

REPUBLIC BANCORP INC /KY/  
Form 10-Q  
August 09, 2018  
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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, 2018

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

(Address of principal executive offices)

40202

(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018, was 18,676,957 and 2,214,427.

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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements.

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 386,956	\$ 299,351
Available-for-sale debt securities	416,053	524,303
Held-to-maturity debt securities (fair value of \$67,513 in 2018 and \$65,133 in 2017)	66,776	64,227
Equity securities with readily determinable fair value	2,793	2,928
Mortgage loans held for sale, at fair value	12,653	5,761
Consumer loans held for sale, at fair value	—	2,677
Consumer loans held for sale, at the lower of cost or fair value	13,684	8,551
Loans (includes \$2,237 of loans carried at fair value at June 30, 2018)	4,195,984	4,014,034
Allowance for loan and lease losses	(45,047)	(42,769)
Loans, net	4,150,937	3,971,265
Federal Home Loan Bank stock, at cost	32,067	32,067
Premises and equipment, net	43,734	42,588
Premises, held for sale	2,751	3,017
Goodwill	16,300	16,300
Other real estate owned	—	115
Bank owned life insurance	64,106	63,356
Other assets and accrued interest receivable	57,135	48,856
<b>TOTAL ASSETS</b>	<b>\$ 5,265,945</b>	<b>\$ 5,085,362</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 1,061,182	\$ 1,022,042
Interest-bearing	2,412,187	2,411,116
Total deposits	3,473,369	3,433,158
Securities sold under agreements to repurchase and other short-term borrowings	175,291	204,021
Federal Home Loan Bank advances	860,000	737,500

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Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	52,037	37,019
Total liabilities	4,601,937	4,452,938
Commitments and contingent liabilities (Footnote 8)	—	—
STOCKHOLDERS' EQUITY		
Preferred stock, no par value	—	—
Class A Common Stock and Class B Common Stock, no par value	4,903	4,902
Additional paid in capital	140,114	139,406
Retained earnings	520,784	487,700
Accumulated other comprehensive (loss) income	(1,793)	416
Total stockholders' equity	664,008	632,424
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 5,265,945	\$ 5,085,362

See accompanying footnotes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
INTEREST INCOME:				
Loans, including fees	\$ 53,944	\$ 44,735	\$ 123,571	\$ 102,739
Taxable investment securities	2,708	2,391	5,342	4,546
Federal Home Loan Bank stock and other	1,704	695	3,276	1,419
Total interest income	58,356	47,821	132,189	108,704
INTEREST EXPENSE:				
Deposits	3,934	2,324	7,294	4,203
Securities sold under agreements to repurchase and other short-term borrowings	222	146	435	171
Federal Home Loan Bank advances	2,723	1,943	4,997	4,235
Subordinated note	393	271	714	520
Total interest expense	7,272	4,684	13,440	9,129
NET INTEREST INCOME	51,084	43,137	118,749	99,575
Provision for loan and lease losses	4,932	5,061	22,187	17,412
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	46,152	38,076	96,562	82,163
NONINTEREST INCOME:				
Service charges on deposit accounts	3,574	3,390	7,129	6,637
Net refund transfer fees	3,473	2,770	19,825	18,152
Mortgage banking income	1,316	1,445	2,336	2,605
Interchange fee income	2,891	2,547	5,558	4,873
Program fees	1,323	1,284	3,019	2,375
Increase in cash surrender value of bank owned life insurance	379	393	750	784
Net gains on other real estate owned	320	249	452	391
Other	1,020	849	2,772	2,033
Total noninterest income	14,296	12,927	41,841	37,850
NONINTEREST EXPENSE:				
Salaries and employee benefits	22,766	20,015	46,600	41,226
Occupancy and equipment, net	6,391	5,903	12,612	11,870

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Communication and transportation	1,241	939	2,623	2,211
Marketing and development	1,283	1,409	2,199	2,413
FDIC insurance expense	345	300	870	750
Bank franchise tax expense	860	790	3,378	3,225
Data processing	2,443	1,695	4,829	3,347
Interchange related expense	1,098	1,071	2,105	2,129
Supplies	303	261	684	788
Other real estate owned expense	16	132	61	229
Legal and professional fees	728	596	1,771	1,348
Other	3,158	2,623	5,945	5,137
Total noninterest expense	40,632	35,734	83,677	74,673
INCOME BEFORE INCOME TAX EXPENSE	19,816	15,269	54,726	45,340
INCOME TAX EXPENSE	4,150	5,198	11,591	15,252
NET INCOME	\$ 15,666	\$ 10,071	\$ 43,135	\$ 30,088
BASIC EARNINGS PER SHARE:				
Class A Common Stock	\$ 0.75	\$ 0.48	\$ 2.08	\$ 1.45
Class B Common Stock	0.68	0.44	1.89	1.32
DILUTED EARNINGS PER SHARE:				
Class A Common Stock	\$ 0.74	\$ 0.48	\$ 2.06	\$ 1.45
Class B Common Stock	0.68	0.44	1.88	1.32
DIVIDENDS DECLARED PER COMMON SHARE:				
Class A Common Stock	\$ 0.242	\$ 0.220	\$ 0.484	\$ 0.429
Class B Common Stock	0.220	0.200	0.440	0.390

See accompanying footnotes to consolidated financial statements.



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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$ 15,666	\$ 10,071	\$ 43,135	\$ 30,088
OTHER COMPREHENSIVE INCOME				
Change in fair value of derivatives used for cash flow hedges	77	(104)	276	(76)
Reclassification amount for derivative losses realized in income	9	58	35	124
Change in unrealized (loss) gain on available-for-sale debt securities (2018), debt and equity securities (2017)	(546)	423	(2,663)	1,129
Adjustment for adoption of ASU 2016-01	—	—	(428)	—
Change in unrealized gain on available-for-sale debt security for which a portion of an other-than-temporary impairment has been recognized in earnings	(15)	101	(17)	154
Total other comprehensive (loss) income before income tax	(475)	478	(2,797)	1,331
Tax effect	99	(167)	588	(466)
Total other comprehensive (loss) income, net of tax	(376)	311	(2,209)	865
COMPREHENSIVE INCOME	\$ 15,290	\$ 10,382	\$ 40,926	\$ 30,953

See accompanying footnotes to consolidated financial statements.

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## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

SIX MONTHS ENDED JUNE 30, 2018

	Common Stock Class A Shares	Class B Shares		Additional Paid In	Retained	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
(in thousands)	Outstanding	Outstanding	Amount	Capital	Earnings		
Balance, January 1, 2018	18,607	2,243	\$ 4,902	\$ 139,406	\$ 487,700	\$ 416	\$ 632,424
Adjustment for adoption of ASU 2016-01	—	—	—	—	(35)	(338)	(373)
Balance, January 1, 2018, as adjusted	18,607	2,243	\$ 4,902	\$ 139,406	\$ 487,665	\$ 78	\$ 632,051
Net income	—	—	—	—	43,135	—	43,135
Net change in accumulated other comprehensive income	—	—	—	—	—	(1,871)	(1,871)
Dividends declared on Common Stock:							
Class A Shares	—	—	—	—	(9,035)	—	(9,035)
Class B Shares	—	—	—	—	(981)	—	(981)
Stock options exercised, net of shares redeemed	2	—	—	48	—	—	48
Conversion of Class B to Class A Common	28	(28)	—	—	—	—	—

Shares							
Net change in notes receivable on Class A Common Stock							
	—	—	—	69	—	—	69
Deferred director compensation - Class A Common Stock							
	5	—	1	102	—	—	103
Stock based compensation - Class A Common Stock Performance stock units							
	—	—	—	53	—	—	53
Restricted stock							
	35	—	—	318	—	—	318
Stock options							
	—	—	—	118	—	—	118
Balance, June 30, 2018							
	18,677	2,215	\$ 4,903	\$ 140,114	\$ 520,784	\$ (1,793)	\$ 664,008

See accompanying footnotes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six Months Ended June 30,	
	2018	2017
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 43,135	\$ 30,088
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization (accretion) on investment securities, net	(231)	208
Accretion on loans and amortization of core deposit intangible, net	(1,863)	(1,442)
Unrealized losses on equity securities with readily determinable fair value	135	—
Depreciation of premises and equipment	4,998	4,148
Amortization of mortgage servicing rights	731	714
Provision for loan and lease losses	22,187	17,412
Net gain on sale of mortgage loans held for sale	(1,862)	(2,256)
Origination of mortgage loans held for sale	(84,124)	(75,776)
Proceeds from sale of mortgage loans held for sale	79,094	83,637
Net gain on sale of consumer loans held for sale	(2,836)	(2,334)
Origination of consumer loans held for sale	(373,409)	(274,963)
Proceeds from sale of consumer loans held for sale	371,552	275,106
Net gain realized on sale of other real estate owned	(452)	(470)
Writedowns of other real estate owned	—	79
Impairment of premises held for sale	230	116
Deferred director compensation expense - Class A Common Stock	103	96
Stock based compensation expense - Class A Common Stock	489	655
Increase in cash surrender value of bank owned life insurance	(750)	(784)
Net change in other assets and liabilities:		
Accrued interest receivable	(476)	(219)
Accrued interest payable	(30)	(106)
Other assets	2,778	(3,076)
Other liabilities	3,574	3,330
Net cash provided by operating activities	62,973	54,163
<b>INVESTING ACTIVITIES:</b>		
Purchases of available-for-sale debt securities	(99,026)	(64,390)
Purchases of held-to-maturity debt securities	(4,934)	(10,096)
Proceeds from calls, maturities and paydowns of available-for-sale debt securities	204,811	82,224
Proceeds from calls, maturities and paydowns of held-to-maturity debt securities	2,400	1,792
Net change in outstanding warehouse lines of credit	(108,269)	(15,191)
Purchase of non-business-acquisition loans, including premiums paid	—	(2,656)
Net change in other loans	(89,503)	(98,899)
Purchase of Federal Home Loan Bank stock	—	(3,859)
Proceeds from sales of other real estate owned	751	1,954
Net purchases of premises and equipment	(6,108)	(5,650)

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Net cash used in investing activities	(99,878)	(114,771)
<b>FINANCING ACTIVITIES:</b>		
Net change in deposits	40,211	(26,754)
Net change in securities sold under agreements to repurchase and other short-term borrowings	(28,730)	(60,139)
Payments of Federal Home Loan Bank advances	(377,500)	(450,000)
Proceeds from Federal Home Loan Bank advances	500,000	650,000
Repurchase of Class A Common Stock	—	(544)
Net proceeds from Class A Common Stock options exercised	48	33
Cash dividends paid	(9,519)	(8,602)
Net cash used in financing activities	124,510	103,994
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>87,605</b>	<b>43,386</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>299,351</b>	<b>289,309</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 386,956</b>	<b>\$ 332,695</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest	\$ 13,470	\$ 9,235
Income taxes	8,177	13,420
<b>SUPPLEMENTAL NONCASH DISCLOSURES:</b>		
Transfers from loans to real estate acquired in settlement of loans	\$ 184	\$ 472
Transfers from loans held for sale to held for investment	2,237	—

See accompanying footnotes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2018 and 2017 AND DECEMBER 31, 2017 (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”). All significant intercompany balances and transactions are eliminated in consolidation. All companies are collectively referred to as (“Republic” or the “Company”).

The Bank is a Kentucky-based, state-chartered non-member financial institution that provides both traditional and non-traditional banking products through five reportable segments using a multitude of delivery channels. While the Bank operates primarily in its market footprint, its non-brick-and-mortar delivery channels allow it to reach clients across the United States.

The Captive is a Nevada-based, wholly-owned insurance subsidiary of the Company. The Captive provides property and casualty insurance coverage to the Company and the Bank as well as a group of 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.

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 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, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. 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, 2017.

As of June 30, 2018, the Company was divided into five reportable segments: Traditional Banking, Warehouse Lending (“Warehouse”), Mortgage Banking, Tax Refund Solutions (“TRS”), and Republic Credit Solutions (“RCS”). Management considers the first three segments to collectively constitute “Core Bank” or “Core Banking” operations, while the last two segments collectively constitute Republic Processing Group (“RPG”) operations. The Bank’s Correspondent

Lending channel and the Company's national branchless banking platform, MemoryBank®, are considered part of the Traditional Banking segment.

Prior to the third quarter of 2017, management reported RPG as a segment consisting of its largest division, TRS, along with its relatively smaller divisions, Republic Payment Solutions ("RPS"), and RCS. During the third quarter of 2017, due to RCS's growth in revenues relative to the total Company's revenues, management identified TRS and RCS as separate reportable segments under the newly classified RPG operations. Also, as part of the updated segmentation, management is reporting the RPS division, which remained below thresholds to be classified a separate reportable segment, within the newly classified TRS segment. The reportable segments within RPG operations and the divisions within those segments operate through the Bank. The Company has reclassified all prior periods to conform to the current presentation.

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Core Bank

Traditional Banking segment — The Traditional Banking segment provides traditional banking products primarily to customers in the Company’s market footprint. As of June 30, 2018, Republic had 45 full-service banking centers and one loan production office (“LPO”) with locations as follows:

Kentucky — 32

Metropolitan Louisville — 18

Central Kentucky — 9

Elizabethtown — 1

Frankfort — 1

Georgetown — 1

Lexington — 5

Shelbyville — 1

Western Kentucky — 2

Owensboro — 2

Northern Kentucky — 3

Covington — 1

Crestview Hills — 1

Florence — 1

Southern Indiana — 3

Floyds Knobs — 1

Jeffersonville — 1

New Albany — 1

Metropolitan Tampa, Florida — 7

Metropolitan Cincinnati, Ohio — 1



\*Includes one LPO

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

Traditional 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 Traditional 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 Traditional Banking income include service charges on deposit accounts, debit and credit card interchange fee income, title insurance commissions, and increases in the cash surrender value of Bank Owned Life Insurance ("BOLI").

Traditional 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. Traditional 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.

Primarily from its Warehouse clients, the Bank may occasionally acquire for investment through its Correspondent Lending channel single family, first lien mortgage loans that meet the Bank's specifications. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium. The volume of loans purchased through the Correspondent Lending channel may fluctuate from time to time based on several factors, including, but not limited to, borrower demand, other investment options and the Bank's current and forecasted liquidity position.

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Warehouse Lending segment — Through its Warehouse Lending segment, the Core Bank provides short-term, revolving credit facilities to mortgage bankers across the United States through mortgage warehouse lines of credit. These credit facilities are primarily 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. Reverse mortgage loans typically remain on the line longer than conventional mortgage loans. 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 Core 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.

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 originated and sold into the secondary market, primarily to the Federal Home Loan Mortgage Corporation (“FHLMC” or “Freddie Mac”) and the Federal National Mortgage Association (“FNMA” or “Fannie Mae”). The Bank typically retains servicing on loans sold into the secondary market. 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. The Bank receives fees for performing these standard servicing functions.

## Republic Processing Group

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

Refund Transfers (“RTs”) are fee-based 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 by the Company on RTs, net of revenue share, are reported as noninterest income under the line item “Net refund transfer fees.”

The Easy Advance (“EA”) tax credit product is a loan that allows a taxpayer to receive an advance of a portion of their refund, with the taxpayer’s Tax Provider paying all fees to RB&T for the advance. First offered by TRS in 2016, the EA has the following features:

- Offered only during the first two months of each year;
- No EA fee is charged to the taxpayer customer;
- All fees for the EA are 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 pays for another bank product, such as an RT;
-

- Multiple funds disbursement methods, including direct deposit, prepaid card, check, or Walmart Direct2Cash®, based on the taxpayer-customer's election;
- Repayment of the EA to the Bank is deducted from the taxpayer customer's tax refund proceeds; and
    - If an insufficient refund to repay the EA occurs:
      - o there is 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 are generally repaid within three weeks after the taxpayer customer's tax return is submitted to the applicable taxing authority. EAs do not have a contractual due date but the Company considers an EA delinquent if it remains unpaid three weeks after the taxpayer customer's tax return is submitted to the applicable taxing authority. Provisions for loan losses on EAs are estimated when advances are made, with provisions for all probable EA losses made in the first quarter of each year. Unpaid EAs are charged-off within 111 days after the taxpayer customer's tax return is submitted to the applicable taxing authority, with the majority of charge-offs typically recorded during the second quarter of the year.

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Related to the overall credit losses on EAs, the Bank's ability to control losses is highly dependent upon its ability to predict the taxpayer's likelihood to receive the tax refund as claimed on the taxpayer's tax return. Each year, the Bank's EA approval model is based primarily on the prior-year's tax refund funding patterns. Because much of the EA volume occurs each year before that year's tax refund funding patterns can be analyzed and subsequent underwriting changes made, credit losses during a current year could be higher than management's predictions if tax refund funding patterns change materially between years.

Republic Payment Solutions division — RPS is managed and operated within the TRS segment. The RPS division is an issuing bank offering general-purpose reloadable prepaid cards through third-party service providers. 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 TRS segment. The RPS division will not be considered a separate reportable segment until such time, if any, that it meets quantitative reporting thresholds.

The Company reports fees related to RPS programs under 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 segment — Through the RCS segment, the Bank offers 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. RCS loans typically earn a higher yield but also have higher credit risk compared to loans originated through the Traditional Banking segment, with a significant portion of RCS clients considered subprime or near-prime borrowers. Additional information regarding consumer loan products offered through RCS follows:

- Line-of-credit product – The Bank originates a line-of-credit product to generally subprime borrowers across the United States through one third-party service provider. RCS sells 90% of the balances generated within two business days of loan origination to its third-party service provider and retains the remaining 10% interest. The line-of-credit product represents the substantial majority of RCS activity. Loan balances held for sale are carried at the lower of cost or fair value.
- Credit card product – From the fourth quarter of 2015 through the first quarter of 2018, the Bank continued to pilot a credit card product to generally subprime borrowers across the United States through one third-party marketer/servicer. For outstanding cards, RCS sells 90% of the balances generated within two business days of each transaction occurrence to its third-party marketer/servicer and retains the remaining 10% interest. Loan balances held for sale are carried at the lower of cost or fair value. During the second quarter of 2018, the Bank and its third-party marketer/servicer discontinued the marketing of this product to potential new clients, as the parties strategically wind down the product.

- Healthcare receivables product – The Bank originates a healthcare-receivables product across the United States through two different third-party service providers. For one third-party service provider the Bank retains 100% of the receivables originated. For the other third-party service provider, the Bank retains 100% of the receivables originated in some instances, and in other instances, sells 100% of the receivables within one month of origination. Loan balances held for sale are carried at the lower of cost or fair value.
- Installment loan product – From the first quarter of 2016 through the first quarter of 2018, the Bank continued to pilot a consumer installment-loan product across the United States using a third-party marketer/service. As part of the program, the Bank sold 100% of the balances generated through the program back to the third-party marketer/servicer approximately 21 days after origination. The Bank carried all unsold loans under the program as “held for sale” on the its balance sheet. At the initiation of this program in 2016, the Bank elected to carry these loans at fair value under a fair-value option, with the portfolio thereafter marked to market monthly.

During the second quarter of 2018, the Bank and its third-party marketer/service provider suspended the origination of any new loans, and the subsequent sale of all recently-originated loans under this program, while the two parties evaluate the future offering of this product due to changes in the applicable state law impacting the product. Concurrent with the suspension of this program, the Bank reclassified approximately \$2.2 million of these loans from “held for sale” on the balance sheet to “held for investment” and recorded a \$427,000 charge to its mark-to-market fair value adjustment for these loans.

The Company reports interest income and loan origination fees earned on RCS loans under “Loans, including fees,” while any gains or losses on sale and mark-to-market adjustments of RCS loans are reported as noninterest income under “Program fees.”

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## Accounting Standards Updates (“ASUs”)

The following ASUs were issued prior to June 30, 2018 and are considered relevant to the Company’s financial statements. Generally, if an issued-but-not-yet-effective ASU with an expected immaterial impact to the Company has been disclosed in prior Company financial statements, it will not be re-disclosed below.

ASU. No.	Topic	Nature of Update	Date Adoption Required	Permitted Adoption Methods	Expected Financial Statement Impact
2016-02	Leases (Topic 842)	Most leases are considered operating leases, which are not accounted for on the lessees’ balance sheets. The significant change under this ASU is that those operating leases will be recorded on the balance sheet.	January 1, 2019	Modified-retrospective approach, which includes a number of optional practical expedients.	During 2018, the Company completed another iteration of a pro forma impact analysis on the Company’s financial statements of implementing this standard. Based on this analysis, the Company believes approximately \$28 million of leases will be placed on its balance sheet, with this amount increasing both total assets and total liabilities. Additionally, the Company’s analysis reflected that this ASU would have minimal impact on the Company’s performance metrics, including regulatory capital ratios and return on average assets. From a client perspective, the Company is currently reviewing the impact of this ASU on any debt covenants.
2016-13	Financial Instruments – Credit Losses (Topic 326)	Amends guidance on reporting credit losses for assets held at	January 1, 2020	Modified-retrospective approach.	As a result of this ASU, the Company expects an increase in its allowance for credit losses. A

amortized-cost  
basis and  
available-for-sale  
debt securities.

committee formed by the Company to oversee its transition to a current expected credit losses (“CECL”) methodology has analyzed the Company’s loan-level data and preliminarily concluded that no additional loan level segmentation beyond its current methodology segmentation would be warranted under CECL. The Company is also currently performing iterations of its allowance calculation under a “beta” CECL model provided by the same third-party software solution currently-employed to calculate the Company's allowance for loan and lease losses.

2018-07	Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting	This ASU aligns the accounting for share-based payments to nonemployees with that of employees by expanding the scope of Topic 718.	January 1, 2019	Modified-retrospective or prospective approach, depending on circumstances. Early adoption permitted	Immaterial.
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The following ASUs were adopted by the Company during the six months ended June 30, 2018:

ASU. No.	Topic	Nature of Update	Date Adopted	Method of Adoption	Financial Statement Impact
2014-09	Revenue from Contracts with Customers (Topic 606)	Requires that revenue from contracts with clients be recognized upon transfer of control of a good or service in the amount of consideration expected to be received. Changes the accounting for certain contract costs, including whether they may be offset against revenue in the statements of income, and requires additional disclosures about revenue and contract costs.	January 1, 2018	Retrospective transition.	Because most financial instruments are not subject to this ASU, a substantial portion of the Company's revenue was not impacted by this standard. Furthermore, this new standard did not have a material impact on the timing of revenue recognition for any of the Company's revenue for 2018 nor is it expected to going forward. Additionally, the Company took the following actions in association with the adoption of this ASU: 1) amended its accounting policies and procedures to assure proper revenue recognition in conformity with this ASU; and 2) updated its revenue-recognition financial statement disclosures (see footnote 16 in this section of the filing).
2016-01	Financial Instruments – Overall (Topic 825-10)	Among other things: Requires equity investments (except those accounted for under the equity method of accounting, or those	January 1, 2018	Modified-retrospective approach.	The Company has updated its policies, procedures, and financial statement presentation and disclosures for this ASU. As provided by



that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost.

this ASU, the Company now reports its financial instruments at exit price (see footnote 9 in this section of the filing) and recognizes changes in the fair value of applicable equity investments in net income (see footnote 2 in this section of the filing).

2016-15	Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments	This ASU provides cash flow statement classification guidance on eight reportable topics.	January 1, 2018	Retrospective transition.	Immaterial.
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2016-18	Statement of Cash Flows (Topic 230)	Requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents.	January 1, 2018	Retrospective transition.	Immaterial.
2017-09	Compensation - Stock Compensation (Topic 718)	The amendments provide guidance on determining which changes to the terms and conditions of share-based payment awards require the Company to apply modification accounting under Topic 718.	January 1, 2018	Prospectively.	Immaterial.
2018-05	Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to	This ASU updates the Financial Accounting Standards Board ("FASB") Accounting	Upon addition to the ASC	Not Applicable.	For the Company's financial statement disclosures in accordance with SAB 118, see footnote 19 of the Company's Annual

SEC Staff  
Accounting  
Bulletin No.  
118 ("SAB  
118")

Standards  
Codification  
("ASC") for  
guidance issued by  
the SEC in SAB  
118. Among other  
things, SAB 118  
allows companies a  
one-year  
measurement period  
to complete their  
accounting for the  
impact of the 2017  
Tax Cuts and Jobs  
Act.

Report on Form 10-K  
for the year ended  
December 31, 2017 and  
footnote 14 in this  
section of the filing.

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## 2. INVESTMENT SECURITIES

## Available-for-Sale Debt Securities

The following tables present the gross amortized cost and fair value of available-for-sale debt securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (“AOCI”):

June 30, 2018 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 228,333	\$ 7	\$ (2,403)	\$ 225,937
Private label mortgage backed security	2,559	1,367	—	3,926
Mortgage backed securities - residential	93,710	1,102	(1,742)	93,070
Collateralized mortgage obligations	80,427	257	(1,801)	78,883
Corporate bonds	10,000	87	—	10,087
Trust preferred security	3,513	637	—	4,150
Total available-for-sale debt securities	\$ 418,542	\$ 3,457	\$ (5,946)	\$ 416,053

December 31, 2017 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 309,042	\$ 1	\$ (1,451)	\$ 307,592
Private label mortgage backed security	3,065	1,384	—	4,449
Mortgage backed securities - residential	105,644	1,603	(873)	106,374
Collateralized mortgage obligations	87,867	371	(1,075)	87,163
Corporate bonds	15,001	124	—	15,125
Trust preferred security	3,493	107	—	3,600
Total available-for-sale debt securities	\$ 524,112	\$ 3,590	\$ (3,399)	\$ 524,303

## Held-to-Maturity Debt Securities

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The following tables present the carrying value, gross unrecognized gains and losses, and fair value of held-to-maturity debt securities:

June 30, 2018 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities - residential	\$ 148	\$ 9	\$ —	\$ 157
Collateralized mortgage obligations	21,066	216	(31)	21,251
Corporate bonds	45,099	577	(23)	45,653
Obligations of state and political subdivisions	463	—	(11)	452
Total held-to-maturity debt securities	\$ 66,776	\$ 802	\$ (65)	\$ 67,513

December 31, 2017 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities - residential	\$ 151	\$ 10	\$ —	\$ 161
Collateralized mortgage obligations	23,437	236	(17)	23,656
Corporate bonds	40,175	686	(3)	40,858
Obligations of state and political subdivisions	464	—	(6)	458
Total held-to-maturity debt securities	\$ 64,227	\$ 932	\$ (26)	\$ 65,133

At June 30, 2018 and December 31, 2017, there were no holdings of debt securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of stockholders' equity.

#### Sales of Available-for-Sale Debt Securities

During the three and six months ended June 30, 2018 and 2017, there were no gains or losses on sales or calls of available-for-sale debt securities.

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## Debt Securities by Contractual Maturity

The amortized cost and fair value of debt securities by contractual maturity at June 30, 2018 follow. 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, 2018 (in thousands)	Available-for-Sale Debt Securities		Held-to-Maturity Debt Securities	
	Amortized Cost	Fair Value	Carrying Value	Fair Value
Due in one year or less	\$ 60,052	\$ 59,807	\$ —	\$ —
Due from one year to five years	178,281	176,217	10,439	10,519
Due from five years to ten years	—	—	35,123	35,586
Due beyond ten years	3,513	4,150	—	—
Private label mortgage backed security	2,559	3,926	—	—
Mortgage backed securities - residential	93,710	93,070	148	157
Collateralized mortgage obligations	80,427	78,883	21,066	21,251
Total debt securities	\$ 418,542	\$ 416,053	\$ 66,776	\$ 67,513

## Corporate Bonds

The Bank's floating rate 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 11% and 9% of the Bank's investment portfolio as of June 30, 2018 and December 31, 2017.

## Mortgage Backed Securities and Collateralized Mortgage Obligations

At June 30, 2018, with the exception of the \$3.9 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 Fannie Mae. At June 30, 2018 and December 31, 2017, there were gross unrealized losses of \$3.5 million and \$1.9 million related to available for sale mortgage backed securities and CMOs. Because these unrealized losses are attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to have other-than-temporary impairment ("OTTI").

### Trust Preferred Security

During 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 London Interbank Borrowing Rate (“LIBOR”) rate plus 159 basis points. The Company performed an initial analysis prior to acquisition and performs ongoing analysis of the credit risk of the underlying borrower in relation to its TRUP.

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## Unrealized-Loss Analysis on Debt Securities

Debt securities with unrealized losses at June 30, 2018 and December 31, 2017, aggregated by investment category and length of time that individual debt securities have been in a continuous unrealized loss position, were as follows:

June 30, 2018 (in thousands)	Less than 12 months		12 months or more		Total	Unrealized
	Unrealized		Unrealized			
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Available-for-sale debt securities:						
U.S. Treasury securities and U.S. Government agencies	\$ 98,406	\$ (1,314)	\$ 108,440	\$ (1,089)	\$ 206,846	\$ (2,403)
Mortgage backed securities - residential	55,760	(1,392)	8,261	(350)	64,021	(1,742)
Collateralized mortgage obligations	28,632	(1,122)	22,422	(679)	51,054	(1,801)
Total available-for-sale debt securities	\$ 182,798	\$ (3,828)	\$ 139,123	\$ (2,118)	\$ 321,921	\$ (5,946)

December 31, 2017 (in thousands)	Less than 12 months		12 months or more		Total	Unrealized
	Unrealized		Unrealized			
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Available-for-sale debt securities:						
U.S. Treasury securities and U.S. Government agencies	\$ 209,165	\$ (499)	\$ 88,415	\$ (952)	\$ 297,580	\$ (1,451)
Mortgage backed securities - residential	61,348	(617)	10,192	(256)	71,540	(873)
Collateralized mortgage obligations	30,963	(642)	18,603	(433)	49,566	(1,075)
Total available-for-sale debt securities	\$ 301,476	\$ (1,758)	\$ 117,210	\$ (1,641)	\$ 418,686	\$ (3,399)



	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2018 (in thousands)						
Held-to-maturity debt securities:						
Collateralized mortgage obligations	\$ 5,852	\$ (31)	\$ —	\$ —	\$ 5,852	\$ (31)
Corporate bonds	4,913	(23)	—	—	4,913	(23)
Obligations of state and political subdivisions	104	(1)	347	(10)	451	(11)
Total held-to-maturity debt securities:	\$ 10,869	\$ (55)	\$ 347	\$ (10)	\$ 11,216	\$ (65)

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2017 (in thousands)						
Held-to-maturity debt securities:						
Collateralized mortgage obligations	\$ —	\$ —	\$ 6,390	\$ (17)	\$ 6,390	\$ (17)
Corporate bonds	4,997	(3)	—	—	4,997	(3)
Obligations of state and political subdivisions	458	(6)	—	—	458	(6)
Total held-to-maturity debt securities:	\$ 5,455	\$ (9)	\$ 6,390	\$ (17)	\$ 11,845	\$ (26)

At June 30, 2018, the Bank's security portfolio consisted of 184 securities, 63 of which were in an unrealized loss position.

At December 31, 2017, the Bank's security portfolio consisted of 185 securities, 58 of which were in an unrealized loss position.



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### Other-than-temporary impairment

Unrealized losses for all debt securities are reviewed to determine whether the losses are “other-than-temporary.” Debt 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 \$3.9 million at June 30, 2018. This security 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 Measurement. 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 9 “Fair Value” in this section of the filing.

## Pledged Debt Securities

The following table presents debt securities pledged to secure public deposits, securities sold under agreements to repurchase and debt securities held for other purposes, as required or permitted by law:

(in thousands)	June 30, 2018	December 31, 2017
Carrying amount	\$ 262,312	\$ 262,679
Fair value	262,431	262,902

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## Equity Securities

On January 1, 2018, the Company adopted ASU 2016-01, Financial Instruments. Among other things, ASU 2016-01 requires the Company recognize changes in the fair value of equity investments with a readily determinable fair value in net income unless those investments are accounted for under the equity method of accounting.

The following tables present the carrying value, gross unrealized gains and losses, and fair value of equity securities with readily determinable fair values:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2018 (in thousands)				
Freddie Mac preferred stock	\$ —	\$ 389	\$ —	\$ 389
Community Reinvestment Act mutual fund	2,500	—	(96)	2,404
Total equity securities with readily determinable fair values	\$ 2,500	\$ 389	\$ (96)	\$ 2,793

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017 (in thousands)				
Freddie Mac preferred stock	\$ —	\$ 473	\$ —	\$ 473
Community Reinvestment Act mutual fund	2,500	—	(45)	2,455
Total equity securities with readily determinable fair values	\$ 2,500	\$ 473	\$ (45)	\$ 2,928

For equity securities with readily determinable fair values, the gross realized and unrealized gains and losses recognized in the Company's consolidated statements of income were as follows:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Gains (Losses)			Gains (Losses) Recognized		
	Recognized on Equity Securities			on Equity Securities		
(in thousands)	Realized	Unrealized	Total	Realized	Unrealized	Total

Freddie Mac preferred stock	\$ —	\$ 60	\$ 60	\$ —	\$ (84)	\$ (84)
Community Reinvestment Act mutual fund	—	(14)	(14)	—	(51)	(51)
Total equity securities with readily determinable fair value	\$ —	\$ 46	\$ 46	\$ —	\$ (135)	\$ (135)

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3. LOANS HELD FOR SALE

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

Mortgage Loans Held for Sale, at Fair Value

See additional detail regarding mortgage loans originated for sale, at fair value under Footnote 10 "Mortgage Banking Activities" of this section of the filing.

Consumer Loans Held for Sale, at Fair Value

From the first quarter of 2016 through the first quarter of 2018, the Bank continued to pilot a consumer installment-loan product across the United States using a third-party marketer/service. As part of the program, the Bank sold 100% of the balances generated through the program back to the third-party marketer/servicer approximately 21 days after origination. The Bank carried all unsold loans under the program as "held for sale" on the its balance sheet. At the initiation of this program in 2016, the Bank elected to carry these loans at fair value under a fair-value option, with the portfolio thereafter marked to market monthly.

During the second quarter of 2018, the Bank and its third-party marketer/service provider suspended the origination of any new loans, and the subsequent sale of all recently-originated loans under this program, while the two parties evaluate the future offering of this product due to changes in the applicable state law impacting the product. Concurrent with the suspension of this program, the Bank reclassified approximately \$2.2 million of these loans from "held for sale" on the balance sheet to "held for investment" and recorded a \$427,000 charge to its mark-to-market fair value adjustment for these loans.

The following is a rollforward of consumer loans held for sale and carried at fair value:

(in thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017

Balance, beginning of period	\$ 2,419	\$ 3,679	\$ 2,677	\$ 2,198
Origination of consumer loans held for sale	6,546	19,542	16,985	31,781
Loans transferred to held for investment	(2,237)	—	(2,237)	—
Proceeds from the sale of consumer loans held for sale	(6,263)	(20,089)	(17,023)	(30,872)
Net gain (loss) recognized on consumer loans held for sale	(465)	103	(402)	128
Balance, end of period	\$ —	\$ 3,235	\$ —	\$ 3,235

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

RCS originates for sale its 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 line-of-credit product represents the substantial majority of activity in consumer loans held for sale carried at the lower of cost or fair value. Gains or losses on the sale of RCS products are reported as a component of “Program fees.”

The following is a rollforward of consumer loans held for sale and carried at the lower of cost or market value:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Balance, beginning of period	\$ 7,380	\$ 1,420	\$ 8,551	\$ 1,310
Origination of consumer loans held for sale	198,903	128,496	356,424	243,182
Proceeds from the sale of consumer loans held for sale	(194,263)	(128,576)	(354,529)	(244,234)
Net gain on sale of consumer loans held for sale	1,664	1,124	3,238	2,206
Balance, end of period	\$ 13,684	\$ 2,464	\$ 13,684	\$ 2,464



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

The following table presents ending loan balances at June 30, 2018 and December 31, 2017:

(in thousands)	June 30, 2018	December 31, 2017
Traditional Banking:		
Residential real estate:		
Owner occupied	\$ 919,433	\$ 921,565
Owner occupied - correspondent*	105,170	116,792
Nonowner occupied	220,943	205,081
Commercial real estate	1,235,427	1,207,293
Construction & land development	163,080	150,065
Commercial & industrial	369,189	341,692
Lease financing receivables	15,238	16,580
Home equity	336,694	347,655
Consumer:		
Credit cards	17,778	16,078
Overdrafts	878	974
Automobile loans	62,143	65,650
Other consumer	31,453	20,501
Total Traditional Banking	3,477,426	3,409,926
Warehouse lines of credit*	633,841	525,572
Total Core Banking	4,111,267	3,935,498
Republic Processing Group*:		
Tax Refund Solutions:		
Easy Advances	—	—
Other TRS loans	101	11,648
Republic Credit Solutions	84,616	66,888
Total Republic Processing Group	84,717	78,536
Total loans**	4,195,984	4,014,034
Allowance for loan and lease losses	(45,047)	(42,769)
Total loans, net	\$ 4,150,937	\$ 3,971,265

\*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, 2018 and December 31, 2017:

(in thousands)	June 30, 2018	December 31, 2017
Contractually receivable	\$ 4,195,579	\$ 4,014,673
Unearned income(1)	(1,132)	(1,157)
Unamortized premiums(2)	799	1,069
Unaccreted discounts(3)	(3,673)	(4,643)
Net unamortized deferred origination fees and costs(4)	4,411	4,092
Carrying value of loans	\$ 4,195,984	\$ 4,014,034

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

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

The following table reconciles the contractually required and carrying amounts of all PCI loans at June 30, 2018 and December 31, 2017:

(in thousands)	June 30, 2018	December 31, 2017
Contractually required principal	\$ 4,897	\$ 5,435
Non-accretable amount	(1,614)	(1,691)
Accretable amount	(100)	(140)
Carrying value of loans	\$ 3,183	\$ 3,604

The following table presents a rollforward of the accretable amount on all PCI loans for the three and six months ended June 30, 2018 and 2017:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Balance, beginning of period	\$ (140)	\$ (3,409)	\$ (140)	\$ (3,600)
Transfers between non-accretable and accretable*	(241)	(15)	(241)	75
Net accretion into interest income on loans, including loan fees	281	91	281	192
Balance, end of period	\$ (100)	\$ (3,333)	\$ (100)	\$ (3,333)

\*Transfers are primarily attributable to changes in estimated cash flows of the underlying loans.

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## Credit Quality Indicators

The following tables present loans by risk category based on the Bank's internal analyses performed as of June 30, 2018 and December 31, 2017. Risk categories are defined in the Company's Annual Report on Form 10-K for the year ended December 31, 2017:

June 30, 2018 (in thousands)	Pass	Special Mention	Substandard	Doubtful Loss	PCI /Loans - Group 1	PCI Loans - Substandard	Total Rated Loans*
Traditional Banking:							
Residential real estate:							
Owner occupied	\$ —	\$ 15,670	\$ 13,693	\$ —	\$ 175	\$ 1,565	\$ 31,103
Owner occupied - correspondent	—	—	389	—	—	—	389
Nonowner occupied	—	620	2,155	—	—	—	2,775
Commercial real estate	1,223,607	5,462	5,054	—	1,304	—	1,235,427
Construction & land development	162,952	—	128	—	—	—	163,080
Commercial & industrial	368,370	15	783	—	21	—	369,189
Lease financing receivables	15,238	—	—	—	—	—	15,238
Home equity	—	—	1,741	—	5	110	1,856
Consumer:							
Credit cards	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—
Automobile loans	—	—	190	—	—	—	190
Other consumer	—	—	508	—	—	3	511
Total Traditional Banking	1,770,167	21,767	24,641	—	1,505	1,678	1,819,758
Warehouse lines of credit	633,841	—	—	—	—	—	633,841
Total Core Banking	2,404,008	21,767	24,641	—	1,505	1,678	2,453,599
Republic Processing Group:							
Tax Refund Solutions:							
Easy Advances	—	—	—	—	—	—	—
Other TRS loans	—	—	—	—	—	—	—
Republic Credit Solutions	—	—	886	—	—	—	886
Total Republic Processing Group	—	—	886	—	—	—	886
Total rated loans	\$ 2,404,008	\$ 21,767	\$ 25,527	\$ —	\$ 1,505	\$ 1,678	\$ 2,454,485

December 31, 2017 (in thousands)	Pass	Special Mention	Substandard	Doubtful Loss	PCI /Loans - Group 1	PCI Loans - Substandard	Total Rated Loans*
Traditional Banking:							
Residential real estate:							
Owner occupied	\$ —	\$ 18,054	\$ 12,056	\$ —	\$ 180	\$ 1,658	\$ 31,948
Owner occupied - correspondent	—	—	—	—	—	—	—
Nonowner occupied	—	635	1,240	—	248	—	2,123
Commercial real estate	1,197,299	4,824	3,798	—	1,372	—	1,207,293
Construction & land development	149,332	—	733	—	—	—	150,065
Commercial & industrial	341,377	267	21	—	27	—	341,692
Lease financing receivables	16,580	—	—	—	—	—	16,580
Home equity	—	33	1,609	—	6	110	1,758
Consumer:							
Credit cards	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—
Automobile loans	—	—	108	—	—	—	108
Other consumer	—	—	571	—	—	3	574
Total Traditional Banking	1,704,588	23,813	20,136	—	1,833	1,771	1,752,141
Warehouse lines of credit	525,572	—	—	—	—	—	525,572
Total Core Banking	2,230,160	23,813	20,136	—	1,833	1,771	2,277,713
Republic Processing Group:							
Tax Refund Solutions:							
Easy Advances	—	—	—	—	—	—	—
Other TRS loans	11,648	—	—	—	—	—	11,648
Republic Credit Solutions	—	—	1,066	—	—	—	1,066
Total Republic Processing Group	11,648	—	1,066	—	—	—	12,714
Total rated loans	\$ 2,241,808	\$ 23,813	\$ 21,202	\$ —	\$ 1,833	\$ 1,771	\$ 2,290,427

\*The above tables exclude all non-classified residential real estate, home equity and consumer loans at the respective period ends.

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## Allowance for Loan and Lease Losses

The following table presents the activity in the Allowance by portfolio class:

(in thousands)	Allowance Rollforward Three Months Ended June 30, 2018					2017				
	Beginning Balance	Provision	Charge- offs	Recoveries	Ending Balance	Beginning Balance	Provision	Charge- offs	Recoveries	Ending Balance
Traditional Banking:										
Residential real estate:										
Owner occupied	\$ 5,988	\$ (116)	\$ (15)	\$ 178	\$ 6,035	\$ 7,071	\$ (288)	\$ (108)	\$ 65	\$ 6,740
Owner occupied - correspondent	278	(15)	—	—	263	353	(29)	—	—	324
Nonowner occupied	1,461	93	(7)	5	1,552	1,198	42	(3)	—	1,237
Commercial real estate	9,460	352	—	3	9,815	7,898	449	—	21	8,368
Construction & land development	2,720	80	—	25	2,825	2,233	274	—	1	2,508
Commercial & industrial	2,247	84	(17)	4	2,318	1,488	193	—	1	1,682
Lease financing receivables	165	(5)	—	—	160	145	6	—	—	151
Home equity	3,669	(180)	(34)	203	3,658	3,831	(21)	(91)	68	3,788
Consumer:										
Credit cards	756	124	(95)	20	805	506	93	(21)	10	588
Overdrafts	791	296	(270)	61	878	641	337	(227)	55	806
Automobile loans	706	(39)	(4)	1	664	563	84	(7)	—	640
Other consumer	990	(151)	(136)	73	776	825	321	(306)	78	918
Total Traditional Banking	29,231	523	(578)	573	29,749	26,752	1,461	(763)	299	27,749
Warehouse lines of credit	1,335	250	—	—	1,585	1,238	264	—	—	1,502

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Total Core Banking	30,566	773	(578)	573	31,334	27,990	1,725	(763)	299	29,2
Republic Processing Group:										
Tax Refund Solutions:										
Easy Advances	9,572	(881)	(8,773)	82	—	7,741	(721)	(7,261)	241	—
Other TRS loans	125	(7)	(55)	4	67	—	(17)	—	17	—
Republic Credit Solutions	12,078	5,047	(3,769)	290	13,646	6,631	4,074	(2,251)	193	8,64
Total Republic Processing Group	21,775	4,159	(12,597)	376	13,713	14,372	3,336	(9,512)	451	8,64
Total	\$ 52,341	\$ 4,932	\$ (13,175)	\$ 949	\$ 45,047	\$ 42,362	\$ 5,061	\$ (10,275)	\$ 750	\$ 37,8

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(in thousands)	Allowance Rollforward Six Months Ended June 30, 2018					2017				
	Beginning Balance	Provision	Charge- offs	Recoveries	Ending Balance	Beginning Balance	Provision	Charge- offs	Recoveries	Ending Balance
Traditional Banking:										
Residential real estate:										
Owner occupied	\$ 6,182	\$ (307)	\$ (39)	\$ 199	\$ 6,035	\$ 7,158	\$ (431)	\$ (111)	\$ 124	\$ 6,641
Owner occupied - correspondent	292	(29)	—	—	263	373	(49)	—	—	324
Nonowner occupied	1,396	449	(319)	26	1,552	1,139	112	(14)	—	1,537
Commercial real estate	9,043	644	—	128	9,815	8,078	252	—	38	8,368
Construction & land development	2,364	434	—	27	2,825	1,850	657	—	1	2,508
Commercial & industrial	2,198	210	(125)	35	2,318	1,511	149	—	22	1,692
Lease financing receivables	174	(14)	—	—	160	136	15	—	—	151
Home equity	3,754	(291)	(34)	229	3,658	3,757	48	(95)	77	3,787
Consumer:										
Credit cards	607	359	(188)	27	805	490	131	(48)	15	577
Overdrafts	974	313	(559)	150	878	675	420	(411)	122	814
Automobile loans	687	(20)	(4)	1	664	526	120	(7)	1	600
Other consumer	1,162	(286)	(256)	156	776	771	504	(536)	179	718
Total Traditional Banking	28,833	1,462	(1,524)	978	29,749	26,464	1,928	(1,222)	579	27,329
Warehouse lines of credit	1,314	271	—	—	1,585	1,464	38	—	—	1,542
Total Core Banking	30,147	1,733	(1,524)	978	31,334	27,928	1,966	(1,222)	579	28,873
Republic Processing Group:										



Tax Refund Solutions:									
Easy Advances	—	12,396	(12,478)	82	—	—	7,880	(8,121)	241
Other TRS loans	12	105	(55)	5	67	25	(277)	—	252
Republic Credit Solutions	12,610	7,953	(7,465)	548	13,646	4,967	7,843	(4,536)	373
Total Republic Processing Group	12,622	20,454	(19,998)	635	13,713	4,992	15,446	(12,657)	866
Total	\$ 42,769	\$ 22,187	\$ (21,522)	\$ 1,613	\$ 45,047	\$ 32,920	\$ 17,412	\$ (13,879)	\$ 1,445

#### Nonperforming Loans and Nonperforming Assets

Detail of nonperforming loans, nonperforming assets and select credit quality ratios follows:

(dollars in thousands)	June 30, 2018	December 31, 2017
Loans on nonaccrual status*	\$ 17,502	\$ 14,118
Loans past due 90-days-or-more and still on accrual**	858	956
Total nonperforming loans	18,360	15,074
Other real estate owned	—	115
Total nonperforming assets	\$ 18,360	\$ 15,189

#### Credit Quality Ratios - Total Company:

Nonperforming loans to total loans	0.44	%	0.38	%
Nonperforming assets to total loans (including OREO)	0.44		0.38	
Nonperforming assets to total assets	0.35		0.30	

#### Credit Quality Ratios - Core Bank:

Nonperforming loans to total loans	0.43	%	0.36	%
Nonperforming assets to total loans (including OREO)	0.43		0.36	
Nonperforming assets to total assets	0.34		0.28	

\*Loans on nonaccrual status include impaired loans.

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

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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, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Traditional Banking:				
Residential real estate:				
Owner occupied	\$ 10,238	\$ 9,230	\$ —	\$ —
Owner occupied - correspondent	389	—	—	—
Nonowner occupied	730	257	—	—
Commercial real estate	4,100	3,247	—	—
Construction & land development	58	67	—	—
Commercial & industrial	999	—	—	—
Lease financing receivables	—	—	—	—
Home equity	896	1,217	—	—
Consumer:				
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Automobile loans	68	68	—	—
Other consumer	24	32	22	19
Total Traditional Banking	17,502	14,118	22	19
Warehouse lines of credit	—	—	—	—
Total Core Banking	17,502	14,118	22	19
Republic Processing Group:				
Tax Refund Solutions:				
Easy Advances	—	—	—	—
Other TRS loans	—	—	—	—
Republic Credit Solutions	—	—	836	937
Total Republic Processing Group	—	—	836	937
Total	\$ 17,502	\$ 14,118	\$ 858	\$ 956

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

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



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## Delinquent Loans

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

June 30, 2018 (dollars in thousands)	30 - 59 Days Delinquent	60 - 89 Days Delinquent	90 or More Days Delinquent*	Total Delinquent**	Total Current	Total
Traditional Banking:						
Residential real estate:						
Owner occupied	\$ 1,407	\$ 1,382	\$ 1,333	\$ 4,122	\$ 915,311	\$ 919,433
Owner occupied - correspondent	—	—	—	—	105,170	105,170
Nonowner occupied	274	—	195	469	220,474	220,943
Commercial real estate	—	262	2,135	2,397	1,233,030	1,235,427
Construction & land development	—	—	—	—	163,080	163,080
Commercial & industrial	304	100	249	653	368,536	369,189
Lease financing receivables	—	—	—	—	15,238	15,238
Home equity	127	254	166	547	336,147	336,694
Consumer:						
Credit cards	52	41	—	93	17,685	17,778
Overdrafts	231	—	—	231	647	878
Automobile loans	80	8	22	110	62,033	62,143
Other consumer	35	24	22	81	31,372	31,453
Total Traditional Banking	2,510	2,071	4,122	8,703	3,468,723	3,477,426
Warehouse lines of credit	—	—	—	—	633,841	633,841
Total Core Banking	2,510	2,071	4,122	8,703	4,102,564	4,111,267
Republic Processing Group:						
Tax Refund Solutions:						
Easy Advances	—	—	—	—	—	—
Other TRS loans	—	—	—	—	101	101
Republic Credit Solutions	2,984	609	836	4,429	80,187	84,616
Total Republic Processing Group	2,984	609	836	4,429	80,288	84,717
Total	\$ 5,494	\$ 2,680	\$ 4,958	\$ 13,132	\$ 4,182,852	\$ 4,195,984

Delinquency ratio***	0.13	%	0.06	%	0.12	%	0.31	%
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\*All loans past due 90-days-or-more, excluding smaller-balance consumer loans, were on nonaccrual status.

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

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

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December 31, 2017 (dollars in thousands)	30 - 59 Days Delinquent	60 - 89 Days Delinquent	90 or More Days Delinquent*	Total Delinquent**	Total Current	Total
Traditional Banking:						
Residential real estate:						
Owner occupied	\$ 2,559	\$ 1,166	\$ 1,057	\$ 4,782	\$ 916,783	\$ 921,565
Owner occupied - correspondent	—	—	—	—	116,792	116,792
Nonowner occupied	47	—	99	146	204,935	205,081
Commercial real estate	398	—	1,329	1,727	1,205,566	1,207,293
Construction & land development	67	—	—	67	149,998	150,065
Commercial & industrial	15	—	—	15	341,677	341,692
Lease financing receivables	—	—	—	—	16,580	16,580
Home equity	723	50	448	1,221	346,434	347,655
Consumer:						
Credit cards	34	40	—	74	16,004	16,078
Overdrafts	230	3	—	233	741	974
Automobile loans	36	—	24	60	65,590	65,650
Other consumer	93	21	21	135	20,366	20,501
Total Traditional Banking	4,202	1,280	2,978	8,460	3,401,466	3,409,926
Warehouse lines of credit	—	—	—	—	525,572	525,572
Total Core Banking	4,202	1,280	2,978	8,460	3,927,038	3,935,498
Republic Processing Group:						
Tax Refund Solutions:						
Easy Advances	—	—	—	—	—	—
Other TRS loans	—	—	—	—	11,648	11,648
Republic Credit Solutions	3,631	1,073	937	5,641	61,247	66,888
Total Republic Processing Group	3,631	1,073	937	5,641	72,895	78,536
Total	\$ 7,833	\$ 2,353	\$ 3,915	\$ 14,101	\$ 3,999,933	\$ 4,014,034
Delinquency ratio***	0.20 %	0.06 %	0.10 %	0.35 %		

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

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

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

## Impaired Loans

Information regarding the Bank's impaired loans follows:

(in thousands)	June 30, 2018	December 31, 2017
Loans with no allocated Allowance	\$ 21,947	\$ 18,540
Loans with allocated Allowance	25,927	27,076
Total recorded investment in impaired loans	\$ 47,874	\$ 45,616
Amount of the allocated Allowance	\$ 4,165	\$ 4,685

Approximately \$3 million and \$4 million of impaired loans at June 30, 2018 and December 31, 2017 were PCI loans. Approximately \$2 million and \$2 million of impaired loans at June 30, 2018 and December 31, 2017 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, 2018 and December 31, 2017:

	Allowance for Loan and Lease Losses				Loans			
	Individually		PCI with Post		Individually		PCI with Post	PCI without Post
June 30, 2018	Evaluated Excluding	Collectively	Acquisition	Total	Evaluated	Collectively	Acquisition	Acquisition
(dollars in thousands)	PCI	Evaluated	Impairment	Allowance	PCI	Evaluated	Impairment	Impaired
Traditional Banking:								
Residential real estate:								
Owner occupied	\$ 2,423	\$ 3,384	\$ 228	\$ 6,035	\$ 27,963	\$ 889,730	\$ 1,740	\$ —
Owner occupied - correspondent	—	263	—	263	389	104,781	—	—
Nonowner occupied	2	1,550	—	1,552	2,716	218,227	—	—
Commercial real estate	301	9,466	48	9,815	10,269	1,223,854	1,301	3
Construction & land development	67	2,758	—	2,825	128	162,952	—	—
Commercial & industrial	108	2,210	—	2,318	783	368,385	—	21
Lease financing receivables	—	160	—	160	—	15,238	—	—
Home equity	368	3,180	110	3,658	1,741	334,838	115	—
Consumer:								
Credit cards	—	805	—	805	—	17,778	—	—
Overdrafts	—	878	—	878	—	878	—	—
Automobile loans	41	623	—	664	190	61,953	—	—
Other consumer	448	325	3	776	486	30,964	3	—
Total Traditional Banking	3,758	25,602	389	29,749	44,665	3,429,578	3,159	24
Warehouse lines of credit	—	1,585	—	1,585	—	633,841	—	—
Total Core Banking	3,758	27,187	389	31,334	44,665	4,063,419	3,159	24
Republic Processing Group:								
Tax Refund Solutions:								
Easy Advances	—	—	—	—	—	—	—	—
Other TRS loans	—	67	—	67	—	101	—	—
Republic Credit Solutions	18	13,628	—	13,646	50	84,566	—	—
Total Republic Processing Group	18	13,695	—	13,713	50	84,667	—	—

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Total	\$ 3,776	\$ 40,882	\$ 389	\$ 45,047	\$ 44,715	\$ 4,148,086	\$ 3,159	\$ 24	\$
	Allowance for Loan and Lease Losses				Loans				
	Individually		PCI with Post		Individually		PCI with Post	PCI without Post	
December 31, 2017	Evaluated Excluding	Collectively	Acquisition	Total	Evaluated Excluding	Collectively	Acquisition	Acquisition	
(dollars in thousands)	PCI	Evaluated	Impairment	Allowance	PCI	Evaluated	Impairment	Impaired	
Traditional Banking:									
Residential real estate:									
Owner occupied	\$ 2,361	\$ 3,501	\$ 320	\$ 6,182	\$ 27,605	\$ 892,122	\$ 1,838	\$ —	\$
Owner occupied - correspondent	—	292	—	292	—	116,792	—	—	
Nonowner occupied	4	1,390	2	1,396	1,814	203,019	248	—	
Commercial real estate	407	8,588	48	9,043	9,185	1,196,736	1,369	3	
Construction & land development	107	2,257	—	2,364	733	149,332	—	—	
Commercial & industrial	288	1,910	—	2,198	308	341,357	—	27	
Lease financing receivables	—	174	—	174	—	16,580	—	—	
Home equity	425	3,218	111	3,754	1,609	345,930	115	1	
Consumer:									
Credit cards	—	607	—	607	—	16,078	—	—	
Overdrafts	—	974	—	974	—	974	—	—	
Automobile loans	32	655	—	687	108	65,542	—	—	
Other consumer	528	631	3	1,162	552	19,946	3	—	
Total Traditional Banking	4,152	24,197	484	28,833	41,914	3,364,408	3,573	31	
Warehouse lines of credit	—	1,314	—	1,314	—	525,572	—	—	
Total Core Banking	4,152	25,511	484	30,147	41,914	3,889,980	3,573	31	
Republic Processing Group:									
Tax Refund Solutions:									
Easy Advances	—	—	—	—	—	—	—	—	
Other TRS loans	—	12	—	12	—	11,648	—	—	
Republic Credit Solutions	49	12,561	—	12,610	129	66,759	—	—	
Total Republic Processing Group	49	12,573	—	12,622	129	78,407	—	—	
Total	\$ 4,201	\$ 38,084	\$ 484	\$ 42,769	\$ 42,043	\$ 3,968,387	\$ 3,573	\$ 31	\$



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The following tables present loans individually evaluated for impairment by class of loans as of June 30, 2018 and December 31, 2017 and for the three and six months ended June 30, 2018 and 2017. The difference between the “Unpaid Principal Balance” and “Recorded Investment” columns represents life-to-date partial write downs/charge offs taken on individual impaired credits.

(in thousands)	As of June 30, 2018			Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Unpaid Principal Balance	Recorded Investment	Allocated Allowance	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
Impaired loans with no allocated Allowance:									
Residential real estate:									
Owner occupied	\$ 12,391	\$ 11,768	\$ —	\$ 11,069	\$ 67	\$ —	\$ 10,976	\$ 133	\$ —
Owner occupied - correspondent	389	389	—	386	—	—	257	—	—
Nonowner occupied	3,040	2,648	—	2,699	22	—	2,367	45	—
Commercial real estate	6,737	5,663	—	5,119	24	—	4,889	45	—
Construction & land development	—	—	—	238	—	—	356	—	—
Commercial & industrial	783	675	—	694	—	—	469	—	—
Lease financing receivables	—	—	—	—	—	—	—	—	—
Home equity	830	734	—	704	4	—	796	7	—
Consumer	83	70	—	62	1	—	49	3	—
Impaired loans with allocated Allowance:									
Residential real estate:									
Owner occupied	17,967	17,935	2,651	18,481	153	—	18,538	299	—
Owner occupied -	—	—	—	—	—	—	—	—	—

correspondent									
Nonowner									
occupied	79	68	2	195	—	—	249	—	—
Commercial									
real estate	5,907	5,907	349	6,368	65	—	6,287	129	—
Construction &									
land									
development	128	128	67	132	1	—	135	2	—
Commercial &									
industrial	108	108	108	98	1	—	161	1	—
Lease									
financing									
receivables	—	—	—	—	—	—	—	—	—
Home equity	1,123	1,122	478	992	10	—	909	19	—
Consumer	659	659	510	668	6	—	700	14	—
Total impaired									
loans	\$ 50,224	\$ 47,874	\$ 4,165	\$ 47,905	\$ 354	\$ —	\$ 47,138	\$ 697	\$ —

	As of December 31, 2017			Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	Unpaid Principal Balance	Recorded Investment	Allocated Allowance	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
(in thousands)									
Impaired loans with no allocated Allowance:									
Residential									
real estate:									
Owner									
occupied	\$ 11,664	\$ 10,789	\$ —	\$ 11,802	\$ 48	\$ —	\$ 12,380	\$ 95	\$ —
Owner									
occupied -									
correspondent	—	—	—	—	—	—	—	—	—
Nonowner									
occupied	1,784	1,704	—	1,477	7	—	1,293	14	—
Commercial									
real estate	5,504	4,430	—	4,702	20	—	5,235	40	—
Construction &									
land									
development	591	591	—	537	7	—	507	15	—
Commercial &									
industrial	20	20	—	200	1	—	136	2	—
Lease	—	—	—	—	—	—	—	—	—
financing									

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receivables									
Home equity	1,071	981	—	1,443	6	—	1,434	13	—
Consumer	25	25	—	41	—	—	43	—	—
Impaired loans with allocated Allowance:									
Residential real estate:									
Owner occupied	18,676	18,654	2,681	20,780	178	—	21,314	357	—
Owner occupied - correspondent	—	—	—	—	—	—	—	—	—
Nonowner occupied	361	358	6	483	6	—	620	11	—
Commercial real estate	6,124	6,124	455	5,229	49	—	6,579	95	—
Construction & land development	142	142	107	273	1	—	342	2	—
Commercial & industrial	288	288	288	150	—	—	274	—	—
Lease financing receivables	—	—	—	—	—	—	—	—	—
Home equity	743	743	536	826	5	—	698	9	—
Consumer	767	767	612	114	—	—	76	—	—
Total impaired loans	\$ 47,760	\$ 45,616	\$ 4,685	\$ 48,057	\$ 328	\$ —	\$ 50,931	\$ 653	\$ —

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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 consecutive 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, 2018 and December 31, 2017, \$9 million and \$6 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, 2018 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate	67	\$ 6,683	177	\$ 19,917	244	\$ 26,600
Commercial real estate	2	1,316	15	6,647	17	7,963
Construction & land development	1	58	1	70	2	128
Commercial & industrial	3	750	2	12	5	762
Consumer	—	—	325	511	325	511
Total troubled debt restructurings	73	\$ 8,807	520	\$ 27,157	593	\$ 35,964

	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, 2017 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate	62	\$ 4,926	183	\$ 20,189	245	\$ 25,115
Commercial real estate	2	1,366	14	6,499	16	7,865
Construction & land development	1	67	3	666	4	733
Commercial & industrial	—	—	2	287	2	287
Consumer	—	—	830	637	830	637
Total troubled debt restructurings	65	\$ 6,359	1,032	\$ 28,278	1,097	\$ 34,637



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The Bank considers a TDR to be performing to its modified terms if the loan is 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, 2018 and December 31, 2017 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, 2018 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate loans (including home equity loans):						
Interest only payments	2	\$ 1,207	—	\$ —	2	\$ 1,207
Rate reduction	156	17,770	15	1,699	171	19,469
Principal deferral	14	3,288	3	299	17	3,587
Legal modification	46	2,082	8	255	54	2,337
Total residential TDRs	218	24,347	26	2,253	244	26,600
Commercial related and construction/land development loans:						
Interest only payments	2	783	—	—	2	783
Rate reduction	7	3,061	1	80	8	3,141
Principal deferral	13	4,854	1	75	14	4,929
Total commercial TDRs	22	8,698	2	155	24	8,853
Consumer loans:						
Rate reduction	1	17	—	—	1	17
Principal deferral	323	451	—	—	323	451
Legal modification	—	—	1	43	1	43
Total consumer TDRs	324	468	1	43	325	511
Total troubled debt restructurings	564	\$ 33,513	29	\$ 2,451	593	\$ 35,964

	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
	Recorded		Recorded		Recorded	

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December 31, 2017 (dollars in thousands)	Number of		Number of		Number of	
	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate loans (including home equity loans):						
Interest only payments	2	\$ 463	—	\$ —	2	\$ 463
Rate reduction	161	18,777	17	1,902	178	20,679
Principal deferral	14	1,455	2	121	16	1,576
Legal modification	42	1,997	7	400	49	2,397
Total residential TDRs	219	22,692	26	2,423	245	25,115
Commercial related and construction/land development loans:						
Interest only payments	3	837	—	—	3	837
Rate reduction	7	3,185	1	79	8	3,264
Principal deferral	9	3,430	2	1,354	11	4,784
Total commercial TDRs	19	7,452	3	1,433	22	8,885
Consumer loans:						
Principal deferral	830	637	—	—	830	637
Total troubled debt restructurings	1,068	\$ 30,781	29	\$ 3,856	1,097	\$ 34,637

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As of June 30, 2018 and December 31, 2017, 93% and 89% of the Bank's TDRs were performing according to their modified terms. The Bank provided \$3 million and \$4 million of specific reserve allocations to clients whose loan terms have been modified in TDRs as of June 30, 2018 and December 31, 2017. The Bank had no commitments to lend any additional material amounts to its existing TDR relationships at June 30, 2018 or December 31, 2017.

A summary of the categories of TDR loan modifications by respective performance as of June 30, 2018 and 2017 that were modified during the three months ended June 30, 2018 and 2017 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, 2018 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate loans (including home equity loans):						
Rate reduction	1	\$ 389	—	\$ —	1	\$ 389
Principal deferral	2	1,501	1	169	3	1,670
Legal modification	9	273	1	46	10	319
Total residential TDRs	12	2,163	2	215	14	2,378
Commercial related and construction/land development loans:						
Rate reduction	—	—	—	—	—	—
Principal deferral	3	859	1	75	4	934
Total commercial TDRs	3	859	1	75	4	934
Consumer loans:						
Legal modification	—	—	1	43	1	43
Total troubled debt restructurings	15	\$ 3,022	4	\$ 333	19	\$ 3,355

Troubled Debt Restructurings Performing to Modified Terms	Troubled Debt Restructurings Not Performing to Modified Terms	Total Troubled Debt Restructurings
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	Number of	Recorded	Number of	Recorded	Number of	Recorded
June 30, 2017 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate loans (including home equity loans):						
Rate reduction	1	\$ 220	—	\$ —	1	\$ 220
Principal deferral	2	810	—	—	2	810
Legal modification	1	11	—	—	1	11
Total residential TDRs	4	1,041	—	—	4	1,041
Total troubled debt restructurings	4	\$ 1,041	—	\$ —	4	\$ 1,041

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, 2018 and 2017, 90% and 100% of the Bank's TDRs that occurred during the second quarters of 2018 and 2017 were performing according to their modified terms. The Bank provided approximately \$422,000 and \$30,000 in specific reserve allocations to clients whose loan terms were modified in TDRs during the second quarters of 2018 and 2017.

There was no significant change between the pre and post modification loan balances for the three months ending June 30, 2018 and 2017.

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A summary of the categories of TDR loan modifications by respective performance as of June 30, 2018 and 2017 that were modified during the six months ended June 30, 2018 and 2017 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, 2018 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate loans (including home equity loans):						
Interest only payments	1	\$ 1,204	—	\$ —	1	\$ 1,204
Rate reduction	2	474	—	—	2	474
Principal deferral	3	2,002	1	170	4	2,172
Legal modification	9	273	1	46	10	319
Total residential TDRs	15	3,953	2	216	17	4,169
Commercial related and construction/land development loans:						
Principal deferral	4	870	1	75	5	945
Total commercial TDRs	4	870	1	75	5	945
Consumer loans:						
Principal deferral	1	58	—	—	1	58
Legal modification	—	—	1	43	1	43
Total consumer TDRs	1	58	1	43	2	101
Total troubled debt restructurings	20	\$ 4,881	4	\$ 334	24	\$ 5,215

	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, 2017 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment

Residential real estate loans  
(including home equity loans):

Interest only payments	—	\$ —	—	\$ —	—	\$ —
Rate reduction	2	379	—	—	2	379
Principal deferral	2	810	—	—	2	810
Legal modification	3	49	—	—	3	49
Total residential TDRs	7	1,238	—	—	7	1,238
Total troubled debt restructurings	7	\$ 1,238	—	\$ —	7	\$ 1,238

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, 2018 and 2017, 94% and 100% of the Bank's TDRs that occurred during the first six months of 2018 and 2017 were performing according to their modified terms. The Bank provided approximately \$539,000 and \$65,000 in specific reserve allocations to clients whose loan terms were modified in TDRs during the first six months of 2018 and 2017.

There was no significant change between the pre and post modification loan balances for the six months ending June 30, 2018 and 2017.

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The following table presents loans by class modified as troubled debt restructurings within the previous 12 months of June 30, 2018 and 2017 and for which there was a payment default during the three and/or six months ended June 30, 2018 and 2017.

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018			
	Recorded	Number of		Recorded	Number of		
(dollars in thousands)	Loans	Investment Loans		Investment Loans	Investment Loans		Investment
Residential real estate:							
Owner occupied	2	\$ 215	—	\$ —	2	\$ 215	—
Commercial & industrial	1	75	—	—	1	75	—
Consumer	1	43	—	—	1	43	—
Total	4	\$ 333	—	\$ —	4	\$ 333	—

## Foreclosures

The following table presents the carrying amount of foreclosed properties held at June 30, 2018 and December 31, 2017 as a result of the Bank obtaining physical possession of such properties:

(in thousands)	June 30, 2018	December 31, 2017
Residential real estate	\$ —	\$ 115
Total other real estate owned	\$ —	\$ 115

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, 2018 and December 31, 2017:

(in thousands)	June 30, 2018	December 31, 2017
Recorded investment in consumer residential real estate mortgage loans in the process of foreclosure	\$ 1,455	\$ 1,392



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## Easy Advances

The Company's TRS segment offered its EA product during the first two months of 2018 and 2017. The Company based its estimated provision for EA losses on current year EA delinquency information and prior year IRS funding patterns. Each year, all unpaid EAs are charged-off by the end of the second quarter.

Information regarding EAs follows:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,			
	2018	2017	2018	2017		
Easy Advances originated	\$ —	\$ —	\$ 430,210	\$ 328,519		
Net Charge (Credit) to the Provision for Easy Advances	(881)	(721)	12,396	7,880		
Provision to total Easy Advances originated	NA	NA	2.88	2.40	%	%
Easy Advances net charge-offs	\$ 8,691	\$ 7,020	\$ 12,396	\$ 7,880		
Easy Advances net charge-offs to total Easy Advances originated	NA	NA	2.88	2.40	%	%

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NA - Not applicable

## 5. DEPOSITS

The following table presents ending deposit balances at June 30, 2018 and December 31, 2017:

(in thousands)	June 30, 2018	December 31, 2017
Core Bank:		

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Demand	\$ 933,792	\$ 944,812
Money market accounts	615,731	546,998
Savings	189,121	182,800
Individual retirement accounts(1)	51,549	47,982
Time deposits, \$250 and over(1)	81,638	77,891
Other certificates of deposit(1)	223,106	189,661
Reciprocal money market and time deposits(1)(2)	283,229	373,242
Brokered deposits(1)	32,878	46,089
Total Core Bank interest-bearing deposits	2,411,044	2,409,475
Total Core Bank noninterest-bearing deposits	1,003,443	988,537
Total Core Bank deposits	3,414,487	3,398,012
Republic Processing Group ("RPG"):		
Money market accounts	1,143	1,641
Total RPG interest-bearing deposits	1,143	1,641
Brokered prepaid card deposits	5,637	1,509
Other noninterest-bearing deposits	52,102	31,996
Total RPG noninterest-bearing deposits	57,739	33,505
Total RPG deposits	58,882	35,146
Total deposits	\$ 3,473,369	\$ 3,433,158

(1) Represents a time deposit.

(2) Prior to June 2018, reciprocal deposits were classified as "brokered deposits." The Economic Growth, Regulatory Relief, and Consumer Protection Act, enacted in May 2018, provides that most reciprocal deposits are no longer classified as brokered deposits if the Bank meets certain regulatory criteria.

(3)

Table of Contents**6. 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, 2018 and December 31, 2017, all securities sold under agreements to repurchase had overnight maturities. The following tables present additional information regarding securities sold under agreements to repurchase:

(dollars in thousands)	June 30, 2018		December 31, 2017	
Outstanding balance at end of period	\$	175,291	\$	204,021
Weighted average interest rate at end of period		0.58 %		0.31 %
Fair value of securities pledged:				
U.S. Treasury securities and U.S. Government agencies	\$	206,570	\$	71,824
Mortgage backed securities - residential		16,904		83,452
Collateralized mortgage obligations		9,352		84,693
Total securities pledged	\$	232,826	\$	239,969

  

(dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Average outstanding balance during the period	\$ 178,063	\$ 179,594	\$ 217,532	\$ 198,896
Average interest rate during the period	0.50 %	0.33 %	0.40 %	0.17 %

Maximum outstanding at any month end during the period	\$ 175,291	\$ 156,339	\$ 215,281	\$ 183,709
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## 7. FEDERAL HOME LOAN BANK ADVANCES

At June 30, 2018 and December 31, 2017, FHLB advances were as follows:

(dollars in thousands)	June 30, 2018	December 31, 2017
Overnight advances	\$ 500,000	\$ 330,000
Variable interest rate advance indexed to 3-Month LIBOR plus 0.14%	10,000	10,000
Fixed interest rate advances	350,000	397,500
Total FHLB advances	\$ 860,000	\$ 737,500

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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, 2018 and December 31, 2017, Republic had available borrowing capacity of \$209 million and \$378 million, respectively, from the FHLB. In addition to its borrowing capacity with the FHLB, Republic also had unsecured lines of credit totaling \$125 million and \$125 million available through various other financial institutions as of June 30, 2018 and December 31, 2017.

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

Year (dollars in thousands)	Principal	Weighted Average Rate	
2018 (Overnight)	\$ 500,000	1.92	%
2018 (Term)	80,000	1.70	
2019	100,000	1.80	
2020	120,000	1.81	
2021	30,000	1.93	
2022	20,000	2.12	
2023	10,000	2.14	
Thereafter	—	—	
Total	\$ 860,000	1.88	%

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

(dollars in thousands)	June 30, 2018		December 31, 2017	
Outstanding balance at end of period	\$ 500,000		\$ 330,000	
Weighted average interest rate at end of period	1.92	%	1.42	%

  

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Average outstanding balance during the period	\$ 226,264	\$ 114,121	\$ 185,801	\$ 111,740
Average interest rate during the period	1.88	% 1.06	% 1.70	% 0.88

Maximum outstanding at any month end during the period	\$ 500,000	\$ 625,000	\$ 560,000	\$ 625,000
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The following table illustrates real estate loans pledged to collateralize advances and letters of credit with the FHLB:

(in thousands)	June 30, 2018	December 31, 2017
First lien, single family residential real estate	\$ 1,130,464	\$ 1,123,402
Home equity lines of credit	313,029	320,649

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## 8. 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, 2018	December 31, 2017
Unused warehouse lines of credit	\$ 456,159	\$ 525,328
Unused home equity lines of credit	378,796	367,887
Unused loan commitments - other	646,824	598,002
Standby letters of credit	12,813	12,643
FHLB letter of credit	10,000	10,000
Total commitments	\$ 1,504,592	\$ 1,513,860

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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9. FAIR VALUE

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

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

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

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

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

Available-for-sale debt securities: Except for the Bank's private label mortgage backed security and its TRUP investment, the fair value of available-for-sale debt securities 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 Measurement. Based on this determination, the Bank utilized an income valuation model (present value model) approach in determining the fair value of this security.

See in this section of the filing under Footnote 2 "Investment Securities" for additional discussion regarding the Bank's private label mortgage backed security.

The Company acquired its TRUP investment in 2015 and considered the most recent bid price for the same instrument to approximate market value at June 30, 2018. The Company's TRUP investment is considered highly illiquid and also valued using Level 3 inputs, as the most recent bid price for this instrument is not always considered generally observable.

Equity securities with readily determinable fair value: 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.

The fair value of the Company's Freddie Mac preferred stock is determined by matrix pricing, as described above (Level 2 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 investment/sale, at fair value: From the first quarter of 2016 through the first quarter of 2018, the Bank continued to pilot a consumer installment-loan product across the United States using a third-party marketer/service. As part of the program, the Bank sold 100% of the balances generated through the program back to the third-party marketer/servicer approximately 21 days after origination. The Bank carried all unsold loans under the program as "held for sale" on its balance sheet. At the initiation of this program in 2016, the Bank elected to carry these loans at fair value under a fair-value option, with the portfolio thereafter marked to market on a monthly basis.

During the second quarter of 2018, the Bank and its third-party marketer/service provider suspended the origination of any new loans, and the subsequent sale of all recently-originated loans under this program, while the two parties evaluate the future offering of this product due to changes in the applicable state law impacting the product. Concurrent with the suspension of this program, the Bank reclassified approximately \$2.2 million of these loans from "held for sale" on the balance sheet to "held for investment" and recorded a \$427,000 charge to its mark-to-market fair value adjustment for these loans.

Through the first quarter of 2018, the fair value for these loans was based on contractual sales terms, which are classified as Level 3 inputs. As of June 30, 2018, the fair value of these loans was based on the discounted cash flows of the underlying loans, which are also classified as Level 3 inputs.

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

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

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

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

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

Mortgage servicing rights: On at least a quarterly basis, MSRs are evaluated for impairment based upon the fair value of the MSRs as compared to carrying amount. If the carrying amount of an individual tranche exceeds fair value, impairment is recorded, and the respective individual tranche is carried at fair value. If the carrying amount of an individual tranche does not exceed fair value, impairment is reversed if previously recognized and the carrying value of the individual tranche is based on the amortization method. The valuation model utilizes assumptions that market participants would use in estimating future net servicing income and can generally be validated against available market data (Level 2). There were no MSR tranches carried at fair value at June 30, 2018 and December 31, 2017.

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

(in thousands)	Fair Value Measurements at June 30, 2018 Using:			Total Fair Value
	Quoted Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Financial assets:				
Available-for-sale debt securities:				
U.S. Treasury securities and U.S. Government agencies	\$ —	\$ 225,937	\$ —	\$ 225,937
Private label mortgage backed security	—	—	3,926	3,926
Mortgage backed securities - residential	—	93,070	—	93,070
Collateralized mortgage obligations	—	78,883	—	78,883
Corporate bonds	—	10,087	—	10,087
Trust preferred security	—	—	4,150	4,150
Total available-for-sale debt securities	\$ —	\$ 407,977	\$ 8,076	\$ 416,053
Equity securities with readily determinable fair value:				
Freddie Mac preferred stock	\$ —	\$ 389	\$ —	\$ 389
Community Reinvestment Act mutual fund	2,404	—	—	2,404
Total equity securities with readily determinable fair value	\$ 2,404	\$ 389	\$ —	\$ 2,793
Mortgage loans held for sale	\$ —	\$ 12,653	\$ —	\$ 12,653
Consumer loans held for investment	—	—	2,237	2,237
Rate lock loan commitments	—	432	—	432
Interest rate swap agreements	—	2,105	—	2,105
Financial liabilities:				
Mandatory forward contracts	\$ —	\$ 110	\$ —	\$ 110
Interest rate swap agreements	—	1,885	—	1,885

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(in thousands)	Fair Value Measurements at December 31, 2017 Using:			Total Fair Value
	Quoted Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Financial assets:				
Available-for-sale debt securities:				
U.S. Treasury securities and U.S. Government agencies	\$ —	\$ 307,592	\$ —	\$ 307,592
Private label mortgage backed security	—	—	4,449	4,449
Mortgage backed securities - residential	—	106,374	—	106,374
Collateralized mortgage obligations	—	87,163	—	87,163
Corporate bonds	—	15,125	—	15,125
Trust preferred security	—	—	3,600	3,600
Total available-for-sale debt securities	\$ —	\$ 516,254	\$ 8,049	\$ 524,303
Equity securities with readily determinable fair value:				
Freddie Mac preferred stock	\$ —	\$ 473	\$ —	\$ 473
Community Reinvestment Act mutual fund	2,455	—	—	2,455
Total equity securities with readily determinable fair value	\$ 2,455	\$ 473	\$ —	\$ 2,928
Mortgage loans held for sale	\$ —	\$ 5,761	\$ —	\$ 5,761
Consumer loans held for sale	—	—	2,677	2,677
Rate lock loan commitments	—	310	—	310
Interest rate swap agreements	—	312	—	312
Financial liabilities:				
Mandatory forward contracts	\$ —	\$ 9	\$ —	\$ 9
Interest rate swap agreements	—	403	—	403

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, 2018 and 2017.

### 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, 2018 and 2017:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Balance, beginning of period	\$ 4,120	\$ 4,682	\$ 4,449	\$ 4,777
Total gains or losses included in earnings:				
Net change in unrealized gain	(15)	101	(17)	154
Recovery of actual losses previously recorded	37	—	75	—
Principal paydowns	(216)	(243)	(581)	(391)
Balance, end of period	\$ 3,926	\$ 4,540	\$ 3,926	\$ 4,540

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 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 different fair value measurement.

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Quantitative information about recurring Level 3 fair value measurement inputs for the Bank's single private label mortgage backed security follows:

June 30, 2018 (dollars in thousands)	Fair	Valuation		
	Value	Technique	Unobservable Inputs	Range
Private label mortgage backed security	\$ 3,926	Discounted cash flow	(1) Constant prepayment rate	5.0% - 6.5%
			(2) Probability of default	1.8% - 8.0%
			(3) Loss severity	50% - 85%
December 31, 2017 (dollars in thousands)	Fair	Valuation		
	Value	Technique	Unobservable Inputs	Range
Private label mortgage backed security	\$ 4,449	Discounted cash flow	(1) Constant prepayment rate	3.5% - 6.5%
			(2) Probability of default	1.8% - 8.0%
			(3) Loss severity	60% - 85%

## Trust Preferred Security

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, 2018 and 2017:

Three Months Ended	Six Months Ended
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(in thousands)	June 30,		June 30,	
	2018	2017	2018	2017
Balance, beginning of period	\$ 3,900	\$ 3,200	\$ 3,600	\$ 3,200
Total gains or losses included in earnings:				
Discount accretion	10	11	20	22
Net change in unrealized gain	240	242	530	231
Balance, end of period	\$ 4,150	\$ 3,453	\$ 4,150	\$ 3,453

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

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## Mortgage Loans Held for Sale

The Bank has elected the fair value option for mortgage loans held for sale. These loans are intended for sale and the Bank believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loans and in accordance with Bank policy for such instruments. None of these loans were past due 90-days-or-more or on nonaccrual as of June 30, 2018 and December 31, 2017.

As of June 30, 2018, and December 31, 2017, the aggregate fair value, contractual balance, and unrealized gain was as follows:

(in thousands)	June 30, 2018	December 31, 2017
Aggregate fair value	\$ 12,653	\$ 5,761
Contractual balance	12,417	5,668
Unrealized gain	236	93

The total amount of gains and losses from changes in fair value included in earnings for the three and six months ended June 30, 2018 and 2017 for mortgage loans held for sale are presented in the following table:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest income	\$ 103	\$ 86	\$ 175	\$ 153
Change in fair value	152	118	143	111
Total included in earnings	\$ 255	\$ 204	\$ 318	\$ 264

## Consumer Loans Held for Investment/Sale

Prior to the second quarter of 2018, all consumer installment loans originated through RCS were originated with the intent to sale and carried at fair value. During the second quarter of 2018, approximately \$2 million of these loans were transferred from the held for sale category into the held for investment category and recorded at their fair market value as of the date of transfer. Interest income for these loans 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, 2018 and December 31, 2017.

A reconciliation of the Company's consumer loans measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2018 and 2017 is included in Footnote 3 of this section of the filing.

Prior to the second quarter of 2018, the significant unobservable inputs in the fair value measurement of the Bank's consumer loans were the net contractual premiums and level of loans sold at a discount price. As of June 30, 2018, the significant unobservable inputs in the fair value measurement of the Bank's consumer loans were the constant prepayment rate, probability of default, and loss severity for these loans under a discounted-cash-flow model. Significant fluctuations in any of these inputs in isolation would result in a significantly lower/higher fair value measurement.

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The following table presents quantitative information about recurring Level 3 fair value measurement inputs for consumer loans as of June 30, 2018 and December 31, 2017:

June 30, 2018 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Rate
Consumer loans held for investment	\$ 2,237	Discounted Cash Flows	(1) Constant prepayment rate	15.0%
			(2) Probability of default	45.0%
			(3) Loss severity	11.5%
December 31, 2017 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Rate
Consumer loans held for sale	\$ 2,677	Contractual Sales Terms	(1) Net Premium	0.9%
			(2) Discounted Sales	5.0%

As of June 30, 2018 and December 31, 2017, the aggregate fair value, contractual balance, and unrealized (loss) gain on consumer loans held for investment/sale, at fair value, were as follows:

(in thousands)	June 30, 2018	December 31, 2017
Aggregate fair value	\$ 2,237	\$ 2,677
Contractual balance	2,522	2,535
Unrealized (loss) gain	(285)	142

The total amount of net (losses) gains from changes in fair value included in earnings for the three and six months ended June 30, 2018 and 2017 for consumer loans held for investment/sale, at fair value, are presented in the following table:

Three Months Ended      Six Months Ended

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(in thousands)	June 30, 2018	2017	June 30, 2018	2017
Interest income	\$ 152	\$ 322	\$ 328	\$ 508
Change in fair value	(414)	(24)	(427)	58
Total included in earnings	\$ (262)	\$ 298	\$ (99)	\$ 566

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

(in thousands)	Fair Value Measurements at June 30, 2018 Using:			Total Fair Value
	Quoted Prices for Identifiable Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans:				
Residential real estate:				
Owner occupied	\$ —	\$ —	\$ 2,857	\$ 2,857
Nonowner occupied	—	—	1,242	1,242
Commercial real estate	—	—	1,315	1,315
Commercial & industrial	—	—	713	713
Home equity	—	—	310	310
Total impaired loans*	\$ —	\$ —	\$ 6,437	\$ 6,437
Premises	\$ —	\$ —	\$ 2,751	\$ 2,751

  

(in thousands)	Fair Value Measurements at December 31, 2017 Using:			Total Fair Value
	Quoted Prices for Identifiable Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Impaired loans:				
Residential real estate:				
Owner occupied	\$ —	\$ —	\$ 4,107	\$ 4,107
Nonowner occupied	—	—	237	237
Commercial real estate	—	—	1,366	1,366
Home equity	—	—	393	393
Total impaired loans*	\$ —	\$ —	\$ 6,103	\$ 6,103
Other real estate owned:				
Residential real estate	\$ —	\$ —	\$ 83	\$ 83
Total other real estate owned	\$ —	\$ —	\$ 83	\$ 83
Premises	\$ —	\$ —	\$ 3,017	\$ 3,017

\* 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, 2018 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans - residential real estate owner occupied	\$ 2,857	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 54% (11%)
Impaired loans - residential real estate nonowner occupied	\$ 1,242	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 27% (13%)
Impaired loans - commercial real estate	\$ 78	Sales comparison approach	Adjustments determined for differences between comparable sales	21% (21%)
Impaired loans - commercial real estate	\$ 1,237	Income approach	Adjustments for differences between net operating income expectations	17% (17%)
Impaired loans - commercial & industrial	\$ 713	Sales comparison approach	Adjustments determined for differences between comparable sales	3% (3%)
Impaired loans - home equity	\$ 310	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 22% (14%)
Premises	\$ 2,751	Sales comparison approach	Adjustments determined for differences between comparable sales	15% - 69% (28%)
December 31, 2017 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans - residential real estate owner occupied	\$ 4,107	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 54% (10%)
	\$ 237			



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Impaired loans - residential real estate nonowner occupied		Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 8% (5%)
Impaired loans - commercial real estate	\$ 79	Sales comparison approach	Adjustments determined for differences between comparable sales	21% (21%)
Impaired loans - commercial real estate	\$ 1,287	Income approach	Adjustments for differences between net operating income expectations	17% (17%)
Impaired loans - home equity	\$ 393	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 23% (15%)
Other real estate owned - residential real estate	\$ 83	Sales comparison approach	Adjustments determined for differences between comparable sales	86% (86%)
Premises	\$ 3,017	Sales comparison approach	Adjustments determined for differences between comparable sales	4% - 67% (21%)

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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, 2018	December 31, 2017
Carrying amount of loans measured at fair value	\$ 5,774	\$ 5,358
Estimated selling costs considered in carrying amount	680	752
Valuation allowance	(17)	(7)
Total fair value	\$ 6,437	\$ 6,103

(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Provisions on collateral-dependent, impaired loans	\$ 28	\$ 118	\$ 457	\$ 190

## 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, 2018		December 31, 2017	
Other real estate owned carried at fair value	\$	—	\$	83
Other real estate owned carried at cost		—		32
Total carrying value of other real estate owned	\$	—	\$	115

  

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Other real estate owned write-downs during the period	\$	—	\$	9
			\$	—
			\$	79

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## Premises

The Company's Traditional Banking segment classified four of its former banking centers as held for sale as of June 30, 2018 and December 31, 2017. Impairment charges are recorded when the value of a piece of property is reappraised or reassessed below the property's then-carrying value. Impairment charges related to these properties were as follows:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Impairment charges on premises	\$ 126	\$ 58	\$ 230	\$ 116

The carrying amounts and estimated fair values of financial instruments at June 30, 2018 and December 31, 2017 follow:

(in thousands)	Carrying Value	Fair Value Measurements at June 30, 2018:			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash and cash equivalents	\$ 386,956	\$ 386,956	\$ —	\$ —	\$ 386,956
Available-for-sale debt securities	416,053	—	407,977	8,076	416,053
Held-to-maturity debt securities	66,776	—	67,513	—	67,513
Equity securities with readily determinable fair values	2,793	2,404	389	—	2,793
Mortgage loans held for sale, at fair value	12,653	—	12,653	—	12,653
Consumer loans held for sale, at the lower of cost or fair value	13,684	—	13,684	—	13,684
Loans, net	4,150,937	—	—	4,122,775	4,122,775
	32,067	—	—	—	NA

Federal Home Loan Bank  
stock

Accrued interest receivable	12,558	—	12,558	—	12,558
Rate lock loan commitments	432	—	432	—	432
Interest rate swap agreements	2,105	—	2,105	—	2,105

## Liabilities:

Noninterest-bearing deposits	\$ 1,061,182	—	\$ 1,061,182	—	\$ 1,061,182
Transaction deposits	2,000,321	—	2,000,321	—	2,000,321
Time deposits	411,866	—	405,971	—	405,971
Securities sold under agreements to repurchase and other short-term borrowings	175,291	—	175,291	—	175,291
Federal Home Loan Bank advances	860,000	—	852,203	—	852,203
Subordinated note	41,240	—	32,561	—	32,561
Accrued interest payable	1,070	—	1,070	—	1,070
Mandatory forward contracts	110	—	110	—	110
Interest rate swap agreements	1,885	—	1,885	—	1,885

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NA - Not applicable

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		Fair Value Measurements at December 31, 2017:			
(in thousands)	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash and cash equivalents	\$ 299,351	\$ 299,351	\$ —	\$ —	\$ 299,351
Available-for-sale debt securities	524,303	—	516,254	8,049	524,303
Held-to-maturity debt securities	64,227	—	65,133	—	65,133
Equity securities with readily determinable fair values	2,928	2,455	473	—	2,928
Mortgage loans held for sale, at fair value	5,761	—	5,761	—	5,761
Consumer loans held for sale, at fair value	2,677	—	—	2,677	2,677
Consumer loans held for sale, at the lower of cost or fair value	8,551	—	8,551	—	8,551
Loans, net	3,971,265	—	—	3,938,998	3,938,998
Federal Home Loan Bank stock	32,067	—	—	—	NA
Accrued interest receivable	12,082	—	12,082	—	12,082
Rate lock loan commitments	310	—	310	—	310
Interest rate swap agreements	312	—	312	—	312
Liabilities:					
Noninterest-bearing deposits	\$ 1,022,042	—	\$ 1,022,042	—	\$ 1,022,042
Transaction deposits	2,049,493	—	2,049,493	—	2,049,493
Time deposits	361,623	—	358,627	—	358,627
Securities sold under agreements to repurchase and other short-term borrowings	204,021	—	204,021	—	204,021
Federal Home Loan Bank advances	737,500	—	730,712	—	730,712
Subordinated note	41,240	—	31,763	—	31,763
Accrued interest payable	1,100	—	1,100	—	1,100
Mandatory forward contracts	9	—	9	—	9
Interest rate swap agreements	403	—	403	—	403

NA - Not applicable



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## 10. MORTGAGE BANKING ACTIVITIES

Mortgage Banking activities primarily include residential mortgage originations and servicing.

The following table presents activity for mortgage loans held for sale, at fair value:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Balance, beginning of period	\$ 4,496	\$ 5,193	\$ 5,761	\$ 11,662
Origination of mortgage loans held for sale	54,714	42,531	84,124	75,776
Proceeds from the sale of mortgage loans held for sale	(47,642)	(42,946)	(79,094)	(83,637)
Net gain on sale of mortgage loans held for sale	1,085	1,279	1,862	2,256
Balance, end of period	\$ 12,653	\$ 6,057	\$ 12,653	\$ 6,057

The following table presents the components of Mortgage Banking income:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net gain realized on sale of mortgage loans held for sale	\$ 1,101	\$ 1,173	\$ 1,698	\$ 2,114
Net change in fair value recognized on loans held for sale	152	118	143	111
Net change in fair value recognized on rate lock loan commitments	(11)	(36)	122	283
Net change in fair value recognized on forward contracts	(157)	23	(101)	(252)
Net gain recognized	1,085	1,278	1,862	2,256
Loan servicing income	600	528	1,205	1,063
Amortization of mortgage servicing rights	(369)	(361)	(731)	(714)
Net servicing income recognized	231	167	474	349
Total Mortgage Banking income	\$ 1,316	\$ 1,445	\$ 2,336	\$ 2,605



The following table presents activity for capitalized mortgage servicing rights:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Balance, beginning of period	\$ 4,925	\$ 5,158	\$ 5,044	\$ 5,180
Additions	359	361	602	692
Amortized to expense	(369)	(361)	(731)	(714)
Balance, end of period	\$ 4,915	\$ 5,158	\$ 4,915	\$ 5,158

There was no balance or activity in the valuation allowance for capitalized mortgage servicing rights for the three and six months ended June 30, 2018 and 2017.

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The following table presents other information for mortgage servicing rights:

(in thousands)	June 30, 2018		December 31, 2017	
Fair value of mortgage servicing rights portfolio	\$	9,277	\$	7,984
Monthly weighted average prepayment rate of unpaid principal balance*	175	%	200	%
Discount rate	10	%	10	%
Weighted average default rate	4.04	%	3.75	%
Weighted average life in years	6.02		5.49	

\* 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 and mortgage banking derivatives as of the period ends presented:

(in thousands)	June 30, 2018		December 31, 2017	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in Mortgage loans held for sale:				
Mortgage loans held for sale, at fair value	\$ 12,417	\$ 12,653	\$ 5,668	\$ 5,761
Included in other assets:				
Rate lock loan commitments	\$ 20,196	\$ 432	\$ 14,696	\$ 310
Included in other liabilities:				
Mandatory forward contracts	\$ 27,902	\$ 110	\$ 17,159	\$ 9

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## 11. INTEREST RATE SWAPS

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

## Interest Rate Swaps Used as Cash Flow Hedges

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

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

The following table reflects information about swaps designated as cash flow hedges as of June 30, 2018 and December 31, 2017:

(dollars in thousands)	Notional Amount	Pay Rate	Receive Rate	Term	June 30, 2018	Unrealized Gain (Loss)	December 31, 2017	Unrealized Gain (Loss)
					Assets / (Liabilities)	AOCI	Assets / (Liabilities)	in AOCI
Interest rate swap on money market deposits	\$ 10,000	2.17 %	1M LIBOR	12/2013 - 12/2020	\$ 111	\$ 88	\$ (60)	\$ (25)

Interest rate swap on FHLB advance	10,000	2.33 %	3M LIBOR	12/2013 -	12/2020	109	86	(31)	(48)
Total	\$ 20,000					\$ 220	\$ 174	\$ (91)	\$ (73)

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, 2018 and 2017:

(in thousands)	Three Months Ended June 30, 2018		Six Months Ended June 30, 2017	
Interest rate swap on money market deposits	\$ 3	\$ 29	\$ 20	\$ 63
Interest rate swap on FHLB advance	6	29	15	61
Total interest expense on swap transactions	\$ 9	\$ 58	\$ 35	\$ 124

The following table presents the net gains (losses) recorded in OCI and the consolidated statements of income relating to the swaps designated as cash flow hedges for the three and six months ended June 30, 2018 and 2017:

(in thousands)	Three Months Ended June 30, 2018		Six Months Ended June 30, 2017	
Gains (losses) recognized in OCI on derivative (effective portion)	\$ 77	\$ (104)	\$ 276	\$ (76)
Losses reclassified from OCI on derivative (effective portion)	(9)	(58)	(35)	(124)
Gains (losses) recognized in income on derivative (ineffective portion)	—	—	—	—

The estimated net amount of the existing losses reported in AOCI at June 30, 2018 expected to be reclassified into earnings within the next 12 months is considered immaterial.



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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.

The following table presents a summary of the Bank's interest rate swaps related to clients as of June 30, 2018 and December 31, 2017:

(in thousands)	Bank Position	June 30, 2018		December 31, 2017	
		Notional		Notional	Fair Value
		Amount	Fair Value	Amount	
Interest rate swaps with Bank clients - Assets	Pay variable/receive fixed	\$ 6,200	\$ 142	\$ 48,942	\$ 312
Interest rate swaps with Bank clients - Liabilities	Pay variable/receive fixed	60,439	(1,885)	12,477	(228)
Interest rate swaps with Bank clients - Total	Pay variable/receive fixed	\$ 66,639	\$ (1,743)	\$ 61,419	\$ 84
Offsetting interest rate swaps with institutional swap dealer	Pay fixed/receive variable	66,639	1,743	61,419	(84)
Total		\$ 133,278	\$ —	\$ 122,838	\$ —

The Bank is required to pledge securities as collateral when the Bank is in a net loss position for all swaps with dealer counterparties when such net loss positions exceed \$250,000. The fair value of cash or investment securities pledged as collateral by the Bank to cover such net loss positions totaled \$1.5 million and \$1.5 million at June 30, 2018 and December 31, 2017.





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12. EARNINGS PER SHARE

The Company calculates earnings per share under the two-class method. Under the two-class method, earnings available to common shareholders for the period are allocated between Class A Common Stock and Class B Common Stock according to dividends declared (or accumulated) and participation rights in undistributed earnings. The difference in earnings per share between the two classes of common stock results 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2018	2017	2018	2017