

REPUBLIC BANCORP INC /KY/

Form 10-Q

November 07, 2014

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

or

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

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky

(State of other jurisdiction of incorporation or organization)

61-0862051

(I.R.S. Employer Identification No.)

601 West Market Street, Louisville, Kentucky

(Address of principal executive offices)

40202

(Zip Code)

(502) 584-3600

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

The number of shares outstanding of the registrant's Class A Common Stock and Class B Common Stock, as of October 31, 2014, was 18,571,000 and 2,245,000, respectively.

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| | September 30, 2014 | December 31, 2013 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 69,682 | \$ 170,863 |
| Securities available for sale | 452,974 | 432,893 |
| Securities held to maturity (fair value of \$47,541 in 2014 and \$50,768 in 2013) | 47,247 | 50,644 |
| Mortgage loans held for sale, at fair value | 5,890 | 3,506 |
| Loans | 2,908,535 | 2,589,792 |
| Allowance for loan losses | (23,617) | (23,026) |
| Loans, net | 2,884,918 | 2,566,766 |
| Federal Home Loan Bank stock, at cost | 28,208 | 28,342 |
| Premises and equipment, net | 32,395 | 32,908 |
| Goodwill | 10,168 | 10,168 |
| Other real estate owned | 11,937 | 17,102 |
| Bank owned life insurance | 51,037 | 25,086 |
| Other assets and accrued interest receivable | 31,163 | 33,626 |
| TOTAL ASSETS | \$ 3,625,619 | \$ 3,371,904 |
| LIABILITIES | | |
| Deposits: | | |
| Non interest-bearing | \$ 534,662 | \$ 488,642 |
| Interest-bearing | 1,525,174 | 1,502,215 |
| Total deposits | 2,059,836 | 1,990,857 |
| Securities sold under agreements to repurchase and other short-term borrowings | 275,874 | 165,555 |
| Federal Home Loan Bank advances | 662,000 | 605,000 |
| Subordinated note | 41,240 | 41,240 |
| Other liabilities and accrued interest payable | 29,301 | 26,459 |
| Total liabilities | 3,068,251 | 2,829,111 |
| Commitments and contingent liabilities (Footnote 9) | | |
| STOCKHOLDERS EQUITY | | |
| Preferred stock, no par value | | |
| Class A Common Stock and Class B Common Stock, no par value | 4,897 | 4,894 |
| Additional paid in capital | 134,109 | 133,012 |
| Retained earnings | 413,501 | 401,766 |
| Accumulated other comprehensive income | 4,861 | 3,121 |

| | | |
|--|---------------------|---------------------|
| Total stockholders equity | 557,368 | 542,793 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 3,625,619 | \$ 3,371,904 |

See accompanying footnotes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)***(in thousands, except per share data)*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------------|------------------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| INTEREST INCOME: | | | | |
| Loans, including fees | \$ 30,916 | \$ 31,619 | \$ 91,188 | \$ 95,268 |
| Taxable investment securities | 1,896 | 1,984 | 5,663 | 6,000 |
| Federal Home Loan Bank stock and other | 332 | 406 | 1,195 | 1,261 |
| Total interest income | 33,144 | 34,009 | 98,046 | 102,529 |
| INTEREST EXPENSE: | | | | |
| Deposits | 930 | 1,043 | 2,845 | 3,073 |
| Securities sold under agreements to repurchase and other short-term borrowings | 28 | 11 | 72 | 53 |
| Federal Home Loan Bank advances | 3,116 | 3,788 | 9,947 | 11,081 |
| Subordinated note | 628 | 628 | 1,886 | 1,886 |
| Total interest expense | 4,702 | 5,470 | 14,750 | 16,093 |
| NET INTEREST INCOME | 28,442 | 28,539 | 83,296 | 86,436 |
| Provision for loan losses | 1,510 | 2,200 | 1,500 | 2,480 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 26,932 | 26,339 | 81,796 | 83,956 |
| NON-INTEREST INCOME: | | | | |
| Service charges on deposit accounts | 3,568 | 3,676 | 10,426 | 10,384 |
| Net refund transfer fees | (133) | 152 | 16,091 | 13,849 |
| Mortgage banking income | 876 | 1,026 | 2,174 | 6,480 |
| Debit card interchange fee income | 1,551 | 1,519 | 5,224 | 4,986 |
| Bargain purchase gain - First Commercial Bank | | | | 1,324 |
| Net gain on sale of other real estate owned | 67 | 403 | 733 | 1,714 |
| Increase in cash surrender value of bank owned life insurance | 381 | | 951 | |
| Other | 834 | 723 | 2,388 | 1,961 |
| Total non-interest income | 7,144 | 7,499 | 37,987 | 40,698 |
| NON-INTEREST EXPENSES: | | | | |
| Salaries and employee benefits | 12,164 | 12,226 | 40,612 | 43,426 |
| Occupancy and equipment, net | 5,544 | 5,462 | 16,874 | 16,354 |
| Communication and transportation | 905 | 990 | 2,787 | 3,011 |
| Marketing and development | 1,020 | 745 | 2,466 | 2,418 |
| FDIC insurance expense | 424 | 419 | 1,407 | 1,234 |
| Bank franchise tax expense | 731 | 707 | 3,901 | 3,279 |
| Data processing | 868 | 934 | 2,622 | 2,442 |
| Debit card interchange expense | 744 | 655 | 2,505 | 2,216 |
| Supplies | 205 | 228 | 705 | 800 |
| Other real estate owned expense | 950 | 497 | 2,580 | 2,331 |
| Legal expense | 367 | 1,343 | 867 | 3,111 |
| Other | 1,900 | 2,079 | 6,026 | 6,555 |
| Total non-interest expenses | 25,822 | 26,285 | 83,352 | 87,177 |
| INCOME BEFORE INCOME TAX EXPENSE | 8,254 | 7,553 | 36,431 | 37,477 |
| INCOME TAX EXPENSE | 3,008 | 2,950 | 12,879 | 13,399 |
| NET INCOME | \$ 5,246 | \$ 4,603 | \$ 23,552 | \$ 24,078 |

BASIC EARNINGS PER COMMON SHARE:

| | | | | | | | | |
|----------------------|----|------|----|------|----|------|----|------|
| Class A Common Stock | \$ | 0.25 | \$ | 0.22 | \$ | 1.14 | \$ | 1.16 |
| Class B Common Stock | \$ | 0.24 | \$ | 0.21 | \$ | 1.09 | \$ | 1.12 |

DILUTED EARNINGS PER COMMON SHARE:

| | | | | | | | | |
|----------------------|----|------|----|------|----|------|----|------|
| Class A Common Stock | \$ | 0.25 | \$ | 0.22 | \$ | 1.13 | \$ | 1.16 |
| Class B Common Stock | \$ | 0.24 | \$ | 0.21 | \$ | 1.08 | \$ | 1.11 |

DIVIDENDS DECLARED PER COMMON SHARE:

| | | | | | | | | |
|----------------------|----|-------|----|-------|----|-------|----|-------|
| Class A Common Stock | \$ | 0.187 | \$ | 0.176 | \$ | 0.550 | \$ | 0.517 |
| Class B Common Stock | \$ | 0.170 | \$ | 0.160 | \$ | 0.500 | \$ | 0.470 |

See accompanying footnotes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)***(in thousands)*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------------|------------------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net income | \$ 5,246 | \$ 4,603 | \$ 23,552 | \$ 24,078 |
| OTHER COMPREHENSIVE INCOME (LOSS): | | | | |
| Change in fair value of derivatives used for cash flow hedges | 28 | | (676) | |
| Reclassification amount for derivative losses realized in income | 104 | | 303 | |
| Unrealized gain (loss) on securities available for sale | (10) | (198) | 2,618 | (3,163) |
| Change in unrealized gain on securities available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings | 65 | (4) | 434 | 418 |
| Net unrealized gains (losses) | 187 | (202) | 2,679 | (2,745) |
| Tax effect | (66) | 71 | (939) | 962 |
| Total other comprehensive income (loss), net of tax | 121 | (131) | 1,740 | (1,783) |
| COMPREHENSIVE INCOME | \$ 5,367 | \$ 4,472 | \$ 25,292 | \$ 22,295 |

See accompanying footnotes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (UNAUDITED)****NINE MONTHS ENDED SEPTEMBER 30, 2014**

| (in thousands, except per share data) | Class A Shares Outstanding | Common Stock Class B Shares Outstanding | Amount | Additional Paid In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total Stockholders Equity |
|---|----------------------------------|--|----------|----------------------------------|----------------------|---|---------------------------------|
| Balance, January 1, 2014 | 18,541 | 2,260 | \$ 4,894 | \$ 133,012 | \$ 401,766 | \$ 3,121 | \$ 542,793 |
| Net income | | | | | 23,552 | | 23,552 |
| Net change in accumulated other comprehensive income | | | | | | 1,740 | 1,740 |
| Dividend declared Common Stock: | | | | | | | |
| Class A shares (\$0.550 per share) | | | | | (10,201) | | (10,201) |
| Class B shares (\$0.500 per share) | | | | | (1,126) | | (1,126) |
| Stock options exercised, net of shares redeemed | 26 | | 6 | 681 | (244) | | 443 |
| Repurchase of Class A Common Stock | (15) | | (3) | (95) | (249) | | (347) |
| Conversion of Class B Common Stock to Class A Common Stock | 15 | (15) | | | | | |
| Net change in notes receivable on Class A Common Stock | | | | | | | |
| Deferred director compensation expense - Class A Common Stock | 2 | | | 145 | | | 145 |
| Stock based compensation - restricted stock | (2) | | | 328 | 3 | | 331 |
| Stock based compensation expense - options | | | | 38 | | | 38 |
| Balance, September 30, 2014 | 18,567 | 2,245 | \$ 4,897 | \$ 134,109 | \$ 413,501 | \$ 4,861 | \$ 557,368 |

See accompanying footnotes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (in thousands)

| | 2014 | 2013 |
|--|-----------|-----------|
| OPERATING ACTIVITIES: | | |
| Net income | \$ 23,552 | \$ 24,078 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of premises and equipment | 4,753 | 3,846 |
| Amortization (accretion) on investment securities, net | 446 | 328 |
| Amortization (accretion) on loans, net | (5,618) | (7,880) |
| Amortization of mortgage servicing rights | 996 | 1,811 |
| Amortization of core deposit intangible asset | | 221 |
| Provision for loan losses | 1,500 | 2,480 |
| Net gain on sale of mortgage loans held for sale | (1,894) | (6,340) |
| Origination of mortgage loans held for sale | (54,046) | (263,411) |
| Proceeds from sale of mortgage loans held for sale | 53,556 | 270,562 |
| Net realized recovery of mortgage servicing rights | | (345) |
| Net gain on sale of other real estate owned | (733) | (1,714) |
| Writedowns of other real estate owned | 2,042 | 1,074 |
| Deferred director compensation expense - Company Stock | 145 | 152 |
| Stock based compensation expense | 366 | 401 |
| Bargain purchase gain on acquisition | | (1,324) |
| Increase in cash surrender value of bank owned life insurance | (951) | |
| Net change in other assets and liabilities: | | |
| Accrued interest receivable | (283) | 1,115 |
| Accrued interest payable | (310) | 32 |
| Other assets | 1,750 | 4,137 |
| Other liabilities | 1,500 | (7,447) |
| Net cash provided by operating activities | 26,771 | 21,776 |
| INVESTING ACTIVITIES: | | |
| Purchases of securities available for sale | (119,427) | (175,275) |
| Purchases of securities to be held to maturity | | (15,000) |
| Proceeds from calls, maturities and paydowns of securities available for sale | 102,111 | 129,041 |
| Proceeds from calls, maturities and paydowns of securities to be held to maturity | 3,342 | 8,900 |
| Proceeds from sales of Federal Home Loan Bank stock | 134 | 35 |
| Proceeds from sales of other real estate owned | 8,991 | 19,642 |
| Net change in outstanding warehouse lines of credit | (123,008) | 93,766 |
| Purchase of loans, including premiums paid | (144,669) | |
| Net change in other loans | (51,492) | 1,718 |
| Purchase of bank owned life insurance | (25,000) | |
| Net purchases of premises and equipment | (4,240) | (3,275) |
| Net cash provided by (used in) investing activities | (353,258) | 59,552 |
| FINANCING ACTIVITIES: | | |
| Net change in deposits | 68,979 | 36,857 |
| Net change in securities sold under agreements to repurchase and other short-term borrowings | 110,319 | (144,511) |
| Payments of Federal Home Loan Bank advances | (108,000) | (25,580) |
| Proceeds from Federal Home Loan Bank advances | 165,000 | 70,000 |
| Repurchase of Common Stock | (347) | (4,095) |
| Net proceeds from Common Stock options exercised | 443 | 295 |
| Cash dividends paid | (11,088) | (10,400) |

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| | | |
|---|------------------|-------------------|
| Net cash provided by (used in) financing activities | 225,306 | (77,434) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (101,181) | 3,894 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 170,863 | 137,691 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 69,682 | \$ 141,585 |

(continued)

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (in thousands)

| | 2014 | 2013 |
|---|-----------|-----------|
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Interest | \$ 15,060 | \$ 16,061 |
| Income taxes | 13,703 | 26,674 |
| SUPPLEMENTAL NONCASH DISCLOSURES: | | |
| Transfers from loans to real estate acquired in settlement of loans | \$ 6,466 | \$ 8,690 |
| Loans provided for sales of other real estate owned | 1,331 | 644 |
| Change in fair value of derivatives used for cash flow hedges | (676) | |
| Change in fair value of available for sale securities | 3,052 | (2,745) |

See accompanying footnotes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2014 AND 2013 (UNAUDITED) AND DECEMBER 31, 2013

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). RB&T is a Kentucky-based, state chartered non-member financial institution. The Captive, which was formed during the third quarter of 2014, is a wholly-owned insurance subsidiary of the Company that provides property and casualty insurance coverage to the Company and the Bank. The Captive provides reinsurance to five other third party insurance captives for which insurance may not be currently available or economically feasible in today s insurance marketplace. Republic Bancorp Capital Trust (RBCT) is a Delaware statutory business trust that is a wholly-owned unconsolidated finance subsidiary of Republic Bancorp, Inc. All companies are collectively referred to as Republic or the Company. All significant intercompany balances and transactions are eliminated in consolidation.

During the second quarter of 2014, Republic Bank, the Company s wholly-owned, federally chartered savings institution, was legally merged into RB&T. The merged institution operates under the name Republic Bank & Trust Company. The merger did not materially impact the Company s consolidated financial statements.

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 GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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, 2013.

As of September 30, 2014, the Company was divided into three distinct business operating segments: Traditional Banking, Mortgage Banking and Republic Processing Group (RPG). Tax Refund Solutions (TRS), Republic Payment Solutions (RPS) and Republic Credit Solutions (RCS) operate as divisions of the RPG segment. The TRS division comprises the substantial majority of revenues and expenses of RPG. The RPS and RCS divisions are considered immaterial for separate and independent segment reporting.

Traditional Banking and Mortgage Banking (collectively Core Banking)

As of September 30, 2014, in addition to an Internet delivery channel, Republic had 42 full-service banking centers with locations as follows:

- Kentucky 33

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- Metropolitan Louisville 20
- Central Kentucky 8
- Elizabethtown 1
- Frankfort 1
- Georgetown 1
- Lexington 4
- Shelbyville 1
- Western Kentucky 2
- Owensboro 2
- Northern Kentucky 3
- Covington 1
- Florence 1
- Independence 1
- Southern Indiana 3
- Floyds Knobs 1
- Jeffersonville 1
- New Albany 1
- Metropolitan Tampa, Florida 3
- Metropolitan Cincinnati, Ohio 1
- Metropolitan Nashville, Tennessee 2

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

Core Banking results of operations are primarily dependent upon net interest income, which represents the difference between the interest income and fees on interest-earning assets and the interest expense on interest-bearing liabilities. Principal interest-earning Core 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. FHLB advances have traditionally been a significant borrowing source for the Bank.

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

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

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

The Core Bank began acquiring single family, first lien mortgage loans for investment through its Correspondent Lending division in May 2014. Correspondent Lending generally involves the Bank acquiring, primarily from its Mortgage Warehouse clients, closed loans that meet the Bank's specifications. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium. Premiums on loans held for investment acquired through the Correspondent Lending division are amortized into interest income on the level-yield method over the expected life of the loan. Loans acquired through the Correspondent Lending division generally reflect borrowers outside of the Bank's historical market footprint. As of September 30, 2014, a substantial majority of loans originated through the Company's Correspondent Lending division were secured by single family residences located in the state of California.

Republic Processing Group

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

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

The RPS division is an issuing bank offering general purpose reloadable prepaid debit cards through third party program managers.

The RCS division is piloting short-term consumer credit products.

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Recently Issued Accounting Standards Updates (ASU)

ASU 2014-14 Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure.

The amendments in this ASU require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if: a) the loan has a government guarantee that is not separable from the loan before foreclosure; b) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and c) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. The separate other receivable recognized upon foreclosure should be measured based on the amount of the loan balance (principal and interest) expected to be received from the guarantor. The amendments in this ASU are effective for the Company beginning January 1, 2015 and are not expected to have a material impact on the Company's financial statements.

Reclassifications and recasts Certain amounts presented in prior periods have been reclassified to conform to the current period presentation. These reclassifications had no impact on prior years' net income.

Table of Contents**2. INVESTMENT SECURITIES****Securities Available for Sale**

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

| | Gross Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------------------------|---------------------------------------|--|-----------------------|
| September 30, 2014 (in thousands) | | | | |
| U.S. Treasury securities and U.S. Government agencies | \$ 149,709 | \$ 257 | \$ (75) | \$ 149,891 |
| Private label mortgage backed security | 4,158 | 1,179 | | 5,337 |
| Mortgage backed securities - residential | 125,058 | 5,363 | (156) | 130,265 |
| Collateralized mortgage obligations | 150,355 | 1,167 | (844) | 150,678 |
| Freddie Mac preferred stock | | 669 | | 669 |
| Mutual fund | 1,000 | 10 | | 1,010 |
| Corporate bonds | 15,012 | 112 | | 15,124 |
| Total securities available for sale | \$ 445,292 | \$ 8,757 | \$ (1,075) | \$ 452,974 |
| December 31, 2013 (in thousands) | | | | |
| U.S. Treasury securities and U.S. Government agencies | \$ 97,157 | \$ 409 | \$ (101) | \$ 97,465 |
| Private label mortgage backed security | 4,740 | 745 | | 5,485 |
| Mortgage backed securities - residential | 146,087 | 4,288 | (288) | 150,087 |
| Collateralized mortgage obligations | 164,264 | 1,228 | (1,546) | 163,946 |
| Mutual fund | 1,000 | | (5) | 995 |
| Corporate bonds | 15,015 | 50 | (150) | 14,915 |
| Total securities available for sale | \$ 428,263 | \$ 6,720 | \$ (2,090) | \$ 432,893 |

Securities Held to Maturity

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

| | Carrying Value | Gross Unrecognized Gains | Gross Unrecognized Losses | Fair Value |
|---|---------------------------|---|--|-----------------------|
| September 30, 2014 (in thousands) | | | | |
| U.S. Treasury securities and U.S. Government agencies | \$ 2,257 | \$ 7 | \$ (8) | \$ 2,256 |
| Mortgage backed securities - residential | 409 | 49 | | 458 |
| Collateralized mortgage obligations | 39,581 | 379 | (24) | 39,936 |
| Corporate bonds | 5,000 | | (109) | 4,891 |

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| | | | | | | | | |
|-----------------------------------|----|--------|----|-----|----|-------|----|--------|
| Total securities held to maturity | \$ | 47,247 | \$ | 435 | \$ | (141) | \$ | 47,541 |
|-----------------------------------|----|--------|----|-----|----|-------|----|--------|

| December 31, 2013 (in thousands) | Carrying Value | Gross Unrecognized Gains | Gross Unrecognized Losses | Fair Value |
|---|----------------|--------------------------|---------------------------|------------|
| U.S. Treasury securities and U.S. Government agencies | \$ 2,311 | \$ 7 | \$ (13) | \$ 2,305 |
| Mortgage backed securities - residential | 420 | 43 | | 463 |
| Collateralized mortgage obligations | 42,913 | 387 | (184) | 43,116 |
| Corporate bonds | 5,000 | | (116) | 4,884 |
| Total securities held to maturity | \$ 50,644 | \$ 437 | \$ (313) | \$ 50,768 |

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At September 30, 2014 and December 31, 2013, there were no holdings of 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 Securities Available for Sale

During the three and nine months ended September 30, 2014 and 2013, there were no sales or calls of securities available for sale or applicable income tax provisions for such transactions.

Investment Securities by Contractual Maturity

The amortized cost and fair value of the investment securities portfolio by contractual maturity at September 30, 2014 follows. Expected maturities may differ from contractual maturities if securities issuers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are detailed separately.

| September 30, 2014 (in thousands) | Securities available for sale | | Securities held to maturity | |
|--|----------------------------------|---------------|--------------------------------|---------------|
| | Amortized Cost | Fair Value | Carrying Value | Fair Value |
| Due in one year or less | \$ 23,543 | \$ 23,676 | \$ 496 | \$ 496 |
| Due from one year to five years | 131,178 | 131,283 | 1,761 | 1,760 |
| Due from five years to ten years | 10,000 | 10,056 | 5,000 | 4,891 |
| Due beyond ten years | | | | |
| Private label mortgage backed security | 4,158 | 5,337 | | |
| Mortgage backed securities - residential | 125,058 | 130,265 | 409 | 458 |
| Collateralized mortgage obligations | 150,355 | 150,678 | 39,581 | 39,936 |
| Freddie Mac preferred stock | | 669 | | |
| Mutual fund | 1,000 | 1,010 | | |
| Total securities | \$ 445,292 | \$ 452,974 | \$ 47,247 | \$ 47,541 |

Freddie Mac Preferred Stock

During 2008, the U.S. Treasury, the Federal Reserve Board, and the Federal Housing Finance Agency (FHFA) announced that the FHFA was placing Freddie Mac under conservatorship and giving management control to the FHFA. The Bank contemporaneously determined that its 40,000 shares of Freddie Mac preferred stock were fully impaired and recorded an Other Than Temporary Impairment (OTTI) charge of \$2.1 million for the shares. The OTTI charge brought the carrying value of the stock to \$0. During the second quarter of 2014, based on active trading volume of Freddie Mac preferred stock, the Company determined it appropriate to record an unrealized gain to other comprehensive income (OCI) related to its Freddie Mac preferred stock holdings. Based on the stock's market closing price as of September 30, 2014, the Company's unrealized gain for its Freddie Mac preferred stock totaled \$669,000. In October 2014, the unrealized gain in the Company's Freddie Mac preferred stock fell to approximately \$300,000 following a legal decision unfavorable to private investors in such stock.

Corporate Bonds

During 2013, the Bank purchased \$20 million in floating rate corporate bonds with an initial weighted average yield of 1.36%. The bonds, which have a weighted average life of seven years, 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 4% of the Bank's investment portfolio as of both September 30, 2014 and December 31, 2013.

Mortgage Backed Securities

At September 30, 2014, with the exception of the \$5.3 million private label mortgage backed security, all other mortgage backed securities held by the Bank were issued by U.S. government-sponsored entities and agencies, primarily Freddie Mac and the Federal National Mortgage Association (Fannie Mae or FNMA), institutions that the government has affirmed its commitment to support. At September 30, 2014 and December 31, 2013, there were gross unrealized/unrecognized losses of \$1.0 million and \$1.8 million related to available for sale mortgage backed securities. Because the decline in fair value of

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these mortgage backed securities is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these mortgage backed 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 be other-than-temporarily impaired.

Market Loss Analysis

Securities with unrealized losses at September 30, 2014 and December 31, 2013, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

| September 30, 2014 (in thousands) | Less than 12 months | | 12 months or more | | Total | |
|---|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Securities available for sale: | | | | | | |
| U.S. Treasury securities and U.S. Government agencies | \$ 57,722 | \$ (75) | \$ | \$ | \$ 57,722 | \$ (75) |
| Mortgage backed securities - residential | 7,795 | (156) | | | 7,795 | (156) |
| Collateralized mortgage obligations | 54,539 | (660) | 6,837 | (184) | 61,376 | (844) |
| Total securities available for sale | \$ 120,056 | \$ (891) | \$ 6,837 | \$ (184) | \$ 126,893 | \$ (1,075) |
| | | | | | | |
| December 31, 2013 (in thousands) | Less than 12 months | | 12 months or more | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Securities held to maturity: | | | | | | |
| U.S. Treasury securities and U.S. Government agencies | \$ 519 | \$ (8) | \$ | \$ | \$ 519 | \$ (8) |
| Collateralized mortgage obligations | 9,205 | (24) | | | 9,205 | (24) |
| Corporate bonds | 4,891 | (109) | | | 4,891 | (109) |
| Total securities held to maturity | \$ 14,615 | \$ (141) | \$ | \$ | \$ 14,615 | \$ (141) |
| | | | | | | |
| September 30, 2014 (in thousands) | Less than 12 months | | 12 months or more | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Securities available for sale: | | | | | | |
| U.S. Treasury securities and U.S. Government agencies | \$ 44,041 | \$ (101) | \$ | \$ | \$ 44,041 | \$ (101) |
| Mortgage backed securities - residential | 19,494 | (288) | | | 19,494 | (288) |
| Collateralized mortgage obligations | 55,927 | (1,546) | | | 55,927 | (1,546) |
| Mutual fund | 995 | (5) | | | 995 | (5) |
| Corporate bonds | 9,850 | (150) | | | 9,850 | (150) |
| Total securities available for sale | \$ 130,307 | \$ (2,090) | \$ | \$ | \$ 130,307 | \$ (2,090) |
| | | | | | | |
| December 31, 2013 (in thousands) | Less than 12 months | | 12 months or more | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Securities held to maturity: | | | | | | |

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| | | | | | | | | | |
|-------------------------------------|----|--------|----|-------|----|----|--------|----|-------|
| U.S. Treasury securities and U.S. | | | | | | | | | |
| Government agencies | \$ | 521 | \$ | (13) | \$ | \$ | 521 | \$ | (13) |
| Collateralized mortgage obligations | | 18,686 | | (184) | | | 18,686 | | (184) |
| Corporate bonds | | 4,884 | | (116) | | | 4,884 | | (116) |
| Total securities held to maturity | \$ | 24,091 | \$ | (313) | \$ | \$ | 24,091 | \$ | (313) |

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At September 30, 2014, the Bank's security portfolio consisted of 161 securities, 23 of which were in an unrealized loss position. At December 31, 2013, the Bank's security portfolio consisted of 162 securities, 27 of which were in an unrealized loss position.

Other-than-temporary Impairment

Unrealized losses for all investment securities are reviewed to determine whether the losses are other-than-temporary. Investment 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 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 change 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 \$5.3 million at September 30, 2014. This security, with an average remaining life currently estimated at three years, 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

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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 6 Fair Value in this section of the filing.

Pledged Investment Securities

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

| (in thousands) | September 30, 2014 | December 31, 2013 |
|-----------------|--------------------|-------------------|
| Carrying amount | \$ 328,463 | \$ 224,693 |
| Fair value | 328,763 | 224,989 |

Table of Contents**3. LOANS AND ALLOWANCE FOR LOAN LOSSES**

The Bank's financing receivables consist primarily of loans and a minimal amount of lease financing receivables (together referred to as loans). Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, inclusive of purchase premiums or discounts, deferred loan fees and costs and the allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method.

Lease financing receivables, all of which are direct financing leases, are reported at their principal balance outstanding net of any unearned income, deferred fees and costs and applicable allowance for losses. Leasing income is recognized on a basis that achieves a constant periodic rate of return on the outstanding lease financing balances over the lease terms.

The composition of loans follows:

| (in thousands) | September 30, 2014 | December 31, 2013 |
|---|---------------------|---------------------|
| Residential real estate: | | |
| Owner occupied | \$ 1,127,595 | \$ 1,097,795 |
| Owner occupied - correspondent* | 139,252 | |
| Non owner occupied | 98,365 | 110,809 |
| Commercial real estate | 771,765 | 773,173 |
| Commercial real estate - purchased whole loans* | 34,714 | 34,186 |
| Construction & land development | 44,462 | 44,351 |
| Commercial & industrial | 149,943 | 127,763 |
| Lease financing receivables | 819 | |
| Warehouse lines of credit | 272,584 | 149,576 |
| Home equity | 241,189 | 226,782 |
| Consumer: | | |
| RPG loans | 3,460 | 1,827 |
| Credit cards | 9,230 | 9,030 |
| Overdrafts | 966 | 944 |
| Purchased whole loans* | 4,664 | |
| Other consumer | 9,527 | 13,556 |
| Total loans** | 2,908,535 | 2,589,792 |
| Allowance for loan losses | (23,617) | (23,026) |
| Total loans, net | \$ 2,884,918 | \$ 2,566,766 |

* - Identifies loans outside of the Bank's historical market footprint.

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

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The table below reconciles the contractually receivable and carrying amounts of loans at September 30, 2014 and December 31, 2013:

| (in thousands) | September 30, 2014 | | December 31, 2013 | |
|---|--------------------|-----------|-------------------|-----------|
| Contractually receivable | \$ | 2,922,238 | \$ | 2,614,632 |
| Unearned income | | (95) | | |
| Unamortized premiums(1) | | 3,032 | | 260 |
| Unaccreted discounts(2) | | (18,089) | | (26,624) |
| Net unamortized deferred origination fees and costs | | 1,449 | | 1,524 |
| Carrying value of loans | \$ | 2,908,535 | \$ | 2,589,792 |

(1) - Premiums predominately relate to loans acquired through the Bank's Correspondent Lending division.

(2) - Discounts predominately relate to loans acquired in the Bank's 2012 FDIC-assisted transactions.

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In May 2014, the Bank began acquiring single family, first lien mortgage loans for investment within its loan portfolio through its Correspondent Lending division. Correspondent Lending generally involves the Bank acquiring, primarily from its Mortgage Warehouse clients, closed loans that meet the Bank's specifications. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium. Premiums on loans held for investment acquired through the Correspondent Lending division are amortized into interest income on a level-yield method over the expected life of the loan. Loans acquired through the Correspondent Lending division generally reflect borrowers outside of the Bank's historical market footprint, with a substantial majority of loans originated through the division as of September 30, 2014, secured by single residences located in the state of California.

In addition to secured mortgage loans acquired through its Correspondent Lending division, the Bank also began acquiring unsecured consumer installment loans for investment from a third-party originator in April 2014. Such consumer loans are purchased at par and are selected by the Bank based on certain underwriting characteristics.

The table below reflects the purchased activity of single family, first lien mortgage loans and unsecured consumer loans, by class, during the three and nine months ended September 30, 2014. No purchases of these type loans were made during 2013.

| (in thousands) | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2014 |
|--------------------------------|---|--|
| Residential real estate: | | |
| Owner occupied - correspondent | \$ 128,374 | \$ 139,632 |
| Consumer: | | |
| Purchased whole loans | 2,524 | 5,037 |
| Total purchased loans | \$ 130,898 | \$ 144,669 |

Table of Contents**Purchased Credit Impaired (PCI) Loans**

The contractual amount of PCI loans acquired during the Bank's 2012 FDIC-assisted transactions and accounted for under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, decreased from \$58 million as of December 31, 2013 to \$36 million as of September 30, 2014. The carrying value of these loans was \$41 million as of December 31, 2013 compared to \$25 million as of September 30, 2014.

The table below reconciles the contractually required and carrying amounts of PCI loans at September 30, 2014 and December 31, 2013:

| (in thousands) | September 30, 2014 | | December 31, 2013 | |
|----------------------------------|--------------------|---------|-------------------|----------|
| Contractually-required principal | \$ | 35,760 | \$ | 57,992 |
| Non-accretable amount | | (8,610) | | (13,582) |
| Accretable amount | | (2,418) | | (3,457) |
| Carrying value of loans | \$ | 24,732 | \$ | 40,953 |

The following table presents a rollforward of the accretable amount on PCI loans for the three and nine months ended September 30, 2014 and 2013:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2014 | 2013 | 2014 | 2013 |
| Balance, beginning of period | \$ (2,487) | \$ (1,381) | \$ (3,457) | \$ (3,231) |
| Transfers between non-accretable and accretable | (609) | (3,725) | (2,949) | (5,421) |
| Net accretion into interest income on loans, including loan fees | 678 | 1,916 | 3,988 | 5,179 |
| Other changes | | | | 283 |
| Balance, end of period | \$ (2,418) | \$ (3,190) | \$ (2,418) | \$ (3,190) |

Table of ContentsCredit Quality Indicators

Based on the Bank's internal analyses performed as of September 30, 2014 and December 31, 2013, the following tables reflect loans by risk category, as such categories are defined in the Company's Annual Report on Form 10-K for the year ended December 31, 2013:

| September 30, 2014 (in thousands) | Pass | Special Mention * | Substandard * | Doubtful / Loss | Purchased Credit Impaired Loans - Group 1 | Purchased Credit Impaired Loans - Substandard | Total Rated Loans** |
|---|---------------------|----------------------|------------------|--------------------|---|---|---------------------------|
| Residential real estate: | | | | | | | |
| Owner occupied | \$ | \$ 27,485 | \$ 12,845 | \$ | \$ 1,612 | \$ | \$ 41,942 |
| Owner occupied - correspondent | | | | | | | |
| Non owner occupied | | 1,173 | 2,329 | | 3,988 | | 7,490 |
| Commercial real estate | 729,403 | 9,549 | 15,794 | | 16,978 | 41 | 771,765 |
| Commercial real estate - purchased whole loans | | | | | | | |
| | 34,714 | | | | | | 34,714 |
| Construction & land development | | | | | | | |
| | 41,248 | 122 | 2,462 | | 630 | | 44,462 |
| Commercial & industrial | 146,183 | 493 | 1,803 | | 1,253 | 211 | 149,943 |
| Lease financing receivables | 819 | | | | | | 819 |
| Warehouse lines of credit | 272,584 | | | | | | 272,584 |
| Home equity | | | 2,230 | | | | 2,230 |
| Consumer: | | | | | | | |
| RPG loans | | | | | | | |
| Credit cards | | | | | | | |
| Overdrafts | | | | | | | |
| Purchased whole loans | | | | | | | |
| Other consumer | | 14 | 48 | | 19 | | 81 |
| Total | \$ 1,224,951 | \$ 38,836 | \$ 37,511 | \$ | \$ 24,480 | \$ 252 | \$ 1,326,030 |

* - At September 30, 2014, Special Mention and Substandard loans included \$1 million and \$5 million, respectively, which were removed from PCI accounting in accordance with ASC 310-30-35-13 due to a post-acquisition troubled debt restructuring.

** - The above table excludes all non-classified residential real estate and consumer loans at the respective period ends. The table also excludes most non-classified small commercial & industrial and commercial real estate relationships totaling \$100,000 or less. These loans are not rated by the Company since they are accruing interest and are not past due 80-days-or-more.

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| December 31, 2013 (in thousands) | Pass | Special Mention * | Substandard * | Doubtful / Loss | Purchased Credit Impaired Loans - Group 1 | Purchased Credit Impaired Loans - Substandard | Total Rated Loans** |
|---|---------------------|----------------------|------------------|--------------------|---|---|---------------------------|
| Residential real estate: | | | | | | | |
| Owner occupied | \$ | \$ 27,431 | \$ 10,994 | \$ | \$ 2,810 | \$ | \$ 41,235 |
| Owner occupied - correspondent | | | | | | | |
| Non owner occupied | | 919 | 1,292 | | 7,936 | | 10,147 |
| Commercial real estate | 709,610 | 11,125 | 25,296 | | 27,142 | | 773,173 |
| Commercial real estate - Purchased whole loans | 34,186 | | | | | | 34,186 |
| Construction & land development | 40,591 | 128 | 2,386 | | 1,246 | | 44,351 |
| Commercial & industrial | 123,646 | 296 | 2,035 | | 1,564 | 222 | 127,763 |
| Lease financing receivables | | | | | | | |
| Warehouse lines of credit | 149,576 | | | | | | 149,576 |
| Home equity | | 250 | 2,014 | | | | 2,264 |
| Consumer: | | | | | | | |
| RPG loans | | | | | | | |
| Credit cards | | | | | | | |
| Overdrafts | | | | | | | |
| Purchased whole loans | | | | | | | |
| Other consumer | | 18 | 66 | | 33 | | 117 |
| Total | \$ 1,057,609 | \$ 40,167 | \$ 44,083 | \$ | \$ 40,731 | \$ 222 | \$ 1,182,812 |

* - At December 31, 2013, Special Mention and Substandard loans included \$1 million and \$6 million, respectively, which were removed from PCI accounting in accordance with ASC 310-30-35-13 due to a post-acquisition troubled debt restructuring.

** - The above table excludes all non-classified residential real estate and consumer loans at the respective period ends. The table also excludes most non-classified small commercial & industrial and commercial real estate relationships totaling \$100,000 or less. These loans are not rated by the Company since they are accruing interest and are not past due 80-days-or-more.

Table of Contents**Allowance for Loan Losses**

Activity in the allowance for loan losses (Allowance) follows:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| Allowance, beginning of period | \$ 22,772 | \$ 22,491 | \$ 23,026 | \$ 23,729 |
| Charge offs - Traditional Banking | (1,071) | (1,627) | (2,698) | (4,744) |
| Charge offs - RPG | (2) | | (2) | |
| Total charge offs | (1,073) | (1,627) | (2,700) | (4,744) |
| Recoveries - Traditional Banking | 376 | 371 | 1,233 | 1,231 |
| Recoveries - RPG | 32 | 57 | 558 | 796 |
| Total recoveries | 408 | 428 | 1,791 | 2,027 |
| Net (charge offs) recoveries - Traditional Banking | (695) | (1,256) | (1,465) | (3,513) |
| Net (charge offs) recoveries - RPG | 30 | 57 | 556 | 796 |
| Net (charge offs) recoveries | (665) | (1,199) | (909) | (2,717) |
| Provision for losses - Traditional Banking | 1,542 | 2,257 | 2,012 | 3,276 |
| Provision for losses - RPG | (32) | (57) | (512) | (796) |
| Total provision for losses | 1,510 | 2,200 | 1,500 | 2,480 |
| Allowance, end of period | \$ 23,617 | \$ 23,492 | \$ 23,617 | \$ 23,492 |

The Allowance calculation includes the following qualitative factors, which are considered in combination with the Bank's historical loss rates in determining the general loss reserve within the Allowance:

- Changes in nature, volume and seasoning of the portfolio;
- Changes in experience, ability and depth of lending management and other relevant staff;
- Changes in the quality of the Bank's credit review system;
- Changes in policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Changes in the volume and severity of past due, non-accrual and classified loans;
- Changes in the value of underlying collateral for collateral-dependent loans;

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- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectibility of portfolios, including the condition of various market segments;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution's existing portfolio.

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The following tables present the activity in the Allowance by portfolio class for the three months ended September 30, 2014 and 2013:

| Three Months Ended September 30, 2014 (in thousands) | Residential Real Estate | | | Commercial Real Estate | Commercial Real Estate - | | Commercial & Industrial | Lease Financing Receivables |
|---|-------------------------|-----------------------------------|-----------------------|---------------------------|-----------------------------|------------------------------------|----------------------------|-----------------------------------|
| | Owner Occupied | Owner Occupied - Correspondent | Non Owner Occupied | | Purchased Whole Loans | Construction & Land Development | | |
| Beginning balance | \$ 8,055 | \$ 60 | \$ 839 | \$ 7,696 | \$ 34 | \$ 1,090 | \$ 1,152 | \$ 3 |
| Provision for losses | (148) | 706 | 50 | 547 | | (4) | (81) | 5 |
| Charge offs | (161) | | (135) | (365) | | | | |
| Recoveries | 26 | | 17 | 9 | | | 37 | |
| Ending balance | \$ 7,772 | \$ 766 | \$ 771 | \$ 7,887 | \$ 34 | \$ 1,086 | \$ 1,108 | \$ 8 |

(continued)

| | Warehouse | Home Equity | RPG Loans | Credit Cards | Consumer | | Other Consumer | Total |
|----------------------|--------------------|----------------|--------------|-----------------|------------|--------------------------|-------------------|-----------|
| | Lines of Credit | | | | Overdrafts | Purchased Whole Loans | | |
| Beginning balance | \$ 610 | \$ 2,403 | \$ 46 | \$ 286 | \$ 280 | \$ | \$ 218 | \$ 22,772 |
| Provision for losses | 71 | 283 | (32) | 19 | 17 | 189 | (112) | 1,510 |
| Charge offs | | (146) | (2) | (23) | (136) | | (105) | (1,073) |
| Recoveries | | 88 | 32 | 10 | 91 | | 98 | 408 |
| Ending balance | \$ 681 | \$ 2,628 | \$ 44 | \$ 292 | \$ 252 | \$ 189 | \$ 99 | \$ 23,617 |

| Three Months Ended September 30, 2013 (in thousands) | Residential Real Estate | | | Commercial Real Estate | Commercial Real Estate - | | Commercial & Industrial | Lease Financing Receivables |
|---|-------------------------|-----------------------------------|-----------------------|---------------------------|-----------------------------|------------------------------------|----------------------------|-----------------------------------|
| | Owner Occupied | Owner Occupied - Correspondent | Non Owner Occupied | | Purchased Whole Loans | Construction & Land Development | | |
| Beginning balance | \$ 7,563 | \$ | \$ 642 | \$ 8,763 | \$ 34 | \$ 1,587 | \$ 710 | \$ |
| Provision for losses | 1,198 | | 157 | 686 | | 16 | 232 | |
| Charge offs | (578) | | (67) | (307) | | (16) | (102) | |
| Recoveries | 20 | | 59 | 38 | | 7 | 19 | |
| Ending balance | \$ 8,203 | \$ | \$ 791 | \$ 9,180 | \$ 34 | \$ 1,594 | \$ 859 | \$ |

(continued)

| | Warehouse | Home Equity | RPG Loans | Credit Cards | Consumer | | Other Consumer | Total |
|----------------------|--------------------|----------------|--------------|-----------------|------------|--------------------------|-------------------|-----------|
| | Lines of Credit | | | | Overdrafts | Purchased Whole Loans | | |
| Beginning balance | \$ 462 | \$ 1,932 | \$ | \$ 344 | \$ 249 | \$ | \$ 205 | \$ 22,491 |
| Provision for losses | (143) | 104 | (57) | (18) | 26 | | (1) | 2,200 |
| Charge offs | | (218) | | (60) | (169) | | (110) | (1,627) |
| Recoveries | | 55 | 57 | 4 | 95 | | 74 | 428 |
| Ending balance | \$ 319 | \$ 1,873 | \$ | \$ 270 | \$ 201 | \$ | \$ 168 | \$ 23,492 |

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The following tables present the activity in the Allowance by portfolio class for the nine months ended September 30, 2014 and 2013:

| Nine Months Ended September 30, 2014 (in thousands) | Residential Real Estate | | | Commercial Real Estate | Commercial Real Estate - | | Commercial & Industrial | Lease Financing Receivables |
|--|-------------------------|------------------------|-------------------------------------|---------------------------|-----------------------------|------------------------------------|----------------------------|-----------------------------------|
| | Owner Occupied | Owner Correspondent | Occupied - Non Owner Occupied | | Purchased Whole Loans | Construction & Land Development | | |
| Beginning balance | \$ 7,816 | \$ | \$ 1,023 | \$ 8,309 | \$ 34 | \$ 1,296 | \$ 1,089 | \$ |
| Provision for losses | 430 | 766 | (121) | 163 | | (277) | (68) | 8 |
| Charge offs | (580) | | (157) | (739) | | (18) | (20) | |
| Recoveries | 106 | | 26 | 154 | | 85 | 107 | |
| Ending balance | \$ 7,772 | \$ 766 | \$ 771 | \$ 7,887 | \$ 34 | \$ 1,086 | \$ 1,108 | \$ 8 |

(continued)

| | Warehouse | Home Equity | RPG Loans | Credit Cards | Consumer | | Other Consumer | Total |
|----------------------|--------------------|----------------|--------------|-----------------|------------|--------------------------|-------------------|-----------|
| | Lines of Credit | | | | Overdrafts | Purchased Whole Loans | | |
| Beginning balance | \$ 449 | \$ 2,396 | \$ | \$ 289 | \$ 199 | \$ | \$ 126 | \$ 23,026 |
| Provision for losses | 232 | 518 | (512) | 41 | 177 | 189 | (46) | 1,500 |
| Charge offs | | (429) | (2) | (65) | (429) | | (261) | (2,700) |
| Recoveries | | 143 | 558 | 27 | 305 | | 280 | 1,791 |
| Ending balance | \$ 681 | \$ 2,628 | \$ 44 | \$ 292 | \$ 252 | \$ 189 | \$ 99 | \$ 23,617 |

| Nine Months Ended September 30, 2013 (in thousands) | Residential Real Estate | | | Commercial Real Estate | Commercial Real Estate - | | Commercial & Industrial | Lease Financing Receivables |
|--|-------------------------|------------------------|-------------------------------------|---------------------------|-----------------------------|------------------------------------|----------------------------|-----------------------------------|
| | Owner Occupied | Owner Correspondent | Occupied - Non Owner Occupied | | Purchased Whole Loans | Construction & Land Development | | |
| Beginning balance | \$ 7,006 | \$ | \$ 1,049 | \$ 8,843 | \$ 34 | \$ 2,769 | \$ 580 | \$ |
| Provision for losses | 2,269 | | (106) | 1,192 | | (604) | 618 | |
| Charge offs | (1,291) | | (225) | (972) | | (616) | (412) | |
| Recoveries | 219 | | 73 | 117 | | 45 | 73 | |
| Ending balance | \$ 8,203 | \$ | \$ 791 | \$ 9,180 | \$ 34 | \$ 1,594 | \$ 859 | \$ |

(continued)

| | Warehouse | Home Equity | RPG Loans | Credit Cards | Consumer | | Other Consumer | Total |
|----------------------|--------------------|----------------|--------------|-----------------|------------|--------------------------|-------------------|-----------|
| | Lines of Credit | | | | Overdrafts | Purchased Whole Loans | | |
| Beginning balance | \$ 541 | \$ 2,348 | \$ | \$ 210 | \$ 198 | \$ | \$ 151 | \$ 23,729 |
| Provision for losses | (222) | (248) | (796) | 166 | 153 | | 58 | 2,480 |
| Charge offs | | (354) | | (120) | (474) | | (280) | (4,744) |
| Recoveries | | 127 | 796 | 14 | 324 | | 239 | 2,027 |
| Ending balance | \$ 319 | \$ 1,873 | \$ | \$ 270 | \$ 201 | \$ | \$ 168 | \$ 23,492 |

Table of Contents**Non-performing Loans and Other Assets**

Detail of non-performing loans and other assets follows:

| (dollars in thousands) | September 30, 2014 | | December 31, 2013 | |
|--|--------------------|--------|-------------------|--------|
| Loans on non-accrual status(1) | \$ | 21,447 | \$ | 19,104 |
| Loans past due 90-days-or-more and still on accrual(2) | | | | 1,974 |
| Total non-performing loans | | 21,447 | | 21,078 |
| Other real estate owned | | 11,937 | | 17,102 |
| Total non-performing assets | \$ | 33,384 | \$ | 38,180 |

Credit Quality Ratios

| | | |
|---|-------|-------|
| Non-performing loans to total loans | 0.74% | 0.81% |
| Non-performing assets to total loans (including OREO) | 1.14% | 1.46% |
| Non-performing assets to total assets | 0.92% | 1.13% |

(1) Loans on non-accrual status include impaired loans, which are discussed subsequently in Footnote 3 in this section of the filing.

(2) All loans past due 90-days-or-more and still accruing were PCI loans accounted for under ASC 310-30.

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

| (in thousands) | Non-Accrual | | Past Due 90-Days-or-More and Still Accruing Interest* | |
|---|--------------------|-------------------|--|-------------------|
| | September 30, 2014 | December 31, 2013 | September 30, 2014 | December 31, 2013 |
| Residential real estate: | | | | |
| Owner occupied | \$ 9,457 | \$ 8,538 | \$ | 673 |
| Owner occupied - correspondent | | | | |
| Non owner occupied | 1,632 | 1,279 | | |
| Commercial real estate | 6,739 | 7,643 | | |
| Commercial real estate - purchased whole loans | | | | |
| Construction & land development | 1,990 | 97 | | 70 |
| Commercial & industrial | | 327 | | 1,231 |
| Lease financing receivables | | | | |
| Warehouse lines of credit | | | | |
| Home equity | 1,545 | 1,128 | | |
| Consumer: | | | | |
| RPG loans | | | | |
| Credit cards | | | | |
| Overdrafts | | | | |

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| | | | | | |
|-----------------------|----|--------|----|--------|----------|
| Purchased whole loans | | | | | |
| Other consumer | | 84 | | 92 | |
| Total | \$ | 21,447 | \$ | 19,104 | \$ 1,974 |

* - For all periods presented, loans past due 90-days-or-more and still on accrual consist entirely of PCI loans.

Non-accrual loans and loans past due 90-days-or-more and still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Non-accrual 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 (TDR s) on non-accrual status are reviewed for return to accrual status on an individual basis, with additional consideration given to performance under the modified terms.

Table of ContentsDelinquent Loans

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

| September 30, 2014 (dollars in thousands) | 30 - 59 Days Delinquent | 60 - 89 Days Delinquent | 90 or More Days Delinquent* | Total Delinquent | Total Not Delinquent | Total |
|---|-------------------------------|-------------------------------|-----------------------------------|---------------------|-------------------------|---------------------|
| Residential real estate: | | | | | | |
| Owner occupied | \$ 1,440 | \$ 1,474 | \$ 2,983 | \$ 5,897 | \$ 1,121,698 | \$ 1,127,595 |
| Owner occupied - correspondent | | | | | 139,252 | 139,252 |
| Non owner occupied | 87 | 464 | 133 | 684 | 97,681 | 98,365 |
| Commercial real estate | | | 2,433 | 2,433 | 769,332 | 771,765 |
| Commercial real estate - purchased whole loans | | | | | 34,714 | 34,714 |
| Construction & land development | | | 1,990 | 1,990 | 42,472 | 44,462 |
| Commercial & industrial | | | | | 149,943 | 149,943 |
| Lease financing receivables | | | | | 819 | 819 |
| Warehouse lines of credit | | | | | 272,584 | 272,584 |
| Home equity | 194 | 149 | 420 | 763 | 240,426 | 241,189 |
| Consumer: | | | | | | |
| RPG loans | 105 | 24 | | 129 | 3,331 | 3,460 |
| Credit cards | 45 | 13 | 3 | 61 | 9,169 | 9,230 |
| Overdrafts | 150 | 1 | | 151 | 815 | 966 |
| Purchased whole loans | | | | | 4,664 | 4,664 |
| Other consumer | 106 | 12 | | 118 | 9,409 | 9,527 |
| Total | \$ 2,127 | \$ 2,137 | \$ 7,962 | \$ 12,226 | \$ 2,896,309 | \$ 2,908,535 |
| Delinquency ratio** | 0.07% | 0.07% | 0.27% | 0.42% | | |

| December 31, 2013 (dollars in thousands) | 30 - 59 Days Delinquent | 60 - 89 Days Delinquent | 90 or More Days Delinquent* | Total Delinquent | Total Not Delinquent | Total |
|---|-------------------------------|-------------------------------|-----------------------------------|---------------------|-------------------------|--------------|
| Residential real estate: | | | | | | |
| Owner occupied | \$ 1,956 | \$ 733 | \$ 3,668 | \$ 6,357 | \$ 1,091,438 | \$ 1,097,795 |
| Owner occupied - correspondent | | | | | | |
| Non owner occupied | 195 | 967 | 131 | 1,293 | 109,516 | 110,809 |
| Commercial real estate | 874 | 384 | 3,940 | 5,198 | 767,975 | 773,173 |
| Commercial real estate - purchased whole loans | | | | | 34,186 | 34,186 |
| Construction & land development | 332 | | 167 | 499 | 43,852 | 44,351 |
| Commercial & industrial | | | 1,415 | 1,415 | 126,348 | 127,763 |
| Lease financing receivables | | | | | | |
| Warehouse lines of credit | | | | | 149,576 | 149,576 |
| Home equity | 665 | 48 | 397 | 1,110 | 225,672 | 226,782 |
| Consumer: | | | | | | |
| RPG loans | | | | | 1,827 | 1,827 |
| Credit cards | 87 | 6 | 5 | 98 | 8,932 | 9,030 |
| Overdrafts | 159 | | | 159 | 785 | 944 |

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| | | | | | |
|-----------------------|----------|----------|----------|-----------|--------------|
| Purchased whole loans | | | | | |
| Other consumer | 67 | 27 | 94 | 13,462 | 13,556 |
| Total | \$ 4,335 | \$ 2,165 | \$ 9,723 | \$ 16,223 | \$ 2,573,569 |
| Delinquency ratio** | 0.17% | 0.08% | 0.38% | 0.63% | |

* - Except for PCI loans, all loans 90-days-or-more past due as of September 30, 2014 and December 31, 2013 were on non-accrual status.

** - Delinquency ratio equals total delinquent loans by delinquency class divided by total loans.

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Impaired Loans

The Bank defines impaired loans as follows:

- All loans internally rated as Substandard, Doubtful or Loss;
- All loans internally rated in a PCI category with cash flows that have deteriorated from management's initial estimate;
- All loans on non-accrual status and non-PCI loans past due 90 days-or-more still on accrual;
- All retail and commercial TDRs; 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.

See the section titled "Credit Quality Indicators" in this section of the filing for additional discussion regarding the Bank's loan classification structure.

Information regarding the Bank's impaired loans follows:

| (in thousands) | September 30, 2014 | December 31, 2013 |
|-----------------------------------|--------------------|-------------------|
| Loans with no allocated Allowance | \$ 32,748 | \$ 36,721 |
| Loans with allocated Allowance | 57,565 | 71,273 |
| Total impaired loans | \$ 90,313 | \$ 107,994 |
| Amount of the Allowance allocated | \$ 5,651 | \$ 6,674 |

Approximately \$14 million and \$24 million of impaired loans at September 30, 2014 and December 31, 2013 were PCI loans. Approximately \$5 million and \$6 million of impaired loans at September 30, 2014 and December 31, 2013 were formerly PCI loans which became classified as impaired through a troubled debt restructuring.

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The following tables present the balance in the Allowance and the recorded investment in loans by portfolio class based on impairment method as of September 30, 2014 and December 31, 2013:

| September 30, 2014 (in thousands) | Residential Real Estate | | | Commercial Real Estate | Commercial Real Estate - Purchased | | Construction & Development | Commercial & Industrial | Lease Financing Receivables |
|--|-------------------------|----------------|---------------------|------------------------|------------------------------------|-----------------|----------------------------|-------------------------|-----------------------------|
| | Owner Occupied | Owner Occupied | -Non Owner Occupied | | Whole Loans | and Development | | | |
| Allowance: | | | | | | | | | |
| Ending Allowance balance: | | | | | | | | | |
| Individually evaluated for impairment, excluding PCI loans | \$ 3,298 | \$ | \$ 113 | \$ 788 | \$ | \$ 190 | \$ | \$ | |
| Collectively evaluated for impairment | 4,436 | 766 | 595 | 6,574 | 34 | 896 | 813 | 8 | |
| PCI loans with post acquisition impairment | 38 | | 63 | 525 | | | 295 | | |
| PCI loans without post acquisition impairment | | | | | | | | | |
| Total ending Allowance: | \$ 7,772 | \$ 766 | \$ 771 | \$ 7,887 | \$ 34 | \$ 1,086 | \$ 1,108 | \$ 8 | |
| Loans: | | | | | | | | | |
| Impaired loans individually evaluated, excluding PCI loans | | | | | | | | | |
| Loans collectively evaluated for impairment | 1,085,709 | 139,252 | 91,239 | 730,376 | 34,714 | 41,176 | 144,595 | 819 | |
| PCI loans with post acquisition impairment | 897 | | 3,162 | 8,265 | | | 1,365 | | |
| PCI loans without post acquisition impairment | 715 | | 826 | 8,754 | | 630 | 99 | | |
| | \$ 1,127,595 | \$ 139,252 | \$ 98,365 | \$ 771,765 | \$ 34,714 | \$ 44,462 | \$ 149,943 | \$ 819 | |

(continued)

| | Warehouse Lines of Credit | Home Equity | RPG Loans | Credit Cards | Consumer | | | Total |
|--|---------------------------|-------------|-----------|--------------|------------|-----------------------|----------------|-----------|
| | | | | | Overdrafts | Purchased Whole Loans | Other Consumer | |
| Allowance: | | | | | | | | |
| Ending Allowance balance: | | | | | | | | |
| Individually evaluated for impairment, excluding PCI loans | \$ | \$ 291 | \$ | \$ | \$ | \$ | \$ 49 | \$ 4,729 |
| Collectively evaluated for impairment | 681 | 2,337 | 44 | 292 | 252 | 189 | 49 | 17,966 |
| PCI loans with post acquisition impairment | | | | | | | 1 | 922 |
| PCI loans without post acquisition impairment | | | | | | | | |
| Total ending Allowance: | \$ 681 | \$ 2,628 | \$ 44 | \$ 292 | \$ 252 | \$ 189 | \$ 99 | \$ 23,617 |
| Loans: | | | | | | | | |
| Impaired loans individually evaluated, excluding PCI loans | | | | | | | | |
| Loans collectively evaluated for impairment | 272,584 | 238,959 | 3,460 | 9,230 | 966 | 4,664 | 9,446 | 2,807,189 |
| PCI loans with post acquisition impairment | | | | | | | 10 | 13,699 |
| | | | | | | | 9 | 11,033 |

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PCI loans without post acquisition
impairment

| | | | | | | | | | | | | | | | | |
|---------------------------|----|---------|----|---------|----|-------|----|-------|----|-----|----|-------|----|-------|----|-----------|
| Total ending loan balance | \$ | 272,584 | \$ | 241,189 | \$ | 3,460 | \$ | 9,230 | \$ | 966 | \$ | 4,664 | \$ | 9,527 | \$ | 2,908,535 |
|---------------------------|----|---------|----|---------|----|-------|----|-------|----|-----|----|-------|----|-------|----|-----------|

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| December 31, 2013 (in thousands) | Residential Real Estate | | | Commercial Real Estate | Commercial Real Estate - Purchased | | Construction & Development | Commercial & Industrial | Lease Financing Receivables |
|--|-------------------------|----------------|--------------------|------------------------|------------------------------------|-----------|----------------------------|-------------------------|-----------------------------|
| | Owner Occupied | Owner Occupied | Non-Owner Occupied | | Whole Loans | and | | | |
| Allowance: | | | | | | | | | |
| Ending Allowance balance: | | | | | | | | | |
| Individually evaluated for impairment, excluding PCI loans | \$ 3,606 | \$ | \$ 61 | \$ 1,232 | \$ | \$ 146 | \$ | \$ 111 | \$ |
| Collectively evaluated for impairment | 4,159 | | 672 | 6,474 | 34 | 1,140 | | 661 | |
| PCI loans with post acquisition impairment | 51 | | 290 | 603 | | 10 | | 317 | |
| PCI loans without post acquisition impairment | | | | | | | | | |
| Total ending Allowance: | \$ 7,816 | \$ | \$ 1,023 | \$ 8,309 | \$ 34 | \$ 1,296 | \$ | \$ 1,089 | \$ |
| Loans: | | | | | | | | | |
| Impaired loans individually evaluated, excluding PCI loans | \$ 39,211 | \$ | \$ 2,061 | \$ 33,519 | \$ | \$ 2,494 | \$ | \$ 4,521 | \$ |
| Loans collectively evaluated for impairment | 1,055,774 | | 100,812 | 712,512 | 34,186 | 40,611 | | 121,456 | |
| PCI loans with post acquisition impairment | 1,455 | | 5,984 | 14,512 | | 267 | | 1,609 | |
| PCI loans without post acquisition impairment | 1,355 | | 1,952 | 12,630 | | 979 | | 177 | |
| Total ending loan balance | \$ 1,097,795 | \$ | \$ 110,809 | \$ 773,173 | \$ 34,186 | \$ 44,351 | \$ | \$ 127,763 | \$ |

(continued)

| | Warehouse Lines of Credit | Home Equity | RPG Loans | Credit Cards | Consumer | | | Total |
|--|---------------------------|-------------|-----------|--------------|------------|-----------------------|----------------|--------------|
| | | | | | Overdrafts | Purchased Whole Loans | Other Consumer | |
| Allowance: | | | | | | | | |
| Ending Allowance balance: | | | | | | | | |
| Individually evaluated for impairment, excluding PCI loans | \$ | \$ 203 | \$ | \$ | \$ | \$ | \$ 43 | \$ 5,402 |
| Collectively evaluated for impairment | 449 | 2,193 | 2 | 289 | 199 | | 80 | 16,352 |
| PCI loans with post acquisition impairment | | | | | | | 1 | 1,272 |
| PCI loans without post acquisition impairment | | | | | | | | |
| Total ending Allowance: | \$ 449 | \$ 2,396 | \$ 2 | \$ 289 | \$ 199 | \$ | \$ 124 | \$ 23,026 |
| Loans: | | | | | | | | |
| Impaired loans individually evaluated, excluding PCI loans | \$ | \$ 2,264 | \$ | \$ | \$ | \$ | \$ 85 | \$ 84,155 |
| Loans collectively evaluated for impairment | 149,576 | 224,518 | 1,827 | 9,030 | 944 | | 13,438 | 2,464,684 |
| PCI loans with post acquisition impairment | | | | | | | 12 | 23,839 |
| PCI loans without post acquisition impairment | | | | | | | 21 | 17,114 |
| Total ending loan balance | \$ 149,576 | \$ 226,782 | \$ 1,827 | \$ 9,030 | \$ 944 | \$ | \$ 13,556 | \$ 2,589,792 |

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The following tables present loans individually evaluated for impairment by class as of September 30, 2014 and December 31, 2013 and for the three and nine months ended September 30, 2014 and 2013. The difference between the Unpaid Principal Balance and Recorded Investment columns represents life-to-date partial write downs/charge offs taken on individual impaired credits.

| (in thousands) | As of September 30, 2014 | | | Three Months Ended September 30, 2014 | | | Nine Months Ended September 30, 2014 | | |
|---|--------------------------------|------------------------|------------------------|--|----------------------------------|--|---|----------------------------------|--|
| | Unpaid Principal Balance | Recorded Investment | Allowance Allocated | Average Recorded Investment | Interest Income Recognized | Cash Basis Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Cash Basis Interest Income Recognized |
| Impaired loans with no related allowance recorded: | | | | | | | | | |
| Residential real estate: | | | | | | | | | |
| Owner occupied | \$ 6,961 | \$ 6,577 | \$ | \$ 6,717 | \$ 66 | \$ | \$ 6,838 | \$ 190 | \$ |
| Owner occupied - correspondent | | | | | | | | | |
| Non owner occupied | 2,023 | 1,870 | | 1,731 | 11 | | 1,518 | 36 | |
| Commercial real estate | 17,767 | 16,516 | | 15,682 | 95 | | 17,985 | 434 | |
| Commercial real estate - purchased whole loans | | | | | | | | | |
| Construction & land development | | | | | | | | | |
| Commercial & industrial | 2,164 | 2,164 | | 2,123 | 3 | | 2,103 | 6 | |
| Commercial & industrial | 3,884 | 3,884 | | 4,019 | 31 | | 4,126 | 181 | |
| Lease financing receivables | | | | | | | | | |
| Warehouse lines of credit | | | | | | | | | |
| Home equity | 1,888 | 1,737 | | 1,802 | 11 | | 1,780 | 27 | |
| Consumer: | | | | | | | | | |
| RPG loans | | | | | | | | | |
| Credit cards | | | | | | | | | |
| Overdrafts | | | | | | | | | |
| Purchased whole loans | | | | | | | | | |
| Other consumer | | | | | | | 5 | | |
| Impaired loans with an allowance recorded: | | | | | | | | | |
| Residential real estate: | | | | | | | | | |
| Owner occupied | 35,090 | 34,594 | 3,336 | 34,919 | 246 | | 34,697 | 737 | |
| Owner occupied - correspondent | | | | | | | | | |
| Non owner occupied | 4,430 | 4,430 | 176 | 4,811 | 51 | | 5,700 | 149 | |
| Commercial real estate | 16,158 | 16,119 | 1,313 | 17,479 | 186 | | 20,338 | 499 | |
| Commercial real estate - purchased whole loans | | | | | | | | | |
| Construction & land development | | | | | | | | | |
| Commercial & industrial | 492 | 492 | 190 | 498 | 6 | | 546 | 17 | |
| Commercial & industrial | 1,365 | 1,365 | 295 | 1,374 | 18 | | 1,579 | 78 | |
| Lease financing receivables | | | | | | | | | |
| Warehouse lines of credit | | | | | | | | | |
| Home equity | 548 | 493 | 291 | 436 | | | 588 | | |
| Consumer: | | | | | | | | | |
| RPG loans | | | | | | | | | |
| Credit cards | | | | | | | | | |
| Overdrafts | | | | | | | | | |
| Purchased whole loans | | | | | | | | | |
| Other consumer | 72 | 72 | 50 | 69 | 1 | | 77 | 1 | |
| Total impaired loans | \$ 92,842 | \$ 90,313 | \$ 5,651 | \$ 91,660 | \$ 725 | \$ | \$ 97,880 | \$ 2,355 | \$ |

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| (in thousands) | As of December 31, 2013 | | | Three Months Ended September 30, 2013 | | | Nine Months Ended September 30, 2013 | | |
|---|--------------------------------|------------------------|------------------------|--|----------------------------------|--|---|----------------------------------|--|
| | Unpaid Principal Balance | Recorded Investment | Allowance Allocated | Average Recorded Investment | Interest Income Recognized | Cash Basis Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Cash Basis Interest Income Recognized |
| Impaired loans with no related allowance recorded: | | | | | | | | | |
| Residential real estate: | | | | | | | | | |
| Owner occupied | \$ 7,136 | \$ 6,569 | \$ | \$ 6,088 | \$ 35 | \$ | \$ 9,876 | \$ 89 | \$ |
| Owner occupied - correspondent | | | | | | | | | |
| Non owner occupied | 1,498 | 1,256 | | 1,269 | | | 1,411 | 18 | |
| Commercial real estate | 21,886 | 20,953 | | 18,566 | 451 | | 18,382 | 809 | |
| Commercial real estate - purchased whole loans | | | | | | | | | |
| Construction & land development | 2,087 | 2,087 | | 1,930 | 73 | | 2,126 | 127 | |
| Commercial & industrial | 4,367 | 4,258 | | 3,460 | 204 | | 3,770 | 413 | |
| Lease financing receivables | | | | | | | | | |
| Warehouse lines of credit | | | | | | | | | |
| Home equity | 1,695 | 1,577 | | 1,724 | 34 | | 1,867 | 64 | |
| Consumer: | | | | | | | | | |
| RPG loans | | | | | | | | | |
| Credit cards | | | | | | | | | |
| Overdrafts | | | | | | | | | |
| Purchased whole loans | | | | | | | | | |
| Other consumer | 18 | 18 | | 37 | | | 221 | | |
| Impaired loans with an allowance recorded: | | | | | | | | | |
| Residential real estate: | | | | | | | | | |
| Owner occupied | 34,393 | 34,097 | 3,657 | 36,008 | 315 | | 33,841 | 876 | |
| Owner occupied - correspondent | | | | | | | | | |
| Non owner occupied | 6,789 | 6,789 | 351 | 5,688 | 166 | | 4,661 | 208 | |
| Commercial real estate | 27,080 | 27,078 | 1,835 | 26,508 | 549 | | 26,055 | 998 | |
| Commercial real estate - purchased whole loans | | | | | | | | | |
| Construction & land development | 674 | 674 | 156 | 2,000 | 30 | | 2,674 | 75 | |
| Commercial & industrial | 1,872 | 1,872 | 428 | 2,641 | 21 | | 2,702 | 27 | |
| Lease financing receivables | | | | | | | | | |
| Warehouse lines of credit | | | | | | | | | |
| Home equity | 688 | 687 | 203 | 1,026 | 21 | | 1,289 | 41 | |
| Consumer: | | | | | | | | | |
| RPG loans | | | | | | | | | |
| Credit cards | | | | | | | | | |
| Overdrafts | | | | | | | | | |
| Purchased whole loans | | | | | | | | | |
| Other consumer | 79 | 79 | 44 | 116 | 1 | | 92 | 3 | |
| Total impaired loans | \$ 110,262 | \$ 107,994 | \$ 6,674 | \$ 107,061 | \$ 1,900 | \$ | \$ 108,967 | \$ 3,748 | \$ |

Table of Contents**Troubled Debt Restructurings**

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. 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 its debt in the foreseeable future without the modification. This evaluation is performed under 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 of time 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.

Non-accrual loans modified as TDRs typically remain on non-accrual status and continue to be reported as non-performing loans for a minimum of six months. Accruing loans modified as TDRs are evaluated for non-accrual status based on a current evaluation of the borrower's financial condition and ability and willingness to service the modified debt. At September 30, 2014 and December 31, 2013, \$15 million and \$13 million of TDRs were on non-accrual status.

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

| September 30, 2014 (in thousands) | Troubled Debt Restructurings on Non-Accrual Status | Troubled Debt Restructurings on Accrual Status | Total Troubled Debt Restructurings |
|------------------------------------|--|--|------------------------------------|
| Residential real estate | \$ 6,836 | \$ 32,984 | \$ 39,820 |
| Commercial real estate | 6,258 | 15,665 | 21,923 |
| Construction & land development | 1,990 | 562 | 2,552 |
| Commercial & industrial | | 3,884 | 3,884 |
| Total troubled debt restructurings | \$ 15,084 | \$ 53,095 | \$ 68,179 |

| December 31, 2013 (in thousands) | Troubled Debt Restructurings on Non-Accrual Status | Troubled Debt Restructurings on Accrual Status | Total Troubled Debt Restructurings |
|------------------------------------|--|--|------------------------------------|
| Residential real estate | \$ 5,514 | \$ 31,705 | \$ 37,219 |
| Commercial real estate | 7,486 | 22,041 | 29,527 |
| Construction & land development | 97 | 2,608 | 2,705 |
| Commercial & industrial | 143 | 4,378 | 4,521 |
| Total troubled debt restructurings | \$ 13,240 | \$ 60,732 | \$ 73,972 |

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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 TDRs outstanding by modification and performance under modified terms at September 30, 2014 and December 31, 2013 follows:

| September 30, 2014 (in thousands) | Troubled Debt Restructurings Performing to Modified Terms | Troubled Debt Restructurings Not Performing to Modified Terms | Total Troubled Debt Restructurings |
|--|--|--|--|
| Residential real estate loans (including home equity loans): | | | |
| Interest only payments | \$ 683 | \$ 395 | \$ 1,078 |
| Rate reduction | 27,970 | 4,399 | 32,369 |
| Principal deferral | 1,066 | 385 | 1,451 |
| Legal modifications | 3,390 | 1,532 | 4,922 |
| Total residential TDRs | 33,109 | 6,711 | 39,820 |
| Commercial related and construction/land development loans: | | | |
| Interest only payments | 3,703 | 950 | 4,653 |
| Rate reduction | 9,900 | 2,881 | 12,781 |
| Principal deferral | 6,507 | 4,209 | 10,716 |
| Legal modifications | 209 | 209 | 209 |
| Total commercial TDRs | 20,110 | 8,249 | 28,359 |
| Total troubled debt restructurings | \$ 53,219 | \$ 14,960 | \$ 68,179 |
| | | | |
| December 31, 2013 (in thousands) | Troubled Debt Restructurings Performing to Modified Terms | Troubled Debt Restructurings Not Performing to Modified Terms | Total Troubled Debt Restructurings |
| Residential real estate loans (including home equity loans): | | | |
| Interest only payments | \$ 430 | \$ 671 | \$ 1,101 |
| Rate reduction | 26,004 | 4,993 | 30,997 |
| Principal deferral | 1,840 | 632 | 2,472 |
| Legal modifications | 1,247 | 1,402 | 2,649 |
| Total residential TDRs | 29,521 | 7,698 | 37,219 |
| Commercial related and construction/land development loans: | | | |
| Interest only payments | 6,086 | 1,321 | 7,407 |
| Rate reduction | 13,958 | 663 | 14,621 |
| Principal deferral | 8,983 | 5,351 | 14,334 |
| Legal modifications | 391 | 391 | 391 |
| Total commercial TDRs | 29,027 | 7,726 | 36,753 |
| Total troubled debt restructurings | \$ 58,548 | \$ 15,424 | \$ 73,972 |

As of September 30, 2014 and December 31, 2013, 78% and 79% of the Bank's TDRs were performing according to their modified terms. The Bank had provided \$4 million and \$5 million of specific reserve allocations to customers whose debt terms have been modified in TDRs as of September 30, 2014 and December 31, 2013. Specific reserve allocations are generally assessed for commercial loans prior to loans being modified as a TDR, as most migrate from the Bank's internal watch list and have been specifically provided for or reserved for as part of the

Bank's normal loss provisioning methodology. The Bank had not committed to finance any additional material amounts to its existing TDR relationships at September 30, 2014.

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A summary of the categories of TDR loan modifications that occurred during the three months ended September 30, 2014 and 2013 follows:

| Three Months Ended September 30, 2014 (in thousands) | Troubled Debt Restructurings Performing to Modified Terms | Troubled Debt Restructurings Not Performing to Modified Terms | Total Troubled Debt Restructurings |
|--|--|--|--|
| Residential real estate loans (including home equity loans): | | | |
| Interest only payments | \$ | \$ | 395 |
| Rate reduction | 358 | 127 | 485 |
| Principal deferral | 349 | | 349 |
| Legal modifications | 149 | 198 | 347 |
| Total residential TDRs | 856 | 720 | 1,576 |
| Commercial related and construction/land development loans: | | | |
| Interest only payments | 368 | 392 | 760 |
| Rate reduction | 2,374 | | 2,374 |
| Principal deferral | 1,172 | | 1,172 |
| Total commercial TDRs | 3,914 | 392 | 4,306 |
| Total troubled debt restructurings | \$ 4,770 | \$ 1,112 | \$ 5,882 |

| Three Months Ended September 30, 2013 (in thousands) | Troubled Debt Restructurings Performing to Modified Terms | Troubled Debt Restructurings Not Performing to Modified Terms | Total Troubled Debt Restructurings |
|--|--|--|--|
| Residential real estate loans (including home equity loans): | | | |
| Rate reduction | \$ 1,082 | \$ | 1,082 |
| Principal deferral | | | |
| Legal modifications | 172 | 272 | 444 |
| Total residential TDRs | 1,254 | 272 | 1,526 |
| Commercial related and construction/land development loans: | | | |
| Interest only payments | 441 | 145 | 586 |
| Rate reduction | 3,407 | 189 | 3,596 |
| Principal deferral | 1,456 | | 1,456 |
| Legal modifications | | 167 | 167 |
| Total commercial TDRs | 5,304 | 501 | 5,805 |
| Total troubled debt restructurings | \$ 6,558 | \$ 773 | \$ 7,331 |

As of September 30, 2014 and 2013, 81% and 89% of the Bank's TDRs that occurred during the third quarters of 2014 and 2013 were performing according to their modified terms. The Bank provided \$268,000 and \$294,000 in specific reserve allocations to customers whose loan terms were modified in TDRs during the third quarters of 2014 and 2013. As stated above, specific reserves for commercial loans are generally assessed prior to loans being modified as a TDR, as most of these loans migrate from the Bank's internal watch list and have been specifically reserved for as part of the Bank's normal reserving methodology.

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A summary of the categories of TDR loan modifications that occurred during the nine months ended September 30, 2014 and 2013 follows:

| Nine Months Ended September 30, 2014 (in thousands) | Troubled Debt Restructurings Performing to Modified Terms | Troubled Debt Restructurings Not Performing to Modified Terms | Total Troubled Debt Restructurings |
|---|--|--|---|
| Residential real estate loans (including home equity loans): | | | |
| Interest only payments | \$ | \$ | 397 |
| Rate reduction | 2,053 | 1,451 | 3,504 |
| Principal deferral | 468 | 29 | 497 |
| Legal modifications | 2,146 | 796 | 2,942 |
| Total residential TDRs | 4,667 | 2,673 | 7,340 |
| Commercial related and construction/land development loans: | | | |
| Interest only payments | 672 | 392 | 1,064 |
| Rate reduction | 2,830 | 1,071 | 3,901 |
| Principal deferral | 1,420 | 1,744 | 3,164 |
| Total commercial TDRs | 4,922 | 3,207 | 8,129 |
| Total troubled debt restructurings | \$ 9,589 | \$ 5,880 | \$ 15,469 |

| Nine Months Ended September 30, 2013 (in thousands) | Troubled Debt Restructurings Performing to Modified Terms | Troubled Debt Restructurings Not Performing to Modified Terms | Total Troubled Debt Restructurings |
|---|--|--|---|
| Residential real estate loans (including home equity loans): | | | |
| Interest only payments | \$ | \$ | 165 |
| Rate reduction | 2,703 | 689 | 3,392 |
| Principal deferral | 64 | 160 | 224 |
| Legal modifications | 1,405 | 826 | 2,231 |
| Total residential TDRs | 4,337 | 1,675 | 6,012 |
| Commercial related and construction/land development loans: | | | |
| Interest only payments | 719 | 145 | 864 |
| Rate reduction | 3,407 | 189 | 3,596 |
| Principal deferral | 1,765 | | 1,765 |
| Legal modifications | | 167 | 167 |
| Total commercial TDRs | 5,891 | 501 | 6,392 |
| Total troubled debt restructurings | \$ 10,228 | \$ 2,176 | \$ 12,404 |

As of September 30, 2014 and 2013, 62% and 82% of the Bank's TDRs that occurred during the first nine months of 2014 and 2013 were performing according to their modified terms. The Bank provided \$602,000 and \$1 million in specific reserve allocations to customers whose loan terms were modified in TDRs during the first nine months of 2014 and 2013. As stated above, specific reserves are generally assessed prior to loans being modified as a TDR, as most of these loans migrate from the Bank's internal watch list and have been specifically reserved for as part of the Bank's normal reserving methodology.

There were no significant changes between the pre and post modification loan balances at September 30, 2014 and December 31, 2013.

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The following tables present loans by class modified as troubled debt restructurings within the previous twelve months of September 30, 2014 and 2013 and for which there was a payment default during the three months ended September 30, 2014 and 2013:

| Three Months Ended September 30, 2014 (dollars in thousands) | Number of Loans | Recorded Investment |
|---|----------------------------|--------------------------------|
| Residential real estate: | | |
| Owner occupied | 1 | \$ 45 |
| Owner occupied - correspondent | | |
| Non owner occupied | 6 | 589 |
| Commercial real estate | 2 | 467 |
| Commercial real estate - purchased whole loans | | |
| Construction & land development | | |
| Commercial & industrial | | |
| Lease financing receivables | | |
| Warehouse lines of credit | | |
| Home equity | | |
| Consumer: | | |
| RPG loans | | |
| Credit cards | | |
| Overdrafts | | |
| Purchased whole loans | | |
| Other consumer | | |
| Total | 9 | \$ 1,101 |

| Three Months Ended September 30, 2013 (dollars in thousands) | Number of Loans | Recorded Investment |
|---|----------------------------|--------------------------------|
| Residential real estate: | | |
| Owner occupied | 14 | \$ 979 |
| Owner occupied - correspondent | | |
| Non owner occupied | | |
| Commercial real estate | 2 | 357 |
| Commercial real estate - purchased whole loans | | |
| Construction & land development | | |
| Commercial & industrial | 1 | 145 |
| Lease financing receivables | | |
| Warehouse lines of credit | | |
| Home equity | 1 | 68 |
| Consumer: | | |
| RPG loans | | |
| Credit cards | | |
| Overdrafts | | |
| Purchased whole loans | | |
| Other consumer | | |
| Total | 18 | \$ 1,549 |

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The following tables present loans by class modified as troubled debt restructurings within the previous twelve months of September 30, 2014 and 2013 and for which there was a payment default during the nine months ended September 30, 2014 and 2013:

| Nine Months Ended September 30, 2014 (dollars in thousands) | Number of Loans | Recorded Investment |
|--|----------------------------|--------------------------------|
| Residential real estate: | | |
| Owner occupied | 9 | \$ 1,388 |
| Owner occupied - correspondent | | |
| Non owner occupied | 6 | 589 |
| Commercial real estate | 3 | 1,537 |
| Commercial real estate - purchased whole loans | | |
| Construction & land development | 1 | 1,500 |
| Commercial & industrial | | |
| Lease financing receivables | | |
| Warehouse lines of credit | | |
| Home equity | | |
| Consumer: | | |
| RPG loans | | |
| Credit cards | | |
| Overdrafts | | |
| Purchased whole loans | | |
| Other consumer | | |
| Total | 19 | \$ 5,014 |

| Nine Months Ended September 30, 2013 (dollars in thousands) | Number of Loans | Recorded Investment |
|--|----------------------------|--------------------------------|
| Residential real estate: | | |
| Owner occupied | 32 | \$ 2,434 |
| Owner occupied - correspondent | | |
| Non owner occupied | | |
| Commercial real estate | 2 | 357 |
| Commercial real estate - purchased whole loans | | |
| Construction & land development | | |
| Commercial & industrial | 1 | 145 |
| Lease financing receivables | | |
| Warehouse lines of credit | | |
| Home equity | 2 | 74 |
| Consumer: | | |
| RPG loans | | |
| Credit cards | | |
| Overdrafts | | |
| Purchased whole loans | | |
| Other consumer | | |
| Total | 37 | \$ 3,010 |

Table of Contents**4. DEPOSITS**

Ending deposit balances at September 30, 2014 and December 31, 2013 were as follows:

| (in thousands) | September 30, 2014 | December 31, 2013 |
|--------------------------------------|--------------------|-------------------|
| Demand | \$ 697,243 | \$ 651,134 |
| Money market accounts | 469,142 | 479,569 |
| Brokered money market accounts | 33,517 | 35,533 |
| Savings | 87,838 | 78,020 |
| Individual retirement accounts* | 26,846 | 28,767 |
| Time deposits, \$100,000 and over* | 75,918 | 67,255 |
| Other certificates of deposit* | 68,370 | 75,516 |
| Brokered certificates of deposit*(1) | 66,300 | 86,421 |
| Total interest-bearing deposits | 1,525,174 | 1,502,215 |
| Total non interest-bearing deposits | 534,662 | 488,642 |
| Total deposits | \$ 2,059,836 | \$ 1,990,857 |

(*) Represents a time deposit.

(1) Includes brokered deposits less than, equal to and greater than \$100,000.

5. FEDERAL HOME LOAN BANK (FHLB) ADVANCES

At September 30, 2014 and December 31, 2013, FHLB advances were as follows:

| (in thousands) | September 30, 2014 | December 31, 2013 |
|---|--------------------|-------------------|
| Overnight advance with an interest rate of 0.08% due on October 1, 2014 | \$ 130,000 | \$ |
| Variable interest rate advance indexed to 3-Month LIBOR plus 0.14% due on December 19, 2014 | 10,000 | 10,000 |
| Fixed interest rate advances with a weighted average interest rate of 1.84% due through 2023 | 422,000 | 495,000 |
| Putable fixed interest rate advances with a weighted average interest rate of 4.39% due through 2017(1) | 100,000 | 100,000 |
| Total FHLB advances | \$ 662,000 | \$ 605,000 |

(1) - Represents putable advances with the FHLB. These advances have original fixed rate periods ranging from one to five years with original maturities ranging from three to ten years if not put back to the Bank earlier by the FHLB. At the end of their respective fixed rate periods and on a quarterly basis thereafter, the FHLB has the right to require payoff of the advances by the Bank at no penalty. Based on market conditions at this time, the Bank does not believe that any of its putable advances are likely to be put back to the Bank in the short-term by the FHLB.

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At September 30, 2014 and December 31, 2013, Republic had available collateral to borrow an additional \$429 million and \$282 million, respectively, from the FHLB. In addition to its borrowing line with the FHLB, Republic also had unsecured lines of credit totaling \$166 million available through various other financial institutions as of September 30, 2014 and December 31, 2013.

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

| Year (dollars in thousands) | Principal | Weighted Average Rate |
|-----------------------------|------------|-----------------------|
| 2014 | 210,000 | 0.96% |
| 2015 | 10,000 | 2.48% |
| 2016 | 82,000 | 1.74% |
| 2017 | 145,000 | 3.44% |
| 2018 | 97,500 | 1.50% |
| 2019 | 80,000 | 1.77% |
| Thereafter | 37,500 | 1.93% |
| Total | \$ 662,000 | 1.86% |

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

| (in thousands) | September 30, 2014 | December 31, 2013 |
|---|--------------------|-------------------|
| First lien, single family residential real estate | \$ 1,253,537 | \$ 1,082,624 |
| Home equity lines of credit | 100,783 | 105,957 |
| Multi-family commercial real estate | 9,373 | 13,124 |

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6. 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 the fair value of each type of financial instrument:

Securities available for sale: Quoted market prices in an active market are available for the Bank's mutual fund investment and fall within Level 1 of the fair value hierarchy.

Except for the Bank's mutual fund investment and its private label mortgage backed security, the fair value of securities available for sale 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 Measurements and Disclosures*. 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.

Mortgage loans held for sale: 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.

Derivative instruments: Mortgage Banking derivatives used in the ordinary course of business primarily consist of mandatory forward sales contracts (forward contracts) and 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 used for interest rate risk management: Interest rate swaps are recorded at fair value on a recurring basis. The Company utilizes interest rate swap agreements as part of the management of interest rate risk to modify the repricing characteristics of certain portions of the Company's interest-bearing liabilities. The Company values its interest rate swaps using Bloomberg Valuation Service's derivative pricing functions and therefore classifies such valuations as Level 2. Valuations of these interest rate swaps are also received from the relevant counterparty and validated against internal 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.

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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. 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 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.

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. 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.

Appraisals for both collateral-dependent impaired loans 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 an annual basis, the Bank compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment, if any, should be made to the appraisal value to arrive at an estimated fair value.

Mortgage servicing rights: On a quarterly basis, mortgage servicing rights are evaluated for impairment based upon the fair value of the MSRs as compared to carrying amount. If the carrying amount of an individual grouping exceeds fair value, impairment is recorded and the respective individual tranche is carried at fair value. If the carrying amount of an individual grouping 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 that can generally be validated against available market data (Level 2).

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Assets and liabilities measured at fair value on a **recurring basis** as of September 30, 2014 and December 31, 2013, including financial assets and liabilities for which the Bank has elected the fair value option, are summarized below:

| (in thousands) | Fair Value Measurements at September 30, 2014 Using: | | | | Total Fair Value |
|--|--|---|--|-------|------------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | | |
| Financial assets: | | | | | |
| Securities available for sale: | | | | | |
| U.S. Treasury securities and U.S. | | | | | |
| Government agencies | \$ | \$ | 149,891 | \$ | \$ 149,891 |
| Private label mortgage backed security | | | | 5,337 | 5,337 |
| Mortgage backed securities - residential | | | 130,265 | | 130,265 |
| Collateralized mortgage obligations | | | 150,678 | | 150,678 |
| Freddie Mac preferred stock | | | 669 | | 669 |
| Mutual fund | 1,010 | | | | 1,010 |
| Corporate bonds | | | 15,124 | | 15,124 |
| Total securities available for sale | \$ 1,010 | \$ 446,627 | \$ 5,337 | \$ | \$ 452,974 |
| Mortgage loans held for sale | \$ | \$ | 5,890 | \$ | \$ 5,890 |
| Rate lock commitments | | | 335 | | 335 |
| Financial liabilities: | | | | | |
| Mandatory forward contracts | | | 18 | | 18 |
| Interest rate swap agreements | | | 203 | | 203 |

| (in thousands) | Fair Value Measurements at December 31, 2013 Using: | | | | Total Fair Value |
|--|--|---|--|-------|------------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | | |
| Financial assets: | | | | | |
| Securities available for sale: | | | | | |
| U.S. Treasury securities and U.S. | | | | | |
| Government agencies | \$ | \$ | 97,465 | \$ | \$ 97,465 |
| Private label mortgage backed security | | | | 5,485 | 5,485 |
| Mortgage backed securities - residential | | | 150,087 | | 150,087 |
| Collateralized mortgage obligations | | | 163,946 | | 163,946 |
| Mutual fund | 995 | | | | 995 |
| Corporate bonds | | | 14,915 | | 14,915 |
| Total securities available for sale | \$ 995 | \$ 426,413 | \$ 5,485 | \$ | \$ 432,893 |
| Mortgage loans held for sale | \$ | \$ | 3,506 | \$ | \$ 3,506 |
| Rate lock commitments | | | 77 | | 77 |
| Mandatory forward contracts | | | 12 | | 12 |
| Interest rate swap agreements | | | 170 | | 170 |

All transfers between levels are generally recognized at the end of each quarter. There were no transfers into or out of Level 1, 2 or 3 assets during the three and nine months ended September 30, 2014 and 2013.

Table of Contents**Private Label Mortgage Backed Security**

The table below presents a reconciliation of the Bank's private label mortgage backed security. This represents the sole asset that was measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods ended September 30, 2014 and 2013:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|----------|------------------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| Balance, beginning of period | \$ 5,461 | \$ 5,641 | \$ 5,485 | \$ 5,687 |
| Total gains or losses included in earnings: | | | | |
| Net change in unrealized gain | 65 | (4) | 434 | 418 |
| Recovery of actual losses previously recorded | 35 | 37 | 101 | 37 |
| Principal paydowns | (224) | (217) | (683) | (685) |
| Balance, end of period | \$ 5,337 | \$ 5,457 | \$ 5,337 | \$ 5,457 |

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 Fair Isaac Corporation (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 lower/higher fair value measurement.

The following table presents quantitative information about recurring Level 3 fair value measurements at September 30, 2014 and December 31, 2013:

| September 30, 2014 (dollars in thousands) | Fair Value | Valuation Technique | Unobservable Inputs | Range |
|---|------------|----------------------|---|---|
| Private label mortgage backed security | \$ 5,337 | Discounted cash flow | (1) Constant prepayment rate (2) Probability of default (2) Loss severity | 0.0% - 6.5% 3.0% - 6.0% 60% - 75% |
| December 31, 2013 (dollars in thousands) | Fair Value | Valuation Technique | Unobservable Inputs | Range |
| Private label mortgage backed security | \$ 5,485 | Discounted cash flow | (1) Constant prepayment rate (2) Probability of default | 2.5% - 6.5% 3.0% - 7.0% |

(2) Loss severity

55% - 75%

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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 ultimate resolution of these loans. 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 nor on nonaccrual as of September 30, 2014 and December 31, 2013.

As of September 30, 2014 and December 31, 2013, the aggregate fair value, contractual balance (including accrued interest), and gain or loss was as follows:

| (in thousands) | September 30, 2014 | | December 31, 2013 | |
|----------------------|--------------------|-------|-------------------|-------|
| Aggregate fair value | \$ | 5,890 | \$ | 3,506 |
| Contractual balance | | 5,743 | | 3,417 |
| Gain | | 147 | | 89 |

The total amount of gains and losses from changes in fair value included in earnings for the three and nine months ended September 30, 2014 and 2013 for mortgage loans held for sale are presented in the following table:

| (in thousands) | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|----------------------------|-------------------------------------|------|------|------------------------------------|------|-----|
| | 2014 | | 2013 | 2014 | 2013 | |
| Interest income | \$ | 38 | \$ | 130 | \$ | 388 |
| Change in fair value | | (65) | | (218) | | 59 |
| Total included in earnings | \$ | (27) | \$ | (88) | \$ | 192 |
| | | | | \$ | | 57 |

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Assets measured at fair value on a **non-recurring basis** as of September 30, 2014 and December 31, 2013 are summarized below:

| (in thousands) | Fair Value Measurements at September 30, 2014 Using: | | | | Total Fair Value |
|---------------------------------|--|---|--|-------|------------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | | |
| Impaired loans: | | | | | |
| Residential real estate: | | | | | |
| Owner occupied | \$ | \$ | \$ | 1,224 | \$ 1,224 |
| Non owner occupied | | | | 706 | 706 |
| Commercial real estate | | | | 6,692 | 6,692 |
| Home equity | | | | 1,157 | 1,157 |
| Total impaired loans* | \$ | \$ | \$ | 9,779 | \$ 9,779 |
| Other real estate owned: | | | | | |
| Residential real estate | \$ | \$ | \$ | 980 | \$ 980 |
| Commercial real estate | | | | 1,385 | 1,385 |
| Construction & land development | | | | 5,240 | 5,240 |
| Total other real estate owned | \$ | \$ | \$ | 7,605 | \$ 7,605 |

| (in thousands) | Fair Value Measurements at December 31, 2013 Using: | | | | Total Fair Value |
|---------------------------------|--|---|--|-------|------------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | | |
| Impaired loans: | | | | | |
| Residential real estate: | | | | | |
| Owner occupied | \$ | \$ | \$ | 2,020 | \$ 2,020 |
| Commercial real estate | | | | 5,488 | 5,488 |
| Home equity | | | | 1,030 | 1,030 |
| Total impaired loans* | \$ | \$ | \$ | 8,538 | \$ 8,538 |
| Other real estate owned: | | | | | |
| Residential real estate | \$ | \$ | \$ | 1,716 | \$ 1,716 |
| Commercial real estate | | | | 507 | 507 |
| Construction & land development | | | | 6,195 | 6,195 |
| Total other real estate owned | \$ | \$ | \$ | 8,418 | \$ 8,418 |

* - The impaired loan balances in the preceding two tables exclude TDRs which are not collateral dependent. 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 6 and represents estimated selling costs to liquidate the underlying collateral on such debt.

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The following tables present quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a **non-recurring basis** at September 30, 2014 and December 31, 2013:

| September 30, 2014 (dollars in thousands) | Fair Value | Valuation Technique | Unobservable Inputs | Range (Weighted Average) |
|---|------------|---------------------------|---|--------------------------|
| Impaired loans - residential real estate owner occupied | \$ 1,224 | Sales comparison approach | Adjustments determined for differences between comparable sales | 0% - 33% (9%) |
| Impaired loans - residential real estate non owner occupied | \$ 706 | Sales comparison approach | Adjustments determined for differences between comparable sales | 0% - 33% (15%) |
| Impaired loans - commercial real estate | \$ 4,952 | Sales comparison approach | Adjustments determined for differences between comparable sales | 0% - 9% (6%) |
| | \$ 1,740 | Income approach | Adjustments for differences between net operating income expectations | 3% (3%) |
| Impaired loans - home equity | \$ 1,157 | Sales comparison approach | Adjustments determined for differences between comparable sales | 0% - 35% (12%) |
| Other real estate owned - residential real estate | \$ 980 | Sales comparison approach | Adjustments determined for differences between comparable sales | 10% - 16% (16%) |
| Other real estate owned - commercial real estate | \$ 236 | Sales comparison approach | Adjustments determined for differences between comparable sales | 20% (20%) |
| | \$ 1,149 | Income approach | Adjustments for differences between net operating income expectations | 37% (37%) |
| Other real estate owned - construction & land development | \$ 2,488 | Sales comparison approach | Adjustments determined for differences between comparable sales | 13% - 70% (31%) |
| | \$ 2,752 | Income approach | Adjustments for differences between net operating income expectations | 13% - 30% (23%) |

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| December 31, 2013 (dollars in thousands) | Fair Value | Valuation Technique | Unobservable Inputs | Range (Weighted Average) |
|---|------------|---------------------------|---|--------------------------|
| Impaired loans - residential real estate | \$ 2,020 | Sales comparison approach | Adjustments determined for differences between comparable sales | 2% - 22% (7%) |
| Impaired loans - commercial real estate | \$ 5,488 | Sales comparison approach | Adjustments determined for differences between comparable sales | 0% - 30% (19%) |
| Impaired loans - home equity | \$ 1,030 | Sales comparison approach | Adjustments determined for differences between comparable sales | 0% - 10% (2%) |
| Other real estate owned - residential real estate | \$ 1,716 | Sales comparison approach | Adjustments determined for differences between comparable sales | 10% - 53% (30%) |
| Other real estate owned - commercial real estate | \$ 507 | Sales comparison approach | Adjustments determined for differences between comparable sales | 23% - 33% (29%) |
| Other real estate owned - construction & land development | \$ 2,236 | Sales comparison approach | Adjustments determined for differences between comparable sales | 17% - 58% (43%) |
| | \$ 3,959 | Income approach | Adjustments for differences between net operating income expectations | 21% (21%) |

The following section details impairment charges recognized during the period:

Impaired Loans

Collateral dependent impaired loans are generally measured for impairment using the fair market value for reasonable disposition of the underlying collateral. The Bank's practice is to obtain new or updated appraisals 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 appraisal amount as necessary for selling costs and past due real estate taxes. If a new or updated appraisal 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 appraisal 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.

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Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans are as follows:

| (in thousands) | September 30, 2014 | | December 31, 2013 | |
|---|--------------------|-------|-------------------|-------|
| Carrying amount of loans measured at fair value | \$ | 8,729 | \$ | 7,629 |
| Estimated selling costs considered in carrying amount | | 1,050 | | 909 |
| Total fair value | \$ | 9,779 | \$ | 8,538 |

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 using judgments and estimates of external professionals. Many of these inputs are not observable and, accordingly, these measurements are classified as Level 3. The fair value of the Bank's other real estate owned properties equaled or exceeded their carrying value on an individual basis at September 30, 2014 and December 31, 2013.

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

| (in thousands) | September 30, 2014 | | December 31, 2013 | |
|---|--------------------|--------|-------------------|--------|
| Carrying value of other real estate owned | \$ | 11,937 | \$ | 17,102 |

| (in thousands) | Three Months Ended September 30, | | | Nine Months Ended September 30, | | | | |
|-------------------------------------|-------------------------------------|-------|------|------------------------------------|------|-------|----|-------|
| | 2014 | 2013 | 2014 | 2013 | 2013 | 2013 | | |
| Other real estate owned write-downs | \$ | 1,217 | \$ | 190 | \$ | 2,042 | \$ | 1,074 |

Mortgage Servicing Rights

MSRs are carried at lower of cost or fair value. No MSRs were carried at fair value at September 30, 2014 and December 31, 2013.

Adjustments to mortgage banking income recorded due to the valuation of MSRs for the three and nine months ended September 30, 2014 and 2013 follow:

| Three Months Ended September 30, | Nine Months Ended September 30, |
|-------------------------------------|------------------------------------|
|-------------------------------------|------------------------------------|

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(in thousands)

2014

2013

2014

2013

| | | | | | | |
|--|----|----|------|----|----|-------|
| Credit to mortgage banking income due to impairment evaluation | \$ | \$ | (33) | \$ | \$ | (345) |
|--|----|----|------|----|----|-------|

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The carrying amounts and estimated fair values of all financial instruments, at September 30, 2014 and December 31, 2013 follows:

| (in thousands) | Carrying Value | Fair Value Measurements at September 30, 2014: | | | Total Fair Value |
|--|----------------|--|-----------|-----------|------------------|
| | | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 69,682 | \$ 69,682 | \$ | \$ | \$ 69,682 |
| Securities available for sale | 452,974 | 1,010 | 446,627 | 5,337 | 452,974 |
| Securities to be held to maturity | 47,247 | | 47,541 | | 47,541 |
| Mortgage loans held for sale, at fair value | 5,890 | | 5,890 | | 5,890 |
| Loans, net | 2,884,918 | | | 2,922,976 | 2,922,976 |
| Federal Home Loan Bank stock | 28,208 | | | | N/A |
| Accrued interest receivable | 8,555 | | 8,555 | | 8,555 |
| Liabilities: | | | | | |
| Non interest-bearing deposits | 534,662 | | 534,662 | | 534,662 |
| Transaction deposits | 1,287,740 | | 1,287,740 | | 1,287,740 |
| Time deposits | 237,434 | | 237,886 | | 237,886 |
| Securities sold under agreements to repurchase and other short-term borrowings | 275,874 | | 275,874 | | 275,874 |
| Federal Home Loan Bank advances | 662,000 | | 673,135 | | 673,135 |
| Subordinated note | 41,240 | | 39,618 | | 39,618 |
| Accrued interest payable | 1,149 | | 1,149 | | 1,149 |

| (in thousands) | Carrying Value | Fair Value Measurements at December 31, 2013: | | | Total Fair Value |
|--|----------------|---|-----------|-----------|------------------|
| | | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 170,863 | \$ 170,863 | \$ | \$ | \$ 170,863 |
| Securities available for sale | 432,893 | 995 | 426,413 | 5,485 | 432,893 |
| Securities to be held to maturity | 50,644 | | 50,768 | | 50,768 |
| Mortgage loans held for sale, at fair value | 3,506 | | 3,506 | | 3,506 |
| Loans, net | 2,566,766 | | | 2,585,476 | 2,585,476 |
| Federal Home Loan Bank stock | 28,342 | | | | N/A |
| Accrued interest receivable | 8,272 | | 8,272 | | 8,272 |
| Liabilities: | | | | | |
| Non interest-bearing deposits | 488,642 | | 488,642 | | 488,642 |
| Transaction deposits | 1,244,256 | | 1,244,256 | | 1,244,256 |
| Time deposits | 257,959 | | 259,345 | | 259,345 |
| Securities sold under agreements to repurchase and other short-term borrowings | 165,555 | | 165,555 | | 165,555 |
| Federal Home Loan Bank advances | 605,000 | | 618,064 | | 618,064 |
| Subordinated note | 41,240 | | 38,020 | | 38,020 |

| | | | |
|--------------------------|-------|-------|-------|
| Accrued interest payable | 1,459 | 1,459 | 1,459 |
|--------------------------|-------|-------|-------|

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Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the Bank's estimates.

The assumptions used in the estimation of the fair value of the Company's financial instruments are explained below. Where quoted market prices are not available, fair values are based on estimates using discounted cash flow and other valuation techniques. Discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following fair value estimates cannot be substantiated by comparison to independent markets and should not be considered representative of the liquidation value of the Company's financial instruments, but rather a good-faith estimate of the fair value of financial instruments held by the Company.

In addition to those previously disclosed, the following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and cash equivalents The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Loans, net of Allowance The fair value of loans is calculated using discounted cash flows by loan type resulting in a Level 3 classification. The discount rate used to determine the present value of the loan portfolio is an estimated market rate that reflects the credit and interest rate risk inherent in the loan portfolio without considering widening credit spreads due to market illiquidity. The estimated maturity is based on the Bank's historical experience with repayments adjusted to estimate the effect of current market conditions. The Allowance is considered a reasonable discount for credit risk. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Federal Home Loan Bank stock It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Accrued interest receivable/payable The carrying amounts of accrued interest, due to their short-term nature, approximate fair value resulting in a Level 2 classification.

Deposits Fair values for certificates of deposit have been determined using discounted cash flows. The discount rate used is based on estimated market rates for deposits of similar remaining maturities and are classified as Level 2. The carrying amounts of all other deposits, due to their short-term nature, approximate their fair values and are also classified as Level 2.

Securities sold under agreements to repurchase The carrying amount for securities sold under agreements to repurchase generally maturing within ninety days approximates its fair value resulting in a Level 2 classification.

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Federal Home Loan Bank advances The fair value of the FHLB advances is obtained from the FHLB and is calculated by discounting contractual cash flows using an estimated interest rate based on the current rates available to the Company for debt of similar remaining maturities and collateral terms resulting in a Level 2 classification.

Subordinated note The fair value for subordinated debentures is calculated using discounted cash flows based upon current market spreads to London Interbank Borrowing Rate (LIBOR) for debt of similar remaining maturities and collateral terms resulting in a Level 2 classification.

The fair value estimates presented herein are based on pertinent information available to management as of the respective period ends. Although management is not aware of any factors that would dramatically affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, estimates of fair value may differ significantly from the amounts presented.

Table of Contents**7. MORTGAGE BANKING ACTIVITIES**

Activity for mortgage loans held for sale was as follows:

| September 30, (in thousands) | 2014 | | 2013 | |
|--|-------------|----------|-------------|-----------|
| Balance, January 1 | \$ | 3,506 | \$ | 10,614 |
| Origination of mortgage loans held for sale | | 54,046 | | 263,411 |
| Proceeds from the sale of mortgage loans held for sale | | (53,556) | | (270,562) |
| Net gain on sale of mortgage loans held for sale | | 1,894 | | 6,340 |
| Balance, September 30 | \$ | 5,890 | \$ | 9,803 |

The following table presents the components of Mortgage Banking income:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net gain realized on sale of mortgage loans held for sale | \$ 689 | \$ 1,633 | \$ 1,607 | \$ 7,310 |
| Net change in fair value recognized on loans held for sale | (65) | (218) | 59 | (331) |
| Net change in fair value recognized on rate lock commitments | 79 | (44) | 258 | (432) |
| Net change in fair value recognized on forward contracts | 25 | (439) | (30) | (207) |
| Net gain recognized | 728 | 932 | 1,894 | 6,340 |
| Loan servicing income | 482 | 514 | 1,276 | 1,606 |
| Amortization of mortgage servicing rights | (334) | (453) | (996) | (1,811) |
| Change in mortgage servicing rights valuation allowance | | 33 | | 345 |
| Net servicing income recognized | 148 | 94 | 280 | 140 |
| Total Mortgage Banking income | \$ 876 | \$ 1,026 | \$ 2,174 | \$ 6,480 |

Activity for capitalized mortgage servicing rights was as follows:

| September 30, (in thousands) | 2014 | | 2013 | |
|-------------------------------------|-------------|-------|-------------|---------|
| Balance, January 1 | \$ | 5,409 | \$ | 4,777 |
| Additions | | 468 | | 2,171 |
| Amortized to expense | | (996) | | (1,811) |

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| | | | | |
|-------------------------------|----|-------|----|-------|
| Change in valuation allowance | | | | 345 |
| Balance, September 30 | \$ | 4,881 | \$ | 5,482 |

Activity for the valuation allowance for capitalized mortgage servicing rights was as follows:

| September 30, (in thousands) | 2014 | | 2013 | |
|-----------------------------------|------|--|------|-------|
| Balance, January 1 | \$ | | \$ | (345) |
| Additions | | | | |
| Reductions credited to operations | | | | 345 |
| Balance, September 30 | \$ | | \$ | |

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Other information relating to mortgage servicing rights follows:

| (dollars in thousands) | September 30, 2014 | | December 31, 2013 | |
|---|--------------------|-------------|-------------------|-------------|
| Fair value of mortgage servicing rights portfolio | \$ | 7,064 | \$ | 7,337 |
| Prepayment speed range | | 105% - 462% | | 105% - 550% |
| Discount rate | | 10% | | 10% |
| Weighted average default rate | | 1.50% | | 1.50% |
| Weighted average life in years | | 6.22 | | 6.17 |

Mortgage Banking derivatives used in the ordinary course of business primarily consist of mandatory forward sales contracts and 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. 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) | September 30, 2014 | | December 31, 2013 | |
|--|--------------------|------------|--------------------|------------|
| | Notional Amount | Fair Value | Notional Amount | Fair Value |
| Included in Mortgage loans held for sale: | | | | |
| Mortgage loans held for sale | \$ 5,742 | \$ 5,890 | \$ 3,417 | \$ 3,506 |

Included in other assets:

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| | | | | | | | | |
|--------------------------------|----|--------|----|-----|----|-------|----|----|
| Rate lock loan commitments | \$ | 14,954 | \$ | 335 | \$ | 4,393 | \$ | 77 |
| Mandatory forward contracts | | | | | | 5,571 | | 12 |
| Total included in other assets | \$ | 14,954 | \$ | 335 | \$ | 9,964 | \$ | 89 |

Included in other liabilities:

| | | | | | | | | |
|-----------------------------|----|--------|----|----|----|--|----|--|
| Mandatory forward contracts | \$ | 13,211 | \$ | 18 | \$ | | \$ | |
|-----------------------------|----|--------|----|----|----|--|----|--|

Table of Contents**8. INTEREST RATE SWAPS**

During the fourth quarter of 2013, the Bank entered into two interest rate swap agreements 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 three-month LIBOR or the overall changes in cash flows on certain money market deposit accounts. 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 assets with changes in fair value recorded in OCI. The amount included in accumulated OCI 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.

Summary information about swaps designated as cash flow hedges as of September 30, 2014 and December 31, 2013 follows:

| (dollars in thousands) | September 30, 2014 | | December 31, 2013 | |
|--|--------------------|--------|-------------------|--------|
| Notional amount | \$ | 20,000 | \$ | 20,000 |
| Weighted average pay rate | | 2.25% | | 2.25% |
| Weighted average receive rate | | 0.19% | | 0.21% |
| Weighted average remaining maturity in years | | 6 | | 7 |
| Unrealized gain (loss) | \$ | (203) | \$ | 170 |
| Fair value of security pledged as collateral | \$ | 341 | \$ | |

The following table reflects the total interest expense recorded on these swap transactions in the consolidated statements of income during the three and nine months ended September 30, 2014 and 2013:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------|------------------------------------|------|
| | 2014 | 2013 | 2014 | 2013 |
| Interest expense on deposits related to money market swap transaction | \$ | 50 | \$ | 150 |
| Interest expense on FHLB advances related to FHLB swap transaction | | 54 | | 153 |
| Total interest expense on swap transactions | \$ | 104 | \$ | 303 |

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The following tables present the net gains (losses) recorded in accumulated OCI and the consolidated statements of income relating to the swaps for the three and nine months ended September 30, 2014:

| Three Months Ended September 30, 2014 (in thousands) | Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion) | Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income on Derivative (Effective Portion) | Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) |
|---|--|---|---|
| Cash flow hedges - interest rate swaps | \$ 28 | \$ (104) | |

| Nine Months Ended September 30, 2014 (in thousands) | Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion) | Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income on Derivative (Effective Portion) | Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) |
|--|--|---|---|
| Cash flow hedges - interest rate swaps | \$ (676) | \$ (303) | |

The following table reflects the cash flow hedges included in the consolidated balance sheet as of September 30, 2014 and December 31, 2013:

| (in thousands) | September 30, 2014 | | December 31, 2013 | |
|--|--------------------|------------|--------------------|------------|
| | Notional Amount | Fair Value | Notional Amount | Fair Value |
| Fair value included in other assets: | | | | |
| Cash flow hedges - interest rate swaps | \$ | \$ | \$ 20,000 | \$ 170 |
| Fair value included in other liabilities: | | | | |
| Cash flow hedges - interest rate swaps | \$ 20,000 | \$ 203 | \$ | \$ |

Table of Contents**9. OFF BALANCE SHEET RISKS, COMMITMENTS AND CONTINGENT LIABILITIES**

The Bank, 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 Bank pursuant to those financial instruments. Creditworthiness for all instruments is evaluated on a case by case basis in accordance with the Bank's credit policies. Collateral from the customer may be required based on the Bank's credit evaluation of the customer and may include business assets of commercial customers, as well as personal property and real estate of individual customers or guarantors.

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

An approved but unfunded loan commitment represents a potential credit risk and a liquidity risk, since the Bank's customer(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 Bank's customer. 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 table below presents the Bank's commitments, exclusive of Mortgage Banking loan commitments for each year ended:

| (in thousands) | September 30, 2014 | December 31, 2013 |
|------------------------------------|--------------------|-------------------|
| Unused warehouse lines of credit | \$ 209,916 | \$ 208,424 |
| Unused home equity lines of credit | 237,632 | 230,361 |
| Unused loan commitments - other | 183,357 | 178,776 |
| Commitments to purchase loans | 76,913 | |
| Standby letters of credit | 12,679 | 2,308 |
| FHLB letters of credit | 750 | 3,200 |
| Total commitments | \$ 721,247 | \$ 623,069 |

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer 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 Bank also has liquidity risk associated with standby letters of credit because funding for these obligations could be required immediately. The Bank does not deem this risk to be material.

At September 30, 2014 and December 31, 2013, the Bank had letters of credit from the FHLB issued on behalf of a RB&T client. This letter of credit was used as a credit enhancement for client bond offerings and reduced RB&T's available borrowing line at the FHLB. The Bank uses a blanket pledge of eligible real estate loans to secure these letters of credit.

Table of Contents**10. EARNINGS PER SHARE**

Class A and Class B shares participate equally in undistributed earnings. The difference in earnings per share between the two classes of common stock results solely 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 September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| Net income | \$ 5,246 | \$ 4,603 | \$ 23,552 | \$ 24,078 |
| Weighted average shares outstanding | 20,797 | 20,787 | 20,795 | 20,811 |
| Effect of dilutive securities | 94 | 140 | 96 | 94 |
| Average shares outstanding including dilutive securities | 20,891 | 20,927 | 20,891 | 20,905 |
| Basic earnings per share: | | | | |
| Class A Common Share | \$ 0.25 | \$ 0.22 | \$ 1.14 | \$ 1.16 |
| Class B Common Share | \$ 0.24 | \$ 0.21 | \$ 1.09 | \$ 1.12 |
| Diluted earnings per share: | | | | |
| Class A Common Share | \$ 0.25 | \$ 0.22 | \$ 1.13 | \$ 1.16 |
| Class B Common Share | \$ 0.24 | \$ 0.21 | \$ 1.08 | \$ 1.11 |

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

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------------------|-------------------------------------|------|------------------------------------|------|
| | 2014 | 2013 | 2014 | 2013 |
| Antidilutive stock options | 16 | 14 | 16 | 113 |
| Average antidilutive stock options | 16 | 10 | 15 | 110 |

Table of Contents**11. OTHER COMPREHENSIVE INCOME**

OCI components and related tax effects were as follows:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|------------|
| | 2014 | 2013 | 2014 | 2013 |
| Available for Sale Securities: | | | | |
| Unrealized gain (loss) on securities available for sale | \$ (10) | \$ (198) | \$ 2,618 | \$ (3,163) |
| Change in unrealized gain on securities available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings | 65 | (4) | 434 | 418 |
| Net unrealized gains (losses) | 55 | (202) | 3,052 | (2,745) |
| Tax effect | (21) | 71 | (1,070) | 962 |
| Net of tax | 34 | (131) | 1,982 | (1,783) |
| Cash Flow Hedges: | | | | |
| Change in fair value of derivatives used for cash flow hedges | 28 | | (676) | |
| Reclassification adjustment for losses realized in income | 104 | | 303 | |
| Net unrealized gains (losses) | 132 | | (373) | |
| Tax effect | (45) | | 131 | |
| Net of tax | 87 | | (242) | |
| Total other comprehensive income, net of tax | \$ 121 | \$ (131) | \$ 1,740 | \$ (1,783) |

The following is a summary of the accumulated OCI balances, net of tax for the nine months ended September 30, 2014 and 2013:

| (in thousands) | Balance at | Change for Nine | Balance at |
|--|-------------------|--|-----------------------|
| | December 31, 2013 | Months ending September 30, 2014 | September 30, 2014 |
| Unrealized gain on securities available for sale | \$ 2,526 | \$ 1,700 | \$ 4,226 |
| Unrealized gain on security available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings | 484 | 282 | 766 |
| Unrealized gain (loss) on cash flow hedge | 111 | (242) | (131) |
| Total unrealized gain | \$ 3,121 | \$ 1,740 | \$ 4,861 |

| (in thousands) | Balance at | Change for Nine | Balance at |
|--|-------------------|--|-----------------------|
| | December 31, 2012 | Months ending September 30, 2013 | September 30, 2013 |
| Unrealized gain (loss) on securities available for sale | \$ 5,610 | \$ (2,055) | \$ 3,555 |
| Unrealized gain on security available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings | 2 | 272 | 274 |

| | | | | | | |
|------------------------------|----|-------|----|---------|----|-------|
| Total unrealized gain (loss) | \$ | 5,612 | \$ | (1,783) | \$ | 3,829 |
|------------------------------|----|-------|----|---------|----|-------|

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12. 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 customers are similar.

As of September 30, 2014, the Company was divided into three distinct business operating segments: Traditional Banking, Mortgage Banking and Republic Processing Group (RPG). Along with the Tax Refund Solutions (TRS) division, Republic Payment Solutions (RPS) and Republic Credit Solutions (RCS) operate as divisions of the RPG segment.

All divisions of the RPG segment operate through the Bank. The TRS division facilitates the receipt and payment of federal and state tax refund products. The RPS division is an issuing bank offering general purpose reloadable prepaid debit cards through third party program managers. The RCS division is piloting short-term consumer credit products.

Loans, investments and deposits provide the majority of the net revenue from Traditional Banking operations, while servicing fees and loan sales provide the majority of revenue from Mortgage Banking operations. Net refund transfer fees provide the majority of revenue for RPG. All Company operations are domestic.

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 2013 Annual Report on Form 10-K. Segment performance is evaluated using operating income. Goodwill is not allocated. Income taxes are generally allocated based on income before income tax expense when specific segment allocations cannot be reasonably made. Transactions among reportable segments are made at carrying value.

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Segment information for the three months ended September 30, 2014 and 2013 follows:

| (dollars in thousands) | Three Months Ended September 30, 2014 | | | Total Company |
|---|---------------------------------------|------------------|---------------------------|---------------|
| | Traditional Banking | Mortgage Banking | Republic Processing Group | |
| Net interest income | \$ 28,337 | \$ 38 | \$ 67 | \$ 28,442 |
| Provision for loan losses | 1,542 | | (32) | 1,510 |
| Net refund transfer fees | | | (133) | (133) |
| Mortgage banking income | | 876 | | 876 |
| Other non-interest income | 6,073 | 41 | 287 | 6,401 |
| Total non-interest income | 6,073 | 917 | 154 | 7,144 |
| Total non-interest expenses | 22,982 | 754 | 2,086 | 25,822 |
| Income (loss) before income tax expense | 9,886 | 201 | (1,833) | 8,254 |
| Income tax expense (benefit) | 3,600 | 71 | (663) | 3,008 |
| Net income (loss) | \$ 6,286 | \$ 130 | \$ (1,170) | \$ 5,246 |
| Segment end of period assets | \$ 3,598,186 | \$ 11,150 | \$ 16,283 | \$ 3,625,619 |
| Net interest margin | 3.38% | NM | NM | 3.38% |
| | | | | |
| (dollars in thousands) | Three Months Ended September 30, 2013 | | | Total Company |
| | Traditional Banking | Mortgage Banking | Republic Processing Group | |
| Net interest income | \$ 28,390 | \$ 130 | \$ 19 | \$ 28,539 |
| Provision for loan losses | 2,257 | | (57) | 2,200 |
| Net refund transfer fees | | | 152 | 152 |
| Mortgage banking income | | 1,026 | | 1,026 |
| Other non-interest income | 6,203 | 19 | 99 | 6,321 |
| Total non-interest income | 6,203 | 1,045 | 251 | 7,499 |
| Total non-interest expenses | 22,197 | 768 | 3,320 | 26,285 |
| Income (loss) before income tax expense | 10,139 | 407 | (2,993) | 7,553 |
| Income tax expense (benefit) | 3,856 | 142 | (1,048) | 2,950 |
| Net income (loss) | \$ 6,283 | \$ 265 | \$ (1,945) | \$ 4,603 |
| Segment end of period assets | \$ 3,305,689 | \$ 15,697 | \$ 10,495 | \$ 3,331,881 |
| Net interest margin | 3.54% | NM | NM | 3.54% |

Segment assets are reported as of the respective period ends while income and margin data are reported for the respective periods.

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Segment information for the nine months ended September 30, 2014 and 2013 follows:

| (dollars in thousands) | Nine Months Ended September 30, 2014 | | | Total Company |
|---|--------------------------------------|------------------|---------------------------|---------------|
| | Traditional Banking | Mortgage Banking | Republic Processing Group | |
| Net interest income | \$ 82,891 | \$ 133 | \$ 272 | \$ 83,296 |
| Provision for loan losses | 2,012 | | (512) | 1,500 |
| Net refund transfer fees | | | 16,091 | 16,091 |
| Mortgage banking income | | 2,174 | | 2,174 |
| Other non-interest income | 18,124 | 186 | 1,412 | 19,722 |
| Total non-interest income | 18,124 | 2,360 | 17,503 | 37,987 |
| Total non-interest expenses | 71,389 | 2,977 | 8,986 | 83,352 |
| Income (loss) before income tax expense | 27,614 | (484) | 9,301 | 36,431 |
| Income tax expense (benefit) | 9,594 | (169) | 3,454 | 12,879 |
| Net income (loss) | \$ 18,020 | \$ (315) | \$ 5,847 | \$ 23,552 |
| Segment end of period assets | \$ 3,598,186 | \$ 11,150 | \$ 16,283 | \$ 3,625,619 |
| Net interest margin | 3.34% | NM | NM | 3.32% |

| (dollars in thousands) | Nine Months Ended September 30, 2013 | | | Total Company |
|----------------------------------|--------------------------------------|------------------|---------------------------|---------------|
| | Traditional Banking | Mortgage Banking | Republic Processing Group | |
| Net interest income | \$ 85,957 | \$ 388 | \$ 91 | \$ 86,436 |
| Provision for loan losses | 3,276 | | (796) | 2,480 |
| Net refund transfer fees | | | 13,849 | 13,849 |
| Mortgage banking income | | 6,480 | | 6,480 |
| Bargain purchase gain - FCB | 1,324 | | | 1,324 |
| Other non-interest income | 18,151 | 102 | 792 | 19,045 |
| Total non-interest income | 19,475 | 6,582 | 14,641 | 40,698 |
| Total non-interest expenses | 72,713 | 2,537 | 11,927 | 87,177 |
| Income before income tax expense | 29,443 | 4,433 | 3,601 | 37,477 |
| Income tax expense | 10,588 | 1,551 | 1,260 | 13,399 |
| Net income | \$ 18,855 | \$ 2,882 | \$ 2,341 | \$ 24,078 |
| Segment end of period assets | \$ 3,305,689 | \$ 15,697 | \$ 10,495 | \$ 3,331,881 |
| Net interest margin | 3.57% | NM | NM | 3.55% |

Segment assets are reported as of the respective period ends while income and margin data are reported for the respective periods.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations of Republic Bancorp, Inc. (Republic or the Company) analyzes the major elements of Republic's consolidated balance sheets and statements of income. Republic, a bank holding company headquartered in Louisville, Kentucky, is the parent company of Republic Bank & Trust Company (RB&T or the Bank) and Republic Insurance Services, Inc. (the Captive). RB&T is a Kentucky-based, state chartered non-member financial institution. The Captive, which was formed during the third quarter of 2014, is a wholly-owned insurance subsidiary of the Company that provides property and casualty insurance coverage to the Company and the Bank. The Captive provides insurance to five other third party insurance captives for which insurance may not be currently available or economically feasible in today's insurance marketplace. Republic Bancorp Capital Trust is a Delaware statutory business trust that is a 100%-owned unconsolidated finance subsidiary of Republic Bancorp, Inc. 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*.

During the second quarter of 2014, Republic Bank, the Company's wholly-owned, federally chartered savings institution, was legally merged into RB&T. The merged institution operates under the name Republic Bank & Trust Company. The merger did not materially impact the Company's consolidated financial statements.

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; the term the Bank refers to the Company's subsidiary bank, RB&T; and the term the Captive refers to the Company's subsidiary insurance company, Republic Insurance Services, Inc.

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: changes in political and economic conditions; interest rate fluctuations; competitive product and pricing pressures; equity and fixed income market fluctuations; personal and corporate customers' bankruptcies; inflation; recession; acquisitions and integrations of acquired businesses; technological changes; changes in law and regulations or the interpretation and enforcement thereof; changes in fiscal, monetary, regulatory and tax policies; monetary fluctuations; 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; as well as other risks and uncertainties reported from time to time in the Company's filings with the Securities and Exchange Commission (SEC) included under Part 1 Item 1A *Risk Factors* of the Company's 2013 Annual Report on Form 10-K.

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.

The Company may make forward-looking statements discussing management's expectations about various matters, including:

- loan delinquencies; non-performing, classified, or impaired loans; and troubled debt restructurings (TDR s);
- further developments in the Bank's ongoing review of and efforts to resolve possible problem credit relationships, which could result in, among other things, additional provisions for loan losses;
- future credit quality, credit losses and the overall adequacy of the Allowance for Loan Losses (Allowance);
- potential write-downs of other real estate owned (OREO);
- future short-term and long-term interest rates and the respective impact on net interest income, net interest spread, net income, liquidity, capital and economic value of equity (EVE);
- the future impact of Company strategies to mitigate interest rate risk;
- future long-term interest rates and their impact on the demand for Mortgage Banking products, warehouse lines of credit and correspondent lending;
- the future value of mortgage servicing rights (MSR s);
- the future financial performance of the Tax Refund Solutions (TRS) division of the Republic Processing Group (RPG) segment;

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- future Refund Transfer (RT) volume for TRS;
- the future net revenue associated with RTs at TRS;
- the future financial performance of the Republic Payment Solutions (RPS) division of RPG;
- the future financial performance of the Republic Credit Solutions (RCS) division of RPG;
- the potential impairment of investment securities;
- the growth in the Bank s loan portfolio, in general;
- the growth in the Bank s Mortgage Warehouse and Correspondent Lending portfolios;
- the volatility of the Bank s Mortgage Warehouse portfolio outstanding balances;
- the Bank s ability to maintain and/or grow deposits;
- the concentrations and volatility of the Bank s securities sold under agreements to repurchase;
- the Company s ability to successfully implement strategic plans, including, but not limited to, those related to future business acquisitions, in general, and the Bank s two FDIC-assisted acquisitions from 2012;
- future accretion of discounts on loans acquired in the Bank s two FDIC-assisted acquisitions from 2012 and the effect of such accretion on the Bank s net interest income and net interest margin;
- future amortization of premiums on loans acquired through the Bank s Correspondent Lending division and the effect of such amortization on the Bank s net interest income and net interest margin;
- the extent to which regulations written and implemented by the Federal Bureau of Consumer Financial Protection (CFPB), and other federal, state and local governmental regulation of consumer lending and related financial products and services, may limit or prohibit the operation of the Company s business;
- financial services reform and other current, pending or future legislation or regulation that could have a negative effect on the Company s revenue and businesses, including but not limited to, Basel III capital reforms; the Dodd-Frank Act; and legislation and regulation relating to overdraft fees (and changes to the Bank s overdraft practices as a result thereof), debit card interchange fees, credit cards, and other bank services;
- the impact of new accounting pronouncements;
- legal and regulatory matters including results and consequences of regulatory guidance, litigation, administrative proceedings, rule-making, interpretations, actions and examinations;
- future capital expenditures; and
- the strength of the U.S. economy in general and the strength of the local economies in which the Company conducts operations.

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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, 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.

See additional discussion under Part I Item 1 Business and Part I Item 1A Risk Factors of the Company's 2013 Annual Report on Form 10-K.

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As of September 30, 2014, the Company was divided into three distinct business operating segments: Traditional Banking, Mortgage Banking and Republic Processing Group (RPG). Along with the Tax Refund Solutions (TRS) division, Republic Payment Solutions (RPS) and Republic Credit Solutions (RCS) also operate as divisions of the RPG segment. The RPS and RCS divisions are considered immaterial for separate and independent segment reporting. Net income, total assets and net interest margin by segment for the three and nine months ended September 30, 2014 and 2013 are presented below:

| (in thousands) | Three Months Ended September 30, 2014 | | | |
|---------------------|---------------------------------------|------------------|---------------------------|---------------|
| | Traditional Banking | Mortgage Banking | Republic Processing Group | Total Company |
| Net income | \$ 6,286 | \$ 130 | \$ (1,170) | \$ 5,246 |
| Segment assets | 3,598,186 | 11,150 | 16,283 | 3,625,619 |
| Net interest margin | 3.38% | NM | NM | 3.38% |

| (in thousands) | Three Months Ended September 30, 2013 | | | |
|---------------------|---------------------------------------|------------------|---------------------------|---------------|
| | Traditional Banking | Mortgage Banking | Republic Processing Group | Total Company |
| Net income | \$ 6,283 | \$ 265 | \$ (1,945) | \$ 4,603 |
| Segment assets | 3,305,689 | 15,697 | 10,495 | 3,331,881 |
| Net interest margin | 3.54% | NM | NM | 3.54% |

| (in thousands) | Nine Months Ended September 30, 2014 | | | |
|---------------------|--------------------------------------|------------------|---------------------------|---------------|
| | Traditional Banking | Mortgage Banking | Republic Processing Group | Total Company |
| Net income | \$ 18,020 | \$ (315) | \$ 5,847 | \$ 23,552 |
| Segment assets | 3,598,186 | 11,150 | 16,283 | 3,625,619 |
| Net interest margin | 3.34% | NM | NM | 3.32% |

| (in thousands) | Nine Months Ended September 30, 2013 | | | |
|---------------------|--------------------------------------|------------------|---------------------------|---------------|
| | Traditional Banking | Mortgage Banking | Republic Processing Group | Total Company |
| Net income | \$ 18,855 | \$ 2,882 | \$ 2,341 | \$ 24,078 |
| Segment assets | 3,305,689 | 15,697 | 10,495 | 3,331,881 |
| Net interest margin | 3.57% | NM | NM | 3.55% |

Segment assets are reported as of the respective period ends while income and margin data are reported for the respective periods.

NM Not Meaningful

For expanded segment financial data see Footnote 12 Segment Information of Part I Item 1 Financial Statements.

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(I) Traditional Banking segment

As of September 30, 2014, in addition to an Internet delivery channel, Republic had 42 full-service banking centers with locations as follows:

- Kentucky 33
- Metropolitan Louisville 20
- Central Kentucky 8
- Elizabethtown 1
- Frankfort 1
- Georgetown 1
- Lexington 4
- Shelbyville 1
- Western Kentucky 2
- Owensboro 2
- Northern Kentucky 3
- Covington 1
- Florence 1
- Independence 1
- Southern Indiana 3
- Floyds Knobs 1
- Jeffersonville 1
- New Albany 1
- Metropolitan Tampa, Florida 3
- Metropolitan Cincinnati, Ohio 1

- Metropolitan Nashville, Tennessee 2

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

The Bank principally markets its lending products and services through the following delivery channels:

Retail Mortgage Lending Primarily through its retail banking centers, the Bank originates single family, first lien residential real estate loans, home equity loans and home equity lines of credit. Such loans are generally collateralized by owner occupied property, predominately located in the Bank's primary market areas.

Commercial Lending The Bank's commercial real estate (CRE) loans are generally made to small-to-medium sized businesses in amounts up to 80% or 85% loan-to-value (LTV), depending on the market. LTV is based on the lesser of the appraised value or purchase price of the property.

A broad range of short-to-medium-term collateralized commercial and industrial (C&I) loans and leases are made available to businesses for working capital, business expansion (including acquisitions of real estate and improvements), and the purchase of equipment or machinery. These often represent term loans, lines of credit and equipment and receivables financing.

Construction and Land Development Lending The Bank originates residential construction real estate loans to finance the construction of single family dwellings. Construction loans may be made to consumers or to developers and builders to construct single family dwellings under contract.

The Bank also makes land development loans to real estate developers for the acquisition, development and construction of commercial projects.

Consumer Lending Traditional consumer loans made by the Bank include home improvement and home equity loans, as well as other secured and unsecured personal loans, in addition to 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.

Internet Lending The Bank accepts online loan applications through its website, www.republicbank.com. Loans originated through the Internet are primarily within the Bank's traditional markets of Kentucky and Indiana.

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Warehouse Lines of Credit The Bank provides short-term, revolving credit facilities to mortgage bankers across the Nation through mortgage warehouse lines of credit.

Correspondent Lending The Bank began acquiring single family, first lien mortgage loans for investment through its Correspondent Lending division in May 2014. Correspondent Lending generally involves the Bank acquiring, primarily from its Mortgage Warehouse clients, closed loans that meet the Bank's specifications. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium. Premiums on loans held for investment acquired through the Correspondent Lending division are amortized into interest income on the level-yield method over the expected life of the loan. Loans acquired through the Correspondent Lending division generally reflect borrowers outside of the Bank's historical market footprint. As of September 30, 2014, a substantial majority of loans originated through the Company's Correspondent Lending division were secured by single family residences located in the state of California.

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 high net worth individuals.

Treasury Management Services The Bank provides various deposit products designed for commercial business customers located throughout its market areas. 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 by offering customers Internet banking services and products through its website, www.republicbank.com.

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

See additional detail regarding the Traditional Banking segment under Footnote 12 Segment Information of Part I Item 1 Financial Statements.

(II) 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). 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 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 Mortgage Banking under Footnote 7 Mortgage Banking Activities and Footnote 12 Segment Information of Part I Item 1 Financial Statements.

(III) Republic Processing Group segment

All divisions of the RPG segment operate through the Bank. Nationally, RPG facilitates the receipt and payment of federal and state tax refund products under the TRS division. The RPS division is an issuing bank offering general purpose reloadable prepaid debit cards through third party program managers. The RCS division is piloting short-term consumer credit products.

See additional detail regarding RPG under Footnote 12 Segment Information of Part I Item 1 Financial Statements.

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OVERVIEW (Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013)

Net income for the three months ended September 30, 2014 was \$5.2 million, representing an increase of \$643,000, or 14%, compared to the same period in 2013. Diluted earnings per Class A Common Share were \$0.25 and \$0.22 for the quarters ended September 30, 2014 and 2013.

Within the Company's Traditional Banking segment, net income for the third quarter of 2014 was \$6.3 million, approximately equivalent to the same period in 2013.

The Company's Mortgage Banking segment reflected net income of \$130,000 for the third quarter of 2014 compared to \$265,000 for the same period in 2013.

The TRS division of the RPG segment derives substantially all of its revenue during the first and second quarters of the year and historically operates at a net loss during the second half of the year, as the Company prepares for the upcoming tax season.

The RPG segment reflected a third quarter 2014 net loss of \$1.2 million, an improvement of \$775,000, or 40%, over a \$1.9 million net loss for the same period in 2013.

Other general highlights by segment for the quarter ended September 30, 2014 consisted of the following:

Traditional Banking segment

- Net income increased \$3,000, or less than 1%, for the third quarter of 2014 compared to the same period in 2013.
- Provision for loan losses (Provision) was \$1.5 million for the quarter ended September 30, 2014 compared to \$2.3 million for the same period in 2013.
- Net interest income was \$28.3 million for the third quarter of 2014 compared to \$28.4 million for the same period in 2013. The Traditional Banking segment net interest margin decreased 16 basis points for the quarter ended September 30, 2014 to 3.38%.

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- Total non-interest income decreased \$130,000, or 2%, for the third quarter of 2014 compared to the same period in 2013.
- Total non-interest expense increased \$785,000, or 4%, during the third quarter of 2014 compared to the third quarter of 2013.
- Gross Traditional Bank loans, excluding outstanding Mortgage Warehouse lines, increased by \$155 million, or 6%, during the third quarter of 2014 compared to a decline of \$12 million, or less than 1% during the same period in 2013. Growth during the third quarter of 2014 was primarily driven by the Traditional Bank's Correspondent Lending division, which acquired \$128 million of loans during the quarter.
- Outstanding Mortgage Warehouse lines of credit increased by \$28 million, or 12%, during the third quarter of 2014 compared to a decline of \$55 million, or 31% during the same period in 2013.

Mortgage Banking segment

- Within the Mortgage Banking segment, mortgage banking income decreased \$150,000, or 15%, during the third quarter of 2014 compared to the same period in 2013.
- Overall, Republic's proceeds from the sale of secondary market loans totaled \$22 million during the third quarter of 2014 compared to \$71 million during the same period in 2013. Increases in long-term interest rates, which began to occur in May 2013, continued to negatively impact demand for mortgage refinances in particular, with this impact expected to continue through 2014.

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Republic Processing Group segment

- Net loss for RPG improved \$775,000, or 40%, for the third quarter of 2014 compared to the same period in 2013.
- While RB&T permanently discontinued the offering of its Refund Anticipation Loan (RAL) product effective April 30, 2012, the Bank still records recoveries on RAL loans charged-off in prior periods. Additionally, RPG provides for losses on short-term consumer loans originated through the RCS division. RPG recorded a net credit to the Provision of \$32,000 for the third quarter of 2014 compared to a \$57,000 credit for the same period in 2013.
- Non-interest income was \$154,000 for the third quarter of 2014 compared to \$251,000 for the same period in 2013.
- Non-interest expenses were \$2.1 million for the third quarter of 2014 compared to \$3.3 million for the same period in 2013. The improved performance was primarily driven by the TRS division, which experienced a \$902,000 decrease in legal fees for the quarter, as the Company incurred substantial legal expenses during the third quarter of 2013 related to contract disputes with its previously two largest product providers and the Bank's unsuccessful effort to acquire H&R Block Bank.

RESULTS OF OPERATIONS (Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013)

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 interest expense on 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.

Total Company net interest income decreased \$97,000, or less than 1%, for the third quarter of 2014 compared to the same period in 2013. The total Company net interest margin decreased from 3.54% during the third quarter of 2013 to 3.38% for the third quarter of 2014. The minimal decrease in the Company's net interest income, as compared to the relatively large decrease in net interest margin, primarily reflects two main drivers: the first a continuing general decline in the Company's interest-earning asset yields without a similar offsetting decline in funding costs; the second a \$219 million, or 9%, increase in the total Company's average loans over the past 12 months. The most significant components affecting the total Company's net interest income by business segment were as follows:

Traditional Banking segment

Net interest income within the Traditional Banking segment decreased \$53,000, or less than 1%, for the quarter ended September 30, 2014 compared to the same period in 2013. The Traditional Banking net interest margin decreased 16 basis points from the same period in 2013 to 3.38%. The decrease in the Traditional Bank's net interest income and net interest margin during 2014 was primarily attributable to the following factors:

- Excluding the mortgage warehouse loan portfolio (discussed below), the Traditional Banking segment continued to experience downward repricing in its loans and investment portfolios during the third quarter of 2014. This downward repricing resulted from the ongoing paydowns and early payoffs of higher earning assets with new originations and purchases being made into lower yielding earning assets. As a result, the yield in both the loan and investment portfolios declined from the third quarter 2013 compared to the same period in 2014.
- Traditional Bank loans, excluding mortgage warehouse loans, experienced yield compression of 46 basis points from the third quarter of 2013 compared to the same period in 2014. Average loans outstanding, excluding mortgage warehouse loans, were \$2.43 billion with a weighted average yield of 4.93% during the third quarter of 2013 compared to \$2.55 billion with a weighted average yield of 4.47% during the same period 2014. The overall effect of these changes in rate and volume was a decline of \$1.6 million in interest income.

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- Traditional Bank taxable investment securities experienced yield compression of 11 basis points from the third quarter of 2013 compared to the same period in 2014. Average taxable investment securities outstanding were \$531 million with a weighted average yield of 1.74% during the third quarter of 2013 compared to \$539 million with a weighted average yield of 1.63% during the same period in 2014. The overall effect of these changes in rate and volume was a decrease of \$105,000 in interest income.
- Average outstanding mortgage warehouse lines of credit increased \$115 million from the third quarter of 2013 to the same period in 2014. Average mortgage warehouse loans outstanding were \$243 million during the third quarter of 2014 with a weighted-average yield of 3.92%, compared to average loans outstanding of \$128 million with a weighted-average yield of 4.46% for the same period in 2013. As a result of these changes in rate and volume, interest income on mortgage warehouse lines of credit increased \$947,000 during the third quarter of 2014 compared to the same period in 2013. *See additional detail regarding Mortgage Warehouse lines of credit under the section titled Loan Portfolio in this section of the filing.*
- Average FHLB advances decreased \$17 million from the third quarter of 2013 to the same period in 2014. Average FHLB advances were \$576 million during the third quarter of 2014 with a weighted-average cost of 2.16%, compared to average advances of \$593 million with a weighted-average cost of 2.56% for the same period in 2013. As a result of these changes in rate and volume, interest expense on FHLB advances decreased \$672,000 during the third quarter of 2014 compared to the same period in 2013.
- Net interest income continued to benefit from discount accretion on loans acquired from the Bank's 2012 FDIC-assisted acquisitions, although to a lesser degree than it has in the past. Altogether, this discount accretion totaled \$732,000 for the third quarter of 2014 compared to \$2.0 million for the third quarter of 2013, contributing nine and 25 basis points, respectively, to the net interest margin for these periods. Management projects accretion of loan discounts related to the 2012 FDIC-assisted acquisitions to be approximately \$500,000 for the fourth quarter of 2014. Similar to the first three quarters of 2014, the accretion estimate for the fourth quarter of 2014 could be positively impacted by positive workout arrangements in which the Bank receives loan payoffs for amounts greater than the loans' respective carrying values.

The downward repricing of interest-earning assets is expected to continue to cause compression in Republic's net interest income and net interest margin in the near future. Because the Federal Funds Target Rate (FFTR), the index which many of the Bank's short-term deposit rates track, has remained at a target range between 0.00% and 0.25%, no future FFTR decreases from the Federal Open Market Committee of the Federal Reserve Bank (FRB) are possible, exacerbating the compression to the Bank's net interest income and net interest-bearing margin caused by its repricing loans and investments.

In addition to the margin compression challenges noted above, the Bank has employed certain strategies over the past 18 months to improve its net interest income. These strategies have expectedly had a negative impact on the Bank's interest rate risk position in a rising rate environment. Management's future strategies to improve its net interest income will likely continue to be impacted by the Bank's overall interest rate risk position at that time.

The Bank is unable to precisely determine its net interest income and net interest margin in the future because several factors remain unknown, including, but not limited to, the future demand for the Bank's financial products and its overall future liquidity needs, among many other factors.

See additional detail regarding the Bank's interest rate risk position and interest rate risk mitigation strategies under the section titled Asset/Liability Management and Market Risk in this section of the filing.

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Table 1 provides detailed total Company information as to average balances, interest income/expense and rates by major balance sheet category for the quarters ended September 30, 2014 and 2013.

Table 1 Total Company Average Balance Sheets and Interest Rates for the Three Months Ended September 30, 2014 and 2013

| (dollars in thousands) | Three Months Ended September 30, 2014 | | | Three Months Ended September 30, 2013 | | |
|--|---------------------------------------|----------|--------------|---------------------------------------|----------|--------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| ASSETS | | | | | | |
| Interest-earning assets: | | | | | | |
| Taxable investment securities, including FHLB stock(1) | \$ 539,020 | \$ 2,202 | 1.63% | \$ 530,759 | \$ 2,307 | 1.74% |
| Federal funds sold and other interest-earning deposits | 29,713 | 26 | 0.35% | 113,042 | 83 | 0.29% |
| Loans and fees(2)(3) | 2,795,788 | 30,916 | 4.42% | 2,576,606 | 31,619 | 4.91% |
| Total interest-earning assets | 3,364,521 | 33,144 | 3.94% | 3,220,407 | 34,009 | 4.22% |
| Allowance for loan losses | (22,869) | | | (22,664) | | |
| Non interest-earning assets: | | | | | | |
| Non interest-earning cash and cash equivalents | 60,367 | | | 65,920 | | |
| Premises and equipment, net | 33,932 | | | 32,820 | | |
| Bank owned life insurance | 50,862 | | | | | |
| Other assets(1) | 43,200 | | | 43,113 | | |
| Total assets | \$ 3,530,013 | | | \$ 3,339,596 | | |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Transaction accounts | \$ 755,061 | \$ 124 | 0.07% | \$ 712,426 | \$ 127 | 0.07% |
| Money market accounts | 472,242 | 189 | 0.16% | 497,332 | 149 | 0.12% |
| Time deposits | 167,531 | 253 | 0.60% | 180,422 | 345 | 0.76% |
| Brokered money market and brokered CD s | 102,968 | 364 | 1.41% | 123,150 | 422 | 1.37% |
| Total interest-bearing deposits | 1,497,802 | 930 | 0.25% | 1,513,330 | 1,043 | 0.28% |
| Securities sold under agreements to repurchase and other short-term borrowings | 317,053 | 28 | 0.04% | 139,293 | 11 | 0.03% |
| Federal Home Loan Bank advances | 575,761 | 3,116 | 2.16% | 592,735 | 3,788 | 2.56% |
| Subordinated note | 41,240 | 628 | 6.09% | 41,240 | 628 | 6.09% |
| Total interest-bearing liabilities | 2,431,856 | 4,702 | 0.77% | 2,286,598 | 5,470 | 0.96% |
| Non interest-bearing liabilities and Stockholders equity | | | | | | |

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|---|--------------|--------------|
| Non interest-bearing deposits | 521,360 | 488,386 |
| Other liabilities | 18,047 | 17,173 |
| Stockholders equity | 558,750 | 547,439 |
| Total liabilities and stockholders equity | \$ 3,530,013 | \$ 3,339,596 |
| Net interest income | \$ 28,442 | \$ 28,539 |
| Net interest spread | 3.17% | 3.26% |
| Net interest margin | 3.38% | 3.54% |

(1) For the purpose of this calculation, the fair market value adjustment on investment securities resulting from FASB ASC Topic 320, Investments Debt and Equity Securities, is included as a component of other assets.

(2) The amount of loan fee income included in total interest income was \$1.8 million and \$3.3 million for the three months ended September 30, 2014 and 2013.

(3) Average balances for loans include the principal balance of non-accrual loans and loans held for sale and are net of all premiums, discounts, fees and costs.

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Table 2 illustrates the extent to which changes in interest rates and changes in the volume of total Company 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 2 Total Company Volume/Rate Variance Analysis for the Three Months Ended September 30, 2014 and 2013

| (in thousands) | Total Net Change | Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013 Increase / (Decrease) Due to | |
|--|------------------|---|------------|
| | | Volume | Rate |
| <i>Interest income:</i> | | | |
| Taxable investment securities, including FHLB stock | \$ (105) | \$ 36 | \$ (141) |
| Federal funds sold and other interest-earning deposits | (57) | (71) | 14 |
| Loans and fees | (703) | 2,567 | (3,270) |
| Net change in interest income | (865) | 2,532 | (3,397) |
| <i>Interest expense:</i> | | | |
| Transaction accounts | (3) | 7 | (10) |
| Money market accounts | 40 | (8) | 48 |
| Time deposits | (93) | (24) | (69) |
| Brokered money market and brokered CDs | (58) | (71) | 13 |
| Securities sold under agreements to repurchase and other short-term borrowings | 18 | 16 | 2 |
| Federal Home Loan Bank advances | (672) | (106) | (566) |
| Subordinated note | | | |
| Net change in interest expense | (768) | (186) | (582) |
| Net change in net interest income | \$ (97) | \$ 2,718 | \$ (2,815) |

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Provision for Loan Losses (Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013)

The Company recorded a \$1.5 million Provision for the third quarter 2014, compared to \$2.2 million for the same period in 2013. The significant components comprising the Company's Provision by business segment were as follows:

Traditional Banking segment

The Traditional Banking Provision during the third quarter of 2014 was \$1.5 million, a \$715,000 improvement from the \$2.3 million Provision recorded during the third quarter of 2013. The improvement from the third quarter of 2013 to 2014 was primarily due to the following:

- The Traditional Bank posted a net decrease of \$4,000 in Provision associated with loans rated "Special Mention" for the third quarter of 2014 compared to a net increase of \$1.1 million for the same period in 2013. The increase during the third quarter of 2013 was primarily driven by an increase in reserves for retail troubled debt restructured loans. The change associated with the Bank's Special Mention credits, represented a positive swing in the Provision of approximately \$1.1 million for the quarter.
- The Traditional Bank posted a net decrease of \$69,000 to the Provision during the third quarter of 2014 associated with purchased credit impaired (PCI) loans compared to a net increase of \$360,000 for same period in 2013. Increases in the Provision for PCI loans reflect probable shortfalls in cash flows below initial estimates for these loans. Credits to the Provision for PCI loans generally reflect reversals of provisions made in prior periods due to positive loan workouts. The change associated with the Bank's PCI credits, represented a positive swing in the Provision of approximately \$429,000 for the quarter.
- The Traditional Bank posted a net increase of \$343,000 in the Provision associated with loans rated "Substandard" for the third quarter of 2014 compared to a net increase of \$837,000 for the same period in 2013. During the third quarter of 2014 and 2013, the Bank had no significant impairment charges for individually evaluated Substandard relationships. The change associated with the Bank's Substandard credits, represented a positive swing in the Provision of approximately \$494,000 for the quarter.
- The Traditional Bank posted a net increase of \$138,000 to the Provision during the third quarter of 2014 associated with small-dollar, retail nonaccrual loans compared to a net decrease of \$16,000 to the Provision for the same period in 2013. Provisions for these loans during the periods were partially driven by an increase in the portfolio balance and partially by the Bank's updated migration analysis. The change associated with the Bank's small-dollar and retail nonaccrual credits, represented a negative swing in the Provision of approximately \$154,000 for the quarter.
- The Traditional Bank posted a net increase of \$1.1 million in allocations associated with "Pass" rated and non rated loans during the third quarter of 2014 compared to a net decrease of \$58,000 for the same period in 2013. The change associated with the Bank's Pass rated and non rated loans represented a negative swing in the Provision of approximately \$1.2 million for the quarter. The increase during the third quarter of 2014 was primarily driven by increases in residential real estate loans originated through the Bank's correspondent lending channel and

higher usage rates on warehouse lines of credit during the period.

As a percentage of total loans, the Traditional Banking Allowance decreased to 0.81% at September 30, 2014 compared to 0.89% at December 31, 2013 and 0.92% at September 30, 2013. The Company believes, based on information presently available, that it has adequately provided for loan losses at September 30, 2014.

See the sections titled Allowance for Loan 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.

Republic Processing Group segment

As previously reported, the Company ceased offering the RAL product effective April 30, 2012. During the third quarters 2014 and 2013, RPG recorded net credits to the Provision of \$32,000 and \$57,000 due primarily to the collection of prior period RAL charge-offs.

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An analysis of changes in the Allowance and selected credit quality ratios follows:

Table 3 Summary of Loan Loss Experience for the Three Months Ended September 30, 2014 and 2013

| (dollars in thousands) | Three Months Ended September 30, | |
|--|-------------------------------------|-----------|
| | 2014 | 2013 |
| Allowance at beginning of period | \$ 22,772 | \$ 22,491 |
| Charge offs: | | |
| Residential real estate: | | |
| Owner occupied | (161) | (578) |
| Owner occupied - correspondent | | |
| Non owner occupied | (135) | (67) |
| Commercial real estate | (365) | (307) |
| Commercial real estate - purchased whole loans | | |
| Construction & land development | | (16) |
| Commercial & industrial | | (102) |
| Lease financing receivables | | |
| Warehouse lines of credit | | |
| Home equity | (146) | (218) |
| Consumer: | | |
| RPG loans: | | |
| Refund Anticipation Loans | | |
| Other RPG loans | (2) | |
| Credit cards | (23) | (60) |
| Overdrafts | (136) | (169) |
| Purchased whole loans | | |
| Other consumer | (105) | (110) |
| Total charge offs | (1,073) | (1,627) |
| Recoveries: | | |
| Residential real estate: | | |
| Owner occupied | 26 | 20 |
| Owner occupied - correspondent | | |
| Non owner occupied | 17 | 59 |
| Commercial real estate | 9 | 38 |
| Commercial real estate - purchased whole loans | | |
| Construction & land development | | 7 |
| Commercial & industrial | 37 | 19 |
| Lease financing receivables | | |
| Warehouse lines of credit | | |
| Home equity | 88 | 55 |
| Consumer: | | |
| RPG loans: | | |
| Refund Anticipation Loans | 32 | 57 |
| Other RPG loans | | |
| Credit cards | 10 | 4 |
| Overdrafts | 91 | 95 |
| Purchased whole loans | | |
| Other consumer | 98 | 74 |

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| | | |
|---------------------------------|-----------|-----------|
| Total recoveries | 408 | 428 |
| Net charge offs | (665) | (1,199) |
| Provision - Traditional Banking | 1,542 | 2,257 |
| Provision - RPG Loans | (32) | (57) |
| Total Provision | 1,510 | 2,200 |
| Allowance at end of period | \$ 23,617 | \$ 23,492 |

Credit Quality Ratios:

| | | |
|--|-------|-------|
| Allowance to total loans | 0.81% | 0.92% |
| Allowance to non-performing loans | 110% | 116% |
| Annualized net loan charge offs to average loans - Total Company | 0.10% | 0.19% |
| Annualized net loan charge offs to average loans - Traditional Banking | 0.10% | 0.19% |

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Non-interest Income (Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013)

Non-interest income decreased \$355,000, or 5%, for the third quarter of 2014 compared to the same period in 2013. The most significant components comprising the total Company's change in non-interest income by business segment were as follows:

Traditional Banking segment

Traditional Banking segment non-interest income decreased \$130,000, or 2%, for the third quarter of 2014 compared to the same period in 2013.

Net gains on the sale of OREO decreased \$336,000, or 84%, from a net gain of \$403,000 recorded during the third quarter of 2013 to \$67,000 for the same period in 2014. Net gains on the sale of OREO during the third quarter of 2013 included a gain of \$123,000 on a single property.

Net credit card interchange income decreased \$172,000, as additional estimated credit card rebates were accrued in connection with a change in the Company's credit card rewards program.

Service charges on deposit accounts decreased from \$3.7 million during the third quarter of 2013 to \$3.6 million during the third quarter of 2014. The lack of growth in service charges on deposits reflects a generally flat to downward trend for the Bank over the past several years due primarily to on-going regulatory changes that have negatively impacted overdraft fee income. Management does not anticipate this trend to change in a substantial positive manner any time in the foreseeable future. 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 quarter ended September 30, 2014 and 2013 were \$2.0 million and \$2.2 million. The total daily overdraft charges, net of refunds, included in interest income for the quarters ended September 30, 2014 and 2013 were \$417,000 and \$438,000.

Partially offsetting the decreases above, the Bank recorded \$381,000 from an increase in the cash surrender value of its Bank Owned Life Insurance (BOLI) during the third quarter of 2014. The Bank first invested in BOLI during the fourth quarter of 2013.

Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income decreased \$150,000, or 15%, during the third quarter of 2014 compared to the same period in 2013. Overall, Republic's proceeds from the sale of secondary market loans totaled \$22 million during the third quarter of 2014 compared to \$71 million during the same period in 2013. Increases in long-term interest rates, which began during May 2013, continue to negatively impact demand for mortgage refinances in particular, with this impact expected to continue through 2014.

Republic Processing Group segment

RPG non-interest income decreased \$97,000, or 39%, during the third quarter of 2014 compared to the same period in 2013 primarily driven by additional RT rebate accruals for the 2014 tax season recorded by the TRS division. Partially offsetting this decrease, the RCS and RPS divisions recorded overall increases in fee revenues of \$182,000 related to pilot programs.

For additional discussion of non-interest income related to RPG, see the non-interest income discussion for the RPG business segment for the nine months ended September 30, 2014 compared to nine months ended September 30, 2013.

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Non-interest Expenses (Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013)

Total Company non-interest expenses decreased \$463,000, or 2%, during the third quarter of 2014 compared to the same period in 2013. The most significant components comprising the change in non-interest expense by business segment were as follows:

Traditional Banking segment

For the third quarter of 2014 compared to the same period in 2013, Traditional Banking non-interest expenses increased \$785,000, or 4%.

OREO expense increased \$459,000, or 93%, for the third quarter of 2014, primarily driven by a \$333,000 writedown for one commercial property. This writedown represented 35% of the Bank's third quarter 2014 OREO expense.

Marketing and development expense increased \$276,000, or 38%, for the third quarter of 2014, primarily driven by the Company's 2014 brand marketing campaign.

Salaries and benefits decreased \$151,000 for the third quarter of 2014 compared to the same period in 2013. Comparability to the third quarter of 2013 was greatly impacted by a large pre-tax credit of \$3.3 million to salaries and benefits expense recorded during the third quarter of 2013, as the Traditional Bank reversed the substantial majority of its 2013 incentive compensation accruals during the quarter. By comparison, the Traditional Bank recorded a pre-tax credit of \$1.8 million during the third quarter of 2014 related to its 2014 incentive compensation accruals.

Excluding incentive compensation reversals noted in the previous paragraph, salaries and benefits decreased \$1.7 million for the third quarter of 2014. Primarily contributing to this decrease in salaries and benefits was a decrease in the Traditional Banking segment's full time equivalent employees (FTEs), which declined from 742 at September 30, 2013 to 681 at September 30, 2014. The decrease in the Bank's FTEs was primarily the result of a modest reduction in force during the fourth quarter of 2013.

Republic Processing Group segment

For the third quarter of 2014 compared to the same period in 2013, RPG non-interest expenses decreased \$1.2 million, or 37%.

Legal expenses decreased \$912,000, or 97%, for the third quarter of 2014 due to substantial legal expenses incurred during the third quarter of 2013 related to contract disputes with TRS's previously two largest product providers and the Bank's unsuccessful effort to acquire H&R Block Bank.

Occupancy expenses decreased \$119,000, or 22%, for the third quarter of 2014 compared to the third quarter of 2013 primarily due to a reduction in TRS leased square footage.

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OVERVIEW (Nine months Ended September 30, 2014 Compared to Nine months Ended September 30, 2013)

Net income for the nine months ended September 30, 2014 was \$23.6 million, representing a decrease of \$526,000, or 2%, compared to the same period in 2013. Diluted earnings per Class A Common Share decreased to \$1.13 for the nine months ended September 30, 2014 compared to \$1.16 for the same period in 2013.

Within the Company's Traditional Banking segment, net income for the first nine months of 2014 decreased \$835,000, or 4%, from the same period in 2013 primarily due to compression within net interest income.

The Company's Mortgage Banking segment reflected a net loss of \$315,000 for the first nine months of 2014 compared to net income of \$2.9 million from the same period in 2013, primarily due to lower demand for mortgage products after a sharp rise in long-term interest rates, which began in May 2013.

RPG's first nine months of 2014 net income increased \$3.5 million, or 150%, over the same period in 2013, primarily driven by an increase in the total dollar volume of tax refunds processed by the TRS division.

The TRS division of the RPG segment derives substantially all of its revenue during the first half of the year and historically operates at a net loss during the second half of the year, as the Company prepares for the upcoming tax season.

Other general highlights by segment for the nine months ended September 30, 2014 consisted of the following:

Traditional Banking segment

- Net income decreased \$835,000, or 4%, for the first nine months of 2014 compared to the same period in 2013.
- The Provision was \$2.0 million for the first nine months of 2014 compared to \$3.3 million for the same period in 2013.
- Net interest income decreased \$3.1 million, or 4%, for the first nine months of 2014 to \$82.9 million. The Traditional Banking segment net interest margin decreased 23 basis points for the first nine months of 2014 to 3.34%.

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- Total non-interest income decreased \$1.4 million, or 7%, for the first nine months of 2014 compared to the same period in 2013.
- Total non-interest expense decreased \$1.3 million, or 2%, during the first nine months of 2014 compared to the first nine months of 2013.
- Total non-performing loans to total loans for the Traditional Banking segment was 0.74% at September 30, 2014, compared to 0.81% at December 31, 2013 and 0.79% at September 30, 2013.
- Delinquent loans to total loans for the Traditional Banking segment was 0.42% at September 30, 2014, compared to 0.63% at December 31, 2013 and 0.59% at September 30, 2013.
- Gross Traditional Bank loans, excluding outstanding Mortgage Warehouse lines, increased by \$194 million, or 8%, from December 31, 2013 to September 30, 2014. Growth during the first nine months of 2014 was primarily driven by the Traditional Bank's Correspondent Lending division, which acquired \$140 million in loans since initiation in April 2014.
- Outstanding Mortgage Warehouse lines of credit totaled \$273 million at September 30, 2014 compared to \$150 million at December 31, 2013 and \$123 million at September 30, 2013.
- Traditional Bank deposits grew by \$61 million, or 3%, from December 31, 2013 to September 30, 2014.
- Securities sold under agreements to repurchase increased \$110 million, or 67%, from December 31, 2013 to September 30, 2014, with 72% of this growth concentrated in one relationship.

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Mortgage Banking segment

- Within the Mortgage Banking segment, mortgage banking income decreased \$4.3 million, or 66%, during the first nine months of 2014 compared to the same period in 2013.
- Overall, Republic's proceeds from the sale of secondary market loans totaled \$54 million during the first nine months of 2014 compared to \$271 million during the same period in 2013. The first nine months of 2013 significantly benefited from favorable long-term interest rates through May 2013, when sharp increases in such interest rates began negatively affecting demand for mortgage banking products. This negative impact on demand continued through the remainder of 2013, on into the first nine months of 2014 and is expected to continue through the remainder of 2014.

Republic Processing Group segment

- Net income increased \$3.5 million, or 150%, for the first nine months of 2014 compared to the same period in 2013.
- The total dollar volume of tax refunds processed during the first nine months of 2014 tax season increased \$3 billion, or 74%, from the first nine months of 2013 tax season due primarily to a rise in self-prepared, on-line product volume in combination with growth in retail store-front traffic resulting from new contracts between the Company and third party tax preparation companies.
- Net RT revenue increased \$2.2 million, or 16%, during the first nine months of 2014 compared to the first nine months of 2013.
- While RB&T permanently discontinued the offering of its RAL product effective April 30, 2012, the Bank still records recoveries on RAL loans charged-off in prior periods. Additionally, RPG provides for losses on short-term consumer loans originated through the RCS division. RPG recorded a net credit to the Provision of \$512,000 for the first nine months of 2014, compared to a \$796,000 credit for the same period in 2013.
- Non-interest income was \$17.5 million for the first nine months of 2014 compared to \$14.6 million for the same period in 2013.
- Non-interest expenses were \$9.0 million for the first nine months of 2014 compared to \$11.9 million for the same period in 2013. TRS experienced a \$1.9 million decrease in legal fees for the first nine months of 2014, as the Company incurred substantial legal expenses during the first nine months of 2013 related to contract disputes with its previously two largest product providers and the Bank's unsuccessful effort to acquire H&R Block Bank.

- The Bank resolved its contract dispute with Liberty Tax Service (Liberty) during January 2014. With the matter resolved, RB&T entered into a new two-year agreement with Liberty in which it will begin processing refunds for Liberty clients in January 2015. Beginning with the first quarter 2015 tax season, the contract is expected to increase RPG's annual net revenue for the two-year term of the contract by an average of approximately 16% over its 2013 net annual revenue level. Additional overhead expenses with the new contract are expected to be minimal.

RESULTS OF OPERATIONS (Nine months Ended September 30, 2014 Compared to Nine months Ended September 30, 2013)

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 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.

Total Company net interest income decreased \$3.1 million, or 4%, for the first nine months of 2014 compared to the same period in 2013. The total Company net interest margin decreased from 3.55% during the first nine months of 2013 to 3.32% for the first nine months of 2014. The primary driver of the decrease in total Company net interest income and net interest margin was a continuing general decline in the Company's interest-earning asset yields without a similar offsetting decline in funding costs. Partially offsetting the contraction in the Company's net interest income was growth in the Company's average

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loans over the past 12 months, which increased \$81 million, or 3%, over this time period. The most significant components affecting the total Company's net interest income by business segment were as follows:

Traditional Banking segment

Net interest income within the Traditional Banking segment decreased \$3.0 million, or 4%, for the nine months ended September 30, 2014 compared to the same period in 2013. The Traditional Banking net interest margin decreased 23 basis points from the same period in 2013 to 3.34%. The decrease in the Traditional Bank's net interest income and net interest margin during 2014 was primarily attributable to the following factors:

- Excluding outstanding mortgage warehouse loans (discussed below), the Traditional Banking segment continued to experience downward repricing in its loans and investment portfolios during the first nine months of 2014 resulting from ongoing paydowns and early payoffs of higher earning assets with new originations and purchases being made into lower yielding assets. As a result, the yield in both the loan and investment portfolios declined from the first nine months of 2013 compared to the same period in 2014.
- Traditional Bank loans, excluding mortgage warehouse loans, experienced yield compression of 34 basis points from the first nine months of 2013 compared to the same period in 2014. Average loans outstanding, excluding mortgage warehouse loans, were \$2.43 billion with a weighted average yield of 4.94% during the first nine months of 2013 compared to \$2.48 billion with a weighted average yield of 4.60% during the same period 2014. The overall effect of these changes in rate and volume was a decrease of \$4.6 million in interest income.
- Traditional Bank taxable investment securities experienced yield compression of 13 basis points from the first nine months of 2013 compared to the same period in 2014. Average taxable investment securities outstanding were \$517 million with a weighted average yield of 1.79% during the first nine months of 2013 compared to \$523 million with a weighted average yield of 1.66% during the same period in 2014. The overall effect of these changes in rate and volume was a decrease of \$428,000 in interest income.
- Average outstanding balances for the mortgage warehouse loan portfolio during the first nine months of 2014 increased \$37 million compared to the same period in 2013. Average mortgage warehouse loans outstanding were \$178 million during the first nine months of 2014 with a weighted-average yield of 4.04%, compared to average loans outstanding of \$141 million with a weighted-average yield of 4.53% for the same period in 2013. As a result, interest income on mortgage warehouse lines of credit increased \$612,000 during the first nine months of 2014 compared to the same period in 2013.
- Average FHLB advances decreased \$385,000 from the first nine months of 2013 to the same period in 2014. Average FHLB advances were \$578 million during the first nine months of 2014 with a weighted-average cost of 2.56%, compared to average advances of \$578 million with a weighted-average cost of 2.30% for the same period in 2013. Almost exclusively due to the reduction in rate, interest expense on FHLB advances decreased \$1.1 million during the first nine months of 2014 compared to the same period in 2013.

- Net interest income continued to benefit from discount accretion on loans acquired from the Bank's 2012 FDIC-assisted acquisitions. Altogether, this discount accretion totaled \$4.2 million for the first nine months of 2014 compared to \$5.3 million for the first nine months of 2013, adding 17 and 27 basis points, respectively, to the net interest margin for these periods. Management projects accretion of loan discounts related to the 2012 FDIC-assisted acquisitions to be approximately \$500,000 for the fourth quarter of 2014. Similar to the first nine months of 2014, the accretion estimate for the fourth quarter of 2014 could be positively impacted by positive workout arrangements in which the Bank receives loan payoffs for amounts greater than the loans' respective carrying values.

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The downward repricing of interest-earning assets is expected to continue to cause compression in Republic's net interest income and net interest margin in the near future. Because the FFTR, the index which many of the Bank's short-term deposit rates track, has remained at a target range between 0.00% and 0.25%, no future FFTR decreases from the Federal Open Market Committee of the FRB are possible, exacerbating the compression to the Bank's net interest income and net interest-bearing margin caused by its repricing loans and investments.

In addition to the margin compression challenges noted above, the Bank has employed certain strategies over the past 18 months to improve its net interest income. These strategies have expectedly had a negative impact on the Bank's interest rate risk position in a rising rate environment. Management's future strategies to improve its net interest income will likely continue to be impacted by the Bank's overall interest rate risk position at that time.

The Bank is unable to precisely determine its net interest income and net interest margin in the future because several factors remain unknown, including, but not limited to, the future demand for the Bank's financial products and its overall future liquidity needs, among many other factors.

See additional detail regarding the Bank's interest rate risk position and interest rate risk mitigation strategies under the section titled Asset/Liability Management and Market Risk in this section of the filing.

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Table 4 provides detailed total Company information as to average balances, interest income/expense and rates by major balance sheet category for the nine months ended September 30, 2014 and 2013.

Table 4 Total Company Average Balance Sheets and Interest Rates for the Nine months Ended September 30, 2014 and 2013

| (dollars in thousands) | Nine Months Ended September 30, 2014 | | | Nine Months Ended September 30, 2013 | | |
|--|--------------------------------------|----------|--------------|--------------------------------------|----------|--------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| ASSETS | | | | | | |
| Interest-earning assets: | | | | | | |
| Taxable investment securities, including FHLB stock(1) | \$ 523,207 | \$ 6,530 | 1.66% | \$ 517,077 | \$ 6,958 | 1.79% |
| Federal funds sold and other interest-earning deposits | 154,036 | 328 | 0.28% | 142,058 | 303 | 0.28% |
| Loans and fees(2)(3) | 2,664,113 | 91,188 | 4.56% | 2,583,363 | 95,268 | 4.92% |
| Total interest-earning assets | 3,341,356 | 98,046 | 3.91% | 3,242,498 | 102,529 | 4.22% |
| Allowance for loan losses | (22,752) | | | (23,274) | | |
| Non interest-earning assets: | | | | | | |
| Non interest-earning cash and cash equivalents | 79,735 | | | 81,853 | | |
| Premises and equipment, net | 33,343 | | | 33,218 | | |
| Bank owned life insurance | 42,301 | | | | | |
| Other assets(1) | 45,305 | | | 46,755 | | |
| Total assets | \$ 3,519,288 | | | \$ 3,381,050 | | |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Transaction accounts | \$ 741,073 | \$ 359 | 0.06% | \$ 686,488 | \$ 357 | 0.07% |
| Money market accounts | 479,034 | 575 | 0.16% | 512,400 | 465 | 0.12% |
| Time deposits | 172,182 | 790 | 0.61% | 191,032 | 1,061 | 0.74% |
| Brokered money market and brokered CD s | 107,724 | 1,121 | 1.39% | 123,791 | 1,190 | 1.28% |
| Total interest-bearing deposits | 1,500,013 | 2,845 | 0.25% | 1,513,711 | 3,073 | 0.27% |
| Securities sold under agreements to repurchase and other short-term borrowings | 266,765 | 72 | 0.04% | 163,585 | 53 | 0.04% |
| Federal Home Loan Bank advances | 577,606 | 9,947 | 2.30% | 577,991 | 11,081 | 2.56% |
| Subordinated note | 41,240 | 1,886 | 6.10% | 41,240 | 1,886 | 6.10% |
| Total interest-bearing liabilities | 2,385,624 | 14,750 | 0.82% | 2,296,527 | 16,093 | 0.93% |
| Non interest-bearing liabilities and Stockholders equity | | | | | | |

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| | | |
|---|--------------|--------------|
| Non interest-bearing deposits | 562,300 | 516,848 |
| Other liabilities | 15,430 | 21,162 |
| Stockholders equity | 555,934 | 546,513 |
| Total liabilities and stockholders equity | \$ 3,519,288 | \$ 3,381,050 |
| Net interest income | \$ 83,296 | \$ 86,436 |
| Net interest spread | 3.09% | 3.29% |
| Net interest margin | 3.32% | 3.55% |

(1) For the purpose of this calculation, the fair market value adjustment on investment securities resulting from FASB ASC Topic 320, Investments Debt and Equity Securities, is included as a component of other assets.

(2) The amount of loan fee income included in total interest income was \$7.2 million and \$8.8 million for the nine months ended September 30, 2014 and 2013.

(3) Average balances for loans include the principal balance of non-accrual loans and loans held for sale and are net of all premiums, discounts, fees and costs.

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Table 5 illustrates the extent to which changes in interest rates and changes in the volume of total Company 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 5 Total Company Volume/Rate Variance Analysis for the Nine months Ended September 30, 2014 and 2013

| (in thousands) | Total Net Change | Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013 Increase / (Decrease) Due to | |
|--|------------------|---|------------|
| | | Volume | Rate |
| <i>Interest income:</i> | | | |
| Taxable investment securities, including FHLB stock | \$ (428) | \$ 82 | \$ (510) |
| Federal funds sold and other interest-earning deposits | 25 | 26 | (1) |
| Loans and fees | (4,080) | 2,913 | (6,993) |
| Net change in interest income | (4,483) | 3,021 | (7,504) |
| <i>Interest expense:</i> | | | |
| Transaction accounts | 2 | 27 | (25) |
| Money market accounts | 110 | (32) | 142 |
| Time deposits | (271) | (98) | (173) |
| Brokered money market and brokered CDs | (69) | (162) | 93 |
| Securities sold under agreements to repurchase and other short-term borrowings | 19 | 29 | (10) |
| Federal Home Loan Bank advances | (1,134) | (8) | (1,126) |
| Subordinated note | | | |
| Net change in interest expense | (1,343) | (244) | (1,099) |
| Net change in net interest income | \$ (3,140) | \$ 3,265 | \$ (6,405) |

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Provision for Loan Losses (Nine months Ended September 30, 2014 Compared to Nine months Ended September 30, 2013)

The Company recorded a Provision of \$1.5 million for the first nine months of 2014, compared to \$2.5 million for the same period in 2013. The significant components comprising the Company's Provision by business segment were as follows:

Traditional Banking segment

The Traditional Banking Provision was \$2.0 million during the first nine months of 2014, a \$1.3 million improvement from the \$3.3 million Provision recorded during the first nine months of 2013. The improvement in the Provision from the first nine months of 2013 to 2014 was primarily due to the following:

- The Traditional Bank posted a net decrease of \$349,000 to the Provision during the first nine months of 2014 associated with PCI loans compared to a net increase of \$1.1 million for the same period in 2013. Increases in the Provision during the first nine months of 2013 generally reflected projected probable shortfalls in cash flows below initial estimates for these loans. The net credit to the Provision during the first nine months 2014 generally reflected reversals of charges made in prior periods due to positive loan workouts. The change associated with the Bank's PCI loans, represented a positive swing to the Provision of approximately \$1.5 million for the first nine months of 2014 as compared to the first nine months of 2013.
- The Traditional Bank posted a net decrease of \$398,000 in the Provision associated with loans rated Special Mention during the first nine months of 2014 and a net increase in the Provision of \$927,000 during the same period in 2013. The decrease during the first nine months of 2014 was primarily driven by quarterly updated cash flow analyses of the Bank's retail troubled debt restructured loans. The increase in the Provision during the same period in 2013 relates to loans newly modified as troubled debt restructurings. The change associated with the Bank's Special Mention credits, represented a positive swing in the Provision of approximately \$1.3 million for the first nine months of 2014 as compared to the first nine months of 2013.
- The Traditional Bank posted a net increase of \$506,000 in Provision associated with loans rated Substandard for the first nine months of 2014 compared to a net decrease of \$298,000 for the same period in 2013. During the first nine months of 2014 and 2013, the Bank had no significant impairment charges for individually evaluated Substandard relationships. The change associated with the Bank's Substandard rated credits, represented a negative swing in the Provision of approximately \$804,000 for the first nine months of 2014 as compared to the first nine months of 2013.
- The Traditional Bank posted net increases of \$588,000 and \$182,000 to the Provision during the first nine months of 2014 and 2013 associated with small-dollar retail, primarily retail nonaccrual loans. Provisions for these loans during the periods were partially driven by an increase in the portfolio balance and partially by the Bank's updated migration analysis. The change associated with the Bank's small-dollar, primarily retail nonaccrual loans, represented a negative swing in the Provision of approximately \$406,000 for the first nine months of 2014 as compared to the first nine months of 2013.

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- The Traditional Bank posted a net increase of \$1.7 million in allocations associated with Pass and non rated loans during the first nine months of 2014 compared to a net increase of \$1.3 million for the same period in 2013. The increase during the first nine months of 2014 was primarily driven by increases in residential real estate loans originated through the Bank's correspondent lending channel and growth in mortgage warehouse loan balances driven by higher usage rates on those credit lines during the period. The increase in allocations during the first nine months of 2013 was generally associated with increases in CRE loans driven by the Bank's 2013 CRE promotional products. The change associated with the Bank's Pass and non rated loans, represented a negative swing in the Provision of approximately \$326,000 for the first nine months of 2014 as compared to the first nine months of 2013.

As a percentage of total loans, the Traditional Banking Allowance decreased to 0.81% at September 30, 2014 compared to 0.89% at December 31, 2013 and 0.92% at September 30, 2013. The Company believes, based on information presently available, that it has adequately provided for loan losses at September 30, 2014.

See the sections titled Allowance for Loan 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.

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Republic Processing Group segment

As previously reported, the Company ceased offering the RAL product effective April 30, 2012. During the first nine months of 2014 and 2013, the Bank recorded recoveries of \$558,000 and \$796,000 to the Provision for the collection of prior period RAL charge-offs. Additionally, the Bank recorded a charge of \$46,000 to the Provision during the first nine months of 2014 associated with growth in short-term consumer loans originated by the RCS division. Because RCS loans first piloted in September 2013, no such expense was recorded for the same period in 2013.

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An analysis of changes in the Allowance and selected credit quality ratios follows:

Table 6 Summary of Loan Loss Experience for the Nine months ended September 30, 2014 and 2013

| (dollars in thousands) | Nine Months Ended September 30, | |
|--|------------------------------------|-----------|
| | 2014 | 2013 |
| Allowance at beginning of period | \$ 23,026 | \$ 23,729 |
| Charge offs: | | |
| Residential real estate: | | |
| Owner occupied | (580) | (1,291) |
| Owner occupied - correspondent | | |
| Non owner occupied | (157) | (225) |
| Commercial real estate | (739) | (972) |
| Commercial real estate - purchased whole loans | | |
| Construction & land development | (18) | (616) |
| Commercial & industrial | (20) | (412) |
| Lease financing receivables | | |
| Warehouse lines of credit | | |
| Home equity | (429) | (354) |
| Consumer: | | |
| RPG loans: | | |
| Refund Anticipation Loans | | |
| Other RPG loans | (2) | |
| Credit cards | (65) | (120) |
| Overdrafts | (429) | (474) |
| Other consumer | (261) | (280) |
| Total charge offs | (2,700) | (4,744) |
| Recoveries: | | |
| Residential real estate: | | |
| Owner occupied | 106 | 219 |
| Owner occupied - correspondent | | |
| Non owner occupied | 26 | 73 |
| Commercial real estate | 154 | 117 |
| Commercial real estate - purchased whole loans | | |
| Construction & land development | 85 | 45 |
| Commercial & industrial | 107 | 73 |
| Lease financing receivables | | |
| Warehouse lines of credit | | |
| Home equity | 143 | 127 |
| Consumer: | | |
| RPG loans: | | |
| Refund Anticipation Loans | 558 | 796 |
| Other RPG loans | | |
| Credit cards | 27 | 14 |
| Overdrafts | 305 | 324 |
| Other consumer | 280 | 239 |
| Total recoveries | 1,791 | 2,027 |

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| | | |
|---------------------------------|-----------|-----------|
| Net charge offs | (909) | (2,717) |
| Provision - Traditional Banking | 2,012 | 3,276 |
| Provision - RPG Loans | (512) | (796) |
| Total Provision | 1,500 | 2,480 |
| Allowance at end of period | \$ 23,617 | \$ 23,492 |

Credit Quality Ratios:

| | | |
|--|-------|-------|
| Allowance to total loans | 0.81% | 0.92% |
| Allowance to non-performing loans | 110% | 116% |
| Annualized net loan charge offs to average loans - Total Company | 0.05% | 0.21% |
| Annualized net loan charge offs to average loans - Traditional Banking | 0.07% | 0.27% |

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Non-interest Income (Nine months Ended September 30, 2014 Compared to Nine months Ended September 30, 2013)

Non-interest income decreased \$2.7 million, or 7%, for the first nine months of 2014 compared to the same period in 2013. The most significant components comprising the total Company's change in non-interest income by business segment were as follows:

Traditional Banking segment

Traditional Banking segment non-interest income decreased \$1.4 million, or 7%, for the first nine months of 2014 compared to the same period in 2013.

As permitted by Accounting Standards Codification (ASC) Topic 805, *Business Combinations*, the Bank extended the measurement period related to its September 7, 2012 FDIC-assisted First Commercial Bank acquisition through March 31, 2013. The initial bargain purchase gain recorded in 2012 was recast upward by \$1.3 million during the first quarter of 2013, as the fair value of certain assets acquired were adjusted upward to reflect new information obtained after the acquisition date that existed as of the acquisition date. Similar income was not recorded for the same period in 2014.

Net gains on the sale of OREO decreased \$981,000, or 57%, from a net gain of \$1.7 million recorded during the first nine months of 2013 to a net gain of \$733,000 for the same period in 2014.

Offsetting the decreases above, the Bank recorded a \$951,000 increase in the cash surrender value of its BOLI during the first nine months of 2014, an investment first made by the Bank in the fourth quarter of 2013.

Service charges on deposit accounts remained at \$10.4 million for the first nine months of 2014 and 2013. The lack of growth in service charges on deposits reflects a generally flat to downward trend for the Bank over the past several years due primarily to on-going regulatory changes that have negatively impacted overdraft fee income. 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 nine months ended September 30, 2014 and 2013 were \$5.7 and \$5.9 million. The total daily overdraft charges, net of refunds, included in interest income for the nine months ended September 30, 2014 and 2013 were \$1.2 million in both periods.

Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income decreased \$4.3 million, or 66%, during the first nine months of 2014 compared to the same period in 2013. Overall, Republic's proceeds from the sale of secondary market loans totaled \$54 million during the first

nine months of 2014 compared to \$271 million during the same period in 2013. The first nine months of 2013 significantly benefited from favorable long-term interest rates through May 2013, when sharp increases in such interest rates began negatively affecting demand for mortgage banking products. This negative impact on demand continued through the remainder of 2013, on into the first nine months of 2014 and is expected to continue through the remainder of 2014.

Republic Processing Group segment

RPG non-interest income increased \$2.9 million, or 20%, during the first nine months of 2014 compared to the same period in 2013 primarily due to the TRS division, which experienced a 74% increase in the dollar volume of tax refunds processed. This increase was driven by a rise in self-prepared, on-line product volume in combination with growth in retail store-front traffic resulting from new contracts between the Company and third party tax preparation companies.

Approximately 44% of RPG's total net RT revenue for the first nine months of 2014 was derived from one tax service provider that has worked with RPG for several years. This provider's contract with RPG was set to expire during the fourth quarter of 2014. With the expiration of the contract nearing, RPG participated in a competitive bid process for this provider's future RT business during the first quarter of 2014. At the conclusion of the bid process, RPG entered into a new three year agreement with this provider which will take effect in January 2015. Management, however, believes annual net RT revenue from this provider in the future will likely decline approximately 18% as a result of the new, less favorable revenue share arrangement with this particular provider. Management's estimated decrease in annual net RT revenue from this provider is exclusive of any potential offsetting revenue resulting from an increase in volume from this or any other RPG tax providers.

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Approximately 10% of RPG's total first nine months of 2014 net RT revenue was derived from one new two-year contract, in which the tax preparation provider also assumed the program manager role. The TRS division of RPG has historically earned RT revenue based on its role as program manager for bank products in the tax refund process. Program managers for bank products in the tax refund processing business generally 1) supply marketing materials for bank products, 2) supply blank RT check stock for the tax offices, 3) supply tier-1 customer service to the taxpayers, which includes answering taxpayer phone calls related to the status of their RTs and the verification to third parties regarding the validity of the RT checks issued to the taxpayers by the Bank, and 4) provide overall management of the movement of refunds when received from the government, which includes exception processing and the reconciliation of all funds received and disbursed, among other duties.

Industry trends reflect larger tax preparation companies assuming the role of the program manager for the bank products in the tax refund process, which includes the obligation and costs of those responsibilities of a program manager described in the previous paragraph. In those cases where the tax preparation company is also assuming the role of the program manager, the tax preparation company is also earning more of the revenue for the associated bank products sold, as the Bank typically provides ACH services and third party risk management oversight duties. This trend will likely continue to adversely affect the margin the Company earns on its tax-related products and the overall operating results and financial condition of the RPG segment.

As previously disclosed, the RPG segment faces direct competition for RT market share from independently-owned processing groups partnered with banks. Independent processing groups that were unable to offer RALs were historically at a competitive disadvantage to banks who could offer RALs. With RB&T's resolution of its differences with the FDIC through the Stipulation Agreement and a Consent Order (collectively, the Agreement), RB&T discontinued RALs effective April 30, 2012. Without the ability to originate RALs, RB&T continues to face stiff competition in the RT marketplace. In addition to the possible loss of volume resulting from additional competitors, RB&T has incurred substantial pressure on its profit margin for RT products via revenue sharing arrangements with its various partners.

Furthermore, RB&T's resolution of its differences with the FDIC through the Agreement also negatively impacts RB&T's ability to originate RT products. As previously disclosed, the Agreement contains a provision for an ERO Plan to be administered by RB&T. The ERO Plan places additional oversight and training requirements on RB&T and its tax preparation partners that may not currently be required by regulators for RB&T's competitors in the tax business. These additional requirements have made and will likely continue to make attracting new relationships, retaining existing relationships, and maintaining profit margin for RTs more difficult for RB&T. At this time, Management cannot reasonably forecast the overall effects on RT revenue if these competitive disadvantages remain in place.

Non-interest Expenses (Nine months Ended September 30, 2014 Compared to Nine months Ended September 30, 2013)

Total Company non-interest expenses decreased \$3.8 million, or 4%, during the first nine months of 2014 compared to the same period in 2013. The most significant components comprising the change in non-interest expense by business segment were as follows:

Traditional Banking segment

For the first nine months of 2014 compared to the same period in 2013, Traditional Banking non-interest expenses decreased \$1.3 million, or 2%.

Salaries and benefits decreased \$2.3 million for the first nine months of 2014 compared to the same period in 2013. Comparability to the first nine months of 2013 was greatly impacted by a large pre-tax credit of \$3.3 million to salaries and benefits expense recorded during the third quarter of 2013, as the Traditional Bank reversed the substantial majority of its 2013 incentive compensation accruals during the quarter. By comparison, the Traditional Bank recorded a pre-tax credit of \$1.8 million during the third quarter of 2014 related to its 2014 incentive compensation accruals.

Excluding incentive compensation reversals, salaries and benefits decreased \$3.8 million for the first nine of 2014. Primarily contributing to this decrease in salaries and benefits was a decrease in the Traditional Banking segment's full time equivalent employees (FTEs), which declined from 742 at September 30, 2013 to 681 at September 30, 2014. The decrease in the Bank's FTEs was primarily the result of a modest reduction in force during the fourth quarter of 2013.

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Occupancy expense increased \$944,000, or 7%, during the first nine months of 2014, primarily due to an acceleration of depreciation on defunct assets and an increase in leased premises from the first nine months of 2013, including a new Nashville banking center opened in the third quarter of 2013.

Republic Processing Group segment

For the first nine months of 2014 compared to the same period in 2013, RPG non-interest expenses decreased \$2.9 million, or 25%.

Legal expenses decreased \$1.9 million for the first nine months of 2014 due to substantial legal expenses incurred during the first nine months of 2013 related to contract disputes with TRS's previously two largest product providers and the Bank's unsuccessful effort to acquire H&R Block Bank.

Salaries and employee benefits decreased \$944,000, or 18%, primarily due to lower contract labor staffing costs and a decline in FTEs during the period.

Occupancy expenses decreased \$519,000, or 26%, for the first nine months of 2014 compared to the first nine months of 2013 primarily due to a reduction in leased square footage and depreciation expense.

Offsetting the decreases above, the Bank Franchise expense related to the RPG segment increased \$645,000, or 75%, during the first nine months of 2014 compared to the same period in 2013, as additional tax was apportioned to the RPG segment due to its overall greater pro-rata share of Company gross receipts. Bank franchise tax expense represents taxes paid to different state taxing authorities based on capital. The substantial majority of the Company's Bank Franchise tax is paid to the Commonwealth of Kentucky.

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COMPARISON OF FINANCIAL CONDITION AT SEPTEMBER 30, 2014 AND DECEMBER 31, 2013

Cash and Cash Equivalents

Cash and cash equivalents include cash, deposits with other financial institutions with original maturities less than 90 days and federal funds sold. Republic had \$70 million in cash and cash equivalents at September 30, 2014 compared to \$171 million at December 31, 2013. The Company's cash position decreased since December 31, 2013, in general, due to growth in the Bank's loan portfolio which occurred primarily during the second and third quarters of 2014.

For cash held at the FRB, the Bank earns a yield of 0.25% on amounts in excess of required reserves. For all other cash held within the Bank's banking center and ATM networks, the Bank does not earn interest. Due to ongoing contraction within the Bank's net interest margin, management's general near-term strategy is to keep minimal amounts of cash on its balance sheet; however, this strategy continues to be impacted by the Bank's ongoing interest rate risk management practices and strategies.

Securities Available for Sale

Securities available for sale primarily consist of U.S. Treasury securities and U.S. Government agency obligations, including agency mortgage backed securities (MBSs) and agency collateralized mortgage obligations (CMOs). The agency MBSs primarily consist of hybrid mortgage investment securities, as well as other adjustable rate mortgage investment securities, underwritten and guaranteed by Ginnie Mae (GNMA), Freddie Mac (FHLMC) and Fannie Mae (FNMA). Agency CMOs held in the investment portfolio are substantially all floating rate securities that adjust monthly. The Bank uses a portion of the investment securities portfolio as collateral to Bank clients for securities sold under agreements to repurchase (repurchase agreements). The remaining eligible securities that are not pledged to secure client repurchase agreements may be pledged to the Federal Home Loan Bank as collateral for the Bank's borrowing line or as collateral for interest rate swap agreements. Strategies for the investment securities portfolio are influenced by economic and market conditions, loan demand, deposit mix and liquidity needs.

During the first nine months of 2014, the Bank purchased \$61 million, \$35 million and \$23 million of Agency, U.S. Government and mortgage backed securities with an overall weighted average yield to maturity of 1.11% and a weighted average expected life of approximately three years. While the Company's general near-term strategy is to maintain minimal cash on its balance sheet by redeploying its net monthly cash flow into new loans or investments, the Bank's levels and types of investment security purchases during the remainder of 2014 will likely be primarily impacted by its interest rate risk position at the time of the potential purchase.

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Gross loans increased by \$319 million, or 12%, during the first nine months of 2014 to \$2.91 billion at September 30, 2014.

The composition of loans follows:

Table 7 Loan Composition as of September 30, 2014 and December 31, 2013

| (in thousands) | September 30, 2014 | December 31, 2013 |
|---|---------------------|---------------------|
| Residential real estate: | | |
| Owner occupied | \$ 1,127,595 | \$ 1,097,795 |
| Owner occupied - correspondent* | 139,252 | |
| Non owner occupied | 98,365 | 110,809 |
| Commercial real estate | 771,765 | 773,173 |
| Commercial real estate - purchased whole loans* | 34,714 | 34,186 |
| Construction & land development | 44,462 | 44,351 |
| Commercial & industrial | 149,943 | 127,763 |
| Lease financing receivables | 819 | |
| Warehouse lines of credit | 272,584 | 149,576 |
| Home equity | 241,189 | 226,782 |
| Consumer: | | |
| RPG loans | 3,460 | 1,827 |
| Credit cards | 9,230 | 9,030 |
| Overdrafts | 966 | 944 |
| Purchased whole loans* | 4,664 | |
| Other consumer | 9,527 | 13,556 |
| Total loans** | 2,908,535 | 2,589,792 |
| Allowance for loan losses | (23,617) | (23,026) |
| Total loans, net | \$ 2,884,918 | \$ 2,566,766 |

* - Identifies loans outside of the Bank's historical market footprint.

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

Following are the most significant factors contributing to fluctuations in the Bank's loan portfolio:

Correspondent Lending

The Bank began acquiring single family, first lien mortgage loans through its Correspondent Lending division in May 2014. Correspondent Lending generally involves the Bank acquiring, primarily from its Mortgage Warehouse clients, closed loans at a premium that meet the Bank's specifications.

The Correspondent Lending division purchased \$140 million in conforming and jumbo 5/1 and 7/1 adjustable rate mortgage (ARM) loans through September 30, 2014, inclusive of \$3 million in purchase premiums. Purchase premiums are amortized into interest income on a level yield basis over the estimated life of each loan, with such amortization subject to acceleration based on actual prepayments. Loans acquired through the Correspondent Lending division generally reflect borrowers outside of the Bank's historical market footprint, with a substantial majority of loans acquired through the division as of September 30, 2014, secured by single family residences in state of California.

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Mortgage Warehouse Lines of Credit

Mortgage warehouse lines of credit provide short-term, revolving credit facilities to mortgage bankers across the nation. These credit facilities are secured by single family, first lien residential real estate loans. The credit facility enables mortgage banking customers to originate single family, first lien residential real estate loans in their own names and temporarily fund their inventory of these originated loans until the loans are sold to investors approved by the Bank. The individual loans are expected to remain on the Bank's warehouse line for an average of 15 to 30 days. Interest income and loan fees are accrued for each individual loan during the time the loan remains on the Bank's warehouse line and are collected when the loan is sold to the secondary market investor. 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 customer. Outstanding balances on these credit facilities may be subject to significant fluctuations consistent with the overall market demand for mortgage loans.

As of September 30, 2014, RB&T had \$273 million of outstanding mortgage warehouse loans from total committed credit lines of \$483 million. As of December 31, 2013, RB&T had \$150 million of outstanding loans from total committed credit lines of \$358 million. The \$123 million increase in the outstanding balances of mortgage warehouse loans was due primarily to the addition of five new clients and the increase in overall usage of the Bank's mortgage warehouse lines during the second and third quarters of 2014.

RB&T's mortgage warehouse lending business is significantly influenced by the volume and composition of residential mortgage purchase and refinance transactions among RB&T's mortgage banking clients. For the nine months ended September 30, 2014 RB&T's mortgage warehouse volume consisted of 70% purchase transactions, in which the mortgage company's borrower was purchasing a new residence, and 30% refinance transactions, in which the mortgage company's client was refinancing an existing mortgage loan. Purchase volume is driven by a number of factors, including but not limited to, the overall economy, the housing market, and long-term residential mortgage interest rates, while refinance volume is primarily driven by long-term residential mortgage interest rates.

Purchased Credit Impaired Loans Associated with the Bank's 2012 FDIC-Assisted Acquisitions

During 2012, the Bank acquired PCI loans in two FDIC-assisted acquisitions with a total contractual balance of \$173 million and fair value of \$119 million. The Bank has mainly focused its resources toward liquidating these PCI loans. The contractual amount of PCI loans has decreased from \$71 million at September 30, 2013 to \$58 million at December 31, 2013 and further to \$36 million as of September 30, 2014. The carrying value of these loans decreased from \$50 million at September 30, 2013 to \$41 million at December 31, 2013 to \$25 million at September 30, 2014.

Table of Contents**Asset Quality**

The composition of loans classified within the Allowance follows:

Table 8 Classified and Special Mention Loans as of September 30, 2014 and December 31, 2013

| (in thousands) | September 30, 2014 | December 31, 2013 |
|--|--------------------|-------------------|
| Loss | \$ | \$ |
| Doubtful | | |
| Substandard | 37,511 | 44,083 |
| Purchased Credit Impaired - Substandard | 252 | 222 |
| Total Classified Loans | 37,763 | 44,305 |
| Special Mention | 38,836 | 40,167 |
| Purchased Credit Impaired - Group 1 | 24,480 | 40,731 |
| Total Special Mention Loans | 63,316 | 80,898 |
| Total Classified and Special Mention Loans | \$ 101,079 | \$ 125,203 |

Purchased loans accounted for under ASC Topic 310-20 are accounted for as any other Bank-originated loan, potentially becoming nonaccrual or impaired, as well as being risk rated under the Bank's standard practices and procedures. In addition, these loans are considered in the determination of the Allowance once acquisition day (day-one) fair values are final.

In determining the day-one fair values of PCI loans, management considers a number of factors including, among other things, the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, estimated holding periods and net present value of cash flows expected to be received. For the Company's 2012 FDIC-assisted acquisitions, the Bank elected to account for PCI loans individually, as opposed to aggregating the loans into pools based on common risk characteristics such as loan type.

Management separately monitors the PCI portfolio and on a quarterly basis reviews the loans contained within this portfolio against the factors and assumptions used in determining the day-one fair values. In addition to its quarterly evaluation, a loan is typically reviewed when it is modified or extended, or when material information becomes available to the Bank that provides additional insight regarding the loan's performance, estimated life, the status of the borrower, or the quality or value of the underlying collateral.

To the extent that a PCI loan's performance does not reflect an increased risk of loss of contractual principal beyond the non-accretable yield established as part of its initial day-one evaluation, such loan would be classified in the Purchased Credit Impaired - Group 1 (PCI-1) category; whose credit risk is considered equivalent to a non-PCI Special Mention loan within the Bank's credit rating matrix. PCI-1 loans are considered impaired if, based on current information and events, it is probable that the future estimated cash flows of the loan have deteriorated from management's initial estimate. Provisions for loan losses are made for impaired PCI-1 loans to further discount the loan and allow its yield to conform to at least management's initial expectations. Any improvement in the expected performance of a PCI-1 loan would result in a reversal of the Provision to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income.

If during the Bank's periodic evaluations of its PCI loan portfolio, management deems a PCI-1 loan to have an increased risk of loss of contractual principal beyond the non-accretable yield established as part of its initial day-one evaluation, such loan would be classified PCI-Substandard (PCI-Sub) within the Bank's credit risk matrix. Management deems the risk of default and overall credit risk of a PCI-Sub loan to be greater than a PCI-1 loan and more analogous to a non-PCI Substandard loan. PCI-Sub loans are considered to be impaired. Any improvement in the expected performance of a PCI-Sub loan would result in a reversal of the Provision to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income.

PCI loans may be contractually past due 90-days-or-more and continue to accrue interest if future cash flows can be reasonably projected to allow continuation of discount accretion.

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If a troubled debt restructuring is performed on a PCI loan, the loan is considered impaired under the applicable TDR accounting standards and transferred out of the PCI population. The loan may require an additional Provision if its restructured cash flows are less than management's initial day-one expectations. Special Mention and Substandard loans include \$1 million and \$5 million at September 30, 2014 and \$1 million and \$6 million at December 31, 2013, respectively, which were removed from the PCI population due to a troubled debt restructuring of the loan. PCI loans for which the Bank simply chooses to extend the maturity date are generally not considered TDRs and remain in the PCI population.

Allowance for Loan Losses

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 specific and general components. The specific component relates to loans that are individually classified as impaired. The general component is based on historical loss experience adjusted for qualitative factors.

A non-PCI loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. A PCI loan is considered impaired when, based on current information and events, it is probable that the future estimated cash flows of the loan have deteriorated from management's initial estimate. Loans that meet the following classifications are considered impaired:

- All loans internally rated as Substandard, Doubtful or Loss;
- All loans internally rated in a PCI category with cash flows that have deteriorated from management's initial estimate;
- All loans on non-accrual status and non-PCI loans past due 90 days-or-more still on accrual;
- All retail and commercial TDRs; 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.

The Bank's classified and Special Mention loans are generally C&I and CRE loans but also include large single family residential and home equity loans, as well as TDRs, whether retail or commercial in nature. The Bank reviews and monitors these loans on a regular basis. Generally, loans are designated as classified or Special Mention to ensure more frequent monitoring. These loans are reviewed to ensure proper earning 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 often placed on non-accrual status.

Generally Accepted Account Principles (GAAP) recognizes three 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 effective interest rate. The Bank employs this method for a significant portion of its impaired 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 value less applicable selling costs. The Bank employs the fair value of collateral method for its impaired loans when repayment is based solely on the sale of or the operations of the underlying collateral. Collateral fair value is typically based on the most recent real estate appraisal on file. Measured impairment under this method is classified loss and charged off. The Bank's 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.
- **Market Value Method** The recorded investment in the loan is measured against the obtainable market value. The Bank does not currently employ this technique, as it is typically found impractical.

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In addition to obtaining appraisals at the time of origination, the Bank typically updates appraisals and/or broker price opinions 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 last appraisal. Collateral values for past due 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 the valuation of the collateral primarily based on the age of the appraisal and the real estate market conditions of the location of the underlying collateral.

The general component of the Allowance covers loans collectively evaluated for impairment and is based on historical loss experience, with potential adjustments for current relevant qualitative factors. The 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, such as consumer and residential real estate loans, are included in the general component unless the loans are classified as TDRs.

In determining the historical loss rates for each respective loan class, management evaluates the following historical loss rate scenarios:

- Rolling four quarter average
- Rolling eight quarter average
- Rolling twelve quarter average
- Rolling sixteen quarter average
- Rolling twenty quarter average
- Current year to date historical loss factor average
- Peer group loss factors

For the Bank's current Allowance methodology, management currently uses the highest of the rolling eight, twelve, sixteen or twenty quarter averages for each loan class when determining its historical loss factors for its Pass rated and nonrated credits.

Loan classes are also evaluated utilizing subjective factors in addition to the historical loss calculations to determine a loss allocation for each of those classes. Management assigns risk multiples to certain classes to account for qualitative factors such as:

- Changes in nature, volume and seasoning of the portfolio;
- Changes in experience, ability and depth of lending management and other relevant staff;

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- Changes in the quality of the Bank's credit review system;
- Changes in policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Changes in the volume and severity of past due, non-accrual and classified loans;
- Changes in the value of underlying collateral for collateral-dependent loans;
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectibility of portfolios, including the condition of various market segments;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution's existing portfolio.

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 Bank's Allowance increased \$591,000, or 3%, during the first nine months of 2014 to \$24 million at September 30, 2014. As a percent of total loans, the traditional banking Allowance decreased to 0.81% at September 30, 2014 compared to 0.89% at December 31, 2013.

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Notable fluctuations in the Allowance were as follows:

- The Bank increased its reserves for Pass rated and non-rated loans by \$1.6 million during the first nine months of 2014 consistent with the level and pace of growth with such loans. The most notable increases in the loan portfolio were in the Bank's outstanding warehouse lines of credit, which grew \$123 million during the first nine months of 2014, and the Bank's Correspondent Lending residential real estate portfolio, which grew \$139 million during the first nine months of 2014.
- The Bank increased its reserves for small-dollar, primarily retail nonaccrual loans by \$298,000 partially due to an updated migration analysis and partially due to increased volume in this portfolio.
- The Bank decreased its reserve for retail troubled debt restructured loans by \$501,000 during the first nine months of 2014 primarily due to an updated cash flow analysis applied to this portfolio.
- The Bank decreased its reserve for commercial troubled debt restructured loans by \$424,000 during the first nine months of 2014 partially due to updated cash flow analysis applied to this portfolio and partially due to partial charge-offs of loans becoming collateral dependent during the period.
- The Bank decreased its reserves for PCI loans by \$364,000 during the first nine months of 2014 consistent with the level of positive workouts of this portfolio. The carrying balance of the Bank's PCI portfolio decreased \$16 million during the first nine months of 2014.

Non-performing Loans

Non-performing loans include loans on non-accrual status and loans past due 90-days-or-more and still accruing. Impaired loans that are not placed on non-accrual status are not included as non-performing loans. The non-performing loans category includes impaired loans totaling approximately \$21 million at September 30, 2014, with approximately \$15 million of these loans also reported as TDRs. The non-performing loan category included impaired loans totaling approximately \$21 million at December 31, 2013, with approximately \$13 million of these loans also reported as TDRs.

Non-performing loans to total loans decreased to 0.74% at September 30, 2014, from 0.81% at December 31, 2013, as the total balance of non-performing loans increased by \$369,000 during the nine months ended September 30, 2014, while total gross loans increased \$319 million during the same period.

The following table details the Bank's non-performing loans and non-performing assets and select credit quality ratios:

Table 9 Non-performing Loans and Non-performing Assets Summary as of September 30, 2014 and December 31, 2013

| (dollars in thousands) | September 30, 2014 | | December 31, 2013 | |
|---|--------------------|--------|-------------------|--------|
| Loans on non-accrual status (1) | \$ | 21,447 | \$ | 19,104 |
| Loans past due 90-days-or-more and still on accrual (2) | | | | 1,974 |
| Total non-performing loans | | 21,447 | | 21,078 |
| Other real estate owned | | 11,937 | | 17,102 |
| Total non-performing assets | \$ | 33,384 | \$ | 38,180 |

Credit Quality Ratios:

| | | |
|---|-------|-------|
| Non-performing loans to total loans | 0.74% | 0.81% |
| Non-performing assets to total loans (including OREO) | 1.14% | 1.46% |
| Non-performing assets to total assets | 0.92% | 1.13% |

(1) *Loans on non-accrual status include impaired loans. See Footnote 3 Loans and Allowance For Loan Losses of Part I Item 1 Financial Statements for additional discussion regarding impaired loans.*

(2) *All loans past due 90 days-or-more and still accruing are PCI loans accounted for under ASC 310-30.*

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Approximately \$11 million, or 52%, of the Bank's total non-performing loans at September 30, 2014 was concentrated in the residential real estate category with the underlying collateral predominantly located in the Bank's primary market area of Kentucky. The Bank does not consider any of these loans to be sub-prime. The Bank's non-performing residential real estate concentration was \$10 million, or 50%, as of December 31, 2013.

Approximately \$9 million, or 41%, of the Bank's total non-performing loans was concentrated in the CRE and construction and land development portfolios as of September 30, 2014, with \$8 million, or 37%, the amount and percent of this concentration at December 31, 2013. One construction loan represented 75% of the Bank's total non-performing construction loans at September 30, 2014. These loans are secured primarily by commercial properties. In addition to the primary collateral, in many cases the Bank also obtains personal guarantees from the principal borrowers and secured liens on the guarantors' primary residences at the time of origination.

The composition of the Bank's non-performing loans follows:

Table 10 Non-performing Loan Composition as of September 30, 2014 and December 31, 2013

| (in thousands) | September 30, 2014 | December 31, 2013 |
|--|--------------------|-------------------|
| Residential real estate: | | |
| Owner occupied | \$ 9,457 | \$ 9,211 |
| Owner occupied - correspondent | | |
| Non owner occupied | 1,632 | 1,279 |
| Commercial real estate | 6,739 | 7,643 |
| Commercial real estate - purchased whole loans | | |
| Construction & land development | 1,990 | 167 |
| Commercial & industrial | | 1,558 |
| Lease financing receivables | | |
| Warehouse lines of credit | | |
| Home equity | 1,545 | 1,128 |
| Consumer: | | |
| RPG loans | | |
| Credit cards | | |
| Overdrafts | | |
| Purchased whole loans | | |
| Other consumer | 84 | 92 |
| Total non-performing loans | \$ 21,447 | \$ 21,078 |

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Table 11 Non-performing Loans to Total Loans by Class as of September 30, 2014 and December 31, 2013

| (in thousands) | September 30, 2014 | December 31, 2013 |
|--|--------------------|-------------------|
| Residential real estate: | | |
| Owner occupied | 0.84% | 0.84% |
| Owner occupied - correspondent | 0.00% | 0.00% |
| Non owner occupied | 1.66% | 1.15% |
| Commercial real estate | 0.87% | 0.99% |
| Commercial real estate - purchased whole loans | 0.00% | 0.00% |
| Construction & land development | 4.48% | 0.38% |
| Commercial & industrial | 0.00% | 1.22% |
| Lease financing receivables | 0.00% | 0.00% |
| Warehouse lines of credit | 0.00% | 0.00% |
| Home equity | 0.64% | 0.50% |
| Consumer: | | |
| RPG loans | 0.00% | 0.00% |
| Credit cards | 0.00% | 0.00% |
| Overdrafts | 0.00% | 0.00% |
| Purchased whole loans | 0.00% | 0.00% |
| Other consumer | 0.88% | 0.60% |
| Total non-performing loans to total loans | 0.74% | 0.81% |

The composition of the Bank's non-performing loans stratified by the number of loans within a specific value range follows:

Table 12 Stratification of Non-performing Loans as of September 30, 2014 and December 31, 2013

| September 30, 2014 (dollars in thousands) | Number of Loans and Leases and Recorded Investment | | | | | | | |
|--|--|------------------|-----|--------------------------|-----|-----------------|-----|---------------|
| | No. | Balance <= \$100 | No. | Balance > \$100 <= \$500 | No. | Balance > \$500 | No. | Total Balance |
| Residential real estate: | | | | | | | | |
| Owner occupied | 107 | \$ 5,181 | 24 | \$ 4,276 | | | 131 | \$ 9,457 |
| Owner occupied - correspondent | | | | | | | | |
| Non owner occupied | 11 | 406 | 2 | 288 | 1 | 938 | 14 | 1,632 |
| Commercial real estate | 2 | 67 | 8 | 1,969 | 4 | 4,703 | 14 | 6,739 |
| Commercial real estate purchased whole loans | | | | | | | | |
| Construction & land development | | | 1 | 490 | 1 | 1,500 | 2 | 1,990 |
| Commercial & industrial | | | | | | | | |
| Lease financing receivables | | | | | | | | |
| Warehouse lines of credit | | | | | | | | |
| Home equity | 28 | 580 | 4 | 965 | | | 32 | 1,545 |
| Consumer: | | | | | | | | |
| RPG loans | | | | | | | | |
| Credit cards | | | | | | | | |
| Overdrafts | | | | | | | | |

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| | | | | | | | | | | | | |
|-----------------------|-----|----|-------|----|----|-------|---|----|-------|-----|----|--------|
| Purchased whole loans | | | | | | | | | | | | |
| Other consumer | 16 | | 84 | | | | | 16 | | 84 | | |
| Total | 164 | \$ | 6,318 | 39 | \$ | 7,988 | 6 | \$ | 7,141 | 209 | \$ | 21,447 |

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| December 31, 2013 (dollars in thousands) | Number of Loans and Leases and Recorded Investment | | | | | | | | Total Balance |
|---|--|---------------------|-----|-----------------------------|-----|--------------------|-----|-----------|------------------|
| | No. | Balance <= \$100 | No. | Balance > \$100 <= \$500 | No. | Balance > \$500 | No. | | |
| Residential real estate: | | | | | | | | | |
| Owner occupied | 87 | \$ 4,127 | 23 | \$ 3,838 | 2 | \$ 1,246 | 112 | \$ 9,211 | |
| Owner occupied - correspondent | | | | | | | | | |
| Non owner occupied | 8 | 312 | | | 1 | 967 | 9 | 1,279 | |
| Commercial real estate | 3 | 139 | 12 | 3,410 | 3 | 4,094 | 18 | 7,643 | |
| Commercial real estate purchased whole loans | | | | | | | | | |
| Construction & land development | 2 | 167 | | | | | 2 | 167 | |
| Commercial & industrial | | | 2 | 327 | 1 | 1,231 | 3 | 1,558 | |
| Lease financing receivables | | | | | | | | | |
| Warehouse lines of credit | | | | | | | | | |
| Home equity | 24 | 529 | 3 | 599 | | | 27 | 1,128 | |
| Consumer: | | | | | | | | | |
| RPG loans | | | | | | | | | |
| Credit cards | | | | | | | | | |
| Overdrafts | | | | | | | | | |
| Purchased whole loans | | | | | | | | | |
| Other consumer | 16 | 92 | | | | | 16 | 92 | |
| Total | 140 | \$ 5,366 | 40 | \$ 8,174 | 7 | \$ 7,538 | 187 | \$ 21,078 | |

Approximately \$11 million in non-performing loans at December 31, 2013, were removed from the non-performing loan classification during the first nine months 2014. Approximately \$110,000, or 1%, were removed from the non-performing category because they were charged-off. Approximately \$4 million, or 35%, were transferred to OREO, with \$4 million, or 40%, refinanced at other financial institutions. The remaining \$3 million, or 24%, was returned to accrual status for performance reasons, such as six consecutive months of performance. Of the \$4 million transferred to OREO, one relationship accounted for 50% of the total amount transferred to OREO.

The following tables detail the activity of the Bank's non-performing loans:

Table 13 Rollforward of Non-performing Loan Activity for the Nine Months Ended September 30, 2014 and 2013

| (in thousands) | 2014 | 2013 |
|--|-----------|-----------|
| Non-performing loans at January 1, | \$ 21,078 | \$ 21,679 |
| Loans added to non-performing status | 12,277 | 14,955 |
| Loans removed from non-performing status (see table below) | (10,969) | (11,972) |
| Principal paydowns | (939) | (581) |
| Non-performing loans at September 30, | \$ 21,447 | \$ 24,081 |

Table of Contents**Table 14 Detail of Loans Removed from Non-Performing Status for the Nine Months Ended September 30, 2014 and 2013**

| (in thousands) | 2014 | 2013 |
|---|-------------|-------------|
| Loans charged-off | \$ (110) | \$ (1,751) |
| Loans transferred to OREO | (3,851) | (2,906) |
| Loans refinanced at other institutions | (4,382) | (3,037) |
| Loans returned to accrual status | (2,626) | (4,278) |
| Total non-performing loans removed from non-performing status | \$ (10,969) | \$ (11,972) |

Based on the Bank's review of the large individual non-performing commercial credits, as well as its migration analysis for its residential real estate and home equity non-performing portfolio, management believes that its reserves as of September 30, 2014, are adequate to absorb probable losses on all non-performing credits.

Delinquent Loans

Delinquent loans to total loans decreased to 0.42% at September 30, 2014, from 0.63% at December 31, 2013, as the total balance of delinquent loans decreased by \$4 million, or 25%, for the nine months ended September 30, 2014, while total gross loans increased \$319 million during the same period. With the exception of PCI loans, all traditional bank loans past due 90-days-or-more as of September 30, 2014 and December 31, 2013 were on non-accrual status.

The composition of the Bank's past due loans follows:

Table 15 Delinquent Loan Composition as of September 30, 2014 and December 31, 2013

| (in thousands) | September 30, 2014 | December 31, 2013 |
|--|--------------------|-------------------|
| Residential real estate: | | |
| Owner occupied | \$ 5,897 | \$ 6,357 |
| Owner occupied - correspondent | | |
| Non owner occupied | 684 | 1,293 |
| Commercial real estate | 2,433 | 5,198 |
| Commercial real estate - purchased whole loans | | |
| Construction & land development | 1,990 | 499 |
| Commercial & industrial | | 1,415 |
| Lease financing receivables | | |
| Warehouse lines of credit | | |
| Home equity | 763 | 1,110 |
| Consumer: | | |
| RPG loans | 129 | |

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| | | |
|------------------------|-----------|-----------|
| Credit cards | 61 | 98 |
| Overdrafts | 151 | 159 |
| Purchased whole loans | | |
| Other consumer | 118 | 94 |
| Total delinquent loans | \$ 12,226 | \$ 16,223 |

Table of Contents**Table 16 Delinquent Loans to Total Loans by Class (1) as of September 30, 2014 and December 31, 2013**

| (in thousands) | September 30, 2014 | December 31, 2013 |
|--|--------------------|-------------------|
| Residential real estate: | | |
| Owner occupied | 0.52% | 0.58% |
| Owner occupied - correspondent | 0.00% | 0.00% |
| Non owner occupied | 0.70% | 1.17% |
| Commercial real estate | 0.32% | 0.67% |
| Commercial real estate - purchased whole loans | 0.00% | 0.00% |
| Construction & land development | 4.48% | 1.13% |
| Commercial & industrial | 0.00% | 1.11% |
| Lease financing receivables | 0.00% | 0.00% |
| Warehouse lines of credit | 0.00% | 0.00% |
| Home equity | 0.32% | 0.49% |
| Consumer: | | |
| RPG loans | 3.73% | 0.00% |
| Credit cards | 0.66% | 1.09% |
| Overdrafts | 15.63% | 16.84% |
| Purchased whole loans | 0.00% | 0.00% |
| Other consumer | 1.24% | 0.61% |
| Total delinquent loans to total loans | 0.42% | 0.63% |

(1) Represents total loans past due 30-days-or-more divided by total loans.

As detailed in the preceding tables, delinquent loans within the residential real estate, C&I and home equity categories decreased \$3 million, from December 31, 2013 to September 30, 2014. CRE delinquencies decreased \$3 million for the same period, with one relationship transferring to OREO during the first nine months of 2014 and accounting for 69% of the decrease. Construction and land development loans increased \$1 million, with one loan accounting for substantially all of the increase.

Approximately \$13 million in delinquent loans at December 31, 2013, were removed from delinquent status as of September 30, 2014. Approximately \$117,000, or 1%, of these loans were removed from the delinquent category because they were charged-off. Approximately \$4 million, or 33%, in loans were transferred to OREO with \$4 million, or 29%, refinanced at other financial institutions. The remaining \$5 million, or 37%, were paid current in 2014.

Table 17 Rollforward of Delinquent Loan Activity for the Nine Months Ended September 30, 2014 and 2013

| (in thousands) | 2014 | 2013 |
|---|-----------|-----------|
| Delinquent loans, January 1, | \$ 16,223 | \$ 20,844 |
| Loans that became delinquent during the period | 9,271 | 8,025 |
| Net change in delinquent credit cards and demand deposit accounts | (45) | 26 |

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| | | |
|---|-----------|-----------|
| Delinquent loans removed from delinquent status (see table below) | (12,884) | (12,341) |
| Principal paydowns of loans delinquent in both periods | (339) | (357) |
| Delinquent loans, September 30, | \$ 12,226 | \$ 16,197 |

Table of Contents**Table 18 Detail of Delinquent Loans Removed From Delinquent Status for the Nine Months Ended September 30, 2014 and 2013**

| (in thousands) | 2014 | 2013 |
|---|-------------|-------------|
| Loans charged-off | \$ (117) | \$ (1,226) |
| Loans transferred to OREO | (4,266) | (4,062) |
| Loans refinanced at other institutions | (3,762) | (3,841) |
| Loans paid current | (4,739) | (3,212) |
| Total delinquent loans removed from delinquent status | \$ (12,884) | \$ (12,341) |

Impaired Loans and Troubled Debt Restructurings

The Bank defines impaired loans as follows:

- All loans internally rated as Substandard, Doubtful or Loss;
- All loans internally rated in a PCI category with cash flows that have deteriorated from management's initial estimate;
- All loans on non-accrual status and non-PCI loans past due 90 days-or-more still on accrual;
- All retail and commercial TDRs; 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.

The Bank's policy is to charge off all or that portion of its recorded investment in an impaired credit upon a determination that it is probable the full amount will not be collected. Impaired loans totaled \$90 million at September 30, 2014 compared to \$108 million at December 31, 2013, with \$10 million, or 55%, of the \$18 million decrease consisting of PCI loans liquidated during the first nine months of 2014.

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) and/or extending the maturity date of the debt. Non-accrual loans modified as TDRs remain on non-accrual status and continue to be reported as non-performing loans. Accruing loans modified as TDRs are evaluated for non-accrual status based on a current evaluation of the borrower's financial condition, and ability and willingness to service the modified debt. As of September 30, 2014, the Bank had \$68 million in TDRs, of which \$15 million were also on non-accrual status. As of December 31, 2013, the Bank had \$74 million in TDRs, of which \$13 million were also on non-accrual status.

The composition of the Bank's impaired loans follows:

Table 19 Impaired Loan Composition as of September 30, 2014 and December 31, 2013

| (in thousands) | September 30, 2014 | | December 31, 2013 | |
|-------------------------------------|--------------------|--------|-------------------|---------|
| Troubled debt restructurings | \$ | 68,179 | \$ | 73,972 |
| Impaired loans (which are not TDRs) | | 22,134 | | 34,022 |
| Total impaired loans | \$ | 90,313 | \$ | 107,994 |

See Footnote 3 Loans and Allowance For Loan Losses of Part I Item 1 Financial Statements for additional discussion regarding impaired loans and TDRs.

Table of Contents**Other Real Estate Owned**

The composition of the Bank's OREO follows:

Table 20 Other Real Estate Owned Composition as of September 30, 2014 and December 31, 2013

| (in thousands) | September 30, 2014 | December 31, 2013 |
|---------------------------------|--------------------|-------------------|
| Residential real estate | \$ 2,706 | \$ 3,574 |
| Commercial real estate | 3,477 | 5,824 |
| Construction & land development | 5,754 | 7,704 |
| Total other real estate owned | \$ 11,937 | \$ 17,102 |

The composition of the Bank's other real estate stratified by the number of properties within a specific value range follows:

Table 21 Stratification of Other Real Estate Owned as of September 30, 2014 and December 31, 2013

| September 30, 2014 (dollars in thousands) | No. | Carrying Value ≤ \$100 | Number of Properties and Carrying Value Range | | | No. | Total Carrying Value | |
|--|-----|---------------------------|---|-----------------------------------|-----|----------|-------------------------|---------------------------|
| | | | No. | Carrying Value > \$100 ≤ \$500 | No. | | | Carrying Value > \$500 |
| Residential real estate | 10 | \$ 557 | 3 | \$ 533 | 2 | \$ 1,616 | 15 | \$ 2,706 |
| Commercial real estate | | | 3 | 989 | 2 | 2,488 | 5 | 3,477 |
| Construction & land development | 3 | 136 | 7 | 1,525 | 4 | 4,093 | 14 | 5,754 |
| Total | 13 | \$ 693 | 13 | \$ 3,047 | 8 | \$ 8,197 | 34 | \$ 11,937 |

| December 31, 2013 (dollars in thousands) | No. | Carrying Value ≤ \$100 | Number of Properties and Carrying Value Range | | | No. | Total Carrying Value | |
|---|-----|---------------------------|---|-----------------------------------|-----|-----------|-------------------------|---------------------------|
| | | | No. | Carrying Value > \$100 ≤ \$500 | No. | | | Carrying Value > \$500 |
| Residential real estate | 10 | \$ 828 | 3 | \$ 1,256 | 2 | \$ 1,490 | 15 | \$ 3,574 |
| Commercial real estate | | | 3 | 1,344 | 2 | 4,480 | 5 | 5,824 |
| Construction & land development | 3 | 164 | 7 | 2,689 | 4 | 4,851 | 14 | 7,704 |
| Total | 13 | \$ 992 | 13 | \$ 5,289 | 8 | \$ 10,821 | 34 | \$ 17,102 |

Table 22 Rollforward of Other Real Estate Owned Activity for the Nine Months Ended September 30, 2014 and 2013

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| (in thousands) | 2014 | | 2013 | |
|-----------------------------|------|----------|------|----------|
| Balance, January 1, | \$ | 17,102 | \$ | 26,203 |
| Transfer from loans to OREO | | 6,466 | | 8,690 |
| Proceeds from sale* | | (10,322) | | (20,286) |
| Net gain on sale | | 733 | | 1,714 |
| Writedowns | | (2,042) | | (1,074) |
| Balance, September 30, | \$ | 11,937 | \$ | 15,247 |

* *Inclusive of non-cash proceeds where the Bank financed the sale of the property.*

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The fair value of OREO represents the estimated value that management expects to receive when the property is sold, net of related costs to sell. These estimates are based on the most recently available real estate appraisals, with certain adjustments made based on the type of property, age of appraisal, current status of the property and other related factors to estimate the current value of the property.

Approximately 44%, or \$2 million, of the CRE OREO balance at September 30, 2014 related to two properties added during 2013 located in the Bank's Minnesota market. Approximately 39%, or \$1 million, of the CRE OREO balance at September 30, 2014 related to the Bank's Hudson, Florida banking center, which will be closed on January 16, 2015. Approximately 62%, or \$4 million, of the construction and land development OREO balance at September 30, 2014 related to one land development property added during 2012 located in the Bank's greater Louisville, Kentucky market.

Bank Owned Life Insurance (BOLI)

BOLI offers tax advantaged non-interest income to help the Bank offset employee benefits expenses. The Company carried \$51 million and \$25 million of BOLI on its consolidated balance sheet at September 30, 2014 and December 31, 2013. The Company purchased an additional \$25 million of BOLI during the nine months ended September 30, 2014.

Deposits

Total Company deposits increased \$69 million, or 3%, from December 31, 2013 to \$2.1 billion at September 30, 2014. Total Company interest-bearing deposits increased \$23 million, or 2% and total Company non-interest bearing deposits increased \$46 million, or 9%.

Ending deposit balances at September 30, 2014 and December 31, 2013 were as follows:

Table 23 Deposit Composition as of September 30, 2014 and December 31, 2013

| (in thousands) | September 30, 2014 | December 31, 2013 |
|--------------------------------------|--------------------|-------------------|
| Demand | \$ 697,243 | \$ 651,134 |
| Money market accounts | 469,142 | 479,569 |
| Brokered money market accounts | 33,517 | 35,533 |
| Savings | 87,838 | 78,020 |
| Individual retirement accounts* | 26,846 | 28,767 |
| Time deposits, \$100,000 and over* | 75,918 | 67,255 |
| Other certificates of deposit* | 68,370 | 75,516 |
| Brokered certificates of deposit*(1) | 66,300 | 86,421 |
| Total interest-bearing deposits | 1,525,174 | 1,502,215 |

| | | | | |
|-------------------------------------|----|-----------|----|-----------|
| Total non interest-bearing deposits | | 534,662 | | 488,642 |
| Total deposits | \$ | 2,059,836 | \$ | 1,990,857 |

(*) Represents a time deposit.

(1) Includes brokered deposits less than, equal to and greater than \$100,000.

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

Securities sold under agreements to repurchase 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.

Securities sold under agreements to repurchase and other short-term borrowings increased \$110 million, or 67%, during the first nine months of 2014. Approximately 72% of the increase was related to funds received for one client. Management is uncertain at this time as to whether or not these additional funds will remain at the Bank on a long-term basis. The substantial majority of these accounts are indexed to immediately repricing indices such as the Fed Funds Target Rate.

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Information regarding securities sold under agreements to repurchase follows:

Table 24 Securities sold under agreements to repurchase as of September 30, 2014 and December 31, 2013

| (dollars in thousands) | September 30, 2014 | December 31, 2013 |
|--|--------------------|-------------------|
| Outstanding balance at end of period | \$ 275,874 | \$ 165,555 |
| Weighted average interest rate at period end | 0.04% | 0.04% |

Table 25 Securities sold under agreements to repurchase for the Nine Months Ended September 30, 2014 and 2013

| (dollars in thousands) | 2014 | 2013 |
|---|------------|------------|
| Average outstanding balance during the period | \$ 266,765 | \$ 163,585 |
| Average interest rate during the period | 0.04% | 0.04% |
| Maximum outstanding at any month end | \$ 294,817 | \$ 197,836 |

Federal Home Loan Bank Advances

FHLB advances increased \$57 million, or 9%, from December 31, 2013 to \$662 million at September 30, 2014. During the first nine months of 2014, \$108 million of FHLB advances with a weighted average rate of 2.92% matured, while the Bank obtained \$35 million of new fixed advances at a weighted average rate of 1.92% and a weighted average life of five years. Additionally, the Bank held \$130 million in overnight advances with a rate of 0.08% as of September 30, 2014.

Overall use of these 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 2014 loan originations have repricing terms longer than five years, management will likely elect to borrow additional funds during the year 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

During the fourth quarter of 2013, the Bank entered into two interest rate swap agreements 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 three-month LIBOR or the overall changes in cash flows on certain money market deposit accounts. The counterparty for both swaps met

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the Bank's credit standards and the Bank believes that the credit risk inherent in the swap contracts is not significant.

Information regarding the Bank's interest rate swaps follows:

Table 26 Interest Rate Swaps as of September 30, 2014 and December 31, 2013

| (dollars in thousands) | September 30, 2014 | | December 31, 2013 | |
|--|--------------------|--------|-------------------|--------|
| Notional amount | \$ | 20,000 | \$ | 20,000 |
| Weighted average pay rate | | 2.25% | | 2.25% |
| Weighted average receive rate | | 0.19% | | 0.21% |
| Weighted average remaining maturity in years | | 6 | | 7 |
| Unrealized gain (loss) | \$ | (203) | \$ | 170 |
| Fair value of security pledged as collateral | \$ | 341 | \$ | |

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Liquidity

The Bank had a loan to deposit ratio (excluding brokered deposits) of 148% at September 30, 2014 and 139% at December 31, 2013. At September 30, 2014 and December 31, 2013, the Bank had cash and cash equivalents on-hand of \$70 million and \$171 million. In addition, the Bank had available collateral to borrow an additional \$429 million and \$282 million from the FHLB at September 30, 2014 and December 31, 2013. In addition to its borrowing line with the FHLB, RB&T also had unsecured lines of credit totaling \$166 million available through various other financial institutions as of September 30, 2014 and December 31, 2013.

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 securities available for sale, principal paydowns on loans and MBSs 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 September 30, 2014 and December 31, 2013, these pledged investment securities had a fair value of \$328 million and \$225 million. Republic's banking centers and its website, www.republicbank.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 forced to offer market leading deposit interest rates to meet its funding and liquidity needs.

At September 30, 2014, the Bank had approximately \$428 million in deposits from 62 large non-sweep deposit relationships where the individual relationship individually exceeded \$2 million. These accounts do not require collateral; therefore, cash from these accounts can generally be utilized to fund the loan portfolio. The 20 largest non-sweep deposit relationships represented approximately \$307 million of the total balance. If any of these balances are 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 brokered deposits to replace withdrawn balances. Based on past experience utilizing brokered deposits, the Bank believes it can quickly obtain brokered deposits if needed. The overall cost of gathering brokered deposits, however, could be substantially higher than the Traditional Bank deposits they replace, potentially decreasing the Bank's earnings.

Capital

Total stockholders' equity increased from \$543 million at December 31, 2013 to \$557 million at September 30, 2014. The increase in stockholders' equity was primarily attributable to net income earned during 2014 reduced by cash dividends declared. Stockholders' equity also decreased to a lesser extent from common stock repurchases during the period ended September 30, 2014.

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

New Capital Rules Beginning January 1, 2015 the Company and the Bank will be subject to the new capital regulations in accordance with Basel III. The new regulations establish higher minimum risk-based capital ratio requirements, a new common equity Tier 1 risk-based capital

ratio and a new capital conservation buffer. The new regulations also include revisions to the definition of capital and changes in the risk-weighting of certain assets. For prompt corrective action, the new regulations establish definitions of "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. Management has completed a preliminary analysis of the impact of these new regulations to the capital ratios of both the Company and the Bank and estimates that the ratios for both the Company and the Bank will comfortably exceed the new minimum capital ratio requirements for "well-capitalized" including the 2.5% capital conservation buffer under Basel III when effective and fully implemented.

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.

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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 September 30, 2014, RB&T could, without prior approval, declare dividends of approximately \$28 million.

Regulatory Capital Requirements The Parent Company and the Bank are subject to various regulatory capital requirements administered by banking regulators. 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 about components, risk weightings and other factors.

Banking regulators have categorized the Bank as well-capitalized. To be categorized as well-capitalized, the Bank must maintain minimum Total Risk Based, Tier I Capital and Tier I Leverage Capital ratios. Regulatory agencies measure capital adequacy within a framework that makes capital requirements, in part, dependent on the individual risk profiles of financial institutions. Republic continues to exceed the regulatory requirements for Total Risk Based Capital, Tier I 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, FDIC and the OCC. Republic's average stockholders equity to average assets ratio was 15.80% at September 30, 2014 compared to 16.15% at December 31, 2013. Formal measurements of the capital ratios for Republic and the Bank are performed by the Company at each quarter end.

In 2004, the Bank executed an intragroup trust preferred transaction with the purpose of providing RB&T access to additional capital markets, if needed in the future. The subordinated debentures held by RB&T were treated as Tier 2 Capital based on requirements administered by the Bank's federal banking agency. In April 2013, the Bank received approval from its regulators and unwound the intragroup trust preferred transaction. The cash utilized to pay off the transaction remained at the Parent Company, Republic Bancorp. Unwinding of the transaction had no impact on RB&T's two Tier 1 related capital ratios and only a minimal impact on its Total Risk Based Capital ratio.

In 2005, Republic Bancorp Capital Trust (RBCT), an unconsolidated trust subsidiary of Republic Bancorp, Inc., was formed and issued \$40 million in Trust Preferred Securities (TPS). The TPS pay a fixed interest rate for ten years and adjust with LIBOR + 1.42% thereafter. The TPS mature on December 31, 2035 and are redeemable at the Bank's option after ten years. The subordinated debentures are treated as Tier I Capital for regulatory purposes. The sole asset of RBCT represents the proceeds of the offering loaned to Republic Bancorp, Inc. in exchange for subordinated debentures which have terms that are similar to the TPS. The subordinated debentures and the related interest expense, which are payable quarterly at the annual rate of 6.015%, are included in the consolidated financial statements. The proceeds obtained from the TPS offering have been utilized to fund loan growth (in prior years), support an existing stock repurchase program and for other general business purposes such as the acquisition of GulfStream Community Bank in 2006.

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The following table sets forth the Company's risk based capital amounts and ratios as of September 30, 2014 and December 31, 2013:

Table 27 Capital Ratios as of September 30, 2014 and December 31, 2013

| (dollars in thousands) | As of September 30, 2014 | | As of December 31, 2013 | |
|---|--------------------------|--------|-------------------------|--------|
| | Actual Amount | Ratio | Actual Amount | Ratio |
| Total Risk Based Capital (to Risk Weighted Assets) | | | | |
| Republic Bancorp, Inc. | \$ 605,956 | 23.92% | \$ 592,531 | 26.71% |
| Republic Bank & Trust Co. | 470,321 | 18.58 | 456,884 | 20.61 |
| Tier I Capital (to Risk Weighted Assets) | | | | |
| Republic Bancorp, Inc. | \$ 582,339 | 22.99% | \$ 569,505 | 25.67% |
| Republic Bank & Trust Co. | 446,704 | 17.65 | 433,858 | 19.57 |
| Tier I Leverage Capital (to Average Assets) | | | | |
| Republic Bancorp, Inc. | \$ 582,339 | 16.54% | \$ 569,505 | 16.81% |
| Republic Bank & Trust Co. | 446,704 | 12.70 | 433,858 | 12.80 |

Asset/Liability Management and Market Risk

Asset/liability management control is designed to ensure safety and soundness, maintain liquidity and regulatory capital standards and achieve acceptable net interest income. 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 the Bank's most significant market risk.

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 market interest rates, deposit growth, loan growth and other factors.

The Bank utilizes an earnings simulation model as its primary tool to measure interest rate sensitivity. Potential changes in market interest rates and their subsequent effects on net interest income were evaluated with the model. The model projects the effect of instantaneous movements in interest rates between 100 and 400 basis point increments equally across all points on the yield curve. These projections are computed based on many various assumptions, which are used to determine the range between 100 and 400 basis point increments, as well as the base case (which is a twelve month projected amount) scenario. 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 also incorporated into the model. These assumptions are inherently uncertain and, as a result, the 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 timing, magnitude and frequency of interest rate changes, as well as changes in market conditions and the application and timing of various management strategies. Additionally, actual results could differ materially from the model if interest rates do not move equally across all points on the yield curve. A model simulation for declining interest rates as of September 30, 2014 is not presented by the Bank because the Federal Open Market Committee

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effectively lowered the Fed Funds Target Rate between 0.00% to 0.25% in December 2008; therefore, no further short-term rate reductions can occur.

Overall, the Bank's Base and Up 100 basis points net interest income projections as of September 30, 2014 improved compared to the previous 12 months, and the Base and Up 100 basis point projections as of December 31, 2013. However, the Bank's interest rate risk position declined since December 31, 2013 between Up 200 and 400 basis points scenarios presented. The Base projection represents the Bank's projected net interest income, excluding loan fees, for the next 12-month period.

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As of December 31, 2013, the Bank's assumption as it related to maturing FHLB advances was that the advances would be refinanced into new long-term fixed FHLB advances. During the first nine months of 2014, the Bank modified its strategy regarding maturing advances and, as of September 30, 2014, planned to payoff a portion of advances as they mature. This modification in strategy served to increase net interest income in the Bank's Base case, as it served to reduce funding costs in the near term. Additionally, during 2014, the Bank launched its Correspondent Lending division and successfully acquired \$140 million in 5/1 and 7/1 jumbo and conforming ARM loans during the first nine months of 2014. Based on this successful launch, the Bank increased its growth assumptions related to 5/1 and 7/1 ARM loans over the next 12 months. The Bank's current strategy to fund this projected growth consists primarily of variable rate, overnight FHLB advances. The use of short-term, overnight borrowings to fund the Bank's correspondent loan growth provides the greatest benefit to the Bank's base case scenario projection as presented in Table 26, but also causes a more negative impact to the Bank's interest rate risk position in a rising rate environment.

As the Bank's Correspondent Lending division continues to grow, the Bank may modify its strategy and hedge a portion of loans purchased through this division with longer term FHLB advances. Additionally, the Bank's wholesale funding strategy and its future use of short- and/or long-term FHLB Advances, will be highly dependent upon both its then-current overall interest rate risk and liquidity positions. Any significant future changes in the Bank's interest rate risk position or its overall liquidity would likely impact the Bank's funding strategy and also significantly impact the Bank's projected net interest income in all scenarios presented in Table 26.

The following table illustrates the Bank's projected net interest income sensitivity profile based on the asset/liability model as of September 30, 2014. The Bank's interest rate sensitivity model does not include loan fees within interest income. During the 12 months from October 1, 2013 through September 30, 2014, loan fees included in interest income were \$9.3 million.

Table 28 Traditional Banking Interest Rate Sensitivity as of September 30, 2014

| (dollars in thousands) | Previous Twelve Months | Increase in Rates | | | | |
|--|------------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| | | Base | 100 Basis Points | 200 Basis Points | 300 Basis Points | 400 Basis Points |
| Projected interest income: | | | | | | |
| Short-term investments | \$ 438 | \$ 11 | \$ 52 | \$ 94 | \$ 135 | \$ 176 |
| Investment securities | 8,882 | 9,091 | 11,000 | 12,902 | 14,684 | 16,377 |
| Loans, excluding loan fees | 111,457 | 124,587 | 134,088 | 144,174 | 154,647 | 165,072 |
| Total interest income, excluding loan fees | 120,777 | 133,689 | 145,140 | 157,170 | 169,466 | 181,625 |
| Projected interest expense: | | | | | | |
| Deposits | 3,865 | 3,788 | 9,124 | 17,602 | 26,619 | 36,427 |
| Securities sold under agreements to repurchase | 89 | 58 | 777 | 3,223 | 5,812 | 8,689 |
| Federal Home Loan Bank advances and other long-term borrowings | 16,096 | 15,082 | 18,265 | 21,516 | 24,805 | 29,125 |
| Total interest expense | 20,050 | 18,928 | 28,166 | 42,341 | 57,236 | 74,241 |
| Net interest income, excluding loan fees | \$ 100,727 | \$ 114,761 | \$ 116,974 | \$ 114,829 | \$ 112,230 | \$ 107,384 |
| Change from base | | | \$ 2,213 | \$ 68 | \$ (2,531) | \$ (7,377) |
| % Change from base | | | 1.93% | 0.06% | -2.21% | -6.43% |

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While the Bank's primary interest rate risk management tool is its earnings simulation model, the board of directors of the Bank has established separate and distinct policy limits for acceptable changes in Economic Value of Equity (EVE) based on certain projected changes in market interest rates. EVE represents the difference between the net present value of the Bank's interest-earning assets and interest-bearing liabilities at a point in time.

Overall, the Bank's EVE for all Up basis points scenarios presented as of September 30, 2014 improved compared to December 31, 2013. This improvement was driven partially by strategic interest rate mitigation steps taken by the Bank during the first quarter of 2014 and partially by updated assumptions during the third quarter of 2014 concerning the weighted average life of the Bank's non-maturing deposits.

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To combat the continued downward repricing in the Bank's loan and investment portfolios during 2013, a primary strategy for the Bank during the year included the origination of loans with longer repricing durations than traditionally originated and retained within the Bank's portfolio. This strategy of extending the repricing duration of the Bank's loans to mitigate the negative repricing trends within its interest-earning assets negatively affected the Bank's ability to maintain its interest rate risk position within its board-approved policy limits for its EVE calculations.

To bring changes to the Bank's EVE within all board-approved policy limits during the fourth quarter of 2013, the Bank borrowed \$20 million of long-term FHLB advances with a weighted average life of five years and a weighted average cost of 1.76%. Also, during the fourth quarter of 2013, the Bank executed two long-term interest rate swaps with notional amounts of \$20 million to hedge its cash flows associated with certain immediately repricing liabilities.

The Bank exceeded its board-approved policy limits for changes in its EVE again during the first quarter of 2014. To improve its EVE position during the first quarter of 2014, the Bank replaced maturing FHLB advances with \$25 million of new fixed rate FHLB advances having a weighted average life of five years and a weighted average cost of 1.85%.

These transactions, while negatively impacting the Bank's current earnings and net interest margin, improved the Bank's EVE in an assumed rising interest rate environment, bringing the results of the EVE calculations back within the Bank's board-approved policy limits.

During the third quarter of 2014, the Bank conducted a core deposit review. Based on this review the Bank adjusted the assumed weighted average life of its non-maturing deposits embedded in the Bank's EVE model. This adjustment to the weighted average life of non-maturing deposits during the third quarter of 2014 had a positive EVE impact.

Based on its current balance sheet growth assumptions, management does not currently project any future instances in which the Bank will exceed its board-approved policy limits. These projections, however, are subject to numerous assumptions and are subject to change on a daily basis based on, among others, management's growth strategies, the Bank's balance sheet mix, overall liquidity position and then-current market conditions.

The following table illustrates the Bank's EVE profile as of September 30, 2014.

Table 29 Bank Economic Value of Equity (EVE) Sensitivity as of September 30, 2014

| (dollars in thousands) | Increase in Rates | | | | |
|------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| | Base | 100 Basis Points | 200 Basis Points | 300 Basis Points | 400 Basis Points |
| EVE | \$ 486,821 | \$ 458,028 | \$ 418,398 | \$ 368,855 | \$ 318,851 |
| Change from base | | \$ (28,793) | \$ (68,423) | \$ (117,966) | \$ (167,970) |
| % Change from base | | -5.91% | -14.06% | -24.23% | -34.50% |

| | | | | |
|--|---------|---------|---------|---------|
| Bank Board policy limit on % change from base | -10.00% | -20.00% | -35.00% | -45.00% |
|--|---------|---------|---------|---------|

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 Operation.*

Table of Contents**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.

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

Details of Republic's Class A Common Stock purchases during the third quarter of 2014 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 |
|----------------------------|----------------------------------|------------------------------|--|---|
| July 1 - July 31 | | \$ | | |
| August 1 - August 31 | | | | |
| September 1 - September 30 | | | | |
| Total | | \$ | | 315,640 |

During 2014, the Company repurchased 15,000 shares and there were 14,387 shares exchanged for stock option exercises. During November of 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 September 30, 2014, the Company had 315,640 shares which could be repurchased under its current share repurchase programs.

During 2014, there were approximately 15,000 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.

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Item 6. Exhibits.

(a) Exhibits

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

| Exhibit Number | Description of Exhibit |
|-----------------------|--|
| 31.1 | Certification of Principal Executive Officer pursuant to the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Principal Financial Officer pursuant to the Sarbanes-Oxley Act of 2002 |
| 32* | 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 |
| 101 | Interactive data files: (i) Consolidated Balance Sheets at September 30, 2014 and December 31, 2013, (ii) Consolidated Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2014 and 2013, (iii) Consolidated Statement of Stockholders' Equity for the nine months ended September 30, 2014, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013 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.*

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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:

November 7, 2014

By: Steven E. Trager
Chairman and Chief Executive Officer

Principal Financial Officer:

November 7, 2014

By: Kevin Sipes
Executive Vice President, Chief Financial
Officer and Chief Accounting Officer