REPUBLIC BANCORP INC /KY/
Form 10-Q
November 09, 2016
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

or

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

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

The number of shares outstanding of the registrant's Class A Common Stock and Class B Common Stock, as of October 31, 2016, was 18,616,873 and 2,245,174.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	September 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$ 302,167	$ 210,082
Securities available for sale	489,905	517,058
Securities held to maturity (fair value of $34,651 in 2016 and $39,196 in 2015)	34,539	38,727
Mortgage loans held for sale, at fair value	8,442	4,083
Consumer loans held for sale, at fair value	1,691	—
Consumer loans held for sale, at the lower of cost or fair value	1,093	514
Loans	3,823,031	3,326,610
Allowance for loan and lease losses	(30,436)	(27,491)
Loans, net	3,792,595	3,299,119
Federal Home Loan Bank stock, at cost	28,208	28,208
Premises and equipment, net	43,385	31,106
Goodwill	16,300	10,168
Other real estate owned	2,435	1,220
Bank owned life insurance	61,392	52,817
Other assets and accrued interest receivable	45,125	37,187
TOTAL ASSETS	$ 4,827,277	$ 4,230,289
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 947,602	$ 634,863
Interest-bearing	2,188,291	1,852,614
Total deposits	3,135,893	2,487,477
Securities sold under agreements to repurchase and other short-term borrowings	152,458	395,433
Federal Home Loan Bank advances	862,500	699,500
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	34,626	30,092

Total liabilities	4,226,717	3,653,742
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	4,906	4,915
Additional paid in capital	137,682	136,910
Retained earnings	454,998	432,673
Accumulated other comprehensive income	2,974	2,049
Total stockholders' equity	600,560	576,547
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 4,827,277	$ 4,230,289

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,	
	2016	2015	2016	2015
INTEREST INCOME:				
Loans, including fees	$ 41,597	$ 34,040	$ 120,772	$ 99,247
Taxable investment securities	1,942	1,733	5,817	5,285
Federal Home Loan Bank stock and other	395	334	1,500	1,058
Total interest income	43,934	36,107	128,089	105,590
INTEREST EXPENSE:				
Deposits	1,620	1,068	4,359	3,233
Securities sold under agreements to repurchase and other short-term borrowings	11	17	51	72
Federal Home Loan Bank advances	2,664	2,982	8,590	8,907
Subordinated note	241	616	680	1,874
Total interest expense	4,536	4,683	13,680	14,086
NET INTEREST INCOME	39,398	31,424	114,409	91,504
Provision for loan and lease losses	2,489	2,233	9,489	3,322
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	36,909	29,191	104,920	88,182
NONINTEREST INCOME:				
Service charges on deposit accounts	3,416	3,399	9,838	9,685
Net refund transfer fees	132	97	19,119	17,339
Mortgage banking income	3,081	972	5,902	3,549
Interchange fee income	2,415	1,967	6,755	6,205
Republic Processing Group program fees	979	474	1,942	871
Gain on call of security available for sale	—	—	—	88
Net gains (losses) on other real estate owned	(137)	(8)	191	(282)
Increase in cash surrender value of bank owned life insurance	406	348	1,114	1,050
Other	1,009	557	2,163	1,772
Total noninterest income	11,301	7,806	47,024	40,277
NONINTEREST EXPENSES:				

Salaries and employee benefits	18,068	15,297	52,965	44,897
Occupancy and equipment, net	5,631	5,217	16,159	15,560
Communication and transportation	1,029	951	2,974	2,768
Marketing and development	1,076	756	2,773	2,318
FDIC insurance expense	345	474	1,483	1,622
Bank franchise tax expense	846	846	3,944	4,094
Data processing	1,659	959	4,535	3,017
Interchange related expense	1,118	909	3,069	2,847
Supplies	280	229	969	809
Other real estate owned expense	159	146	355	485
Legal and professional fees	539	653	1,965	2,796
FHLB advance prepayment penalty	846	—	846	—
Other	1,938	1,801	5,904	5,264
Total noninterest expenses	33,534	28,238	97,941	86,477
INCOME BEFORE INCOME TAX EXPENSE	14,676	8,759	54,003	41,982
INCOME TAX EXPENSE	4,848	3,119	18,100	14,234
NET INCOME	$ 9,828	$ 5,640	$ 35,903	$ 27,748
BASIC EARNINGS PER SHARE:				
Class A Common Stock	$ 0.47	$ 0.27	$ 1.73	$ 1.34
Class B Common Stock	0.43	0.25	1.58	1.22
DILUTED EARNINGS PER SHARE:				
Class A Common Stock	$ 0.47	$ 0.27	$ 1.73	$ 1.34
Class B Common Stock	0.43	0.25	1.57	1.22
DIVIDENDS DECLARED PER COMMON SHARE:				
Class A Common Stock	$ 0.209	$ 0.198	$ 0.616	$ 0.583
Class B Common Stock	0.190	0.180	0.560	0.530

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,	
	2016	2015	2016	2015
Net income	$ 9,828	$ 5,640	$ 35,903	$ 27,748
OTHER COMPREHENSIVE INCOME				
Change in fair value of derivatives used for cash flow hedges	127	(503)	(663)	(724)
Reclassification amount for derivative losses realized in income	83	100	256	304
Change in unrealized gain (loss) on securities available for sale	(788)	488	1,920	670
Reclassification adjustment for gain on security available for sale recognized in earnings	—	—	—	(88)
Change in unrealized gain on security available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings	57	(58)	(91)	(84)
Net unrealized gains (losses)	(521)	27	1,422	78
Tax effect	180	(11)	(497)	(29)
Total other comprehensive income, net of tax	(341)	16	925	49
COMPREHENSIVE INCOME	$ 9,487	$ 5,656	$ 36,828	$ 27,797

See accompanying footnotes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

NINE MONTHS ENDED SEPTEMBER 30, 2016

(in thousands)	Common Stock Class A Shares Outstanding	Class B Shares Outstanding	Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, January 1, 2016	18,652	2,245	$ 4,915	$ 136,910	$ 432,673	$ 2,049	$ 576,547
Net income	—	—	—	—	35,903	—	35,903
Net change in accumulated other comprehensive income	—	—	—	—	—	925	925
Dividends declared Common Stock:							
Class A Shares	—	—	—	—	(11,469)	—	(11,469)
Class B Shares	—	—	—	—	(1,258)	—	(1,258)
Stock options exercised, net of shares redeemed	4	—	—	80	—	—	80
Repurchase of Class A Common Stock	(41)	—	(9)	(274)	(851)	—	(1,134)
Net change in notes receivable on Class A Common Stock	—	—	—	63	—	—	63
Deferred director compensation expense - Class A Common Stock	4	—	—	149	—	—	149
Stock based compensation expense - performance stock	—	—	—	381	—	—	381

units							
Stock based compensation expense - restricted stock	(2)	—	—	189	—	—	189
Stock based compensation expense - stock options	—	—	—	184	—	—	184
Balance, September 30, 2016	18,617	2,245	$ 4,906	$ 137,682	$ 454,998	$ 2,974	$ 600,560

See accompanying footnotes to consolidated financial statements.

6

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine Months Ended September 30,	
	2016	2015
OPERATING ACTIVITIES:		
Net income	$ 35,903	$ 27,748
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization on investment securities, net	425	506
Accretion on loans, deposits and core deposit intangible, net	(1,813)	(2,422)
Depreciation of premises and equipment	5,414	4,965
Amortization of mortgage servicing rights	1,200	1,057
Provision for loan and lease losses	9,489	3,322
Net gain on sale of mortgage loans held for sale	(5,647)	(3,189)
Origination of mortgage loans held for sale	(154,607)	(128,026)
Proceeds from sale of mortgage loans held for sale	154,766	129,077
Net gain on sale of consumer loans held for sale	(1,768)	(909)
Origination of consumer loans held for sale	(248,430)	(86,218)
Proceeds from sale of consumer loans held for sale	247,928	86,473
Net realized gain on sales, calls and impairment of securities	—	(88)
Net gain realized on sale of other real estate owned	(392)	(734)
Writedowns of other real estate owned	200	1,016
Net gain on sale of banking center	—	(28)
Deferred director compensation expense - Company Stock	149	171
Stock based compensation expense	754	311
Increase in cash surrender value of bank owned life insurance	(1,114)	(1,050)
Net change in other assets and liabilities:		
Accrued interest receivable	(83)	(228)
Accrued interest payable	(219)	(95)
Other assets	(3,064)	(1,709)
Other liabilities	(724)	5,336
Net cash provided by operating activities	38,367	35,286
INVESTING ACTIVITIES:		
Net change in cash for acquisition of Cornerstone Bancorp, Inc.	(9,088)	—
Purchases of securities available for sale	(400,079)	(994,305)
Proceeds from calls, maturities and paydowns of securities available for sale	428,649	968,812
Proceeds from calls, maturities and paydowns of securities held to maturity	4,504	4,357
Net change in outstanding warehouse lines of credit	(274,457)	(74,117)
Purchase of non-business-acquisition loans, including premiums paid	(48,876)	(87,619)
Net change in other loans	(62,932)	(96,916)
Proceeds from redemption of Federal Home Loan Bank stock	224	—
Proceeds from sale of mortgage loans transferred to held for sale	72,330	—
Proceeds from sales of other real estate owned	2,660	7,880

Proceeds from sale of banking center	—	1,623
Net purchases of premises and equipment	(5,466)	(2,312)
Net cash used in investing activities	(292,531)	(272,597)
FINANCING ACTIVITIES:		
Net change in deposits	443,745	309,648
Net change in securities sold under agreements to repurchase and other short-term borrowings	(242,975)	(46,484)
Payments of Federal Home Loan Bank advances	(267,000)	(208,000)
Proceeds from Federal Home Loan Bank advances	430,000	212,000
Payoff of subordinated note, net of common security interest	(4,000)	—
Repurchase of Common Stock	(1,134)	(477)
Net proceeds from Common Stock options exercised	80	244
Cash dividends paid	(12,467)	(11,767)
Net cash provided by financing activities	346,249	255,164
NET CHANGE IN CASH AND CASH EQUIVALENTS	92,085	17,853
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	210,082	72,878
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 302,167	$ 90,731
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 13,882	$ 14,181
Income taxes	18,956	12,219
SUPPLEMENTAL NONCASH DISCLOSURES:		
Transfers from loans to real estate acquired in settlement of loans	$ 3,939	$ 2,713
Transfers from loans held for investment to held for sale	71,201	—
Loans provided for sales of other real estate owned	256	2,962

See accompanying footnotes to consolidated financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – SEPTEMBER 30, 2016 and 2015 AND DECEMBER 31, 2015 (UNAUDITED)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The consolidated financial statements include the accounts of Republic Bancorp, Inc. (the "Parent Company") and its wholly-owned subsidiaries, Republic Bank & Trust Company ("RB&T" or the "Bank") and Republic Insurance Services, Inc. (the "Captive"). The Bank is a Kentucky-based, state chartered non-member financial institution. The Captive is a wholly-owned insurance subsidiary of the Company that provides property and casualty insurance coverage to the Company and the Bank as well as 10 other third-party insurance captives for which insurance may not be available or economically feasible. Republic Bancorp Capital Trust ("RBCT") is a Delaware statutory business trust that is a wholly-owned unconsolidated finance subsidiary of Republic Bancorp, Inc. As a result of its acquisition of Cornerstone Bancorp, Inc. on May 17, 2016, Republic Bancorp, Inc. became the 100% successor owner of Cornerstone Capital Trust 1 ("CCT1"), an unconsolidated finance subsidiary. As permitted under the terms of CCT1's governing documents, the Company redeemed these securities at the par amount of approximately $4 million, without penalty, on September 15, 2016.

All companies are collectively referred to as "Republic" or the "Company." All significant intercompany balances and transactions are eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. 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, 2015.

As of September 30, 2016, the Company was divided into four distinct business operating segments: Traditional Banking, Warehouse Lending ("Warehouse"), Mortgage Banking and Republic Processing Group ("RPG"). Management considers the first three segments to collectively constitute "Core Bank" or "Core Banking" activities. The RPG segment includes the following divisions: Tax Refund Solutions ("TRS"), Refund Payment Solutions ("RPS") and Republic Credit Solutions ("RCS"). TRS generates the majority of RPG's income, with the relatively smaller divisions of RPG, RPS and RCS, considered immaterial for separate and independent segment reporting. All divisions of the RPG segment operate through the Bank.

8

Table of Contents

Core Bank (includes Traditional Banking, Warehouse Lending and Mortgage Banking segments)

The Traditional Banking segment provides traditional banking products primarily to customers in the Company's market footprint. As of September 30, 2016, Republic had 44 full-service banking centers with locations as follows:

- Kentucky — 32
- Metropolitan Louisville — 19
- Central Kentucky — 8
- Elizabethtown — 1
- Frankfort — 1
- Georgetown — 1
- Lexington — 4
- Shelbyville — 1
- Western Kentucky — 2
- Owensboro — 2
- Northern Kentucky — 3
- Covington — 1
- Florence — 1
- Independence — 1
- Southern Indiana — 3
- Floyds Knobs — 1
- Jeffersonville — 1
- New Albany — 1
- Metropolitan Tampa, Florida — 6
- 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.

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. Federal Home Loan Bank ("FHLB") advances have traditionally been a significant borrowing source for the Bank.

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

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

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

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

Republic Processing Group

Tax Refund Solutions division — Republic, through its TRS division, is one of a limited number of financial institutions that facilitates the receipt and payment of federal and state tax refunds through third-party tax preparers located throughout the Nation, as well as tax-preparation software providers. Substantially all of the business generated by the TRS division occurs in the first half of the year. The TRS division traditionally operates at a loss during the second half of the year, during which time the division incurs costs preparing for the upcoming year's first quarter tax season.

Refund Transfers ("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 reported as noninterest income under the line item "Net refund transfer fees."

TRS offered its new Easy Advance ("EA") tax credit product during the first quarter of 2016. The EA product had the following features during the period it was offered through February 29, 2016:

- An advance amount of $750 per taxpayer customer;
- No EA fee charged to the taxpayer customer;
- All fees for the product were paid by the tax preparer or tax software company (collectively, the "Tax Providers") with a restriction prohibiting the Tax Providers from passing along the fees to the taxpayer customer;
- No requirement that the taxpayer customer pay for another bank product, such as an RT;
- Multiple funds disbursement methods, including direct deposit, prepaid card, check or the Walmart Direct2Cash® product, based on the taxpayer customer's election;
- Repayment of the EA to the Bank was deducted from the taxpayer customer's tax refund proceeds; and
- If an insufficient refund to repay the EA occurred:
  - there was no recourse to the taxpayer customer,
  - no negative credit reporting on the taxpayer customer, and
  - no collection efforts against the taxpayer customer.

Fees paid by the Tax Providers to the Company for the EA product are reported as interest income on loans under the line item "Loans, including fees." During 2016, EAs were generally repaid within three weeks after the taxpayer customer's tax return was submitted to the applicable tax authority. Provisions for loss on EAs were estimated when advances were made, with all loss provisions made in the first quarter of 2016. Unpaid EAs were charged-off within 81 days after the taxpayer customer's tax return was submitted to the applicable tax authority, with the majority of charge-offs recorded during the second quarter of 2016.

Republic Payment Solutions division — The RPS division is an issuing bank offering general-purpose reloadable prepaid cards through third-party program managers.

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

Republic Credit Solutions division — The RCS division offers short-term consumer credit products. In general, the credit products are unsecured, small dollar consumer loans with maturities of 30-days-or-more, and are dependent on various factors including the consumer's ability to repay.

The Company reports RCS loans originated for investment under "Loans," while loans originated for sale are reported under "Consumer loans held for sale." The Company reports interest income and loan origination fees earned on RCS loans under "Loans, including fees," while any gains or losses on sale reported as noninterest income under "Republic Processing Group program fees."

Table of Contents

Accounting Standards Updates ("ASUs")

The following ASUs were issued during the nine months ended September 30, 2016 and are considered relevant to the Company's financial statements:

ASU. No.	Topic	Nature of Update	Date Adoption Required	Method of Adoption	Expected Impact to Company's Financial Statements
2016-2	Leases (Topic 842)	Most leases are considered operating leases, which are not accounted for on the lessees' balance sheets. The significant change under this ASU is that those operating leases will be recorded on the balance sheet.	January 1, 2019	Modified-retrospective approach, which includes a number of optional practical expedients.	Currently under analysis.
2016-4	Liabilities – Extinguishments of Liabilities (Topic 405-20)	Provides that liabilities related to the sale of prepaid stored-value products are financial liabilities and provide a narrow scope exception to the guidance in Subtopic 405-20 to require that breakage for those liabilities be accounted for consistent with the breakage guidance in Topic 606.	January 1, 2018	Modified-retrospective or a fully retrospective approach.	Immaterial
2016-5	Derivatives and Hedging (Topic 815)	Clarifies that a change in the counterparty to a derivative instrument that has been designated as the	January 1, 2017	Prospective or modified-retrospective approach.	Immaterial

		hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria (including those in paragraphs 815-20-35-14 through 35-18 of the Accounting Standards Codification) continue to be met.			
2016-9	Compensation – Stock Compensation (Topic 718)	Provides simplification in areas of accounting for share-based payments, including: the income tax consequences; classification of awards as either equity or liabilities; and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities.	January 1, 2017	Certain elements are applied retrospectively, some prospectively.	Immaterial
2016-13	Financial Instruments – Credit Losses (Topic 326)	Amends guidance on reporting credit losses for assets held at amortized-cost basis and available-for-sale debt securities.	January 1, 2020	Modified-retrospective approach.	Substantial, yet fully undetermined, increase in allowance for credit losses.
2016-15	Statement of Cash Flows (Topic 230)	Provides additional guidance for preparation of a cash flow statement.	January 1, 2018	Retrospective transition unless impractical.	Immaterial

Table of Contents

2. ACQUISITION OF CORNERSTONE BANCORP, INC.

OVERVIEW

On May 17, 2016, the Company completed its acquisition of Cornerstone Bancorp, Inc. (“Cornerstone”), and its wholly-owned bank subsidiary Cornerstone Community Bank (“CCB”), for approximately $32 million in cash. The primary reason for the acquisition of Cornerstone was to expand the Company’s footprint in the Tampa, Florida metropolitan statistical area.

ACQUISITION SUMMARY

The following table provides a summary of the assets acquired and liabilities assumed as recorded by Cornerstone, the previously reported preliminary fair value adjustments necessary to adjust those acquired assets and assumed liabilities to fair value, recast adjustments to those previously reported preliminary fair values, and the fair values of those assets and liabilities as recorded by the Company. As provided for under GAAP, management has up to 12 months following the date of acquisition to finalize the fair values of the acquired assets and assumed liabilities. The preliminary fair value adjustments and the preliminary resultant fair values shown in the following table continue to be evaluated by management and may be subject to further recast adjustments.

Acquisition of Cornerstone Bancorp, Inc. - Summary of Assets Acquired and Liabilities Assumed

	May 17, 2016 As Previously Reported			As Recasted		
(in thousands)	As Recorded by Cornerstone	Fair Value Adjustments (1)		Recast Adjustments (1)		As Recorded by Republic
Assets acquired:						
Cash and cash equivalents	$ 22,707	$ —		$ —		$ 22,707
Investment securities	329	—		—		329
Loans	195,136	(5,525)	a	13	a	189,624
Allowance for loan and lease losses	(1,955)	1,955	a	—		—
Loans, net	193,181	(3,570)		13		189,624
Federal Home Loan Bank stock, at cost	224	—		—		224
Premises and equipment, net	7,770	4,457	b	—		12,227

Core deposit intangible	—	1,205	c	—	1,205
Deferred income taxes	3,714	(74)	d	—	3,640
Bank owned life insurance	7,461	—		—	7,461
Other assets and accrued interest receivable	658	—		—	658
Total assets acquired	$ 236,044	$ 2,018		$ 13	$ 238,075
Liabilities assumed:					
Deposits					
Noninterest-bearing	$ 52,908	$ —		$ —	$ 52,908
Interest-bearing	152,257	92	e	—	152,349
Total deposits	205,165	92		—	205,257
Subordinated note	4,124	—		—	4,124
Other liabilities and accrued interest payable	2,244	787	f	—	3,031
Total liabilities assumed	211,533	879		—	212,412
Net assets acquired	$ 24,511	$ 1,139		$ 13	25,663
Cash consideration paid					(31,795)
Goodwill					$ 6,132

(1) The Company's acquisition of Cornerstone closed on May 17, 2016. The fair value adjustments reported are preliminary estimates based on information obtained subsequent to May 17, 2016 and through September 30, 2016. Management is continuing to evaluate each of its estimates and may provide additional recast adjustments in future periods based on this continuing evaluation. To the extent that additional recast adjustments are posted in future periods, the resultant fair values and the amount of goodwill recorded by the Company will change.

Table of Contents

Explanation of preliminary fair value adjustments:

a. Adjustment reflects the fair value adjustment based on the Company's evaluation of the acquired loan portfolio and to eliminate the recorded allowance for loan losses.
b. Adjustment reflects the fair value adjustment based on the Company's evaluation of the premises and equipment acquired.
c. Adjustment reflects the fair value adjustment for the core deposit intangible asset recorded as a result of the acquisition.
d. This adjustment reflects the differences in the carrying values of acquired assets and assumed liabilities for financial reporting purposes and their basis for federal income tax purposes.
e. Adjustment reflects the fair value adjustment based on the Company's evaluation of the assumed time deposits.
f. Adjustment reflects the amount needed to adjust other liabilities to estimated fair value and to record certain liabilities directly attributable to the acquisition of Cornerstone.

Goodwill of approximately $6 million, which is the excess of the merger consideration over the fair value of net assets acquired, is expected to be recorded in the Cornerstone acquisition and is the result of expected operational synergies and other factors. This goodwill is all attributable to the Company's Traditional Banking segment and is not expected to be deductible for tax purposes. To the extent that management revises any of the above fair value adjustments as a result of its continuing evaluation, the amount of goodwill recorded in the Cornerstone acquisition will change.

Table of Contents

CORNERSTONE CONTRIBUTION FOR THE REPORTING PERIOD

The Company’s consolidated statements of income include the impact of the Company’s Cornerstone acquisition for the three and nine months ended September 30, 2016. The results of operations of the assets acquired and liabilities assumed in the Company’s Cornerstone acquisition, inclusive of any pre-acquisition related costs, are summarized in the following table:

	Three Months Ended September 30, 2016				Nine Months Ended September 30, 2016			
(in thousands)	Non-Acquisition Related	Acquisition-Related		Total	Non-Acquisition Related	Acquisition-Related		Total
INTEREST INCOME:								
Loans, including fees	$ 2,348	$ 34	a	$ 2,382	$ 3,403	$ 34	a	$ 3,437
Taxable investment securities	547	—		547	750	—		750
Total interest income	2,895	34		2,929	4,153	34		4,187
INTEREST EXPENSE:								
Deposits	144	(5)	b	139	215	(9)	b	206
Borrowings	848	—		848	1,099	—		1,099
Subordinated note	25	—		25	37	—		37
Total interest expense	1,017	(5)		1,012	1,351	(9)		1,342
NET INTEREST INCOME	1,878	39		1,917	2,802	43		2,845
Provision for loan and lease losses	9	—		9	95	—		95
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	1,869	39		1,908	2,707	43		2,750
NONINTEREST INCOME:								
Service charges on deposit accounts	86	—		86	123	—		123
Interchange fee income	57	—		57	76	—		76
Other	140	—		140	176	—		176
Total noninterest income	283	—		283	375	—		375
NONINTEREST EXPENSES:								
Salaries and employee benefits	831	—		831	1,250	274	c	1,524

Occupancy and equipment, net	225	—		225	325	—		325
Communication and transportation	67	—		67	97	10	d	107
Marketing and development	100	—		100	127	—		127
FDIC insurance expense	11	—		11	30	—		30
Data processing	3	212	e	215	—	663	e	663
Supplies	24	—		24	31	20	f	51
Legal and professional fees	11	—		11	40	150	g	190
Other	152	45	h	197	220	76	h	296
Total noninterest expenses	1,424	257		1,681	2,120	1,193		3,313
INCOME (LOSS) BEFORE INCOME TAX EXPENSE	728	(218)		510	962	(1,150)		(188)
INCOME TAX EXPENSE (BENEFIT)	218	(67)		151	288	(348)		(60)
NET INCOME (LOSS)	$ 510	$ (151)		$ 359	$ 674	$ (802)		$ (128)

Explanation of acquisition-related items:

a. Accretion of loan discounts.
b. Amortization of deposit premiums.
c. Severance payouts and signing bonuses for former Cornerstone employees.
d. Notices to former Cornerstone stakeholders of change in ownership and merger-related travel.
e. Primarily core system conversion-related costs.
f. Costs to update forms and supplies to RB&T brand.
g. Includes legal, audit, tax and other acquisition related consulting costs.
h. Includes amortization of core deposit intangible asset.

14

Table of Contents

3. INVESTMENT SECURITIES

Securities Available for Sale

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

September 30, 2016 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 286,295	$ 1,350	$ —	$ 287,645
Private label mortgage backed security	3,864	1,004	—	4,868
Mortgage backed securities - residential	78,048	2,814	(30)	80,832
Collateralized mortgage obligations	95,173	660	(238)	95,595
Freddie Mac preferred stock	—	193	—	193
Community Reinvestment Act mutual fund	2,500	44	—	2,544
Corporate bonds	15,005	123	—	15,128
Trust preferred security	3,438	—	(338)	3,100
Total securities available for sale	$ 484,323	$ 6,188	$ (606)	$ 489,905

December 31, 2015 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 286,914	$ 59	$ (494)	$ 286,479
Private label mortgage backed security	4,037	1,095	—	5,132
Mortgage backed securities - residential	88,968	3,395	(95)	92,268
Collateralized mortgage obligations	113,972	748	(1,052)	113,668
Freddie Mac preferred stock	—	173	—	173
Community Reinvestment Act mutual fund	1,000	11	—	1,011
Corporate bonds	15,009	16	(103)	14,922
Trust preferred security	3,405	—	—	3,405
Total securities available for sale	$ 513,305	$ 5,497	$ (1,744)	$ 517,058

Securities Held to Maturity

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

September 30, 2016 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 509	$ 7	$ —	$ 516
Mortgage backed securities - residential	160	12	—	172
Collateralized mortgage obligations	28,795	254	(76)	28,973
Corporate bonds	5,075	—	(85)	4,990
Total securities held to maturity	$ 34,539	$ 273	$ (161)	$ 34,651

December 31, 2015 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 515	$ 1	$ —	$ 516
Mortgage backed securities - residential	53	6	—	59
Collateralized mortgage obligations	33,159	464	—	33,623
Corporate bonds	5,000	—	(2)	4,998
Total securities held to maturity	$ 38,727	$ 471	$ (2)	$ 39,196

At September 30, 2016 and December 31, 2015, 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.

Table of Contents

Sales of Securities Available for Sale

During the three and nine months ended September 30, 2016 there were no gains or losses on sales or calls of securities available for sale.

During the three months ended September 30, 2015 there were no gains on securities available for sale. During the nine months ended September 30, 2015 there was a gain of $88,000 on the call of one security available for sale.

Investment Securities by Contractual Maturity

The amortized cost and fair value of the investment securities portfolio by contractual maturity at September 30, 2016 follows. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are detailed separately.

	Securities Available for Sale		Securities Held to Maturity	
September 30, 2016 (in thousands)	Amortized Cost	Fair Value	Carrying Value	Fair Value
Due in one year or less	$ 96,170	$ 96,479	$ 509	$ 516
Due from one year to five years	195,130	196,203	5,075	4,990
Due from five years to ten years	10,000	10,091	—	—
Due beyond ten years	3,438	3,100	—	—
Private label mortgage backed security	3,864	4,868	—	—
Mortgage backed securities - residential	78,048	80,832	160	172
Collateralized mortgage obligations	95,173	95,595	28,795	28,973
Freddie Mac preferred stock	—	193	—	—
Community Reinvestment Act mutual fund	2,500	2,544	—	—
Total securities	$ 484,323	$ 489,905	$ 34,539	$ 34,651

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 in 2008. The OTTI charge brought the carrying value of the stock to $0. In 2014, based on active trading volume of Freddie Mac preferred stock, the Company determined it appropriate to record an unrealized gain to AOCI related to its Freddie Mac preferred stock holdings. Based on the stock’s market closing price as of September 30, 2016, the Company’s unrealized gain for its Freddie Mac preferred stock totaled $193,000.

Corporate Bonds

The Bank maintains a portfolio of corporate bonds, $75,000 of which were obtained on May 17, 2016 in connection with the Bank’s acquisition of CCB. The remaining corporate bonds were rated “investment grade” by accredited rating agencies as of their respective purchase dates. The total fair value of the Bank’s corporate bonds represented 4% of the Bank’s investment portfolio as of September 30, 2016 and December 31, 2015.

Mortgage Backed Securities and Collateralized Mortgage Obligations

At September 30, 2016, with the exception of the $4.9 million private label mortgage backed security, all other mortgage backed securities and collateralized mortgage obligations (“CMOs”) held by the Bank were issued by U.S. government-sponsored entities and agencies, primarily Freddie Mac and the Federal National Mortgage Association (“Fannie Mae” or “FNMA”). At September 30, 2016 and December 31, 2015, there were gross unrealized losses of $268,000 and $1.1 million related to available for sale mortgage backed securities and CMOs. Because these unrealized losses are attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to have other-than-temporary impairment (“OTTI”).

Table of Contents

Trust Preferred Security

During the fourth quarter of 2015, the Parent Company purchased a $3 million floating rate trust preferred security (“TRUP”) at a price of 68% of par. The coupon on this security is based on the 3-month LIBOR rate plus 159 basis points, giving the Parent Company an expected yield to maturity of 4.27% when considering the discount. The Company performed an initial analysis prior to acquisition and performs ongoing analysis of the credit risk of the underlying borrower in relation to its TRUP.

Unrealized-Loss Analysis

Securities with unrealized losses at September 30, 2016 and December 31, 2015, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

September 30, 2016 (in thousands)	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or more Fair Value	12 months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
Securities available for sale:						
Mortgage backed securities - residential	$ —	$ —	$ 4,619	$ (30)	$ 4,619	$ (30)
Collateralized mortgage obligations	20,765	(64)	17,557	(174)	38,322	(238)
Trust preferred security	3,100	(338)	—	—	3,100	(338)
Total securities available for sale	$ 23,865	$ (402)	$ 22,176	$ (204)	$ 46,041	$ (606)

December 31, 2015 (in thousands)	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or more Fair Value	12 months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
Securities available for sale:						
U.S. Treasury securities and U.S. Government agencies	$ 191,584	$ (433)	$ 9,914	$ (61)	$ 201,498	$ (494)
Mortgage backed securities - residential	5,727	(95)	—	—	5,727	(95)

Collateralized mortgage obligations	6,831	(212)	35,869	(840)	42,700	(1,052)
Corporate bonds	9,896	(103)	—	—	9,896	(103)
Total securities available for sale	$ 214,038	$ (843)	$ 45,783	$ (901)	$ 259,821	$ (1,744)

September 30, 2016 (in thousands)	Less than 12 months Fair Value	Unrealized Losses	12 months or more Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Securities held to maturity:						
Collateralized mortgage obligations	$ 74,312	$ (76)	$ —	$ —	$ 74,312	$ (76)
Corporate bonds	—	—	4,915	(85)	4,915	(85)
Total securities held to maturity	$ 74,312	$ (76)	$ 4,915	$ (85)	$ 79,227	$ (161)

December 31, 2015 (in thousands)	Less than 12 months Fair Value	Unrealized Losses	12 months or more Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Securities held to maturity:						
Corporate bonds	$ 4,998	$ (2)	$ —	—	$ 4,998	$ (2)
Total securities held to maturity	$ 4,998	$ (2)	$ —	$ —	$ 4,998	$ (2)

At September 30, 2016, the Bank's security portfolio consisted of 173 securities, 19 of which were in an unrealized loss position.

At December 31, 2015, the Bank's security portfolio consisted of 162 securities, 34 of which were in an unrealized loss position.

17

Table of Contents

Other-than-temporary impairment ("OTTI")

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 following:

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

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

The Bank owns one private label mortgage backed security with a total carrying value of $4.9 million at September 30, 2016. This security, with an average remaining life currently estimated at four 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 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 10 "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, 2016	December 31, 2015
Carrying amount	$ 205,553	$ 489,598
Fair value	205,773	490,074

Table of Contents

4. LOANS HELD FOR SALE

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

Mortgage Loans Held for Sale, at Fair Value

See additional detail regarding mortgage loans originated for sale, at fair value under Footnote 11 "Mortgage Banking Activities" of this section of the filing.

Consumer Loans Held for Sale, at Fair Value

During the first quarter of 2016, RCS initiated a short-term installment loan program, in which the Company sells 100% of the receivables approximately 21 days after origination. The Company carries these loans at fair value, with the loans marked to market on a monthly basis, and any changes in their fair value reported as a component of "Republic Processing Group program fees."

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

(in thousands)	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Balance, beginning of period	$ 6,826	$ —
Origination of consumer loans held for sale	20,057	33,714
Proceeds from the sale of consumer loans held for sale	(25,397)	(32,355)
Net gain on sale of consumer loans held for sale	205	332
Balance, end of period	$ 1,691	$ 1,691

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

RCS originates for sale its short-term, line-of-credit product and its credit-card product. The Bank sells 90% of the balances maintained through these products within two days of loan origination and retains a 10% interest. The short-term, line-of-credit product represents the substantial majority of activity in consumer loans held for sale and carried at the lower of cost or fair value, as RCS moved beyond the pilot phase for this product in June 2015. In December 2015, RCS began piloting its credit-card product. Any gains or losses on sale of such products are reported as a component of "Republic Processing Group program fees."

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2016	2015	2016	2015
Balance, beginning of period	$ 1,122	$ 1,542	$ 514	$ —
Origination of consumer loans held for sale	99,346	66,320	214,716	86,218
Proceeds from the sale of consumer loans held for sale	(100,099)	(67,871)	(215,573)	(86,473)
Net gain on sale of consumer loans held for sale	724	663	1,436	909
Balance, end of period	$ 1,093	$ 654	$ 1,093	$ 654

Table of Contents

5. LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The composition of the loan portfolio at period end follows:

(in thousands)	September 30, 2016	December 31, 2015
Residential real estate:		
Owner occupied	$ 1,028,471	$ 1,081,934
Owner occupied - correspondent*	159,955	249,344
Non owner occupied	149,610	116,294
Commercial real estate	999,852	824,887
Commercial real estate - purchased whole loans*	36,085	35,674
Construction & land development	94,289	66,500
Commercial & industrial	250,094	229,721
Lease financing receivables	12,186	8,905
Warehouse lines of credit	661,186	386,729
Home equity	335,116	289,194
Consumer:		
RPG loans*	16,453	7,204
Credit cards	12,581	11,068
Overdrafts	795	685
Purchased whole loans*	6,895	5,892
Other consumer	59,463	12,579
Total loans**	3,823,031	3,326,610
Allowance for loan and lease losses	(30,436)	(27,491)
Total loans, net	$ 3,792,595	$ 3,299,119

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

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

The following table reconciles the contractually receivable and carrying amounts of loans at September 30, 2016 and December 31, 2015:

(in thousands)	September 30, 2016	December 31, 2015

Contractual receivable	$	3,828,586	$	3,329,741
Unearned income(1)		(963)		(741)
Unamortized premiums(2)		2,036		3,792
Unaccreted discounts(3)		(10,146)		(7,860)
Net unamortized deferred origination fees and costs		3,518		1,678
Carrying value of loans	$	3,823,031	$	3,326,610

(1) Unearned income relates to lease financing receivables.
(2) Premiums predominately relate to loans acquired through the Bank’s Correspondent Lending channel.
(3) Unaccreted discounts include accretable and non-accretable discounts and predominately relate to loans acquired in the Bank’s 2016 Cornerstone acquisition and its 2012 FDIC-assisted transactions.

Table of Contents

Loan Purchases

The Core Bank acquires for investment single family, first lien mortgage loans that meet the Core Bank's specifications through its Correspondent Lending channel. The loans acquired through the Correspondent Lending channel are primarily purchased from the Core Bank's Warehouse clients, with substantially all loans purchased at a premium. Loans acquired through the Correspondent Lending channel generally reflect borrowers outside of the Bank's market footprint, with 73% of such loans as of September 30, 2016 secured by collateral in the state of California.

In addition to mortgage loans acquired through its Correspondent Lending channel, the Bank has acquired in the past unsecured consumer installment loans for investment from a third-party originator. Such consumer loans were purchased at par and were selected by the Bank based on certain underwriting specifications.

The following table 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, 2016 and 2015.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2016	2015	2016	2015
Residential real estate:				
Owner occupied - correspondent*	$ 9,631	$ 22,003	$ 44,454	$ 84,804
Consumer:				
Purchased whole loans*	—	2,453	4,422	2,815
Total purchased loans	$ 9,631	$ 24,456	$ 48,876	$ 87,619

* Represents origination amount, inclusive of applicable purchase premiums.

Loans Acquired in Cornerstone Acquisition

The following table summarizes loans acquired in the Company's May 17, 2016 Cornerstone acquisition, recasted as of September 30, 2016:

May 17, 2016

(in thousands)	Contractual Receivable	Non-accretable Amount	Accretable Amount	Acquisition-Day Fair Value
Residential real estate:				
Owner occupied	17,901	—	143	18,044
Non owner occupied	11,196	—	(108)	11,088
Commercial real estate	106,089	—	(1,541)	104,548
Construction & land development	18,277	—	(505)	17,772
Commercial & industrial	11,462	—	(226)	11,236
Home equity	20,652	—	(373)	20,279
Consumer and other	2,347	—	(234)	2,113
Total loans - ASC 310-20	187,924	—	(2,844)	185,080
Residential real estate:				
Owner occupied	549	(198)	(7)	344
Non owner occupied	1,721	(285)	(167)	1,269
Commercial real estate	4,315	(1,626)	(197)	2,492
Construction & land development	175	—	—	175
Commercial & industrial	66	(98)	1	(31)
Home equity	382	(78)	(11)	293
Consumer and other	4	(2)	—	2
Total loans - ASC 310-30 - purchased-credit-impaired loans	7,212	(2,287)	(381)	4,544
Total loans	$ 195,136	$ (2,287)	$ (3,225)	$ 189,624

Table of Contents

Purchased-Credit-Impaired ("PCI") Loans

The Bank acquired PCI loans on May 17, 2016 in its Cornerstone acquisition and during the year ended December 31, 2012 in two FDIC-assisted transactions. PCI loans are accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality.

Management utilized the following criteria in determining which loans were classified as PCI loans for its May 17, 2016 Cornerstone acquisition:

- Loans for which the Bank assigned a non-accretable discount
- Loans classified as nonaccrual when acquired
- Loans past due 90+ days when acquired

The following table reconciles the contractually required and carrying amounts of all PCI loans at September 30, 2016 and December 31, 2015:

(in thousands)	September 30, 2016	December 31, 2015
Contractually-required principal	$ 19,612	$ 18,250
Non-accretable amount	(1,853)	(1,582)
Accretable amount	(3,860)	(4,125)
Carrying value of loans	$ 13,899	$ 12,543

The following table presents a rollforward of the accretable amount on all PCI loans for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2016	2015	2016	2015
Balance, beginning of period	$ (4,087)	$ (4,323)	$ (4,125)	$ (2,297)
Transfers between non-accretable and accretable	179	(573)	(299)	(3,927)
Net accretion into interest income on loans, including loan fees	48	684	945	2,012
Generated from acquisition of Cornerstone Bancorp, Inc. (recasted)	—	—	(381)	—

Balance, end of period	$ (3,860)	$ (4,212)	$ (3,860)	$ (4,212)

22

Table of Contents

Credit Quality Indicators

Based on the Bank's internal analyses performed as of September 30, 2016 and December 31, 2015, the following tables reflect loans by risk category. Risk categories are defined in the Company's Annual Report on Form 10-K for the year ended December 31, 2015:

September 30, 2016 (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	$ —	$ 22,952	$ 14,708	$ —	$ 2,509	$ —	$ 40,169
Owner occupied - correspondent	—	—	—	—	—	—	—
Non owner occupied	—	398	1,104	—	793	—	2,295
Commercial real estate	979,008	5,656	4,816	—	10,372	—	999,852
Commercial real estate - purchased whole loans	36,085	—	—	—	—	—	36,085
Construction & land development	93,397	92	800	—	—	—	94,289
Commercial & industrial	249,035	853	176	—	30	—	250,094
Lease financing receivables	12,186			—	—	—	12,186
Warehouse lines of credit	661,186	—	—	—	—	—	661,186
Home equity	—	109	1,941	—	194	—	2,244
Consumer:							
RPG loans	—	—	82	—	—	—	82
Credit cards	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	