future and are not guarantees. Forward-looking statements are assumptions based on information known to management only as of the date the statements are made and management may not update them to reflect changes that occur subsequent to the date the

statements are made.

See additional discussion under Part I Item 1 “Business” and Part I Item 1A “Risk Factors” of the Company’s 2015 Annual Report on Form 10-K.

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ACQUISITION OF CORNERSTONE BANCORP, INC. (“CORNERSTONE”)

On May 17, 2016, the Company completed its acquisition of Cornerstone, and its wholly-owned bank subsidiary Cornerstone Community Bank (“CCB”), for approximately \$32 million in cash. The acquisition of Cornerstone expanded the Company’s footprint in the Tampa, Florida metropolitan statistical area. At May 17, 2016, Cornerstone reported approximately \$236 million in total assets, approximately \$195 million in gross loans and approximately \$205 million in deposits.

As a result of the completion of the merger, the Company incurred pre-tax charges totaling \$704,000 and \$902,000 during the three and six months ended June 30, 2016 for conversion-related expenses, professional fees and compensation-related expenses for Cornerstone employees acquired as part of the acquisition. As expected, the Cornerstone acquisition contributed a net after-tax loss of \$330,000 and \$487,000 to the Company’s operating results for the three and six months ended June 30, 2016 as a consequence of these conversion-related expenses. Net income from the Cornerstone acquisition is expected to be accretive to the Company’s overall operating results on a quarterly basis going forward, as well as cumulatively for its first twelve months of operations post-acquisition.

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

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## BUSINESS SEGMENT COMPOSITION

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

Table 1 — Segment Information

| Three months ended June 30, 2016 |                     |                   |                  |                    |                           |               |  |  |  |
|----------------------------------|---------------------|-------------------|------------------|--------------------|---------------------------|---------------|--|--|--|
| Core Banking                     |                     |                   |                  |                    |                           |               |  |  |  |
| (dollars in thousands)           | Traditional Banking | Warehouse Lending | Mortgage Banking | Total Core Banking | Republic Processing Group | Total Company |  |  |  |
| Net income                       | \$ 4,960            | \$ 1,622          | \$ 332           | \$ 6,914           | \$ 1,426                  | \$ 8,340      |  |  |  |
| Total assets                     | 3,989,769           | 585,441           | 18,133           | 4,593,343          | 53,579                    | 4,646,922     |  |  |  |
| Net interest margin              | 3.23 %              | 3.67 %            | NM               | 3.28 %             | NM                        | 3.43 %        |  |  |  |

| Three months ended June 30, 2015 |                     |                   |                  |                    |                           |               |  |  |  |
|----------------------------------|---------------------|-------------------|------------------|--------------------|---------------------------|---------------|--|--|--|
| Core Banking                     |                     |                   |                  |                    |                           |               |  |  |  |
| (dollars in thousands)           | Traditional Banking | Warehouse Lending | Mortgage Banking | Total Core Banking | Republic Processing Group | Total Company |  |  |  |
| Net income                       | \$ 5,825            | \$ 1,779          | \$ 51            | \$ 7,655           | \$ 665                    | \$ 8,320      |  |  |  |
| Total assets                     | 3,520,996           | 488,356           | 15,635           | 4,024,987          | 41,232                    | 4,066,219     |  |  |  |
| Net interest margin              | 3.28 %              | 3.53 %            | NM               | 3.31 %             | NM                        | 3.32 %        |  |  |  |

## Six Months Ended June 30, 2016

## Core Banking

|  | Traditional | Warehouse | Mortgage | Total Core | Republic Processing | Total |
|--|-------------|-----------|----------|------------|---------------------|-------|
|--|-------------|-----------|----------|------------|---------------------|-------|

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| (dollars in thousands) | Banking   | Lending  | Banking | Banking   | Group     | Company   |
|------------------------|-----------|----------|---------|-----------|-----------|-----------|
| Net income             | \$ 11,710 | \$ 2,846 | \$ 426  | \$ 14,982 | \$ 11,093 | \$ 26,075 |
| Total assets           | 3,989,769 | 585,441  | 18,133  | 4,593,343 | 53,579    | 4,646,922 |
| Net interest margin    | 3.15 %    | 3.65 %   | NM      | 3.19 %    | NM        | 3.60 %    |

Six Months Ended June 30, 2015

Core Banking

| (dollars in thousands) | Traditional<br>Banking | Warehouse<br>Lending | Mortgage<br>Banking | Total<br>Core<br>Banking | Republic<br>Processing<br>Group | Total<br>Company |
|------------------------|------------------------|----------------------|---------------------|--------------------------|---------------------------------|------------------|
| Net income             | \$ 11,171              | \$ 2,893             | \$ 186              | \$ 14,250                | \$ 7,858                        | \$ 22,108        |
| Total assets           | 3,520,996              | 488,356              | 15,635              | 4,024,987                | 41,232                          | 4,066,219        |
| Net interest margin    | 3.22 %                 | 3.56 %               | NM                  | 3.25 %                   | NM                              | 3.23 %           |

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

NM — Not Meaningful

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

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(I) Traditional Banking segment

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

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

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

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

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

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

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

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

Internet Lending — The Bank accepts online loan applications through its website, [www.republicbank.com](http://www.republicbank.com). Historically, the majority of loans originated through the internet have been within the Bank's traditional markets of Kentucky and Indiana. Other states where loans are marketed include California, Colorado, Florida, Georgia, Illinois, Michigan, Minnesota, Ohio, Tennessee and Virginia, as well as the District of Columbia.

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

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

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

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

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

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



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

Internet Banking — The Bank expands its market penetration and service delivery by offering clients Internet Banking services and products through its website, [www.republicbank.com](http://www.republicbank.com). During the second half of 2016, the Bank has plans to roll out a separately-branded, digital banking platform to complement its existing brick-and-mortar locations, and if successful, expand its overall deposit reach.

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

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

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

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

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(II) Warehouse Lending segment

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

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

(III) Mortgage Banking segment

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

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

(IV) Republic Processing Group segment

All divisions of the RPG segment operate through the Bank.

Tax Refund Solutions 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.

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

#### New “Easy Advance” Product

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

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

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

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

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

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

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

Republic Credit Solutions 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.

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

Total Company net income for the second quarter of 2016 was \$8.3 million, equivalent to the same period in 2015. Diluted earnings per Class A Common Share were \$0.40 for the quarters ended June 30, 2016 and 2015.

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

Traditional Banking segment

- Net income decreased \$865,000, or 15%, for the second quarter of 2016 compared to the same period in 2015 primarily due to elevated noninterest expenses.
- Despite a decrease in net interest income from accretion on loans acquired through the Company's 2012 FDIC-assisted transactions, net interest income increased \$2.5 million, or 9%, for the second quarter of 2016 compared to the same period in 2015.
- The Traditional Banking Provision was \$798,000 for the second quarter of 2016 compared to \$553,000 for the same period in 2015.
  - Total noninterest income increased \$509,000, or 9%, for the second quarter of 2016 compared to the same period in 2015.
- Total noninterest expense increased \$3.9 million, or 16%, during the second quarter of 2016 compared to the second quarter of 2015.

Warehouse Lending segment

- Net income decreased \$157,000, or 9%, for the second quarter of 2016 compared to the same period in 2015.
- Net interest income increased \$285,000, or 8%, for the second quarter of 2016 compared to the same period in 2015.

- The Warehouse Provision was \$480,000 for the second quarter of 2016 compared to \$164,000 for the same period in 2015.

#### Mortgage Banking segment

- Within the Mortgage Banking segment, mortgage banking income increased \$336,000, or 27%, during the second quarter of 2016 compared to the same period in 2015.
- Overall, Republic's proceeds from the sale of secondary market loans totaled \$55 million during the second quarter of 2016 compared to \$54 million during the same period in 2015.

#### Republic Processing Group segment

- Net income increased \$761,000, or 114%, for the second quarter of 2016 compared to the same period in 2015. The higher net income was primarily driven by an increase in both net interest income and noninterest income.
- Net interest income increased \$1.7 million for the second quarter of 2016 compared to the same period in 2015.
- Overall, RPG recorded a net charge to the Provision of \$536,000 during the second quarter of 2016, compared to a charge of \$187,000 for the same period in 2015.
- Noninterest income increased \$481,000 for the second quarter of 2016 compared to the same period in 2015.
- Noninterest expenses were \$2.2 million for the second quarter of 2016 compared to \$1.4 million for the same period in 2015.

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

Net Interest Income

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

Total Company net interest income increased \$4.5 million, or 15%, during the second quarter of 2016 compared to the same period in 2015. The primary driver of the increase in total Company net interest income was growth in the Company’s quarterly average loans. The total Company net interest margin increased to 3.43% during the second quarter of 2016 compared to 3.32% for the same period in 2015.

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

Traditional Banking segment

Net interest income within the Traditional Banking segment increased \$2.5 million, or 9%, for the quarter ended June 30, 2016 compared to the same period in 2015. The Traditional Banking net interest margin was 3.23% for the second quarter of 2016, a decrease of five basis points from the same period in 2015.

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

- Average Traditional Bank loans outstanding, excluding loans from the Company’s May 17, 2016 Cornerstone acquisition and its 2012 FDIC-assisted transactions, were \$2.9 billion with a weighted average yield of 4.06% during the second quarter of 2016 compared to \$2.7 billion with a weighted average yield of 4.04% during the second quarter of 2015. The overall effect of these changes in rate and volume was an increase of \$2.1 million in interest income. This increase in average loans for the second quarter of 2016 over the second quarter of 2015 was driven primarily by growth in the Bank’s CRE, C&I, HELOC and Indirect Auto portfolios over the previous 12 months.

- Net interest income related to the Company's May 17, 2016 Cornerstone acquisition contributed \$928,000 to the Traditional Bank's overall net interest income during the second quarter of 2016. See additional detail regarding the Company's acquisition of Cornerstone Bancorp, Inc. under Footnote 2 "Acquisition of Cornerstone Bancorp, Inc." of Part I Item 1 "Financial Statements."
- Net interest income related to loans from the Company's 2012 FDIC-assisted transactions was lower during the second quarter of 2016 compared to the same period in 2015 primarily due to a lower rate of favorable payoffs and paydowns on the portfolio during the second quarter of 2015. When loans from these transactions are paid off, all unearned discount on such loans is immediately accreted into income. Accretion income during the second quarter of 2016 from this portfolio was \$170,000 compared to \$1.3 million for the same period in 2015. Overall, the average balance of the portfolio was \$21 million with a yield of 10.96% during the second quarter of 2016 compared to \$33 million with a yield of 20.39% for 2015. The overall effect of these changes in rate and volume was a decrease of \$1.1 million in interest income.
- The Company's subordinated note related to RBCT paid a fixed interest rate of 6.015% through September 30, 2015 and adjusted to LIBOR plus 1.42% thereafter. During the second quarter of 2016, the note's coupon rate was 2.049% based on the LIBOR index, or approximately 4.00% lower than the note's coupon rate during the second quarter of 2015. The lower rate equated to \$413,000 less in interest expense for the second quarter of 2016 compared to the same period in 2015. This subordinated note matures on December 31, 2035 and is redeemable at the Company's option on a quarterly basis. The Company elected not to redeem its subordinated note on July 1, 2016.



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The Federal Funds Target Rate (“FFTR”), the index that many of the Bank’s short-term deposit rates track, increased for the first time in nine years during December 2015. Additionally, the Federal Open Market Committee (“FOMC”) of the Federal Reserve Bank (“FRB”) has provided further guidance that additional FFTR increases are possible during the remainder of 2016. While an increase in short-term interest rates is generally believed by management to be favorable to the Bank’s net interest income and net interest margin in the near-term, such increases in short-term interest rates could have a negative impact to net interest income and net interest margin if the Bank is unable to maintain its overall funding costs at those levels assumed in its interest rate risk model or the yield curve flattens causing the spread between long-term interest rates and short-term interest rates to decrease. The Bank is unable to precisely determine its net interest income and net interest margin in the future because several factors remain unknown, including, but not limited to, the actual steepness of the interest rate yield curve, the future demand for the Bank’s financial products and its overall future liquidity needs, among many other factors.

### Warehouse Lending segment

Net interest income within the Warehouse Lending segment increased \$285,000, or 8%, for the second quarter of 2016 compared to the same period in 2015. The increase in net interest income was partially attributable to higher average outstanding balances and partially to higher weighted average loan yield for the current period as compared to the same period in 2015. Total Warehouse line commitments increased to \$858 million at June 30, 2016 from \$645 million at June 30, 2015, with the Company continuing to grow its Warehouse client base over the previous 12 months. Further, average line usage on Warehouse commitments remained relatively high at 58% during the second quarter of 2016 compared to 64% during the second quarter of 2015. Usage rates during both quarters benefitted from continued low, long-term mortgage rates during the periods. The yield for Warehouse lines of credit during the second quarter of 2016 increased 28 basis points from the same period in 2015, as the Warehouse yield was positively impacted by an increase in short-term interest rates.

Driven by the increase in outstanding commitments together with a relatively strong usage rate, average outstanding Warehouse lines of credit during the second quarter of 2016 increased \$16 million, or 4%, compared to the same period in 2015. Average outstanding warehouse lines were \$413 million during the second quarter of 2016 with a weighted average yield of 4.05%, compared to average outstanding lines of \$397 million with a weighted average yield of 3.77% for the same period in 2015.

### Republic Processing Group segment

Net interest income within the RPG segment increased \$1.7 million for the second quarter of 2016 compared to the same period in 2015. The increase in RPG’s net interest income was primarily attributable to growth in short-term, consumer credit products through the RCS division of RPG. Such products contributed \$2.1 million of net interest income during the second quarter of 2016 compared to \$294,000 for the same period in 2015, primarily driven by the previously reported growth in one of RCS’ loan programs, which moved beyond its pilot phase during June of 2015.

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

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

| (dollars in thousands)                                 | Three Months Ended June 30, 2016 |          |              | Three Months Ended June 30, 2015 |          |              |
|--|----------------------------------|----------|--------------|----------------------------------|----------|--------------|
|  | Average Balance                  | Interest | Average Rate | Average Balance                  | Interest | Average Rate |
| <b>ASSETS</b>  |                                  |          |              |                                  |          |              |
| Interest-earning assets:                               |                                  |          |              |                                  |          |              |
| Taxable investment securities, including FHLB stock(1) | \$ 579,027                       | \$ 2,239 | 1.55 %       | \$ 531,402                       | \$ 2,079 | 1.56 %       |
| Federal funds sold and other interest-earning deposits | 95,204                           | 155      | 0.65         | 32,300                           | 27       | 0.33         |
| RPG Easy Advance loans and fees(2)                     | 1,171                            | 1        | 0.34         | —                                | —        | —            |
| Other RPG loans and fees(2)(3)                         | 12,911                           | 2,095    | 64.91        | 4,829                            | 472      | 39.10        |
| Warehouse lines of credit and fees(2)(3)               | 413,135                          | 4,180    | 4.05         | 396,934                          | 3,742    | 3.77         |
| All other loans and fees(2)(3)                         | 3,052,180                        | 31,470   | 4.12         | 2,778,364                        | 29,402   | 4.23         |
| Total interest-earning assets                          | 4,153,628                        | 40,140   | 3.87         | 3,743,829                        | 35,722   | 3.82         |
| Allowance for loan and lease losses                    | (29,525)                         |          |              | (24,752)                         |          |              |
| Noninterest-earning assets:                            |                                  |          |              |                                  |          |              |
| Noninterest-earning cash and cash equivalents          | 73,807                           |          |              | 68,463                           |          |              |
| Premises and equipment, net                            | 36,485                           |          |              | 33,432                           |          |              |
| Bank owned life insurance                              | 56,952                           |          |              | 51,963                           |          |              |
| Other assets(1)  | 60,496                           |          |              | 52,377                           |          |              |
| Total assets   | \$ 4,351,843                     |          |              | \$ 3,925,312                     |          |              |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>            |                                  |          |              |                                  |          |              |

|  |              |           |      |   |              |           |      |   |
|--|--------------|-----------|------|---|--------------|-----------|------|---|
| Interest-bearing liabilities:  |              |           |      |   |              |           |      |   |
| Transaction accounts   | \$ 930,560   | \$ 205    | 0.09 | % | \$ 824,848   | \$ 130    | 0.06 | % |
| Money market accounts  | 551,477      | 272       | 0.20 |   | 490,836      | 188       | 0.15 |   |
| Time deposits  | 221,295      | 556       | 1.00 |   | 198,930      | 468       | 0.94 |   |
| Brokered money market and brokered certificates of deposit                     | 276,978      | 314       | 0.45 |   | 189,368      | 235       | 0.50 |   |
| Total interest-bearing deposits  | 1,980,310    | 1,347     | 0.27 |   | 1,703,982    | 1,021     | 0.24 |   |
| Securities sold under agreements to repurchase and other short-term borrowings |              |           |      |   |              |           |      |   |
| Federal Home Loan Bank advances  | 267,574      | 15        | 0.02 |   | 335,530      | 17        | 0.02 |   |
| Subordinated note  | 627,335      | 2,973     | 1.90 |   | 646,737      | 2,997     | 1.85 |   |
|  | 43,234       | 228       | 2.11 |   | 41,240       | 629       | 6.10 |   |
| Total interest-bearing liabilities   | 2,918,453    | 4,563     | 0.63 |   | 2,727,489    | 4,664     | 0.68 |   |
| Noninterest-bearing liabilities and Stockholders' equity:                      |              |           |      |   |              |           |      |   |
| Noninterest-bearing deposits   | 805,718      |           |      |   | 601,371      |           |      |   |
| Other liabilities  | 30,877       |           |      |   | 20,799       |           |      |   |
| Stockholders' equity   | 596,795      |           |      |   | 575,653      |           |      |   |
| Total liabilities and stockholders' equity                                     | \$ 4,351,843 |           |      |   | \$ 3,925,312 |           |      |   |
| Net interest income  |              | \$ 35,577 |      |   |              | \$ 31,058 |      |   |
| Net interest spread  |              |           | 3.24 | % |              |           | 3.14 | % |
| Net interest margin  |              |           | 3.43 | % |              |           | 3.32 | % |

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- (1) For the purpose of this calculation, the fair market value adjustment on investment securities resulting from ASC Topic 320, Investments — Debt and Equity Securities, is included as a component of other assets.
  - (2) The total amount of loan fee income included in total interest income was \$3.7 million and \$2.9 million for the three months ended June 30, 2016 and 2015.
  - (3) Average balances for loans include the principal balance of nonaccrual loans and loans held for sale, and are inclusive of all loan premiums, discounts and fees and costs.



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Table 3 illustrates the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities impacted Republic's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume) and (iii) net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

Table 3 — Total Company Volume/Rate Variance Analysis for the Three Months Ended June 30, 2016 and 2015

| (in thousands)   | Three Months Ended June 30, 2016<br>Compared to<br>Three Months Ended June 30, 2015 |  |         |
|--|---|--|---------|
|  | Total Net<br>Change   | Increase / (Decrease) Due to<br>Volume | Rate    |
| Interest income:   |   |  |         |
| Taxable investment securities, including FHLB stock                            | \$ 160  | \$ 184                                 | \$ (24) |
| Federal funds sold and other interest-earning deposits                         | 128   | 86                                     | 42      |
| RPG Easy Advance fees  | 1   | 1                                      | —       |
| Other RPG loans and fees   | 1,623   | 1,164                                  | 459     |
| Warehouse lines of credit and fees   | 438   | 157                                    | 281     |
| All other loans and fees   | 2,068   | 2,839                                  | (771)   |
| Net change in interest income  | 4,418   | 4,431                                  | (13)    |
| Interest expense:  |   |  |         |
| Transaction accounts   | 75  | 19                                     | 57      |
| Money market accounts  | 84  | 25                                     | 59      |
| Time deposits  | 88  | 55                                     | 33      |
| Brokered money market and brokered certificates of deposit                     | 79  | 101                                    | (22)    |
| Securities sold under agreements to repurchase and other short-term borrowings | (2)   | (4)                                    | 2       |
| Federal Home Loan Bank advances  | (24)  | (91)                                   | 67      |
| Subordinated note  | (401)   | 29                                     | (430)   |
| Net change in interest expense   | (101)   | 133                                    | (234)   |
| Net change in net interest income  | \$ 4,519  | \$ 4,297                               | \$ 222  |



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Provision for Loan and Lease Losses

The total Company recorded a Provision of \$1.8 million for the second quarter of 2016, compared to \$904,000 for the same period in 2015. The significant components comprising the Company's Provision by business segment were as follows:

Traditional Banking segment

The Traditional Banking Provision during the second quarter of 2016 was \$798,000, compared to \$553,000 for the second quarter of 2015. An analysis of the Provision for the second quarter of 2016 compared to the same period in 2015 follows:

- Related to the Bank's pass-rated and non-rated credits, the Bank recorded a net charge of \$694,000 to the provision for the second quarter of 2016 compared to a net credit of \$321,000 during the second quarter of 2015. Loan growth during the second quarter of 2016 primarily drove the charge to the Provision. The net credit for the second quarter of 2015 resulted primarily from improvement in certain qualitative factors within the Allowance calculation, which more than offset \$810,000 in gross charges within the calculation that was driven by loan growth during the period. The improvement in the Bank's qualitative factors was directly attributable to continued improvement within the Bank's overall credit quality, with an overall improvement in delinquent loans to total loans being the primary driver.
- Related to the Bank's loans rated Substandard and Special Mention, the Bank recorded net charges of \$111,000 and \$649,000 to the Provision during the second quarters of 2016 and 2015. During the second quarter of 2016, the Bank recorded a significant charge of \$330,000 related to one C&I relationship, with this allocation partially offset by improvements in other loans rated Substandard and Special Mention. The net charge during the second quarter of 2015 was the result of an increase in the assumed lives for a large portion of the Bank's retail TDRs based on an updated analysis of recent payment histories of these loans. The longer assumed lives on such loans increased the impairment for these loans measured under the cash flow method.
- Related to purchased-credit-impaired ("PCI") loans, the Bank recorded a net credit of \$7,000 to the Provision during the second quarter of 2016 compared to a net charge of \$225,000 for the same period in 2015. Charges generally reflect projected shortfalls in cash flows below initial acquisition-day estimates for PCI loans, while credits are primarily attributable to generally positive dispositions.

As a percentage of total loans, the Traditional Banking Allowance was 0.82% at June 30, 2016 compared to 0.85% at December 31, 2015 and 0.84% at June 30, 2015. The Company believes, based on information presently available, that it has adequately provided for its loan portfolio within its Allowance at June 30, 2016.



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

#### Warehouse Lending segment

The Warehouse Provision was \$480,000 for the second quarter of 2016, a \$316,000 increase from the same period in 2015. Provision expense for both periods reflects general reserves for growth in outstanding balances. Outstanding Warehouse balances increased \$192 million during the second quarter of 2016 compared to growth of \$66 million during the second quarter of 2015.

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

#### Republic Processing Group segment

RPG recorded a net charge to the Provision of \$536,000 during the second quarter of 2016, an increase of \$349,000 compared to same period in 2015. The Bank recorded charges of \$869,000 and \$229,000 to the Provision during the second quarters of 2016 and 2015 associated with growth in the RCS division’s short-term, consumer loans as one of its programs moved beyond its pilot phase during June 2015 and has continued to grow modestly since.

Partially offsetting the Provision related to RCS loans, the TRS division recorded net recoveries of \$333,000 during the second quarter of 2016 on its EA product and its former Refund Anticipation Loan (“RAL”) product. The EA product was first offered during the

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first quarter of 2016, while the RAL product was discontinued after the 2012 tax season. TRS recorded similar recoveries of \$42,000 on the RAL product during the second quarter of 2015.

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

| (dollars in thousands)                         | Three Months Ended |           |
|--|--------------------|-----------|
|  | June 30,<br>2016   | 2015      |
| Allowance at beginning of period               | \$ 31,475          | \$ 24,631 |
| Charge-offs:                                   |                    |           |
| Residential real estate                        |                    |           |
| Owner occupied                                 | (73)               | (178)     |
| Owner occupied - correspondent                 | —                  | —         |
| Non owner occupied                             | —                  | (29)      |
| Commercial real estate                         | —                  | (147)     |
| Commercial real estate - purchased whole loans | —                  | —         |
| Construction & land development                | —                  | —         |
| Commercial & industrial                        | (330)              | (27)      |
| Lease financing receivables                    | —                  | —         |
| Warehouse lines of credit                      | —                  | —         |
| Home equity                                    | (49)               | (21)      |
| Consumer:                                      |                    |           |
| RPG loans                                      | (3,943)            | (21)      |
| Credit cards                                   | (50)               | (31)      |
| Overdrafts                                     | (171)              | (103)     |
| Purchased whole loans                          | (64)               | (60)      |
| Other consumer                                 | (67)               | (89)      |
| Total charge-offs                              | (4,747)            | (706)     |
| Recoveries:                                    |                    |           |
| Residential real estate                        |                    |           |
| Owner occupied                                 | 77                 | 64        |
| Owner occupied - correspondent                 | —                  | —         |
| Non owner occupied                             | 8                  | 3         |
| Commercial real estate                         | 79                 | 81        |
| Commercial real estate - purchased whole loans | —                  | —         |
| Construction & land development                | —                  | —         |
| Commercial & industrial                        | —                  | 9         |

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|  |           |           |
|--|-----------|-----------|
| Lease financing receivables  | —         | —         |
| Warehouse lines of credit  | —         | —         |
| Home equity  | 78        | 22        |
| Consumer:  |           |           |
| RPG loans  | 389       | 42        |
| Credit cards   | 3         | 28        |
| Overdrafts   | 56        | 87        |
| Purchased whole loans  | 6         | —         |
| Other consumer   | 70        | 83        |
| Total recoveries   | 766       | 419       |
| Net loan charge-offs   | (3,981)   | (287)     |
| <br>   |           |           |
| Provision - Core Banking   | 1,278     | 717       |
| Provision - RPG  | 536       | 187       |
| Total Provision  | 1,814     | 904       |
| Allowance at end of period   | \$ 29,308 | \$ 25,248 |
| <br>   |           |           |
| Credit Quality Ratios:   |           |           |
| <br>   |           |           |
| Allowance to total loans   | 0.79 %    | 0.78 %    |
| Allowance to nonperforming loans                                   | 147       | 103       |
| Net loan charge-offs to average loans (annualized) - Total Company | 0.46      | 0.04      |
| Net loan charge-offs to average loans (annualized) - Core Bank     | 0.05      | 0.04      |

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Noninterest Income

Total Company noninterest income increased \$1.3 million, or 14%, during the second quarter of 2016 compared to the same period in 2015. The most significant components comprising the total Company's increase in noninterest income by business segment were as follows:

Traditional Banking segment

Traditional Banking segment noninterest income increased \$509,000, or 9%, for the second quarter of 2016 compared to the same period in 2015. The most significant categories affecting the change in noninterest income for the quarter were as follows:

- Interchange fees increased \$351,000; primarily due to an increase in debit-card interchange revenue. The higher revenue for debit-card related transactions was primarily the result of growth in retail checking accounts and an increase in customer use of signature-based transactions, which grew 23% on a quarter-over-quarter basis.
- Net gains (losses) on OREO improved \$235,000, as the Bank's OREO required no mark-to-market charges during the second quarter of 2016 compared to \$220,000 in such charges during the same period in 2015.

Service charges on deposit accounts increased to \$3.3 million for the second quarter of 2016 compared to \$3.2 million for the same period in 2015. The Bank earns a substantial majority of its fee income related to its overdraft service program from the per item fee it assesses its customers for each insufficient funds check or electronic debit presented for payment. The total per item fees, net of refunds, included in service charges on deposits for the quarters ended June 30, 2016 and 2015 remained at \$1.8 million. The total daily overdraft charges, net of refunds, included in interest income for the quarters ended June 30, 2016 and 2015 remained at \$405,000.

Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income increased \$336,000, or 27%, during the second quarter of 2016 compared to the same period in 2015. Overall, Republic's proceeds from the sale of secondary market loans totaled \$55 million during the second quarter of 2016 compared to \$54 million during the same period in 2015. Republic's net gains as a percentage of loans sold increased from 2.10% during the second quarter of 2015 to 2.66% during the second quarter of 2016. Volume during the second quarters of 2016 and 2015 benefited from continued low, long-term mortgage interest rates.

## Republic Processing Group segment

Within the RPG segment, noninterest income increased \$481,000, or 21%, during the second quarter of 2016 compared to the same period in 2015. The increase is primarily due to a \$495,000 increase in program fees on short-term, consumer loans originated through the RCS division of RPG. The increase in RPG program fees resulted from the previously reported increase in volume from one of the RCS' small-dollar consumer loan programs. As part of this program, the Company retains a 10% ownership in the loans originated and sells a 90% participation interest in these loans. During the second quarter of 2016, the Company sold approximately \$70 million of loans from this program compared to \$18 million during the second quarter of 2015.

## Noninterest Expenses

Total Company noninterest expenses increased \$4.7 million, or 17%, during the second quarter of 2016 compared to the same period in 2015. The most significant components comprising the increase in noninterest expense by business segment were as follows:

### Traditional Banking segment

For the second quarter of 2016 compared to the same period in 2015, Traditional Banking noninterest expenses increased \$3.9 million, or 16%.

Excluding expenses related to the Company's May 17, 2016 Cornerstone acquisition, the increase was primarily due to a \$2.0 million increase in salary expense, as the Traditional Bank added 74 additional full-time equivalent employees over the previous 12 months. Additionally, the Traditional Bank incurred approximately \$1.4 million in noninterest expenses associated with its Cornerstone acquisition, with \$704,000 of the Cornerstone expenses being related to costs for core systems conversion, professional service fees and compensation-related expenses for Cornerstone employees acquired as part of the acquisition.

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

Republic Processing Group segment

Within the RPG segment, noninterest expenses increased \$796,000, or 55%, during the second quarter of 2016 compared to the same period in 2015. The increase is primarily due to an \$804,000 increase in salaries and benefits expense, driven by additional staff added during the year to support growth in the TRS and RCS divisions.

OVERVIEW (Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015)

Total Company net income for the first six months of 2016 was \$26.1 million, representing an increase of \$4.0 million, or 18%, compared to the same period in 2015. Diluted earnings per Class A Common Share increased to \$1.26 for the six months ended June 30, 2016 compared to \$1.07 for the same period in 2015.

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

Traditional Banking segment

- Net income increased \$539,000, or 5%, for the six months ended of 2016 compared to the same period in 2015.
- Net interest income increased \$5.4 million, or 10%, for the first six months of 2016 compared to the same period in 2015.
- The Traditional Banking Provision was \$1.3 million for the first six months of 2016 compared to \$669,000 for the same period in 2015.
- Total noninterest income increased \$1.2 million, or 11%, for the first six months of 2016 compared to the same period in 2015.

- Total noninterest expense increased \$5.4 million, or 11%, during the first six months of 2016 compared to the first six months of 2015.

#### Warehouse Lending segment

- Net income decreased \$47,000, or 2%, for the first six months of 2016 compared to the same period in 2015.
- Net interest income increased \$399,000, or 7%, for the first six months of 2016 compared to the same period in 2015.
- The Warehouse Provision was \$498,000 for the first six months of 2016 compared to \$423,000 for the same period in 2015.

#### Mortgage Banking segment

- Within the Mortgage Banking segment, mortgage banking income increased \$244,000, or 9%, during the first six months of 2016 compared to the same period in 2015.
- Overall, Republic's proceeds from the sale of secondary market loans totaled \$90 million during the first six months of 2016 compared to \$94 million during the same period in 2015. Volume during both periods benefited from continued low, long-term mortgage interest rates.

#### Republic Processing Group segment

- Net income increased \$3.2 million, or 41%, for the first six months of 2016 compared to the same period in 2015.
- Net interest income increased \$9.2 million for the first six months of 2016 compared to the same period in 2015.

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- Overall, RPG recorded a net charge to the Provision of \$5.2 million during the first six months of 2016, compared to a net credit of \$3,000 for the same period in 2015.
- Noninterest income increased \$1.8 million, or 10%, for the first six months of 2016 compared to the same period in 2015.
- Noninterest expenses were \$8.0 million for the first six months of 2016 compared to \$7.3 million for the same period in 2015.

RESULTS OF OPERATIONS (Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015)

Net Interest Income

Banking operations are significantly dependent upon net interest income. Net interest income is the difference between interest income on interest-earning assets, such as loans and investment securities and the interest expense on interest-bearing liabilities used to fund those assets, such as interest-bearing deposits, securities sold under agreements to repurchase and FHLB advances. Net interest income is impacted by both changes in the amount and composition of interest-earning assets and interest-bearing liabilities, as well as market interest rates.

Total Company net interest income increased \$14.9 million, or 25%, during the first six months of 2016 compared to the same period in 2015. The primary drivers of the increase in total Company net interest income were the introduction of the EA product and growth in the Company's average loans. The total Company net interest margin increased to 3.60% during the first six months of 2016 compared to 3.23% for the same period in 2015, with higher margins on the Company's newly introduced EA product and its RCS small-dollar consumer loan programs the primary drivers of the increase in the Company's net interest margin.

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

Traditional Banking segment

Net interest income within the Traditional Banking segment increased \$5.4 million, or 10%, for the six months ended June 30, 2016 compared to the same period in 2015. The Traditional Banking net interest margin was 3.15% for the first six months of 2016, a decrease of seven basis points from the same period in 2015.



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

- Average Traditional Bank loans outstanding, excluding loans from the Company's May 17, 2016 Cornerstone acquisition and the 2012 FDIC-assisted transactions, were \$2.9 billion with a weighted average yield of 4.04% during the first six months of 2016 compared to \$2.7 billion with a weighted average yield of 4.07% during the same period in 2015. The overall effect of these changes in rate and volume was an increase of \$4.0 million in interest income. This increase in average loans for the first six months of 2016 over the same period in 2015 was driven primarily by growth in the Bank's CRE, C&I and HELOC portfolios over the previous 12 months.
- Net interest income related to the Company's May 17, 2016 Cornerstone acquisition contributed \$928,000 to the Traditional Bank's overall net interest income during the first six months of 2016. See additional detail regarding the Company's acquisition of Cornerstone Bancorp, Inc. under Footnote 2 "Acquisition of Cornerstone Bancorp, Inc." of Part I Item 1 "Financial Statements."
- Net interest income related to loans from the Company's 2012 FDIC-assisted transactions was lower during the first six months of 2016 compared to the same period in 2015 primarily due to a lower rate of favorable payoffs and paydowns on the portfolio. When loans from these transactions are paid off, all unearned discount on such loans is immediately accreted into income. Accretion income during the first six months of 2016 from this portfolio was \$919,000 compared to \$1.4 million for the same period in 2015. Overall, the average balance of the portfolio was \$22 million with a yield of 15.60% during the first six months of 2016 compared to \$36 million with a yield of 13.17% for 2015. The overall effect of these changes in rate and volume was a decrease of \$677,000 in interest income.

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· The Company's subordinated note related to RBCT paid a fixed interest rate of 6.015% through September 30, 2015 and adjusted to LIBOR plus 1.42% thereafter. During the first six months of 2016, the note's coupon rate was based on the LIBOR index and approximately 4.00% lower than the note's coupon rate during the first six months of 2015. The lower rate equated to \$831,000 less in interest expense for the first six months of 2016 compared to the same period in 2015. This subordinated note matures on December 31, 2035 and is redeemable at the Company's option on a quarterly basis. The Company elected not to redeem its subordinated note on July 1, 2016.

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

Warehouse Lending segment

Net interest income within the Warehouse Lending segment increased \$399,000, or 7%, for the first six months of 2016 compared to the same period in 2015. The increase in net interest income was partially attributable to higher average outstanding balances and partially to higher weighted average loan yield for the current period as compared to the same period in 2015. Total Warehouse line commitments increased to \$858 million at June 30, 2016 from \$645 million at June 30, 2015, with the Company continuing to grow its Warehouse client base over the previous 12 months. Further, average line usage on Warehouse commitments remained relatively high at 53% during the first six months of 2016 compared to 57% during the same period in 2015. Usage rates during both periods benefitted from continued low, long-term mortgage rates during the periods. The yield for Warehouse lines of credit during the first six months of 2016 increased 23 basis points from the same period in 2015, as the Warehouse yield was positively impacted by an increase in short-term interest rates.

Driven by the increase in outstanding commitments together with a relatively strong usage rate, average outstanding Warehouse lines of credit during the first six months of 2016 increased \$14 million, or 4%, compared to the same period in 2015. Average outstanding warehouse lines were \$353 million during the first six months of 2016 with a weighted average yield of 4.03%, compared to average outstanding lines of \$339 million with a weighted average yield of 3.80% for the same period in 2015.

Republic Processing Group segment

Net interest income within the RPG segment increased \$9.2 million for the first six months of 2016 compared to the same period in 2015. The increase in RPG's net interest income was primarily attributed to the following factors:

- The TRS division's newly introduced EA product earned \$5.2 million in interest income during the first six months of 2016.

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

- The TRS division had a short-term commercial loan relationship with one of the Company's third-party program managers in the tax business. TRS earned \$1.1 million in loan fees from this relationship during the first six months of 2016 compared to \$700,000 in loan fees for the same period in 2015.
- Short-term, consumer credit products through the RCS division of RPG earned \$3.8 million in net interest income during the first six months of 2016 compared to \$294,000 for the same period in 2015, driven by the previously discussed growth in one of its RCS loan programs.

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Table 5 — Total Company Average Balance Sheets and Interest Rates for the Six Months Ended June 30, 2016 and 2015

| (dollars in thousands)                                 | Six Months Ended June 30, 2016 |          |              | Six Months Ended June 30, 2015 |          |              |
|--|--------------------------------|----------|--------------|--------------------------------|----------|--------------|
|  | Average Balance                | Interest | Average Rate | Average Balance                | Interest | Average Rate |
| <b>ASSETS</b>  |                                |          |              |                                |          |              |
| Interest-earning assets:                               |                                |          |              |                                |          |              |
| Taxable investment securities, including FHLB stock(1) | \$ 580,448                     | \$ 4,396 | 1.51 %       | \$ 528,161                     | \$ 4,149 | 1.57 %       |
| Federal funds sold and other interest-earning deposits | 197,664                        | 584      | 0.59         | 86,933                         | 127      | 0.29         |
| RPG Easy Advance loans and fees(2)                     | 10,607                         | 5,210    | 98.24        | —                              | —        | —            |
| Other RPG loans and fees(2)(3)                         | 21,219                         | 4,852    | 45.73        | 9,766                          | 1,081    | 22.14        |
| Outstanding Warehouse lines of credit and fees(2)(3)   | 352,857                        | 7,111    | 4.03         | 339,290                        | 6,447    | 3.80         |
| All other loans and fees(2)(3)                         | 3,001,572                      | 62,002   | 4.13         | 2,755,958                      | 57,679   | 4.19         |
| Total interest-earning assets                          | 4,164,367                      | 84,155   | 4.04         | 3,720,108                      | 69,483   | 3.74         |
| Allowance for loan and lease losses                    | (29,393)                       |          |              | (24,648)                       |          |              |
| Noninterest-earning assets:                            |                                |          |              |                                |          |              |
| Noninterest-earning cash and cash equivalents          | 115,646                        |          |              | 99,619                         |          |              |
| Premises and equipment, net                            | 33,648                         |          |              | 33,684                         |          |              |
| Bank owned life insurance                              | 54,992                         |          |              | 51,770                         |          |              |
| Other assets(1)  | 55,083                         |          |              | 54,335                         |          |              |
| Total assets   | \$ 4,394,343                   |          |              | \$ 3,934,868                   |          |              |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>            |                                |          |              |                                |          |              |
| Interest-bearing liabilities:                          |                                |          |              |                                |          |              |
| Transaction accounts                                   | \$ 904,711                     | \$ 385   | 0.09 %       | \$ 808,185                     | \$ 255   | 0.06 %       |
| Money market accounts                                  | 537,928                        | 501      | 0.19         | 483,587                        | 368      | 0.15         |
| Time deposits  | 215,186                        | 1,109    | 1.03         | 196,748                        | 893      | 0.91         |

|  |              |           |        |              |           |        |
|--|--------------|-----------|--------|--------------|-----------|--------|
| Brokered money market and brokered certificates of deposit                     | 284,189      | 744       | 0.52   | 181,648      | 649       | 0.71   |
| Total interest-bearing deposits  | 1,942,014    | 2,739     | 0.28   | 1,670,168    | 2,165     | 0.26   |
| Securities sold under agreements to repurchase and other short-term borrowings | 337,636      | 40        | 0.02   | 363,321      | 55        | 0.03   |
| Federal Home Loan Bank advances  | 589,709      | 5,926     | 2.01   | 607,554      | 5,925     | 1.95   |
| Subordinated note  | 42,237       | 439       | 2.08   | 41,240       | 1,258     | 6.10   |
| Total interest-bearing liabilities   | 2,911,596    | 9,144     | 0.63   | 2,682,283    | 9,403     | 0.70   |
| Noninterest-bearing liabilities and Stockholders' equity:                      |              |           |        |              |           |        |
| Noninterest-bearing deposits   | 861,204      |           |        | 660,150      |           |        |
| Other liabilities  | 29,349       |           |        | 20,835       |           |        |
| Stockholders' equity   | 592,194      |           |        | 571,600      |           |        |
| Total liabilities and stock-holders' equity                                    | \$ 4,394,343 |           |        | \$ 3,934,868 |           |        |
| Net interest income  |              | \$ 75,011 |        |              | \$ 60,080 |        |
| Net interest spread  |              |           | 3.41 % |              |           | 3.04 % |
| Net interest margin  |              |           | 3.60 % |              |           | 3.23 % |

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- (1) For the purpose of this calculation, the fair market value adjustment on investment securities resulting from ASC Topic 320, Investments — Debt and Equity Securities, is included as a component of other assets.
  - (2) The total amount of loan fee income included in total interest income was \$13.5 million and \$4.7 million for the six months ended June 30, 2016 and 2015.
  - (3) Average balances for loans include the principal balance of nonaccrual loans and loans held for sale, and are inclusive of all loan premiums, discounts and fees and costs.

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Table 6 illustrates the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities impacted Republic's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume) and (iii) net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

Table 6 — Total Company Volume/Rate Variance Analysis for the Six Months Ended June 30, 2016 and 2015

| (in thousands)   | Six Months Ended June 30, 2016<br>Compared to<br>Six Months Ended June 30, 2015 |  |          |
|--|---|--|----------|
|  | Total Net<br>Change   | Increase / (Decrease) Due to<br>Volume | Rate     |
| Interest income:   |   |  |          |
| Taxable investment securities, including FHLB stock                            | \$ 247  | \$ 400                                 | \$ (153) |
| Federal funds sold and other interest-earning deposits                         | 457   | 254                                    | 203      |
| RPG Easy Advance fees  | 5,210   | 5,210                                  | —        |
| RPG loans and fees   | 3,771   | 1,975                                  | 1,796    |
| Outstanding Warehouse lines of credit and fees                                 | 664   | 264                                    | 400      |
| All other loans and fees   | 4,323   | 5,082                                  | (759)    |
| Net change in interest income  | 14,672  | 13,185                                 | 1,487    |
| Interest expense:  |   |  |          |
| Transaction accounts   | 130   | 33                                     | 97       |
| Money market accounts  | 133   | 45                                     | 89       |
| Time deposits  | 216   | 88                                     | 128      |
| Brokered money market and brokered certificates of deposit                     | 95  | 300                                    | (205)    |
| Securities sold under agreements to repurchase and other short-term borrowings | (15)  | (4)                                    | (11)     |
| Federal Home Loan Bank advances  | 1   | (177)                                  | 178      |
| Subordinated note  | (819)   | 30                                     | (849)    |
| Net change in interest expense   | (259)   | 315                                    | (574)    |
| Net change in net interest income  | \$ 14,931   | \$ 12,870                              | \$ 2,061 |



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Provision for Loan and Lease Losses

The Company recorded a Provision of \$7.0 million for the first six months 2016, compared to \$1.1 million for the same period in 2015. The significant components comprising the Company's Provision by business segment were as follows:

Traditional Banking segment

The Traditional Banking Provision during the first six months of 2016 was \$1.3 million, compared to \$669,000 for the first six months of 2015. An analysis of the Provision for the first six months of 2016 compared to the same period in 2015 follows:

- Related to the Bank's pass-rated and non-rated credits, the Bank recorded net charges of \$1.2 million and \$42,000 to the provision for the first six months of 2016 and 2015. Loan growth primarily drove the 2016 net charge to the Provision. The small net charge during 2015 resulted primarily from improvement in certain qualitative factors within the Allowance calculation, which offset \$865,000 in gross charges within the calculation driven by loan growth during the period. The improvement in the Bank's qualitative factors during 2015 was directly attributable to continued improvement within the Bank's overall credit quality, with an overall improvement in delinquent loans to total loans being the primary driver.
- Related to the Bank's loans rated Substandard and Special Mention, the Bank recorded net charges of \$178,000 and \$659,000 to the Provision during the first six months of 2016 and 2015. As previously discussed, the Bank recorded a significant provision of \$330,000 related to one C&I relationship during the second quarter of 2016, with this provision partially offset by improvements in other loans rated Substandard and Special Mention during the first six months of 2016. The net charge during 2015 was the result of an increase in the assumed lives for a large portion of the Bank's retail TDRs based on an updated analysis of the payment histories of these loans. The longer assumed lives on such loans increased the impairment for these loans measured under the cash flow method.
- Related to PCI loans, the Bank recorded net credits of \$121,000 and \$32,000 to the Provision during the first six months of 2016 and 2015. Charges generally reflect projected shortfalls in cash flows below initial acquisition-day estimates for PCI loans, while credits are primarily attributable to generally positive dispositions.

As a percentage of total loans, the Traditional Banking Allowance was 0.82% at June 30, 2016 compared to 0.85% at December 31, 2015 and 0.84% at June 30, 2015. The Company believes, based on information presently available, that it has adequately provided for its loan portfolio within its Allowance at June 30, 2016.



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

#### Warehouse Lending segment

The Warehouse Provision was \$498,000 for the first six months of 2016, a \$75,000 increase from the same period in 2015. Provision expense for both periods reflects general reserves for growth in outstanding balances. Outstanding Warehouse balances increased \$199 million during the first six months of 2016 compared to growth of \$170 million during the first six months of 2015.

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

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Republic Processing Group segment

RPG recorded a net charge to the Provision of \$5.2 million during the first six months of 2016, an increase of \$5.2 million compared to same period in 2015. The increase in Provision was primarily attributable to the introduction of the EA product during the first six months of 2016 and general loss reserves for growth in the RCS program.

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

The TRS division of RPG recorded a provision for loan loss of \$3.2 million during the first six months of 2016 on its new EA product. Of the \$123 million in EAs originated, all were either collected or charged off at June 30, 2016. Partially offsetting the Provision related to EAs, the TRS division recorded recoveries of \$226,000 during the first six months of 2016 on its former Refund Anticipation Loan (“RAL”) product, which was discontinued after the 2012 tax season. This compares to \$237,000 of RAL recoveries during the same period in 2015. While the RAL product was discontinued after the 2012 tax season, the Bank still receives recoveries of previously charged-off RALs.

The Bank also recorded charges of \$2.2 million and \$234,000 to the Provision during the first six months of 2016 and 2015 associated with growth in the RCS division’s short-term consumer loans.

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Table 7 — Summary of Loan and Lease Loss Experience for the Six Months Ended June 30, 2016 and 2015

| (dollars in thousands)                         | Six Months Ended |           |
|--|------------------|-----------|
|  | June 30,<br>2016 | 2015      |
| Allowance at beginning of period               | \$ 27,491        | \$ 24,410 |
| Charge-offs:                                   |                  |           |
| Residential real estate                        |                  |           |
| Owner occupied                                 | (261)            | (314)     |
| Owner occupied - correspondent                 | —                | —         |
| Non owner occupied                             | —                | (29)      |
| Commercial real estate                         | (41)             | (154)     |
| Commercial real estate - purchased whole loans | —                | —         |
| Construction & land development                | (44)             | —         |
| Commercial & industrial                        | (330)            | (56)      |
| Lease financing receivables                    | —                | —         |
| Warehouse lines of credit                      | —                | —         |
| Home equity                                    | (84)             | (72)      |
| Consumer:                                      |                  |           |
| RPG loans                                      | (5,194)          | (26)      |
| Credit cards                                   | (62)             | (71)      |
| Overdrafts                                     | (332)            | (249)     |
| Purchased whole loans                          | (123)            | (72)      |
| Other consumer                                 | (139)            | (160)     |
| Total charge-offs                              | (6,610)          | (1,203)   |
| Recoveries:                                    |                  |           |
| Residential real estate                        |                  |           |
| Owner occupied                                 | 151              | 124       |
| Owner occupied - correspondent                 | —                | —         |
| Non owner occupied                             | 8                | 6         |
| Commercial real estate                         | 106              | 90        |
| Commercial real estate - purchased whole loans | —                | —         |
| Construction & land development                | 20               | —         |
| Commercial & industrial                        | 4                | 38        |
| Lease financing receivables                    | —                | —         |
| Warehouse lines of credit                      | —                | —         |
| Home equity                                    | 104              | 59        |
| Consumer:                                      |                  |           |
| RPG loans                                      | 722              | 237       |
| Credit cards                                   | 12               | 41        |
| Overdrafts                                     | 132              | 175       |

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|                            |           |           |
|----------------------------|-----------|-----------|
| Purchased whole loans      | 6         | —         |
| Other consumer             | 162       | 182       |
| Total recoveries           | 1,427     | 952       |
| Net loan charge-offs       | (5,183)   | (251)     |
| Provision - Core Banking   | 1,776     | 1,092     |
| Provision - RPG            | 5,224     | (3)       |
| Total Provision            | 7,000     | 1,089     |
| Allowance at end of period | \$ 29,308 | \$ 25,248 |

Credit Quality Ratios:

|  |      |   |      |   |
|--|------|---|------|---|
| Allowance to total loans   | 0.79 | % | 0.76 | % |
| Allowance to nonperforming loans                                   | 147  |   | 103  |   |
| Net loan charge-offs to average loans (annualized) - Total Company | 0.31 |   | 0.02 |   |
| Net loan charge-offs to average loans (annualized) - Core Bank     | 0.04 |   | 0.03 |   |

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### Noninterest Income

Total Company noninterest income increased \$3.3 million, or 10%, during the first six months of 2016 compared to the same period in 2015. The most significant components comprising the total Company's increase in noninterest income by business segment were as follows:

#### Traditional Banking segment

Traditional Banking segment noninterest income increased \$1.2 million, or 11%, for the first six months of 2016 compared to the same period in 2015. The most significant categories affecting the change in noninterest income for the first six months were as follows:

- Interchange fees increased \$793,000, primarily due to an increase in debit-card interchange revenue. The higher revenue for debit-card transactions was primarily the result of growth in retail checking accounts and an increase in customer use of signature-based transactions, which grew 21% when comparing the first six months of 2016 to the same period in 2015.
- Net gains (losses) on OREO improved \$602,000, as the Bank's OREO required no mark-to-market charges during the first six months of 2016 compared to \$704,000 in such charges during the same period in 2015. Partially offsetting the difference related to mark-to-market charges was a decrease of \$102,000 in net realized gains on the final disposition of OREO during the first six months of 2016 when compared to the same period in 2015.

Service charges on deposit accounts increased from \$6.3 million for the first six months of 2015 to \$6.4 million for the first six months of 2016. The Bank earns a substantial majority of its fee income related to its overdraft service program from the per item fee it assesses its customers for each insufficient funds check or electronic debit presented for payment. The total per item fees, net of refunds, included in service charges on deposits for the six months ended June 30, 2016 and 2015 were \$3.6 million and \$3.5 million. The total daily overdraft charges, net of refunds, included in interest income for the six months ended June 30, 2016 and 2015 were \$784,000 and \$782,000.

#### Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income increased \$244,000, or 9%, during the first six months of 2016 compared to the same period in 2015. Overall, Republic's proceeds from the sale of secondary market loans totaled \$90 million during the first six months of 2016 compared to \$94 million during the same period in 2015. Republic's net gains as a percentage of loans sold increased from 2.49% during the first six months of 2015 to

2.84% during the first six months of 2016. Volume during the first six months of 2016 and 2015 benefited from continued low, long-term mortgage interest rates.

#### Republic Processing Group segment

Within the RPG segment, noninterest income increased \$1.8 million during the first six months of 2016 compared to the same period in 2015. The increase was primarily due to a \$1.7 million, or 10%, increase in net RT revenue from the first six months of 2015, primarily driven by an increase in RT volume.

Additionally, RPG program fees increased \$566,000 to \$963,000 for the first six months of 2016 compared to \$397,000 for the same period in 2015. The increase in RPG program fees resulted from the previously reported increase in volume from one of the RCS' small-dollar consumer loan programs. As part of this program, the Company retains a 10% ownership in the loans originated and sells a 90% participation interest in these loans. During the first six months of 2016, the Company sold approximately \$113 million of loans from this program compared to \$21 million during the first six months of 2015.

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Noninterest Expenses

Total Company noninterest expenses increased \$6.2 million, or 11%, during the first six months of 2016 compared to the same period in 2015. The most significant components comprising the increase in noninterest expense by business segment were as follows:

Traditional Banking segment

For the first six months of 2016 compared to the same period in 2015, Traditional Banking noninterest expenses increased \$5.4 million, or 11%. The following factors drove the increase:

- Salaries and benefits increased \$4.0 million, or 16%, from the first six months of 2015 to the first six months of 2016 with \$693,000 of the increase directly attributable to the Cornerstone acquisition. Excluding the Cornerstone acquisition, the increase was primarily due to a \$3.3 million increase in salary expense, as the Traditional Bank added 74 additional full-time equivalent employees over the previous 12 months.
- Data processing expenses increased \$817,000, or 47%, with \$417,000 of the increase attributable to the conversion of Cornerstone's core system. The majority of the remainder of the increase was related to the implementation of additional branch-capture and internet-banking services.
- Interchange-related expense increased \$343,000, consistent with the increases in debit-card and credit-card transaction volume over the previous 12 months.
- Legal and professional fees decreased \$378,000 during the first six months of 2016 with \$179,000 of legal and professional expenses directly attributable to the Cornerstone acquisition for the first six months of 2016. Excluding the Cornerstone acquisition, legal and professional fees decreased \$557,000 from the first six months of 2015 primarily due to a decrease in legal-related collection expenses.

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

## Loan Portfolio

Table 8 — Loan Portfolio Composition

| (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)          |
| <br>Total loans, net                            | <br>\$ 3,662,015 | <br>\$ 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.

Gross loans increased by \$365 million, or 11%, during 2016 to \$3.7 billion at June 30, 2016, primarily driven by \$190 million in loans from the Company's Cornerstone acquisition and \$199 million in growth in outstanding Warehouse lines of credit.



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

#### Warehouse Lines of Credit

As of June 30, 2016, the Bank had \$586 million outstanding on total committed Warehouse credit lines of \$858 million. As of December 31, 2015, the Bank had \$387 million outstanding on total committed Warehouse credit lines of \$728 million. The overall increase in committed lines was due to an increase in the number of Warehouse clients serviced by the Company. The \$199 million increase in outstanding balances was due primarily to favorable mortgage interest rates driving overall usage of the Bank's Warehouse lines higher at the end of June 2016.

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

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Correspondent Loans

In June 2016, management elected 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.

Allowance for Loan and Lease Losses ("Allowance")

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

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

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

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

Market Value Method — The recorded investment in the loan is measured against the loan's obtainable market value. The Bank does not currently employ this technique, as it is typically found impractical.

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

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

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

The Bank's Allowance increased \$2 million, or 7%, during the first six months of 2016 to \$29 million at June 30, 2016, primarily driven by reserves for RCS small-dollar credit products and general growth in Core Bank portfolios.

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As a percent of total loans, the Allowance decreased to 0.79% at June 30, 2016 compared to 0.83% at December 31, 2015. The following factors drove the decrease in ratio of Allowance to total loans:

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

## Asset Quality

## Classified and Special Mention Loans

The Bank applies credit quality indicators, or "ratings," to individual loans based on internal Bank policies. Such internal policies are informed by regulatory standards. Loans rated "Loss," "Doubtful," "Substandard" and PCI-Substandard ("PCI-Sub") are considered "Classified." Loans rated "Special Mention" or PCI Group 1 ("PCI-1") are considered Special Mention. The Bank's Classified and Special Mention loans increased \$3 million during the first six months of 2016, with the addition of \$11 million in Special Mention loans attributable to the Company's Cornerstone acquisition offset by approximately \$8 million in payoffs and paydowns during the period.

Table 9 — Classified and Special Mention Loans

| (in thousands)                             | June 30, 2016 | December 31, 2015 |
|--|---------------|-------------------|
| Loss                                       | \$ —          | \$ —              |
| Doubtful                                   | —             | —                 |
| Substandard                                | 24,031        | 27,833            |
| Purchased Credit Impaired - Substandard    | —             | —                 |
| Total Classified Loans                     | 24,031        | 27,833            |
| Special Mention                            | 36,514        | 31,312            |
| Purchased Credit Impaired - Group 1        | 14,571        | 12,543            |
| Total Special Mention Loans                | 51,085        | 43,855            |
| Total Classified and Special Mention Loans | \$ 75,116     | \$ 71,688         |

## Nonperforming Loans

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

Nonperforming loans to total loans decreased to 0.54% at June 30, 2016 from 0.66% at December 31, 2015, as the total balance of nonperforming loans decreased by \$2 million, or 9%, while total loans increased \$365 million, or 11% during the first six months of 2016. Approximately \$1 million of nonperforming loans at June 30, 2016 were attributable to the Company's Cornerstone acquisition.

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Table 10 — Nonperforming Loans and Nonperforming Assets Summary

| (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. See Footnote 5 “Loans and Allowance for Loan and Lease Losses” of Part I Item 1 “Financial Statements” for additional discussion regarding impaired loans.

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

Approximately \$16 million, or 79%, of the Bank’s total nonperforming loans at June 30, 2016 was concentrated in the residential real estate category, with the underlying collateral predominantly located in the Bank’s primary market area of Kentucky. The Bank’s nonperforming residential real estate concentration was \$16 million, or 73%, as of December 31, 2015.

Approximately \$4 million, or 19%, of the Bank’s total nonperforming loans was concentrated in the CRE and construction and land development portfolios as of June 30, 2016, compared to \$6 million, or 26%, at December 31, 2015. While CRE is the primarily collateral for such loans, the Bank also obtains in many cases, at the time of origination, personal guarantees from the principal borrowers and secured liens on the guarantors’ primary residences.

Table 11 — Nonperforming Loan Composition

| June 30, 2016          | December 31, 2015      |
|------------------------|------------------------|
| Percent<br>of<br>Total | Percent<br>of<br>Total |

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| (dollars in thousands)                         | Balance       | Loan<br>Class | Balance       | Loan<br>Class |
|--|---------------|---------------|---------------|---------------|
| Residential real estate                        |               |               |               |               |
| Owner occupied                                 | \$ 12,600     | 1.20%         | \$ 13,197     | 1.22%         |
| Owner occupied - correspondent                 | —             | —             | —             | —             |
| Non owner occupied                             | 1,823         | 1.25          | 935           | 0.80          |
| Commercial real estate                         | 3,735         | 0.38          | 4,165         | 0.50          |
| Commercial real estate - purchased whole loans | —             | —             | —             | —             |
| Construction & land development                | 83            | 0.10          | 1,589         | 2.39          |
| Commercial & industrial                        | 394           | 0.16          | 194           | 0.08          |
| Lease financing receivables                    | —             | —             | —             | —             |
| Warehouse lines of credit                      | —             | —             | —             | —             |
| Home equity                                    | 1,258         | 0.39          | 1,793         | 0.62          |
| Consumer:                                      |               |               |               |               |
| RPG loans                                      | —             | —             | —             | —             |
| Credit cards                                   | —             | —             | —             | —             |
| Overdrafts                                     | —             | —             | —             | —             |
| Purchased whole loans                          | —             | —             | —             | —             |
| Other consumer                                 | 63            | 0.17          | 63            | 0.50          |
| <br>Total nonperforming loans                  | <br>\$ 19,956 | <br>0.54      | <br>\$ 21,936 | <br>0.66      |

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Table 12 — Stratification of Nonperforming Loans

| June 30, 2016<br>(dollars in thousands)           | Number of Nonperforming Loans and Recorded Investment |                    |           |                                    |          |                    |            | Total<br>Balance |
|---|---|--------------------|-----------|------------------------------------|----------|--------------------|------------|------------------|
|   | No.   | Balance<br>≤ \$100 | No.       | Balance<br>> \$100<br>&<br>≤ \$500 | No.      | Balance<br>> \$500 | No.        |                  |
| Residential real estate:                          |   |                    |           |                                    |          |                    |            |                  |
| Owner occupied                                    | 120   | \$ 5,682           | 33        | \$ 6,408                           | 1        | \$ 510             | 154        | \$ 12,600        |
| Owner occupied -<br>correspondent                 | —   | —                  | —         | —                                  | —        | —                  | —          | —                |
| Non owner occupied                                | 5   | 111                | 2         | 371                                | 2        | 1,341              | 9          | 1,823            |
| Commercial real estate                            | 3   | 78                 | 7         | 1,625                              | 2        | 2,032              | 12         | 3,735            |
| Commercial real estate -<br>purchased whole loans | —   | —                  | —         | —                                  | —        | —                  | —          | —                |
| Construction & land<br>development                | 1   | 83                 | —         | —                                  | —        | —                  | 1          | 83               |
| Commercial & industrial                           | —   | —                  | 2         | 394                                | —        | —                  | 2          | 394              |
| Lease financing receivables                       | —   | —                  | —         | —                                  | —        | —                  | —          | —                |
| Warehouse lines of credit                         | —   | —                  | —         | —                                  | —        | —                  | —          | —                |
| Home equity                                       | 22  | 529                | 4         | 729                                | —        | —                  | 26         | 1,258            |
| Consumer:   |   |                    |           |                                    |          |                    |            |                  |
| RPG loans   | —   | —                  | —         | —                                  | —        | —                  | —          | —                |
| Credit cards                                      | —   | —                  | —         | —                                  | —        | —                  | —          | —                |
| Overdrafts  | —   | —                  | —         | —                                  | —        | —                  | —          | —                |
| Purchased whole loans                             | —   | —                  | —         | —                                  | —        | —                  | —          | —                |
| Other consumer                                    | 21  | 63                 | —         | —                                  | —        | —                  | 21         | 63               |
| <b>Total</b>                                      | <b>172</b>  | <b>\$ 6,546</b>    | <b>48</b> | <b>\$ 9,527</b>                    | <b>5</b> | <b>\$ 3,883</b>    | <b>225</b> | <b>\$ 19,956</b> |

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



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

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Approximately \$6 million in nonperforming loans at December 31, 2015, were removed from the nonperforming loan classification during the first six months of 2016. Approximately \$69,000, or 1%, of these loans were removed from the nonperforming category because they were charged-off. Approximately \$1 million, or 27%, in loan balances were transferred to OREO, with \$4 million, or 72%, refinanced at other financial institutions.

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

Table 13 — Rollforward of Nonperforming Loan Activity

| (in thousands)  | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2016                           | 2015      | 2016                         | 2015      |
| Nonperforming loans at beginning of period                | \$ 19,907                      | \$ 24,995 | \$ 21,936                    | \$ 23,659 |
| Loans added to nonperforming status                       | 2,944                          | 4,874     | 4,246                        | 7,212     |
| Loans removed from nonperforming status (see table below) | (2,386)                        | (4,842)   | (5,557)                      | (5,626)   |
| Principal paydowns  | (509)                          | (403)     | (669)                        | (621)     |
| Nonperforming loans at end of period                      | \$ 19,956                      | \$ 24,624 | \$ 19,956                    | \$ 24,624 |

Table 14 — Detail of Loans Removed from Nonperforming Status

| (in thousands)  | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|---|--------------------------------|------------|------------------------------|------------|
|   | 2016                           | 2015       | 2016                         | 2015       |
| Loans charged-off   | \$ (53)                        | \$ (138)   | \$ (69)                      | \$ (158)   |
| Loans transferred to OREO                                   | (1,018)                        | (1,338)    | (1,490)                      | (1,586)    |
| Loans refinanced at other institutions                      | (1,315)                        | (2,272)    | (3,998)                      | (2,620)    |
| Loans returned to accrual status                            | —                              | (1,094)    | —                            | (1,262)    |
| Total nonperforming loans removed from nonperforming status | \$ (2,386)                     | \$ (4,842) | \$ (5,557)                   | \$ (5,626) |

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## Delinquent Loans

Delinquent loans to total loans decreased to 0.29% at June 30, 2016, from 0.35% at December 31, 2015, as the total balance of delinquent loans decreased by \$1 million, or 10%, while total loans increased \$365 million, or 11%. With the exception of PCI loans, all Traditional Bank loans past due 90-days-or-more as of June 30, 2016 and December 31, 2015 were on nonaccrual status. Approximately \$2 million of delinquent loans at June 30, 2016 were attributable to the Company's Cornerstone acquisition.

The composition of the Bank's delinquent loans follows:

Table 15 — Delinquent Loan Composition(1)

| (dollars in thousands)                         | June 30, 2016 |                             | December 31, 2015 |                             |
|--|---------------|-----------------------------|-------------------|-----------------------------|
|  | Balance       | Percent of Total Loan Class | Balance           | Percent of Total Loan Class |
| Residential real estate                        |               |                             |                   |                             |
| Owner occupied                                 | \$ 6,105      | 0.58 %                      | \$ 6,882          | 0.64 %                      |
| Owner occupied - correspondent                 | —             | —                           | —                 | —                           |
| Non owner occupied                             | 981           | 0.67                        | 53                | 0.05                        |
| Commercial real estate                         | 1,385         | 0.14                        | 1,111             | 0.13                        |
| Commercial real estate - purchased whole loans | —             | —                           | —                 | —                           |
| Construction & land development                | —             | —                           | 1,500             | 2.26                        |
| Commercial & industrial                        | 381           | 0.15                        | 299               | 0.13                        |
| Lease financing receivables                    | —             | —                           | —                 | —                           |
| Warehouse lines of credit                      | —             | —                           | —                 | —                           |
| Home equity                                    | 908           | 0.28                        | 1,393             | 0.48                        |
| Consumer:                                      |               |                             |                   |                             |
| RPG loans                                      | 419           | 3.43                        | 246               | 3.41                        |
| Credit cards                                   | 42            | 0.35                        | 12                | 0.11                        |
| Overdrafts                                     | 200           | 13.72                       | 133               | 19.42                       |
| Purchased whole loans                          | 148           | 1.82                        | 47                | 0.80                        |
| Other consumer                                 | 38            | 0.10                        | 55                | 0.44                        |
| Total delinquent loans                         | \$ 10,607     | 0.29                        | \$ 11,731         | 0.35                        |

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

As detailed in the preceding table, past due loans concentrated within the residential real estate category decreased \$334,000, or 4%, from December 31, 2015 to June 30, 2016, while construction & land development, CRE and C&I delinquencies decreased \$1 million, or 39%, for the same period.

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Approximately \$8 million in delinquent loans at December 31, 2015, were removed from delinquent status as of June 30, 2016. Approximately \$87,000, or 1%, of these loans were removed from the delinquent category because they were charged-off. Approximately \$2 million, or 20%, in loan balances were transferred to OREO with \$3 million, or 40%, refinanced at other financial institutions. The remaining \$3 million, or 39%, in delinquent loans were paid current in 2016.

Table 16 — Rollforward of Delinquent Loan Activity

| (in thousands)  | Three Months Ended |           | Six Months Ended |           |
|---|--------------------|-----------|------------------|-----------|
|   | June 30,<br>2016   | 2015      | June 30,<br>2016 | 2015      |
| Delinquent loans at beginning of period                           | \$ 8,657           | \$ 15,511 | \$ 11,731        | \$ 15,851 |
| Loans that became delinquent during the period                    | 4,752              | 3,324     | 6,138            | 4,841     |
| Delinquent loans removed from delinquent status (see table below) | (3,066)            | (7,195)   | (7,563)          | (9,086)   |
| Change in principal balance of loans delinquent in both periods*  | 264                | (285)     | 301              | (251)     |
| Delinquent loans at end of period                                 | \$ 10,607          | \$ 11,355 | \$ 10,607        | \$ 11,355 |

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

Table 17 — Detail of Delinquent Loans Removed From Delinquent Status

| (in thousands)  | Three Months Ended |            | Six Months Ended |            |
|---|--------------------|------------|------------------|------------|
|   | June 30,<br>2016   | 2015       | June 30,<br>2016 | 2015       |
| Loans charged-off                                     | \$ (53)            | \$ (202)   | \$ (87)          | \$ (175)   |
| Loans transferred to OREO                             | (1,018)            | (1,583)    | (1,491)          | (1,643)    |
| Loans refinanced at other institutions                | (887)              | (2,789)    | (3,043)          | (3,025)    |
| Loans paid current                                    | (1,108)            | (2,621)    | (2,942)          | (4,243)    |
| Total delinquent loans removed from delinquent status | \$ (3,066)         | \$ (7,195) | \$ (7,563)       | \$ (9,086) |

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## Impaired Loans and Troubled Debt Restructurings

The Bank's policy is to charge-off all or that portion of its recorded investment in a collateral dependent impaired credit upon a determination that it is probable the full amount of contractual principal and interest will not be collected. Impaired loans totaled \$59 million at June 30, 2016 compared to \$66 million at December 31, 2015, a decrease of \$7 million during the first six months of 2016.

A TDR is the situation where, due to a borrower's financial difficulties, the Bank grants a concession to the borrower that the Bank would not otherwise have considered. The majority of the Bank's TDRs involve a restructuring of loan terms such as a temporary reduction in the payment amount to require only interest and escrow (if required) and/or extending the maturity date of the debt. Nonaccrual loans modified as TDRs remain on nonaccrual status and continue to be reported as nonperforming loans. Accruing loans modified as TDRs are evaluated for nonaccrual status based on a current evaluation of the borrower's financial condition, and ability and willingness to service the modified debt. As of June 30, 2016, the Bank had \$44 million in TDRs, of which \$11 million were also on nonaccrual status. As of December 31, 2015, the Bank had \$50 million in TDRs, of which \$12 million were also on nonaccrual status.

The composition of the Bank's impaired loans follows:

Table 18 — Impaired Loan Composition

| (in thousands)                      | June 30, 2016 | December 31, 2015 |
|-------------------------------------|---------------|-------------------|
| Troubled debt restructurings        | \$ 44,218     | \$ 49,580         |
| Impaired loans (which are not TDRs) | 14,629        | 16,543            |
| Total impaired loans                | \$ 58,847     | \$ 66,123         |

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

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## Other Real Estate Owned

Table 19 — Stratification of Other Real Estate Owned

| June 30, 2016<br>(dollars in thousands) | Number of OREO Properties and Carrying Value Range |                              |     |   |     |                              |     | Total<br>Carrying<br>Value |
|---|--|------------------------------|-----|---|-----|------------------------------|-----|----------------------------|
|   | No.  | Carrying<br>Value<br>≤ \$100 | No. | Carrying<br>Value<br>> \$100 &<br>≤ \$500 | No. | Carrying<br>Value<br>> \$500 | No. |                            |
| Residential real estate                 | —  | \$ —                         | 5   | \$ 1,017                                  | —   | \$ —                         | 5   | \$ 1,017                   |
| Commercial real estate                  | —  | —                            | 1   | 300                                       | —   | —                            | 1   | 300                        |
| Construction & land<br>development      | —  | —                            | 1   | 186                                       | —   | —                            | 1   | 186                        |
| Total                                   | —  | \$ —                         | 7   | \$ 1,503                                  | —   | \$ —                         | 7   | \$ 1,503                   |

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

Table 20 — Rollforward of Other Real Estate Owned Activity

|                                |                              |
|--------------------------------|------------------------------|
| Three Months Ended<br>June 30, | Six Months Ended<br>June 30, |
|--------------------------------|------------------------------|

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| (in thousands)              | 2016     | 2015     | 2016     | 2015      |
|-----------------------------|----------|----------|----------|-----------|
| OREO at beginning of period | \$ 1,280 | \$ 6,736 | \$ 1,220 | \$ 11,243 |
| Transfer from loans to OREO | 1,282    | 1,590    | 1,938    | 1,922     |
| Proceeds from sale*         | (1,139)  | (5,251)  | (1,983)  | (9,971)   |
| Net gain on sale            | 80       | 65       | 328      | 430       |
| Writedowns                  | —        | (220)    | —        | (704)     |
| OREO at end of period       | \$ 1,503 | \$ 2,920 | \$ 1,503 | \$ 2,920  |

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

The fair value of OREO represents the estimated value that management expects to receive when the property is sold, net of related costs to sell. These estimates are based on the most recently available real estate appraisals, with certain adjustments made based on the type of property, age of appraisal, current status of the property and other relevant factors to estimate the current value of the property.

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

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



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## Deposits

Table 21 — Deposit Composition

| (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            |
| <br>                               |               |                   |
| Total interest-bearing deposits    | 1,988,952     | 1,852,614         |
| Total noninterest-bearing deposits | 867,095       | 634,863           |
| <br>                               |               |                   |
| Total deposits                     | \$ 2,856,047  | \$ 2,487,477      |

\* Represents a time deposit.

Total Company deposits increased \$369 million, or 15%, from December 31, 2015 to \$2.9 billion at June 30, 2016. Total Company interest-bearing deposits increased \$136 million, or 7%, while total Company noninterest bearing deposits increased \$232 million, or 37%.

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

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

SSUARs are collateralized by securities and are treated as financings; accordingly, the securities involved with the agreements are recorded as assets and are held by a safekeeping agent and the obligations to repurchase the securities are reflected as liabilities. All securities underlying the agreements are under the Bank's control.

SSUARs decreased approximately \$269 million, or 68%, during the first six months of 2016, with two large corporate clients accounting for \$207 million, or 77%, of the decrease. One of these clients reflected a decrease of \$111 million during the period due to normal seasonal cash flow needs. The second client transferred approximately \$96 million in funds to a competing financial institution as a result of proposed changes by the Bank to the client's account structure. The substantial majority of SSUARs are indexed to immediately repricing indices such as the Fed Funds Target Rate.

#### Federal Home Loan Bank Advances

FHLB advances increased \$288 million, or 41%, from December 31, 2015 to \$988 million at June 30, 2016. The Bank held \$495 million in overnight advances at a rate of 0.42% as of June 30, 2016, compared to \$150 million in overnight advances at a rate of 0.35% held at December 31, 2015. Additionally, the Bank obtained no additional long-term fixed rate advances during the first six months of 2016, while \$57 million of advances at a rate of 2.08% matured and were paid off during the period.

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

Overall use of FHLB advances during a given year is dependent upon many factors including asset growth, deposit growth, current earnings, and expectations of future interest rates, among others. If a meaningful amount of the Bank's loan originations in the future have repricing terms longer than five years, management will likely elect to borrow additional funds to mitigate its risk of future increases in market interest rates. Whether the Bank ultimately does so, and how much in advances it extends out, will be dependent

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upon circumstances at that time. If the Bank does obtain longer-term FHLB advances for interest rate risk mitigation, it will have a negative impact on then current earnings. The amount of the negative impact will be dependent upon the dollar amount, coupon and final maturity of the advances obtained.

### Interest Rate Swaps

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

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

#### Non-hedge Interest Rate Swaps

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

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

### Liquidity

The Bank had a loan to deposit ratio (excluding brokered deposits) of 139% at June 30, 2016 and 148% at December 31, 2015. At June 30, 2016 and December 31, 2015, the Company had cash and cash equivalents on-hand of \$143 million and \$210 million. In addition, the Bank had available borrowing capacity of \$203 million and \$567 million from the FHLB at June 30, 2016 and December 31, 2015. In addition to its borrowing capacity with the FHLB, the Bank's liquidity resources included unencumbered securities of \$350 million and \$69 million as of June 30, 2016 and December 31, 2015 and unsecured lines of credit totaling \$170 million available through various other financial institutions as of June 30, 2016 and December 31, 2015.

The Bank maintains sufficient liquidity to fund routine loan demand and routine deposit withdrawal activity. Liquidity is managed by maintaining sufficient liquid assets in the form of investment securities. Funding and cash flows can also be realized by the sale of securities available for sale, principal paydowns on loans and MBSs and proceeds realized from loans held for sale. The Bank's liquidity is impacted by its ability to sell certain investment securities, which is limited due to the level of investment securities that are needed to secure public deposits, securities sold under agreements to repurchase, FHLB borrowings, and for other purposes, as required by law. At June 30, 2016 and December 31, 2015, these pledged investment securities had a fair value of \$205 million and \$490 million. Republic's banking centers and its website, [www.republicbank.com](http://www.republicbank.com), provide access to retail deposit markets. These retail deposit products, if offered at attractive rates, have historically been a source of additional funding when needed. If the Bank were to lose a significant funding source, such as a few major depositors, or if any of its lines of credit were canceled, or if the Bank cannot obtain brokered deposits, the Bank would be compelled to offer market leading deposit interest rates to meet its funding and liquidity needs.

At June 30, 2016, the Bank had approximately \$590 million in deposits from 92 large non-sweep deposit relationships where the individual relationship individually exceeded \$2 million. The 20 largest non-sweep deposit relationships represented approximately \$356 million, or 12%, of the Company's total deposit balances at June 30, 2016. These accounts do not require collateral, therefore, cash from these accounts can generally be utilized to fund the loan portfolio. If any of these balances were moved from the Bank, the Bank would likely utilize overnight borrowing lines in the short-term to replace the balances. On a longer-term basis, the Bank would likely utilize brokered deposits to replace withdrawn balances. Based on past experience utilizing brokered deposits, the Bank believes it can quickly obtain brokered deposits if needed. The overall cost of gathering brokered deposits, however, could be substantially higher than the Traditional Bank deposits they replace, potentially decreasing the Bank's earnings.

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

## Capital

Total stockholders' equity increased from \$577 million at December 31, 2015 to \$595 million at June 30, 2016. The increase in stockholders' equity was primarily attributable to net income earned during 2016 reduced by cash dividends declared.

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

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

Additionally, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, the Company and Bank must hold a capital conservation buffer composed of Common Equity Tier 1 Risk Based capital above their minimum risk-based capital requirements. The capital conservation buffer phases in over time based on the following schedule: a capital conservation buffer of .0625% effective January 1, 2016; 1.25% effective January 1, 2017; 1.875% effective January 1, 2018; and a fully phased in capital conservation buffer of 2.5% on January 1, 2019.

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

**Dividend Restrictions** — The Parent Company’s principal source of funds for dividend payments are dividends received from RB&T. Banking regulations limit the amount of dividends that may be paid to the Parent Company by the Bank without prior approval of the respective states’ banking regulators. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year’s net profits, combined with the retained net profits of the preceding two years. At June 30, 2016, RB&T could, without prior approval, declare dividends of approximately \$49 million.

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

Banking regulators have categorized the Bank as well-capitalized. To be categorized as well-capitalized, the Bank must maintain minimum Total Risk Based, Common Equity Tier I Risk Based, Tier I Risk Based and Tier I Leverage Capital ratios. Regulatory agencies measure capital adequacy within a framework that makes capital requirements, in part, dependent on the individual risk profiles of financial institutions. Republic continues to exceed the regulatory requirements for Total Risk Based Capital, Common Equity Tier I Risk Based, Tier I Risk Based Capital and Tier I Leverage Capital. Republic and the Bank intend to maintain a capital position that meets or exceeds the “well-capitalized” requirements as defined by the FRB and the FDIC, in addition to the Capital Conservation Buffer. Republic’s average stockholders’ equity to average assets ratio was 13.48% at June 30, 2016 compared to 14.33% at December 31, 2015. Formal measurements of the capital ratios for Republic and the Bank are performed by the Company at each quarter end.

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

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

As a result of the its acquisition of Cornerstone Bancorp, Inc. on May 17, 2016, Republic became the 100% successor owner of Cornerstone Capital Trust 1 (“CCT1”), an unconsolidated finance subsidiary. In 2006, CCT1 issued \$4 million of adjustable-rate TPS due December 15, 2036. The interest rate on the CCT1 TPS adjusts quarterly to 3-month LIBOR plus 170 basis points. As permitted under the terms of CCT1’s governing documents, the Company notified the CCT1 trustee that it will redeem these securities at the par amount of approximately \$4 million, without penalty, on September 15, 2016.

Table 22 — Capital Ratios

| (dollars in thousands)                        | As of June 30, 2016 |         | As of December 31, 2015 |         |
|---|---------------------|---------|-------------------------|---------|
|   | Actual Amount       | Ratio   | Actual Amount           | Ratio   |
| Total capital to risk weighted assets         |                     |         |                         |         |
| Republic Bancorp, Inc.                        | \$ 645,711          | 17.21 % | \$ 631,820              | 20.58 % |
| Republic Bank & Trust Company                 | 540,457             | 14.41   | 494,575                 | 16.12   |
| Common equity tier 1 capital to risk weighted |                     |         |                         |         |
| Republic Bancorp, Inc.                        | \$ 572,403          | 15.26 % | \$ 564,329              | 18.39 % |
| Republic Bank & Trust Company                 | 511,149             | 13.63   | 467,084                 | 15.23   |
| Tier 1 (core) capital to risk weighted assets |                     |         |                         |         |
| Republic Bancorp, Inc.                        | \$ 616,403          | 16.43 % | \$ 604,329              | 19.69 % |
| Republic Bank & Trust Company                 | 511,149             | 13.63   | 467,084                 | 15.23   |
| Tier 1 leverage capital to average assets     |                     |         |                         |         |

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|                               |            |         |            |         |
|-------------------------------|------------|---------|------------|---------|
| Republic Bancorp, Inc.        | \$ 616,403 | 13.95 % | \$ 604,329 | 14.82 % |
| Republic Bank & Trust Company | 511,149    | 11.83   | 467,084    | 11.46   |



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Asset/Liability Management and Market Risk

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

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

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

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

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

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

|  | Increase in Rates   |                     |                     |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | 100<br>Basis Points | 200<br>Basis Points | 300<br>Basis Points | 400<br>Basis Points |
| % Change from base net interest income   | 5.00 %              | 5.20 %              | 4.80 %              | 3.30 %              |
| Board policy limit on % change from base | (4.00)              | (8.00)              | (12.00)             | (16.00)             |

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

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Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

Item 4. Controls and Procedures.

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

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

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

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

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

| Period             | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs |
|--------------------|----------------------------------|------------------------------|--|---|
| April 1 - April 30 | —                                | \$ —                         | —  |   |
| May 1 - May 31     | 41,350                           | 27.43                        | 41,350   |   |
| June 1 - June 30   | —                                | —                            | —  |   |
| Total              | 41,350                           | \$ 27.43                     | 41,350   | 252,400   |

The Company repurchased 41,350 shares during the second quarter of 2016. There were no shares exchanged for stock option exercises during this period. During 2011, the Company's Board of Directors amended its existing share repurchase program by approving the repurchase of 300,000 additional shares from time to time, as market conditions are deemed attractive to the Company. The repurchase program will remain effective until the total number of shares authorized is repurchased or until Republic's Board of Directors terminates the program. As of June 30, 2016, the Company had 252,400 shares that could be repurchased under its current share repurchase programs.

During the second quarter of 2016, there were 32 shares of Class A Common Stock issued upon conversion of shares of Class B Common Stock by stockholders of Republic in accordance with the share-for-share conversion provision option of the Class B Common Stock. The exemption from registration of newly issued Class A Common Stock relies upon Section (3)(a)(9) of the Securities Act of 1933.

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

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Item 6.Exhibits.

(a) Exhibits

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

| Exhibit Number | Description of Exhibit  |
|----------------|---|
| 31.1           | Certification of Principal Executive Officer pursuant to the Sarbanes-Oxley Act of 2002   |
| 31.2           | Certification of Principal Financial Officer pursuant to the Sarbanes-Oxley Act of 2002   |
| 32*            | Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 101            | Interactive data files: (i) Consolidated Balance Sheets at June 30, 2016 and December 31, 2015, (ii) Consolidated Statements of Income and Comprehensive Income for the Three and Six Months ended June 30, 2016 and 2015, (iii) Consolidated Statement of Stockholders' Equity for the Six Months ended June 30, 2016, (iv) Consolidated Statements of Cash Flows for the Six Months ended June 30, 2016 and 2015 and (v) Notes to Consolidated Financial Statements |

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

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SIGNATURES

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

REPUBLIC BANCORP, INC.  
(Registrant)

Principal Executive Officer:

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

Principal Financial Officer:

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