

REPUBLIC BANCORP INC /KY/  
Form 10-Q/A  
May 16, 2018  
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

---

FORM 10-Q/A

(Amendment No.1)

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

For the quarterly period ended March 31, 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 April 30, 2018, was 18,658,706 and 2,229,091.

---

Table of Contents

Explanatory Note

The purpose of this Amendment No. 1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2018, filed with the Securities and Exchange Commission on May 10, 2018 (the "Form 10-Q"), is solely to correct signature dates on Exhibits 31.1, 31.2, and 32.

In accordance with applicable Securities and Exchange Commission ("SEC") rules and as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, Amendment No. 1 includes new certifications from the Company's Principal Executive Officer and Principal Financial Officer dated as of the date of filing of Amendment No. 1.

No other changes have been made to the Form 10-Q. This Amendment No. 1 to the Form 10-Q speaks as of the original filing date of the Form 10-Q, does not reflect events that may have occurred subsequent to the original filing date and does not modify or update in any way disclosures made in the original Form 10-Q.

Table of Contents

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

<u>Item 1. Financial Statements.</u>	4
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u>	64
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk.</u>	97
<u>Item 4. Controls and Procedures.</u>	97

PART II — OTHER INFORMATION

<u>Item 1. Legal Proceedings.</u>	97
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	98
<u>Item 6. Exhibits.</u>	99
<u>SIGNATURES</u>	100

Table of Contents

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements.

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	March 31, 2018	December 31, 2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 362,122	\$ 299,351
Available-for-sale debt securities	417,983	524,303
Held-to-maturity debt securities (fair value of \$63,515 in 2018 and \$65,133 in 2017)	62,844	64,227
Equity securities with readily determinable fair value	2,746	2,928
Mortgage loans held for sale, at fair value	4,496	5,761
Consumer loans held for sale, at fair value	2,419	2,677
Consumer loans held for sale, at the lower of cost or fair value	7,380	8,551
Loans	4,052,500	4,014,034
Allowance for loan and lease losses	(52,341)	(42,769)
Loans, net	4,000,159	3,971,265
Federal Home Loan Bank stock, at cost	32,067	32,067
Premises and equipment, net	43,896	42,588
Premises, held for sale	2,896	3,017
Goodwill	16,300	16,300
Other real estate owned	160	115
Bank owned life insurance	63,727	63,356
Other assets and accrued interest receivable	59,139	48,856
<b>TOTAL ASSETS</b>	<b>\$ 5,078,334</b>	<b>\$ 5,085,362</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 1,241,127	\$ 1,022,042
Interest-bearing	2,476,496	2,411,116
Total deposits	3,717,623	3,433,158
Securities sold under agreements to repurchase and other short-term borrowings	175,682	204,021
Federal Home Loan Bank advances	440,000	737,500

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

Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	50,535	37,019
Total liabilities	4,425,080	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	4,902	4,902
Additional paid in capital	139,646	139,406
Retained earnings	510,123	487,700
Accumulated other comprehensive (loss) income	(1,417)	416
Total stockholders' equity	653,254	632,424
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 5,078,334	\$ 5,085,362

See accompanying footnotes to consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended March 31,	
	2018	2017
INTEREST INCOME:		
Loans, including fees	\$ 69,627	\$ 58,004
Taxable investment securities	2,634	2,155
Federal Home Loan Bank stock and other	1,572	724
Total interest income	73,833	60,883
INTEREST EXPENSE:		
Deposits	3,360	1,879
Securities sold under agreements to repurchase and other short-term borrowings	213	25
Federal Home Loan Bank advances	2,274	2,292
Subordinated note	321	249
Total interest expense	6,168	4,445
NET INTEREST INCOME	67,665	56,438
Provision for loan and lease losses	17,255	12,351
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	50,410	44,087
NONINTEREST INCOME:		
Service charges on deposit accounts	3,555	3,247
Net refund transfer fees	16,352	15,382
Mortgage banking income	1,020	1,160
Interchange fee income	2,667	2,326
Program fees	1,696	1,091
Increase in cash surrender value of bank owned life insurance	371	391
Net gains on other real estate owned	132	142
Other	1,752	1,184
Total noninterest income	27,545	24,923
NONINTEREST EXPENSE:		
Salaries and employee benefits	23,834	21,211
Occupancy and equipment, net	6,221	5,967
Communication and transportation	1,382	1,272
Marketing and development	916	1,004



FDIC insurance expense	525	450
Bank franchise tax expense	2,518	2,435
Data processing	2,386	1,652
Interchange related expense	1,007	1,058
Supplies	381	527
Other real estate owned expense	45	97
Legal and professional fees	1,043	752
Other	2,787	2,514
Total noninterest expense	43,045	38,939
INCOME BEFORE INCOME TAX EXPENSE	34,910	30,071
INCOME TAX EXPENSE	7,441	10,054
NET INCOME	\$ 27,469	\$ 20,017
BASIC EARNINGS PER SHARE:		
Class A Common Stock	\$ 1.32	\$ 0.97
Class B Common Stock	1.21	0.88
DILUTED EARNINGS PER SHARE:		
Class A Common Stock	\$ 1.32	\$ 0.96
Class B Common Stock	1.20	0.88
DIVIDENDS DECLARED PER COMMON SHARE:		
Class A Common Stock	\$ 0.242	\$ 0.209
Class B Common Stock	0.220	0.190

See accompanying footnotes to consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three Months Ended March 31,	
	2018	2017
Net income	\$ 27,469	\$ 20,017
<b>OTHER COMPREHENSIVE INCOME</b>		
Change in fair value of derivatives used for cash flow hedges	199	28
Reclassification amount for derivative losses realized in income	26	66
Change in unrealized gain (loss) on available-for-sale debt securities (2018), debt and equity securities (2017)	(2,117)	706
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	(2)	53
Total other comprehensive (loss) income before income tax	(2,322)	853
Tax effect	489	(299)
Total other comprehensive (loss) income, net of tax	(1,833)	554
<b>COMPREHENSIVE INCOME</b>	<b>\$ 25,636</b>	<b>\$ 20,571</b>

See accompanying footnotes to consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2018

(in thousands)	Common Stock		Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Class A Shares Outstanding	Class B Shares Outstanding					
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	—	—	—	—	27,469	—	27,469
Net change in accumulated other comprehensive income	—	—	—	—	—	(1,495)	(1,495)
Dividends declared							
Common Stock:							
Class A Shares	—	—	—	—	(4,517)	—	(4,517)
Class B Shares	—	—	—	—	(494)	—	(494)
Net change in notes receivable on Class A Common Stock	—	—	—	33	—	—	33
Deferred director compensation - Class A Common Stock	2	—	—	55	—	—	55

Stock based compensation - performance stock units	—	—	—	26	—	—	26
Stock based compensation - restricted stock	36	—	—	64	—	—	64
Stock based compensation - stock options	—	—	—	62	—	—	62
Balance, March 31, 2018	18,645	2,243	\$ 4,902	\$ 139,646	\$ 510,123	\$ (1,417)	\$ 653,254

See accompanying footnotes to consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Three Months Ended	
	March 31,	2017
	2018	
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 27,469	\$ 20,017
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization (accretion) on investment securities, net	(106)	138
Accretion on loans and amortization of core deposit intangible, net	(702)	(583)
Unrealized losses on equity securities with readily determinable fair value	182	—
Depreciation of premises and equipment	2,447	2,042
Amortization of mortgage servicing rights	362	353
Provision for loan and lease losses	17,255	12,351
Net gain on sale of mortgage loans held for sale	(777)	(977)
Origination of mortgage loans held for sale	(29,410)	(33,245)
Proceeds from sale of mortgage loans held for sale	31,452	40,691
Net gain on sale of consumer loans held for sale	(1,637)	(1,108)
Origination of consumer loans held for sale	(164,496)	(126,924)
Proceeds from sale of consumer loans held for sale	167,562	126,441
Net gain realized on sale of other real estate owned	(132)	(212)
Writedowns of other real estate owned	—	70
Impairment of premises held for sale	104	58
Deferred director compensation expense - Class A Common Stock	55	55
Stock based compensation expense	152	410
Increase in cash surrender value of bank owned life insurance	(371)	(391)
Net change in other assets and liabilities:		
Accrued interest receivable	310	209
Accrued interest payable	(59)	(90)
Other assets	(97)	(2,096)
Other liabilities	2,439	8,700
Net cash provided by operating activities	52,002	45,909
<b>INVESTING ACTIVITIES:</b>		
Purchases of available-for-sale debt securities	(69,940)	(54,390)
Proceeds from calls, maturities and paydowns of available-for-sale debt securities	174,255	10,017
Proceeds from calls, maturities and paydowns of held-to-maturity debt securities	1,375	1,002
Net change in outstanding warehouse lines of credit	(8,387)	90,274
Purchase of non-business-acquisition loans, including premiums paid	—	(1,224)
Net change in other loans	(37,155)	8,800
Proceeds from sales of other real estate owned	266	501
Net purchases of premises and equipment	(3,738)	(3,193)
Net cash provided by investing activities	56,676	51,787

## FINANCING ACTIVITIES:

Net change in deposits	284,465	188,092
Net change in securities sold under agreements to repurchase and other short-term borrowings	(28,339)	(29,098)
Payments of Federal Home Loan Bank advances	(347,500)	(435,000)
Proceeds from Federal Home Loan Bank advances	50,000	100,000
Repurchase of Class A Common Stock	—	(544)
Net proceeds from Class A Common Stock options exercised	—	33
Cash dividends paid	(4,533)	(4,301)
Net cash used in financing activities	(45,907)	(180,818)

NET CHANGE IN CASH AND CASH EQUIVALENTS	62,771	(83,122)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	299,351	289,309
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 362,122	\$ 206,187

## SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION:

## Cash paid during the period for:

Interest	\$ 6,227	\$ 4,535
Income taxes	365	331

## SUPPLEMENTAL NONCASH DISCLOSURES:

Transfers from loans to real estate acquired in settlement of loans	\$ 179	\$ 330
---	--------	--------

See accompanying footnotes to consolidated financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – MARCH 31, 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 of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three months ended March 31, 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 March 31, 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 revenue relative to the total Company's revenue, 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 divisions within those segments operate through the Bank. All prior periods have been reclassified to conform to the current presentation.



Table of Contents

Core Bank

Traditional Banking segment — The Traditional Banking segment provides traditional banking products primarily to customers in the Company’s market footprint. As of March 31, 2018, Republic had 45 full-service banking centers and one loan production office (“LPO”) with locations as follows:

Kentucky — 33

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

Independence — 1 (closed April 3, 2018)

Southern Indiana — 3

Floyds Knobs — 1

Jeffersonville — 1

New Albany — 1

Metropolitan Tampa, Florida — 6

Metropolitan Cincinnati, Ohio — 1

Metropolitan Nashville, Tennessee — 3\*

---

\*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, fees charged to clients for trust services, 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 Traditional Bank acquires for investment single family, first lien mortgage loans that meet the Traditional Bank's specifications through its Correspondent Lending channel. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium.

## Table of Contents

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. A fee is received by the Bank 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 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.

Table of Contents

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 loan 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 – 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 – The Bank originates a credit card 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 each transaction occurrence to its third-party service provider and retains the remaining 10% interest. Loan balances held for sale are carried at the lower of cost or fair value.
- Healthcare receivables – 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 sells 100% of the receivables in other instances within one month of origination. Loan balances held for sale are carried at the lower of cost or fair value.

- Installment loan – The Bank originates an installment-loan product across the United States through a third-party service provider and sells 100% of the balances generated approximately 21 days after origination back to this third-party. Unlike RCS's other products, the Company carries these installment loans held for sale at fair value, with this portfolio marked to market on a monthly basis.

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."

Table of Contents

## Accounting Standards Updates (“ASUs”)

The following ASUs were issued prior to March 31, 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	Method of Adoption	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 \$30 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 a substantial, yet fully undetermined, increase

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

in its allowance for credit losses. A 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.

2018-02	Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("AOCI")	This ASU provides the Company with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded.	January 1, 2019	Period of adoption or retrospectively.	Immaterial.
---------	---	--	-----------------	--	-------------





Table of Contents

The following ASUs were adopted by the Company during the three months ended March 31, 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 during the first quarter of 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	January 1, 2018	Modified-retrospective approach.	The Company has updated its policies, procedures, and financial statement presentation and disclosures for this

accounting, or those 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.

ASU. As provided by 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.
---------	--	---	-----------------	---------------------------	-------------

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

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	This ASU updates the Financial Accounting Standards Board ("FASB")	Upon addition to the ASC	Not Applicable.	For the Company's financial statement disclosures in accordance with SAB 118, see footnote 19 of

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

Accounting  
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.

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

Table of Contents

## 2. INVESTMENT SECURITIES

## Available-for-Sale Debt Securities

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”) were as follows:

March 31, 2018 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 219,157	\$ —	\$ (2,156)	\$ 217,001
Private label mortgage backed security	2,738	1,382	—	4,120
Mortgage backed securities - residential	100,439	1,370	(1,571)	100,238
Collateralized mortgage obligations	84,074	279	(1,608)	82,745
Corporate bonds	10,000	—	(21)	9,979
Trust preferred security	3,503	397	—	3,900
Total available-for-sale debt securities	\$ 419,911	\$ 3,428	\$ (5,356)	\$ 417,983

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

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

March 31, 2018 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities - residential	\$ 150	\$ 10	\$ —	\$ 160
Collateralized mortgage obligations	22,062	285	(16)	22,331
Corporate bonds	40,168	405	—	40,573
Obligations of state and political subdivisions	464	—	(13)	451
Total held-to-maturity debt securities	\$ 62,844	\$ 700	\$ (29)	\$ 63,515

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 March 31, 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 months ended March 31, 2018 and 2017, there were no gains or losses on sales or calls of available-for-sale debt securities.

Table of Contents

## Debt Securities by Contractual Maturity

The amortized cost and fair value of debt securities by contractual maturity at March 31, 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.

March 31, 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	\$ 80,069	\$ 79,732	\$ —	\$ —
Due from one year to five years	139,088	137,270	10,441	10,473
Due from five years to ten years	10,000	9,978	30,191	30,551
Due beyond ten years	3,503	3,900	—	—
Private label mortgage backed security	2,738	4,120	—	—
Mortgage backed securities - residential	100,439	100,238	150	160
Collateralized mortgage obligations	84,074	82,745	22,062	22,331
Total debt securities	\$ 419,911	\$ 417,983	\$ 62,844	\$ 63,515

## 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 10% and 9% of the Bank's investment portfolio as of March 31, 2018 and December 31, 2017.

## Mortgage Backed Securities and Collateralized Mortgage Obligations

At March 31, 2018, with the exception of the \$4.1 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 March 31, 2018 and December 31, 2017, there were gross unrealized losses of \$3.2 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.

Table of Contents

## Unrealized-Loss Analysis on Debt Securities

Debt securities with unrealized losses at March 31, 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:

March 31, 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	\$ 98,699	\$ (1,011)	\$ 88,303	\$ (1,145)	\$ 187,002	\$ (2,156)
Mortgage backed securities - residential	58,202	(1,238)	9,377	(333)	67,579	(1,571)
Collateralized mortgage obligations	30,426	(864)	23,081	(744)	53,507	(1,608)
Corporate bonds	9,979	(21)	—	—	9,979	(21)
Total available-for-sale debt securities	\$ 197,306	\$ (3,134)	\$ 120,761	\$ (2,222)	\$ 318,067	\$ (5,356)

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)

Total available-for-sale  
debt securities

March 31, 2018 (in thousands)	Less than 12 months		12 months or more		Total	Unrealized
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Held-to-maturity debt securities:						
Collateralized mortgage obligations	\$ —	\$ —	\$ 6,128	\$ (16)	\$ 6,128	\$ (16)
Obligations of state and political subdivisions	451	(13)	—	—	451	(13)
Total held-to-maturity debt securities:	\$ 451	\$ (13)	\$ 6,128	\$ (16)	\$ 6,579	\$ (29)

December 31, 2017 (in thousands)	Less than 12 months		12 months or more		Total	Unrealized
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
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 March 31, 2018, the Bank's security portfolio consisted of 182 securities, 58 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.



Table of Contents

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 \$4.1 million at March 31, 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 Measurements and Disclosures. Based on this determination, the Bank utilized an income valuation model (“present value model”) approach, in determining the fair value of the security. This approach is beneficial for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management’s best estimate is used. Management’s best estimate consists of both internal and external support for this investment.

See additional discussion regarding the Bank’s private label mortgage backed security under Footnote 9 “Fair Value” in this section of the filing.

Pledged Debt Securities

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 are as follows:

(in thousands)	March 31, 2018	December 31, 2017
Carrying amount	\$ 257,934	\$ 262,679
Fair value	258,250	262,902

Table of Contents

## 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 carrying value, gross unrealized gains and losses, and fair value of equity securities with readily determinable fair values were as follows:

March 31, 2018 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Freddie Mac preferred stock	\$ —	\$ 328	\$ —	\$ 328
Community Reinvestment Act mutual fund	2,500	—	(82)	2,418
Total equity securities with readily determinable fair values	\$ 2,500	\$ 328	\$ (82)	\$ 2,746

December 31, 2017 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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:

(in thousands)	Three Months Ended March 31, 2018 Gains (Losses) Recognized on Equity Securities	Realized	Unrealized	Total
----------------	---	----------	------------	-------

Freddie Mac preferred stock	\$	—	\$	(145)	\$	(145)
Community Reinvestment Act mutual fund		—		(37)		(37)
Total equity securities with readily determinable fair value	\$	—	\$	(182)	\$	(182)



Table of Contents

## 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

RCS maintains an installment loan program where the Company sells 100% of the loans approximately 21 days after origination. The Company carries these loans at fair value, with the loans marked to market on a monthly basis, with changes in their fair value reported as a component of "Program fees."

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

(in thousands)	Three Months Ended	
	March 31, 2018	2017
Balance, beginning of period	\$ 2,677	\$ 2,198
Origination of consumer loans held for sale	10,439	12,238
Proceeds from the sale of consumer loans held for sale	(10,760)	(10,783)
Net gain on sale of consumer loans held for sale	63	26
Balance, end of period	\$ 2,419	\$ 3,679

## 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.”

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

(in thousands)	Three Months Ended	
	March 31, 2018	2017
Balance, beginning of period	\$ 8,551	\$ 1,310
Origination of consumer loans held for sale	154,057	114,686
Proceeds from the sale of consumer loans held for sale	(156,802)	(115,658)
Net gain on sale of consumer loans held for sale	1,574	1,082
Balance, end of period	\$ 7,380	\$ 1,420

Table of Contents

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

The composition of the loan portfolio at period end follows:

(in thousands)	March 31, 2018	December 31, 2017
Traditional Banking:		
Residential real estate:		
Owner occupied	\$ 912,415	\$ 921,565
Owner occupied - correspondent*	111,263	116,792
Nonowner occupied	216,095	205,081
Commercial real estate	1,216,592	1,207,293
Construction & land development	160,391	150,065
Commercial & industrial	355,316	341,692
Lease financing receivables	15,751	16,580
Home equity	342,217	347,655
Consumer:		
Credit cards	16,677	16,078
Overdrafts	791	974
Automobile loans	65,281	65,650
Other consumer	27,556	20,501
Total Traditional Banking	3,440,345	3,409,926
Warehouse lines of credit*	533,959	525,572
Total Core Banking	3,974,304	3,935,498
Republic Processing Group*:		
Tax Refund Solutions:		
Easy Advances	15,601	—
Other TRS loans	192	11,648
Republic Credit Solutions	62,403	66,888
Total Republic Processing Group	78,196	78,536
Total loans**	4,052,500	4,014,034
Allowance for loan and lease losses	(52,341)	(42,769)
Total loans, net	\$ 4,000,159	\$ 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 March 31, 2018 and December 31, 2017:

(in thousands)	March 31, 2018	December 31, 2017
Contractually receivable	\$ 4,052,694	\$ 4,014,673
Unearned income(1)	(1,219)	(1,157)
Unamortized premiums(2)	914	1,069
Unaccreted discounts(3)	(4,251)	(4,643)
Net unamortized deferred origination fees and costs(4)	4,362	4,092
Carrying value of loans	\$ 4,052,500	\$ 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.

Table of Contents

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

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

(in thousands)	March 31, 2018	December 31, 2017
Contractually required principal	\$ 5,319	\$ 5,435
Non-accretable amount	(1,691)	(1,691)
Accretable amount	(140)	(140)
Carrying value of loans	\$ 3,488	\$ 3,604

The following table presents a rollforward of the accretable amount on all PCI loans for the three months ended March 31, 2018 and 2017:

(in thousands)	Three Months Ended March 31,	
	2018	2017
Balance, beginning of period	\$ (140)	\$ (3,600)
Transfers between non-accretable and accretable*	—	90
Net accretion into interest income on loans, including loan fees	—	101
Balance, end of period	\$ (140)	\$ (3,409)

---

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

Table of Contents

## Credit Quality Indicators

The following tables include loans by risk category based on the Bank's internal analyses performed as of March 31, 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:

March 31, 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	\$ —	\$ 17,690	\$ 12,395	\$ —	\$ 176	\$ 1,609	\$ 31,870
Owner occupied - correspondent	—	—	383	—	—	—	383
Nonowner occupied	—	628	2,259	—	244	—	3,131
Commercial real estate	1,205,748	4,743	4,765	—	1,336	—	1,216,592
Construction & land development	159,780	—	611	—	—	—	160,391
Commercial & industrial	354,477	36	791	—	12	—	355,316
Lease financing receivables	15,751	—	—	—	—	—	15,751
Home equity	—	33	1,427	—	6	102	1,568
Consumer:							
Credit cards	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—
Automobile loans	—	—	141	—	—	—	141
Other consumer	—	—	556	—	—	3	559
Total Traditional Banking	1,735,756	23,130	23,328	—	1,774	1,714	1,785,702
Warehouse lines of credit	533,959	—	—	—	—	—	533,959
Total Core Banking	2,269,715	23,130	23,328	—	1,774	1,714	2,319,661
Republic Processing Group:							
Tax Refund Solutions:							
Easy Advances	—	—	—	—	—	—	—
Other TRS loans	—	—	—	—	—	—	—
Republic Credit Solutions	—	—	1,306	—	—	—	1,306
Total Republic Processing Group	—	—	1,306	—	—	—	1,306
Total rated loans	\$ 2,269,715	\$ 23,130	\$ 24,634	\$ —	\$ 1,774	\$ 1,714	\$ 2,320,967

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.

Table of Contents

## 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 March 31, 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	\$ —	\$ (215)	\$ 21	\$ 5,988	\$ 7,158	\$ (143)	\$ (3)	\$ 59	\$ 7,051
Owner occupied - correspondent	292	(14)	—	—	278	373	(9)	(11)	—	353
Nonowner occupied	1,396	165	(121)	21	1,461	1,139	59	—	—	1,198
Commercial real estate	9,043	292	—	125	9,460	8,078	(197)	—	17	7,898
Construction & land development	2,364	354	—	2	2,720	1,850	383	—	—	2,233
Commercial & industrial	2,198	126	(108)	31	2,247	1,511	(44)	—	21	1,488
Lease financing receivables	174	(9)	—	—	165	136	9	—	—	145
Home equity	3,754	(111)	—	26	3,669	3,757	69	(4)	9	3,831
Consumer: Credit cards	607	235	(93)	7	756	490	38	(27)	5	506
Overdrafts	974	17	(289)	89	791	675	83	(184)	67	641
Automobile loans	687	19	—	—	706	526	36	—	1	563
Other consumer	1,162	(135)	(120)	83	990	771	183	(230)	101	825
Total Traditional Banking	28,833	939	(946)	405	29,231	26,464	467	(459)	280	26,752
Warehouse lines of credit	1,314	21	—	—	1,335	1,464	(226)	—	—	1,238



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

Total Core Banking	30,147	960	(946)	405	30,566	27,928	241	(459)	280	27,9
Republic Processing Group:										
Tax Refund Solutions:										
Easy Advances	—	13,277	(3,705)	—	9,572	—	8,601	(860)	—	7,74
Other TRS loans	12	112	—	1	125	25	(260)	—	235	—
Republic Credit Solutions	12,610	2,906	(3,696)	258	12,078	4,967	3,769	(2,285)	180	6,63
Total Republic Processing Group	12,622	16,295	(7,401)	259	21,775	4,992	12,110	(3,145)	415	14,3
Total	\$ 42,769	\$ 17,255	\$ (8,347)	\$ 664	\$ 52,341	\$ 32,920	\$ 12,351	\$ (3,604)	\$ 695	\$ 42,3

Nonperforming Loans and Nonperforming Assets

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

(dollars in thousands)	March 31, 2018	December 31, 2017
Loans on nonaccrual status*	\$ 14,849	\$ 14,118
Loans past due 90-days-or-more and still on accrual**	1,279	956
Total nonperforming loans	16,128	15,074
Other real estate owned	160	115
Total nonperforming assets	\$ 16,288	\$ 15,189

Credit Quality Ratios - Total Company:

Nonperforming loans to total loans	0.40	%	0.38	%
Nonperforming assets to total loans (including OREO)	0.40		0.38	
Nonperforming assets to total assets	0.32		0.30	

Credit Quality Ratios - Core Bank:

Nonperforming loans to total loans	0.37	%	0.36	%
Nonperforming assets to total loans (including OREO)	0.38		0.36	
Nonperforming assets to total assets	0.31		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.

Table of Contents

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*	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
<b>Traditional Banking:</b>				
<b>Residential real estate:</b>				
Owner occupied	\$ 8,952	\$ 9,230	\$ —	\$ —
Owner occupied - correspondent	—	—	—	—
Nonowner occupied	758	257	—	—
Commercial real estate	3,351	3,247	—	—
Construction & land development	62	67	—	—
Commercial & industrial	706	—	—	—
Lease financing receivables	—	—	—	—
Home equity	929	1,217	—	—
<b>Consumer:</b>				
Credit cards	—	—	1	—
Overdrafts	—	—	—	—
Automobile loans	65	68	—	—
Other consumer	26	32	26	19
Total Traditional Banking	14,849	14,118	27	19
Warehouse lines of credit	—	—	—	—
Total Core Banking	14,849	14,118	27	19
<b>Republic Processing Group:</b>				
<b>Tax Refund Solutions:</b>				
Easy Advances	—	—	—	—
Other TRS loans	—	—	—	—
Republic Credit Solutions	—	—	1,252	937
Total Republic Processing Group	—	—	1,252	937
<b>Total</b>	<b>\$ 14,849</b>	<b>\$ 14,118</b>	<b>\$ 1,279</b>	<b>\$ 956</b>

\* 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.



Table of Contents

## Delinquent Loans

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

March 31, 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	\$ 1,191	\$ 960	\$ 1,344	\$ 3,495	\$ 908,920	\$ 912,415
Owner occupied - correspondent	383	—	—	383	110,880	111,263
Nonowner occupied	645	—	99	744	215,351	216,095
Commercial real estate	80	811	1,399	2,290	1,214,302	1,216,592
Construction & land development	—	—	—	—	160,391	160,391
Commercial & industrial	124	15	—	139	355,177	355,316
Lease financing receivables	—	—	—	—	15,751	15,751
Home equity	481	179	187	847	341,370	342,217
Consumer:						
Credit cards	37	29	1	67	16,610	16,677
Overdrafts	176	1	—	177	614	791
Automobile loans	—	21	23	44	65,237	65,281
Other consumer	61	30	26	117	27,439	27,556
Total Traditional Banking	3,178	2,046	3,079	8,303	3,432,042	3,440,345
Warehouse lines of credit	—	—	—	—	533,959	533,959
Total Core Banking	3,178	2,046	3,079	8,303	3,966,001	3,974,304
Republic Processing Group:						
Tax Refund Solutions:						
Easy Advances	13,163	—	—	13,163	2,438	15,601
Other TRS loans	—	—	—	—	192	192
Republic Credit Solutions	2,487	628	1,252	4,367	58,036	62,403
Total Republic Processing Group	15,650	628	1,252	17,530	60,666	78,196

Total	\$ 18,828	\$ 2,674	\$ 4,331	\$ 25,833	\$ 4,026,667	\$ 4,052,500
Delinquency ratio***	0.46 %	0.07 %	0.11 %	0.64 %		

---

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

\*\*Delinquent status may be determined by either the number of days past due or number of payments past due. Easy Advances do not have a contractual due date but the Company considers an Easy Advance delinquent if it remains unpaid three weeks after the taxpayer customer's tax return is submitted to the applicable tax authority.

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

Table of Contents

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)	March 31, 2018	December 31, 2017
Loans with no allocated Allowance	\$ 19,992	\$ 18,540
Loans with allocated Allowance	27,935	27,076
Total recorded investment in impaired loans	\$ 47,927	\$ 45,616
Amount of the allocated Allowance	\$ 4,579	\$ 4,685

Approximately \$3 million and \$4 million of impaired loans at March 31, 2018 and December 31, 2017 were PCI loans. Approximately \$2 million and \$2 million of impaired loans at March 31, 2018 and December 31, 2017 were formerly PCI loans that became classified as "impaired" through a post-acquisition troubled debt restructuring.



Table of Contents

The following tables present the balance in the Allowance and the recorded investment in loans by portfolio class based on impairment method as of March 31, 2018 and December 31, 2017:

March 31, 2018 (dollars in thousands)	Allowance for Loan and Lease Losses				Loans		PCI with Post Acquisition Impairment	PCI without Post Acquisition Impairment
	Individually Evaluated Excluding PCI	Collectively Evaluated	PCI with Post Acquisition Impairment	Total Allowance	Individually Evaluated Excluding PCI	Collectively Evaluated		
<b>Traditional Banking:</b>								
<b>Residential real estate:</b>								
Owner occupied	\$ 2,280	\$ 3,430	\$ 278	\$ 5,988	\$ 27,610	\$ 883,020	\$ 1,785	\$ —
Owner occupied - correspondent	—	278	—	278	383	110,880	—	—
Nonowner occupied	3	1,456	2	1,461	2,827	213,024	244	—
<b>Commercial real estate</b>								
Construction & land development	100	2,620	—	2,720	611	159,780	—	—
Commercial & industrial	88	2,159	—	2,247	799	354,505	—	12
<b>Lease financing</b>								
receivables	—	165	—	165	—	15,751	—	—
Home equity	402	3,162	105	3,669	1,427	340,682	108	—
<b>Consumer:</b>								
Credit cards	—	756	—	756	—	16,677	—	—
Overdrafts	—	791	—	791	—	791	—	—
Automobile loans	41	665	—	706	141	65,140	—	—
Other consumer	479	508	3	990	530	27,023	3	—
<b>Total Traditional Banking</b>	<b>4,122</b>	<b>24,673</b>	<b>436</b>	<b>29,231</b>	<b>44,399</b>	<b>3,392,458</b>	<b>3,474</b>	<b>14</b>
Warehouse lines of credit	—	1,335	—	1,335	—	533,959	—	—
<b>Total Core Banking</b>	<b>4,122</b>	<b>26,008</b>	<b>436</b>	<b>30,566</b>	<b>44,399</b>	<b>3,926,417</b>	<b>3,474</b>	<b>14</b>
<b>Republic Processing Group:</b>								
<b>Tax Refund Solutions:</b>								
Easy Advances	—	9,572	—	9,572	—	15,601	—	—
Other TRS loans	—	125	—	125	—	192	—	—
Republic Credit Solutions	21	12,057	—	12,078	54	62,349	—	—
<b>Total Republic Processing Group</b>	<b>21</b>	<b>21,754</b>	<b>—</b>	<b>21,775</b>	<b>54</b>	<b>78,142</b>	<b>—</b>	<b>—</b>

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

Total	\$ 4,143	\$ 47,762	\$ 436	\$ 52,341	\$ 44,453	\$ 4,004,559	\$ 3,474	\$ 14
	Allowance for Loan and Lease Losses				Loans		PCI	PCI
	Individually	Collectively	PCI with Post Acquisition	Total	Individually	Collectively	with Post Acquisition	without Post Acquisition
December 31, 2017	Evaluated Excluding PCI	Evaluated	Impairment Allowance	Allowance	Evaluated Excluding PCI	Evaluated	Impairment	Impaired
(dollars in thousands)	PCI	Evaluated	Impairment Allowance	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



Table of Contents

The following tables present loans individually evaluated for impairment by class of loans as of March 31, 2018 and December 31, 2017 and for the three months ended March 31, 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 March 31, 2018			Three Months Ended March 31, 2018		Cash Basis
	Unpaid Principal Balance	Recorded Investment	Allocated Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized
Impaired loans with no allocated Allowance:						
Residential real estate:						
Owner occupied	\$ 11,078	\$ 10,370	\$ —	\$ 10,580	\$ 50	\$ —
Owner occupied - correspondent	383	383	—	192	4	—
Nonowner occupied	3,141	2,749	—	2,227	22	—
Commercial real estate	5,649	4,575	—	4,503	17	—
Construction & land development	476	476	—	534	5	—
Commercial & industrial	820	712	—	366	3	—
Lease financing receivables	—	—	—	—	—	—
Home equity	751	674	—	828	3	—
Consumer	53	53	—	39	1	—
Impaired loans with allocated Allowance:						
Residential real estate:						
Owner occupied	19,146	19,026	2,558	18,840	172	—
Owner occupied - correspondent	—	—	—	—	—	—
Nonowner occupied	325	322	5	340	3	—
Commercial real estate	6,829	6,829	777	6,477	73	—
Construction & land development	135	135	100	139	1	—
Commercial & industrial	87	87	88	188	1	—
Lease financing receivables	—	—	—	—	—	—
Home equity	861	861	507	802	7	—
Consumer	675	675	544	722	5	—
Total impaired loans	\$ 50,409	\$ 47,927	\$ 4,579	\$ 46,777	\$ 367	\$ —

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

(in thousands)	As of December 31, 2017			Three Months Ended March 31, 2017		Cash Basis
	Unpaid Principal Balance	Recorded Investment	Allocated Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized
Impaired loans with no allocated Allowance:						
Residential real estate:						
Owner occupied	\$ 11,664	\$ 10,789	\$ —	\$ 12,261	\$ 29	\$ —
Owner occupied - correspondent	—	—	—	—	—	—
Non owner occupied	1,784	1,704	—	1,394	8	—
Commercial real estate	5,504	4,430	—	5,153	21	—
Construction & land development	591	591	—	476	5	—
Commercial & industrial	20	20	—	61	1	—
Lease financing receivables	—	—	—	—	—	—
Home equity	1,071	981	—	1,350	4	—
Consumer	25	25	—	43	—	—
Impaired loans with allocated Allowance:						
Residential real estate:						
Owner occupied	18,676	18,654	2,681	21,204	181	—
Owner occupied - correspondent	—	—	—	—	—	—
Non owner occupied	361	358	6	490	6	—
Commercial real estate	6,124	6,124	455	6,744	67	—
Construction & land development	142	142	107	401	5	—
Commercial & industrial	288	288	288	386	—	—
Lease financing receivables	—	—	—	—	—	—
Home equity	743	743	536	806	10	—
Consumer	767	767	612	63	—	—
Total impaired loans	\$ 47,760	\$ 45,616	\$ 4,685	\$ 50,832	\$ 337	\$ —

Table of Contents

## Troubled Debt Restructurings

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

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

Nonaccrual loans modified as TDRs typically remain on nonaccrual status and continue to be reported as nonperforming loans for a minimum of 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 March 31, 2018 and December 31, 2017, \$6 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
March 31, 2018 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate	62	\$ 4,797	180	\$ 20,966	242	\$ 25,763
Commercial real estate	2	1,342	14	6,519	16	7,861
Construction & land development	1	62	2	549	3	611
Commercial & industrial	—	—	5	25	5	25
Consumer	—	—	828	485	828	485
Total troubled debt restructurings	65	\$ 6,201	1,029	\$ 28,544	1,094	\$ 34,745

	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

Table of Contents

The Bank considers a TDR to be performing to its modified terms if the loan is in accrual status and not past due 30-days-or-more as of the reporting date. A summary of the categories of TDR loan modifications outstanding and respective performance under modified terms at March 31, 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
March 31, 2018 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate loans (including home equity loans):						
Interest only payments	1	\$ 4	—	\$ —	1	\$ 4
Rate reduction	144	17,205	34	3,162	178	20,367
Principal deferral	13	2,610	3	639	16	3,249
Legal modification	20	1,054	27	1,089	47	2,143
Total residential TDRs	178	20,873	64	4,890	242	25,763
Commercial related and construction/land development loans:						
Interest only payments	3	808	—	—	3	808
Rate reduction	7	3,125	1	78	8	3,203
Principal deferral	10	3,147	3	1,339	13	4,486
Total commercial TDRs	20	7,080	4	1,417	24	8,497
Consumer loans:						
Principal deferral	828	485	—	—	828	485
Total troubled debt restructurings	1,026	\$ 28,438	68	\$ 6,307	1,094	\$ 34,745

	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
	Number of	Recorded	Number of	Recorded	Number of	Recorded
December 31, 2017 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment



Residential real estate loans  
(including home equity loans):

Interest only payments	1	\$ 5	1	\$ 458	2	\$ 463
Rate reduction	147	17,617	32	3,081	179	20,698
Principal deferral	13	1,436	2	121	15	1,557
Legal modification	21	1,118	28	1,279	49	2,397
Total residential TDRs	182	20,176	63	4,939	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	1,031	\$ 28,265	66	\$ 6,372	1,097	\$ 34,637

As of March 31, 2018 and December 31, 2017, 82% and 82% of the Bank's TDRs were performing according to their modified terms. The Bank had provided \$3 million and \$4 million of specific reserve allocations to clients whose loan terms have been modified in TDRs as of March 31, 2018 and December 31, 2017. The Bank had no commitments to lend any additional material amounts to its existing TDR relationships at March 31, 2018 or December 31, 2017.

Table of Contents

A summary of the categories of TDR loan modifications by respective performance as of March 31, 2018 and 2017 that were modified during the three months ended March 31, 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 Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
March 31, 2018 (dollars in thousands)						
Residential real estate loans (including home equity loans):						
Interest only payments	—	\$ —	—	\$ —	—	\$ —
Rate reduction	—	—	1	85	1	85
Principal deferral	1	1,204	1	522	2	1,726
Legal modification	—	—	—	—	—	—
Total residential TDRs	1	1,204	2	607	3	1,811
Commercial related and construction/land development loans:						
Interest only payments	—	—	—	—	—	—
Rate reduction	—	—	—	—	—	—
Principal deferral	2	3	1	14	3	17
Total commercial TDRs	2	3	1	14	3	17
Consumer loans:						
Principal deferral	1	61	—	—	1	61
Total troubled debt restructurings	4	\$ 1,268	3	\$ 621	7	\$ 1,889

	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
March 31, 2017 (dollars in thousands)						
Residential real estate loans (including home equity loans):						

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

Interest only payments	—	\$ —	—	\$ —	—	\$ —
Rate reduction	1	159	—	—	1	159
Principal deferral	—	—	—	—	—	—
Legal modification	2	38	—	—	2	38
Total residential TDRs	3	197	—	—	3	197
Commercial related and construction/land development loans:						
Interest only payments	—	—	—	—	—	—
Rate reduction	—	—	—	—	—	—
Principal deferral	—	—	—	—	—	—
Total commercial TDRs	—	—	—	—	—	—
Total troubled debt restructurings	3	\$ 197	—	\$ —	3	\$ 197

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 March 31, 2018 and 2017, 67% and 100% of the Bank's TDRs that occurred during the first quarters of 2018 and 2017 were performing according to their modified terms. The Bank provided approximately \$127,000 and \$29,000 in specific reserve allocations to clients whose loan terms were modified in TDRs during the first quarters of 2018 and 2017.

There was no significant change between the pre and post modification loan balances for the three months ending March 31, 2018 and 2017.

Table of Contents

The following table presents loans by class modified as troubled debt restructurings within the previous 12 months of March 31, 2018 and 2017 and for which there was a payment default during the three months ended March 31, 2018 and 2017.

(dollars in thousands)	Three Months Ended March 31, 2018		2017	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential real estate:				
Owner occupied	1	\$ 522	—	\$ —
Commercial & industrial	1	14	—	—
Total	2	\$ 536	—	\$ —

## Foreclosures

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

(in thousands)	March 31, 2018	December 31, 2017
Residential real estate	\$ 160	\$ 115
Total other real estate owned	\$ 160	\$ 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 March 31, 2018 and December 31, 2017:

(in thousands)	March 31, 2018	December 31, 2017
----------------	----------------	-------------------

Recorded investment in consumer residential real estate mortgage loans in the process of foreclosure	\$ 1,113	\$ 1,392
--	----------	----------

Table of Contents

## 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 of federal tax refunds subsequent to the first quarter. Each year, all unpaid EAs are charged-off by the end of the second quarter.

Information regarding EAs follows:

(in thousands)	Three Months Ended March 31,			
	2018		2017	
Easy Advances originated	\$ 430,212		\$ 328,519	
Net Charge to the Provision for Easy Advances	13,277		8,601	
Provision to total Easy Advances originated	3.09	%	2.62	%
Easy Advances net charge-offs	\$ 3,705		\$ 860	
Easy Advances net charge-offs to total Easy Advances originated	0.86	%	0.26	%

## 5. DEPOSITS

Ending deposit balances at March 31, 2018 and December 31, 2017 were as follows:

(in thousands)	March 31, 2018	December 31, 2017
Core Bank:		
Demand	\$ 952,510	\$ 944,812
Money market accounts	587,162	546,998

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

Brokered money market accounts	366,060	373,242
Savings	191,423	182,800
Individual retirement accounts*	49,006	47,982
Time deposits, \$250 and over*	77,234	77,891
Other certificates of deposit*	202,834	189,661
Brokered certificates of deposit*	48,626	46,089
Total Core Bank interest-bearing deposits	2,474,855	2,409,475
Total Core Bank noninterest-bearing deposits	1,065,902	988,537
Total Core Bank deposits	3,540,757	3,398,012
Republic Processing Group ("RPG"):		
Money market accounts	1,641	1,641
Total RPG interest-bearing deposits	1,641	1,641
Brokered prepaid card deposits	22,022	1,509
Other noninterest-bearing deposits	153,203	31,996
Total RPG noninterest-bearing deposits	175,225	33,505
Total RPG deposits	176,866	35,146
Total deposits	\$ 3,717,623	\$ 3,433,158

---

\*Represents a time deposit.

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 March 31, 2018 and December 31, 2017, all securities sold under agreements to repurchase had overnight maturities. Additional information regarding securities sold under agreements to repurchase follows:

(dollars in thousands)	March 31, 2018	December 31, 2017	
Outstanding balance at end of period	\$ 175,682	\$	204,021
Weighted average interest rate at end of period	0.50	%	0.31 %
Fair value of securities pledged:			
U.S. Treasury securities and U.S. Government agencies	\$ 118,274	\$	71,824
Mortgage backed securities - residential	62,032		83,452
Collateralized mortgage obligations	45,905		84,693
Total securities pledged	\$ 226,211	\$	239,969

(dollars in thousands)	Three Months Ended			
	March 31,		2017	
	2018			
Average outstanding balance during the period	\$ 257,439		\$	218,412
Average interest rate during the period	0.33	%	0.05	%
Maximum outstanding at any month end during the period	\$ 215,281		\$	183,709



7. FEDERAL HOME LOAN BANK ADVANCES

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

(dollars in thousands)	March 31, 2018	December 31, 2017
Overnight advances	\$ 50,000	\$ 330,000
Variable interest rate advance indexed to 3-Month LIBOR plus 0.14%	10,000	10,000
Fixed interest rate advances	380,000	397,500
Total FHLB advances	\$ 440,000	\$ 737,500

Table of Contents

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At March 31, 2018 and December 31, 2017, Republic had available borrowing capacity of \$641 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 March 31, 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)	\$ 50,000	1.72	%
2018 (Term)	110,000	1.65	
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	\$ 440,000	1.79	%

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

(dollars in thousands)	March 31, 2018	December 31, 2017		
Outstanding balance at end of period	\$ 50,000	\$ 330,000		
Weighted average interest rate at end of period	1.72	1.42	%	%

(dollars in thousands)	Three Months Ended March 31,			
	2018	2017		
Average outstanding balance during the period	\$ 144,889	\$ 109,333		
Average interest rate during the period	1.44	0.69	%	%

Maximum outstanding at any month end during the period      \$ 560,000      \$ 320,000

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

(in thousands)	March 31, 2018	December 31, 2017
First lien, single family residential real estate	\$ 1,121,052	\$ 1,123,402
Home equity lines of credit	317,751	320,649

Table of Contents

## 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)	March 31, 2018	December 31, 2017
Unused warehouse lines of credit	\$ 491,942	\$ 525,328
Unused home equity lines of credit	378,232	367,887
Unused loan commitments - other	703,759	598,002
Standby letters of credit	12,645	12,643
FHLB letter of credit	10,000	10,000
Total commitments	\$ 1,596,578	\$ 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.

Table of Contents

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 March 31, 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 sale, at fair value: The Company has elected to carry certain installment loans, which are originated through its RCS segment and generally sold within 21 days of origination, at fair value. The fair value for these loans is based on contractual terms, Level 3 inputs.

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

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

## Table of Contents

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

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

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

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

**Mortgage servicing rights:** On at least a quarterly basis, 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 March 31, 2018 and December 31, 2017.

Table of Contents

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

(in thousands)	Fair Value Measurements at March 31, 2018 Using:			Total Fair Value
	Quoted Prices Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Financial assets:				
Available-for-sale debt securities:				
U.S. Treasury securities and U.S. Government agencies	\$ —	\$ 217,001	\$ —	\$ 217,001
Private label mortgage backed security	—	—	4,120	4,120
Mortgage backed securities - residential	—	100,238	—	100,238
Collateralized mortgage obligations	—	82,745	—	82,745
Corporate bonds	—	9,979	—	9,979
Trust preferred security	—	—	3,900	3,900
Total available-for-sale debt securities	\$ —	\$ 409,963	\$ 8,020	\$ 417,983
Equity securities with readily determinable fair value:				
Freddie Mac preferred stock	\$ —	\$ 328	\$ —	\$ 328
Community Reinvestment Act mutual fund	2,418	—	—	2,418
Total equity securities with readily determinable fair value	\$ 2,418	\$ 328	\$ —	\$ 2,746
Mortgage loans held for sale	\$ —	\$ 4,496	\$ —	\$ 4,496
Consumer loans held for sale	—	—	2,419	2,419
Rate lock loan commitments	—	443	—	443
Mandatory forward contracts	—	47	—	47
Interest rate swap agreements	—	1,494	—	1,494
Financial liabilities:				
Interest rate swap agreements	\$ —	\$ 1,360	\$ —	\$ 1,360

Table of Contents

(in thousands)	Fair Value Measurements at December 31, 2017 Using:			Total Fair Value
	Quoted Prices Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Financial assets:				
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 months ended March 31, 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 March 31, 2018 and 2017:

(in thousands)	Three Months Ended March 31,	
	2018	2017
Balance, beginning of period	\$ 4,449	\$ 4,777
Total gains or losses included in earnings:		
Net change in unrealized gain	(2)	53
Recovery of actual losses previously recorded	38	—
Principal paydowns	(365)	(148)
Balance, end of period	\$ 4,120	\$ 4,682

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.

Table of Contents

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

March 31, 2018 (dollars in thousands)	Fair	Valuation		
	Value	Technique	Unobservable Inputs	Range
Private label mortgage backed security	\$ 4,120	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 months ended March 31, 2018 and 2017:

Three Months  
Ended

(in thousands)	March 31,	
	2018	2017
Balance, beginning of period	\$ 3,600	\$ 3,200
Total gains or losses included in earnings:		
Discount accretion	10	11
Net change in unrealized gain	290	(11)
Balance, end of period	\$ 3,900	\$ 3,200

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.

Table of Contents

## 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 March 31, 2018 and December 31, 2017.

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

(in thousands)	March 31, 2018	December 31, 2017
Aggregate fair value	\$ 4,496	\$ 5,761
Contractual balance	4,412	5,668
Unrealized gain	84	93

The total amount of gains and losses from changes in fair value included in earnings for the three months ended March 31, 2018 and 2017 for mortgage loans held for sale are presented in the following table:

(in thousands)	Three Months Ended	
	March 31, 2018	March 31, 2017
Interest income	\$ 72	\$ 67
Change in fair value	(9)	(7)
Total included in earnings	\$ 63	\$ 60

## Consumer Loans Held for Sale

RCS carries loans originated for sale through its installment loan program at fair value. Such loans are generally sold within 21 days of origination, with their fair value based on contractual terms. Interest income is recorded based on the contractual terms of the loan and in accordance with Bank policy for such instruments. None of these loans were past due 90-days-or-more or on nonaccrual as of March 31, 2018 and December 31, 2017.

A reconciliation of the Company's consumer loans held for sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2018 and 2017 is included in Footnote 3 of this section of the filing.

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

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

March 31, 2018 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Rate
Consumer loans held for sale	\$ 2,419	Contractual Terms	(1) Net Premium	0.9%
			(2) Discounted Sales	5.0%
December 31, 2017 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Rate
Consumer loans held for sale	\$ 2,677	Contractual Terms	(1) Net Premium	0.9%
			(2) Discounted Sales	5.0%



Table of Contents

As of March 31, 2018 and December 31, 2017 the aggregate fair value, contractual balance, and unrealized gain on consumer loans held for sale, at fair value, was as follows:

(in thousands)	March 31, 2018	December 31, 2017
Aggregate fair value	\$ 2,419	\$ 2,677
Contractual balance	2,291	2,535
Unrealized gain	128	142

The total amount of net gains from changes in fair value included in earnings for the three months ended March 31, 2018 and 2017 for consumer loans held for sale, at fair value, are presented in the following table:

(in thousands)	Three Months Ended March 31,	
	2018	2017
Interest income	\$ 176	\$ 186
Change in fair value	(14)	82
Total included in earnings	\$ 162	\$ 268

Table of Contents

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

(in thousands)	Fair Value Measurements at			
	March 31, 2018 Using:			
	Quoted Prices for Identifiable Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Impaired loans:				
Residential real estate:				
Owner occupied	\$ —	\$ —	\$ 3,269	\$ 3,269
Nonowner occupied	—	—	1,339	1,339
Commercial real estate	—	—	1,342	1,342
Commercial & industrial	—	—	744	744
Home equity	—	—	308	308
Total impaired loans*	\$ —	\$ —	\$ 7,002	\$ 7,002
Premises	\$ —	\$ —	\$ 2,896	\$ 2,896
	Fair Value Measurements at			
	December 31, 2017 Using:			
(in thousands)	Quoted Prices for Identifiable Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
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.

45

---

Table of Contents

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

	Fair	Valuation	Unobservable	Range
March 31, 2018 (dollars in thousands)	Value	Technique	Inputs	(Weighted Average)
Impaired loans - residential real estate owner occupied	\$ 3,269	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 54% (12%)
Impaired loans - residential real estate nonowner occupied	\$ 1,339	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 27% (13%)
Impaired loans - commercial real estate	\$ 79	Sales comparison approach	Adjustments determined for differences between comparable sales	21% (21%)
Impaired loans - commercial real estate	\$ 1,263	Income approach	Adjustments for differences between net operating income expectations	17% (17%)
Impaired loans - commercial & industrial	\$ 744	Sales comparison approach	Adjustments determined for differences between comparable sales	3% (3%)
Impaired loans - home equity	\$ 308	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 22% (14%)
Premises	\$ 2,896	Sales comparison approach	Adjustments determined for differences between comparable sales	8% - 68% (24%)
	Fair	Valuation	Unobservable	Range
December 31, 2017 (dollars in thousands)	Value	Technique	Inputs	(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			

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

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%)

Table of Contents

## Impaired Loans

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

Impaired collateral-dependent loans are as follows:

(in thousands)	March 31, 2018	December 31, 2017
Carrying amount of loans measured at fair value	\$ 6,293	\$ 5,358
Estimated selling costs considered in carrying amount	725	752
Valuation allowance	(16)	(7)
Total fair value	\$ 7,002	\$ 6,103

(in thousands)	Three Months Ended March 31, 2018      2017	
Provisions on collateral-dependent, impaired loans	\$ 429	\$ 8

## 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)	March 31, 2018	December 31, 2017
Other real estate owned carried at fair value	\$ —	\$ 83
Other real estate owned carried at cost	160	32
Total carrying value of other real estate owned	\$ 160	\$ 115

(in thousands)	Three Months Ended March 31, 2018 2017	
Other real estate owned write-downs during the period	\$ —	\$ 70

Table of Contents

## Premises

The Company's Traditional Banking segment classified four of its former banking centers as held for sale as of March 31, 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 March 31,	
	2018	2017
Impairment charges on premises	\$ 104	\$ 58

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

(in thousands)	Carrying Value	Fair Value Measurements at March 31, 2018:			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash and cash equivalents	\$ 362,122	\$ 362,122	\$ —	\$ —	\$ 362,122
Available-for-sale debt securities	417,983	—	409,963	8,020	417,983
Held-to-maturity debt securities	62,844	—	63,515	—	63,515
Equity securities with readily determinable fair values	2,746	2,418	328	—	2,746
Mortgage loans held for sale, at fair value	4,496	—	4,496	—	4,496
Consumer loans held for sale, at fair value	2,419	—	—	2,419	2,419
Consumer loans held for sale, at the lower of cost or fair value	7,380	—	7,380	—	7,380



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

Loans, net	4,000,159	—	—	3,978,974	3,978,974
Federal Home Loan Bank stock	32,067	—	—	—	NA
Accrued interest receivable	11,772	—	11,772	—	11,772
Liabilities:					
Noninterest-bearing deposits	\$ 1,241,127	—	\$ 1,241,127	—	\$ 1,241,127
Transaction deposits	2,098,796	—	2,098,796	—	2,098,796
Time deposits	377,700	—	373,075	—	373,075
Securities sold under agreements to repurchase and other short-term borrowings	175,682	—	175,682	—	175,682
Federal Home Loan Bank advances	440,000	—	432,140	—	432,140
Subordinated note	41,240	—	32,352	—	32,352
Accrued interest payable	1,041	—	1,041	—	1,041

---

NA - Not applicable

Table of Contents

(in thousands)	Carrying Value	Fair Value Measurements at December 31, 2017:			Total Fair Value
		Level 1	Level 2	Level 3	
<b>Assets:</b>					
Cash and cash equivalents	\$ 299,351	\$ 299,351	\$ —	\$ —	\$ 299,351
Available-for-sale debt securities	524,303	—	516,727	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
<b>Liabilities:</b>					
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

NA - Not applicable

Table of Contents

## 10. MORTGAGE BANKING ACTIVITIES

Mortgage Banking activities primarily include residential mortgage originations and servicing.

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

(in thousands)	Three Months Ended March 31,	
	2018	2017
Balance, beginning of period	\$ 5,761	\$ 11,662
Origination of mortgage loans held for sale	29,410	33,245
Proceeds from the sale of mortgage loans held for sale	(31,452)	(40,691)
Net gain on sale of mortgage loans held for sale	777	977
Balance, end of period	\$ 4,496	\$ 5,193

The following table presents the components of Mortgage Banking income:

(in thousands)	Three Months Ended March 31,	
	2018	2017
Net gain realized on sale of mortgage loans held for sale	\$ 597	\$ 788
Net change in fair value recognized on loans held for sale	(9)	(7)
Net change in fair value recognized on rate lock loan commitments	133	319
Net change in fair value recognized on forward contracts	56	(123)
Net gain recognized	777	977
Loan servicing income	605	536
Amortization of mortgage servicing rights	(362)	(353)
Net servicing income recognized	243	183
Total Mortgage Banking income	\$ 1,020	\$ 1,160

Activity for capitalized mortgage servicing rights was as follows:

(in thousands)	Three Months Ended March 31,	
	2018	2017
Balance, beginning of period	\$ 5,044	\$ 5,180
Additions	243	331
Amortized to expense	(362)	(353)
Balance, end of period	\$ 4,925	\$ 5,158

There was no balance or activity in the valuation allowance for capitalized mortgage servicing rights for the three months ended March 31, 2018 and 2017.

Table of Contents

Other information relating to mortgage servicing rights follows:

(in thousands)	March 31, 2018		December 31, 2017	
Fair value of mortgage servicing rights portfolio	\$	8,841	\$	7,984
Monthly weighted average prepayment rate of unpaid principal balance*	176	%	200	%
Discount rate	10	%	10	%
Weighted average default rate	4.08	%	3.75	%
Weighted average life in years	5.99		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)	March 31, 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	\$ 4,412	\$ 4,496	\$ 5,668	\$ 5,761
Included in other assets:				
Rate lock loan commitments	\$ 21,663	\$ 443	\$ 14,696	\$ 310
Mandatory forward contracts	21,604	47	—	—
Included in other liabilities:				
Mandatory forward contracts	\$ —	\$ —	\$ 17,159	\$ 9

Table of Contents

## 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 March 31, 2018 and December 31, 2017:

(dollars in thousands)	Notional Amount	Pay Rate	Receive Rate	Term	March 31, 2018	December 31, 2017		
					Assets / (Liabilities)	Unrealized Gain (Loss) AOCI	Assets / (Liabilities)	Unrealized Gain (Loss) in AOCI
Interest rate swap on money market deposits	\$ 10,000	2.17 %	1M LIBOR	12/2013 - 12/2020	\$ 67	\$ 53	\$ (60)	\$ (25)

Interest rate swap on FHLB advance	10,000	2.33 %	3M LIBOR	12/2013 -	12/2020	67	53	(31)	(48)
	\$ 20,000					\$ 134	\$ 106	\$ (91)	\$ (73)

The following table reflects the total interest expense recorded on these swap transactions in the consolidated statements of income for the three months ended March 31, 2018 and 2017:

(in thousands)	Three Months Ended March 31,	
	2018	2017
Interest rate swap on money market deposits	\$ 14	\$ 34
Interest rate swap on FHLB advance	12	32
Total interest expense on swap transactions	\$ 26	\$ 66

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 months ended March 31, 2018 and 2017:

(in thousands)	Three Months Ended March 31,	
	2018	2017
Gains recognized in OCI on derivative (effective portion)	\$ 199	\$ 28
Losses reclassified from OCI on derivative (effective portion)	(26)	(66)
Gains (losses) recognized in income on derivative (ineffective portion)	—	—

The estimated net amount of the existing losses reported in AOCI at March 31, 2018 expected to be reclassified into earnings within the next 12 months is \$16,000.





Table of Contents

## Non-hedge Interest Rate Swaps

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

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

A summary of the Bank's interest rate swaps related to clients as of March 31, 2018 and December 31, 2017 is included in the following table:

(in thousands)	Bank Position	March 31, 2018		December 31, 2017	
		Notional	Fair Value	Notional	Fair Value
Interest rate swaps with Bank clients	Pay variable/receive fixed	\$ 61,115	\$ (1,360)	\$ 61,419	\$ 84
Offsetting interest rate swaps with institutional swap dealer	Pay fixed/receive variable	61,115	1,360	61,419	(84)
Total		\$ 122,230	\$ —	\$ 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 March 31, 2018 and December 31, 2017.

Table of Contents

## 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:

(in thousands, except per share data)	Three Months Ended March 31,	
	2018	2017
Net income	\$ 27,469	\$ 20,017
Dividends declared on Common Stock:		
Class A Shares	(4,517)	(3,891)
Class B Shares	(494)	(427)
Undistributed net income for basic earnings per share	22,458	15,699
Weighted average potential dividends on Class A shares upon exercise of dilutive options	(24)	(17)
Undistributed net income for diluted earnings per share	\$ 22,434	\$ 15,682
Weighted average shares outstanding:		
Class A Shares	18,677	18,671
Class B Shares	2,243	2,244
Effect of dilutive securities on Class A Shares outstanding	98	81
Weighted average shares outstanding including dilutive securities	21,018	20,996
Basic earnings per share:		
Class A Common Stock:		
Per share dividends distributed	\$ 0.24	\$ 0.21
Undistributed earnings per share*	1.08	0.76
Total basic earnings per share - Class A Common Stock	\$ 1.32	\$ 0.97
Class B Common Stock		
Per share dividends distributed	\$ 0.22	\$ 0.19
Undistributed earnings per share*	0.99	0.69
Total basic earnings per share - Class B Common Stock	\$ 1.21	\$ 0.88
Diluted earnings per share:		

Class A Common Stock:		
Per share dividends distributed	\$ 0.24	\$ 0.21
Undistributed earnings per share*	1.08	0.75
Total diluted earnings per share - Class A Common Stock	\$ 1.32	\$ 0.96
Class B Common Stock:		
Per share dividends distributed	\$ 0.22	\$ 0.19
Undistributed earnings per share*	0.98	0.69
Total diluted earnings per share - Class B Common Stock	\$ 1.20	\$ 0.88

\*To arrive at undistributed earnings per share, undistributed net income is first pro rated between Class A and Class B Common Shares, with Class A Common Shares receiving a 10% premium. The resulting pro-rated, undistributed net income for each class is then divided by the weighted average shares for each class.

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

	Three Months Ended March 31,	
	2018	2017
Antidilutive stock options	4,500	—
Average antidilutive stock options	4,500	—

Table of Contents

13. STOCK PLANS AND STOCK BASED COMPENSATION

In 2015, the Company's Board of Directors adopted the Republic Bancorp, Inc. 2015 Stock Incentive Plan (the "2015 Plan"), which became effective April 23, 2015 when the Company's shareholders approved the 2015 Plan. The 2015 Plan replaced the Company's 2005 Stock Incentive Plan, which expired on March 15, 2015.

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

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

Stock Options

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes based stock option valuation model. This model requires the input of subjective assumptions that will usually have a significant impact on the fair value estimate. Expected volatilities are based on historical volatility of Republic's stock and other factors. Expected dividends are based on dividend trends and the market price of Republic's stock price at grant. Republic uses historical data to estimate option exercises and employee terminations within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve at the time of grant.

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

The following table summarizes stock option activity from January 1, 2017 through March 31, 2018:

	Options Class A Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, January 1, 2017	312,600	\$ 24.49		
Granted	4,500	35.54		
Exercised	(3,500)	19.63		
Forfeited or expired	(18,600)	24.99		
Outstanding, December 31, 2017	295,000	\$ 24.68	2.86	\$ 3,935,010
Outstanding, January 1, 2018	295,000	\$ 24.68		
Granted	—	—		
Exercised	—	—		
Forfeited or expired	—	—		
Outstanding, March 31, 2018	295,000	\$ 24.68	2.61	\$ 4,017,610
Unvested	295,000	\$ 24.68	2.61	\$ 4,017,610
Exercisable (vested) at March 31, 2018	—	\$ —	—	\$ —

Table of Contents

Information related to stock options for each period follows:

(in thousands, except per share data)	Three Months Ended March 31,	
	2018	2017
Intrinsic value of options exercised	\$ —	\$ 44
Cash received from options exercised, net of shares redeemed	—	33
Weighted-average fair value per share of options granted	NA	NA

NA - Not applicable

#### Restricted Stock Awards

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

The following table summarizes restricted stock awards activity from January 1, 2017 through March 31, 2018:

	Restricted Stock Awards Class A Shares	Weighted-Average Grant Date Fair Value
Outstanding, January 1, 2017	77,000	\$ 20.02
Granted	7,413	35.77
Forfeited	(750)	19.85
Earned and issued	(42,053)	21.66
Outstanding, December 31, 2017	41,610	\$ 21.18
Outstanding, January 1, 2018	41,610	\$ 21.18
Granted	36,000	38.32
Forfeited	—	—
Earned and issued	—	—
Outstanding, March 31, 2018	77,610	\$ 29.13
Unvested	77,610	\$ 29.13





Table of Contents

## Performance Stock Units

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

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

The following table summarizes PSU activity from January 1, 2017 through March 31, 2018:

	Performance Stock Units	Weighted-Average Grant Date Fair Value
	Class A Shares	
Outstanding, January 1, 2017	55,000	\$ 23.13
Granted	—	—
Forfeited	(6,500)	23.48
Earned and issued	—	—
Outstanding, December 31, 2017	48,500	\$ 23.08
Outstanding, January 1, 2018	48,500	\$ 23.08
Granted	—	—
Forfeited	—	—
Earned and issued	—	—
Outstanding, March 31, 2018	48,500	\$ 23.08
Unvested	48,500	\$ 23.08

## Expense Related to the 2015 Stock Incentive Plan

The Company recorded expense related to the 2015 Plan for the three months ended March 31, 2018 and 2017 as follows:

(in thousands)	Three Months Ended March 31,	
	2018	2017
Stock option expense	\$ 62	\$ 63
Restricted stock award expense	64	215
Performance stock unit expense	26	132
Total expense	\$ 152	\$ 410

Table of Contents

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

Year Ended (in thousands)	Stock Options	Restricted Stock Awards	Performance Stock Units	Total
2018	\$ 182	\$ 380	\$ 79	\$ 641
2019	139	261	—	400
2020	35	261	—	296
2021	5	261	—	266
2022	1	237	—	