

REPUBLIC BANCORP INC /KY/  
Form 10-Q  
November 06, 2015  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended September 30, 2015

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)

(502) 584-3600

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding twelve months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer    Accelerated filer    Non-accelerated filer    Smaller reporting company

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

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

The number of shares outstanding of the registrant's Class A Common Stock and Class B Common Stock, as of October 30, 2015, was 18,608,260 and 2,245,250.

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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements.

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	September 30, 2015	December 31, 2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 90,731	\$ 72,878
Securities available for sale	461,558	435,911
Securities held to maturity (fair value of \$41,601 in 2015 and \$45,807 in 2014)	41,041	45,437
Mortgage loans held for sale, at fair value	8,526	6,388
Other loans held for sale, at the lower of cost or fair value	3,800	—
Loans	3,297,874	3,040,495
Allowance for loan and lease losses	(26,959)	(24,410)
Loans, net	3,270,915	3,016,085
Federal Home Loan Bank stock, at cost	28,208	28,208
Premises and equipment, net	29,877	32,987
Premises, held for sale	1,218	1,317
Goodwill	10,168	10,168
Other real estate owned	2,832	11,243
Bank owned life insurance	52,465	51,415
Other assets and accrued interest receivable	34,638	34,976
<b>TOTAL ASSETS</b>	<b>\$ 4,035,977</b>	<b>\$ 3,747,013</b>
<b>LIABILITIES</b>		
Deposits:		
Non interest-bearing	\$ 637,875	\$ 502,569
Interest-bearing	1,729,955	1,555,613
Total deposits	2,367,830	2,058,182
Securities sold under agreements to repurchase and other short-term borrowings	309,624	356,108
Federal Home Loan Bank advances	711,500	707,500
Subordinated note	41,240	41,240

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Other liabilities and accrued interest payable	31,071	25,252
Total liabilities	3,461,265	3,188,282
Commitments and contingent liabilities (Footnote 9)	—	—
STOCKHOLDERS' EQUITY		
Preferred stock, no par value	—	—
Common Stock, no par value	4,904	4,904
Additional paid in capital	135,527	134,889
Retained earnings	429,917	414,623
Accumulated other comprehensive income	4,364	4,315
Total stockholders' equity	574,712	558,731
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,035,977	\$ 3,747,013

See accompanying footnotes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>INTEREST INCOME:</b>				
Loans, including fees	\$ 34,040	\$ 30,916	\$ 99,247	\$ 91,188
Taxable investment securities	1,733	1,896	5,285	5,663
Federal Home Loan Bank stock and other	334	332	1,058	1,195
Total interest income	36,107	33,144	105,590	98,046
<b>INTEREST EXPENSE:</b>				
Deposits	1,068	930	3,233	2,845
Securities sold under agreements to repurchase and other short-term borrowings	17	28	72	72
Federal Home Loan Bank advances	2,982	3,116	8,907	9,947
Subordinated note	616	628	1,874	1,886
Total interest expense	4,683	4,702	14,086	14,750
<b>NET INTEREST INCOME</b>	<b>31,424</b>	<b>28,442</b>	<b>91,504</b>	<b>83,296</b>
Provision for loan and lease losses	2,233	1,510	3,322	1,500
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES</b>	<b>29,191</b>	<b>26,932</b>	<b>88,182</b>	<b>81,796</b>
<b>NON INTEREST INCOME:</b>				
Service charges on deposit accounts	3,399	3,568	9,685	10,426
Net refund transfer fees	97	(133)	17,339	16,091
Mortgage banking income	972	876	3,549	2,174
Interchange fee income	1,967	1,619	6,205	5,344
Gain on call of securities available for sale	—	—	88	—
Net loss on other real estate owned	(8)	(758)	(282)	(1,309)
Increase in cash surrender value of bank owned life insurance	348	381	1,050	951
Other	1,031	974	2,643	2,646
Total non interest income	7,806	6,527	40,277	36,323
<b>NON INTEREST EXPENSES:</b>				
Salaries and employee benefits	15,297	12,164	44,897	40,612

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Occupancy and equipment, net	5,217	5,544	15,560	16,874
Communication and transportation	951	905	2,768	2,787
Marketing and development	756	1,135	2,318	2,466
FDIC insurance expense	474	424	1,622	1,407
Bank franchise tax expense	846	731	4,094	3,901
Data processing	959	824	3,017	2,495
Interchange related expense	909	788	2,847	2,632
Supplies	229	205	809	705
Other real estate owned expense	146	218	485	916
Legal and professional fees	653	730	2,796	2,179
Other	1,801	1,537	5,264	4,714
Total non interest expenses	28,238	25,205	86,477	81,688
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	<b>8,759</b>	<b>8,254</b>	<b>41,982</b>	<b>36,431</b>
<b>INCOME TAX EXPENSE</b>	<b>3,119</b>	<b>3,008</b>	<b>14,234</b>	<b>12,879</b>
<b>NET INCOME</b>	<b>\$ 5,640</b>	<b>\$ 5,246</b>	<b>\$ 27,748</b>	<b>\$ 23,552</b>
<b>BASIC EARNINGS PER SHARE:</b>				
Class A Common Stock	\$ 0.27	\$ 0.25	\$ 1.34	\$ 1.14
Class B Common Stock	\$ 0.25	\$ 0.24	\$ 1.22	\$ 1.09
<b>DILUTED EARNINGS PER SHARE:</b>				
Class A Common Stock	\$ 0.27	\$ 0.25	\$ 1.34	\$ 1.13
Class B Common Stock	\$ 0.25	\$ 0.24	\$ 1.22	\$ 1.08
<b>DIVIDENDS DECLARED PER COMMON SHARE:</b>				
Class A Common Stock	\$ 0.198	\$ 0.187	\$ 0.583	\$ 0.550
Class B Common Stock	\$ 0.180	\$ 0.170	\$ 0.530	\$ 0.500

See accompanying footnotes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$ 5,640	\$ 5,246	\$ 27,748	\$ 23,552
<b>OTHER COMPREHENSIVE INCOME</b>				
Change in fair value of derivatives used for cash flow hedges	(503)	28	(724)	(676)
Reclassification amount for derivative losses realized in income	100	104	304	303
Change in unrealized gain (loss) on securities available for sale	488	(10)	670	2,618
Reclassification adjustment for gain on security available for sale recognized in earnings	—	—	(88)	—
Change in unrealized gain on securities available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings	(58)	65	(84)	434
Net unrealized gains	27	187	78	2,679
Tax effect	(11)	(66)	(29)	(939)
Total other comprehensive income, net of tax	16	121	49	1,740
<b>COMPREHENSIVE INCOME</b>	<b>\$ 5,656</b>	<b>\$ 5,367</b>	<b>\$ 27,797</b>	<b>\$ 25,292</b>

See accompanying footnotes to consolidated financial statements.

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## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

NINE MONTHS ENDED SEPTEMBER 30, 2015

(in thousands)	Common Stock		Amount	Additional Paid In Capital	Retained Earnings	Accumulated	
	Class A Shares Outstanding	Class B Shares Outstanding				Other Comprehensive Income	Total Stockholders' Equity
Balance, January 1, 2015	18,603	2,245	\$ 4,904	\$ 134,889	\$ 414,623	\$ 4,315	\$ 558,731
Net income	—	—	—	—	27,748	—	27,748
Net change in accumulated other comprehensive income	—	—	—	—	—	49	49
Dividend declared Common Stock:							
Class A Shares	—	—	—	—	(10,850)	—	(10,850)
Class B Shares	—	—	—	—	(1,190)	—	(1,190)
Stock options exercised, net of shares redeemed	14	—	4	305	(65)	—	244
Repurchase of Class A Common Stock	(19)	—	(4)	(124)	(349)	—	(477)
Conversion of Class B Common Stock to Class A Common Stock	—	—	—	—	—	—	—
Net change in notes receivable on Class A Common Stock	—	—	—	(25)	—	—	(25)
Deferred director compensation expense - Class A Common Stock	5	—	—	171	—	—	171

Stock based compensation expense - restricted stock	—	—	—	207	—	—	207
Stock based compensation expense - stock options	—	—	—	104	—	—	104
Balance, September 30, 2015	18,603	2,245	\$ 4,904	\$ 135,527	\$ 429,917	\$ 4,364	\$ 574,712

See accompanying footnotes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (in thousands)

	Nine Months Ended September 30,	
	2015	2014
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 27,748	\$ 23,552
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization on investment securities, net	506	446
Accretion on loans, net	(2,422)	(5,618)
Depreciation of premises and equipment	4,965	4,753
Amortization of mortgage servicing rights	1,057	996
Provision for loan and lease losses	3,322	1,500
Net gain on sale of mortgage loans held for sale	(3,189)	(1,894)
Origination of mortgage loans held for sale	(128,026)	(54,046)
Proceeds from sale of mortgage loans held for sale	129,077	53,556
Origination of other loans held for sale	(86,218)	—
Proceeds from sale of other loans held for sale	85,564	—
Net realized gain on sales, calls and impairment of securities	(88)	—
Net gain realized on sale of other real estate owned	(734)	(733)
Writedowns of other real estate owned	1,016	2,042
Net gain on sale of banking center	(28)	—
Deferred director compensation expense - Company Stock	171	145
Stock based compensation expense	311	366
Increase in cash surrender value of bank owned life insurance	(1,050)	(951)
Net change in other assets and liabilities:		
Accrued interest receivable	(228)	(283)
Accrued interest payable	(95)	(310)
Other assets	(1,709)	1,750
Other liabilities	5,336	1,500
Net cash provided by operating activities	35,286	26,771
<b>INVESTING ACTIVITIES:</b>		
Purchases of securities available for sale	(994,305)	(119,427)
Proceeds from calls, maturities and paydowns of securities available for sale	968,812	102,111
Proceeds from calls, maturities and paydowns of securities to be held to maturity	4,357	3,342
Net change in outstanding warehouse lines of credit	(74,117)	(123,008)
Purchase of loans, including premiums paid	(87,619)	(144,669)
Net change in other loans	(96,916)	(51,492)
Proceeds from redemption of Federal Home Loan Bank stock	—	134
Proceeds from sales of other real estate owned	7,880	8,991
Proceeds from sale of banking center	1,623	—
Net purchases of premises and equipment	(2,312)	(4,240)
Purchase of bank owned life insurance	—	(25,000)
Net cash used in investing activities	(272,597)	(353,258)

## FINANCING ACTIVITIES:

Net change in deposits	309,648	68,979
Net change in securities sold under agreements to repurchase and other short-term borrowings	(46,484)	110,319
Payments of Federal Home Loan Bank advances	(208,000)	(108,000)
Proceeds from Federal Home Loan Bank advances	212,000	165,000
Repurchase of Common Stock	(477)	(347)
Net proceeds from Common Stock options exercised	244	443
Cash dividends paid	(11,767)	(11,088)
Net cash provided by financing activities	255,164	225,306

NET CHANGE IN CASH AND CASH EQUIVALENTS	17,853	(101,181)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	72,878	170,863
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 90,731	\$ 69,682

## SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION:

## Cash paid during the period for:

Interest	\$ 14,181	\$ 15,060
Income taxes	12,219	13,703

## SUPPLEMENTAL NONCASH DISCLOSURES:

Transfers from loans to real estate acquired in settlement of loans	\$ 2,713	\$ 6,466
Loans provided for sales of other real estate owned	2,962	1,331

See accompanying footnotes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – SEPTEMBER 30, 2015 and 2014 (UNAUDITED)  
AND DECEMBER 31, 2014

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The consolidated financial statements include the accounts of Republic Bancorp, Inc. (the “Parent Company”) and its wholly-owned subsidiaries, Republic Bank & Trust Company (“RB&T” or the “Bank”) and Republic Insurance Services, Inc. (the “Captive”). The Bank is a Kentucky-based, state chartered non-member financial institution. The Captive, which was formed during the third quarter of 2014, is a wholly-owned insurance subsidiary of the Company. The Captive provides property and casualty insurance coverage to the Company and the Bank as well as eight other third-party insurance captives for which insurance may not be available or economically feasible. Republic Bancorp Capital Trust (“RBCT”) is a Delaware statutory business trust that is a wholly-owned unconsolidated finance subsidiary of Republic Bancorp, Inc. All companies are collectively referred to as “Republic” or the “Company.” All significant intercompany balances and transactions are eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. For further information, refer to the consolidated financial statements and footnotes thereto included in Republic’s Form 10-K for the year ended December 31, 2014.

As of September 30, 2015, the Company was divided into four distinct business operating segments: Traditional Banking, Warehouse Lending (“Warehouse”), Mortgage Banking and Republic Processing Group (“RPG”). Management considers the first three segments to collectively constitute “Core Bank” or “Core Banking” activities. The Warehouse segment was reported as a division of the Traditional Banking segment prior to the fourth quarter of 2014, but realized the quantitative and qualitative nature of a segment by the end of 2014. All prior periods have been reclassified to conform to the current presentation.

Traditional Banking, Warehouse Lending and Mortgage Banking (collectively “Core Bank” or “Core Banking”)

The Traditional Bank provides traditional banking products primarily to customers in the Company’s market footprint. As of September 30, 2015, in addition to Internet Banking and Correspondent Lending delivery channels, Republic had 40 full-service banking centers with locations as follows:

- Kentucky — 32
- Metropolitan Louisville — 19
- Central Kentucky — 8
- Elizabethtown — 1
- Frankfort — 1
- Georgetown — 1
- Lexington — 4
- Shelbyville — 1
- Western Kentucky — 2
- Owensboro — 2
- Northern Kentucky — 3
- Covington — 1
- Florence — 1
- Independence — 1
- Southern Indiana — 3
- Floyds Knobs — 1
- Jeffersonville — 1
- New Albany — 1
- Metropolitan Tampa, Florida — 2
- Metropolitan Cincinnati, Ohio — 1
- Metropolitan Nashville, Tennessee — 2

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

Core Banking results of operations are primarily dependent upon net interest income, which represents the difference between the interest income and fees on interest-earning assets and the interest expense on interest-bearing liabilities. Interest-earning Core Banking assets primarily consist of investment securities and commercial and consumer loans primarily secured by real estate and/or personal property. Interest-bearing liabilities primarily consist of interest-bearing deposit accounts, securities sold under agreements to repurchase, as well as short-term and long-term borrowing sources. Federal Home Loan Bank ("FHLB") advances have traditionally been a significant borrowing source for the Bank.

Other sources of Core Banking income include service charges on deposit accounts, debit and credit card interchange fee income, title insurance commissions, fees charged to clients for trust services, increases in the cash surrender value of Bank Owned Life Insurance ("BOLI") and revenue generated from Mortgage Banking activities. Mortgage Banking activities represent both the origination and sale of loans in the secondary market and the servicing of loans for others, primarily the Federal Home Loan Mortgage Corporation ("Freddie Mac" or "FHLMC").

Core Banking operating expenses consist primarily of salaries and employee benefits, occupancy and equipment expenses, communication and transportation costs, data processing, interchange related expenses, marketing and development expenses, Federal Deposit Insurance Corporation ("FDIC") insurance expense, franchise tax expense and various general and administrative costs. Core Banking results of operations are significantly impacted by general economic and competitive conditions, particularly changes in market interest rates, government laws and policies and actions of regulatory agencies.

The Core Bank provides short-term, revolving credit facilities to mortgage bankers across the Nation through its Warehouse segment in the form of warehouse lines of credit. These credit facilities are secured by single family, first lien residential real estate loans. Outstanding balances on these credit facilities may be subject to significant fluctuations consistent with the overall market demand for mortgage loans.

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

Republic Processing Group

All divisions of the RPG segment operate through the Bank. Nationally, RPG facilitates the receipt and payment of federal and state tax refunds under the Tax Refund Solutions (“TRS”) division, primarily through refund transfers (“RTs”). RTs are products whereby a tax refund is issued to the taxpayer after the Bank has received the refund from the federal or state government. There is no credit risk or borrowing cost associated with these products because they are only delivered to the taxpayer upon receipt of the tax refund directly from the governmental paying authority. Fees earned on RTs, net of rebates, are the primary source of revenue for the TRS division and the RPG segment, and are reported as non interest income under the line item “Net refund transfer fees.”

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

The Republic Payment Solutions (“RPS”) division offers general purpose reloadable prepaid debit cards through third party program managers.

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

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Accounting Standards Update (“ASU”) ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments.

Topic 805 requires that an acquirer retrospectively adjust provisional amounts recognized in a business combination, during the measurement period. To simplify the accounting for adjustments made to provisional amounts, the amendments in this ASU require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date.

The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. This ASU is not expected to have a material impact on the Company’s financial statements.

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## 2. INVESTMENT SECURITIES

## Securities Available for Sale

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

September 30, 2015 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 216,938	\$ 1,148	\$ (2)	\$ 218,084
Private label mortgage backed security	4,037	1,136	—	5,173
Mortgage backed securities - residential	96,609	4,364	(37)	100,936
Collateralized mortgage obligations	120,341	1,074	(393)	121,022
Freddie Mac preferred stock	—	—	—	—