

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

---

FORM 10-Q/A

(Amendment No.1)

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

For the quarterly period ended March 31, 2018

or

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

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

601 West Market Street, Louisville, Kentucky      40202  
(Address of principal executive offices)      (Zip Code)

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

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes    No

The number of shares outstanding of the registrant's Class A Common Stock and Class B Common Stock, as of April 30, 2018, was 18,658,706 and 2,229,091.

---

Table of Contents

Explanatory Note

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

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

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

Table of Contents

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

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

PART II — OTHER INFORMATION

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

Table of Contents

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements.

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

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

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

|   |              |              |
|---|--------------|--------------|
| Subordinated note   | 41,240       | 41,240       |
| Other liabilities and accrued interest payable              | 50,535       | 37,019       |
| Total liabilities   | 4,425,080    | 4,452,938    |
| Commitments and contingent liabilities (Footnote 8)         | —            | —            |
| STOCKHOLDERS' EQUITY  |              |              |
| Preferred stock, no par value                               | —            | —            |
| Class A Common Stock and Class B Common Stock, no par value | 4,902        | 4,902        |
| Additional paid in capital                                  | 139,646      | 139,406      |
| Retained earnings   | 510,123      | 487,700      |
| Accumulated other comprehensive (loss) income               | (1,417)      | 416          |
| Total stockholders' equity                                  | 653,254      | 632,424      |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY                  | \$ 5,078,334 | \$ 5,085,362 |

See accompanying footnotes to consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

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



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

See accompanying footnotes to consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2018                            | 2017      |
| Net income  | \$ 27,469                       | \$ 20,017 |
| OTHER COMPREHENSIVE INCOME  |                                 |           |
| Change in fair value of derivatives used for cash flow hedges   | 199                             | 28        |
| Reclassification amount for derivative losses realized in income  | 26                              | 66        |
| Change in unrealized gain (loss) on available-for-sale debt securities (2018), debt and equity securities (2017)  | (2,117)                         | 706       |
| Adjustment for adoption of ASU 2016-01  | (428)                           | —         |
| Change in unrealized gain on available-for-sale debt security for which a portion of an other-than-temporary impairment has been recognized in earnings | (2)                             | 53        |
| Total other comprehensive (loss) income before income tax   | (2,322)                         | 853       |
| Tax effect  | 489                             | (299)     |
| Total other comprehensive (loss) income, net of tax   | (1,833)                         | 554       |
| COMPREHENSIVE INCOME  | \$ 25,636                       | \$ 20,571 |

See accompanying footnotes to consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2018

|   | Common Stock |             |          | Additional | Retained   | Accumulated   | Total         |
|---|--------------|-------------|----------|------------|------------|---------------|---------------|
|   | Class A      | Class B     |          | Paid In    | Earnings   | Other         | Stockholders' |
| (in thousands)  | Shares       | Shares      | Amount   | Capital    | Earnings   | Comprehensive | Equity        |
|   | Outstanding  | Outstanding |          |            |            | Income        |               |
|   |              |             |          |            |            | (Loss)        |               |
| Balance,<br>January 1, 2018                                       | 18,607       | 2,243       | \$ 4,902 | \$ 139,406 | \$ 487,700 | \$ 416        | \$ 632,424    |
| Adjustment for<br>adoption of<br>ASU 2016-01                      | —            | —           | —        | —          | (35)       | (338)         | (373)         |
| Balance,<br>January 1, 2018,<br>as adjusted                       | 18,607       | 2,243       | \$ 4,902 | \$ 139,406 | \$ 487,665 | \$ 78         | \$ 632,051    |
| Net income  | —            | —           | —        | —          | 27,469     | —             | 27,469        |
| Net change in<br>accumulated<br>other<br>comprehensive<br>income  | —            | —           | —        | —          | —          | (1,495)       | (1,495)       |
| Dividends<br>declared   |              |             |          |            |            |               |               |
| Common Stock:   |              |             |          |            |            |               |               |
| Class A Shares  | —            | —           | —        | —          | (4,517)    | —             | (4,517)       |
| Class B Shares  | —            | —           | —        | —          | (494)      | —             | (494)         |
| Net change in<br>notes receivable<br>on Class A<br>Common Stock   | —            | —           | —        | 33         | —          | —             | 33            |
| Deferred<br>director<br>compensation -<br>Class A<br>Common Stock | 2            | —           | —        | 55         | —          | —             | 55            |

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

See accompanying footnotes to consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

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

## FINANCING ACTIVITIES:

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

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

## SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION:

## Cash paid during the period for:

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

## SUPPLEMENTAL NONCASH DISCLOSURES:

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

See accompanying footnotes to consolidated financial statements.

Table of Contents

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

As of March 31, 2018, the Company was divided into five reportable segments: Traditional Banking, Warehouse Lending (“Warehouse”), Mortgage Banking, Tax Refund Solutions (“TRS”) and Republic Credit Solutions (“RCS”). Management considers the first three segments to collectively constitute “Core Bank” or “Core Banking” operations, while the last two segments collectively constitute Republic Processing Group (“RPG”) operations. The Bank’s Correspondent

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

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



Table of Contents

Core Bank

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

Kentucky — 33

Metropolitan Louisville — 18

Central Kentucky — 9

Elizabethtown — 1

Frankfort — 1

Georgetown — 1

Lexington — 5

Shelbyville — 1

Western Kentucky — 2

Owensboro — 2

Northern Kentucky — 3

Covington — 1

Crestview Hills — 1

Florence — 1

Independence — 1 (closed April 3, 2018)

Southern Indiana — 3

Floyds Knobs — 1

Jeffersonville — 1

New Albany — 1

Metropolitan Tampa, Florida — 6

Metropolitan Cincinnati, Ohio — 1

Metropolitan Nashville, Tennessee — 3\*

---

\*Includes one LPO

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

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

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

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

Primarily from its Warehouse clients, the Traditional Bank acquires for investment single family, first lien mortgage loans that meet the Traditional Bank's specifications through its Correspondent Lending channel. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium.

## Table of Contents

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

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

### Republic Processing Group

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

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

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

- Offered only during the first two months of each year;
- No EA fee is charged to the taxpayer customer;
- All fees for the EA are paid by the Tax Providers with a restriction prohibiting the Tax Providers from passing along the fees to the taxpayer customer;
- No requirement that the taxpayer customer pays for another bank product, such as an RT;
-

Multiple funds disbursement methods, including direct deposit, prepaid card, check, or Walmart Direct2Cash®, based on the taxpayer-customer's election;

· Repayment of the EA to the Bank is deducted from the taxpayer customer's tax refund proceeds; and

· If an insufficient refund to repay the EA occurs:

- o there is no recourse to the taxpayer customer,
- o no negative credit reporting on the taxpayer customer, and
- o no collection efforts against the taxpayer customer.

Fees paid by the Tax Providers to the Company for the EA product are reported as interest income on loans. EAs are generally repaid within three weeks after the taxpayer customer's tax return is submitted to the applicable taxing authority. EAs do not have a contractual due date but the Company considers an EA delinquent if it remains unpaid three weeks after the taxpayer customer's tax return is submitted to the applicable taxing authority. Provisions for loan losses on EAs are estimated when advances are made, with provisions for all probable EA losses made in the first quarter of each year. Unpaid EAs are charged-off within 111 days after the taxpayer customer's tax return is submitted to the applicable taxing authority, with the majority of charge-offs typically recorded during the second quarter of the year.

Table of Contents

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

Republic Payment Solutions division — RPS is managed and operated within the TRS segment. The RPS division is an issuing bank offering general-purpose reloadable prepaid cards through third-party service providers. For the projected near-term, as the prepaid card program matures, the operating results of the RPS division are expected to be immaterial to the Company's overall results of operations and will be reported as part of the TRS segment. The RPS division will not be considered a separate reportable segment until such time, if any, that it meets quantitative reporting thresholds.

The Company reports fees related to RPS programs under Program fees. Additionally, the Company's portion of interchange revenue generated by prepaid card transactions is reported as noninterest income under "Interchange fee income."

Republic Credit Solutions segment — Through the RCS segment, the Bank offers consumer credit products. In general, the credit products are unsecured, small dollar consumer loans with maturities of 30-days-or-more, and are dependent on various factors including the consumer's ability to repay. RCS loans typically earn a higher yield but also have higher credit risk compared to loans originated through the Traditional Banking segment, with a significant portion of RCS clients considered subprime or near-prime borrowers. Additional information regarding consumer loan products offered through RCS follows:

- Line of credit – The Bank originates a line-of-credit product to generally subprime borrowers across the United States through one third-party service provider. RCS sells 90% of the balances generated within two business days of loan origination to its third-party service provider and retains the remaining 10% interest. The line-of-credit product represents the substantial majority of RCS activity. Loan balances held for sale are carried at the lower of cost or fair value.
- Credit card – The Bank originates a credit card product to generally subprime borrowers across the United States through one third-party service provider. RCS sells 90% of the balances generated within two business days of each transaction occurrence to its third-party service provider and retains the remaining 10% interest. Loan balances held for sale are carried at the lower of cost or fair value.
- Healthcare receivables – The Bank originates a healthcare-receivables product across the United States through two different third-party service providers. For one third-party service provider the Bank retains 100% of the receivables originated. For the other third-party service provider, the Bank retains 100% of the receivables originated in some

instances and sells 100% of the receivables in other instances within one month of origination. Loan balances held for sale are carried at the lower of cost or fair value.

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

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

Table of Contents

## Accounting Standards Updates (“ASUs”)

The following ASUs were issued prior to March 31, 2018 and are considered relevant to the Company’s financial statements. Generally, if an issued-but-not-yet-effective ASU with an expected immaterial impact to the Company has been disclosed in prior Company financial statements, it will not be re-disclosed below.

| ASU No. | Topic   | Nature of Update   | Date Adoption Required | Method of Adoption   | Expected Financial Statement Impact   |
|---------|---|--|------------------------|--|---|
| 2016-02 | Leases (Topic 842)                                | Most leases are considered operating leases, which are not accounted for on the lessees’ balance sheets. The significant change under this ASU is that those operating leases will be recorded on the balance sheet. | January 1, 2019        | Modified-retrospective approach, which includes a number of optional practical expedients. | During 2018, the Company completed another iteration of a pro forma impact analysis on the Company’s financial statements of implementing this standard. Based on this analysis, the Company believes approximately \$30 million of leases will be placed on its balance sheet, with this amount increasing both total assets and total liabilities. Additionally, the Company’s analysis reflected that this ASU would have minimal impact on the Company’s performance metrics, including regulatory capital ratios and return on average assets. From a client perspective, the Company is currently reviewing the impact of this ASU on any debt covenants. |
| 2016-13 | Financial Instruments – Credit Losses (Topic 326) | Amends guidance on reporting credit losses for assets held at  | January 1, 2020        | Modified-retrospective approach.   | As a result of this ASU, the Company expects a substantial, yet fully undetermined, increase  |

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

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

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





Table of Contents

The following ASUs were adopted by the Company during the three months ended March 31, 2018:

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

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

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

|         |  |   |                 |                           |             |
|---------|--|---|-----------------|---------------------------|-------------|
| 2016-15 | Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments | This ASU provides cash flow statement classification guidance on eight reportable topics. | January 1, 2018 | Retrospective transition. | Immaterial. |
|---------|--|---|-----------------|---------------------------|-------------|

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

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

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

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

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

Table of Contents

## 2. INVESTMENT SECURITIES

## Available-for-Sale Debt Securities

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

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

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

## Held-to-Maturity Debt Securities

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

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

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

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

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

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

Table of Contents

## Debt Securities by Contractual Maturity

The amortized cost and fair value of debt securities by contractual maturity at March 31, 2018 follow. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are detailed separately.

| March 31, 2018 (in thousands)            | Available-for-Sale<br>Debt Securities |               | Held-to-Maturity<br>Debt Securities |               |
|--|---------------------------------------|---------------|-------------------------------------|---------------|
|  | Amortized<br>Cost                     | Fair<br>Value | Carrying<br>Value                   | Fair<br>Value |
| Due in one year or less                  | \$ 80,069                             | \$ 79,732     | \$ —                                | \$ —          |
| Due from one year to five years          | 139,088                               | 137,270       | 10,441                              | 10,473        |
| Due from five years to ten years         | 10,000                                | 9,978         | 30,191                              | 30,551        |
| Due beyond ten years                     | 3,503                                 | 3,900         | —                                   | —             |
| Private label mortgage backed security   | 2,738                                 | 4,120         | —                                   | —             |
| Mortgage backed securities - residential | 100,439                               | 100,238       | 150                                 | 160           |
| Collateralized mortgage obligations      | 84,074                                | 82,745        | 22,062                              | 22,331        |
| Total debt securities                    | \$ 419,911                            | \$ 417,983    | \$ 62,844                           | \$ 63,515     |

## Corporate Bonds

The Bank's floating rate corporate bonds were rated "investment grade" by accredited rating agencies as of their respective purchase dates. The total fair value of the Bank's corporate bonds represented 10% and 9% of the Bank's investment portfolio as of March 31, 2018 and December 31, 2017.

## Mortgage Backed Securities and Collateralized Mortgage Obligations

At March 31, 2018, with the exception of the \$4.1 million private label mortgage backed security, all other mortgage backed securities and collateralized mortgage obligations ("CMOs") held by the Bank were issued by U.S. government-sponsored entities and agencies, primarily Freddie Mac and the Fannie Mae. At March 31, 2018 and December 31, 2017, there were gross unrealized losses of \$3.2 million and \$1.9 million related to available for sale mortgage backed securities and CMOs. Because these unrealized losses are attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to have other-than-temporary impairment ("OTTI").



### Trust Preferred Security

During 2015, the Parent Company purchased a \$3 million floating rate trust preferred security (“TRUP”) at a price of 68% of par. The coupon on this security is based on the 3-month London Interbank Borrowing Rate (“LIBOR”) rate plus 159 basis points. The Company performed an initial analysis prior to acquisition and performs ongoing analysis of the credit risk of the underlying borrower in relation to its TRUP.

Table of Contents

## Unrealized-Loss Analysis on Debt Securities

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

| March 31, 2018 (in thousands)                         | Less than 12 months |                   | 12 months or more |                   | Total      |                   |
|---|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|   | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
| Available-for-sale debt securities:                   |                     |                   |                   |                   |            |                   |
| U.S. Treasury securities and U.S. Government agencies | \$ 98,699           | \$ (1,011)        | \$ 88,303         | \$ (1,145)        | \$ 187,002 | \$ (2,156)        |
| Mortgage backed securities - residential              | 58,202              | (1,238)           | 9,377             | (333)             | 67,579     | (1,571)           |
| Collateralized mortgage obligations                   | 30,426              | (864)             | 23,081            | (744)             | 53,507     | (1,608)           |
| Corporate bonds                                       | 9,979               | (21)              | —                 | —                 | 9,979      | (21)              |
| Total available-for-sale debt securities              | \$ 197,306          | \$ (3,134)        | \$ 120,761        | \$ (2,222)        | \$ 318,067 | \$ (5,356)        |

| December 31, 2017 (in thousands)                      | Less than 12 months |                   | 12 months or more |                   | Total      |                   |
|---|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|   | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
| Available-for-sale debt securities:                   |                     |                   |                   |                   |            |                   |
| U.S. Treasury securities and U.S. Government agencies | \$ 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)           |
|   | \$ 301,476          | \$ (1,758)        | \$ 117,210        | \$ (1,641)        | \$ 418,686 | \$ (3,399)        |

Total available-for-sale  
debt securities

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

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

At March 31, 2018, the Bank's security portfolio consisted of 182 securities, 58 of which were in an unrealized loss position.

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



Table of Contents

Other-than-temporary impairment

Unrealized losses for all debt securities are reviewed to determine whether the losses are “other-than-temporary.” Debt securities are evaluated for OTTI on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in value below amortized cost is other-than-temporary. In conducting this assessment, the Bank evaluates a number of factors including, but not limited to the following:

- The length of time and the extent to which fair value has been less than the amortized cost basis;
- The Bank’s intent to hold until maturity or sell the debt security prior to maturity;
- An analysis of whether it is more-likely-than-not that the Bank will be required to sell the debt security before its anticipated recovery;
- Adverse conditions specifically related to the security, an industry, or a geographic area;
  - The historical and implied volatility of the fair value of the security;
- The payment structure of the security and the likelihood of the issuer being able to make payments;
- Failure of the issuer to make scheduled interest or principal payments;
- Any rating changes by a rating agency; and
- Recoveries or additional decline in fair value subsequent to the balance sheet date.

The term “other-than-temporary” is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a general lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized for the anticipated credit losses.

The Bank owns one private label mortgage backed security with a total carrying value of \$4.1 million at March 31, 2018. This security is mostly backed by “Alternative A” first lien mortgage loans, but also has an insurance “wrap” or guarantee as an added layer of protection to the security holder. This asset is illiquid, and as such, the Bank determined it to be a Level 3 security in accordance with Accounting Standards Codification (“ASC”) Topic 820, Fair Value Measurements and Disclosures. Based on this determination, the Bank utilized an income valuation model (“present value model”) approach, in determining the fair value of the security. This approach is beneficial for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management’s best estimate is used. Management’s best estimate consists of both internal and external support for this investment.

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

Pledged Debt Securities

Debt securities pledged to secure public deposits, securities sold under agreements to repurchase and debt securities held for other purposes, as required or permitted by law are as follows:

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

Table of Contents

## Equity Securities

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

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

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

| December 31, 2017 (in thousands)                              | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>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<br>March 31, 2018<br>Gains (Losses) Recognized<br>on Equity Securities | Realized | Unrealized | Total |
|----------------|---|----------|------------|-------|
|----------------|---|----------|------------|-------|

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



Table of Contents

## 3. LOANS HELD FOR SALE

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

## Mortgage Loans Held for Sale, at Fair Value

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

## Consumer Loans Held for Sale, at Fair Value

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

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

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

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

RCS originates for sale its line-of-credit product and its credit card product. The Bank sells 90% of the balances maintained through these products within two days of loan origination and retains a 10% interest. The line-of-credit product represents the substantial majority of activity in consumer loans held for sale carried at the lower of cost or fair value. Gains or losses on the sale of RCS products are reported as a component of “Program fees.”

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

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

Table of Contents

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

The composition of the loan portfolio at period end follows:

| (in thousands)                      | March 31, 2018 | December 31, 2017 |
|-------------------------------------|----------------|-------------------|
| Traditional Banking:                |                |                   |
| Residential real estate:            |                |                   |
| Owner occupied                      | \$ 912,415     | \$ 921,565        |
| Owner occupied - correspondent*     | 111,263        | 116,792           |
| Nonowner occupied                   | 216,095        | 205,081           |
| Commercial real estate              | 1,216,592      | 1,207,293         |
| Construction & land development     | 160,391        | 150,065           |
| Commercial & industrial             | 355,316        | 341,692           |
| Lease financing receivables         | 15,751         | 16,580            |
| Home equity                         | 342,217        | 347,655           |
| Consumer:                           |                |                   |
| Credit cards                        | 16,677         | 16,078            |
| Overdrafts                          | 791            | 974               |
| Automobile loans                    | 65,281         | 65,650            |
| Other consumer                      | 27,556         | 20,501            |
| Total Traditional Banking           | 3,440,345      | 3,409,926         |
| Warehouse lines of credit*          | 533,959        | 525,572           |
| Total Core Banking                  | 3,974,304      | 3,935,498         |
| Republic Processing Group*:         |                |                   |
| Tax Refund Solutions:               |                |                   |
| Easy Advances                       | 15,601         | —                 |
| Other TRS loans                     | 192            | 11,648            |
| Republic Credit Solutions           | 62,403         | 66,888            |
| Total Republic Processing Group     | 78,196         | 78,536            |
| Total loans**                       | 4,052,500      | 4,014,034         |
| Allowance for loan and lease losses | (52,341)       | (42,769)          |
| Total loans, net                    | \$ 4,000,159   | \$ 3,971,265      |

\*Identifies loans to borrowers located primarily outside of the Bank's market footprint.

\*\*Total loans are presented inclusive of premiums, discounts and net loan origination fees and costs. See table directly below for expanded detail.

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

| (in thousands)   | March 31, 2018 | December 31, 2017 |
|--|----------------|-------------------|
| Contractually receivable                               | \$ 4,052,694   | \$ 4,014,673      |
| Unearned income(1)                                     | (1,219)        | (1,157)           |
| Unamortized premiums(2)                                | 914            | 1,069             |
| Unaccreted discounts(3)                                | (4,251)        | (4,643)           |
| Net unamortized deferred origination fees and costs(4) | 4,362          | 4,092             |
| Carrying value of loans                                | \$ 4,052,500   | \$ 4,014,034      |

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

Table of Contents

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

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

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

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

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

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

Table of Contents

## Credit Quality Indicators

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

| March 31, 2018<br>(in thousands)   | Pass         | Special<br>Mention | Substandard | Doubtful<br>Loss | PCI<br>/Loans -<br>Group 1 | PCI<br>Loans -<br>Substandard | Total Rated<br>Loans* |
|------------------------------------|--------------|--------------------|-------------|------------------|----------------------------|-------------------------------|-----------------------|
| Traditional Banking:               |              |                    |             |                  |                            |                               |                       |
| Residential real estate:           |              |                    |             |                  |                            |                               |                       |
| Owner occupied                     | \$ —         | \$ 17,690          | \$ 12,395   | \$ —             | \$ 176                     | \$ 1,609                      | \$ 31,870             |
| Owner occupied -<br>correspondent  | —            | —                  | 383         | —                | —                          | —                             | 383                   |
| Nonowner occupied                  | —            | 628                | 2,259       | —                | 244                        | —                             | 3,131                 |
| Commercial real estate             | 1,205,748    | 4,743              | 4,765       | —                | 1,336                      | —                             | 1,216,592             |
| Construction & land<br>development | 159,780      | —                  | 611         | —                | —                          | —                             | 160,391               |
| Commercial & industrial            | 354,477      | 36                 | 791         | —                | 12                         | —                             | 355,316               |
| Lease financing<br>receivables     | 15,751       | —                  | —           | —                | —                          | —                             | 15,751                |
| Home equity                        | —            | 33                 | 1,427       | —                | 6                          | 102                           | 1,568                 |
| Consumer:                          |              |                    |             |                  |                            |                               |                       |
| Credit cards                       | —            | —                  | —           | —                | —                          | —                             | —                     |
| Overdrafts                         | —            | —                  | —           | —                | —                          | —                             | —                     |
| Automobile loans                   | —            | —                  | 141         | —                | —                          | —                             | 141                   |
| Other consumer                     | —            | —                  | 556         | —                | —                          | 3                             | 559                   |
| Total Traditional<br>Banking       | 1,735,756    | 23,130             | 23,328      | —                | 1,774                      | 1,714                         | 1,785,702             |
| Warehouse lines of credit          | 533,959      | —                  | —           | —                | —                          | —                             | 533,959               |
| Total Core Banking                 | 2,269,715    | 23,130             | 23,328      | —                | 1,774                      | 1,714                         | 2,319,661             |
| Republic Processing<br>Group:      |              |                    |             |                  |                            |                               |                       |
| Tax Refund Solutions:              |              |                    |             |                  |                            |                               |                       |
| Easy Advances                      | —            | —                  | —           | —                | —                          | —                             | —                     |
| Other TRS loans                    | —            | —                  | —           | —                | —                          | —                             | —                     |
| Republic Credit Solutions          | —            | —                  | 1,306       | —                | —                          | —                             | 1,306                 |
| Total Republic<br>Processing Group | —            | —                  | 1,306       | —                | —                          | —                             | 1,306                 |
| Total rated loans                  | \$ 2,269,715 | \$ 23,130          | \$ 24,634   | \$ —             | \$ 1,774                   | \$ 1,714                      | \$ 2,320,967          |

| December 31, 2017<br>(in thousands) | Pass         | Special<br>Mention | Substandard | Doubtful<br>Loss | PCI<br>/Loans -<br>Group 1 | PCI<br>Loans -<br>Substandard | Total Rated<br>Loans* |
|-------------------------------------|--------------|--------------------|-------------|------------------|----------------------------|-------------------------------|-----------------------|
| Traditional Banking:                |              |                    |             |                  |                            |                               |                       |
| Residential real estate:            |              |                    |             |                  |                            |                               |                       |
| Owner occupied                      | \$ —         | \$ 18,054          | \$ 12,056   | \$ —             | \$ 180                     | \$ 1,658                      | \$ 31,948             |
| Owner occupied -<br>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<br>development  | 149,332      | —                  | 733         | —                | —                          | —                             | 150,065               |
| Commercial & industrial             | 341,377      | 267                | 21          | —                | 27                         | —                             | 341,692               |
| Lease financing<br>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<br>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<br>Group:       |              |                    |             |                  |                            |                               |                       |
| Tax Refund Solutions:               |              |                    |             |                  |                            |                               |                       |
| Easy Advances                       | —            | —                  | —           | —                | —                          | —                             | —                     |
| Other TRS loans                     | 11,648       | —                  | —           | —                | —                          | —                             | 11,648                |
| Republic Credit Solutions           | —            | —                  | 1,066       | —                | —                          | —                             | 1,066                 |
| Total Republic<br>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<br>Three Months Ended March 31,<br>2018 |           |                 |            |                   | 2017                 |           |                 |            |                   |
|---|---|-----------|-----------------|------------|-------------------|----------------------|-----------|-----------------|------------|-------------------|
|   | Beginning<br>Balance  | Provision | Charge-<br>offs | Recoveries | Ending<br>Balance | Beginning<br>Balance | Provision | Charge-<br>offs | Recoveries | Ending<br>Balance |
| Traditional<br>Banking:<br>Residential<br>real estate:<br>Owner<br>occupied | \$ 6,182  | \$ —      | \$ (215)        | \$ 21      | \$ 5,988          | \$ 7,158             | \$ (143)  | \$ (3)          | \$ 59      | \$ 7,071          |
| Owner<br>occupied -<br>correspondent  | 292   | (14)      | —               | —          | 278               | 373                  | (9)       | (11)            | —          | 353               |
| Nonowner<br>occupied  | 1,396   | 165       | (121)           | 21         | 1,461             | 1,139                | 59        | —               | —          | 1,198             |
| Commercial<br>real estate   | 9,043   | 292       | —               | 125        | 9,460             | 8,078                | (197)     | —               | 17         | 7,898             |
| Construction &<br>land<br>development                                       | 2,364   | 354       | —               | 2          | 2,720             | 1,850                | 383       | —               | —          | 2,233             |
| Commercial &<br>industrial  | 2,198   | 126       | (108)           | 31         | 2,247             | 1,511                | (44)      | —               | 21         | 1,488             |
| Lease<br>financing<br>receivables   | 174   | (9)       | —               | —          | 165               | 136                  | 9         | —               | —          | 145               |
| Home equity   | 3,754   | (111)     | —               | 26         | 3,669             | 3,757                | 69        | (4)             | 9          | 3,831             |
| Consumer:<br>Credit cards   | 607   | 235       | (93)            | 7          | 756               | 490                  | 38        | (27)            | 5          | 506               |
| Overdrafts  | 974   | 17        | (289)           | 89         | 791               | 675                  | 83        | (184)           | 67         | 641               |
| Automobile<br>loans   | 687   | 19        | —               | —          | 706               | 526                  | 36        | —               | 1          | 563               |
| Other<br>consumer   | 1,162   | (135)     | (120)           | 83         | 990               | 771                  | 183       | (230)           | 101        | 825               |
| Total<br>Traditional<br>Banking   | 28,833  | 939       | (946)           | 405        | 29,231            | 26,464               | 467       | (459)           | 280        | 26,742            |
| Warehouse<br>lines of credit  | 1,314   | 21        | —               | —          | 1,335             | 1,464                | (226)     | —               | —          | 1,238             |



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

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

Nonperforming Loans and Nonperforming Assets

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

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

Credit Quality Ratios - Total Company:

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

Credit Quality Ratios - Core Bank:

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

|  |      |   |      |   |
|--|------|---|------|---|
| Nonperforming loans to total loans                   | 0.37 | % | 0.36 | % |
| Nonperforming assets to total loans (including OREO) | 0.38 |   | 0.36 |   |
| Nonperforming assets to total assets                 | 0.31 |   | 0.28 |   |

---

\*Loans on nonaccrual status include impaired loans.

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

Table of Contents

The following table presents the recorded investment in nonaccrual loans and loans past due 90-days-or-more and still on accrual by class of loans:

| (in thousands)                    | Nonaccrual       |                   | Past Due 90-Days-or-More<br>and Still Accruing Interest* |                   |
|-----------------------------------|------------------|-------------------|--|-------------------|
|                                   | March 31, 2018   | December 31, 2017 | March 31, 2018   | December 31, 2017 |
| <b>Traditional Banking:</b>       |                  |                   |  |                   |
| <b>Residential real estate:</b>   |                  |                   |  |                   |
| Owner occupied                    | \$ 8,952         | \$ 9,230          | \$ —   | \$ —              |
| Owner occupied - correspondent    | —                | —                 | —  | —                 |
| Nonowner occupied                 | 758              | 257               | —  | —                 |
| Commercial real estate            | 3,351            | 3,247             | —  | —                 |
| Construction & land development   | 62               | 67                | —  | —                 |
| Commercial & industrial           | 706              | —                 | —  | —                 |
| Lease financing receivables       | —                | —                 | —  | —                 |
| Home equity                       | 929              | 1,217             | —  | —                 |
| <b>Consumer:</b>                  |                  |                   |  |                   |
| Credit cards                      | —                | —                 | 1  | —                 |
| Overdrafts                        | —                | —                 | —  | —                 |
| Automobile loans                  | 65               | 68                | —  | —                 |
| Other consumer                    | 26               | 32                | 26   | 19                |
| Total Traditional Banking         | 14,849           | 14,118            | 27   | 19                |
| Warehouse lines of credit         | —                | —                 | —  | —                 |
| Total Core Banking                | 14,849           | 14,118            | 27   | 19                |
| <b>Republic Processing Group:</b> |                  |                   |  |                   |
| <b>Tax Refund Solutions:</b>      |                  |                   |  |                   |
| Easy Advances                     | —                | —                 | —  | —                 |
| Other TRS loans                   | —                | —                 | —  | —                 |
| Republic Credit Solutions         | —                | —                 | 1,252  | 937               |
| Total Republic Processing Group   | —                | —                 | 1,252  | 937               |
| <b>Total</b>                      | <b>\$ 14,849</b> | <b>\$ 14,118</b>  | <b>\$ 1,279</b>  | <b>\$ 956</b>     |

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

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



Table of Contents

## Delinquent Loans

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

| March 31, 2018<br>(dollars in thousands) | 30 - 59<br>Days<br>Delinquent | 60 - 89<br>Days<br>Delinquent | 90 or More<br>Days<br>Delinquent* | Total<br>Delinquent** | Total<br>Current | Total      |
|--|-------------------------------|-------------------------------|-----------------------------------|-----------------------|------------------|------------|
| Traditional Banking:                     |                               |                               |                                   |                       |                  |            |
| Residential real estate:                 |                               |                               |                                   |                       |                  |            |
| Owner occupied                           | \$ 1,191                      | \$ 960                        | \$ 1,344                          | \$ 3,495              | \$ 908,920       | \$ 912,415 |
| Owner occupied -<br>correspondent        | 383                           | —                             | —                                 | 383                   | 110,880          | 111,263    |
| Nonowner occupied                        | 645                           | —                             | 99                                | 744                   | 215,351          | 216,095    |
| Commercial real<br>estate                | 80                            | 811                           | 1,399                             | 2,290                 | 1,214,302        | 1,216,592  |
| Construction & land<br>development       | —                             | —                             | —                                 | —                     | 160,391          | 160,391    |
| Commercial &<br>industrial               | 124                           | 15                            | —                                 | 139                   | 355,177          | 355,316    |
| Lease financing<br>receivables           | —                             | —                             | —                                 | —                     | 15,751           | 15,751     |
| Home equity                              | 481                           | 179                           | 187                               | 847                   | 341,370          | 342,217    |
| Consumer:                                |                               |                               |                                   |                       |                  |            |
| Credit cards                             | 37                            | 29                            | 1                                 | 67                    | 16,610           | 16,677     |
| Overdrafts                               | 176                           | 1                             | —                                 | 177                   | 614              | 791        |
| Automobile loans                         | —                             | 21                            | 23                                | 44                    | 65,237           | 65,281     |
| Other consumer                           | 61                            | 30                            | 26                                | 117                   | 27,439           | 27,556     |
| Total Traditional<br>Banking             | 3,178                         | 2,046                         | 3,079                             | 8,303                 | 3,432,042        | 3,440,345  |
| Warehouse lines of<br>credit             | —                             | —                             | —                                 | —                     | 533,959          | 533,959    |
| Total Core Banking                       | 3,178                         | 2,046                         | 3,079                             | 8,303                 | 3,966,001        | 3,974,304  |
| Republic Processing<br>Group:            |                               |                               |                                   |                       |                  |            |
| Tax Refund Solutions:                    |                               |                               |                                   |                       |                  |            |
| Easy Advances                            | 13,163                        | —                             | —                                 | 13,163                | 2,438            | 15,601     |
| Other TRS loans                          | —                             | —                             | —                                 | —                     | 192              | 192        |
| Republic Credit<br>Solutions             | 2,487                         | 628                           | 1,252                             | 4,367                 | 58,036           | 62,403     |
| Total Republic<br>Processing Group       | 15,650                        | 628                           | 1,252                             | 17,530                | 60,666           | 78,196     |

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

---

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

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

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

Table of Contents

| December 31, 2017<br>(dollars in thousands) | 30 - 59<br>Days<br>Delinquent | 60 - 89<br>Days<br>Delinquent | 90 or More<br>Days<br>Delinquent* | Total<br>Delinquent** | Total<br>Current | Total        |
|---|-------------------------------|-------------------------------|-----------------------------------|-----------------------|------------------|--------------|
| Traditional Banking:                        |                               |                               |                                   |                       |                  |              |
| Residential real estate:                    |                               |                               |                                   |                       |                  |              |
| Owner occupied                              | \$ 2,559                      | \$ 1,166                      | \$ 1,057                          | \$ 4,782              | \$ 916,783       | \$ 921,565   |
| Owner occupied -<br>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<br>development          | 67                            | —                             | —                                 | 67                    | 149,998          | 150,065      |
| Commercial &<br>industrial                  | 15                            | —                             | —                                 | 15                    | 341,677          | 341,692      |
| Lease financing<br>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<br>Banking                | 4,202                         | 1,280                         | 2,978                             | 8,460                 | 3,401,466        | 3,409,926    |
| Warehouse lines of<br>credit                | —                             | —                             | —                                 | —                     | 525,572          | 525,572      |
| Total Core Banking                          | 4,202                         | 1,280                         | 2,978                             | 8,460                 | 3,927,038        | 3,935,498    |
| Republic Processing<br>Group:               |                               |                               |                                   |                       |                  |              |
| Tax Refund Solutions:                       |                               |                               |                                   |                       |                  |              |
| Easy Advances                               | —                             | —                             | —                                 | —                     | —                | —            |
| Other TRS loans                             | —                             | —                             | —                                 | —                     | 11,648           | 11,648       |
| Republic Credit<br>Solutions                | 3,631                         | 1,073                         | 937                               | 5,641                 | 61,247           | 66,888       |
| Total Republic<br>Processing Group          | 3,631                         | 1,073                         | 937                               | 5,641                 | 72,895           | 78,536       |
| Total                                       | \$ 7,833                      | \$ 2,353                      | \$ 3,915                          | \$ 14,101             | \$ 3,999,933     | \$ 4,014,034 |
| Delinquency ratio***                        | 0.20 %                        | 0.06 %                        | 0.10 %                            | 0.35 %                |                  |              |

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

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

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

## Impaired Loans

Information regarding the Bank's impaired loans follows:

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

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



Table of Contents

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

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

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

| Total                           | \$ 4,143                            | \$ 47,762    | \$ 436                    | \$ 52,341 | \$ 44,453               | \$ 4,004,559 | \$ 3,474              | \$ 14                    |
|---------------------------------|-------------------------------------|--------------|---------------------------|-----------|-------------------------|--------------|-----------------------|--------------------------|
|                                 | Allowance for Loan and Lease Losses |              |                           |           | Loans                   |              | PCI                   | PCI                      |
|                                 | Individually                        | Collectively | PCI with Post Acquisition | Total     | Individually            | Collectively | with Post Acquisition | without Post Acquisition |
| December 31, 2017               | Evaluated Excluding PCI             | Evaluated    | Impairment Allowance      | Allowance | Evaluated Excluding PCI | Evaluated    | Impairment            | Impaired                 |
| (dollars in thousands)          | PCI                                 | Evaluated    | Impairment Allowance      | Allowance | PCI                     | Evaluated    | Impairment            | Impaired                 |
| Traditional Banking:            |                                     |              |                           |           |                         |              |                       |                          |
| Residential real estate:        |                                     |              |                           |           |                         |              |                       |                          |
| Owner occupied                  | \$ 2,361                            | \$ 3,501     | \$ 320                    | \$ 6,182  | \$ 27,605               | \$ 892,122   | \$ 1,838              | \$ —                     |
| Owner occupied - correspondent  | —                                   | 292          | —                         | 292       | —                       | 116,792      | —                     | —                        |
| Nonowner occupied               | 4                                   | 1,390        | 2                         | 1,396     | 1,814                   | 203,019      | 248                   | —                        |
| Commercial real estate          | 407                                 | 8,588        | 48                        | 9,043     | 9,185                   | 1,196,736    | 1,369                 | 3                        |
| Construction & land development | 107                                 | 2,257        | —                         | 2,364     | 733                     | 149,332      | —                     | —                        |
| Commercial & industrial         | 288                                 | 1,910        | —                         | 2,198     | 308                     | 341,357      | —                     | 27                       |
| Lease financing receivables     | —                                   | 174          | —                         | 174       | —                       | 16,580       | —                     | —                        |
| Home equity                     | 425                                 | 3,218        | 111                       | 3,754     | 1,609                   | 345,930      | 115                   | 1                        |
| Consumer:                       |                                     |              |                           |           |                         |              |                       |                          |
| Credit cards                    | —                                   | 607          | —                         | 607       | —                       | 16,078       | —                     | —                        |
| Overdrafts                      | —                                   | 974          | —                         | 974       | —                       | 974          | —                     | —                        |
| Automobile loans                | 32                                  | 655          | —                         | 687       | 108                     | 65,542       | —                     | —                        |
| Other consumer                  | 528                                 | 631          | 3                         | 1,162     | 552                     | 19,946       | 3                     | —                        |
| Total Traditional Banking       | 4,152                               | 24,197       | 484                       | 28,833    | 41,914                  | 3,364,408    | 3,573                 | 31                       |
| Warehouse lines of credit       | —                                   | 1,314        | —                         | 1,314     | —                       | 525,572      | —                     | —                        |
| Total Core Banking              | 4,152                               | 25,511       | 484                       | 30,147    | 41,914                  | 3,889,980    | 3,573                 | 31                       |
| Republic Processing Group:      |                                     |              |                           |           |                         |              |                       |                          |
| Tax Refund Solutions:           |                                     |              |                           |           |                         |              |                       |                          |
| Easy Advances                   | —                                   | —            | —                         | —         | —                       | —            | —                     | —                        |
| Other TRS loans                 | —                                   | 12           | —                         | 12        | —                       | 11,648       | —                     | —                        |
| Republic Credit Solutions       | 49                                  | 12,561       | —                         | 12,610    | 129                     | 66,759       | —                     | —                        |
| Total Republic Processing Group | 49                                  | 12,573       | —                         | 12,622    | 129                     | 78,407       | —                     | —                        |
| Total                           | \$ 4,201                            | \$ 38,084    | \$ 484                    | \$ 42,769 | \$ 42,043               | \$ 3,968,387 | \$ 3,573              | \$ 31                    |



Table of Contents

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

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

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

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

Table of Contents

## Troubled Debt Restructurings

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

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

Nonaccrual loans modified as TDRs typically remain on nonaccrual status and continue to be reported as nonperforming loans for a minimum of six consecutive months. Accruing loans modified as TDRs are evaluated for nonaccrual status based on a current evaluation of the borrower's financial condition and ability and willingness to service the modified debt. At March 31, 2018 and December 31, 2017, \$6 million and \$6 million of TDRs were on nonaccrual status.

Detail of TDRs differentiated by loan type and accrual status follows:

|                                       | Troubled Debt Restructurings on Nonaccrual Status |            | Troubled Debt Restructurings on Accrual Status |            | Total Troubled Debt Restructurings |            |
|---------------------------------------|---|------------|--|------------|------------------------------------|------------|
|                                       | Number of   | Recorded   | Number of                                      | Recorded   | Number of                          | Recorded   |
| March 31, 2018 (dollars in thousands) | Loans   | Investment | Loans  | Investment | Loans                              | Investment |
| Residential real estate               | 62  | \$ 4,797   | 180  | \$ 20,966  | 242                                | \$ 25,763  |
| Commercial real estate                | 2   | 1,342      | 14   | 6,519      | 16                                 | 7,861      |
| Construction & land development       | 1   | 62         | 2  | 549        | 3                                  | 611        |
| Commercial & industrial               | —   | —          | 5  | 25         | 5                                  | 25         |
| Consumer                              | —   | —          | 828  | 485        | 828                                | 485        |
| Total troubled debt restructurings    | 65  | \$ 6,201   | 1,029  | \$ 28,544  | 1,094                              | \$ 34,745  |

|  | Troubled Debt Restructurings on Nonaccrual Status |            | Troubled Debt Restructurings on Accrual Status |            | Total Troubled Debt Restructurings |            |
|--|---|------------|--|------------|------------------------------------|------------|
|  | Number of   | Recorded   | Number of                                      | Recorded   | Number of                          | Recorded   |
| December 31, 2017 (dollars in thousands) | Loans   | Investment | Loans  | Investment | Loans                              | Investment |
| Residential real estate                  | 62  | \$ 4,926   | 183  | \$ 20,189  | 245                                | \$ 25,115  |
| Commercial real estate                   | 2   | 1,366      | 14   | 6,499      | 16                                 | 7,865      |
| Construction & land development          | 1   | 67         | 3  | 666        | 4                                  | 733        |
| Commercial & industrial                  | —   | —          | 2  | 287        | 2                                  | 287        |
| Consumer                                 | —   | —          | 830  | 637        | 830                                | 637        |
| Total troubled debt restructurings       | 65  | \$ 6,359   | 1,032  | \$ 28,278  | 1,097                              | \$ 34,637  |

Table of Contents

The Bank considers a TDR to be performing to its modified terms if the loan is in accrual status and not past due 30-days-or-more as of the reporting date. A summary of the categories of TDR loan modifications outstanding and respective performance under modified terms at March 31, 2018 and December 31, 2017 follows:

|  | Troubled Debt Restructurings Performing to Modified Terms |            | Troubled Debt Restructurings Not Performing to Modified Terms |            | Total Troubled Debt Restructurings |            |
|--|---|------------|---|------------|------------------------------------|------------|
|  | Number of   | Recorded   | Number of   | Recorded   | Number of                          | Recorded   |
| March 31, 2018 (dollars in thousands)                        | Loans   | Investment | Loans   | Investment | Loans                              | Investment |
| Residential real estate loans (including home equity loans): |   |            |   |            |                                    |            |
| Interest only payments                                       | 1   | \$ 4       | —   | \$ —       | 1                                  | \$ 4       |
| Rate reduction   | 144   | 17,205     | 34  | 3,162      | 178                                | 20,367     |
| Principal deferral   | 13  | 2,610      | 3   | 639        | 16                                 | 3,249      |
| Legal modification   | 20  | 1,054      | 27  | 1,089      | 47                                 | 2,143      |
| Total residential TDRs                                       | 178   | 20,873     | 64  | 4,890      | 242                                | 25,763     |
| Commercial related and construction/land development loans:  |   |            |   |            |                                    |            |
| Interest only payments                                       | 3   | 808        | —   | —          | 3                                  | 808        |
| Rate reduction   | 7   | 3,125      | 1   | 78         | 8                                  | 3,203      |
| Principal deferral   | 10  | 3,147      | 3   | 1,339      | 13                                 | 4,486      |
| Total commercial TDRs  | 20  | 7,080      | 4   | 1,417      | 24                                 | 8,497      |
| Consumer loans:  |   |            |   |            |                                    |            |
| Principal deferral   | 828   | 485        | —   | —          | 828                                | 485        |
| Total troubled debt restructurings                           | 1,026   | \$ 28,438  | 68  | \$ 6,307   | 1,094                              | \$ 34,745  |

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



Residential real estate loans  
(including home equity loans):

|                        |     |        |    |        |     |        |
|------------------------|-----|--------|----|--------|-----|--------|
| Interest only payments | 1   | \$ 5   | 1  | \$ 458 | 2   | \$ 463 |
| Rate reduction         | 147 | 17,617 | 32 | 3,081  | 179 | 20,698 |
| Principal deferral     | 13  | 1,436  | 2  | 121    | 15  | 1,557  |
| Legal modification     | 21  | 1,118  | 28 | 1,279  | 49  | 2,397  |
| Total residential TDRs | 182 | 20,176 | 63 | 4,939  | 245 | 25,115 |

Commercial related and  
construction/land development  
loans:

|                        |    |       |   |       |    |       |
|------------------------|----|-------|---|-------|----|-------|
| Interest only payments | 3  | 837   | — | —     | 3  | 837   |
| Rate reduction         | 7  | 3,185 | 1 | 79    | 8  | 3,264 |
| Principal deferral     | 9  | 3,430 | 2 | 1,354 | 11 | 4,784 |
| Total commercial TDRs  | 19 | 7,452 | 3 | 1,433 | 22 | 8,885 |

## Consumer loans:

|                                       |       |           |    |          |       |           |
|---------------------------------------|-------|-----------|----|----------|-------|-----------|
| Principal deferral                    | 830   | 637       | —  | —        | 830   | 637       |
| Total troubled debt<br>restructurings | 1,031 | \$ 28,265 | 66 | \$ 6,372 | 1,097 | \$ 34,637 |

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

Table of Contents

A summary of the categories of TDR loan modifications by respective performance as of March 31, 2018 and 2017 that were modified during the three months ended March 31, 2018 and 2017 follows:

|  | Troubled Debt Restructurings Performing to Modified Terms |            | Troubled Debt Restructurings Not Performing to Modified Terms |            | Total Troubled Debt Restructurings |            |
|--|---|------------|---|------------|------------------------------------|------------|
|  | Number of   | Recorded   | Number of   | Recorded   | Number of                          | Recorded   |
| March 31, 2018 (dollars in thousands)                        | Loans   | Investment | Loans   | Investment | Loans                              | Investment |
| Residential real estate loans (including home equity loans): |   |            |   |            |                                    |            |
| Interest only payments                                       | —   | \$ —       | —   | \$ —       | —                                  | \$ —       |
| Rate reduction   | —   | —          | 1   | 85         | 1                                  | 85         |
| Principal deferral   | 1   | 1,204      | 1   | 522        | 2                                  | 1,726      |
| Legal modification   | —   | —          | —   | —          | —                                  | —          |
| Total residential TDRs                                       | 1   | 1,204      | 2   | 607        | 3                                  | 1,811      |
| Commercial related and construction/land development loans:  |   |            |   |            |                                    |            |
| Interest only payments                                       | —   | —          | —   | —          | —                                  | —          |
| Rate reduction   | —   | —          | —   | —          | —                                  | —          |
| Principal deferral   | 2   | 3          | 1   | 14         | 3                                  | 17         |
| Total commercial TDRs  | 2   | 3          | 1   | 14         | 3                                  | 17         |
| Consumer loans:  |   |            |   |            |                                    |            |
| Principal deferral   | 1   | 61         | —   | —          | 1                                  | 61         |
| Total troubled debt restructurings                           | 4   | \$ 1,268   | 3   | \$ 621     | 7                                  | \$ 1,889   |

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

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

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

The tables above are inclusive of loans that were TDRs at the end of previous periods and were re-modified, e.g., a maturity date extension during the current period.

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

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

Table of Contents

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

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

## Foreclosures

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

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

The following table presents the recorded investment in consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction as of March 31, 2018 and December 31, 2017:

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

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

Table of Contents

## Easy Advances

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

Information regarding EAs follows:

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

## 5. DEPOSITS

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

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

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

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

---

\*Represents a time deposit.

Table of Contents

## 6. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND OTHER SHORT-TERM BORROWINGS

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

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

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

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



7. FEDERAL HOME LOAN BANK ADVANCES

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

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

Table of Contents

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At March 31, 2018 and December 31, 2017, Republic had available borrowing capacity of \$641 million and \$378 million, respectively, from the FHLB. In addition to its borrowing capacity with the FHLB, Republic also had unsecured lines of credit totaling \$125 million and \$125 million available through various other financial institutions as of March 31, 2018 and December 31, 2017.

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

| Year (dollars in thousands) | Principal  | Weighted<br>Average<br>Rate |   |
|-----------------------------|------------|-----------------------------|---|
| 2018 (Overnight)            | \$ 50,000  | 1.72                        | % |
| 2018 (Term)                 | 110,000    | 1.65                        |   |
| 2019                        | 100,000    | 1.80                        |   |
| 2020                        | 120,000    | 1.81                        |   |
| 2021                        | 30,000     | 1.93                        |   |
| 2022                        | 20,000     | 2.12                        |   |
| 2023                        | 10,000     | 2.14                        |   |
| Thereafter                  | —          | —                           |   |
| Total                       | \$ 440,000 | 1.79                        | % |

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

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

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

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

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

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

Table of Contents

## 8. OFF BALANCE SHEET RISKS, COMMITMENTS AND CONTINGENT LIABILITIES

The Company, in the normal course of business, is party to financial instruments with off balance sheet risk. These financial instruments primarily include commitments to extend credit and standby letters of credit. The contract or notional amounts of these instruments reflect the potential future obligations of the Company pursuant to those financial instruments. Creditworthiness for all instruments is evaluated on a case-by-case basis in accordance with the Company's credit policies. Collateral from the client may be required based on the Company's credit evaluation of the client and may include business assets of commercial clients, as well as personal property and real estate of individual clients or guarantors.

The Company also extends binding commitments to clients and prospective clients. Such commitments assure a borrower of financing for a specified period of time at a specified rate. Additionally, the Company makes binding purchase commitments to third-party loan correspondent originators. These commitments assure that the Company will purchase a loan from such correspondent originators at a specific price for a specific period of time. The risk to the Company under such loan commitments is limited by the terms of the contracts. For example, the Company may not be obligated to advance funds if the client's financial condition deteriorates or if the client fails to meet specific covenants.

An approved but unfunded loan commitment represents a potential credit risk and a liquidity risk, since the Company's client(s) may demand immediate cash that would require funding. In addition, unfunded loan commitments represent interest rate risk as market interest rates may rise above the rate committed to the Company's client. Since a portion of these loan commitments normally expire unused, the total amount of outstanding commitments at any point in time may not require future funding.

The following table presents the Company's commitments, exclusive of Mortgage Banking loan commitments, for each period ended:

| (in thousands)                     | March 31, 2018 | December 31, 2017 |
|------------------------------------|----------------|-------------------|
| Unused warehouse lines of credit   | \$ 491,942     | \$ 525,328        |
| Unused home equity lines of credit | 378,232        | 367,887           |
| Unused loan commitments - other    | 703,759        | 598,002           |
| Standby letters of credit          | 12,645         | 12,643            |
| FHLB letter of credit              | 10,000         | 10,000            |
| Total commitments                  | \$ 1,596,578   | \$ 1,513,860      |

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a client to a third party. The terms and risk of loss involved in issuing standby letters of credit are similar to those involved in issuing loan commitments and extending credit. In addition to credit risk, the Company also has liquidity risk associated with standby letters of credit because funding for these obligations could be required immediately. The Company does not deem this risk to be material.

Table of Contents

9. FAIR VALUE

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

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

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

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

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

Available-for-sale debt securities: Except for the Bank's private label mortgage backed security and its TRUP investment, the fair value of available-for-sale debt securities is typically determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The Bank's private label mortgage backed security remains illiquid, and as such, the Bank classifies this security as a Level 3 security in accordance with ASC Topic 820, Fair Value Measurement. Based on this determination, the Bank utilized an income valuation model (present value model) approach in determining the fair value of this security.

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

The Company acquired its TRUP investment in 2015 and considered the most recent bid price for the same instrument to approximate market value at March 31, 2018. The Company's TRUP investment is considered highly illiquid and also valued using Level 3 inputs, as the most recent bid price for this instrument is not always considered generally observable.

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

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

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

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

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

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

## Table of Contents

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

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

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

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

**Mortgage servicing rights:** On at least a quarterly basis, MSRs are evaluated for impairment based upon the fair value of the MSRs as compared to carrying amount. If the carrying amount of an individual tranche exceeds fair value, impairment is recorded and the respective individual tranche is carried at fair value. If the carrying amount of an individual tranche does not exceed fair value, impairment is reversed if previously recognized and the carrying value of the individual tranche is based on the amortization method. The valuation model utilizes assumptions that market



participants would use in estimating future net servicing income and can generally be validated against available market data (Level 2). There were no MSR tranches carried at fair value at March 31, 2018 and December 31, 2017.

Table of Contents

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

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

Table of Contents

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

All transfers between levels are generally recognized at the end of each quarter. There were no transfers into or out of Level 1, 2 or 3 assets during the three months ended March 31, 2018 and 2017.

## Private Label Mortgage Backed Security

The following table presents a reconciliation of the Bank's private label mortgage backed security measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods ended March 31, 2018 and 2017:

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

The fair value of the Bank's single private label mortgage backed security is supported by analysis prepared by an independent third party. The third party's approach to determining fair value involved several steps: 1) detailed collateral analysis of the underlying mortgages, including consideration of geographic location, original loan-to-value and the weighted average FICO score of the borrowers; 2) collateral performance projections for each pool of mortgages underlying the security (probability of default, severity of default, and prepayment probabilities) and 3) discounted cash flow modeling.

The significant unobservable inputs in the fair value measurement of the Bank's single private label mortgage backed security are prepayment rates, probability of default and loss severity in the event of default. Significant fluctuations in any of those inputs in isolation would result in a significantly different fair value measurement.

Table of Contents

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

| March 31, 2018 (dollars in thousands)    | Fair     | Valuation            | Unobservable Inputs          | Range       |
|--|----------|----------------------|------------------------------|-------------|
|  | Value    | Technique            |                              |             |
| Private label mortgage backed security   | \$ 4,120 | Discounted cash flow | (1) Constant prepayment rate | 5.0% - 6.5% |
|  |          |                      | (2) Probability of default   | 1.8% - 8.0% |
|  |          |                      | (3) Loss severity            | 50% - 85%   |
| December 31, 2017 (dollars in thousands) | Fair     | Valuation            | Unobservable Inputs          | Range       |
|  | Value    | Technique            |                              |             |
| Private label mortgage backed security   | \$ 4,449 | Discounted cash flow | (1) Constant prepayment rate | 3.5% - 6.5% |
|  |          |                      | (2) Probability of default   | 1.8% - 8.0% |
|  |          |                      | (3) Loss severity            | 60% - 85%   |

## Trust Preferred Security

The following table presents a reconciliation of the Company's TRUP measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2018 and 2017:

Three Months  
Ended

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

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

Table of Contents

## Mortgage Loans Held for Sale

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

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

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

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

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

## Consumer Loans Held for Sale

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

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

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

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

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



Table of Contents

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

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

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

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

Table of Contents

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

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

  

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

\* The difference between the carrying value and the fair value of impaired loans measured at fair value is reconciled in a subsequent table of this Footnote.

45

---

Table of Contents

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

|  | Fair     | Valuation                 | Unobservable  | Range              |
|--|----------|---------------------------|---|--------------------|
| March 31, 2018 (dollars in thousands)                      | Value    | Technique                 | Inputs  | (Weighted Average) |
| Impaired loans - residential real estate owner occupied    | \$ 3,269 | Sales comparison approach | Adjustments determined for differences between comparable sales       | 0% - 54% (12%)     |
| Impaired loans - residential real estate nonowner occupied | \$ 1,339 | Sales comparison approach | Adjustments determined for differences between comparable sales       | 0% - 27% (13%)     |
| Impaired loans - commercial real estate                    | \$ 79    | Sales comparison approach | Adjustments determined for differences between comparable sales       | 21% (21%)          |
| Impaired loans - commercial real estate                    | \$ 1,263 | Income approach           | Adjustments for differences between net operating income expectations | 17% (17%)          |
| Impaired loans - commercial & industrial                   | \$ 744   | Sales comparison approach | Adjustments determined for differences between comparable sales       | 3% (3%)            |
| Impaired loans - home equity                               | \$ 308   | Sales comparison approach | Adjustments determined for differences between comparable sales       | 0% - 22% (14%)     |
| Premises   | \$ 2,896 | Sales comparison approach | Adjustments determined for differences between comparable sales       | 8% - 68% (24%)     |
|  |          |                           |   |                    |
|  | Fair     | Valuation                 | Unobservable  | Range              |
| December 31, 2017 (dollars in thousands)                   | Value    | Technique                 | Inputs  | (Weighted Average) |
| Impaired loans - residential real estate owner occupied    | \$ 4,107 | Sales comparison approach | Adjustments determined for differences between comparable sales       | 0% - 54% (10%)     |
|  | \$ 237   |                           |   |                    |

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

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

Table of Contents

## Impaired Loans

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

Impaired collateral-dependent loans are as follows:

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

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

## Other Real Estate Owned

Other real estate owned, which is carried at the lower of cost or fair value, is periodically assessed for impairment based on fair value at the reporting date. Fair value is determined from external appraisals or BPOs using judgments and estimates of external professionals. Many of these inputs are not observable and, accordingly, these measurements are classified as Level 3.

Details of other real estate owned carrying value and write downs follow:

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

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

Table of Contents

## Premises

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

| (in thousands)                 | Three Months<br>Ended<br>March 31, |       |
|--------------------------------|------------------------------------|-------|
|                                | 2018                               | 2017  |
| Impairment charges on premises | \$ 104                             | \$ 58 |

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

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



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

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

---

NA - Not applicable

Table of Contents

| (in thousands)   | Carrying Value | Fair Value Measurements at December 31, 2017: |              |           | Total Fair Value |
|--|----------------|---|--------------|-----------|------------------|
|  |                | Level 1                                       | Level 2      | Level 3   |                  |
| <b>Assets:</b>   |                |   |              |           |                  |
| Cash and cash equivalents  | \$ 299,351     | \$ 299,351                                    | \$ —         | \$ —      | \$ 299,351       |
| Available-for-sale debt securities   | 524,303        | —   | 516,727      | 8,049     | 524,303          |
| Held-to-maturity debt securities   | 64,227         | —   | 65,133       | —         | 65,133           |
| Equity securities with readily determinable fair values                        | 2,928          | 2,455   | 473          | —         | 2,928            |
| Mortgage loans held for sale, at fair value                                    | 5,761          | —   | 5,761        | —         | 5,761            |
| Consumer loans held for sale, at fair value                                    | 2,677          | —   | —            | 2,677     | 2,677            |
| Consumer loans held for sale, at the lower of cost or fair value               | 8,551          | —   | 8,551        | —         | 8,551            |
| Loans, net   | 3,971,265      | —   | —            | 3,938,998 | 3,938,998        |
| Federal Home Loan Bank stock   | 32,067         | —   | —            | —         | NA               |
| Accrued interest receivable  | 12,082         | —   | 12,082       | —         | 12,082           |
| <b>Liabilities:</b>  |                |   |              |           |                  |
| Noninterest-bearing deposits   | \$ 1,022,042   | —   | \$ 1,022,042 | —         | \$ 1,022,042     |
| Transaction deposits   | 2,049,493      | —   | 2,049,493    | —         | 2,049,493        |
| Time deposits  | 361,623        | —   | 358,627      | —         | 358,627          |
| Securities sold under agreements to repurchase and other short-term borrowings | 204,021        | —   | 204,021      | —         | 204,021          |
| Federal Home Loan Bank advances  | 737,500        | —   | 730,712      | —         | 730,712          |
| Subordinated note  | 41,240         | —   | 31,763       | —         | 31,763           |
| Accrued interest payable   | 1,100          | —   | 1,100        | —         | 1,100            |

NA - Not applicable

Table of Contents

## 10. MORTGAGE BANKING ACTIVITIES

Mortgage Banking activities primarily include residential mortgage originations and servicing.

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

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

The following table presents the components of Mortgage Banking income:

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

Activity for capitalized mortgage servicing rights was as follows:

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

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

Table of Contents

Other information relating to mortgage servicing rights follows:

| (in thousands)  | March 31, 2018 |       | December 31, 2017 |       |
|---|----------------|-------|-------------------|-------|
| Fair value of mortgage servicing rights portfolio                     | \$             | 8,841 | \$                | 7,984 |
| Monthly weighted average prepayment rate of unpaid principal balance* | 176            | %     | 200               | %     |
| Discount rate   | 10             | %     | 10                | %     |
| Weighted average default rate   | 4.08           | %     | 3.75              | %     |
| Weighted average life in years  | 5.99           |       | 5.49              |       |

\* Rates are applied to individual tranches with similar characteristics.

Mortgage Banking derivatives used in the ordinary course of business primarily consist of mandatory forward sales contracts and interest rate lock loan commitments. Mandatory forward contracts represent future commitments to deliver loans at a specified price and date and are used to manage interest rate risk on loan commitments and mortgage loans held for sale. Interest rate lock loan commitments represent commitments to fund loans at a specific rate. These derivatives involve underlying items, such as interest rates, and are designed to transfer risk. Substantially all of these instruments expire within 90 days from the date of issuance. Notional amounts are amounts on which calculations and payments are based, but which do not represent credit exposure, as credit exposure is limited to the amounts required to be received or paid.

Mandatory forward contracts also contain an element of risk in that the counterparties may be unable to meet the terms of such agreements. In the event the counterparties fail to deliver commitments or are unable to fulfill their obligations, the Bank could potentially incur significant additional costs by replacing the positions at then current market rates. The Bank manages its risk of exposure by limiting counterparties to those banks and institutions deemed appropriate by management and the Board of Directors. The Bank does not expect any counterparty to default on their obligations and therefore, the Bank does not expect to incur any cost related to counterparty default.

The Bank is exposed to interest rate risk on loans held for sale and rate lock loan commitments. As market interest rates fluctuate, the fair value of mortgage loans held for sale and rate lock commitments will decline or increase. To offset this interest rate risk the Bank enters into derivatives, such as mandatory forward contracts to sell loans. The fair value of these mandatory forward contracts will fluctuate as market interest rates fluctuate, and the change in the value of these instruments is expected to largely, though not entirely, offset the change in fair value of loans held for sale and rate lock commitments. The objective of this activity is to minimize the exposure to losses on rate loan lock commitments and loans held for sale due to market interest rate fluctuations. The net effect of derivatives on earnings will depend on risk management activities and a variety of other factors, including: market interest rate volatility; the amount of rate lock commitments that close; the ability to fill the forward contracts before expiration; and the time period required to close and sell loans.

The following table includes the notional amounts and fair values of mortgage loans held for sale and mortgage banking derivatives as of the period ends presented:

| (in thousands)                              | March 31, 2018     |            | December 31, 2017  |            |
|---|--------------------|------------|--------------------|------------|
|   | Notional<br>Amount | Fair Value | Notional<br>Amount | Fair Value |
| Included in Mortgage loans held for sale:   |                    |            |                    |            |
| Mortgage loans held for sale, at fair value | \$ 4,412           | \$ 4,496   | \$ 5,668           | \$ 5,761   |
| Included in other assets:                   |                    |            |                    |            |
| Rate lock loan commitments                  | \$ 21,663          | \$ 443     | \$ 14,696          | \$ 310     |
| Mandatory forward contracts                 | 21,604             | 47         | —                  | —          |
| Included in other liabilities:              |                    |            |                    |            |
| Mandatory forward contracts                 | \$ —               | \$ —       | \$ 17,159          | \$ 9       |

Table of Contents

## 11. INTEREST RATE SWAPS

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

## Interest Rate Swaps Used as Cash Flow Hedges

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

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

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

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

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

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

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

The following table presents the net gains (losses) recorded in OCI and the consolidated statements of income relating to the swaps designated as cash flow hedges for the three months ended March 31, 2018 and 2017:

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

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





Table of Contents

## Non-hedge Interest Rate Swaps

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

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

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

| (in thousands)  | Bank Position              | March 31, 2018 |            | December 31, 2017 |            |
|---|----------------------------|----------------|------------|-------------------|------------|
|   |                            | Notional       | Fair Value | Notional          | Fair Value |
| Interest rate swaps with Bank clients                         | Pay variable/receive fixed | \$ 61,115      | \$ (1,360) | \$ 61,419         | \$ 84      |
| Offsetting interest rate swaps with institutional swap dealer | Pay fixed/receive variable | 61,115         | 1,360      | 61,419            | (84)       |
| Total   |                            | \$ 122,230     | \$ —       | \$ 122,838        | \$ —       |

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

Table of Contents

## 12. EARNINGS PER SHARE

The Company calculates earnings per share under the two-class method. Under the two-class method, earnings available to common shareholders for the period are allocated between Class A Common Stock and Class B Common Stock according to dividends declared (or accumulated) and participation rights in undistributed earnings. The difference in earnings per share between the two classes of common stock results from the 10% per share cash dividend premium paid on Class A Common Stock over that paid on Class B Common Stock.

A reconciliation of the combined Class A and Class B Common Stock numerators and denominators of the earnings per share and diluted earnings per share computations is presented below:

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

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

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

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

|                                    | Three Months<br>Ended<br>March 31, |      |
|------------------------------------|------------------------------------|------|
|                                    | 2018                               | 2017 |
| Antidilutive stock options         | 4,500                              | —    |
| Average antidilutive stock options | 4,500                              | —    |

Table of Contents

13. STOCK PLANS AND STOCK BASED COMPENSATION

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

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

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

Stock Options

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

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

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

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

Table of Contents

Information related to stock options for each period follows:

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

NA - Not applicable

#### Restricted Stock Awards

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

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

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





Table of Contents

## Performance Stock Units

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

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

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

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

## Expense Related to the 2015 Stock Incentive Plan

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

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

Table of Contents

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

| Year Ended (in thousands) | Stock Options | Restricted Stock Awards | Performance Stock Units | Total    |
|---------------------------|---------------|-------------------------|-------------------------|----------|
| 2018                      | \$ 182        | \$ 380                  | \$ 79                   | \$ 641   |
| 2019                      | 139           | 261                     | —                       | 400      |
| 2020                      | 35            | 261                     | —                       | 296      |
| 2021                      | 5             | 261                     | —                       | 266      |
| 2022                      | 1             | 237                     | —                       | 238      |
| 2023 and beyond           | —             | 135                     | —                       | 135      |
| Total                     | \$ 362        | \$ 1,535                | \$ 79                   | \$ 1,976 |

## 14. INCOME TAXES

On December 22, 2017, President Donald Trump signed into law the Tax Cuts and Jobs Act (“TCJA”). The TCJA, among other things, reduced the federal corporate tax rate from 35% to 21%, effective January 1, 2018. Primarily as a result of the TCJA, the Company’s effective tax rate decreased from 33.43% during the first quarter of 2017 to 21.31% during the first quarter of 2018.

The following table illustrates the difference between the Company’s effective tax rate and the federal statutory rates of 21% in 2018 and 35% in 2017:

| (in thousands)  | Three Months Ended |                |
|---|--------------------|----------------|
|   | March 31, 2018     | March 31, 2017 |
| Federal statutory rate times financial statement income | 21.00 %            | 35.00 %        |
| Effect of:  |                    |                |
| State taxes, net of federal benefit                     | 1.95               | 0.26           |
| General business tax credits                            | (0.41)             | —              |
| Nontaxable income                                       | (0.71)             | (1.05)         |
| Other, net  | (0.52)             | (0.78)         |
| Effective tax rate                                      | 21.31              | 33.43          |

As a result of the reduced tax rate, the Company incurred a charge of \$6.3 million to income tax expense during the fourth quarter of 2017 representing the decrease in value of its net DTA upon enactment of the TCJA. With the exception of deferred taxes related to depreciation on a portion of its property and equipment, the Company has materially completed its accounting for the tax effects upon enactment of the TCJA. Regarding its deferred taxes related to depreciation, the Company awaits the completion of a cost segregation study. At March 31, 2018 and December 31, 2017, the Company did not have the necessary information available, analyzed or prepared to make a reasonable estimate of the impact of the cost segregation study on its deferred taxes related to depreciation. The cost segregation study is scheduled to be completed in the latter half of 2018, prior to the Company's filing of its 2017 income tax returns. The cost segregation study is expected to provide the Company with the necessary information to complete the accounting for the deferred taxes related to depreciation.

Table of Contents

## 15. OTHER COMPREHENSIVE INCOME

OCI components and related tax effects were as follows:

| (in thousands)  | Three Months Ended<br>March 31, |               |
|---|---------------------------------|---------------|
|   | 2018                            | 2017          |
| <b>Available-for-Sale Debt Securities:</b>  |                                 |               |
| Change in unrealized gain (loss) on available-for-sale debt securities (2018), debt and equity securities (2017)  | \$ (2,117)                      | \$ 706        |
| Adjustment for adoption of ASU 2016-01  | (428)                           | —             |
| Change in unrealized gain on available-for-sale debt security for which a portion of an other-than-temporary impairment has been recognized in earnings | (2)                             | 53            |
| Net unrealized (losses) gains   | (2,547)                         | 759           |
| Tax effect  | 535                             | (266)         |
| Net of tax  | (2,012)                         | 493           |
| <b>Cash Flow Hedges:</b>  |                                 |               |
| Change in fair value of derivatives used for cash flow hedges   | 199                             | 28            |
| Reclassification amount for derivative losses realized in income  | 26                              | 66            |
| Net unrealized gains  | 225                             | 94            |
| Tax effect  | (46)                            | (33)          |
| Net of tax  | 179                             | 61            |
| <b>Total other comprehensive (loss) income components, net of tax</b>   | <b>\$ (1,833)</b>               | <b>\$ 554</b> |

Significant amounts reclassified out of each component of AOCI for the three months ended March 31, 2018 and 2017:

| (in thousands) | Affected Line Items<br>in the Consolidated<br>Statements of Income | Amounts Reclassified From<br>Accumulated<br>Other<br>Comprehensive (Loss)<br>Income<br>Three Months Ended<br>March 31, |      |
|----------------|--|--|------|
|                |  | 2018   | 2017 |

Cash Flow Hedges:

|   |                                   |         |         |
|---|-----------------------------------|---------|---------|
| Interest rate swap on money market deposits | Interest expense on deposits      | \$ (14) | \$ (34) |
| Interest rate swap on FHLB advance          | Interest expense on FHLB advances | (12)    | (32)    |
| Total derivative losses on cash flow hedges | Total interest expense            | (26)    | (66)    |
| Tax effect                                  | Income tax expense                | 9       | 23      |
| Net of tax                                  | Net income                        | \$ (17) | \$ (43) |

The following is a summary of the AOCI balances, net of tax:

| (in thousands)   | December 31, 2017 | 2018<br>Change | March 31, 2018 |
|--|-------------------|----------------|----------------|
| Unrealized loss on available-for-sale debt securities and reclassification of equity securities  | \$ (604)          | \$ (2,011)     | \$ (2,615)     |
| Unrealized gain (loss) on available-for-sale debt security for which a portion of an other-than-temporary impairment has been recognized in earnings | 1,093             | (1)            | 1,092          |
| Unrealized gain (loss) on cash flow hedges   | (73)              | 179            | 106            |
| Total unrealized gain (loss)   | \$ 416            | \$ (1,833)     | \$ (1,417)     |

| (in thousands)  | December 31, 2016 | 2017<br>Change | March 31, 2017 |
|---|-------------------|----------------|----------------|
| Unrealized gain on available-for-sale debt and equity securities  | \$ 237            | \$ 459         | \$ 696         |
| Unrealized gain on available-for-sale debt security for which a portion of an other-than-temporary impairment has been recognized in earnings | 706               | 34             | 740            |
| Unrealized gain (loss) on cash flow hedges  | (256)             | 61             | (195)          |
| Total unrealized gain   | \$ 687            | \$ 554         | \$ 1,241       |

Table of Contents

## 16. REVENUE FROM CONTRACTS WITH CUSTOMERS

On January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively, "ASC 606"). While this update modified guidance for recognizing revenue, it did not have a material impact on the timing or presentation of the Company's revenue. The majority of Company's revenue comes from interest income and other sources, including loans, leases, securities, and derivatives, which are not subject to ASC 606. The Company's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to its client. The Company did elect a practical expedient permitted under this guidance which allows it to expense as-incurred incremental costs of obtaining a contract when the amortization period of those costs would be less than one year.

The following tables present the Company's net revenue by reportable segment for the three months ended March 31, 2018 and 2017:

| (dollars in thousands)                      | Three Months Ended March 31, 2018      |                      |                     | Total<br>Core<br>Banking | Republic Processing Group ("RPG") |                                 |              |
|---|--|----------------------|---------------------|--------------------------|-----------------------------------|---------------------------------|--------------|
|   | Core Banking<br>Traditional<br>Banking | Warehouse<br>Lending | Mortgage<br>Banking |                          | Tax<br>Refund<br>Solutions        | Republic<br>Credit<br>Solutions | Total<br>RPG |
| Net interest income(1)                      | \$ 38,188                              | \$ 3,591             | \$ 72               | \$ 41,851                | \$ 18,686                         | \$ 7,128                        | \$ 25,814    |
| Noninterest income:                         |  |                      |                     |                          |                                   |                                 |              |
| Service charges on deposit accounts         | 3,547                                  | 8                    | —                   | 3,555                    | —                                 | —                               | —            |
| Net refund transfer fees                    | —                                      | —                    | —                   | —                        | 16,352                            | —                               | 16,352       |
| Mortgage banking income(1)                  | —                                      | —                    | 1,020               | 1,020                    | —                                 | —                               | —            |
| Interchange fee income                      | 2,538                                  | —                    | —                   | 2,538                    | 109                               | 20                              | 129          |
| Program fees(1)                             | —                                      | —                    | —                   | —                        | 59                                | 1,637                           | 1,696        |
| Increase in cash surrender value of BOLI(1) | 371                                    | —                    | —                   | 371                      | —                                 | —                               | —            |
| Net gains (losses) on OREO                  | 132                                    | —                    | —                   | 132                      | —                                 | —                               | —            |
| Other                                       | 414                                    | —                    | 38                  | 452                      | 1,001                             | 299                             | 1,300        |
| Total noninterest income                    | 7,002                                  | 8                    | 1,058               | 8,068                    | 17,521                            | 1,956                           | 19,477       |
| Total net revenue                           | \$ 45,190                              | \$ 3,599             | \$ 1,130            | \$ 49,919                | \$ 36,207                         | \$ 9,084                        | \$ 45,291    |

Net-revenue concentration(2) 47 % 4 % 1 % 52 % 38 % 10 % 48 %

| (dollars in thousands)                      | Three Months Ended March 31, 2017<br>Core Banking |                      |                     | Total<br>Core<br>Banking | Republic Processing Group ("RPG") |                                 |              |
|---|---|----------------------|---------------------|--------------------------|-----------------------------------|---------------------------------|--------------|
|   | Traditional<br>Banking                            | Warehouse<br>Lending | Mortgage<br>Banking |                          | Tax<br>Refund<br>Solutions        | Republic<br>Credit<br>Solutions | Total<br>RPG |
| Net interest income(1)                      | \$ 32,661   | \$ 3,900             | \$ 67               | \$ 36,628                | \$ 14,962                         | \$ 4,848                        | \$ 19,810    |
| Noninterest income:                         |   |                      |                     |                          |                                   |                                 |              |
| Service charges on deposit accounts         | 3,280   | 6                    | —                   | 3,286                    | (39)                              | —                               | (39)         |
| Net refund transfer fees                    | —   | —                    | —                   | —                        | 15,382                            | —                               | 15,382       |
| Mortgage banking income(1)                  | —   | —                    | 1,160               | 1,160                    | —                                 | —                               | —            |
| Interchange fee income                      | 2,217   | —                    | —                   | 2,217                    | 97                                | 12                              | 109          |
| Program fees(1)                             | —   | —                    | —                   | —                        | (17)                              | 1,108                           | 1,091        |
| Increase in cash surrender value of BOLI(1) | 391   | —                    | —                   | 391                      | —                                 | —                               | —            |
| Net gains (losses) on OREO                  | 142   | —                    | —                   | 142                      | —                                 | —                               | —            |
| Other                                       | 489   | —                    | 12                  | 501                      | 10                                | 673                             | 683          |
| Total noninterest income                    | 6,519   | 6                    | 1,172               | 7,697                    | 15,433                            | 1,793                           | 17,226       |
| Total net revenue                           | \$ 39,180   | \$ 3,906             | \$ 1,239            | \$ 44,325                | \$ 30,395                         | \$ 6,641                        | \$ 37,036    |

Net-revenue concentration(2) 48 % 5 % 2 % 55 % 37 % 8 % 45 %

(1) This revenue is not subject to ASU 2014-09, Revenue from Contracts with Customers.

(2) Net revenue represents net interest income plus total noninterest income. Net-revenue concentration equals segment-level net revenue divided by total Company net revenue.



Table of Contents

The following represents information for significant revenue streams subject to ASC 606:

Service charges on deposits – The Company earns revenue for account-based and event-driven services on its retail and commercial deposit accounts. Contracts for these services are generally in the form of deposit agreements, which disclose fees for deposit services. Revenue for event-driven services is recognized in close proximity or simultaneously with service performance. Revenue for certain account-based services may be recognized at a point in time or over the period the service is rendered, typically no longer than a month. Examples of account-based and event-driven service charges on deposits include per item fees, paper-statement fees, check-cashing fees, and analysis fees.

Net refund transfer fees – A Refund Transfer (“RT”) is a fee-based product offered by the Bank through third-party tax preparers located throughout the United States, as well as tax-preparation software providers (collectively, the “Tax Providers”), with the Bank acting as an independent contractor of the Tax Providers. An RT allows a taxpayer to pay any applicable tax preparation and filing related fees directly from his federal or state government tax refund, with the remainder of the tax refund disbursed directly to the taxpayer. RT fees and all applicable tax preparation, transmitter, audit, and any other taxpayer authorized amounts are deducted from the tax refund by either the Bank or the Bank’s service provider and automatically forwarded to the appropriate party as authorized by the taxpayer. RT fees generally receive first priority when applying fees against the taxpayer’s refund, with the Bank’s share of RT fees generally superior to the claims of other third-party service providers, including the Tax Providers. The remainder of the refund is disbursed to the taxpayer by a Bank check printed at a tax office, direct deposit to the taxpayer’s personal bank account, loaded to a NetSpend Visa® Prepaid Card or Walmart Direct2Cash.

The Company executes contracts with individual Tax Providers to offer RTs to their taxpayer customers. RT revenue is recognized by the Bank immediately after the taxpayer’s refund is disbursed in accordance with the RT contract with the taxpayer customer. The fee paid by the taxpayer for the RT is shared between the Bank and the Tax Providers based on contracts executed between the parties.

The Company presents RT revenue net of any amounts shared with the Tax Providers. The Bank’s share of RT revenue is generally based on the obligations undertaken by the Tax Provider for each individual RT program, with more obligations generally corresponding to higher RT revenue share. The significant majority of net RT revenue is recognized and obligations under RT contracts fulfilled by the Bank during the first half of each year. Incremental expenses associated with the fulfillment of RT contracts are generally expensed during the first half of the year.

Interchange fee income – As an “issuing bank” for card transactions, the Company earns interchange fee income on transactions executed by its cardholders with various third-party merchants. Through third-party intermediaries, merchants compensate the Company for each transaction for the ability to efficiently settle the transaction and for the Company’s willingness to accept certain risks inherent in the transaction. There is no written contract between the merchant and the Company, but a contract is implied between the two parties by customary business practices. Interchange fee income is recognized almost simultaneously by the Company upon the completion of a related card

transaction.

The Company compensates its cardholders by way of cash or other “rewards” for generating card transactions. These rewards are disclosed in cardholder agreements between the Company and its cardholders. Reward costs are accrued over time based on card transactions generated by the cardholder. Interchange fee income is presented net of reward costs within noninterest income.

Net gains/(losses) on other real estate – The Company routinely sells other real estate (“OREO”) it has acquired through loan foreclosure. Net gains/(losses) on OREO reflect both 1) the gain or loss recognized upon an executed deed and 2) mark-to-market writedowns the Company takes on its OREO inventory.

The Company generally recognizes gains or losses on OREO at the time of an executed deed, although gains may be recognized over a financing period if the Company finances the sale. For financed OREO sales, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on sale, the Company adjusts the transaction price and related gain/(loss) on sale if a significant financing component is present.

Mark-to-market writedowns taken by the Company during the property’s holding period are generally at least 10% per year but may be higher based on updated real estate appraisals or BPOs. Incremental expenditures to bring OREO to salable condition are generally expensed as-incurred.

Table of Contents

Capital commitment fee – The Company received and recorded a \$1.0 million nonrefundable capital commitment fee during the first quarter of 2018. The fee was paid by a third party upon the Company’s completion of its contractual obligations to build the infrastructure and disburse funds for a new collaborative credit product offered to the third party’s customers through the Bank. The completion of the infrastructure and the first disbursement of funds were made for this new credit product during the first quarter of 2018. Incremental expenses incurred by the Company to fulfil its obligation under this contract were expensed as-incurred.

17. SEGMENT INFORMATION

Reportable segments are determined by the type of products and services offered and the level of information provided to the chief operating decision maker, who uses such information to review performance of various components of the business (such as banking centers and business units), which are then aggregated if operating performance, products/services, and clients are similar.

As of March 31, 2018, the Company was divided into five reportable segments: Traditional Banking, Warehouse, Mortgage Banking, TRS and RCS. Management considers the first three segments to collectively constitute “Core Bank” or “Core Banking” operations, while the last two segments collectively constitute RPG operations. The Bank’s Correspondent Lending channel and the Company’s national branchless banking platform, MemoryBank, are considered part of the Traditional Banking segment.

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

The nature of segment operations and the primary drivers of net revenue by reportable segment are provided below:

| Reportable Segment: | Nature of Operations: | Primary Drivers of Net Revenue: |
|---------------------|-----------------------|---------------------------------|
|---------------------|-----------------------|---------------------------------|

Core Banking:

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

|                            |  |   |
|----------------------------|--|---|
| Traditional Banking        | Provides traditional banking products to clients in its market footprint primarily via its network of banking centers and to clients outside of its market footprint primarily via its Digital and Correspondent Lending delivery channels.  | Loans, investments, and deposits.           |
| Warehouse Lending          | Provides short-term, revolving credit facilities to mortgage bankers across the United States.   | Mortgage warehouse lines of credit.         |
| Mortgage Banking           | Primarily originates, sells and services long-term, single family, first lien residential real estate loans primarily to clients in the Bank's market footprint.   | Loan sales and servicing.                   |
| Republic Processing Group: |  |   |
| Tax Refund Solutions       | TRS offers tax-related credit products and facilitates the receipt and payment of federal and state tax refund products. The RPS division of TRS offers general-purpose reloadable cards. TRS and RPS products are primarily provided to clients outside of the Bank's market footprint. | Loans, refund transfers, and prepaid cards. |
| Republic Credit Solutions  | Offers consumer credit products. RCS products are primarily provided to clients outside of the Bank's market footprint, with a substantial portion of RCS clients considered subprime or near prime borrowers.   | Unsecured, consumer loans.                  |

The accounting policies used for Republic's reportable segments are the same as those described in the summary of significant accounting policies in the Company's 2017 Annual Report on Form 10-K. Segment performance is evaluated using operating income. Goodwill is allocated to the Traditional Banking segment. Income taxes are generally allocated based on income before income tax expense unless specific segment allocations can be reasonably made. Transactions among reportable segments are made at carrying value.

Table of Contents

Segment information for the three months ended March 31, 2018 and 2017 follows:

| (dollars in thousands)                  | Three Months Ended March 31, 2018 |                   |                  |                    | Republic Processing Group ("RPG") |                           |       |          |    |   |    |   |
|---|-----------------------------------|-------------------|------------------|--------------------|-----------------------------------|---------------------------|-------|----------|----|---|----|---|
|   | Core Banking                      |                   |                  |                    | Tax Refund Solutions              | Republic Credit Solutions | Total | Republic |    |   |    |   |
|   | Traditional Banking               | Warehouse Lending | Mortgage Banking | Total Core Banking |                                   |                           |       |          |    |   |    |   |
| Net interest income                     | \$ 38,188                         | \$ 3,591          | \$ 72            | \$ 41,851          | \$ 18,686                         | \$ 7,128                  | \$    | \$       |    |   |    |   |
| Provision for loan and lease losses     | 939                               | 21                | —                | 960                | 13,389                            | 2,906                     |       |          |    |   |    |   |
| Net refund transfer fees                | —                                 | —                 | —                | —                  | 16,352                            | —                         |       |          |    |   |    |   |
| Mortgage banking income                 | —                                 | —                 | 1,020            | 1,020              | —                                 | —                         |       |          |    |   |    |   |
| Program fees                            | —                                 | —                 | —                | —                  | 59                                | 1,637                     |       |          |    |   |    |   |
| Other noninterest income                | 7,002                             | 8                 | 38               | 7,048              | 1,110                             | 319                       |       |          |    |   |    |   |
| Total noninterest income                | 7,002                             | 8                 | 1,058            | 8,068              | 17,521                            | 1,956                     |       |          |    |   |    |   |
| Total noninterest expense               | 33,392                            | 839               | 1,204            | 35,435             | 6,525                             | 1,085                     |       |          |    |   |    |   |
| Income (loss) before income tax expense | 10,859                            | 2,739             | (74)             | 13,524             | 16,293                            | 5,093                     |       |          |    |   |    |   |
| Total income tax expense (benefit)      | 1,772                             | 627               | (16)             | 2,383              | 3,854                             | 1,204                     |       |          |    |   |    |   |
| Net income (loss)                       | \$ 9,087                          | \$ 2,112          | \$ (58)          | \$ 11,141          | \$ 12,439                         | \$ 3,889                  | \$    | \$       |    |   |    |   |
| Period-end total assets                 | \$ 4,344,341                      | \$ 534,545        | \$ 9,864         | \$ 4,888,750       | \$ 129,395                        | \$ 60,189                 | \$    | \$       |    |   |    |   |
| Net interest margin                     | 3.59                              | %                 | 3.21             | %                  | NM                                | 3.55                      | %     | NM       | NM |   |    |   |
| Net-revenue concentration*              | 47                                | %                 | 4                | %                  | 1                                 | %                         | 52    | %        | 38 | % | 10 | % |

Three Months Ended March 31, 2017  
Core Banking

Republic Processing Group

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

| (dollars in thousands)                 | Traditional<br>Banking | Warehouse<br>Lending | Mortgage<br>Banking | Total<br>Core<br>Banking | Tax<br>Refund<br>Solutions | Republic<br>Credit<br>Solutions |      |   |    |   |    |   |
|--|------------------------|----------------------|---------------------|--------------------------|----------------------------|---------------------------------|------|---|----|---|----|---|
| Net interest income                    | \$ 32,661              | \$ 3,900             | \$ 67               | \$ 36,628                | \$ 14,962                  | \$ 4,848                        |      |   |    |   |    |   |
| Provision for loan and<br>lease losses | 467                    | (226)                | —                   | 241                      | 8,341                      | 3,769                           |      |   |    |   |    |   |
| Net refund transfer<br>fees            | —                      | —                    | —                   | —                        | 15,382                     | —                               |      |   |    |   |    |   |
| Mortgage banking<br>income             | —                      | —                    | 1,160               | 1,160                    | —                          | —                               |      |   |    |   |    |   |
| Program fees                           | —                      | —                    | —                   | —                        | (17)                       | 1,108                           |      |   |    |   |    |   |
| Other noninterest<br>income            | 6,519                  | 6                    | 12                  | 6,537                    | 68                         | 685                             |      |   |    |   |    |   |
| Total noninterest<br>income            | 6,519                  | 6                    | 1,172               | 7,697                    | 15,433                     | 1,793                           |      |   |    |   |    |   |
| Total noninterest<br>expense           | 30,088                 | 777                  | 1,214               | 32,079                   | 6,069                      | 791                             |      |   |    |   |    |   |
| Income before income<br>tax expense    | 8,625                  | 3,355                | 25                  | 12,005                   | 15,985                     | 2,081                           |      |   |    |   |    |   |
| Income tax expense                     | 2,262                  | 1,227                | 9                   | 3,498                    | 5,801                      | 755                             |      |   |    |   |    |   |
| Net income                             | \$ 6,363               | \$ 2,128             | \$ 16               | \$ 8,507                 | \$ 10,184                  | \$ 1,326                        |      |   |    |   |    |   |
| Period-end total assets                | \$ 4,017,173           | \$ 493,127           | \$ 15,080           | \$ 4,525,380             | \$ 108,858                 | \$ 30,554                       |      |   |    |   |    |   |
| Net interest margin                    | 3.30                   | %                    | 3.57                | %                        | NM                         |                                 | 3.33 | % | NM |   | NM |   |
| Net-revenue<br>concentration*          | 48                     | %                    | 5                   | %                        | 2                          | %                               | 55   | % | 37 | % | 8  | % |

\*Net revenue represents net interest income plus total noninterest income. Net-revenue concentration equals segment-level net revenue divided by total Company net revenue.

NM — Not Meaningful

Table of Contents

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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”). As used in this filing, the terms “Republic,” the “Company,” “we,” “our” and “us” refer to Republic Bancorp, Inc., and, where the context requires, Republic Bancorp, Inc. and its subsidiaries; and the term the “Bank” refers to the Company’s subsidiary bank, RB&T. All significant intercompany balances and transactions are eliminated in consolidation.

Management’s Discussion and Analysis of Financial Condition and Results of Operations of Republic should be read in conjunction with Part I Item 1 “Financial Statements.”

Republic Bancorp, Inc. is a financial holding company headquartered in Louisville, Kentucky.

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.

Forward-looking statements discuss matters that are not historical facts. As forward-looking statements discuss future events or conditions, the statements often include words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “project,” “target,” “can,” “could,” “may,” “should,” “will,” “would,” “potential,” or similar expressions. Do not rely on forward-looking statements. Forward-looking statements detail management’s expectations regarding the future and are not guarantees. Forward-looking statements are assumptions based on information known to management only as of the date the statements are made and management may not update them to reflect changes that occur subsequent to the date the statements are made.

Broadly speaking, forward-looking statements include:

- projections of revenue, income, expenses, losses, earnings per share, capital expenditures, dividends, capital structure or other financial items;
- descriptions of plans or objectives for future operations, products or services;
- forecasts of future economic performance; and
- descriptions of assumptions underlying or relating to any of the foregoing.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by the forward-looking statements. Actual results may differ materially from those expressed or implied as a result of certain risks and uncertainties, including, but not limited to the following:

- changes in political and economic conditions;
- new information concerning the impact of the Tax Cuts and Jobs Act (“TCJA”);
- the magnitude and frequency of changes to the Federal Funds Target Rate (“FFTR”) implemented by the Federal Open Market Committee (“FOMC”) of the Federal Reserve Bank (“FRB”);
- long-term and short-term interest rate fluctuations as well as the overall steepness of the yield curve;
- competitive product and pricing pressures in each of the Company’s five reportable segments;
- equity and fixed income market fluctuations;
- client bankruptcies and loan defaults;
- inflation;
- recession;
- natural disasters impacting Company operations;



Table of Contents

- future acquisitions;
- integrations of acquired businesses;
- changes in technology;
- changes in applicable laws and regulations or the interpretation and enforcement thereof;
- changes in fiscal, monetary, regulatory and tax policies;
- changes in accounting standards;
- monetary fluctuations;
- changes to the Company’s overall internal control environment;
- success in gaining regulatory approvals when required;
- information security breaches or cyber security attacks involving either the Company or one of the Company’s third-party service providers; and
- other risks and uncertainties reported from time to time in the Company’s filings with the Securities and Exchange Commission (“SEC”), including Part 1 Item 1A “Risk Factors” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

**BUSINESS SEGMENT COMPOSITION**

As of March 31, 2018, the Company was divided into five reportable segments: Traditional Banking, Warehouse Lending (“Warehouse”), Mortgage Banking, Tax Refund Solutions (“TRS”) and Republic Credit Solutions (“RCS”). Management considers the first three segments to collectively constitute “Core Bank” or “Core Banking” operations, while the last two segments collectively constitute Republic Processing Group (“RPG”) operations. The Bank’s Correspondent Lending channel and the Company’s national branchless banking platform, MemoryBank®, are considered part of the Traditional Banking segment.

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

Table 1 — Segment Information

Three Months Ended March 31, 2018  
Core Banking

Republic Processing Group (“RPG”)

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

|                            | Core Banking        |                   |                  | Total Core Banking |  |  | Tax Refund Solutions |  | Republic Credit Solutions |  |
|----------------------------|---------------------|-------------------|------------------|--------------------|--|--|----------------------|--|---------------------------|--|
| (dollars in thousands)     | Traditional Banking | Warehouse Lending | Mortgage Banking | Total Core Banking |  |  |                      |  |                           |  |
| Net income (loss)          | \$ 9,087            | \$ 2,112          | \$ (58)          | \$ 11,141          |  |  | \$ 12,439            |  | \$ 3,889                  |  |
| Period-end total assets    | 4,344,341           | 534,545           | 9,864            | 4,888,750          |  |  | 129,395              |  | 60,189                    |  |
| Net interest margin        | 3.59 %              | 3.21 %            | NM               | 3.55 %             |  |  | NM                   |  | NM                        |  |
| Net-revenue concentration* | 47 %                | 4 %               | 1 %              | 52 %               |  |  | 38 %                 |  | 10 %                      |  |

Three Months Ended March 31, 2017

|                            | Core Banking        |                   |                  | Total Core Banking |  |  | Republic Processing Group |  | Republic Credit Solutions |  |
|----------------------------|---------------------|-------------------|------------------|--------------------|--|--|---------------------------|--|---------------------------|--|
| (dollars in thousands)     | Traditional Banking | Warehouse Lending | Mortgage Banking | Total Core Banking |  |  |                           |  |                           |  |
| Net income                 | \$ 6,363            | \$ 2,128          | \$ 16            | \$ 8,507           |  |  | \$ 10,184                 |  | \$ 1,326                  |  |
| Period-end total assets    | 4,017,173           | 493,127           | 15,080           | 4,525,380          |  |  | 108,858                   |  | 30,554                    |  |
| Net interest margin        | 3.30 %              | 3.57 %            | NM               | 3.33 %             |  |  | NM                        |  | NM                        |  |
| Net-revenue concentration* | 48 %                | 5 %               | 2 %              | 55 %               |  |  | 37 %                      |  | 8 %                       |  |

\* Net revenue represents net interest income plus total noninterest income. Net-revenue concentration equals segment-level net revenue divided by total Company net revenue.

NM — Not Meaningful

For expanded segment financial data see Footnote 17 “Segment Information” of Part I Item 1 “Financial Statements.”

Table of Contents

(I) Traditional Banking segment

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

Kentucky — 33

Metropolitan Louisville — 18

Central Kentucky — 9

Elizabethtown — 1

Frankfort — 1

Georgetown — 1

Lexington — 5

Shelbyville — 1

Western Kentucky — 2

Owensboro — 2

Northern Kentucky — 3

Covington — 1

Crestview Hills — 1

Florence — 1

Independence — 1 (closed April 3, 2018)

Southern Indiana — 3

Floyds Knobs — 1

Jeffersonville — 1

New Albany — 1

Metropolitan Tampa, Florida — 6

Metropolitan Cincinnati, Ohio — 1

Metropolitan Nashville, Tennessee — 3\*

---

\*Includes one LPO

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

As of March 31, 2018 and through the date of this filing, generally all Traditional Banking products and services, except for a selection of deposit products offered through the Bank's separately branded national branchless banking platform, MemoryBank, were offered through the Company's traditional RB&T brand.

The Bank's principal lending activities consist of the following:

**Retail Mortgage Lending** — Through its retail banking centers, its Correspondent Lending channel and its Internet Banking channel, the Bank originates single family, residential real estate loans. In addition, the Bank originates home equity amortizing loans ("HEALs") and home equity lines of credit ("HELOCs") through its retail banking centers. Such loans are generally collateralized by owner occupied property.

**Commercial Lending** — The Bank conducts commercial lending activities primarily through Corporate Banking, Business Banking, and Retail Banking channels.

In general, commercial lending credit approvals and processing are prepared and underwritten through the Bank's Commercial Credit Administration Department ("CAD"). Clients are generally located within the Bank's market footprint, or in an adjacent area to the market footprint.

Credit opportunities are generally driven by the following: companies expanding their businesses; companies acquiring new businesses; and/or companies refinancing existing debt from other institutions. The Bank has a focus on Commercial & Industrial ("C&I"), Commercial Real Estate ("CRE"), and to a lesser degree Construction and Development ("C&D") lending. The targeted C&I credit size for client relationships is typically between \$2 million and \$15 million, with some exceptions for large corporate borrowers of higher credit quality.



## Table of Contents

Corporate Banking focuses on larger C&I and CRE opportunities. For CRE loans, Corporate Banking focuses on stabilized CRE with low leverage and strong cash flows. Borrowers are generally single-asset entities and loan sizes typically range between \$5 million and \$20 million. Primary underwriting considerations are property cash flow (current and historical), quality of leases, financial capacity of sponsors, and collateral value of property financed. The majority of interest rates offered are based on the 30-day London Interbank Offered Rate (“LIBOR”). Fixed rate terms of up to 10 years are available to borrowers by utilizing interest rate swaps. In some cases, limited or non-recourse (of owners) loans will be issued, with such cases based upon the capital position, cash flows, and stabilization of the borrowing entity.

The Business Banking Department, and to some extent the Bank’s Retail Banking group, focuses on locally based small-to-medium sized businesses in the Bank’s market footprint with annual revenue between \$1 million and \$20 million. The needs of these clients range from expansion or acquisition, equipment financing, owner-occupied real estate financing, and operating lines of credit. The Bank’s lenders utilize all appropriate programs of the Small Business Administration (“SBA”) to reduce credit risk exposure. Additionally, the Bank looks to make loans to real estate investors for various types of investment properties, including rental homes and apartments, shopping centers, office buildings, and loans to various not-for-profit agencies located within the Bank’s market footprint. The targeted credit size for a relationship in this area is between \$500,000 and \$5 million.

Construction and Land Development Lending — The Bank originates business loans for the construction of both single family residential properties and commercial properties (apartment complexes, shopping centers, office buildings). While not a focus for the Bank, the Bank may originate loans for the acquisition and development of residential or commercial land into buildable lots.

Internet Lending — The Bank accepts online loan applications for its RB&T brand through its website at [www.republicbank.com](http://www.republicbank.com). Historically, the majority of loans originated through Internet Lending have been within the Bank’s traditional markets of Kentucky, Florida and Indiana. Other states where loans are marketed include California, Colorado, Georgia, Illinois, Michigan, Minnesota, North Carolina, Ohio, Tennessee and Virginia, as well as, the District of Columbia.

Correspondent Lending — Primarily from its Warehouse clients, the Bank may occasionally acquire for investment single family, first lien mortgage loans that meet the Bank’s specifications through its Correspondent Lending channel. 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.

Consumer Lending — Traditional consumer loans made by the Bank include home improvement and home equity loans, other secured and unsecured personal loans, and credit cards. With the exception of home equity loans, which are actively marketed in conjunction with single family, first lien residential real estate loans, other traditional

consumer loan products, while available, are not and have not been actively promoted in the Bank's markets.

The Bank has, from time to time, acquired unsecured consumer installment loans for investment from a third-party originator. Such consumer loans were purchased at par and were selected by the Bank based on certain underwriting characteristics.

**Dealer Services** — The Bank offers dealer floor plan loans, consumer indirect automobile loans, and consumer aircraft loans through its Dealer Services Department. Dealer floor plan loans are commercial loans to automobile dealers secured by the dealer's current inventory of vehicles, typically in the Bank's market footprint. The indirect automobile program involves establishing relationships with automobile dealers and obtaining consumer automobile loans in a low-cost delivery method. First offered by the Bank in August 2017, consumer aircraft loans typically range in amounts from \$55,000 to \$500,000, with terms up to 20 years, to purchase or refinance aircrafts, along with engine overhauls and avionics upgrades. The aircraft loan program is open to all states, except for Alaska and Hawaii.

The Bank's other Traditional Banking activities generally consists of the following:

**MemoryBank** — In October 2016, the Bank opened the "digital doors" of MemoryBank, a national branchless banking platform. MemoryBank is a separately branded division of the Bank, which from a marketing perspective, focuses on technologically savvy clients that prefer to carry larger balances in highly liquid bank accounts.

**Private Banking** — The Bank provides financial products and services to high net worth individuals through its Private Banking department. The Bank's Private Banking officers have extensive banking experience and are trained to meet the unique financial needs of this clientele.

Table of Contents

Treasury Management Services — The Bank provides various deposit products designed for commercial business clients located throughout its market footprint. Lockbox processing, remote deposit capture, business on-line banking, account reconciliation and Automated Clearing House (“ACH”) processing are additional services offered to commercial businesses through the Bank’s Treasury Management department.

Internet Banking — The Bank expands its market penetration and service delivery of its RB&T brand by offering clients Internet Banking services and products through its website, [www.republicbank.com](http://www.republicbank.com).

Mobile Banking — The Bank allows clients to easily and securely access and manage their accounts through its mobile banking application.

Other Banking Services — The Bank also provides title insurance and other financial institution related products and services.

Bank Acquisitions — The Bank maintains an acquisition strategy to selectively grow its franchise as a complement to its organic growth strategies.

See additional detail regarding the Traditional Banking segment under Footnote 17 “Segment Information” of Part I Item 1 “Financial Statements.”

(II) Warehouse Lending segment

The 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 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.



See additional detail regarding the Warehouse Lending segment under Footnote 17 “Segment Information” of Part I Item 1 “Financial Statements.”

### (III) 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 sold into the secondary market, primarily to the Federal Home Loan Mortgage Corporation (“FHLMC” or “Freddie Mac”) and the Federal National Mortgage Association (“FNMA” or “Fannie Mae”). The Bank typically retains servicing on loans sold into the secondary market. Administration of loans with servicing retained by the Bank includes collecting principal and interest payments, escrowing funds for property taxes and property insurance, and remitting payments to secondary market investors. A fee is received by the Bank for performing these standard servicing functions.

See additional detail regarding the Mortgage Banking segment under Footnote 10 “Mortgage Banking Activities” and Footnote 17 “Segment Information” of Part I Item 1 “Financial Statements.”

### (IV) Tax Refund Solutions segment

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

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

## Table of Contents

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

- Offered only during the first two months of each year;
- No EA fee is charged to the taxpayer customer;
- All fees for the EA are paid by the Tax Providers with a restriction prohibiting the Tax Providers from passing along the fees to the taxpayer customer;
- No requirement that the taxpayer customer pays for another bank product, such as an RT;
- Multiple funds disbursement methods, including direct deposit, prepaid card, check, or Walmart Direct2Cash®, based on the taxpayer-customer’s election;
- Repayment of the EA to the Bank is deducted from the taxpayer customer’s tax refund proceeds; and
  - If an insufficient refund to repay the EA occurs:
    - o there is no recourse to the taxpayer customer,
    - o no negative credit reporting on the taxpayer customer, and
    - o no collection efforts against the taxpayer customer.

Fees paid by the Tax Providers to the Company for the EA product are reported as interest income on loans. EAs are generally repaid within three weeks after the taxpayer customer’s tax return is submitted to the applicable taxing authority. EAs do not have a contractual due date but the Company considers an EA delinquent if it remains unpaid three weeks after the taxpayer customer’s tax return is submitted to the applicable taxing authority. Provisions for loan losses on EAs are estimated when advances are made, with provisions for all probable EA losses made in the first quarter of each year. Unpaid EAs are charged-off within 111 days after the taxpayer customer’s tax return is submitted to the applicable taxing authority, with the majority of charge-offs typically recorded during the second quarter of the year.

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

See additional detail regarding the Easy Advance (“EA”) product under Footnote 4 “Loans and Allowance for Loan and Lease Losses” of Part I Item 1 “Financial Statements.”

Republic Payment Solutions division — RPS is managed and operated within the TRS segment. The RPS division is an issuing bank offering general-purpose reloadable prepaid cards through third-party service providers.

For the projected near-term, as the prepaid card program matures, the operating results of the RPS division are expected to be immaterial to the Company’s overall results of operations and will be reported as part of the TRS

segment. The RPS division will not be considered a separate reportable segment until such time, if any, that it meets quantitative reporting thresholds.

(V) Republic Credit Solutions segment

Through the RCS segment, the Bank offers consumer credit products. In general, the credit products are unsecured, small dollar consumer loans with maturities of 30-days-or-more, and are dependent on various factors including the consumer's ability to repay. RCS loans typically earn a higher yield but also have higher credit risk compared to loans originated through the Traditional Banking segment, with a significant portion of RCS clients considered subprime or near-prime borrowers. Additional information regarding consumer loan products offered through RCS follows:

- Line of credit – The Bank originates a line-of-credit product to generally subprime borrowers across the United States through one third-party service provider. RCS sells 90% of the balances generated within two business days of loan origination to its third-party service provider and retains the remaining 10% interest. The line-of-credit product represents the substantial majority of RCS activity. Loan balances held for sale are carried at the lower of cost or fair value.
- Credit card – The Bank originates a credit card product to generally subprime borrowers across the United States through one third-party service provider. RCS sells 90% of the balances generated within two business days of each transaction

Table of Contents

occurrence to its third-party service provider and retains the remaining 10% interest. Loan balances held for sale are carried at the lower of cost or fair value.

- Healthcare receivables – The Bank originates a healthcare-receivables product across the United States through two different third-party service providers. For one third-party service provider the Bank retains 100% of the receivables originated. For the other third-party service provider, the Bank retains 100% of the receivables originated in some instances and sells 100% of the receivables in other instances within one month of origination. Loan balances held for sale are carried at the lower of cost or fair value.

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

OVERVIEW (Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017)

Total Company net income for the first quarter of 2018 was \$27.5 million, a \$7.5 million, or 37%, increase from the same period in 2017. Diluted earnings per Class A Common Share ("Diluted EPS") increased to \$1.32 for the quarter ended March 31, 2018 compared to \$0.96 for the same period in 2017.

The Company's performance metrics for the first quarter of 2018 were positively impacted by the 2017 Tax Cuts and Jobs Act ("TCJA"), which, among other things, lowered the federal corporate tax rate from 35% to 21%, effective January 1, 2018. Primarily due to the TCJA, the Company's effective tax rate decreased to 21.3% during the first quarter of 2018 from 33.4% for the same period in 2017. The 12.1% lower effective tax rate for the first quarter of 2018 versus the first quarter of 2017 equated to approximately \$4.0 million in additional net income and \$0.19 in Diluted EPS.

Other general highlights by reportable segment consisted of the following:

Traditional Banking segment

- Net income increased \$2.7 million, or 43%, for the first quarter of 2018 compared to the same period in 2017.
- Net interest income increased \$5.5 million, or 17%, for the first quarter of 2018 compared to the same period in 2017.

- The Traditional Banking provision for loan and lease losses (“Provision”) was \$939,000 for the first quarter of 2018 compared to \$467,000 for the same period in 2017.
- Total noninterest income increased \$483,000, or 7%, for the first quarter of 2018 compared to the same period in 2017.
- Total noninterest expense increased \$3.3 million, or 11%, for the first quarter of 2018 compared to same period in 2017.
- Gross Traditional Bank loans grew \$30 million, or 1%, from December 31, 2017 to March 31, 2018.
- Traditional Bank deposits grew \$153 million, or 5%, from December 31, 2017 to March 31, 2018.
- Total nonperforming loans to total loans for the Traditional Banking segment was 0.43% at March 31, 2018 compared to 0.41% at December 31, 2017.
- Delinquent loans to total loans for the Traditional Banking segment was 0.24% at March 31, 2018 compared to 0.25% at December 31, 2017.

#### Warehouse Lending segment

- Net income decreased \$16,000, or 1%, for the first quarter of 2018 compared to the same period in 2017.
- Net interest income decreased \$309,000, or 8%, for the first quarter of 2018 compared to the same period in 2017.

Table of Contents

- The Warehouse Provision was a net charge of \$21,000 for the first quarter of 2018 compared to a net credit of \$226,000 for the same period in 2017.
- Total committed Warehouse lines remained at \$1.0 billion from December 31, 2017 to March 31, 2018.
- Average line usage was 44% during the first quarter of 2018 compared to 43% during the same period in 2017.

Mortgage Banking segment

- Within the Mortgage Banking segment, mortgage banking income decreased \$140,000, or 12%, during the first quarter of 2018 compared to the same period in 2017.
- Overall, Republic's originations of secondary market loans totaled \$29 million during the first quarter of 2018 compared to \$33 million during the same period in 2017.

Tax Refund Solutions segment

- Net income increased \$2.3 million, or 22%, for the first quarter of 2018 compared to the same period in 2017.
- Net interest income increased \$3.7 million, or 25%, for the first quarter of 2018 compared to the same period in 2017.
- Overall, TRS recorded a net charge to the Provision of \$13.4 million during the first quarter of 2018, compared to a net charge of \$8.3 million for the same period in 2017.
- Noninterest income increased \$2.1 million, or 14%, for the first quarter of 2018 compared to the same period in 2017.
- Net RT revenue increased \$970,000, or 6%, for the first quarter of 2018 compared to the same period in 2017.
- Noninterest expenses were \$6.5 million for the first quarter of 2018 compared to \$6.1 million for the same period in 2017.
-

Total EA originations were \$430 million during the first quarter of 2018 compared to \$329 million for the same period in 2017.

Republic Credit Solutions segment

- Net income increased \$2.6 million for the first quarter of 2018 compared to the same period in 2017.
- Net interest income increased \$2.3 million, or 47%, for the first quarter of 2018 compared to the same period in 2017.
- Overall, RCS recorded a net charge to the Provision of \$2.9 million during the first quarter of 2018 compared to a net charge of \$3.8 million for the same period in 2017.
- Noninterest income increased \$163,000, or 9%, for the first quarter of 2018 compared to the same period in 2017.
- Noninterest expenses were \$1.1 million for the first quarter of 2018 compared to \$791,000 for the same period in 2017.
- Total nonperforming loans to total loans for the RCS segment was 2.01% at March 31, 2018 compared to 1.40% at December 31, 2017.
- Delinquent loans to total loans for the RCS segment was 7.00% at March 31, 2018 compared to 8.43% at December 31, 2017.

Table of Contents

RESULTS OF OPERATIONS (Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017)

Net Interest Income

Banking operations are significantly dependent upon net interest income. Net interest income is the difference between interest income on interest-earning assets, such as loans and investment securities and the interest expense on interest-bearing liabilities used to fund those assets, such as interest-bearing deposits, securities sold under agreements to repurchase, and Federal Home Loan Bank (“FHLB”) advances. Net interest income is impacted by both changes in the amount and composition of interest-earning assets and interest-bearing liabilities, as well as market interest rates.

A substantial portion of the Company’s financial instruments track closely with or are primarily indexed to the FFTR, the Wall Street Journal Prime Rate (“WSJ Prime”), or LIBOR. These market rates have trended higher since December 2015. Additionally, the FOMC of the FRB has provided further guidance that additional FFTR increases are probable in 2018. Additional increases in short-term interest rates and overall market rates are generally believed by management to be favorable to the Bank’s net interest income and net interest margin in the near-term. Increases in short-term interest rates, however, could have a negative impact on net interest income and net interest margin if the Bank is unable to maintain its deposit balances and the cost of those deposits at the levels assumed in its interest rate risk model. In addition, a flattening of the yield curve causing the spread between long-term interest rates and short-term interest rates to decrease could negatively impact net interest income and net interest margin. Unknown variables, which may impact the Bank’s net interest income and net interest margin in the future, include, but are not limited to, the actual steepness of the yield curve, future demand for the Bank’s financial products and the Bank’s overall future liquidity needs.

Total Company net interest income increased \$11.2 million, or 20%, during the first quarter of 2018 compared to the same period in 2017. Growth in RPG loans, in particular the EA product, and growth in average Core Bank loans were the primary contributors to the Company’s growth in net interest income. Total Company net interest margin increased to 5.50% during the first quarter of 2018 compared to 4.99% for the same period in 2017, with additional fee income from the EA product primarily driving margin expansion.

The most significant components affecting the Company’s net interest income by reportable segment follow:

Traditional Banking segment



The Traditional Banking's net interest income increased \$5.5 million, or 17%, for the first quarter of 2018 compared to the same period in 2017. Traditional Banking's net interest margin was 3.59% for the first quarter of 2018, an increase of 29 basis points over the same period in 2017.

The increases in the Traditional Bank's net interest income and net interest margin during the first quarter of 2018 were primarily attributable to the following factors:

- Average Traditional Bank loans outstanding, excluding loans from the Company's 2012 FDIC-assisted transactions, grew to \$3.4 billion during the first quarter of 2018 from \$3.2 billion during the first quarter of 2017, an increase of 8%. This growth was largely concentrated in the commercial loan sector, with average CRE balances growing \$169 million, or 16%, and average C&I balances growing \$75 million, or 31%.
- The weighted average yield of Traditional Bank loans, excluding loans from the Company's 2012 FDIC-assisted transactions, expanded to 4.45% during the first quarter of 2018 compared to a weighted average yield of 4.18% during the first quarter of 2017. As expected, yields on variable rate portfolios that frequently reprice to an index, such as WSJ Prime, reflected greater expansion than their fixed or adjustable rate counterparts.

#### Warehouse Lending segment

Warehouse's net interest income decreased \$309,000, or 8%, for the first quarter of 2018 compared to the same period in 2017. The decrease in net interest income was related to an internal change in the way the Company assigns a cost of funds to Warehouse through its Funds Transfer Pricing ("FTP") methodology. The Company changed its Warehouse FTP methodology during the first quarter of 2018 to be more consistent with the FTP methodology used for other Core Bank loan products with similar pricing and duration characteristics. This change in FTP methodology had a \$410,000 negative impact on Warehouse funding costs compared to the same period in 2017. The Company did not recast the Warehouse segment's net interest income for the first quarter of 2017 for this change in methodology.

Table of Contents

Tax Refund Solutions segment

TRS's net interest income increased \$3.7 million for the first quarter of 2018 compared to the same period in 2017. TRS's EA product earned \$17.8 million in interest income during the first quarter of 2018, a \$3.6 million, or 25%, increase from the same period in 2017. The higher EA income was driven by an increase in EA origination volume, as the Company originated \$430 million in EAs during the first quarter of 2018 compared to \$329 million during the first quarter of 2017. The increase in EA origination volume during the first quarter of 2018 resulted from an increase in the maximum EA advance amount.

See additional detail regarding the EA product under Footnote 4 "Loans and Allowance for Loan and Lease Losses" of Part I Item 1 "Financial Statements."

Republic Credit Solutions segment

RCS's net interest income increased \$2.3 million, or 47%, from the first quarter of 2017 to the first quarter of 2018. The increase was driven by product expansion at RCS over the previous 12 months, particularly within the segment's line-of-credit product. Average RCS loans increased to \$73 million during the first quarter of 2018 compared to \$33 million during the same period in 2017. Loan fees on RCS's line-of-credit product recorded as interest income increased to \$6.2 million during the first quarter of 2018 compared to \$4.5 million during the same period in 2017 and accounted for 83% and 91% of all RCS interest income on loans during the periods.

Future long-term growth in interest income from RCS's line-of-credit will be limited by a current on-balance-sheet risk limit of \$32.5 million for the Company. As of March 31, 2018, the total outstanding on-balance-sheet amount, including loans held for sale, related to this product was \$28 million.

Table of Contents

Table 2 — Total Company Average Balance Sheets and Interest Rates

| (dollars in thousands)                                       | Three Months Ended March 31, 2018 |          |                 |   | Three Months Ended March 31, 2017 |          |                 |   |
|--|-----------------------------------|----------|-----------------|---|-----------------------------------|----------|-----------------|---|
|  | Average<br>Balance                | Interest | Average<br>Rate |   | Average<br>Balance                | Interest | Average<br>Rate |   |
| <b>ASSETS</b>  |                                   |          |                 |   |                                   |          |                 |   |
| Interest-earning assets:                                     |                                   |          |                 |   |                                   |          |                 |   |
| Investment securities,<br>including FHLB<br>stock(1)         | \$ 552,760                        | \$ 3,131 | 2.27            | % | \$ 586,621                        | \$ 2,485 | 1.69            | % |
| Federal funds sold and<br>other interest-earning<br>deposits | 283,161                           | 1,076    | 1.52            |   | 184,007                           | 394      | 0.86            |   |
| TRS Easy Advance<br>loans and fees(2)                        | 115,914                           | 17,792   | 61.40           |   | 76,502                            | 14,216   | 74.33           |   |
| Other RPG loans and<br>fees(3)(6)                            | 89,742                            | 8,218    | 36.63           |   | 43,946                            | 5,529    | 50.33           |   |
| Outstanding<br>Warehouse lines of<br>credit and fees(4)(6)   | 448,039                           | 5,409    | 4.83            |   | 436,459                           | 4,586    | 4.20            |   |
| All other Traditional<br>Bank loans and<br>fees(5)(6)        | 3,428,355                         | 38,207   | 4.46            |   | 3,192,831                         | 33,673   | 4.22            |   |
| Total interest-earning<br>assets                             | 4,917,971                         | 73,833   | 6.01            |   | 4,520,366                         | 60,883   | 5.39            |   |
| Allowance for loan<br>and lease losses                       | (49,606)                          |          |                 |   | (38,345)                          |          |                 |   |
| Noninterest-earning<br>assets:                               |                                   |          |                 |   |                                   |          |                 |   |
| Noninterest-earning<br>cash and cash<br>equivalents          | 245,465                           |          |                 |   | 198,791                           |          |                 |   |
| Premises and<br>equipment, net                               | 46,291                            |          |                 |   | 43,835                            |          |                 |   |
| Bank owned life<br>insurance                                 | 63,586                            |          |                 |   | 61,986                            |          |                 |   |
| Other assets(1)  | 54,497                            |          |                 |   | 61,067                            |          |                 |   |
| Total assets   | \$ 5,278,204                      |          |                 |   | \$ 4,847,700                      |          |                 |   |

LIABILITIES AND  
STOCKHOLDERS'  
EQUITYInterest-bearing  
liabilities:

|   |              |           |      |   |              |           |      |   |
|---|--------------|-----------|------|---|--------------|-----------|------|---|
| Transaction accounts  | \$ 1,104,990 | \$ 761    | 0.28 | % | \$ 1,045,420 | \$ 381    | 0.15 | % |
| Money market<br>accounts  | 572,071      | 631       | 0.44 |   | 555,023      | 312       | 0.22 |   |
| Time deposits   | 323,371      | 1,115     | 1.38 |   | 227,318      | 572       | 1.01 |   |
| Brokered money<br>market and brokered<br>certificates of deposit                        | 415,710      | 853       | 0.82 |   | 384,458      | 614       | 0.64 |   |
| Total interest-bearing<br>deposits  | 2,416,142    | 3,360     | 0.56 |   | 2,212,219    | 1,879     | 0.34 |   |
| Securities sold under<br>agreements to<br>repurchase and other<br>short-term borrowings | 257,439      | 213       | 0.33 |   | 218,412      | 25        | 0.05 |   |
| Federal Home Loan<br>Bank advances  | 545,778      | 2,274     | 1.67 |   | 598,167      | 2,292     | 1.53 |   |
| Subordinated note   | 41,240       | 321       | 3.11 |   | 41,240       | 249       | 2.42 |   |
| Total interest-bearing<br>liabilities   | 3,260,599    | 6,168     | 0.76 |   | 3,070,038    | 4,445     | 0.58 |   |
| Noninterest-bearing<br>liabilities and<br>Stockholders' equity:                         |              |           |      |   |              |           |      |   |
| Noninterest-bearing<br>deposits   | 1,319,860    |           |      |   | 1,132,591    |           |      |   |
| Other liabilities   | 56,121       |           |      |   | 34,642       |           |      |   |
| Stockholders' equity  | 641,624      |           |      |   | 610,429      |           |      |   |
| Total liabilities and<br>stockholders' equity   | \$ 5,278,204 |           |      |   | \$ 4,847,700 |           |      |   |
| Net interest income   |              | \$ 67,665 |      |   |              | \$ 56,438 |      |   |
| Net interest spread   |              |           | 5.25 | % |              |           | 4.81 | % |
| Net interest margin   |              |           | 5.50 | % |              |           | 4.99 | % |

(1) For the purpose of this calculation, the fair market value adjustment on debt securities is included as a component of other assets.

(2) Interest income for Easy Advances is composed entirely of loan fees.

(3) Interest income includes loan fees of \$7.1 million and \$5.1 million for the three months ended March 31, 2018 and 2017.

(4)

Interest income includes loan fees of \$697,000 and \$769,000 for the three months ended March 31, 2018 and 2017.

- (5) Interest income includes loan fees of \$1.3 million and \$1.1 million for the three months ended March 31, 2018 and 2017.
- (6) Average balances for loans include the principal balance of nonaccrual loans and loans held for sale, and are inclusive of all loan premiums, discounts, fees and costs.

Table of Contents

Table 3 illustrates the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities impacted Republic's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume) and (iii) net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

Table 3 — Total Company Volume/Rate Variance Analysis

| (in thousands)   | Three Months Ended March 31, 2018<br>Compared to<br>Three Months Ended March 31, 2017 |  |            |
|--|---|--|------------|
|  | Total Net<br>Change   | Increase / (Decrease) Due to<br>Volume | Rate       |
| Interest income:   |   |  |            |
| Investment securities, including FHLB stock                                    | \$ 646  | \$ (151)                               | \$ 797     |
| Federal funds sold and other interest-earning deposits                         | 682   | 280                                    | 402        |
| TRS Easy Advance loans and fees  | 3,576   | 6,371                                  | (2,795)    |
| Other RPG loans and fees   | 2,689   | 4,519                                  | (1,830)    |
| Outstanding Warehouse lines of credit and fees                                 | 823   | 124                                    | 699        |
| All other Traditional Bank loans and fees                                      | 4,534   | 2,563                                  | 1,971      |
| Net change in interest income  | 12,950  | 13,706                                 | (756)      |
| Interest expense:  |   |  |            |
| Transaction accounts   | 380   | 23                                     | 357        |
| Money market accounts  | 319   | 10                                     | 309        |
| Time deposits  | 543   | 289                                    | 254        |
| Brokered money market and brokered certificates of deposit                     | 239   | 53                                     | 186        |
| Securities sold under agreements to repurchase and other short-term borrowings | 188   | 5                                      | 183        |
| Federal Home Loan Bank advances  | (18)  | (210)                                  | 192        |
| Subordinated note  | 72  | —                                      | 72         |
| Net change in interest expense   | 1,723   | 170                                    | 1,553      |
| Net change in net interest income  | \$ 11,227   | \$ 13,536                              | \$ (2,309) |



Table of Contents

Provision for Loan and Lease Losses

The Company recorded a Provision of \$17.3 million for the first quarter of 2018, compared to \$12.4 million for the same period in 2017. The significant components comprising the Company's Provision by reportable segment were as follows:

Traditional Banking segment

The Traditional Banking Provision during the first quarter of 2018 was \$939,000, compared to \$467,000 for the first quarter of 2017. An analysis of the Provision for the first quarter of 2018 compared to the same period in 2017 follows:

- Related to the Bank's pass-rated and non-rated credits, the Bank recorded net charges of \$581,000 and \$491,000 to the Provision for the first quarters of 2018 and 2017. Loan growth primarily drove the charge to the Provision in both periods.
- Related to the Bank's loans rated Substandard and Special Mention, the Bank recorded net charges to the Provision of \$407,000 and \$8,000 for the first quarters of 2018 and 2017.
- Provision activity related to the Bank's loans rated purchased-credit-impaired ("PCI") was immaterial during the first quarters of 2018 and 2017.

As a percentage of total loans, the Traditional Banking Allowance for Loan and Lease Losses ("Allowance") was 0.85% at both March 31, 2018 and December 31, 2017 compared to 0.84% at March 31, 2017. The Company believes, based on information presently available, that it has adequately provided for Traditional Banking loan losses at March 31, 2018.

See the sections titled "Allowance for Loan and Lease Losses" and "Asset Quality" in this section of the filing under "Comparison of Financial Condition" for additional discussion regarding the Provision and the Bank's credit quality.

Warehouse Lending segment



Warehouse recorded a net charge to the Provision of \$21,000 for the first quarter of 2018 compared to a net credit of \$226,000 for the same period in 2017. Provision expense for both periods reflected changes in general reserves consistent with changes in outstanding period-end balances. Outstanding Warehouse period-end balances increased \$8 million during the first quarter of 2018 compared to a decrease of \$90 million during the first quarter of 2017.

As a percentage of total Warehouse outstanding balances, the Warehouse Allowance was 0.25% at March 31, 2018, December 31, 2017 and March 31, 2017. The Company believes, based on information presently available, that it has adequately provided for Warehouse loan losses at March 31, 2018.

#### Tax Refund Solutions segment

TRS recorded a net charge to the Provision of \$13.4 million during the first quarter of 2018 compared to a charge of \$8.3 million for the same period in 2017. The increase in Provision at TRS was attributable to an increase in estimated losses for EA loans. TRS originated \$430 million of EAs during the first quarter of 2018 compared to \$329 million for the same period in 2017. The Company has experienced, thus far, slower repayment of EAs from the federal government during the first quarter of 2018, thus requiring higher estimated loan loss reserves. As a percentage of total originations, outstanding balances of EAs were 3.63% as of March 31, 2018 compared to 3.25% as of March 31, 2017.

As of March 31, 2018, the Company had reserved through its loan loss provision approximately 3.09% of total EA originations for the first quarter of 2018 compared to 2.62% of total EA originations for the same period in 2017. Each 0.10% in estimated reserves equates to approximately \$430,000 in Provision expense for 2018 EA originations. The Company finished 2017 with an actual net loss on EAs of 2.07% of total 2017 EA originations. The Company believes, based on information presently available, that it has adequately provided for TRS loan losses at March 31, 2018.

See additional detail regarding the EA product under Footnote 4 “Loans and Allowance for Loan and Lease Losses” of Part I Item 1 “Financial Statements.”

Table of Contents

Republic Credit Solutions segment

RCS recorded a Provision of \$2.9 million during the first quarter of 2018 compared to a Provision of \$3.8 million for the same period in 2017, with the \$863,000 decrease primarily attributable to a lower quarterly Provision for RCS's line-of-credit product. Provision expense for RCS's line-of-credit product decreased \$1.3 million from the first quarter of 2017, as net charge-offs to-date within this portfolio have continued to season and remained within an expectedly and relatively narrow range for a period of time.

While RCS loans generally return higher yields, they also present a greater credit risk than Traditional Banking loan products. As a percentage of total RCS loans, the RCS Allowance was 19.35% at March 31, 2018, 18.85% at December 31, 2017 and 20.71% at March 31, 2017. The Company believes, based on information presently available, that it has adequately provided for RCS loan losses at March 31, 2018.

Table of Contents

Table 4 — Summary of Loan and Lease Loss Experience

| (dollars in thousands)           | Three Months Ended |           |
|----------------------------------|--------------------|-----------|
|                                  | March 31,<br>2018  | 2017      |
| Allowance at beginning of period | \$ 42,769          | \$ 32,920 |
| Charge-offs:                     |                    |           |
| Traditional Banking:             |                    |           |
| Residential real estate          | (336)              | (14)      |
| Commercial real estate           | —                  | —         |
| Construction & land development  | —                  | —         |
| Commercial & industrial          | (108)              | —         |
| Lease financing receivables      | —                  | —         |
| Home equity                      | —                  | (4)       |
| Consumer                         | (502)              | (441)     |
| Total Traditional Banking        | (946)              | (459)     |
| Warehouse lines of credit        | —                  | —         |
| Total Core Banking               | (946)              | (459)     |
| Republic Processing Group:       |                    |           |
| Tax Refund Solutions:            |                    |           |
| Easy Advances                    | (3,705)            | (860)     |
| Other TRS loans                  | —                  | —         |
| Republic Credit Solutions        | (3,696)            | (2,285)   |
| Total Republic Processing Group  | (7,401)            | (3,145)   |
| Total charge-offs                | (8,347)            | (3,604)   |
| Recoveries:                      |                    |           |
| Traditional Banking:             |                    |           |
| Residential real estate          | 42                 | 59        |
| Commercial real estate           | 125                | 17        |
| Construction & land development  | 2                  | —         |
| Commercial & industrial          | 31                 | 21        |
| Lease financing receivables      | —                  | —         |
| Home equity                      | 26                 | 9         |
| Consumer                         | 179                | 174       |
| Total Traditional Banking        | 405                | 280       |
| Warehouse lines of credit        | —                  | —         |
| Total Core Banking               | 405                | 280       |
| Republic Processing Group:       |                    |           |
| Tax Refund Solutions:            |                    |           |

|                                 |           |           |
|---------------------------------|-----------|-----------|
| Easy Advances                   | —         | —         |
| Other TRS loans                 | 1         | 235       |
| Republic Credit Solutions       | 258       | 180       |
| Total Republic Processing Group | 259       | 415       |
| <br>                            |           |           |
| Total recoveries                | 664       | 695       |
| <br>                            |           |           |
| Net loan charge-offs            | (7,683)   | (2,909)   |
| <br>                            |           |           |
| Provision - Core Banking        | 960       | 241       |
| Provision - RPG                 | 16,295    | 12,110    |
| Total Provision                 | 17,255    | 12,351    |
| Allowance at end of period      | \$ 52,341 | \$ 42,362 |

Credit Quality Ratios - Total Company:

|                                       |      |   |      |   |
|---------------------------------------|------|---|------|---|
| Allowance to total loans              | 1.29 | % | 1.14 | % |
| Allowance to nonperforming loans      | 325  |   | 249  |   |
| Net loan charge-offs to average loans | 0.75 |   | 0.31 |   |

Credit Quality Ratios - Core Banking:

|                                       |      |   |      |   |
|---------------------------------------|------|---|------|---|
| Allowance to total loans              | 0.77 | % | 0.76 | % |
| Allowance to nonperforming loans      | 205  |   | 166  |   |
| Net loan charge-offs to average loans | 0.06 |   | 0.02 |   |

## Table of Contents

### Noninterest Income

Total Company noninterest income increased \$2.6 million, or 11%, during the first quarter of 2018 compared to the same period in 2017. The most significant components comprising the total Company's noninterest income by reportable segment were as follows:

#### Traditional Banking segment

Traditional Banking's noninterest income increased \$483,000, or 7%, for the first quarter of 2018 compared to the same period in 2017. The most significant categories affecting the change in noninterest income for the quarter were as follows:

- Service charges on deposit accounts increased \$267,000, or 8%, to \$3.5 million for the first quarter of 2018 compared the same period in 2017. The Bank earns a substantial majority of its fee income related to its overdraft service program from the per item fee it assesses its customers for each insufficient funds check or electronic debit presented for payment. The total per item fees, net of refunds, included in service charges on deposits for the quarters ended March 31, 2018 and 2017 were \$2.1 million and \$1.9 million. The total daily overdraft charges, net of refunds, included in interest income for the quarters ended March 31, 2018 and 2017 were \$445,000 and \$411,000.
- Interchange income increased \$321,000, or 14%, with debit card interchange fees up \$231,000, or 12%, and credit card interchange fees up \$90,000, or 33%. The increase in interchange fees was driven by increases of 6% in active debit cards and 18% in active credit cards over the previous 12 months as well as the corresponding usage on those cards.

#### Mortgage Banking segment

Within the Mortgage Banking segment, as a result of a slowdown in home-mortgage refinance volume, mortgage banking income decreased \$140,000, or 12%, during the first quarter of 2018 compared to the same period in 2017. Overall, Republic's origination of secondary market loans totaled \$29 million during the first quarter of 2018 compared to \$33 million during the same period in 2017. The ratio of net gain on sale of mortgage loans originated for sale was 2.64% and 2.94% during the first quarters of 2018 and 2017.

#### Tax Refund Solutions segment

TRS's noninterest income increased \$2.1 million, or 14%, during the first quarter of 2018 compared to the same period in 2017. Net RT revenue increased \$970,000, or 6%, compared to the first quarter of 2017, consistent with a 6% increase in the number of RTs funded when comparing the two periods. Additionally, TRS received and recorded a \$1.0 million nonrefundable capital commitment fee during the first quarter of 2018. The fee was paid by a third party upon the Company's completion of its contractual obligations to build the infrastructure and disburse funds for a new collaborative credit product offered through the Bank to the third party's customers.

#### Republic Credit Solutions segment

RCS's noninterest income increased \$163,000, or 9%, during the first quarter of 2018 compared to the same period in 2017. RCS program fees, which represents net gains from the sale of consumer loans, increased \$529,000 and was the primary driver of the overall increase. The increase in program fees resulted from an increase in volume from RCS's small-dollar consumer loan programs. During the first quarter of 2018, loans sold through the RCS programs increased \$41 million, or 33%, to \$168 million compared to \$126 million during the first quarter of 2017. Partially offsetting the increase in RCS program fees was a \$427,000 decline in other noninterest income related to a first year volume-guarantee payment recorded during the first quarter of 2017 with no such volume guarantees available subsequent to the first quarter of 2017.

#### Noninterest Expenses

Total Company noninterest expenses increased \$4.1 million, or 11%, during the first quarter of 2018 compared to the same period in 2017. The most significant components comprising the increase in noninterest expense by reportable segment were as follows:

#### Traditional Banking segment

Traditional Banking noninterest expenses increased \$3.3 million, or 11%, for the first quarter of 2018 compared to the same period in 2017. The most significant categories affecting the change in noninterest expense for the quarter were as follows:

Table of Contents

- Salaries and benefits expense increased \$2.3 million, driven partially by annual merit increases, partially by an increase of approximately 21 Traditional Bank full-time-equivalent employees over the previously 12 months, and partially by a \$763,000 increase in healthcare benefits. The additional FTEs were primarily added to support strategic initiatives.
- Occupancy expense increased \$384,000, or 7%, primarily driven by a 23% increase in depreciation expense associated with banking center renovations over the previous year.
- Data processing expenses increased \$573,000, or 44%, driven by new and upgraded third-party technology implemented in the previous 12 months to support several key strategic initiatives. Such initiatives include improving the Company's client relationship management system, its online-banking functionality, and its overall information security.

Tax Refund Solutions segment

TRS's noninterest expenses increased \$456,000, or 8%, during the first quarter of 2018 compared to the same period in 2017 primarily due to a \$401,000 increase in salaries and benefits expense. Annual merit increases and additional staff added during the previous 12 months to support growth primarily drove the increase in salaries and benefits expense.

Republic Credit Solutions segment

RCS's noninterest expenses increased \$294,000, or 37%, during the first quarter of 2018 compared to the same period in 2017 due to a \$161,000 increase in salaries and benefits expense. Annual merit increases and additional staff added during the previous 12 months to support growth primarily drove the increase in salaries and benefits expense.

Table of Contents

## COMPARISON OF FINANCIAL CONDITION AT March 31, 2018 AND December 31, 2017

Table 5 — Loan Portfolio Composition

| (in thousands)                      | March 31, 2018 | December 31, 2017 |
|-------------------------------------|----------------|-------------------|
| Traditional Banking:                |                |                   |
| Residential real estate:            |                |                   |
| Owner occupied                      | \$ 912,415     | \$ 921,565        |
| Owner occupied - correspondent*     | 111,263        | 116,792           |
| Nonowner occupied                   | 216,095        | 205,081           |
| Commercial real estate              | 1,216,592      | 1,207,293         |
| Construction & land development     | 160,391        | 150,065           |
| Commercial & industrial             | 355,316        | 341,692           |
| Lease financing receivables         | 15,751         | 16,580            |
| Home equity                         | 342,217        | 347,655           |
| Consumer:                           |                |                   |
| Credit cards                        | 16,677         | 16,078            |
| Overdrafts                          | 791            | 974               |
| Automobile loans                    | 65,281         | 65,650            |
| Other consumer                      | 27,556         | 20,501            |
| Total Traditional Banking           | 3,440,345      | 3,409,926         |
| Warehouse lines of credit*          | 533,959        | 525,572           |
| Total Core Banking                  | 3,974,304      | 3,935,498         |
| Republic Processing Group*:         |                |                   |
| Tax Refund Solutions:               |                |                   |
| Easy Advances                       | 15,601         | —                 |
| Other TRS loans                     | 192            | 11,648            |
| Republic Credit Solutions           | 62,403         | 66,888            |
| Total Republic Processing Group     | 78,196         | 78,536            |
| Total loans**                       | 4,052,500      | 4,014,034         |
| Allowance for loan and lease losses | (52,341)       | (42,769)          |
| Total loans, net                    | \$ 4,000,159   | \$ 3,971,265      |

\* Identifies loans to borrowers located primarily outside of the Bank's market footprint.

\*\* Total loans are presented inclusive of premiums, discounts and net loan origination fees and costs.



Gross loans increased by \$38 million, or 1%, during 2018 to \$4.1 billion at March 31, 2018. The most significant components comprising the change in loans by reportable segment follow:

Traditional Banking segment

Traditional Banking loans increased \$30 million, or 1%, during the first three months of 2018. Growth was primarily concentrated in commercial purpose loans, with the C&I, nonowner-occupied residential real estate, construction and land development, and CRE portfolios experiencing growth of \$14 million, \$11 million, \$10 million, and \$9 million.

The Bank's owner occupied residential real estate loans, including correspondent loans, declined \$15 million in total. These category fluctuations were generally in-line with the Company's overall long-term loan growth strategy, which is to reduce the Bank's reliance on residential real estate loans for balance sheet growth and to rely more on commercial purpose loans for future growth. While the Company does currently intend to reduce its reliance on owner occupied residential real estate loans for future balance sheet growth, it also continues to make plans to expand its agency-eligible volume of first mortgage residential real estate loans, which it intends to sell into the secondary market in order to generate fee income.

Table of Contents

Tax Refund Solutions segment

TRS experienced a seasonal increase of \$16 million in EA loan balances from December 31, 2017 to March 31, 2018. The EA is only offered during the first two months of each year, with all unpaid EAs charged-off by the end of the second quarter of each year.

Allowance for Loan and Lease Losses (“Allowance”)

The Bank maintains an allowance for probable incurred credit losses inherent in the Bank’s loan portfolio, which includes overdrawn deposit accounts. Management evaluates the adequacy of the Allowance on a monthly basis and presents and discusses the analysis with the Audit Committee and the Board of Directors on a quarterly basis.

The Allowance consists of both specific and general components. The specific component relates to loans that are individually classified as impaired. The general component relates to pooled loans collectively evaluated on historical loss experience adjusted for qualitative factors.

Specific Component – Loans Individually Classified as Impaired

The Bank defines impaired loans as follows:

- All loans internally rated as “Substandard,” “Doubtful” or “Loss”;
- All loans on nonaccrual status;
- All Troubled Debt Restructurings (“TDRs”);
- All loans internally rated in a purchased credit impaired (“PCI”) category with cash flows that have deteriorated from management’s initial acquisition day estimate; and
- Any other situation where the full collection of the total amount due for a loan is improbable or otherwise meets the definition of impaired.

Generally, loans are designated as “Classified” or “Special Mention” to ensure more frequent monitoring. These loans are reviewed to ensure proper accrual status and management strategy. If it is determined that there is serious doubt as to performance in accordance with original or modified contractual terms, then the loan is generally downgraded and may be charged down to its estimated value and placed on nonaccrual status.

Under generally accepted accounting principles (“GAAP”), the Bank uses the following methods to measure specific loan impairment, including:

- Cash Flow Method — The recorded investment in the loan is measured against the present value of expected future cash flows discounted at the loan’s effective interest rate. The Bank employs this method for a significant portion of its TDRs. Impairment amounts under this method are reflected in the Bank’s Allowance as specific reserves on the respective impaired loan. These specific reserves are adjusted quarterly based upon reevaluation of the expected future cash flows and changes in the recorded investment.
- Collateral Method — The recorded investment in the loan is measured against the fair value of the collateral less estimated selling costs. The Bank employs the collateral method for its impaired loans when repayment is based solely on the sale or operations of the underlying collateral. Collateral fair value is typically based on the most recent real estate valuation on file. Measured impairment under this method is generally charged off unless the loan is a smaller-balance, homogeneous loan. The Bank’s estimated selling costs for its collateral-dependent loans typically range from 10-13% of the fair value of the underlying collateral, depending on the asset class. Selling costs are not applicable for collateral-dependent loans whose repayment is based solely on the operations of the underlying collateral.

In addition to obtaining appraisals at the time of origination, the Bank typically updates appraisals and/or broker price opinions (“BPOs”) for loans with potential impairment. Updated valuations for commercial-related credits exhibiting an increased risk of loss are typically obtained within one year of the previous valuation. Collateral values for delinquent residential mortgage loans and home equity loans are generally updated prior to a loan becoming 90 days delinquent, but no more than 180 days past due. When measuring impairment, to the extent updated collateral values cannot be obtained due to the lack of recent comparable sales or for other reasons, the Bank discounts such stale valuations primarily based on age of valuation and market conditions of the underlying collateral.

## Table of Contents

### General Component – Pooled Loans Collectively Evaluated

The general component of the Allowance covers loans collectively evaluated for impairment by loan class and is based on historical loss experience, with potential adjustments for current relevant qualitative factors. Historical loss experience is determined by loan performance and class and is based on the actual loss history experienced by the Bank. Large groups of smaller-balance, homogeneous loans are typically included in the general component but may be individually evaluated if classified as a TDR, on nonaccrual, or a case where the full collection of the total amount due for a such loan is improbable or otherwise meets the definition of impaired.

As this analysis, or any similar analysis, is an imprecise measure of loss, the Allowance is subject to ongoing adjustments. Therefore, management will often take into account other significant factors that may be necessary or prudent in order to reflect probable incurred losses in the total loan portfolio.

The Company's Allowance increased \$10 million, or 22%, from December 31, 2017 to \$52 million at March 31, 2018, primarily driven by reserves for EAs and general growth in a few Core Bank portfolios. As a percent of total loans, the total Company's Allowance increased to 1.29% at March 31, 2018 compared to 1.07% at December 31, 2017. An analysis of the Allowance by reportable segment follows:

#### Traditional Banking segment

The Traditional Banking Allowance remained at \$29 million and the Allowance to total Traditional Bank loans remained at 0.85% when comparing March 31, 2018 to December 31, 2017. As historical losses within the Traditional Banking segment have remained relatively stable and low for a sustained period of time, no material changes to its reserve percentages were required for the first quarter of 2018.

#### Warehouse Lending segment

The Warehouse Allowance remained at \$1 million and the Allowance to total Warehouse loans remained at 0.25% when comparing March 31, 2018 to December 31, 2017. As of March 31, 2018, Warehouse had not incurred any historical losses, and as a result, its Allowance was entirely qualitative in nature with no adjustments to the qualitative reserve percentage required for the first quarter of 2018.

#### Tax Refund Solutions segment

The TRS Allowance increased to \$10 million at March 31, 2018 from \$12,000 at December 31, 2017, driven by estimated reserves for loss on TRS's EA product. Due to the seasonal nature of the EA, estimated reserves are generally made during the first two months of the year when the product is offered, with losses charged against those reserves generally in the second quarter of each year. Based on the timing of EA reserves versus charge-offs, the Allowance for EAs to total remaining outstanding EAs is relatively substantial at the end of the first quarter, or 61% and 72% at March 31, 2018 and March 31, 2017. The lower reserve percentage as of March 31, 2018 as compared to March 31, 2017 was the result of a higher level of charge-offs during the first quarter of 2018 versus the same period in 2017. As previously disclosed, the Company provided an Allowance for probable losses equal to 3.09% of total originations during the first quarter of 2018 as compared to 2.62% during the first quarter of 2017 because the Company has experienced, thus far, slower repayment of EAs from the federal government during the first quarter of 2018.

See additional detail regarding the EA product under Footnote 4 "Loans and Allowance for Loan and Lease Losses" of Part I Item 1 "Financial Statements."

#### Republic Credit Solutions segment

The RCS Allowance decreased to \$12 million at March 31, 2018 from \$13 million at December 31, 2017. A \$4 million decrease in outstanding loans during the first quarter of 2018 primarily drove the decrease in the RCS Allowance. The Allowance to total RCS loans increased to 19.35% at March 31, 2018 from 18.85% at December 31, 2017.

RCS maintained an Allowance for three distinct credit products offered at March 31, 2018, including its line-of-credit product, its credit card product and its healthcare-receivables product. At March 31, 2018, the Allowance to total loans estimated for each RCS product ranged from as low as 0.25% for its healthcare-receivables portfolio to as high as 40% for its subprime credit card portfolio. The lower reserve percentage of 0.25% was provided for RCS's healthcare receivables, as such receivables have recourse back to the third-party providers.

Table of Contents

## Asset Quality

## Classified and Special Mention Loans

The Bank applies credit quality indicators, or “ratings,” to individual loans based on internal Bank policies. Such internal policies are informed by regulatory standards. Loans rated “Loss,” “Doubtful,” “Substandard” and PCI-Substandard (“PCI-Sub”) are considered “Classified.” Loans rated “Special Mention” or PCI Group 1 (“PCI-1”) are considered Special Mention. The Bank’s Classified and Special Mention loans increased \$3 million during the first three months of 2018, primarily due to the classification of four relationships during the period.

See Footnote 4 “Loans and Allowance for Loan and Lease Losses” of Part I Item 1 “Financial Statements” for additional discussion regarding Classified and Special Mention loans.

Table 6 — Classified and Special Mention Loans

| (in thousands)                             | March 31, 2018 | December 31, 2017 |
|--|----------------|-------------------|
| Loss                                       | \$ —           | \$ —              |
| Doubtful                                   | —              | —                 |
| Substandard                                | 24,634         | 21,202            |
| Purchased Credit Impaired - Substandard    | 1,714          | 1,771             |
| Total Classified Loans                     | 26,348         | 22,973            |
| Special Mention                            | 23,130         | 23,813            |
| Purchased Credit Impaired - Group 1        | 1,774          | 1,833             |
| Total Special Mention Loans                | 24,904         | 25,646            |
| Total Classified and Special Mention Loans | \$ 51,252      | \$ 48,619         |

Table of Contents

## Nonperforming Loans

Nonperforming loans include loans on nonaccrual status and loans past due 90-days-or-more and still accruing. Impaired loans that are not placed on nonaccrual status are not included as nonperforming loans. The nonperforming loan category includes TDRs totaling approximately \$6 million and \$6 million at March 31, 2018 and December 31, 2017. Generally, all nonperforming loans are considered impaired.

Nonperforming loans to total loans increased to 0.40% at March 31, 2018 from 0.38% at December 31, 2017, as the total balance of nonperforming loans increased by \$1 million, or 7%, while total loans increased \$38 million, or 1%, during the first three months of 2018.

Table 7 — Nonperforming Loans and Nonperforming Assets Summary

| (in thousands)  | March 31, 2018 | December 31, 2017 |        |
|---|----------------|-------------------|--------|
| Loans on nonaccrual status*                           | \$ 14,849      | \$                | 14,118 |
| Loans past due 90-days-or-more and still on accrual** | 1,279          |                   | 956    |
| Total nonperforming loans                             | 16,128         |                   | 15,074 |
| Other real estate owned                               | 160            |                   | 115    |
| Total nonperforming assets                            | \$ 16,288      | \$                | 15,189 |
| Credit Quality Ratios - Total Company:                |                |                   |        |
| Nonperforming loans to total loans                    | 0.40           | %                 | 0.38   |
| Nonperforming assets to total loans (including OREO)  | 0.40           |                   | 0.38   |
| Nonperforming assets to total assets                  | 0.32           |                   | 0.30   |
| Credit Quality Ratios - Core Bank:                    |                |                   |        |
| Nonperforming loans to total loans                    | 0.37           | %                 | 0.36   |
| Nonperforming assets to total loans (including OREO)  | 0.38           |                   | 0.36   |
| Nonperforming assets to total assets                  | 0.31           |                   | 0.28   |

\*Loans on nonaccrual status include impaired loans. See Footnote 4 “Loans and Allowance for Loan and Lease Losses” of Part I Item 1 “Financial Statements” for additional discussion regarding impaired loans.

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

Approximately \$11 million, or 66%, of the Bank’s total nonperforming loans at March 31, 2018, compared to \$11 million, or 71%, as of December 31, 2017, were concentrated in the residential real estate category, with the

underlying collateral predominantly located in the Bank's primary market area of Kentucky.

Approximately \$3 million, or 21%, of the Bank's total nonperforming loans at March 31, 2018, compared to \$3 million, or 22%, at December 31, 2017 were concentrated in the CRE and construction and land development portfolios. While CRE is the primary collateral for such loans, the Bank also obtains in many cases, at the time of origination, personal guarantees from the principal borrowers and/or secured liens on the guarantors' primary residences.



Table of Contents

Table 8 — Nonperforming Loan Composition

| (in thousands)                  | March 31, 2018 |                                      | December 31, 2017 |                                      |
|---------------------------------|----------------|--------------------------------------|-------------------|--------------------------------------|
|                                 | Balance        | Percent of<br>Total<br>Loan<br>Class | Balance           | Percent of<br>Total<br>Loan<br>Class |
| Traditional Banking:            |                |                                      |                   |                                      |
| Residential real estate:        |                |                                      |                   |                                      |
| Owner occupied                  | \$ 8,952       | 0.98 %                               | \$ 9,230          | 1.00 %                               |
| Owner occupied - correspondent  | —              | —                                    | —                 | —                                    |
| Nonowner occupied               | 758            | 0.35                                 | 257               | 0.13                                 |
| Commercial real estate          | 3,351          | 0.28                                 | 3,247             | 0.27                                 |
| Construction & land development | 62             | 0.04                                 | 67                | 0.04                                 |
| Commercial & industrial         | 706            | 0.20                                 | —                 | —                                    |
| Lease financing receivables     | —              | —                                    | —                 | —                                    |
| Home equity                     | 929            | 0.27                                 | 1,217             | 0.35                                 |
| Consumer:                       |                |                                      |                   |                                      |
| Credit cards                    | 1              | 0.01                                 | —                 | —                                    |
| Overdrafts                      | —              | —                                    | —                 | —                                    |
| Automobile loans                | 65             | 0.10                                 | 68                | 0.10                                 |
| Other consumer                  | 52             | 0.19                                 | 51                | 0.25                                 |
| Total Traditional Banking       | 14,876         | 0.43                                 | 14,137            | 0.41                                 |
| Warehouse lines of credit       | —              | —                                    | —                 | —                                    |
| Total Core Banking              | 14,876         | 0.37                                 | 14,137            | 0.36                                 |
| Republic Processing Group:      |                |                                      |                   |                                      |
| Tax Refund Solutions:           |                |                                      |                   |                                      |
| Easy Advances                   | —              | —                                    | —                 | —                                    |
| Other TRS loans                 | —              | —                                    | —                 | —                                    |
| Republic Credit Solutions       | 1,252          | 2.01                                 | 937               | 1.40                                 |
| Total Republic Processing Group | 1,252          | 1.60                                 | 937               | 1.19                                 |
| Total nonperforming loans       | \$ 16,128      | 0.40 %                               | \$ 15,074         | 0.38 %                               |

Table of Contents

Table 9 — Stratification of Nonperforming Loans

| March 31, 2018<br>(dollars in thousands) | Number of Nonperforming Loans and Recorded Investment |                    |     |                                    |     |                    |        |                  |
|--|---|--------------------|-----|------------------------------------|-----|--------------------|--------|------------------|
|  | No.   | Balance<br>≤ \$100 | No. | Balance<br>> \$100<br>&<br>≤ \$500 | No. | Balance<br>> \$500 | No.    | Total<br>Balance |
| Traditional Banking:                     |   |                    |     |                                    |     |                    |        |                  |
| Residential real estate:                 |   |                    |     |                                    |     |                    |        |                  |
| Owner occupied                           | 101   | \$ 4,708           | 12  | \$ 2,192                           | 2   | \$ 2,052           | 115    | \$ 8,952         |
| Owner occupied -<br>correspondent        | —   | —                  | —   | —                                  | —   | —                  | —      | —                |
| Nonowner occupied                        | 5   | 236                | —   | —                                  | 1   | 522                | 6      | 758              |
| Commercial real<br>estate                | 4   | 262                | 3   | 746                                | 2   | 2,343              | 9      | 3,351            |
| Construction & land<br>development       | 1   | 62                 | —   | —                                  | —   | —                  | 1      | 62               |
| Commercial &<br>industrial               | —   | —                  | 2   | 706                                | —   | —                  | 2      | 706              |
| Lease financing<br>receivables           | —   | —                  | —   | —                                  | —   | —                  | —      | —                |
| Home equity                              | 18  | 487                | 3   | 442                                | —   | —                  | 21     | 929              |
| Consumer:                                |   |                    |     |                                    |     |                    |        |                  |
| Credit cards                             | 1   | 1                  | —   | —                                  | —   | —                  | 1      | 1                |
| Overdrafts                               | —   | —                  | —   | —                                  | —   | —                  | —      | —                |
| Automobile loans                         | 3   | 65                 | —   | —                                  | —   | —                  | 3      | 65               |
| Other consumer                           | 16  | 52                 | —   | —                                  | —   | —                  | 16     | 52               |
| Total Traditional<br>Banking             | 149   | 5,873              | 20  | 4,086                              | 5   | 4,917              | 174    | 14,876           |
| Warehouse lines of<br>credit             | —   | —                  | —   | —                                  | —   | —                  | —      | —                |
| Total Core Banking                       | 149   | 5,873              | 20  | 4,086                              | 5   | 4,917              | 174    | 14,876           |
| Republic Processing<br>Group:            |   |                    |     |                                    |     |                    |        |                  |
| Tax Refund Solutions:                    |   |                    |     |                                    |     |                    |        |                  |
| Easy Advances                            | —   | —                  | —   | —                                  | —   | —                  | —      | —                |
| Other TRS loans                          | —   | —                  | —   | —                                  | —   | —                  | —      | —                |
| Republic Credit<br>Solutions             | 18,146  | 1,252              | —   | —                                  | —   | —                  | 18,146 | 1,252            |
| Total Republic<br>Processing Group       | 18,146  | 1,252              | —   | —                                  | —   | —                  | 18,146 | 1,252            |
| Total                                    | 18,295  | \$ 7,125           | 20  | \$ 4,086                           | 5   | \$ 4,917           | 18,320 | \$ 16,128        |

## Number of Nonperforming Loans and Recorded Investment

| December 31, 2017<br>(dollars in thousands) | No.    | Balance<br>≤ \$100 | No. | Balance<br>> \$100<br>&<br>≤ \$500 | No. | Balance<br>> \$500 | No.    | Total<br>Balance |
|---|--------|--------------------|-----|------------------------------------|-----|--------------------|--------|------------------|
| Traditional Banking:                        |        |                    |     |                                    |     |                    |        |                  |
| Residential real estate:                    |        |                    |     |                                    |     |                    |        |                  |
| Owner occupied                              | 102    | \$ 4,903           | 14  | \$ 2,760                           | 1   | \$ 1,567           | 117    | \$ 9,230         |
| Owner occupied -<br>correspondent           | —      | —                  | —   | —                                  | —   | —                  | —      | —                |
| Nonowner occupied                           | 5      | 156                | 1   | 101                                | —   | —                  | 6      | 257              |
| Commercial real<br>estate                   | 2      | 112                | 3   | 767                                | 2   | 2,368              | 7      | 3,247            |
| Construction & land<br>development          | 1      | 67                 | —   | —                                  | —   | —                  | 1      | 67               |
| Commercial &<br>industrial                  | —      | —                  | —   | —                                  | —   | —                  | —      | —                |
| Lease financing<br>receivables              | —      | —                  | —   | —                                  | —   | —                  | —      | —                |
| Home equity                                 | 26     | 615                | 4   | 602                                | —   | —                  | 30     | 1,217            |
| Consumer:                                   |        |                    |     |                                    |     |                    |        |                  |
| Credit cards                                | —      | —                  | —   | —                                  | —   | —                  | —      | —                |
| Overdrafts                                  | —      | —                  | —   | —                                  | —   | —                  | —      | —                |
| Automobile loans                            | 3      | 68                 | —   | —                                  | —   | —                  | 3      | 68               |
| Other consumer                              | 12     | 51                 | —   | —                                  | —   | —                  | 12     | 51               |
| Total Traditional<br>Banking                | 151    | 5,972              | 22  | 4,230                              | 3   | 3,935              | 176    | 14,137           |
| Warehouse lines of<br>credit                | —      | —                  | —   | —                                  | —   | —                  | —      | —                |
| Total Core Banking                          | 151    | 5,972              | 22  | 4,230                              | 3   | 3,935              | 176    | 14,137           |
| Republic Processing<br>Group:               |        |                    |     |                                    |     |                    |        |                  |
| Tax Refund Solutions:                       |        |                    |     |                                    |     |                    |        |                  |
| Easy Advances                               | —      | —                  | —   | —                                  | —   | —                  | —      | —                |
| Other TRS loans                             | —      | —                  | —   | —                                  | —   | —                  | —      | —                |
| Republic Credit<br>Solutions                | 13,536 | 937                | —   | —                                  | —   | —                  | 13,536 | 937              |
| Total Republic<br>Processing Group          | 13,536 | 937                | —   | —                                  | —   | —                  | 13,536 | 937              |
| Total                                       | 13,687 | \$ 6,909           | 22  | \$ 4,230                           | 3   | \$ 3,935           | 13,712 | \$ 15,074        |



Table of Contents

Table 10 — Rollforward of Nonperforming Loans

| (in thousands)   | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2018                            | 2017      |
| Nonperforming loans at the beginning of the period   | \$ 15,074                       | \$ 16,059 |
| Loans added to nonperforming status during the period that remained nonperforming at the end of the period                         | 2,602                           | 2,659     |
| Loans removed from nonperforming status during the period that were nonperforming at the beginning of the period (see table below) | (1,569)                         | (1,411)   |
| Principal balance paydowns of loans nonperforming at both period ends  | (302)                           | (347)     |
| Net change in principal balance of other loans nonperforming at both period ends*  | 323                             | 36        |
| Nonperforming loans at the end of the period   | \$ 16,128                       | \$ 16,996 |

\*Includes relatively small consumer portfolios, e.g., RCS loans.

Table 11 — Detail of Loans Removed from Nonperforming Status

| (in thousands)   | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2018                            | 2017       |
| Loans charged-off  | \$ (10)                         | \$ —       |
| Loans transferred to OREO  | (182)                           | (330)      |
| Loans refinanced at other institutions   | (1,144)                         | (1,081)    |
| Loans returned to accrual status   | (233)                           | —          |
| Total loans removed from nonperforming status during the period that were nonperforming at the beginning of the period | \$ (1,569)                      | \$ (1,411) |

Based on the Bank's review at March 31, 2018, management believes that its reserves are adequate to absorb probable losses on all nonperforming loans.

## Delinquent Loans

Total Company delinquent loans to total loans increased to 0.64% at March 31, 2018, from 0.35% at December 31, 2017, due to delinquent EAs as of March 31, 2018. Generally, all remaining unpaid EAs will be charged off in the second quarter of 2018.

Core Bank delinquent loans to total Core Bank loans remained at 0.21% from December 31, 2017 to March 31, 2018. With the exception of small-dollar consumer loans, all Traditional Bank loans past due 90-days-or-more as of March 31, 2018 and December 31, 2017 were on nonaccrual status.

Table of Contents

Table 12 — Delinquent Loan Composition\*

| (in thousands)                  | March 31, 2018 |                                   | December 31, 2017 |                                   |
|---------------------------------|----------------|-----------------------------------|-------------------|-----------------------------------|
|                                 | Balance        | Percent of<br>Total<br>Loan Class | Balance           | Percent of<br>Total<br>Loan Class |
| Traditional Banking:            |                |                                   |                   |                                   |
| Residential real estate:        |                |                                   |                   |                                   |
| Owner occupied                  | \$ 3,495       | 0.38 %                            | \$ 4,782          | 0.52 %                            |
| Owner occupied - correspondent  | 383            | 0.34                              | —                 | —                                 |
| Nonowner occupied               | 744            | 0.34                              | 146               | 0.07                              |
| Commercial real estate          | 2,290          | 0.19                              | 1,727             | 0.14                              |
| Construction & land development | —              | —                                 | 67                | 0.04                              |
| Commercial & industrial         | 139            | 0.04                              | 15                | 0.00                              |
| Lease financing receivables     | —              | —                                 | —                 | —                                 |
| Home equity                     | 847            | 0.25                              | 1,221             | 0.35                              |
| Consumer:                       |                |                                   |                   |                                   |
| Credit cards                    | 67             | 0.40                              | 74                | 0.46                              |
| Overdrafts                      | 177            | 22.38                             | 233               | 23.92                             |
| Automobile loans                | 44             | 0.07                              | 60                | 0.09                              |
| Other consumer                  | 117            | 0.42                              | 135               | 0.66                              |
| Total Traditional Banking       | 8,303          | 0.24                              | 8,460             | 0.25                              |
| Warehouse lines of credit       | —              | —                                 | —                 | —                                 |
| Total Core Banking              | 8,303          | 0.21                              | 8,460             | 0.21                              |
| Republic Processing Group:      |                |                                   |                   |                                   |
| Tax Refund Solutions:           |                |                                   |                   |                                   |
| Easy Advances                   | 13,163         | 84.37                             | —                 | —                                 |
| Other TRS loans                 | —              | —                                 | —                 | —                                 |
| Republic Credit Solutions       | 4,367          | 7.00                              | 5,641             | 8.43                              |
| Total Republic Processing Group | 17,530         | 22.42                             | 5,641             | 7.18                              |
| Total delinquent loans          | \$ 25,833      | 0.64 %                            | \$ 14,101         | 0.35 %                            |

---

\*Represents total loans 30-days-or-more past due. Delinquent status may be determined by either the number of days past due or number of payments past due. Easy Advances do not have a contractual due date but the Company considers an Easy Advance delinquent if it remains unpaid three weeks after the taxpayer customer's tax return is submitted to the applicable tax authority.





Table of Contents

Table 13 — Rollforward of Delinquent Loans

| (in thousands)   | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2018                            | 2017      |
| Delinquent loans at the beginning of the period  | \$ 14,101                       | \$ 8,958  |
| Loans that became delinquent during the period - Easy Advances*  | 13,163                          | 8,350     |
| Loans added to delinquency status during the period and remained in delinquency status at the end of the period                          | 3,775                           | 2,650     |
| Loans removed from delinquency status during the period that were in delinquency status at the beginning of the period (see table below) | (3,804)                         | (3,486)   |
| Principal balance paydowns of loans delinquent at both period ends   | (45)                            | (37)      |
| Net change in principal balance of other loans delinquent at both period ends**  | (1,357)                         | (272)     |
| Delinquent loans at the end of period  | \$ 25,833                       | \$ 16,163 |

\*Easy Advances do not have a contractual due date but the Company considers an Easy Advance delinquent if it remains unpaid three weeks after the taxpayer customer's tax return is submitted to the applicable tax authority

\*\*Includes relatively-small consumer portfolios, e.g., RCS loans.

Table 14 — Detail of Loans Removed From Delinquent Status

| (in thousands)   | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2018                            | 2017       |
| Loans charged-off  | \$ (17)                         | \$ —       |
| Loans transferred to OREO  | (182)                           | (300)      |
| Loans refinanced at other institutions   | (668)                           | (1,344)    |
| Loans paid current   | (2,937)                         | (1,842)    |
| Total loans removed from delinquency status during the period that were in delinquency status at the beginning of the period | \$ (3,804)                      | \$ (3,486) |

## Impaired Loans and Troubled Debt Restructurings

The Bank's policy is to charge-off all or that portion of its recorded investment in a collateral-dependent impaired credit upon a determination that it is probable the full amount of contractual principal and interest will not be collected. Impaired loans totaled \$48 million at March 31, 2018 compared to \$46 million at December 31, 2017, an increase of \$2 million during the first three months of 2018.

A TDR is the 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. The majority of the Bank's TDRs involve a restructuring of loan terms such as a temporary reduction in the payment amount to require only interest and escrow (if required), reducing the loan's interest rate and/or extending the maturity date of the debt. Nonaccrual loans modified as TDRs remain on nonaccrual status and continue to be reported as nonperforming loans. 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. As of March 31, 2018, the Bank had \$35 million in TDRs, of which \$6 million were also on nonaccrual status. As of December 31, 2017, the Bank had \$35 million in TDRs, of which \$6 million were also on nonaccrual status.

Table 15 — Impaired Loan Composition

| (in thousands)                              | March 31, 2018 | December 31, 2017 |
|---|----------------|-------------------|
| Troubled debt restructurings                | \$ 34,745      | \$ 34,637         |
| Impaired loans (which are not TDRs)         | 13,182         | 10,979            |
| Total recorded investment in impaired loans | \$ 47,927      | \$ 45,616         |

See Footnote 4 "Loans and Allowance for Loan and Lease Losses" of Part I Item 1 "Financial Statements" for additional discussion regarding impaired loans and TDRs.

Table of Contents

## Deposits

Table 16 — Deposit Composition

| (in thousands)                               | March 31, 2018 | December 31, 2017 |
|--|----------------|-------------------|
| Core Bank:                                   |                |                   |
| Demand                                       | \$ 952,510     | \$ 944,812        |
| Money market accounts                        | 587,162        | 546,998           |
| Brokered money market accounts               | 366,060        | 373,242           |
| Savings                                      | 191,423        | 182,800           |
| Individual retirement accounts*              | 49,006         | 47,982            |
| Time deposits, \$250 and over*               | 77,234         | 77,891            |
| Other certificates of deposit*               | 202,834        | 189,661           |
| Brokered certificates of deposit*            | 48,626         | 46,089            |
| Total Core Bank interest-bearing deposits    | 2,474,855      | 2,409,475         |
| Total Core Bank noninterest-bearing deposits | 1,065,902      | 988,537           |
| Total Core Bank deposits                     | 3,540,757      | 3,398,012         |
| Republic Processing Group ("RPG"):           |                |                   |
| Money market accounts                        | 1,641          | 1,641             |
| Total RPG interest-bearing deposits          | 1,641          | 1,641             |
| Brokered prepaid card deposits               | 22,022         | 1,509             |
| Other noninterest-bearing deposits           | 153,203        | 31,996            |
| Total RPG noninterest-bearing deposits       | 175,225        | 33,505            |
| Total RPG deposits                           | 176,866        | 35,146            |
| Total deposits                               | \$ 3,717,623   | \$ 3,433,158      |

\* Represents a time deposit.

Total Company deposits increased \$284 million, or 8%, from December 31, 2017 to \$3.7 billion at March 31, 2018. Total Company interest-bearing deposits increased \$65 million, or 3%, while total Company noninterest bearing deposits increased \$219 million, or 21%.

Noninterest bearing deposits at RPG increased \$142 million from December 31, 2017 to \$175 million at March 31, 2018. Short-term RT deposits at TRS, the majority of which will flow out of the Company during the second quarter of 2018, primarily drove the increase.

Several large corporate clients drove the increase in interest-bearing and noninterest-bearing deposits at the Core Bank.

#### Securities Sold Under Agreements to Repurchase and Other Short-term Borrowings

Securities Sold under Agreements to Repurchase (“SSUARs”) are collateralized by securities and 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. All securities underlying the agreements are under the Bank’s control.

SSUARs decreased approximately \$28 million, or 14%, during the first three months of 2018, with \$21 million of this decrease concentrated in one corporate client. The substantial majority of SSUARs are indexed to immediately repricing indices such as the Federal Funds Target Rate.

#### Federal Home Loan Bank Advances

Primarily due to a decrease in its reliance on FHLB overnight advances, the Company’s FHLB advances decreased \$298 million, or 40%, from December 31, 2017 to \$440 million at March 31, 2018. The Bank held \$50 million in overnight advances at a rate of 1.72% as of March 31, 2018, compared to \$330 million in overnight advances at a rate of 1.42% at December 31, 2017.

## Table of Contents

Consistent with prior periods, the Company's usage of FHLB advances declined during the quarter due to excess short-term cash the Company had available from its TRS segment's RT product. Management anticipates its usage of FHLB advances to increase during the second quarter as this short-term cash exits the Company.

Overall use of FHLB advances during a given year is dependent upon many factors including asset growth, deposit growth, current earnings, and expectations of future interest rates, among others. If a meaningful amount of the Bank's loan originations in the future have repricing terms longer than five years, management will likely elect to borrow additional funds to mitigate its risk of future increases in market interest rates. Whether the Bank ultimately does so, and how much in advances it extends out, will be dependent upon circumstances at that time. If the Bank does obtain longer-term FHLB advances for interest rate risk mitigation, it will have a negative impact on then current earnings. The amount of the negative impact will be dependent upon the dollar amount, coupon and final maturity of the advances obtained.

### Interest Rate Swaps

#### Interest Rate Swaps Used as Cash Flow Hedges

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

#### Non-hedge Interest Rate Swaps

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

See Footnote 11 "Interest Rate Swaps" of Part I Item 1 "Financial Statements" for additional discussion regarding the Bank's interest rate swaps.

## Liquidity

The Bank had a loan to deposit ratio (excluding brokered deposits) of 124% at March 31, 2018 and 133% at December 31, 2017. At March 31, 2018 and December 31, 2017, the Company had cash and cash equivalents on-hand of \$362 million and \$299 million. In addition, the Bank had available borrowing capacity of \$641 million and \$347 million from the FHLB at March 31, 2018 and December 31, 2017. In addition to its borrowing capacity with the FHLB, the Bank's liquidity resources included unencumbered securities of \$331 million and \$326 million as of March 31, 2018 and December 31, 2017 and unsecured lines of credit totaling \$125 million available through various other financial institutions as of March 31, 2018 and December 31, 2017.

The Bank maintains sufficient liquidity to fund routine loan demand and routine deposit withdrawal activity. Liquidity is managed by maintaining sufficient liquid assets in the form of investment securities. Funding and cash flows can also be realized by the sale of available-for-sale debt securities, principal paydowns on loans and mortgage backed securities and proceeds realized from loans held for sale. The Bank's liquidity is impacted by its ability to sell certain investment securities, which is limited due to the level of investment securities that are needed to secure public deposits, securities sold under agreements to repurchase, FHLB borrowings, and for other purposes, as required by law. At March 31, 2018 and December 31, 2017, these pledged investment securities had a fair value of \$258 million and \$263 million. Republic's banking centers and its websites, [www.republicbank.com](http://www.republicbank.com) and [www.mymemorybank.com](http://www.mymemorybank.com), provide access to retail deposit markets. These retail deposit products, if offered at attractive rates, have historically been a source of additional funding when needed. If the Bank were to lose a significant funding source, such as a few major depositors, or if any of its lines of credit were canceled, or if the Bank cannot obtain brokered deposits, the Bank would be compelled to offer market leading deposit interest rates to meet its funding and liquidity needs.

At March 31, 2018, the Bank had approximately \$1.0 billion in deposits from 125 large non-sweep deposit relationships, including retail-brokered deposits, where the individual relationship exceeded \$2 million. The 20 largest non-sweep deposit relationships represented approximately \$646 million, or 17%, of the Company's total deposit balances at March 31, 2018. These accounts do not require collateral; therefore, cash from these accounts can generally be utilized to fund the loan portfolio. If any of these balances were

## Table of Contents

moved from the Bank, the Bank would likely utilize overnight borrowing lines in the short-term to replace the balances. On a longer-term basis, the Bank would likely utilize wholesale-brokered deposits to replace withdrawn balances, or alternatively, higher-cost internet-sourced deposits. Based on past experience, utilizing brokered deposits and internet-sourced deposits, the Bank believes it can quickly obtain these types of deposits if needed. The overall cost of gathering these types of deposits, however, could be substantially higher than the Traditional Bank deposits they replace, potentially decreasing the Bank's earnings.

Due to its historical success of growing loans and its overall use of non-core funding sources, the Bank has approached, and periodically during each quarter, has fallen short of its minimum internal policy limits for liquidity management, as set forth by the Bank's Board of Directors. As of March 31, 2018, the Bank was in compliance with all Board-approved liquidity policies, however, the Bank will likely continue to maintain its liquidity levels near the Bank's Board-approved minimums for the foreseeable future. It is also likely the Bank, as it manages its liquidity levels in order to maximize its overall earnings, will continue to fall short of these minimums on occasion in the future, particularly during the first quarter of each year when short-term Easy Advance loans are originated.

## Capital

Total stockholders' equity increased from \$632 million at December 31, 2017 to \$653 million at March 31, 2018. The increase in stockholders' equity was primarily attributable to net income earned during 2018 reduced by cash dividends declared.

See Part II, Item 2. "Unregistered Sales of Equity Securities and Use of Proceeds" for additional detail regarding stock repurchases and stock buyback programs.

**Common Stock** — The Class A Common shares are entitled to cash dividends equal to 110% of the cash dividend paid per share on Class B Common Stock. Class A Common shares have one vote per share and Class B Common shares have ten votes per share. Class B Common shares may be converted, at the option of the holder, to Class A Common shares on a share for share basis. The Class A Common shares are not convertible into any other class of Republic's capital stock.

**Dividend Restrictions** — The Parent Company's principal source of funds for dividend payments are dividends received from RB&T. Banking regulations limit the amount of dividends that may be paid to the Parent Company by the Bank without prior approval of the respective states' banking regulators. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years. At March 31, 2018, RB&T could, without prior approval, declare dividends of approximately \$77 million.

Regulatory Capital Requirements — The Company and the Bank are subject to capital regulations in accordance with Basel III, as administered by banking regulators. Regulatory agencies measure capital adequacy within a framework that makes capital requirements, in part, dependent on the individual risk profiles of financial institutions. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on Republic's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Parent Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off balance sheet items, as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators regarding components, risk weightings and other factors.

Banking regulators have categorized the Bank as well-capitalized. For prompt corrective action, the regulations in accordance with Basel III define "well capitalized" as a 6.5% Common Equity Tier 1 Risk-Based Capital ratio, an 8.0% Tier 1 Risk-Based Capital ratio, a 10.0% Total Risk-Based Capital ratio and a 5.0% Tier 1 Leverage ratio. Additionally, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, the Company and Bank must hold a capital conservation buffer composed of Common Equity Tier 1 Risk-Based Capital above their minimum risk-based capital requirements. The capital conservation buffer began phasing in during 2016 and continues to phase in through 2019 on the following schedule: a capital conservation buffer of 0.625% effective January 1, 2016; 1.25% effective January 1, 2017; 1.875% effective January 1, 2018; and a fully phased in capital conservation buffer of 2.5% on January 1, 2019.

Republic continues to exceed the regulatory requirements for Total Risk Based Capital, Common Equity Tier I Risk Based, Tier I Risk Based Capital and Tier I Leverage Capital. Republic and the Bank intend to maintain a capital position that meets or exceeds the "well-capitalized" requirements as defined by the FRB and the FDIC, in addition to the Capital Conservation Buffer. Republic's average stockholders' equity to average assets ratio was 12.16% at March 31, 2018 compared to 13.02% at December 31, 2017. Formal measurements of the capital ratios for Republic and the Bank are performed by the Company at each quarter end.



Table of Contents

In 2005, Republic Bancorp Capital Trust (“RBCT”), an unconsolidated trust subsidiary of Republic, was formed and issued \$40 million in Trust Preferred Securities (“TPS”). The sole asset of RBCT represents the proceeds of the offering loaned to Republic in exchange for a subordinated note with similar terms to the TPS. The RBCT TPS are treated as part of Republic’s Tier I Capital.

The subordinated note and related interest expense are included in Republic’s consolidated financial statements. The subordinated note paid a fixed interest rate of 6.015% through September 30, 2015 and adjusted to 3-month LIBOR plus 1.42% on a quarterly basis thereafter. The subordinated note matures on December 31, 2035 and is redeemable at the Company’s option on a quarterly basis. The Company chose not to redeem the subordinated note on April 1, 2018, and is currently carrying the note at a cost of LIBOR plus 1.42%.

Table 17 — Capital Ratios

| (dollars in thousands)                               | As of March 31, 2018 |         | As of<br>December 31, 2017 |         |
|--|----------------------|---------|----------------------------|---------|
|  | Actual<br>Amount     | Ratio   | Actual<br>Amount           | Ratio   |
| Total capital to risk-weighted assets                |                      |         |                            |         |
| Republic Bancorp, Inc.                               | \$ 728,323           | 16.46 % | \$ 694,369                 | 16.04 % |
| Republic Bank & Trust Company                        | 624,912              | 14.14   | 591,592                    | 13.69   |
| Common equity tier 1 capital to risk-weighted assets |                      |         |                            |         |
| Republic Bancorp, Inc.                               | \$ 636,298           | 14.38 % | \$ 612,315                 | 14.15 % |
| Republic Bank & Trust Company                        | 572,571              | 12.96   | 548,823                    | 12.70   |
| Tier 1 (core) capital to risk-weighted assets        |                      |         |                            |         |
| Republic Bancorp, Inc.                               | \$ 675,982           | 15.28 % | \$ 651,600                 | 15.06 % |
| Republic Bank & Trust Company                        | 572,571              | 12.96   | 548,823                    | 12.70   |
| Tier 1 leverage capital to average assets            |                      |         |                            |         |
| Republic Bancorp, Inc.                               | \$ 675,982           | 12.85 % | \$ 651,600                 | 13.21 % |
| Republic Bank & Trust Company                        | 572,571              | 10.90   | 548,823                    | 11.15   |

## Table of Contents

### Asset/Liability Management and Market Risk

Asset/liability management is designed to ensure safety and soundness, maintain liquidity, meet regulatory capital standards and achieve acceptable net interest income based on the Bank's risk tolerance. Interest rate risk is the exposure to adverse changes in net interest income as a result of market fluctuations in interest rates. The Bank, on an ongoing basis, monitors interest rate and liquidity risk in order to implement appropriate funding and balance sheet strategies. Management considers interest rate risk to be a significant risk to the Bank's overall earnings and balance sheet.

The interest sensitivity profile of the Bank at any point in time will be impacted by a number of factors. These factors include the mix of interest sensitive assets and liabilities, as well as their relative pricing schedules. It is also influenced by changes in market interest rates, deposit and loan balances and other factors.

The Bank utilizes earnings simulation models as tools to measure interest rate sensitivity, including both a static and dynamic earnings simulation model. A static simulation model is based on current exposures and assumes a constant balance sheet. In contrast, a dynamic simulation model relies on detailed assumptions regarding changes in existing business lines, new business, and changes in management and customer behavior. While the Bank runs the static simulation model as one measure of interest rate risk, historically, the Bank has utilized a dynamic earnings simulation model as its primary interest rate risk tool to measure the potential changes in market interest rates and their subsequent effects on net interest income for a one year time period. This dynamic model projects a "Base" case net interest income over the next 12 months and the effect on net interest income of instantaneous movements in interest rates between various basis point increments equally across all points on the yield curve. Many assumptions based on growth expectations and on the historical behavior of the Bank's deposit and loan rates and their related balances in relation to changes in interest rates are incorporated into this dynamic model. These assumptions are inherently uncertain and, as a result, the dynamic model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to the actual timing, magnitude and frequency of interest rate changes, the actual timing and magnitude of changes in loan and deposit balances, as well as the actual changes in market conditions and the application and timing of various management strategies as compared to those projected in the various simulated models. Additionally, actual results could differ materially from the model if interest rates do not move equally across all points on the yield curve.

As of March 31, 2018, a dynamic simulation model was run for interest rate changes from "Down 100" basis points to "Up 400" basis points. From December 2016 to March 2018, the Federal Open Market Committee raised the FFTR five times in 25-basis-point increments, with further guidance suggesting that increases to the FFTR were more likely than not for 2018.

The following table illustrates the Bank's projected percent change from its Base net interest income over the period beginning April 1, 2018 and ending March 31, 2019 based on instantaneous movements in interest rates from Down

100 to Up 400 basis points equally across all points on the yield curve. The Bank's dynamic earnings simulation model excludes Traditional Bank loan fees.

Table 18 — Bank Interest Rate Sensitivity

|   | Change in Rates |   |              |   |              |   |              |   |              |   |
|---|-----------------|---|--------------|---|--------------|---|--------------|---|--------------|---|
|   | -100            |   | +100         |   | +200         |   | +300         |   | +400         |   |
|   | Basis Points    |   | Basis Points |   | Basis Points |   | Basis Points |   | Basis Points |   |
| % Change from base net interest income at March 31, 2018    | (4.50)          | % | 4.10         | % | 5.40         | % | 6.30         | % | 6.80         | % |
| % Change from base net interest income at December 31, 2017 | (4.60)          | % | 3.80         | % | 4.80         | % | 5.40         | % | 5.40         | % |

The Bank's dynamic simulation model run for March 2018 projected improvement in the Bank's net interest income relative to the Base case for the Up 100 through the Up 400 scenarios, with the improvement in each of these scenarios greater than the projected improvement reflected in the same scenarios for the December 2017 simulation. The improvements from the December 2017 scenarios were generally due to higher balances of noninterest-bearing deposits in the March 2018 simulation. The Bank's dynamic simulation model run for March 2018 and December 2017 projected a decline in the Bank's net interest income relative to the Base case for the Down 100 scenario.

For additional discussion regarding the Bank's net interest income, see the section titled "Net Interest Income" in this section of the filing under "RESULTS OF OPERATIONS (Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017)."

Table of Contents

The Board of Directors of the Bank has established separate and distinct policy limits for acceptable percent changes in the Bank's net interest income based on modeled changes in market interest rates. Historically, if model projections of the percent change in net interest income fall outside Board approved limits at a given point in time or are projected to fall outside such limits based on certain trends, Bank management has either taken certain actions intended to bring model projections back within Board approved limits or discussed with the Board how future anticipated events will likely correct the current situation. These actions have included, but are not limited to, restructuring of interest earning assets and interest bearing liabilities, seeking additional fixed rate term FHLB advances, executing interest rate swaps and modifying the pricing or terms of loans, leases and deposits. These actions have historically had a negative impact on current earnings.

As of March 31, 2018 and December 31, 2017, the Bank was not in compliance with its Board approved policy of -4.0% for a Down 100 scenario for its dynamic simulation. Management continues to monitor and keep the Bank's Board of Directors up to date on this issue. Given the minimal amount that the Bank was out of compliance with the Board's Down 100 policy, the projected likelihood for future rate increases of the FFTR, and the remote likelihood for any future rate decreases of the FFTR, management and the Board currently believes that the Bank should take no specific action to bring its Down 100 scenario back into compliance with the Board's current policy. The Bank maintains a "wait and see" approach and will take appropriate action when management and the Board believe the variance to the Board-approved policy becomes too great in the context of all factors or when they believe the chances for a future rate decrease becomes more likely.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Information required by this item is included under Part I, Item 2., “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Item 4. Controls and Procedures.

As of the end of the period covered by this report, an evaluation was carried out by Republic Bancorp, Inc.’s management, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

In the ordinary course of operations, Republic and the Bank are defendants in various legal proceedings. There is no proceeding pending or threatened litigation, to the knowledge of management, in which an adverse decision could result in a material adverse change in the business or consolidated financial position of Republic or the Bank.

Table of Contents

## Item 2.Unregistered Sales of Equity Securities and Use of Proceeds.

Details of Republic's Class A Common Stock purchases during the first quarter of 2018 are included in the following table:

| Period                   | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs |
|--------------------------|----------------------------------|------------------------------|--|---|
| January 1 - January 31   | —                                | \$ —                         | —  |   |
| February 1 - February 28 | —                                | —                            | —  |   |
| March 1 - March 31       | —                                | —                            | —  |   |
| Total                    | —                                | \$ —                         | —  | 223,696   |

The Company did not repurchase any shares during the first quarter of 2018. Additionally, there were no shares exchanged for stock option exercises during the first quarter of 2018. During 2011, the Company's Board of Directors amended its existing share repurchase program by approving the repurchase of 300,000 additional shares from time to time, as market conditions are deemed attractive to the Company. The repurchase program will remain effective until the total number of shares authorized is repurchased or until Republic's Board of Directors terminates the program. As of March 31, 2018, the Company had 223,696 shares that could be repurchased under its current share repurchase programs.

During the first quarter of 2018, there were no shares of Class A Common Stock issued upon conversion of shares of Class B Common Stock by stockholders of Republic in accordance with the share-for-share conversion provision option of the Class B Common Stock. The exemption from registration of newly issued Class A Common Stock relies upon Section (3)(a)(9) of the Securities Act of 1933.

There were no equity securities of the registrant sold without registration during the quarter covered by this report.

Table of Contents

Item 6.Exhibits.

The following exhibits are filed or furnished as a part of this report:

| Exhibit Number | Description of Exhibit  |
|----------------|---|
| 31.1           | <u>Certification of Principal Executive Officer pursuant to the Sarbanes-Oxley Act of 2002</u>  |
| 31.2           | <u>Certification of Principal Financial Officer pursuant to the Sarbanes-Oxley Act of 2002</u>  |
| 32*            | <u>Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>  |
| 101            | Interactive data files: (i) Consolidated Balance Sheets at March 31, 2018 and December 31, 2017, (ii) Consolidated Statements of Income and Comprehensive Income for the Three Months Ended March 31, 2018 and 2017, (iii) Consolidated Statement of Stockholders' Equity for the Three Months Ended March 31, 2018, (iv) Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2018 and 2017 and (v) Notes to Consolidated Financial Statements |

---

\* This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REPUBLIC BANCORP, INC.  
(Registrant)

Principal Executive Officer:

May 16, 2018 /s/ Steven E. Trager  
By: Steven E. Trager  
Chairman and Chief Executive Officer

Principal Financial Officer:

May 16, 2018 /s/ Kevin Sipes  
By: Kevin Sipes  
Executive Vice President, Chief Financial  
Officer and Chief Accounting Officer