

REPUBLIC BANCORP INC /KY/
Form 10-Q
November 09, 2018
Table of Contents

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 September 30, 2018

or

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

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky
(State of other jurisdiction of incorporation or organization) 61-0862051
(I.R.S. Employer Identification No.)

601 West Market Street, Louisville, Kentucky 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 every Interactive Data File required to be submitted 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 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 October 31, 2018, was 18,691,894 and 2,212,929.

Table of Contents

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

<u>Item 1. Financial Statements.</u>	3
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u>	70
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk.</u>	114
<u>Item 4. Controls and Procedures.</u>	114

PART II — OTHER INFORMATION

<u>Item 1. Legal Proceedings.</u>	114
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	115
<u>Item 6. Exhibits.</u>	116
<u>SIGNATURES</u>	117

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	September 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	\$ 365,512	\$ 299,351
Available-for-sale debt securities	445,124	524,303
Held-to-maturity debt securities (fair value of \$66,667 in 2018 and \$65,133 in 2017)	65,925	64,227
Equity securities with readily determinable fair value	2,717	2,928
Mortgage loans held for sale, at fair value	7,862	5,761
Consumer loans held for sale, at fair value	—	2,677
Consumer loans held for sale, at the lower of cost or fair value	21,037	8,551
Loans (includes \$2,097 of loans carried at fair value at September 30, 2018)	4,136,195	4,014,034
Allowance for loan and lease losses	(43,824)	(42,769)
Loans, net	4,092,371	3,971,265
Federal Home Loan Bank stock, at cost	32,067	32,067
Premises and equipment, net	43,338	42,588
Premises, held for sale	2,607	3,017
Goodwill	16,300	16,300
Other real estate owned	70	115
Bank owned life insurance	64,491	63,356
Other assets and accrued interest receivable	62,933	48,856
TOTAL ASSETS	\$ 5,222,354	\$ 5,085,362
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 1,103,461	\$ 1,022,042
Interest-bearing	2,463,224	2,411,116
Total deposits	3,566,685	3,433,158
Securities sold under agreements to repurchase and other short-term borrowings	163,768	204,021
Federal Home Loan Bank advances	715,000	737,500

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

Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	58,851	37,019
Total liabilities	4,545,544	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	4,904	4,902
Additional paid in capital	140,834	139,406
Retained earnings	533,191	487,700
Accumulated other comprehensive (loss) income	(2,119)	416
Total stockholders' equity	676,810	632,424
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 5,222,354	\$ 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
INTEREST INCOME:				
Loans, including fees	\$ 56,296	\$ 50,271	\$ 179,867	\$ 153,010
Taxable investment securities	2,964	2,364	8,306	6,910
Federal Home Loan Bank stock and other	1,830	1,090	5,106	2,509
Total interest income	61,090	53,725	193,279	162,429
INTEREST EXPENSE:				
Deposits	4,562	2,587	11,856	6,790
Securities sold under agreements to repurchase and other short-term borrowings	317	161	752	332
Federal Home Loan Bank advances	2,782	2,383	7,779	6,618
Subordinated note	396	287	1,110	807
Total interest expense	8,057	5,418	21,497	14,547
NET INTEREST INCOME	53,033	48,307	171,782	147,882
Provision for loan and lease losses	4,077	4,221	26,264	21,633
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	48,956	44,086	145,518	126,249
NONINTEREST INCOME:				
Service charges on deposit accounts	3,579	3,395	10,708	10,032
Net refund transfer fees	149	177	19,974	18,329
Mortgage banking income	1,360	1,102	3,696	3,707
Interchange fee income	2,757	2,475	8,315	7,348
Program fees	1,686	1,597	4,705	3,972
Increase in cash surrender value of bank owned life insurance	385	394	1,135	1,178
Net gains on other real estate owned	248	31	700	422
Other	1,301	1,203	4,073	3,236
Total noninterest income	11,465	10,374	53,306	48,224
NONINTEREST EXPENSE:				
Salaries and employee benefits	22,846	20,505	69,446	61,731
Occupancy and equipment, net	6,153	5,841	18,535	17,594

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

Communication and transportation	1,047	1,239	3,670	3,450
Marketing and development	1,449	1,677	3,648	4,090
FDIC insurance expense	360	300	1,230	1,050
Bank franchise tax expense	710	749	4,088	3,974
Data processing	2,350	1,795	7,179	5,142
Interchange related expense	1,138	928	3,243	3,057
Supplies	314	241	998	1,029
Other real estate owned expense	2	55	63	284
Legal and professional fees	935	446	2,706	1,794
Impairment of premises held for sale	126	965	356	1,082
Other	3,782	3,285	9,727	8,422
Total noninterest expense	41,212	38,026	124,889	112,699
INCOME BEFORE INCOME TAX EXPENSE	19,209	16,434	73,935	61,774
INCOME TAX EXPENSE	1,798	5,728	13,389	20,980
NET INCOME	\$ 17,411	\$ 10,706	\$ 60,546	\$ 40,794
BASIC EARNINGS PER SHARE:				
Class A Common Stock	\$ 0.84	\$ 0.51	\$ 2.92	\$ 1.97
Class B Common Stock	0.76	0.47	2.65	1.79
DILUTED EARNINGS PER SHARE:				
Class A Common Stock	\$ 0.83	\$ 0.51	\$ 2.90	\$ 1.96
Class B Common Stock	0.76	0.47	2.64	1.78
DIVIDENDS DECLARED PER COMMON SHARE:				
Class A Common Stock	\$ 0.242	\$ 0.220	\$ 0.726	\$ 0.649
Class B Common Stock	0.220	0.200	0.660	0.590

See accompanying footnotes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$ 17,411	\$ 10,706	\$ 60,546	\$ 40,794
OTHER COMPREHENSIVE INCOME				
Change in fair value of derivatives used for cash flow hedges	54	9	330	(67)
Reclassification amount for net derivative losses realized in income	1	51	36	175
Change in unrealized (loss) gain on available-for-sale debt securities (2018), debt and equity securities (2017)	(467)	(237)	(3,130)	892
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)	90	(19)	244
Total other comprehensive (loss) income before income tax	(414)	(87)	(3,211)	1,244
Tax effect	88	30	676	(436)
Total other comprehensive (loss) income, net of tax	(326)	(57)	(2,535)	808
COMPREHENSIVE INCOME	\$ 17,085	\$ 10,649	\$ 58,011	\$ 41,602

See accompanying footnotes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017 WITH QUARTERLY SUBTOTALS

(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
Activity for the three months ended March 31, 2018:							
Adjustment for adoption of ASU 2016-01	—	—	—	—	(35)	(338)	(373)
Net income	—	—	—	—	27,469	—	27,469
Net change in accumulated other comprehensive income	—	—	—	—	—	(1,495)	(1,495)
Dividends declared on 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 compensation - Class A Common Stock:							
Directors	2	—	—	55	—	—	55
Stock-based awards - Class A Common Stock:							
Performance stock units	—	—	—	26	—	—	26
Restricted stock	36	—	—	64	—	—	64
Stock options	—	—	—	62	—	—	62

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

Balance, March 31, 2018	18,645	2,243	4,902	139,646	510,123	(1,417)	653,254
Activity for the three months ended June 30, 2018:							
Net income	—	—	—	—	15,666	—	15,666
Net change in accumulated other comprehensive income	—	—	—	—	—	(376)	(376)
Dividends declared on Common Stock:							
Class A Shares	—	—	—	—	(4,518)	—	(4,518)
Class B Shares	—	—	—	—	(487)	—	(487)
Stock options exercised, net of shares redeemed	2	—	—	48	—	—	48
Conversion of Class B to Class A Common Shares	28	(28)	—	—	—	—	—
Net change in notes receivable on Class A Common Stock	—	—	—	36	—	—	36
Deferred compensation - Class A Common Stock:							
Directors	3	—	1	47	—	—	48
Stock-based awards - Class A Common Stock:							
Performance stock units	—	—	—	27	—	—	27
Restricted stock	(1)	—	—	254	—	—	254
Stock options	—	—	—	56	—	—	56
Balance, June 30, 2018	18,677	2,215	4,903	140,114	520,784	(1,793)	664,008
Activity for the three months ended September 30, 2018:							
Net income	—	—	—	—	17,411	—	17,411
Net change in accumulated other comprehensive income	—	—	—	—	—	(326)	(326)

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

Dividends declared on Common Stock:							
Class A Shares	—	—	—	—	(4,517)	—	(4,517)
Class B Shares	—	—	—	—	(487)	—	(487)
Stock options exercised, net of shares redeemed	1	—	—	35	—	—	35
Conversion of Class B to Class A Common Shares	2	(2)	—	—	—	—	—
Net change in notes receivable on Class A Common Stock	—	—	—	(25)	—	—	(25)
Deferred compensation - Class A Common Stock:							
Directors	—	—	—	62	—	—	62
Designated key employees	—	—	—	284	—	—	284
Employee stock purchase plan - Class A Common Stock	3	—	1	123	—	—	124
Stock-based awards - Class A Common Stock:							
Performance stock units	—	—	—	53	—	—	53
Restricted stock	(1)	—	—	132	—	—	132
Stock options	—	—	—	56	—	—	56
Balance, September 30, 2018	18,682	2,213	\$ 4,904	\$ 140,834	\$ 533,191	\$ (2,119)	\$ 676,810

See accompanying footnotes to consolidated financial statements.

Table of Contents

(in thousands)	Common Stock		Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholder Equity
	Class A Shares Outstanding	Class B Shares Outstanding					
Balance, January 1, 2017	18,615	2,245	\$ 4,906	\$ 138,192	\$ 460,621	\$ 687	\$ 604,406
Activity for the three months ended March 31, 2017:							
Net income	—	—	—	—	20,017	—	20,017
Net change in accumulated other comprehensive income	—	—	—	—	—	554	554
Dividends declared Common Stock:							
Class A Shares	—	—	—	—	(3,891)	—	(3,891)
Class B Shares	—	—	—	—	(427)	—	(427)
Stock options exercised, net of shares redeemed	2	—	—	33	—	—	33
Repurchase of Class A Common Stock	(13)	—	(2)	(107)	(435)	—	(544)
Conversion of Class B Common Stock to Class A Common Stock	2	(2)	—	—	—	—	—
Net change in notes receivable on Class A Common Stock	—	—	—	51	—	—	51
Deferred director compensation expense - Class A Common Stock	5	—	—	55	—	—	55
Stock-based awards - Class A Common Stock:							
Performance stock units	—	—	—	132	—	—	132
Restricted stock	4	—	—	215	—	—	215
Stock options	—	—	—	63	—	—	63

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

Balance, March 31, 2017	18,615	2,243	\$ 4,904	\$ 138,634	\$ 475,885	\$ 1,241	\$ 620,664
Activity for the three months ended June 30, 2017:							
Net income	—	—	—	—	10,071	—	10,071
Net change in accumulated other comprehensive income	—	—	—	—	—	311	311
Dividends declared							
Common Stock:							
Class A Shares	—	—	—	—	(4,095)	—	(4,095)
Class B Shares	—	—	—	—	(449)	—	(449)
Net change in notes receivable on Class A Common Stock	—	—	—	103	—	—	103
Deferred director compensation expense - Class A Common Stock	3	—	—	41	—	—	41
Stock-based awards - Class A Common Stock:							
Performance stock units	—	—	—	105	—	—	105
Restricted stock	—	—	—	77	—	—	77
Stock options	—	—	—	63	—	—	63
Balance, June 30, 2017	18,618	2,243	\$ 4,904	\$ 139,023	\$ 481,412	\$ 1,552	\$ 626,891
Activity for the three months ended September 30, 2017:							
Net income	—	—	—	—	10,706	—	10,706
Net change in accumulated other comprehensive income	—	—	—	—	—	(57)	(57)
Dividends declared							
Common Stock:							
Class A Shares	—	—	—	—	(4,096)	—	(4,096)
Class B Shares	—	—	—	—	(448)	—	(448)
Repurchase of Class A Common Stock	—	—	—	(14)	—	—	(14)
Net change in notes receivable on	—	—	—	(19)	—	—	(19)

Class A Common Stock							
Deferred director compensation expense - Class A Common Stock	(3)	—	—	51	—	—	51
Stock-based awards - Class A Common Stock:							
Performance stock units	—	—	—	127	—	—	127
Restricted stock	3	—	—	81	—	—	81
Stock options	—	—	—	65	—	—	65
Balance, September 30, 2017	18,618	2,243	\$ 4,904	\$ 139,314	\$ 487,574	\$ 1,495	\$ 633,287

See accompanying footnotes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine Months Ended September 30,	
	2018	2017
OPERATING ACTIVITIES:		
Net income	\$ 60,546	\$ 40,794
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization (accretion) on investment securities, net	(204)	231
Accretion on loans and amortization of core deposit intangible, net	(2,744)	(3,981)
Unrealized losses on equity securities with readily determinable fair value	211	—
Depreciation of premises and equipment	7,020	6,178
Amortization of mortgage servicing rights	1,092	1,104
Provision for loan and lease losses	26,264	21,633
Net gain on sale of mortgage loans held for sale	(2,985)	(3,221)
Origination of mortgage loans held for sale	(133,273)	(119,265)
Proceeds from sale of mortgage loans held for sale	134,157	130,065
Net gain on sale of consumer loans held for sale	(4,429)	(3,869)
Origination of consumer loans held for sale	(582,871)	(454,844)
Proceeds from sale of consumer loans held for sale	576,646	453,169
Net gain realized on sale of other real estate owned	(700)	(577)
Writedowns of other real estate owned	—	155
Impairment of premises held for sale	356	1,082
Deferred compensation expense - Class A Common Stock	449	147
Stock-based awards expense - Class A Common Stock	730	928
Increase in cash surrender value of bank owned life insurance	(1,135)	(1,178)
Net change in other assets and liabilities:		
Accrued interest receivable	(1,614)	(1,001)
Accrued interest payable	6	(12)
Other assets	2,314	(3,367)
Other liabilities	5,870	3,283
Net cash provided by operating activities	85,706	67,454
INVESTING ACTIVITIES:		
Purchases of available-for-sale debt securities	(159,880)	(91,451)
Purchases of held-to-maturity debt securities	(4,934)	(15,460)
Proceeds from calls, maturities and paydowns of available-for-sale debt securities	236,138	114,930
Proceeds from calls, maturities and paydowns of held-to-maturity debt securities	3,213	3,129
Net change in outstanding warehouse lines of credit	(35,242)	14,279
Purchase of non-business-acquisition loans, including premiums paid	—	(4,811)

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

Net change in other loans	(108,750)	(166,845)
Purchase of Federal Home Loan Bank stock	—	(3,859)
Proceeds from sales of other real estate owned	1,153	2,202
Net purchases of premises and equipment	(7,716)	(9,236)
Net cash used in investing activities	(76,018)	(157,122)
FINANCING ACTIVITIES:		
Net change in deposits	133,527	189,037
Net change in securities sold under agreements to repurchase and other short-term borrowings	(40,253)	(162)
Payments of Federal Home Loan Bank advances	(417,500)	(460,000)
Proceeds from Federal Home Loan Bank advances	395,000	415,000
Repurchase of Class A Common Stock	—	(558)
Net proceeds from Class A Common Stock purchased through employee stock purchase plan	124	—
Net proceeds from Class A Common Stock options exercised	83	33
Cash dividends paid	(14,508)	(13,129)
Net cash used in financing activities	56,473	130,221
NET CHANGE IN CASH AND CASH EQUIVALENTS	66,161	40,553
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	299,351	289,309
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 365,512	\$ 329,862
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 21,491	\$ 14,559
Income taxes	10,196	20,570
SUPPLEMENTAL NONCASH DISCLOSURES:		
Transfers from loans to real estate acquired in settlement of loans	\$ 408	\$ 556
Transfers from loans held for sale to held for investment	2,237	—
Transfers from loans held for investment to held for sale	1,392	—
Unfunded commitments in low-income-housing investments	12,574	—

See accompanying footnotes to consolidated financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – SEPTEMBER 30, 2018 and 2017 AND DECEMBER 31, 2017 (UNAUDITED)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The consolidated financial statements include the accounts of Republic Bancorp, Inc. (the “Parent Company”) and its wholly-owned subsidiaries, Republic Bank & Trust Company (“RB&T” or the “Bank”) and Republic Insurance Services, Inc. (the “Captive”). All significant intercompany balances and transactions are eliminated in consolidation. All companies are collectively referred to as (“Republic” or the “Company”).

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

The Captive is a Nevada-based, wholly-owned insurance subsidiary of the Company. The Captive provides property and casualty insurance coverage to the Company and the Bank as well as a group of third-party insurance captives for which insurance may not be available or economically feasible.

Republic Bancorp Capital Trust (“RBCT”) is a Delaware statutory business trust that is a wholly-owned unconsolidated finance subsidiary of Republic Bancorp, Inc.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. For further information, refer to the consolidated financial statements and footnotes thereto included in Republic’s Form 10-K for the year ended December 31, 2017.

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

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

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 September 30, 2018, Republic had 45 full-service banking centers and one loan production office (“LPO”) with locations as follows:

Kentucky — 32

Metropolitan Louisville — 18

Central Kentucky — 9

Elizabethtown — 1

Frankfort — 1

Georgetown — 1

Lexington — 5

Shelbyville — 1

Western Kentucky — 2

Owensboro — 2

Northern Kentucky — 3

Covington — 1

Crestview Hills — 1

Florence — 1

Southern Indiana — 3

Floyds Knobs — 1

Jeffersonville — 1

New Albany — 1

Metropolitan Tampa, Florida — 7

Metropolitan Cincinnati, Ohio — 1

*Includes one LPO

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

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

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

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

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

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. The Bank receives fees for performing these standard servicing functions.

Republic Processing Group

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

Refund Transfers (“RTs”) are fee-based products whereby a tax refund is issued to the taxpayer after the Bank has received the refund from the federal or state government. There is no credit risk or borrowing cost associated with these products because they are only delivered to the taxpayer upon receipt of the tax refund directly from the governmental paying authority. Fees earned by the Company on RTs, net of revenue share, are reported as noninterest income under the line item “Net refund transfer fees.”

The Easy Advance (“EA”) tax credit product is a loan that allows a taxpayer to receive an advance of a portion of their refund, with the taxpayer’s Tax Provider paying all fees to RB&T for the advance. First offered by TRS in 2016, the EA had the following features during its 2018 and 2017 offering periods:

- Offered only during the first two months of each year;
- No EA fee was charged to the taxpayer customer;
- All fees for the EA were paid by the Tax Providers with a restriction prohibiting the Tax Providers from passing along the fees to the taxpayer customer;
- No requirement that the taxpayer customer 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 was deducted from the taxpayer customer's tax refund proceeds; and
- If an insufficient refund to repay the EA occurred:
 - o there was no recourse to the taxpayer customer,
 - o no negative credit reporting on the taxpayer customer, and
 - o no collection efforts against the taxpayer customer.

The Company reports fees paid by the Tax Providers for the EA product 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 EA volume occurs each year before that year's tax refund funding patterns can be analyzed and subsequent underwriting changes made, credit losses during a current year could be higher than management's predictions if tax refund funding patterns change materially between years.

Republic Payment Solutions ("RPS") 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:

- RCS line-of-credit product – The Bank originates a line-of-credit product to generally subprime borrowers across the United States through one third-party service provider. RCS sells 90% of the balances generated within two business days of loan origination to its third-party service provider and retains the remaining 10% interest. The line-of-credit product represents the substantial majority of RCS activity. Loan balances held for sale are carried at the lower of cost or fair value.
- RCS credit-card product – From the fourth quarter of 2015 through the first quarter of 2018, the Bank continued to pilot a credit-card product to generally subprime borrowers across the United States through one third-party marketer/servicer. For outstanding cards, RCS sold 90% of the balances generated within two business days of each transaction occurrence to its third-party marketer/servicer and retained the remaining 10% interest. During the second quarter of 2018, the Bank and its third-party marketer/servicer discontinued the marketing of the product to potential new clients, as the two parties deliberated the future direction of the program. During the third quarter of 2018, the Bank and its third-party marketer/servicer reached an agreement in concept to sell 100% of the existing portfolio to an unrelated third party. As a result, the Bank reclassified its 10% interest with a book value of \$3.5 million into a held-for-sale category and charged the entire RCS credit-card portfolio down to its estimated net

realizable value of \$1.5 million.

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

During the second quarter of 2018, the Bank and its third-party marketer/service provider suspended the origination of any new loans, and the subsequent sale of all recently-originated loans under this program, while the two parties evaluated the future offering of this product due to changes in the applicable state law impacting the product. Concurrent with the suspension of this program, the Bank reclassified approximately \$2.2 million of these loans from held for sale on the balance sheet into the held-for-investment category and revalued these loans accordingly.

Table of Contents

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.”

Accounting Standards Updates (“ASUs”)

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

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

2016-13	Financial Instruments – Credit Losses (Topic 326)	This ASU amends guidance on reporting credit losses for assets held at amortized-cost basis and available-for-sale debt securities.	January 1, 2020	Modified-retrospective approach.	covenants. As a result of this ASU, the Company expects an as yet undetermined increase 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.
2018-10	Codification Improvements to Topic 842, Leases	This ASU affects narrow aspects of the guidance issued in the amendments in ASU 2016-02.	January 1, 2019	Adoption should conform to the adoption of ASU 2016-02 above.	The Company is evaluating the adoption of this ASU with its ongoing analysis of adopting ASU 2016-02.
2018-11	Leases (Topic 842): Targeted Improvements	This ASU provides the Company with an additional (and optional) transition method to adopt ASU 2016-02. This ASU also provides the	January 1, 2019	Adoption should conform to the adoption of ASU 2016-02 above.	The Company is evaluating the adoption of this ASU with its ongoing analysis of adopting ASU 2016-02.

Company with a practical expedient to not separate non-lease components from the associated lease component under certain circumstances.

2018-13	Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement	This ASU modifies the disclosure requirements in Topic 820 by removing and adding certain elements.	January 1, 2020	Certain elements should be applied prospectively and others retrospectively.	Immaterial
2018-15	Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)	This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by these	January 1, 2020	Retrospectively or prospectively to all implementation costs incurred after the date of adoption.	Immaterial

amendments.

The following ASUs were adopted by the Company during the nine months ended September 30, 2018:

13

Table of Contents

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	Modified-retrospective approach.	Because most financial instruments are not subject to this ASU, a substantial portion of the Company's revenue was not impacted by this standard. Furthermore, this new standard did not have a material impact on the timing of revenue recognition for any of the Company's revenue for 2018 nor is it expected to going forward. Additionally, the Company took the following actions in association with the adoption of this ASU: 1) amended its accounting policies and procedures to assure proper revenue recognition in conformity with this ASU; and 2) updated its revenue-recognition financial statement disclosures (see footnote 16 in this section of the filing).
2016-01	Financial Instruments – Overall (Topic 825-10)	Among other things: Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the	January 1, 2018	Modified-retrospective approach.	The Company has updated its policies, procedures, and financial statement presentation and disclosures for this ASU. As provided by this ASU, the Company now reports its financial

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.

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.
2016-18	Statement of Cash Flows	Requires that a statement of cash	January 1, 2018	Retrospective transition.	Immaterial.

(Topic 230)	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	Prospectively.	Immaterial.	
2017-09	Compensation - Stock Compensation (Topic 718)	The amendments provide guidance on determining which changes to the terms and conditions of share-based payment awards require the Company to apply modification accounting under Topic 718.	January 1, 2018	Prospectively.	Immaterial.
2018-05	Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting	This ASU updates the Financial Accounting Standards Board ("FASB") Accounting Standards Codification	Upon addition to the ASC	Not Applicable.	For the Company's financial statement disclosures in accordance with SAB 118, see footnote 19 of the Company's Annual Report on Form 10-K for the year ended

Bulletin No.
118 ("SAB
118")

("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.

December 31, 2017 and
footnote 14 in this
section of the filing.

Table of Contents

2. INVESTMENT SECURITIES

Available-for-Sale Debt Securities

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

September 30, 2018 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 238,418	\$ —	\$ (2,780)	\$ 235,638
Private label mortgage backed security	2,484	1,365	—	3,849
Mortgage backed securities - residential	117,129	970	(2,157)	115,942
Collateralized mortgage obligations	76,528	441	(1,604)	75,365
Corporate bonds	10,000	80	—	10,080
Trust preferred security	3,523	727	—	4,250
Total available-for-sale debt securities	\$ 448,082	\$ 3,583	\$ (6,541)	\$ 445,124

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

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

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

September 30, 2018 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities - residential	\$ 146	\$ 9	\$ —	\$ 155
Collateralized mortgage obligations	20,224	221	(29)	20,416
Corporate bonds	45,092	578	(23)	45,647
Obligations of state and political subdivisions	463	—	(14)	449
Total held-to-maturity debt securities	\$ 65,925	\$ 808	\$ (66)	\$ 66,667

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

Sales of Available-for-Sale Debt Securities

During the three and nine months ended September 30, 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 September 30, 2018 follow. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are detailed separately.

September 30, 2018 (in thousands)	Available-for-Sale Debt Securities		Held-to-Maturity Debt Securities	
	Amortized Cost	Fair Value	Carrying Value	Fair Value
Due in one year or less	\$ 45,033	\$ 44,825	\$ 50	\$ 50
Due from one year to five years	203,385	200,893	10,386	10,441
Due from five years to ten years	—	—	35,119	35,605
Due beyond ten years	3,523	4,250	—	—
Private label mortgage backed security	2,484	3,849	—	—
Mortgage backed securities - residential	117,129	115,942	146	155
Collateralized mortgage obligations	76,528	75,365	20,224	20,416
Total debt securities	\$ 448,082	\$ 445,124	\$ 65,925	\$ 66,667

Corporate Bonds

The Bank's floating rate corporate bonds were rated "investment grade" by accredited rating agencies as of their respective purchase dates. The total fair value of the Bank's corporate bonds represented 11% and 9% of the Bank's investment portfolio as of September 30, 2018 and December 31, 2017.

Mortgage Backed Securities and Collateralized Mortgage Obligations

At September 30, 2018, with the exception of the \$3.8 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 September 30, 2018 and December 31, 2017, there were gross unrealized losses of \$3.8 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 September 30, 2018 and December 31, 2017, aggregated by investment category and length of time that individual debt securities have been in a continuous unrealized loss position, were as follows:

September 30, 2018 (in thousands)	Less than 12 months		12 months or more		Total	Unrealized
	Unrealized		Unrealized			
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Available-for-sale debt securities:						
U.S. Treasury securities and U.S. Government agencies	\$ 129,894	\$ (1,414)	\$ 105,744	\$ (1,366)	\$ 235,638	\$ (2,780)
Mortgage backed securities - residential	56,862	(953)	33,654	(1,204)	90,516	(2,157)
Collateralized mortgage obligations	17,141	(779)	16,563	(825)	33,704	(1,604)
Total available-for-sale debt securities	\$ 203,897	\$ (3,146)	\$ 155,961	\$ (3,395)	\$ 359,858	\$ (6,541)

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

September 30, 2018 (in thousands)	Less than 12 months		12 months or more		Total	
	Unrealized		Unrealized		Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Held-to-maturity debt securities:						
Collateralized mortgage obligations	\$ —	\$ —	\$ 5,765	\$ (29)	\$ 5,765	\$ (29)
Corporate bonds	4,915	(23)	—	—	4,915	(23)
Obligations of state and political subdivisions	105	(1)	345	(13)	450	(14)
Total held-to-maturity debt securities:	\$ 5,020	\$ (24)	\$ 6,110	\$ (42)	\$ 11,130	\$ (66)

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
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 September 30, 2018, the Bank's security portfolio consisted of 186 securities, 68 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 \$3.8 million at September 30, 2018. This security is mostly backed by “Alternative A” first lien mortgage loans, but also has an insurance “wrap” or guarantee as an added layer of protection to the security holder. This asset is illiquid, and as such, the Bank determined it to be a Level 3 security in accordance with Accounting Standards Codification (“ASC”) Topic 820, Fair Value Measurement. Based on this determination, the Bank utilized an income valuation model (“present value model”) approach, in determining the fair value of the security. This approach is beneficial for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management’s best estimate is used. Management’s best estimate consists of both internal and external support for this investment.

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

Pledged Debt Securities

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

(in thousands)	September 30, 2018	December 31, 2017
Carrying amount	\$ 258,670	\$ 262,679
Fair value	258,777	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 following tables present the carrying value, gross unrealized gains and losses, and fair value of equity securities with readily determinable fair values:

September 30, 2018 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Freddie Mac preferred stock	\$ —	\$ 332	\$ —	\$ 332
Community Reinvestment Act mutual fund	2,500	—	(115)	2,385
Total equity securities with readily determinable fair values	\$ 2,500	\$ 332	\$ (115)	\$ 2,717

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 September 30, 2018			Nine Months Ended September 30, 2018		
	Realized	Unrealized	Total	Realized	Unrealized	Total
	Gains (Losses) Recognized on Equity Securities			Gains (Losses) Recognized on Equity Securities		

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

Freddie Mac preferred stock	\$ —	\$ (57)	\$ (57)	\$ —	\$ (141)	\$ (141)
Community Reinvestment Act mutual fund	—	(19)	(19)	—	(70)	(70)
Total equity securities with readily determinable fair value	\$ —	\$ (76)	\$ (76)	\$ —	\$ (211)	\$ (211)

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

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

During the second quarter of 2018, the Bank and its third-party marketer/service provider suspended the origination of any new loans, and the subsequent sale of all recently-originated loans under this program, while the two parties evaluated the future offering of this product due to changes in the applicable state law impacting the product. Concurrent with the suspension of this program, the Bank reclassified approximately \$2.2 million of these loans from held for sale on the balance sheet into the held-for-investment category and revalued these loans accordingly.

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

(in thousands)	Three Months		Nine Months Ended	
	Ended	September 30,	September 30,	
	2018	2017	2018	2017

Balance, beginning of period	\$ —	\$ 3,235	\$ 2,677	\$ 2,198
Origination of consumer loans held for sale	—	15,066	16,985	46,847
Loans transferred to held for investment	—	—	(2,237)	—
Proceeds from the sale of consumer loans held for sale	—	(15,115)	(17,039)	(45,988)
Net gain (loss) recognized on consumer loans held for sale	—	182	(386)	311
Balance, end of period	\$ —	\$ 3,368	\$ —	\$ 3,368

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

RCS originates balances for both a line-of-credit and a credit-card product. The Bank sells 90% of the balances maintained through these products within two days of transactional activity and retains a 10% interest. The line-of-credit product represents the substantial majority of balances retained as consumer loans held for sale that are carried at the lower of cost or fair value. During the third quarter of 2018, the Bank and its third-party marketer/servicer reached an agreement in concept to sell 100% of the existing credit-card portfolio to an unrelated third party. As a result, the Bank reclassified its 10% interest into a held-for-sale category and charged the entire RCS credit-card portfolio down to its estimated net realizable value. Gains or losses on the sale of RCS products are reported as a component of “Program fees.”

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

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	2017	September 30, 2018	2017
Balance, beginning of period	\$ 13,684	\$ 2,464	\$ 8,551	\$ 1,310
Origination of consumer loans held for sale	209,462	164,815	565,886	407,997
Loans transferred from held for investment	1,392	—	1,392	—
Proceeds from the sale of consumer loans held for sale	(205,078)	(162,947)	(559,607)	(407,181)
Net gain on sale of consumer loans held for sale	1,577	1,352	4,815	3,558
Balance, end of period	\$ 21,037	\$ 5,684	\$ 21,037	\$ 5,684

Table of Contents

4. LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

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

(in thousands)	September 30, 2018	December 31, 2017
Traditional Banking:		
Residential real estate:		
Owner occupied	\$ 913,228	\$ 921,565
Owner occupied - correspondent*	99,096	116,792
Nonowner occupied	232,306	205,081
Commercial real estate	1,214,804	1,207,293
Construction & land development	174,043	150,065
Commercial & industrial	387,766	341,692
Lease financing receivables	15,229	16,580
Home equity	332,690	347,655
Consumer:		
Credit cards	19,151	16,078
Overdrafts	983	974
Automobile loans	62,179	65,650
Other consumer	38,940	20,501
Total Traditional Banking	3,490,415	3,409,926
Warehouse lines of credit*	560,814	525,572
Total Core Banking	4,051,229	3,935,498
Republic Processing Group*:		
Tax Refund Solutions:		
Easy Advances	—	—
Other TRS loans	292	11,648
Republic Credit Solutions	84,674	66,888
Total Republic Processing Group	84,966	78,536
Total loans**	4,136,195	4,014,034
Allowance for loan and lease losses	(43,824)	(42,769)
Total loans, net	\$ 4,092,371	\$ 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 September 30, 2018 and December 31, 2017:

(in thousands)	September 30, 2018	December 31, 2017
Contractually receivable	\$ 4,135,623	\$ 4,014,673
Unearned income(1)	(1,164)	(1,157)
Unamortized premiums(2)	674	1,069
Unaccreted discounts(3)	(3,469)	(4,643)
Net unamortized deferred origination fees and costs(4)	4,531	4,092
Carrying value of loans	\$ 4,136,195	\$ 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 September 30, 2018 and December 31, 2017:

(in thousands)	September 30, 2018	December 31, 2017
Contractually required principal	\$ 4,653	\$ 5,435
Non-accretable amount	(1,593)	(1,691)
Accretable amount	(100)	(140)
Carrying value of loans	\$ 2,960	\$ 3,604

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

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Balance, beginning of period	\$ (100)	\$ (3,333)	\$ (140)	\$ (3,600)
Transfers between non-accretable and accretable*	(168)	(44)	(409)	31
Net accretion into interest income on loans, including loan fees	168	1,684	449	1,876
Balance, end of period	\$ (100)	\$ (1,693)	\$ (100)	\$ (1,693)

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

Table of Contents

Credit Quality Indicators

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

September 30, 2018 (in thousands)	Pass	Special Mention	Substandard	Doubtful Loss	PCI /Loans - Group 1	PCI Loans - Substandard	Total Rated Loans*
Traditional Banking:							
Residential real estate:							
Owner occupied	\$ —	\$ 15,067	\$ 13,307	\$ —	\$ 173	\$ 1,518	\$ 30,065
Owner occupied - correspondent	—	—	386	—	—	—	386
Nonowner occupied	—	582	2,068	—	—	—	2,650
Commercial real estate	1,203,903	5,911	3,851	—	1,139	—	1,214,804
Construction & land development	173,920	—	123	—	—	—	174,043
Commercial & industrial	386,010	1,088	648	—	20	—	387,766
Lease financing							
receivables	15,229	—	—	—	—	—	15,229
Home equity	—	—	1,482	—	5	103	1,590
Consumer:							
Credit cards	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—
Automobile loans	—	—	156	—	—	—	156
Other consumer	—	—	490	—	—	2	492
Total Traditional Banking	1,779,062	22,648	22,511	—	1,337	1,623	1,827,181
Warehouse lines of credit	560,814	—	—	—	—	—	560,814
Total Core Banking	2,339,876	22,648	22,511	—	1,337	1,623	2,387,995
Republic Processing Group:							
Tax Refund Solutions:							
Easy Advances	—	—	—	—	—	—	—
Other TRS loans	—	—	—	—	—	—	—
Republic Credit Solutions	—	—	298	—	—	—	298
Total Republic Processing Group	—	—	298	—	—	—	298
Total rated loans	\$ 2,339,876	\$ 22,648	\$ 22,809	\$ —	\$ 1,337	\$ 1,623	\$ 2,388,293

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 September 30, 2018				2017				Ending Balance	Ending Balance
	Beginning Balance	Provision	Charge- offs	Recoveries	Ending Balance	Beginning Balance	Provision	Charge- offs		
Traditional Banking: Residential real estate: Owner occupied	\$ 6,035	\$ (136)	\$ (46)	\$ 18	\$ 5,871	\$ 6,740	\$ (222)	\$ (52)	\$ 107	\$ 6,633
Owner occupied - correspondent	263	(15)	—	—	248	324	(10)	—	—	314
Nonowner occupied	1,552	42	(1)	—	1,593	1,237	100	—	—	1,337
Commercial real estate	9,815	187	—	1	10,003	8,368	325	—	77	8,770
Construction & land development	2,825	(160)	—	3	2,668	2,508	(435)	—	3	2,076
Commercial & industrial	2,318	281	(75)	4	2,528	1,682	388	(152)	12	1,930
Lease financing receivables	160	—	—	—	160	151	11	—	—	162
Home equity	3,658	(81)	(14)	59	3,622	3,787	14	(4)	51	3,848
Consumer: Credit cards	805	148	(94)	9	868	588	50	(38)	6	666
Overdrafts	878	372	(332)	65	983	806	311	(276)	51	886
Automobile loans	664	110	(7)	2	769	640	40	(12)	1	678
Other consumer	776	(52)	(102)	70	692	918	111	(155)	67	921
Total Traditional Banking	29,749	696	(671)	231	30,005	27,749	683	(689)	375	28,038
Warehouse lines of credit	1,585	(183)	—	—	1,402	1,502	(74)	—	—	1,428

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

Total Core Banking	31,334	513	(671)	231	31,407	29,251	609	(689)	375	2
Republic Processing Group:										
Tax Refund Solutions:										
Easy Advances	—	(1,036)	—	1,036	—	—	(840)	—	840	—
Other TRS loans	67	8	—	—	75	—	—	—	—	—
Republic Credit Solutions	13,646	4,592	(6,204)	308	12,342	8,647	4,452	(2,680)	226	1
Total Republic Processing Group	13,713	3,564	(6,204)	1,344	12,417	8,647	3,612	(2,680)	1,066	1
Total	\$ 45,047	\$ 4,077	\$ (6,875)	\$ 1,575	\$ 43,824	\$ 37,898	\$ 4,221	\$ (3,369)	\$ 1,441	\$ 4

Table of Contents

(in thousands)	Allowance Rollforward Nine Months Ended September 30, 2018				2017				Recoveries
	Beginning Balance	Provision	Charge- offs	Ending Recoveries Balance	Beginning Balance	Provision	Charge- offs		
Traditional Banking: Residential real estate: Owner occupied	\$ 6,182	\$ (443)	\$ (85)	\$ 217	\$ 5,871	\$ 7,158	\$ (653)	\$ (163)	\$ 231
Owner occupied - correspondent	292	(44)	—	—	248	373	(59)	—	—
Nonowner occupied	1,396	491	(320)	26	1,593	1,139	212	(14)	—
Commercial real estate	9,043	831	—	129	10,003	8,078	577	—	115
Construction & land development	2,364	274	—	30	2,668	1,850	222	—	4
Commercial & industrial	2,198	491	(200)	39	2,528	1,511	537	(152)	34
Lease financing receivables	174	(14)	—	—	160	136	26	—	—
Home equity	3,754	(372)	(48)	288	3,622	3,757	62	(99)	128
Consumer: Credit cards	607	507	(282)	36	868	490	181	(86)	21
Overdrafts	974	685	(891)	215	983	675	731	(687)	173
Automobile loans	687	90	(11)	3	769	526	160	(19)	2
Other consumer	1,162	(338)	(358)	226	692	771	615	(691)	246
Total Traditional Banking	28,833	2,158	(2,195)	1,209	30,005	26,464	2,611	(1,911)	954
Warehouse lines of credit	1,314	88	—	—	1,402	1,464	(36)	—	—
Total Core Banking	30,147	2,246	(2,195)	1,209	31,407	27,928	2,575	(1,911)	954
Republic Processing Group:									

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

Tax Refund Solutions:									
Easy Advances	—	11,360	(12,478)	1,118	—	—	7,041	(8,123)	1,082
Other TRS loans	12	113	(55)	5	75	25	(278)	—	253
Republic Credit Solutions	12,610	12,545	(13,669)	856	12,342	4,967	12,295	(7,216)	599
Total Republic Processing Group	12,622	24,018	(26,202)	1,979	12,417	4,992	19,058	(15,339)	1,934
Total	\$ 42,769	\$ 26,264	\$ (28,397)	\$ 3,188	\$ 43,824	\$ 32,920	\$ 21,633	\$ (17,250)	\$ 2,888

Nonperforming Loans and Nonperforming Assets

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

(dollars in thousands)	September 30, 2018	December 31, 2017
Loans on nonaccrual status*	\$ 17,015	\$ 14,118
Loans past due 90-days-or-more and still on accrual**	254	956
Total nonperforming loans	17,269	15,074
Other real estate owned	70	115
Total nonperforming assets	\$ 17,339	\$ 15,189

Credit Quality Ratios - Total Company:

Nonperforming loans to total loans	0.42	%	0.38	%
Nonperforming assets to total loans (including OREO)	0.42		0.38	
Nonperforming assets to total assets	0.33		0.30	

Credit Quality Ratios - Core Bank:

Nonperforming loans to total loans	0.42	%	0.36	%
Nonperforming assets to total loans (including OREO)	0.42		0.36	
Nonperforming assets to total assets	0.33		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.

25

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*	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Traditional Banking:				
Residential real estate:				
Owner occupied	\$ 11,208	\$ 9,230	\$ —	\$ —
Owner occupied - correspondent	386	—	—	—
Nonowner occupied	681	257	—	—
Commercial real estate	3,165	3,247	—	—
Construction & land development	55	67	—	—
Commercial & industrial	629	—	—	—
Lease financing receivables	—	—	—	—
Home equity	769	1,217	—	—
Consumer:				
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Automobile loans	98	68	—	—
Other consumer	24	32	5	19
Total Traditional Banking	17,015	14,118	5	19
Warehouse lines of credit	—	—	—	—
Total Core Banking	17,015	14,118	5	19
Republic Processing Group:				
Tax Refund Solutions:				
Easy Advances	—	—	—	—
Other TRS loans	—	—	—	—
Republic Credit Solutions	—	—	249	937
Total Republic Processing Group	—	—	249	937
Total	\$ 17,015	\$ 14,118	\$ 254	\$ 956

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

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

Table of Contents

Delinquent Loans

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

September 30, 2018 (dollars in thousands)	30 - 59 Days Delinquent	60 - 89 Days Delinquent	90 or More Days Delinquent*	Total Delinquent**	Total Current	Total
Traditional Banking:						
Residential real estate:						
Owner occupied	\$ 2,182	\$ 2,161	\$ 3,121	\$ 7,464	\$ 905,764	\$ 913,228
Owner occupied - correspondent	—	—	—	—	99,096	99,096
Nonowner occupied	29	501	73	603	231,703	232,306
Commercial real estate	225	—	1,217	1,442	1,213,362	1,214,804
Construction & land development	332	—	—	332	173,711	174,043
Commercial & industrial	28	—	—	28	387,738	387,766
Lease financing receivables	—	—	—	—	15,229	15,229
Home equity	1,010	229	180	1,419	331,271	332,690
Consumer:						
Credit cards	62	81	—	143	19,008	19,151
Overdrafts	251	7	1	259	724	983
Automobile loans	31	—	61	92	62,087	62,179
Other consumer	44	8	6	58	38,882	38,940
Total Traditional Banking	4,194	2,987	4,659	11,840	3,478,575	3,490,415
Warehouse lines of credit	—	—	—	—	560,814	560,814
Total Core Banking	4,194	2,987	4,659	11,840	4,039,389	4,051,229
Republic Processing Group:						
Tax Refund Solutions:						
Easy Advances	—	—	—	—	—	—
Other TRS loans	—	—	—	—	292	292
Republic Credit Solutions	4,703	1,034	249	5,986	78,688	84,674
Total Republic Processing Group	4,703	1,034	249	5,986	78,980	84,966
Total	\$ 8,897	\$ 4,021	\$ 4,908	\$ 17,826	\$ 4,118,369	\$ 4,136,195

Delinquency ratio*** 0.22 % 0.10 % 0.12 % 0.43 %

*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.

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)	September 30, 2018	December 31, 2017
Loans with no allocated Allowance	\$ 20,134	\$ 18,540
Loans with allocated Allowance	25,104	27,076
Total recorded investment in impaired loans	\$ 45,238	\$ 45,616
Amount of the allocated Allowance	\$ 4,049	\$ 4,685

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

September 30, 2018 (dollars in thousands)	Allowance for Loan and Lease Losses				Loans		PCI	PCI
	Individually Evaluated Excluding PCI	Collectively Evaluated	PCI with Post-Acquisition Impairment Allowance	Total	Individually Evaluated Excluding PCI	Collectively Evaluated	with Post-Acquisition Impairment	without Post-Acquisition Impairment
Traditional Banking:								
Residential real estate:								
Owner occupied	\$ 2,277	\$ 3,411	\$ 183	\$ 5,871	\$ 26,991	\$ 884,547	\$ 1,690	\$ —
Owner occupied - correspondent	—	248	—	248	386	98,710	—	—
Nonowner occupied	8	1,585	—	1,593	2,592	229,714	—	—
Commercial real estate	374	9,618	11	10,003	9,006	1,204,659	1,137	2
Construction & land development	62	2,606	—	2,668	123	173,920	—	—
Commercial & industrial	20	2,508	—	2,528	1,048	386,698	—	20
Lease financing receivables	—	160	—	160	—	15,229	—	—
Home equity	402	3,116	104	3,622	1,482	331,100	108	—
Consumer:								
Credit cards	—	868	—	868	—	19,151	—	—
Overdrafts	—	983	—	983	—	983	—	—
Automobile loans	156	613	—	769	156	62,023	—	—
Other consumer	431	258	3	692	468	38,469	3	—
Total Traditional Banking	3,730	25,974	301	30,005	42,252	3,445,203	2,938	22
Warehouse lines of credit	—	1,402	—	1,402	—	560,814	—	—
Total Core Banking	3,730	27,376	301	31,407	42,252	4,006,017	2,938	22
Republic Processing Group:								
Tax Refund Solutions:								
Easy Advances	—	—	—	—	—	—	—	—
Other TRS loans	—	75	—	75	—	292	—	—
Republic Credit Solutions	18	12,324	—	12,342	48	84,626	—	—
Total Republic Processing Group	18	12,399	—	12,417	48	84,918	—	—
Total	\$ 3,748	\$ 39,775	\$ 301	\$ 43,824	\$ 42,300	\$ 4,090,935	\$ 2,938	\$ 22

December 31, 2017 (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	PCI with Post-Acquisition Allowance	Individually Evaluated Excluding PCI	Collectively Evaluated		
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 September 30, 2018 and December 31, 2017 and for the three and nine months ended September 30, 2018 and 2017. The difference between the “Unpaid Principal Balance” and “Recorded Investment” columns represents life-to-date partial write downs/charge offs taken on individual impaired credits.

(in thousands)	As of September 30, 2018			Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018			Cash Basis Interest Recognized
	Unpaid Principal Balance	Recorded Investment	Allocated Allowance	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	
Impaired loans with no allocated Allowance: Residential real estate:									
Owner occupied	\$ 11,013	\$ 10,428	\$ —	\$ 11,098	\$ 55	\$ —	\$ 10,839	\$ 165	\$ —
Owner occupied - correspondent	386	386	—	388	—	—	290	—	—
Nonowner occupied	2,874	2,495	—	2,572	22	—	2,399	65	—
Commercial real estate	6,388	5,314	—	5,489	31	—	4,996	88	—
Construction & land development	—	—	—	—	—	—	267	—	—
Commercial & industrial	1,136	1,028	—	852	7	—	609	23	—
Lease financing receivables	—	—	—	—	—	—	—	—	—
Home equity	461	444	—	589	2	—	708	6	—
Consumer	39	39	—	55	1	—	47	2	—
Impaired loans with allocated Allowance: Residential real estate:									
Owner occupied	18,315	18,253	2,460	18,094	152	—	18,467	448	—
Owner occupied -	—	—	—	—	—	—	—	—	—

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

correspondent Nonowner occupied Commercial real estate Construction & land development Commercial & industrial Lease financing receivables Home equity Consumer Total impaired loans	108	97	8	83	1	—	211	3	—
	4,829	4,829	385	5,368	53	—	5,922	160	—
	123	123	62	126	1	—	132	2	—
	20	20	20	64	—	—	126	1	—
	—	—	—	—	—	—	—	—	—
	1,147	1,146	506	1,134	10	—	968	29	—
	636	636	608	648	6	—	684	18	—
	\$ 47,475	\$ 45,238	\$ 4,049	\$ 46,560	\$ 341	\$ —	\$ 46,665	\$ 1,010	\$ —

(in thousands)	As of December 31, 2017			Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017			Cash Ba Interest Income
	Unpaid Principal Balance	Recorded Investment	Allocated Allowance	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	
Impaired loans with no allocated Allowance: Residential real estate: Owner occupied	\$ 11,664	\$ 10,789	\$ —	\$ 11,166	\$ 39	\$ —	\$ 11,713	\$ 117	\$ —
Owner occupied - correspondent	—	—	—	—	—	—	—	—	—
Nonowner occupied Commercial real estate	1,784	1,704	—	1,494	23	—	1,444	62	—
Construction & land development	5,504	4,430	—	5,127	19	—	5,140	58	—
Commercial & industrial	591	591	—	597	7	—	537	22	—
Lease financing	20	20	—	195	—	—	128	1	—
	—	—	—	—	—	—	—	—	—

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

receivables									
Home equity	1,071	981	—	1,213	2	—	1,281	10	—
Consumer	25	25	—	92	2	—	67	5	—
Impaired loans with allocated Allowance:									
Residential real estate:									
Owner occupied	18,676	18,654	2,681	20,682	177	—	20,943	529	—
Owner occupied - correspondent	—	—	—	—	—	—	—	—	—
Nonowner occupied	361	358	6	410	5	—	450	15	—
Commercial real estate	6,124	6,124	455	4,895	66	—	5,819	196	—
Construction & land development	142	142	107	149	1	—	275	3	—
Commercial & industrial	288	288	288	230	2	—	308	7	—
Lease financing receivables	—	—	—	—	—	—	—	—	—
Home equity	743	743	536	834	—	—	820	11	—
Consumer	767	767	612	349	2	—	206	8	—
Total impaired loans	\$ 47,760	\$ 45,616	\$ 4,685	\$ 47,433	\$ 345	\$ —	\$ 49,131	\$ 1,044	\$ —

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 September 30, 2018 and December 31, 2017, \$10 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
September 30, 2018 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate	64	\$ 7,538	163	\$ 17,848	227	\$ 25,386
Commercial real estate	3	1,262	14	6,392	17	7,654
Construction & land development	1	54	1	68	2	122
Commercial & industrial	2	629	3	410	5	1,039
Consumer	1	41	281	471	282	512
Total troubled debt restructurings	71	\$ 9,524	462	\$ 25,189	533	\$ 34,713

	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 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 September 30, 2018 and December 31, 2017 follows:

	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
	Number of	Recorded	Number of	Recorded	Number of	Recorded
September 30, 2018 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate loans (including home equity loans):						
Interest only payments	—	\$ —	1	\$ 1,200	1	\$ 1,200
Rate reduction	148	16,594	16	2,188	164	18,782
Principal deferral	10	1,248	5	2,181	15	3,429
Legal modification	38	1,651	9	324	47	1,975
Total residential TDRs	196	19,493	31	5,893	227	25,386
Commercial related and construction/land development loans:						
Interest only payments	2	768	—	—	2	768
Rate reduction	8	3,076	—	—	8	3,076
Principal deferral	14	4,971	—	—	14	4,971
Total commercial TDRs	24	8,815	—	—	24	8,815
Consumer loans:						
Rate reduction	1	16	—	—	1	16
Principal deferral	279	436	—	—	279	436
Legal modification	—	—	2	60	2	60
Total consumer TDRs	280	452	2	60	282	512
Total troubled debt restructurings	500	\$ 28,760	33	\$ 5,953	533	\$ 34,713

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

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

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

Table of Contents

As of September 30, 2018 and December 31, 2017, 83% and 89% of the Bank's TDRs were performing according to their modified terms. The Bank provided \$3 million and \$4 million of specific reserve allocations to clients whose loan terms have been modified in TDRs as of September 30, 2018 and December 31, 2017. The Bank had no commitments to lend any additional material amounts to its existing TDR relationships at September 30, 2018 or December 31, 2017.

A summary of the categories of TDR loan modifications by respective performance as of September 30, 2018 and 2017 that were modified during the three months ended September 30, 2018 and 2017 follows:

	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
	Number of	Recorded	Number of	Recorded	Number of	Recorded
September 30, 2018 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate loans (including home equity loans):						
Legal modification	—	\$ —	1	\$ 18	1	\$ 18
Total residential TDRs	—	—	1	18	1	18
Commercial related and construction/land development loans:						
Principal deferral	2	433	—	1	2	434
Total commercial TDRs	2	433	—	1	2	434
Consumer loans:						
Legal modification	—	—	2	60	2	60
Total consumer TDRs	—	—	2	60	2	60
Total troubled debt restructurings	2	\$ 433	3	\$ 79	5	\$ 512

	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

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

September 30, 2017 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate loans (including home equity loans):						
Principal deferral	7	\$ 701	—	\$ —	7	\$ 701
Legal modification	6	337	1	131	7	468
Total residential TDRs	13	1,038	1	131	14	1,169
Commercial related and construction/land development loans:						
Principal deferral	1	242	—	—	1	242
Total commercial TDRs	1	242	—	—	1	242
Total troubled debt restructurings	14	\$ 1,280	1	\$ 131	15	\$ 1,411

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 September 30, 2018 and 2017, 85% and 91% of the Bank's TDRs that occurred during the third quarters of 2018 and 2017 were performing according to their modified terms. The Bank provided approximately \$78,000 and \$155,000 in specific reserve allocations to clients whose loan terms were modified in TDRs during the third quarters of 2018 and 2017.

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

Table of Contents

A summary of the categories of TDR loan modifications by respective performance as of September 30, 2018 and 2017 that were modified during the nine months ended September 30, 2018 and 2017 follows:

	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
September 30, 2018 (dollars in thousands)						
Residential real estate loans (including home equity loans):						
Interest only payments	—	\$ —	1	\$ 1,200	1	\$ 1,200
Rate reduction	1	386	1	85	2	471
Principal deferral	1	15	3	2,151	4	2,166
Legal modification	6	90	3	190	9	280
Total residential TDRs	8	491	8	3,626	16	4,117
Commercial related and construction/land development loans:						
Principal deferral	5	1,071	—	—	5	1,071
Total commercial TDRs	5	1,071	—	—	5	1,071
Consumer loans:						
Principal deferral	1	54	—	—	1	54
Legal modification	—	—	2	60	2	60
Total consumer TDRs	1	54	2	60	3	114
Total troubled debt restructurings	14	\$ 1,616	10	\$ 3,686	24	\$ 5,302

	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
September 30, 2017 (dollars in thousands)						

Residential real estate loans (including home equity loans):						
Rate reduction	1	\$ 220	—	\$ —	1	\$ 220
Principal deferral	9	1,506	—	—	9	1,506
Legal modification	6	337	1	131	7	468
Total residential TDRs	16	2,063	1	131	17	2,194
Commercial related and construction/land development loans:						
Principal deferral	1	242	—	—	1	242
Total commercial TDRs	1	242	—	—	1	242
Total troubled debt restructurings	17	\$ 2,305	1	\$ 131	18	\$ 2,436

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 September 30, 2018 and 2017, 30% and 95% of the Bank's TDRs that occurred during the first nine months of 2018 and 2017 were performing according to their modified terms. The Bank provided approximately \$577,000 and \$186,000 in specific reserve allocations to clients whose loan terms were modified in TDRs during the first nine months of 2018 and 2017.

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

Table of Contents

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

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018			2017	
	Recorded	Number of	Recorded	Number of	Recorded	Number of	Recorded	Recorded
(dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate:								
Owner occupied	6	\$ 3,386	1	\$ 131	7	\$ 3,552	1	\$ 131
Home equity	1	74	—	—	1	74	—	—
Consumer	2	60	—	—	2	60	—	—
Total	9	\$ 3,520	1	\$ 131	10	\$ 3,686	1	\$ 131

Foreclosures

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

(in thousands)	September 30, 2018	December 31, 2017
Residential real estate	\$ 70	\$ 115
Total other real estate owned	\$ 70	\$ 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 September 30, 2018 and December 31, 2017:

(in thousands)

September 30, 2018 December 31, 2017

Recorded investment in consumer residential real estate mortgage loans
in the process of foreclosure

\$ 4,561

\$ 1,392

35

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. Each year, all unpaid EAs are charged-off by the end of the second quarter.

Information regarding EAs follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,			
	2018	2017	2018	2017		
Easy Advances originated	\$ —	\$ —	\$ 430,210	\$ 328,523		
Net Charge (Credit) to the Provision for Easy Advances	(1,036)	(840)	11,360	7,041		
Provision to total Easy Advances originated	NA	NA	2.64	2.14	%	%
Easy Advances net charge-offs	\$ (1,036)	\$ (840)	\$ 11,360	\$ 7,041		
Easy Advances net charge-offs to total Easy Advances originated	NA	NA	2.64	2.14	%	%

NA - Not applicable

5. DEPOSITS

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

(in thousands)	September 30, 2018	December 31, 2017
Core Bank:		
Demand	\$ 932,474	\$ 944,812

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

Money market accounts	662,122	546,998
Savings	191,619	182,800
Individual retirement accounts(1)	52,447	47,982
Time deposits, \$250 and over(1)	81,197	77,891
Other certificates of deposit(1)	229,074	189,661
Reciprocal money market and time deposits(1)(2)	292,103	373,242
Brokered deposits(1)	21,770	46,089
Total Core Bank interest-bearing deposits	2,462,806	2,409,475
Total Core Bank noninterest-bearing deposits	1,056,916	988,537
Total Core Bank deposits	3,519,722	3,398,012
Republic Processing Group ("RPG"):		
Money market accounts	418	1,641
Total RPG interest-bearing deposits	418	1,641
Brokered prepaid card deposits	4,207	1,509
Other noninterest-bearing deposits	42,338	31,996
Total RPG noninterest-bearing deposits	46,545	33,505
Total RPG deposits	46,963	35,146
Total deposits	\$ 3,566,685	\$ 3,433,158

(1) Represents a time deposit.

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

(3)

Table of Contents**6. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND OTHER SHORT-TERM BORROWINGS**

Securities sold under agreements to repurchase consist of short-term excess funds from correspondent banks, repurchase agreements and overnight liabilities to deposit clients arising from the Bank's treasury management program. While comparable to deposits in their transactional nature, these overnight liabilities to clients are in the form of repurchase agreements. Repurchase agreements collateralized by securities are treated as financings; accordingly, the securities involved with the agreements are recorded as assets and are held by a safekeeping agent and the obligations to repurchase the securities are reflected as liabilities. Should the fair value of currently pledged securities fall below the associated repurchase agreements, the Bank would be required to pledge additional securities. To mitigate the risk of under collateralization, the Bank typically pledges at least two percent more in securities than the associated repurchase agreements. All such securities are under the Bank's control.

At September 30, 2018 and December 31, 2017, all securities sold under agreements to repurchase had overnight maturities. The following tables present additional information regarding securities sold under agreements to repurchase:

(dollars in thousands)	September 30, 2018		December 31, 2017	
Outstanding balance at end of period	\$	163,768	\$	204,021
Weighted average interest rate at end of period		0.74	%	0.31
				%
Fair value of securities pledged:				
U.S. Treasury securities and U.S. Government agencies	\$	169,179	\$	71,824
Mortgage backed securities - residential		35,080		83,452
Collateralized mortgage obligations		22,506		84,693
Total securities pledged	\$	226,765	\$	239,969

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Average outstanding balance during the period	\$	213,195	\$	208,160
			\$	216,070
				\$ 202,018

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

Average interest rate during the period	0.59	%	0.31	%	0.46	%	0.22	%
Maximum outstanding at any month end during the period	\$ 163,768		\$ 173,311		\$ 215,281		\$ 183,709	

7. FEDERAL HOME LOAN BANK ADVANCES

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

(dollars in thousands)	September 30, 2018	December 31, 2017
Overnight advances	\$ 395,000	\$ 330,000
Variable interest rate advance indexed to 3-Month LIBOR plus 0.14%	10,000	10,000
Fixed interest rate advances	310,000	397,500
Total FHLB advances	\$ 715,000	\$ 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 September 30, 2018 and December 31, 2017, Republic had available borrowing capacity of \$347 million and \$347 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 September 30, 2018 and December 31, 2017.

As of September 30, 2018, 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	
Remainder of 2018 (Overnight)	\$ 395,000	2.21	%
Remainder of 2018 (Term)	40,000	1.94	
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	\$ 715,000	2.05	%

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

(dollars in thousands)	September 30, 2018		December 31, 2017	
Outstanding balance at end of period	\$	395,000	\$	330,000
Weighted average interest rate at end of period		2.21	%	1.42
				%
(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Average outstanding balance during the period	\$	229,185	\$	224,402
Average interest rate during the period		2.02	%	1.17
			%	1.84
			%	1.03
			%	1.03

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

Maximum outstanding at any month end during the period	\$ 395,000	\$ 350,000	\$ 560,000	\$ 625,000
--	------------	------------	------------	------------

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

(in thousands)	September 30, 2018	December 31, 2017
First lien, single family residential real estate	\$ 1,128,563	\$ 1,123,402
Home equity lines of credit	310,561	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)	September 30, 2018	December 31, 2017
Unused warehouse lines of credit	\$ 451,686	\$ 525,328
Unused home equity lines of credit	380,320	367,887
Unused loan commitments - other	641,978	598,002
Standby letters of credit	6,813	12,643
FHLB letter of credit	10,000	10,000
Total commitments	\$ 1,490,797	\$ 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 September 30, 2018. The Company's TRUP investment is considered highly illiquid and also valued using Level 3 inputs, as the most recent bid price for this instrument is not always considered generally observable.

Equity securities with readily determinable fair value: Quoted market prices in an active market are available for the Bank's Community Reinvestment Act ("CRA") mutual fund investment and fall within Level 1 of the fair value hierarchy.

The fair value of the Company's Freddie Mac preferred stock is determined by matrix pricing, as described above (Level 2 inputs).

Mortgage loans held for sale, at fair value: The fair value of mortgage loans held for sale is determined using quoted secondary market prices. Mortgage loans held for sale are classified as Level 2 in the fair value hierarchy.

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

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

Table of Contents

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

From the fourth quarter of 2015 through the first quarter of 2018, the Bank continued to pilot a credit-card product to generally subprime borrowers across the United States through one third-party marketer/servicer. For outstanding cards, RCS sold 90% of the balances generated within two business days of each transaction occurrence to its third-party marketer/servicer and retained the remaining 10% interest. During the second quarter of 2018, the Bank and its third-party marketer/servicer discontinued the marketing of the product to potential new clients, as the two parties deliberated the future direction of the program. During the third quarter of 2018, the Bank and its third-party marketer/servicer reached an agreement in concept to sell 100% of the existing portfolio to an unrelated third party. As a result, the Bank reclassified its 10% interest with a book value of \$3.5 million into a held-for-sale category and charged the entire RCS credit-card portfolio down to its estimated net realizable value of \$1.5 million.

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

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

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

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

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

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

Table of Contents

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 September 30, 2018 and December 31, 2017.

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:

	Fair Value Measurements at September 30, 2018 Using:			
	Quoted Prices Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
(in thousands)				
Financial assets:				
Available-for-sale debt securities:				
U.S. Treasury securities and U.S. Government agencies	\$ —	\$ 235,638	\$ —	\$ 235,638
Private label mortgage backed security	—	—	3,849	3,849
Mortgage backed securities - residential	—	115,942	—	115,942
Collateralized mortgage obligations	—	75,365	—	75,365
Corporate bonds	—	10,080	—	10,080
Trust preferred security	—	—	4,250	4,250
Total available-for-sale debt securities	\$ —	\$ 437,025	\$ 8,099	\$ 445,124
Equity securities with readily determinable fair value:				
Freddie Mac preferred stock	\$ —	\$ 332	\$ —	\$ 332
Community Reinvestment Act mutual fund	2,385	—	—	2,385
Total equity securities with readily determinable fair value	\$ 2,385	\$ 332	\$ —	\$ 2,717
Mortgage loans held for sale	\$ —	\$ 7,862	\$ —	\$ 7,862
Consumer loans held for investment	—	—	2,097	2,097
Rate lock loan commitments	—	348	—	348
Mandatory forward contracts	—	113	—	113
Interest rate swap agreements	—	2,658	—	2,658

Financial liabilities:

Interest rate swap agreements	—	2,383	—	2,383
-------------------------------	---	-------	---	-------

42

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 and nine months ended September 30, 2018 and 2017.

Private Label Mortgage Backed Security

The following table presents a reconciliation of the Bank's private label mortgage backed security measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods ended September 30, 2018 and 2017:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Balance, beginning of period	\$ 3,926	\$ 4,540	\$ 4,449	\$ 4,777
Total gains or losses included in earnings:				
Net change in unrealized gain	(2)	90	(19)	244
Recovery of actual losses previously recorded	39	—	114	—
Principal paydowns	(114)	(55)	(695)	(446)
Balance, end of period	\$ 3,849	\$ 4,575	\$ 3,849	\$ 4,575

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:

September 30, 2018 (dollars in thousands)	Fair	Valuation		
	Value	Technique	Unobservable Inputs	Range
Private label mortgage backed security	\$ 3,849	Discounted cash flow	(1) Constant prepayment rate	2.0% - 9.0%
			(2) Probability of default	1.8% - 4.0%
			(3) Loss severity	50% - 85%
December 31, 2017 (dollars in thousands)	Fair	Valuation		
	Value	Technique	Unobservable Inputs	Range
Private label mortgage backed security	\$ 4,449	Discounted cash flow	(1) Constant prepayment rate	3.5% - 6.5%
			(2) Probability of default	1.8% - 8.0%
			(3) Loss severity	60% - 85%

Trust Preferred Security

The following table presents a reconciliation of the Company's TRUP measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2018 and 2017:

Three Months Ended	Nine Months Ended
-----------------------	-------------------

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

(in thousands)	September 30,		September 30,	
	2018	2017	2018	2017
Balance, beginning of period	\$ 4,150	\$ 3,453	\$ 3,600	\$ 3,200
Total gains or losses included in earnings:				
Discount accretion	10	11	30	33
Net change in unrealized gain	90	36	620	267
Balance, end of period	\$ 4,250	\$ 3,500	\$ 4,250	\$ 3,500

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 September 30, 2018 and December 31, 2017.

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

(in thousands)	September 30, 2018	December 31, 2017
Aggregate fair value	\$ 7,862	\$ 5,761
Contractual balance	7,736	5,668
Unrealized gain	126	93

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

(in thousands)	Three Months Ended		Nine Months	
	September 30, 2018	September 30, 2017	Ended September 30, 2018	Ended September 30, 2017
Interest income	\$ 133	\$ 102	\$ 308	\$ 255
Change in fair value	(110)	(102)	33	9
Total included in earnings	\$ 23	\$ —	\$ 341	\$ 264

Consumer Loans Held for Investment/Sale

Prior to the second quarter of 2018, all consumer installment loans originated through RCS were originated with the intent to sale and carried at fair value. During the second quarter of 2018, approximately \$2 million of these loans were transferred from the held for sale category into the held for investment category and recorded at their fair market value as of the date of transfer. Interest income for these loans is recorded based on the contractual terms of the loan and in accordance with Bank policy for such instruments. None of these loans were past due 90-days-or-more or on

nonaccrual as of September 30, 2018 and December 31, 2017.

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

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

Table of Contents

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

September 30, 2018 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Rate
Consumer loans held for investment	\$ 2,097	Discounted Cash Flows	(1) Constant prepayment rate	15.0%
			(2) Probability of default	45.0%
			(3) Loss severity	11.5%
December 31, 2017 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Rate
Consumer loans held for sale	\$ 2,677	Contractual Sales Terms	(1) Net Premium	0.9%
			(2) Discounted Sales	5.0%

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

(in thousands)	September 30, 2018	December 31, 2017
Aggregate fair value	\$ 2,097	\$ 2,677
Contractual balance	2,361	2,535
Unrealized (loss) gain	(264)	142

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

Nine Months Ended

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

(in thousands)	Three Months Ended		September 30,	
	September 30, 2018	2017	2018	2017
Interest income	\$ 130	\$ 240	\$ 457	\$ 748
Change in fair value	21	7	(406)	65
Total included in earnings	\$ 151	\$ 247	\$ 51	\$ 813

Table of Contents

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

(in thousands)	Fair Value Measurements at September 30, 2018 Using:			
	Quoted Prices for Identifiable Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Consumer loans held for sale	\$ —	\$ —	\$ 1,519	\$ 1,519
Impaired loans:				
Residential real estate:				
Owner occupied	\$ —	\$ —	\$ 4,040	\$ 4,040
Nonowner occupied	—	—	1,083	1,083
Commercial real estate	—	—	1,230	1,230
Commercial & industrial	—	—	666	666
Home equity	—	—	51	51
Total impaired loans*	\$ —	\$ —	\$ 7,070	\$ 7,070
Premises	\$ —	\$ —	\$ 2,607	\$ 2,607

(in thousands)	Fair Value Measurements at December 31, 2017 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	\$ —	\$ —	\$ 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.

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:

September 30, 2018 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Consumer loans held for sale	\$ 1,519	Sales comparison approach	Adjustments determined for differences between comparable sales	6% (6%)
Impaired loans - residential real estate owner occupied	\$ 4,040	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 77% (13%)
Impaired loans - residential real estate nonowner occupied	\$ 1,083	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 27% (14%)
Impaired loans - commercial real estate	\$ 70	Sales comparison approach	Adjustments determined for differences between comparable sales	21% (21%)
Impaired loans - commercial real estate	\$ 1,160	Income approach	Adjustments for differences between net operating income expectations	17% (17%)
Impaired loans - commercial & industrial	\$ 666	Sales comparison approach	Adjustments determined for differences between comparable sales	3% (3%)
Impaired loans - home equity	\$ 51	Sales comparison approach	Adjustments determined for differences between comparable sales	5% - 53% (42%)
Premises	\$ 2,607	Sales comparison approach	Adjustments determined for differences between comparable sales	21% - 71% (32%)
December 31, 2017 (dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
	\$ 4,107			

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

Impaired loans - residential real estate owner occupied		Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 54% (10%)
Impaired loans - residential real estate nonowner occupied	\$ 237	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

Consumer Loans Held for Sale

From the fourth quarter of 2015 through the first quarter of 2018, the Bank continued to pilot a credit-card product to generally subprime borrowers across the United States through one third-party marketer/servicer. For outstanding cards, RCS sold 90% of the balances generated within two business days of each transaction occurrence to its third-party marketer/servicer and retained the remaining 10% interest. During the second quarter of 2018, the Bank and its third-party marketer/servicer discontinued the marketing of the product to potential new clients, as the two parties deliberated the future direction of the program. During the third quarter of 2018, the Bank and its third-party marketer/servicer reached an agreement in concept to sell 100% of the existing portfolio to an unrelated third party. As a result, the Bank reclassified its 10% interest with a book value of \$3.5 million into a held-for-sale category and charged the entire RCS credit-card portfolio down to its estimated net realizable value of \$1.5 million.

Details of consumer loans held for sale follow:

(in thousands)	September 30, 2018	December 31, 2017
Carrying amount of loans measured at fair value	\$ 3,592	\$ —
Estimated discount for loan losses	(2,073)	—
Total fair value	\$ 1,519	\$ —

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)	September 30, 2018	December 31, 2017
Carrying amount of loans measured at fair value	\$ 6,771	\$ 5,358
Estimated selling costs considered in carrying amount	709	752
Valuation allowance	(410)	(7)
Total fair value	\$ 7,070	\$ 6,103

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Provisions on collateral-dependent, impaired loans	\$ 117	\$ 59	\$ 901	\$ 281

Table of Contents

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)	September 30, 2018	December 31, 2017
Other real estate owned carried at fair value	\$ —	\$ 83
Other real estate owned carried at cost	70	32
Total carrying value of other real estate owned	\$ 70	\$ 115

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Other real estate owned write-downs during the period	\$ —	\$ 76	\$ —	\$ 155

Premises

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

Three Months Ended	Nine Months Ended
-----------------------	-------------------

(in thousands)	September 30,		September 30,	
	2018	2017	2018	2017
Impairment charges on premises	\$ 126	\$ 965	\$ 356	\$ 1,082

50

Table of Contents

The carrying amounts and estimated exit-price fair values of financial instruments at September 30, 2018 and December 31, 2017 follow:

(in thousands)	Carrying Value	Fair Value Measurements at September 30, 2018:			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash and cash equivalents	\$ 365,512	\$ 365,512	\$ —	\$ —	\$ 365,512
Available-for-sale debt securities	445,124	—	437,025	8,099	445,124
Held-to-maturity debt securities	65,925	—	66,667	—	66,667
Equity securities with readily determinable fair values	2,717	2,385	332	—	2,717
Mortgage loans held for sale, at fair value	7,862	—	7,862	—	7,862
Consumer loans held for sale, at the lower of cost or fair value	21,037	—	21,037	—	21,037
Loans, net	4,092,371	—	—	4,035,387	4,035,387
Federal Home Loan Bank stock	32,067	—	—	—	NA
Accrued interest receivable	13,696	—	13,696	—	13,696
Rate lock loan commitments	348	—	348	—	348
Community Reinvestment Act mutual fund	113	—	113	—	113
Interest rate swap agreements	2,658	—	2,658	—	2,658
Liabilities:					
Noninterest-bearing deposits	\$ 1,103,461	—	\$ 1,103,461	—	\$ 1,103,461
Transaction deposits	2,051,907	—	2,051,907	—	2,051,907
Time deposits	411,317	—	404,562	—	404,562
Securities sold under agreements to repurchase and other short-term borrowings	163,768	—	163,768	—	163,768
Federal Home Loan Bank advances	715,000	—	707,306	—	707,306
Subordinated note	41,240	—	31,832	—	31,832
Accrued interest payable	1,106	—	1,106	—	1,106
Interest rate swap agreements	2,383	—	2,383	—	2,383

NA - Not applicable

51

Table of Contents

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

NA - Not applicable

Table of Contents

10. MORTGAGE BANKING ACTIVITIES

Mortgage Banking activities primarily include residential mortgage originations and servicing.

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

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Balance, beginning of period	\$ 12,653	\$ 6,057	\$ 5,761	\$ 11,662
Origination of mortgage loans held for sale	49,149	43,489	133,273	119,265
Proceeds from the sale of mortgage loans held for sale	(55,063)	(46,428)	(134,157)	(130,065)
Net gain on sale of mortgage loans held for sale	1,123	965	2,985	3,221
Balance, end of period	\$ 7,862	\$ 4,083	\$ 7,862	\$ 4,083

The following table presents the components of Mortgage Banking income:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net gain realized on sale of mortgage loans held for sale	\$ 1,093	\$ 1,161	\$ 2,791	\$ 3,275
Net change in fair value recognized on loans held for sale	(110)	(102)	33	9
Net change in fair value recognized on rate lock loan commitments	(84)	(98)	38	185
Net change in fair value recognized on forward contracts	224	4	123	