

REPUBLIC BANCORP INC /KY/
Form 10-Q
May 10, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended 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 40202
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (502) 584-3600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	March 31, 2018	December 31, 2017
ASSETS		
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
TOTAL ASSETS	\$ 5,078,334	\$ 5,085,362
LIABILITIES		
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

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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.

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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

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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.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three Months Ended March 31,	
	2018	2017
Net income	\$ 27,469	\$ 20,017
OTHER COMPREHENSIVE INCOME		
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
COMPREHENSIVE INCOME	\$ 25,636	\$ 20,571

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2018

	Common Stock			Additional	Retained	Accumulated	Total
	Class A	Class B		Paid In	Earnings	Other	Stockholders'
(in thousands)	Shares	Shares	Amount	Capital	Earnings	Comprehensive	Equity
	Outstanding	Outstanding				Income	
						(Loss)	
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.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Three Months Ended	
	March 31,	2017
	2018	
OPERATING ACTIVITIES:		
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
INVESTING ACTIVITIES:		
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
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See accompanying footnotes to consolidated financial statements.

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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.

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Core Bank

Traditional Banking segment — The Traditional Banking segment provides traditional banking products primarily to customers in the Company’s market footprint. As of 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.

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

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

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Related to the overall credit losses on EAs, the Bank's ability to control losses is highly dependent upon its ability to predict the taxpayer's likelihood to receive the tax refund as claimed on the taxpayer's tax return. Each year, the Bank's EA approval model is based primarily on the prior-year's tax refund funding patterns. Because much of the 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."

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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.
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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.
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2016-18	Statement of Cash Flows (Topic 230)	Requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents.	January 1, 2018	Retrospective transition.	Immaterial.
2017-09	Compensation - Stock Compensation (Topic 718)	The amendments provide guidance on determining which changes to the terms and conditions of share-based payment awards require the Company to apply modification accounting under Topic 718.	January 1, 2018	Prospectively.	Immaterial.
2018-05	Income Taxes (Topic 740): Amendments to SEC Paragraphs	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.

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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

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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.

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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.

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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	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized 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 thousand)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses