

REPUBLIC BANCORP INC /KY/

Form 10-K

March 09, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky (State or other jurisdiction of incorporation or organization)	61-0862051 (I.R.S. Employer Identification No.)
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601 West Market Street, Louisville, Kentucky (Address of principal executive offices)	40202 (Zip Code)
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Registrant's telephone number, including area code: (502) 584-3600

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Securities registered pursuant to Section 12(b) of the Act:

Class A Common Stock (Title of each class)	NASDAQ Global Select Market (Name of each exchange on which registered)
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Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

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 if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of June 30, 2017 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$349,890,313 (for purposes of this calculation, the market value of the Class B Common Stock was based on the market value of the Class A Common Stock into which it is convertible).

The number of shares outstanding of the registrant's Class A Common Stock and Class B Common Stock, as of February 9, 2018 was 18,609,173 and 2,242,624.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held April 19, 2018 are incorporated by reference into Part III of this Form 10-K.

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Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains statements relating to future results of Republic Bancorp, Inc. that are considered “forward-looking” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The forward-looking statements are principally, but not exclusively, contained in Part I Item 1 “Business,” Part I Item 1A “Risk Factors” and Part II Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

As used in this filing, the terms “Republic,” the “Company,” “we,” “our” and “us” refer to Republic Bancorp, Inc., and, where the context requires, Republic Bancorp, Inc. and its subsidiaries; and the term the “Bank” or “RB&T” refers to the Company’s subsidiary bank: Republic Bank & Trust Company.

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

Broadly speaking, forward-looking statements include:

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

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

- changes in political and economic conditions;
- new information concerning the impact of the Tax Cuts and Jobs Act (“TCJA”);
- the magnitude and frequency of changes to the Federal Funds Target Rate (“FFTR”) implemented by the Federal Open Market Committee (“FOMC”) of the Federal Reserve Bank (“FRB”);
- long-term and short-term interest rate fluctuations as well as the overall steepness of the yield curve;
- competitive product and pricing pressures in each of the Company’s five reportable segments;
- equity and fixed income market fluctuations;
- client bankruptcies and loan defaults;
- inflation;
- recession;
- natural disasters impacting Company operations;
- future acquisitions;
- integrations of acquired businesses;
- changes in technology;
- changes in applicable laws and regulations or the interpretation and enforcement thereof;
- changes in fiscal, monetary, regulatory and tax policies;
- changes in accounting standards;
- monetary fluctuations;
- changes to the Company’s overall internal control environment;
- success in gaining regulatory approvals when required;

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- information security breaches or cyber security attacks involving either the Company or one of the Company's third-party service providers; and
- other risks and uncertainties reported from time to time in the Company's filings with the Securities and Exchange Commission ("SEC"), including Part 1 Item 1A "Risk Factors."

PART I

Item 1. Business.

Republic Bancorp, Inc. ("Republic" or the "Company") is a financial holding company headquartered in Louisville, Kentucky. Republic is the parent company of 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 that provides both traditional and non-traditional banking products through five reportable segments using a multitude of delivery channels. While the Bank operates primarily in its market footprint, its non-brick-and-mortar delivery channels allow it to reach clients across the United States. The Captive is a Nevada-based, wholly-owned insurance subsidiary of the Company. The Captive provides property and casualty insurance coverage to the Company and the Bank as well as a group of third-party insurance captives for which insurance may not be available or economically feasible.

Republic Bancorp Capital Trust is a Delaware statutory business trust that is a 100%-owned unconsolidated finance subsidiary of Republic Bancorp, Inc.

As of December 31, 2017, Republic had 45 full-service banking centers and one loan production office ("LPO") with locations as follows:

Kentucky — 33

Metropolitan Louisville — 19

Central Kentucky — 9

Elizabethtown — 1

Frankfort — 1

Georgetown — 1

Lexington — 5

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 — 3\*

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\*Includes one LPO

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



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The principal business of Republic is directing, planning and coordinating the business activities of the Bank. The financial condition and results of operations of Republic are primarily dependent upon the results of operations of the Bank. At December 31, 2017, Republic had total assets of \$5.1 billion, total deposits of \$3.4 billion and total stockholders' equity of \$632 million. Based on total assets as of December 31, 2017, Republic ranked as the largest Kentucky-based financial holding company. The executive offices of Republic are located at 601 West Market Street, Louisville, Kentucky 40202, telephone number (502) 584-3600. The Company's website address is [www.republicbank.com](http://www.republicbank.com).

## Website Access to Reports

The Company makes its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, available free of charge through its website, [www.republicbank.com](http://www.republicbank.com), as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. The information provided on the Company's website is not part of this report, and is therefore not incorporated by reference, unless that information is otherwise specifically referenced elsewhere in this report.

## General Business Overview

As of December 31, 2017, the Company was divided into five reportable segments: Traditional Banking, Warehouse Lending ("Warehouse"), Mortgage Banking, Tax Refund Solutions ("TRS") and Republic Credit Solutions ("RCS"). Management considers the first three segments to collectively constitute "Core Bank" or "Core Banking" operations, while the last two segments collectively constitute Republic Processing Group ("RPG") operations. The Bank's Correspondent Lending channel and the Company's national branchless banking platform, MemoryBank®, are considered part of the Traditional Banking segment.

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

Net income, total period-end assets, net interest margin, and net-revenue concentration by reportable segment for the years ended December 31, 2017, 2016 and 2015 are presented below:

		Year Ended December 31, 2017						Republic Processing Group ("RPG")						
		Core Banking												
(thousands)		Traditional Banking	Warehouse Lending	Mortgage Banking	Total Core Banking			Tax Refund Solutions	Republic Credit Solutions	Total RPG	Total Com			
		\$ 23,513	\$ 8,907	\$ 1,028	\$ 33,448			\$ 8,290	\$ 3,894	\$ 12,184	\$ 45			
total		4,470,932	525,246	11,115	5,007,293			12,450	65,619	78,069	5,			
margin		3.55 %	3.53 %	NM	3.55 %			NM	NM	NM	4.			
*		66 %	7 %	2 %	75 %			13 %	12 %	25 %	10			

		Year Ended December 31, 2016						Republic Processing Group						
		Core Banking												
(dollars in thousands)		Traditional Banking	Warehouse Lending	Mortgage Banking	Total Core Banking			Tax Refund Solutions	Republic Credit Solutions	Total RPG	Total Com			
Net income		\$ 24,959	\$ 8,110	\$ 1,790	\$ 34,859			\$ 7,503	\$ 3,541					
Period-end total assets		4,169,557	584,916	17,453	4,771,926			13,575	30,808					
Net interest margin		3.26 %	3.59 %	NM	3.30 %			NM	NM					
Net-revenue concentration*		69 %	8 %	3 %	80 %			13 %	7 %					

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	Year Ended December 31, 2015						Republic Processing Group (			
	Core Banking						Tax	Republic	T	R
(dollars in thousands)	Traditional	Warehouse	Mortgage	Total	Core	Refund	Credit	T	R	
	Banking	Lending	Banking	Banking	Banking	Solutions	Solutions	R	R	
Net income (loss)	\$ 23,919	\$ 5,964	\$ (26)	\$ 29,857	\$ 29,857	\$ 5,729	\$ (420)	\$	\$	
Period-end total assets	3,809,526	386,414	9,348	4,205,288	4,205,288	18,891	6,110			
Net interest margin	3.20	%	3.58	%	NM	3.24	%	NM	NM	
Net-revenue concentration*	77	%	7	%	3	%	87	%	11	%

\*Net revenues are equal to net interest income plus noninterest income.

NM — Not Meaningful

For expanded segment financial data see Footnote 24 “Segment Information” of Part II Item 8 “Financial Statements and Supplementary Data.”

#### (I) Traditional Banking segment

As of December 31, 2017 and through the date of this filing, generally all Traditional Banking products and services, except for a selection of deposit products offered through the Bank’s separately branded national branchless banking platform, MemoryBank, were offered through the Company’s traditional RB&T brand.

#### Lending Activities

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

**Retail Mortgage Lending** — Through its retail banking centers, its Correspondent Lending channel and its Internet Banking channel, the Bank originates single family, residential real estate loans. In addition, the Bank originates home equity amortizing loans (“HEALs”) and home equity lines of credit (“HELOCs”) through its retail banking centers.

Such loans are generally collateralized by owner occupied property. During 2017, the Bank continued to market its HELOCs utilizing a promotional rate product. Under the terms of the promotional product during 2017, clients received a fixed interest rate for 6-12 months with no upfront closing costs. At the expiration of the promotional rate period, rates are adjusted to an index based on the New York Prime Rate ("Prime").

For those loans originated through the Bank's retail banking centers, the collateral is predominately located in the Bank's market footprint, while loans originated through the Correspondent Lending and Internet Banking channels are generally secured by owner occupied collateral located outside of the Bank's market footprint.

The Bank offers single family, first lien residential real estate, adjustable rate mortgages ("ARM"s) with interest rate adjustments tied to various market indices with specified minimum and maximum adjustments. The Bank generally charges a higher interest rate for its ARMs if the property is not owner occupied. The interest rates on the majority of ARMs are adjusted after their fixed rate periods on an annual basis, with most having annual and lifetime limitations on upward rate adjustments to the loan. These loans typically feature amortization periods of up to 30 years and have fixed interest rate periods generally ranging from five to ten years, with demand dependent upon market conditions. In general, ARMs containing longer fixed rate periods have historically been more attractive to the Bank's clients in a relatively low rate environment, while ARMs with shorter fixed rate periods have historically been more attractive to the Bank's clients in a relatively high rate environment. While there is no requirement for clients to refinance their loans at the end of the fixed rate period, clients have historically done so the majority of the time, as most clients are interest rate risk averse on their first mortgage loans.

Depending on the term and amount of the ARM, loans collateralized by single family, owner-occupied first lien residential real estate may be originated with a loan-to-value ("LTV") up to 90% and a combined LTV up to 100%. The Bank also offers a 100% LTV product for home purchase transactions within its primary markets. The Bank does not require the borrower to obtain private mortgage insurance for ARM loans. Except for the HEAL product under \$150,000, the Bank requires mortgagee's title insurance on single family, first lien residential real estate loans to protect the Bank against defects in its liens on the properties

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that collateralize the loans. The Bank normally requires title, fire, and extended casualty insurance to be obtained by the borrower and, when required by applicable regulations, flood insurance. The Bank maintains an errors and omissions insurance policy to protect the Bank against loss in the event a borrower fails to maintain proper fire and other hazard insurance policies.

Single family, first lien residential ARMs originated prior to January 10, 2014 generally contain an early termination penalty (“ETP”). Effective January 10, 2014, with the implementation of the Ability to Repay (“ATR”) Rule, the Bank eliminated ETPs for subsequently originated ARMs.

Single family, first lien residential real estate loans with fixed rate periods of 15, 20 and 30 years are primarily sold into the secondary market. Mortgage Servicing Rights (“MSRs”) attached to the sold portfolio are either sold along with the loan or retained. Loans sold into the secondary market, along with their corresponding MSRs, are included as a component of the Company’s Mortgage Banking segment, as discussed elsewhere in this filing. The Bank, as it has in the past, may retain such longer-term fixed rate loans from time to time in the future to help combat market compression. Any such loans retained on balance sheet would be reported as a component of the Traditional Banking segment.

The Bank does, on occasion, purchase single family, first lien residential real estate loans in low-to-moderate income areas in order to meet its obligations under the Community Reinvestment Act (“CRA”). The Bank generally applies secondary market underwriting criteria to the review of these purchased loan portfolios and generally reserves the right to reject particular loans from a loan package being purchased that do not meet its underwriting criteria. In connection with loan purchases, the Bank receives various representations and warranties from the sellers regarding the quality and characteristics of the loans.

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

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

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

C&I loans typically include those secured by General Business Assets (“GBA”), which consist of equipment, accounts receivable, inventory, and other business assets owned by the borrower/guarantor. Credit facilities include annually renewable lines of credit and term loans with maturities typically from three to five years, and may also involve financial covenant requirements. These requirements are monitored by the Bank’s CCAD. Underwriting for C&I loans is based on the borrower’s capacity to repay these loans from operating cash flows, typically measured by Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”), with capital strength, collateral and management experience also important underwriting considerations.

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

The Bank’s CRE and multi-family loans are typically secured by improved property such as office buildings, medical facilities, retail centers, warehouses, apartment buildings, condominiums, schools, religious institutions and other types of commercial use property.

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

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

Single family residential construction loans are made in the Bank's market area to established homebuilders with solid financial records. The majority of these loans are made for "contract" homes, which the builder has already pre-sold to a homebuyer. The duration of these loans is generally less than 12 months and repaid at the end of the construction period from the sale of the constructed property. Some loans are made on "speculative" homes, which the builder does not have pre-sold to a homebuyer, but expects to execute a contract to sell during the construction period. These speculative homes are considered necessary to have in inventory for homebuilders, as not all homebuyers want to wait during the construction period to purchase and move into a newly built home. Generally, the Bank will require a larger amount of equity from the builder when financing a speculative home compared to a contract home due to the increased risk of failing to sell the underlying property in a reasonable period of time.

Commercial construction loans are made in the Bank's market to established commercial builders with solid financial records. Typically these loans are made for investment properties and have tenants pre-committed for some or all of the space. Some projects may begin as speculative, with the builder contracting to lease or sell the property during the construction period. Generally, commercial construction loans are made for the duration of the construction period and slightly beyond and will either convert to permanent financing with the Bank or with another lender at or before maturity.

Construction-to-permanent loans are another type of construction-related financing offered by the Bank. These loans are made to borrowers who are going to build a property and retain it for ownership after construction completion. The construction phase is handled just like all other construction loans, and the permanent phase offers similar terms to a permanent CRE loan, while allowing the borrower a one-time closing process at loan origination. These loans are offered on both owner occupied and non-owner occupied CRE properties.

**Internet Lending** — The Bank accepts online loan applications for its RB&T brand through its website at [www.republicbank.com](http://www.republicbank.com). Historically, the majority of loans originated through Internet Lending have been within the

Bank's traditional markets of Kentucky, Florida and Indiana. Other states where loans are marketed include California, Colorado, Georgia, Illinois, Michigan, Minnesota, North Carolina, Ohio, Tennessee and Virginia, as well as, the District of Columbia.

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

Consumer Lending — Traditional consumer loans made by the Bank include home improvement and home equity loans, other secured and unsecured personal loans, and credit cards. With the exception of home equity loans, which are actively marketed in conjunction with single family, first lien residential real estate loans, other traditional consumer loan products, while available, are not and have not been actively promoted in the Bank's markets.

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



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

See additional discussion regarding Lending Activities under the sections titled:

- Part I Item 1A "Risk Factors"
- Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations"
- Part II Item 8 "Financial Statements and Supplementary Data," Footnote 5 "Loans and Allowance for Loan and Lease Losses."

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

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

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

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

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

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

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

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

See additional discussion regarding the Traditional Banking segment under Footnote 24 “Segment Information” of Part II Item 8 “Financial Statements and Supplementary Data.”

(II) Warehouse Lending segment

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

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See additional discussion regarding the Warehouse Lending segment under Footnote 24 “Segment Information” of Part II Item 8 “Financial Statements and Supplementary Data.”

(III) Mortgage Banking segment

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

As part of the sale of loans with servicing retained, the Bank records MSR. MSRs represent an estimate of the present value of future cash servicing income, net of estimated costs, which the Bank expects to receive on loans sold with servicing retained by the Bank. MSRs are capitalized as separate assets. This transaction is posted to net gain on sale of loans, a component of “Mortgage Banking income” in the income statement. Management considers all relevant factors, in addition to pricing considerations from other servicers, to estimate the fair value of the MSR to be recorded when the loans are initially sold with servicing retained by the Bank. The carrying value of MSR is initially amortized in proportion to and over the estimated period of net servicing income and subsequently adjusted quarterly based on the weighted average remaining life of the underlying loans. The MSR amortization is recorded as a reduction to net servicing income, a component of Mortgage Banking income.

With the assistance of an independent third party, the MSR asset is reviewed at least quarterly for impairment based on the fair value of the MSR using groupings of the underlying loans based on predominant risk characteristics. Any impairment of a grouping is reported as a valuation allowance. A primary factor influencing the fair value is the estimated life of the underlying loans serviced. The estimated life of the loans serviced is significantly influenced by market interest rates. During a period of declining interest rates, the fair value of the MSR is expected to decline due to increased anticipated prepayment speeds within the portfolio. Alternatively, during a period of rising interest rates, the fair value of MSR is expected to increase, as prepayment speeds on the underlying loans would be anticipated to decline.

See additional discussion regarding the Mortgage Banking segment under Footnote 24 “Segment Information” of Part II Item 8 “Financial Statements and Supplementary Data.”

(IV) Tax Refund Solutions segment

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

Refund Transfers (“RTs”) are fee-based products whereby a tax refund is issued to the taxpayer after the Bank has received the refund from the federal or state government. There is no credit risk or borrowing cost associated with these products because they are only delivered to the taxpayer upon receipt of the refund directly from the governmental paying authority.

“Easy Advance” Product

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

TRS first offered its EA tax credit product during the first two months of 2016 and for a second successive year during the first two months of 2017. For the first quarter 2017 tax season, the Company modified the EA product offering to allow more than one advance amount and a different price structure to the Tax Providers based on the amount borrowed by the taxpayer. All other features of the product remained substantially the same as those from the first quarter 2016 tax season, including the following:

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- No EA fee charged to the taxpayer customer;
- All fees for the product were paid by the Tax Providers with a restriction prohibiting the Tax Providers from passing along the fees to the taxpayer customer;
- No requirement that the taxpayer customer pay for another bank product, such as an RT;
- Multiple funds disbursement methods, including direct deposit, prepaid card, check or 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:
  - o there was no recourse to the taxpayer customer,
  - o no negative credit reporting on the taxpayer customer, and
  - o no collection efforts against the taxpayer customer.

Fees paid by the Tax Providers to the Company for the EA product are reported as interest income on loans. EAs during 2017 and 2016 were generally repaid within three weeks after the taxpayer customer's tax return was submitted to the applicable taxing authority. EAs do not have a contractual due date but are eligible for delinquency consideration three weeks after the taxpayer customer's tax return is submitted to the applicable taxing authority. Provisions for loan losses on EAs are estimated when advances are made, with all expected loss provisions made in the first quarter of each year. Unpaid EAs are charged-off within 81 days after the taxpayer customer's tax return is submitted to the applicable taxing authority, with the majority of charge-offs typically recorded during the second quarter of the year.

Related to the overall credit losses on EAs, the Bank's ability to control losses is highly dependent upon its ability to predict the taxpayer's likelihood to receive the tax refund as claimed on the taxpayer's tax return. Each year, the Bank's EA approval model is based primarily on the prior-year's tax refund funding patterns. Because much of the loan volume occurs each year before that year's tax refund funding patterns can be analyzed and subsequent underwriting changes made, credit losses during a current year could be higher than management's predictions if tax refund funding patterns change materially between years. For the first quarter 2018 tax season, the Company modified the EA product offering to increase the maximum advance amount, which is expected to drive an increase in overall EA loan volume and a proportionate amount of EA chargeoffs.

See additional discussion regarding the EA product under the sections titled:

- Part I Item 1A "Risk Factors"
- Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations"
- Part II Item 8 "Financial Statements and Supplementary Data," Footnote 5 "Loans and Allowance for Loan and Lease Losses"

Republic Payment Solutions division

Through the RPS division of the TRS segment, the Bank is an issuing bank offering general-purpose-reloadable prepaid cards through third-party service providers.

For the projected near-term, as the prepaid card program matures, the operating results of the RPS division are expected to be immaterial to the Company's overall results of operations and will be reported as part of the TRS segment. The RPS division will not be classified a separate reportable segment until such time, if any, that it meets reporting thresholds.

See additional discussion regarding the TRS segment under the sections titled:

- Part I Item 1A "Risk Factors"
- Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations"
- Part II Item 8 "Financial Statements and Supplementary Data," Footnote 24 "Segment Information"

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(V) Republic Credit Solutions segment

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

- Line of credit – The Bank originates a line-of-credit product to generally subprime borrowers across the United States through one third-party service provider. RCS sells 90% of the balances generated within two business days of loan origination to its third-party service provider and retains the remaining 10% interest. The line-of-credit product represented the substantial majority of RCS activity during 2017 and 2016. Loan balances held for sale are carried at the lower of cost or fair value.
- Credit card – The Bank originates a credit card product to generally subprime borrowers across the United States through one third-party service provider. RCS sells 90% of the balances generated within two business days of each transaction occurrence to its third-party service provider and retains the remaining 10% interest. Loan balances held for sale are carried at the lower of cost or fair value.
- Healthcare receivables – The Bank originates a healthcare-receivables product across the United States through two different third-party service providers. For one third-party service provider the Bank retains 100% of the receivables originated. For the other third-party service provider, the Bank retains 100% of the receivables originated in some instances and sells 100% of the receivables in other instances within one month of origination. Loan balances held for sale are carried at the lower of cost or fair value.
- Installment loan – The Bank originates an installment-loan product across the United States through a third-party service provider and sells 100% of the balances generated approximately 21 days after origination back to this third-party. Unlike RCS's other products, the Company carries these installment loans held for sale at fair value, with this portfolio marked to market on a monthly basis.

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

See additional discussion regarding the RCS segment under the sections titled:

- Part I Item 1A "Risk Factors"

- Part II Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations”
- Part II Item 8 “Financial Statements and Supplementary Data,” Footnote 24 “Segment Information”

## Employees

As of December 31, 2017, Republic had 997 full-time-equivalent employees (“FTE”s). Altogether, Republic had 984 full-time and 25 part-time employees. None of the Company’s employees are subject to a collective bargaining agreement, and Republic has never experienced a work stoppage. The Company believes that its employee relations have been and continue to be good.

## Executive Officers

See Part III, Item 10. “Directors, Executive Officers and Corporate Governance.” for information about the Company’s executive officers.



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### Competition

#### Traditional Banking

The Traditional Bank encounters intense competition in its market footprint in originating loans, attracting deposits, and selling other banking related financial services. Through its national branchless banking platform, MemoryBank, the Bank competes for digital and mobile clients in select pilot markets under the MemoryBank brand. Through its Correspondent Lending channel, the Bank also competes to acquire newly originated mortgage loans from select mortgage companies on a national basis. The deregulation of the banking industry, the ability to create financial services holding companies to engage in a wide range of financial services other than banking and the widespread enactment of state laws that permit multi-bank holding companies, as well as the availability of nationwide interstate banking, has created a highly competitive environment for financial institutions. In one or more aspects of the Bank's business, the Bank competes with local and regional retail and commercial banks, other savings banks, credit unions, finance companies, mortgage companies, fintech companies, and other financial intermediaries operating in Kentucky, Indiana, Florida, Tennessee and Ohio. The Bank also competes with insurance companies, consumer finance companies, investment banking firms and mutual fund managers. Some of the Company's competitors are not subject to the same degree of regulatory review and restrictions that apply to the Company and the Bank. Many of the Bank's primary competitors, some of which are affiliated with large bank holding companies or other larger financial based institutions, have substantially greater resources, larger established client bases, higher lending limits, more extensive banking center networks, numerous ATMs or Interactive Teller Machines ("ITMs"), and greater advertising and marketing budgets. They may also offer services that the Bank does not currently provide. These competitors attempt to gain market share through their financial product mix, pricing strategies and banking center locations. Legislative developments related to interstate branching and banking in general, by providing large banking institutions easier access to a broader marketplace, can act to create more pressure on smaller financial institutions to consolidate. It is anticipated that competition from both bank and non-bank entities will continue to remain strong in the foreseeable future.

The primary factors in competing for bank products are convenient locations and ATMs, ITMs, flexible hours, deposit interest rates, services, internet banking, mobile banking, range of lending services offered and lending fees. Additionally, the Bank believes that an emphasis on highly personalized service tailored to individual client needs, together with the local character of the Bank's business and its "community bank" management philosophy will continue to enhance the Bank's ability to compete successfully in its market footprint.

#### Warehouse Lending

The Bank competes with financial institutions across the United States for mortgage banking clients in need of warehouse lines of credit. Competitors may have substantially greater resources, larger established client bases, higher lending limits, as well as underwriting standards and on-going oversight requirements that could be viewed more favorably by some clients. A few or all of these factors can lead to a competitive disadvantage to the Company when

attempting to retain or grow its Warehouse client base.

### Mortgage Banking

The Bank competes with mortgage bankers, mortgage brokers and financial institutions for the origination and funding of mortgage loans. Many competitors have branch offices in the same areas where the Bank's loan officers operate. The Bank also competes with mortgage companies whose focus is often on telemarketing and internet lending.

### Tax Refund Solutions

The TRS segment encounters direct competition for RT and EA market share from a limited number of banks in the industry. The Bank competes in the marketplace on the basis of various revenue-share and pricing incentives, as well as product features and overall service levels.

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### Republic Payment Solutions division:

The prepaid card industry is subject to intense and increasing competition. The Bank competes with a number of companies that market different types of prepaid card products, such as GPR, gift, incentive and corporate disbursement cards. There is also competition from large retailers who are seeking to integrate more financial services into their product offerings. Increased competition is also expected from alternative financial services providers who are often well-positioned to service the “underbanked” and who may wish to develop their own prepaid card programs.

### Republic Credit Solutions

The small-dollar consumer loan industry is highly competitive. Competitors for the Company’s small-dollar loan programs include, but are not limited to, billers who accept late payments for a fee, overdraft privilege programs of other banks and credit unions, as well as payday lenders and fintech companies.

New entrants to the small dollar consumer loan market must successfully implement underwriting and fraud prevention processes, overcome consumer brand loyalty and have sufficient capital to withstand early losses associated with unseasoned loan portfolios. In addition, there are substantial regulatory and compliance costs, including the need for expertise to customize products associated with licenses to lend in various states across the United States.

### Supervision and Regulation

The Company and the Bank are subject to extensive federal and state banking laws and regulations, which establish a comprehensive framework of activities in which the Company and the Bank may engage. These laws and regulations are primarily intended to provide protection to clients and depositors, not stockholders.

The Company is a financial holding company, a legal entity separate and distinct from the Bank that is subject to direct supervision by the FRB. The Company’s principal source of funds is the payment of cash dividends from the Bank. The Company files regular routine reports with the FRB in addition to the Bank’s filings with the FDIC concerning business activities and financial condition. These regulatory agencies conduct periodic examinations to review the Company’s safety and soundness, and compliance with various requirements.

The Bank is a Kentucky-chartered commercial banking and trust corporation and as such, it is subject to supervision and regulation by the FDIC and the Kentucky Department of Financial Institutions (“KDFI”). The Bank also operates physical locations in Florida, Indiana, Ohio, and Tennessee; originates and purchases loans on a national basis; and accepts deposits on a national basis through its MemoryBank digital brand. All deposits, subject to regulatory prescribed limitations, held by the Bank are insured by the FDIC.

The Bank is subject to restrictions, requirements, potential enforcement actions and examinations by the FDIC and KDFI. The FRB regulates the Company with monetary policies and operational rules that directly impact the Bank. The Bank is a member of the Federal Home Loan Bank (“FHLB”) System. As a member of the FHLB system, the Bank must also comply with applicable regulations of the Federal Housing Finance Board. Regulation by these agencies is intended primarily for the protection of the Bank’s depositors and the Deposit Insurance Fund (“DIF”) and not for the benefit of the Company’s stockholders. The Bank’s activities are also regulated under consumer protection laws applicable to the Bank’s lending, deposit and other activities. The Bank and the Company are also subject to regulations issued by the Consumer Financial Protection Bureau (“CFPB”), an independent bureau of the FRB created by the Dodd-Frank Act. An adverse ruling against the Company or the Bank under these laws could have a material adverse effect on results of operations.

Regulators have extensive discretion in connection with their supervisory and enforcement authority and examination policies, including, but not limited to, policies that can materially impact the classification of assets and the establishment of adequate loan loss reserves. Any change in regulatory requirements and policies, whether by the FRB, the FDIC, the KDFI the CFPB or state or federal legislation, could have a material adverse impact on Company operations.

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Regulators have broad enforcement powers over banks and their holding companies, including, but not limited to: the power to mandate or restrict particular actions, activities, or divestitures; impose monetary fines and other penalties for violations of laws and regulations; issue cease and desist or removal orders; seek injunctions; publicly disclose such actions; and prohibit unsafe or unsound practices. This authority includes both informal and formal actions to effect corrective actions and/or sanctions. In addition, the Bank is subject to regulation and potential enforcement actions by other state and federal agencies.

Certain regulatory requirements applicable to the Company and the Bank are referred to below or elsewhere in this filing. The description of statutory provisions and regulations applicable to banks and their holding companies set forth in this filing does not purport to be a complete description of such statutes and regulations. Their effect on the Company and the Bank is qualified in its entirety by reference to the actual laws and regulations.

### Prepaid Card Regulation

The prepaid cards marketed by the RPS division are subject to various federal and state laws and regulations, including regulations issued by the CFPB, as well as those discussed below. Prepaid cards issued by the Bank could be subject to the Electronic Fund Transfers Act (“EFTA”) and the FRB’s Regulation E. With the exception of those provisions comprising the Credit Card Accountability, Responsibility, and Disclosure Act of 2009 (“CARD Act”); the Bank treats prepaid products such as GPR cards as being subject to certain provisions of the EFTA and Regulation E when applicable, such as those related to disclosure requirements, periodic reporting, error resolution procedures and liability limitations.

### State Wage Payment Laws and Regulations

The use of payroll card programs as means for an employer to remit wages or other compensation to its employees or independent contractors is governed by state labor laws related to wage payments. RPS payroll cards are designed to allow employers to comply with such applicable state wage and hour laws. Most states permit the use of payroll cards as a method of paying wages to employees either through statutory provisions allowing such use, or, in the absence of specific statutory guidance, the adoption by state labor departments of formal or informal policies allowing for the use of such cards. Nearly every state allowing payroll card programs places certain requirements or restrictions on their use as a wage payment method. The most common of these requirements or restrictions involves obtaining the prior written consent of the employee, limitations on payroll card fees and disclosure requirements.

### Card Association and Payment Network Operating Rules

In providing certain services, the Bank is required to comply with the operating rules promulgated by various card associations and network organizations, including certain data security standards, with such obligations arising as a condition to access or participation in the relevant card association or network organization. Each card association and network organization may audit the Bank from time to time to ensure compliance with these standards. The Bank maintains appropriate policies and programs and adapts business practices in order to comply with all applicable rules and standards of such associations and organizations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”)

On July 21, 2010, the Dodd-Frank Act was signed into law, which was intended to cause a fundamental restructuring of federal banking regulation through implementation of extensive regulatory reforms. Many of these reforms have been implemented and others are expected to be implemented in the future. Among other things, the Dodd-Frank Act creates a new Financial Stability Oversight Council to identify systemic risks in the financial system and gives federal regulators new authority to take control of and liquidate financial companies. Provisions of the Dodd-Frank Act that have been or will be implemented that have impacted or may impact the Company and the Bank include:

- Requiring publicly traded companies to provide stockholders the opportunity to cast a non-binding vote on executive compensation at least every three years and on “golden parachute” payments in connection with approvals of mergers and acquisitions. The legislation also authorizes the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company’s proxy materials. Additionally, the Dodd-Frank Act directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their

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holding companies with assets in excess of \$1 billion, regardless of whether the company is publicly traded or not. The Dodd-Frank Act gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

- Applying Section 23A and Section 22(h) of the Federal Reserve Act (governing transactions with insiders) to derivative transactions, repurchase agreements and securities lending and borrowing transactions that create credit exposure to an affiliate or an insider. Any such transactions with affiliates must be fully secured. The exemption from Section 23A for transactions with financial subsidiaries was effectively eliminated. The Dodd-Frank Act additionally prohibits an insured depository institution from purchasing an asset from or selling an asset to an insider unless the transaction is on market terms and, if representing more than 10% of capital, is approved in advance by the disinterested directors.
- Creating the CFPB, which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws. The CFPB has examination and primary enforcement authority with respect to depository institutions with \$10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB, but continue to be examined and supervised by federal banking regulators for consumer compliance purposes.
- Permanently increasing the maximum deposit insurance amount for financial institutions from \$100,000 to \$250,000 per depositor, retroactive to January 1, 2009. The Dodd-Frank Act also broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also required the FDIC to increase the reserve ratio of the DIF from 1.15% to 1.35% of insured deposits by 2020, for which the FDIC issued final rules that became effective in July 2016, and eliminated the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. The Dodd-Frank Act eliminated the federal statutory prohibition against the payment of interest on business checking accounts.
- Imposing new requirements for mortgage lending, including prohibitions on certain compensation to mortgage originators and special consumer protections, including limitations on certain mortgage terms. Additionally, requiring lenders to consider a consumer's ability to repay a mortgage loan before extending credit to the consumer and limiting prepayment penalties.
- Limiting permissible debit interchange fees for certain financial institutions.
- Revising certain corporate governance requirements for public companies.

Incentive Compensation — In 2016, six federal agencies, including the FDIC, the FRB and the SEC, issued a new Notice of Proposed Rulemaking designed to implement section 956 of the Dodd-Frank Act, which applies only to financial institutions with total consolidated assets of \$1 billion or more. This seeks to strengthen the incentive compensation practices at covered institutions by better aligning employee rewards with longer-term institutional objectives. The proposed orders are designed to:

- prohibit incentive-based compensation arrangements that encourage inappropriate risks by providing covered persons with “excessive” compensation;
- prohibit incentive-based compensation arrangements that encourage inappropriate risk taking by providing covered persons with compensation that “could lead to a material financial loss” to an institution;
- require certain incentive-based compensation arrangements for covered persons to include deferral of payments, risk of downward adjustment and forfeiture, and clawbacks in order to appropriately balance risk and reward;
- require disclosures and record-keeping requirements that will enable the appropriate federal regulator to determine compliance with the rule; and
- require the institution to maintain policies and procedures to ensure compliance with these requirements and prohibitions commensurate with the size and complexity of the organization and the scope of its use of incentive compensation.



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**Volcker Rule** — In December 2013, the final Volcker Rule provision of the Dodd-Frank Act was approved and implemented by the FRB, the FDIC, the SEC, and the Commodity Futures Trading Commission (“CFTC”) (collectively, the “Agencies”). The Volcker Rule aims to reduce risk and banking system instability by restricting U.S. banks from investing in or engaging in proprietary trading and speculation and imposing a strict framework to justify exemptions for underwriting, market making and hedging activities. U.S. banks are restricted from investing in funds with collateral comprised of less than 100% loans that are not registered with the SEC and from engaging in hedging activities that do not hedge a specific identified risk. Affected institutions were required to fully conform to the Volcker Rule by July 21, 2015.

Because some components of the Dodd-Frank Act still have not been finalized, it is difficult to predict the ultimate effect of the Dodd-Frank Act on the Company or the Bank at this time. In addition, the extent to which new legislation, existing and planned governmental initiatives, and the current presidential administration result in a meaningful change in the current regulatory environment and the national economy is uncertain.

### I. The Company

**Acquisitions** — The Company is required to obtain the prior approval of the FRB under the Bank Holding Company Act (“BHCA”) before it may, among other things, acquire all or substantially all of the assets of any bank, or ownership or control of any voting shares of any bank, if after such acquisition it would own or control, directly or indirectly, more than 5% of any class of the voting shares of such bank. In addition, the Bank must obtain regulatory approval before entering into certain transactions, such as adding new banking offices and mergers with, or acquisitions of, other financial institutions. In approving bank acquisitions by bank holding companies, the FRB is required to consider the financial and managerial resources and future prospects of the bank holding company, its subsidiaries and related banks, and the target bank involved, the convenience and needs of the communities to be served and various competitive and other factors. Consideration of financial resources generally focuses on capital adequacy, which is discussed below. Consideration of convenience and needs issues includes the parties’ performance under the CRA (as defined below). Under the CRA, all financial institutions have a continuing and affirmative obligation consistent with safe and sound operation to help meet the credit needs of their designated communities, specifically including low-to-moderate income persons and neighborhoods.

Under the BHCA, so long as it is at least adequately capitalized, adequately managed, has a satisfactory or better CRA rating and is not subject to any regulatory restrictions, the Company may purchase a bank, subject to regulatory approval. Similarly, an adequately capitalized and adequately managed bank holding company located outside of Kentucky, Florida, Indiana, Ohio or Tennessee may purchase a bank located inside Kentucky, Florida, Indiana, Ohio or Tennessee subject to appropriate regulatory approvals. In either case, however, state law restrictions may be placed on the acquisition of a bank that has been in existence for a limited amount of time, or would result in specified concentrations of deposits. For example, Kentucky law prohibits a bank holding company from acquiring control of banks located in Kentucky if the holding company would then hold more than 15% of the total deposits of all federally insured depository institutions in Kentucky.

The BHCA and the Change in Bank Control Act also generally require the approval of the Federal Reserve prior to any person or company acquiring control of a state bank or bank holding company. Acquiring control conclusively occurs if immediately after a transaction, the acquiring person or company owns, controls, or holds voting securities of the institution with the power to vote 25% or more of any class. Acquiring control is refutably presumed if, immediately after a transaction, the acquiring person or company owns, controls, or holds voting securities of the institution with the power to vote 10% or more of any class, and (i) the institution has registered securities under section 12 of the Securities Exchange Act; or (ii) no other person will own, control, or hold the power to vote a greater percentage of that class of voting securities immediately after the transaction.

Financial Activities — The activities permissible for bank holding companies and their affiliates were substantially expanded by the Gramm-Leach-Bliley Act (“GLBA”). The GLBA permits bank holding companies that qualify as, and elect to be, Financial Holding Company’s (“FHCs”), to engage in a broad range of activities that are financial in nature, incidental to financial activity, or complementary to financial activity that does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. These financial activities include, but are not limited to, the following: underwriting securities, dealing in and making a market in securities, insurance underwriting and agency activities without geographic or other limitation, as well as merchant banking. To achieve and maintain its status as a FHC, the Company and all of its affiliated depository institutions must be well capitalized, well-managed, and have at least a “satisfactory” CRA rating. The Company currently qualifies as and maintains an election as a FHC.

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Subject to certain exceptions, state banks are permitted to control or hold an interest in a financial subsidiary that engages in a broader range of activities than are permissible for national banks to engage in directly, subject to any restrictions imposed on a bank under the laws of the state under which it is organized. Conducting financial activities through a bank subsidiary can impact capital adequacy and regulatory restrictions may apply to affiliate transactions between the bank and its financial subsidiaries.

**Safe and Sound Banking Practice** — The FRB does not permit bank holding companies to engage in unsafe and unsound banking practices. The FDIC and the KDFI have similar restrictions with respect to the Bank.

Pursuant to the Federal Deposit Insurance Act (“FDIA”), the FDIC has adopted a set of guidelines prescribing safety and soundness standards. These guidelines establish general standards relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings standards, compensation, fees and benefits. In general, the guidelines require appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines.

**Source of Strength Doctrine** — Under FRB policy, a bank holding company is expected to act as a source of financial strength to its banking subsidiaries and to commit resources for their support. Such support may restrict the Company’s ability to pay dividends, and may be required at times when, absent this FRB policy, a holding company may not be inclined to provide it. A bank holding company may also be required to guarantee the capital restoration plan of an undercapitalized banking subsidiary and any applicable cross-guarantee provisions that may apply to the Company. In addition, any capital loans by the Company to its bank subsidiary are subordinate in right of payment to deposits and to certain other indebtedness of the bank subsidiary. In the event of a bank holding company’s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment. The Dodd-Frank Act codifies the Federal Reserve Board’s existing “source of strength” policy that holding companies act as a source of strength to their insured institution subsidiaries by providing capital, liquidity and other support in times of distress.

**Office of Foreign Assets Control (“OFAC”)** — The Company and the Bank, like all U.S. companies and individuals, are prohibited from transacting business with certain individuals and entities named on the OFAC’s list of Specially Designated Nationals and Blocked Persons. Failure to comply may result in fines and other penalties. The OFAC issued guidance for financial institutions in whereby it asserted that it may, in its discretion, examine institutions determined to be high risk or to be lacking in their efforts to comply with its requirements.

**Code of Conduct and Ethics** — The Company has adopted a code of conduct and ethics that applies to all employees, including the Company’s principal executive, financial and accounting officers. The Company’s code of conduct and ethics is posted on the Bank’s website. The Company intends to disclose information about any amendments to, or waivers from, the code of conduct and ethics that are required to be disclosed under applicable SEC regulations by providing appropriate information on the Company’s website. If at any time the code of conduct and ethics is not available on the Company’s website, the Company will provide a copy of it free of charge upon written request.

## II. The Bank

The Kentucky and federal banking statutes prescribe the permissible activities in which a Kentucky chartered bank may engage and where those activities may be conducted. Kentucky's statutes contain a super parity provision that permits a well-rated Kentucky bank to engage in any banking activity in which a national bank in Kentucky, a state bank, state thrift, or state savings operating in any other state, a federal savings bank or federal thrift, or meeting the qualified thrift lender test, provided it first obtains a legal opinion from counsel specifying the statutory or regulatory provisions that permit the activity.

Branching — Kentucky law generally permits a Kentucky chartered bank to establish a branch office in any county in Kentucky. A Kentucky bank may also, subject to regulatory approval and certain restrictions, establish a branch office outside of Kentucky. Well-capitalized Kentucky chartered banks that have been in operation at least three years and that satisfy certain criteria relating to, among other things, their composite and management ratings, may establish a branch in Kentucky without the approval of the Commissioner of the KDFI, upon notice to the KDFI and any other state bank with its main office located in the county where the new branch will be located. Branching by all banks not meeting these criteria requires the approval of the Commissioner of the KDFI, who must ascertain and determine that the public convenience and advantage will be served and promoted and that there is a reasonable probability of the successful operation of the branch. In any case, the proposed branch must also be approved by the FDIC, which considers a number of

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factors, including financial condition, capital adequacy, earnings prospects, character of management, needs of the community and consistency with corporate powers. As a result of several legislative acts including the Dodd Frank Act, the Bank, along with any other national or state chartered bank generally may branch across state lines. Such unlimited branching authority has the potential to increase competition within the markets in which the Company and the Bank operate.

**Affiliate Transaction Restrictions** — Transactions between the Bank and its affiliates, and in some cases the Bank's correspondent banks, are subject to FDIC regulations, the FRB's Regulations O and W, and Sections 23A, 23B, 22(g) and 22(h) of the Federal Reserve Act ("FRA"). In general, these transactions must be on terms and conditions that are consistent with safe and sound banking practices and substantially the same, or at least as favorable to the bank or its subsidiary, as those for comparable transactions with non-affiliated parties. In addition, certain types of these transactions referred to as "covered transactions" are subject to quantitative limits based on a percentage of the Bank's capital, thereby restricting the total dollar amount of transactions the Bank may engage in with each individual affiliate and with all affiliates in the aggregate. Affiliates must pledge qualifying collateral in amounts between 100% and 130% of the covered transaction in order to receive loans from the Bank. Limitations are also imposed on loans and extensions of credit by a bank to its executive officers, directors and principal stockholders and each of their related interests.

The FRB promulgated Regulation W to implement Sections 23A and 23B of the FRA. This regulation contains many of the foregoing restrictions and also addresses derivative transactions, overdraft facilities and other transactions between a bank and its non-bank affiliates.

**Restrictions on Distribution of Subsidiary Bank Dividends and Assets** — Bank regulators may declare a dividend payment to be unsafe and unsound even if the Bank continues to meet its capital requirements after the dividend. Dividends paid by the Bank provide substantially all of the Company's operating funds. Regulatory requirements limit the amount of dividends that may be paid by the Bank. Under federal regulations, the Bank cannot pay a dividend if, after paying the dividend, the Bank would be undercapitalized.

Under Kentucky and federal banking regulations, the dividends the Bank can pay during any calendar year are generally limited to its profits for that year, plus its retained net profits for the two preceding years, less any required transfers to surplus or to fund the retirement of preferred stock or debt, absent approval of the respective state or federal banking regulators. FDIC regulations also require all insured depository institutions to remain in a safe and sound condition, as defined in regulations, as a condition of having FDIC deposit insurance.

**FDIC Deposit Insurance Assessments** — All Bank deposits are insured to the maximum extent permitted by the DIF. These bank deposits are backed by the full faith and credit of the U.S. Government. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, insured institutions. It also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious threat to the DIF.

In addition to assessments for deposit insurance premiums, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation (“FICO”), a mixed-ownership government corporation established to recapitalize the predecessor to the DIF. These assessments will continue until the last FICO bonds mature in 2019.

The FDIC’s risk-based premium system provides for quarterly assessments. Each insured institution is placed in one of four risk categories depending on supervisory and capital considerations. Within its risk category, an institution is assigned to an initial base assessment rate, which is then adjusted. The FDIC may adjust the scale uniformly from one quarter to the next, however, no adjustment can deviate more than two basis points from the base scale without notice and comment. No institution may pay a dividend if in default of paying FDIC deposit insurance assessments.

In 2011, the FDIC Board of Directors adopted a final rule, which redefined the deposit insurance assessment base as required by the Dodd-Frank Act. The final rule:

- Redefined the deposit insurance assessment base as average consolidated total assets minus average tangible equity (defined as Tier 1 Capital);
- Made generally conforming changes to the unsecured debt and brokered deposit adjustments to assessment rates;
- Created a depository institution debt adjustment;
- Eliminated the secured liability adjustment; and

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- Adopted a new assessment rate schedule, and, in lieu of dividends, other rate schedules when the reserve ratio reaches certain levels.

The FDIC is authorized to set the reserve ratio for the DIF annually at between 1.15% and 1.50% of estimated insured deposits. The Dodd-Frank Act mandates that the statutory minimum reserve ratio of the DIF increase from 1.15% to 1.35% of insured deposits by September 30, 2020. Banks with assets of less than \$10 billion are exempt from any additional assessments necessary to increase the reserve fund above 1.15%.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It may also suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances that would result in termination of the Bank's FDIC deposit insurance.

In 2014, the FDIC revised the risk-based deposit insurance assessment system to reflect changes in the regulatory capital rules in accordance with Basel III, which became effective for the Company and the Bank in January 2015. For deposit insurance assessment purposes, the updated system revised the ratios and ratio thresholds relating to capital evaluations.

**Consumer Laws and Regulations** — In addition to the laws and regulations discussed herein, the Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in their transactions with banks. While the discussion set forth in this filing is not exhaustive, these laws and regulations include Regulation E, the Truth in Savings Act, Check Clearing for the 21st Century Act and the Expedited Funds Availability Act, among others. These federal laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with consumers when accepting deposits. Certain laws also limit the Bank's ability to share information with affiliated and unaffiliated entities. The Bank is required to comply with all applicable consumer protection laws and regulations, both state and federal, as part of its ongoing business operations.

**Regulation E** — A 2009 amendment to Regulation E prohibits financial institutions from charging consumers fees for paying overdrafts on ATM and one-time debit card transactions, unless a consumer affirmatively consents, or opts in, to the overdraft service for those types of transactions. Before opting in, the consumer must be provided a notice that explains the financial institution's overdraft services, including the fees associated with the service and the consumer's choices. The final rules require institutions to provide consumers who do not opt in with the same account terms, conditions, and features (including pricing) that they provide to consumers who do opt in. For consumers who do not opt in, the institution would be prohibited from charging overdraft fees for any overdrafts it pays on ATM and one-time debit card transactions.

The Bank earns a substantial majority of its deposit fee income related to overdrafts from the per item fee it assesses its clients for each insufficient funds check or electronic debit presented for payment. Both the per item fee and the daily fee assessed to the account resulting from its overdraft status, if computed as a percentage of the amount overdrawn, results in a high rate of interest when annualized and are thus considered excessive by some consumer groups.

In 2016, the CFPB issued a final rule establishing new consumer compliance requirements for prepaid accounts pursuant to Regulations E and Z. These requirements govern disclosures, limited liability and error resolution protections, credit features, and making account agreement information publicly available for prepaid accounts, among other provisions. Certain provisions of the rule are not effective until April 1, 2019.

**Prohibitions Against Tying Arrangements** — The Bank is subject to prohibitions on certain tying arrangements. A depository institution is prohibited, subject to certain exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the client obtain some additional product or service from the institution or its affiliates or not obtain services of a competitor of the institution.



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The USA Patriot Act (“Patriot Act”), Bank Secrecy Act (“BSA”) and Anti-Money Laundering (“AML”) — The Patriot Act was enacted after September 11, 2001, to provide the federal government with powers to prevent, detect, and prosecute terrorism and international money laundering, and has resulted in promulgation of several regulations that have a direct impact on financial institutions. There are a number of programs that financial institutions must have in place such as: (i) BSA/AML controls to manage risk; (ii) Customer Identification Programs to determine the true identity of customers, document and verify the information, and determine whether the customer appears on any federal government list of known or suspected terrorists or terrorist organizations; and (iii) monitoring for the timely detection and reporting of suspicious activity and reportable transactions. Title III of the Patriot Act takes measures intended to encourage information sharing among financial institutions, bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, savings banks, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act. Among other requirements, the Patriot Act imposes the following obligations on financial institutions:

- Establishment of enhanced anti-money laundering programs;
- Establishment of a program specifying procedures for obtaining identifying information from customers seeking to open new accounts;
- Establishment of enhanced due diligence policies, procedures and controls designed to detect and report money laundering;
- Prohibitions on correspondent accounts for foreign shell banks; and
- Compliance with record keeping obligations with respect to correspondent accounts of foreign banks.

Depositor Preference — The FDIA provides that, in the event of the “liquidation or other resolution” of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including depositors whose deposits are payable only outside of the U.S. and the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Liability of Commonly Controlled Institutions — FDIC-insured depository institutions can be held liable for any loss incurred, or reasonably expected to be incurred, by the FDIC due to the default of another FDIC-insured depository institution controlled by the same bank holding company, or for any assistance provided by the FDIC to another FDIC-insured depository institution controlled by the same bank holding company that is in danger of default. “Default” generally means the appointment of a conservator or receiver. “In danger of default” generally means the existence of certain conditions indicating that default is likely to occur in the absence of regulatory assistance. Such a “cross-guarantee” claim against a depository institution is generally superior in right of payment to claims of the holding company and its affiliates against that depository institution. At this time, the Bank is the only insured depository institution controlled by the Company. However, if the Company were to control other FDIC-insured depository institutions in the future, the cross-guarantee would apply to all such FDIC-insured depository institutions.

Federal Home Loan Bank System — The FHLB offers credit to its members, which include savings banks, commercial banks, insurance companies, credit unions, and other entities. The FHLB system is currently divided into eleven federally chartered regional FHLBs that are regulated by the Federal Housing Finance Board. The Bank is a member and owns capital stock in the FHLB Cincinnati. The amount of capital stock the Bank must own to maintain its membership depends on its balance of outstanding advances. It is required to acquire and hold shares in an amount at least equal to 1% of the aggregate principal amount of its unpaid single-family residential real estate loans and similar obligations at the beginning of each year, or 1/20th of its outstanding advances from the FHLB, whichever is greater. Advances are secured by pledges of loans, mortgage backed securities and capital stock of the FHLB. FHLBs also purchase mortgages in the secondary market through their Mortgage Purchase Program (“MPP”). The Bank has never sold loans to the MPP.

In the event of a default on an advance, the Federal Home Loan Bank Act establishes priority of the FHLB’s claim over various other claims. Regulations provide that each FHLB has joint and several liability for the obligations of the other FHLBs in the system. If an FHLB falls below its minimum capital requirements, the FHLB may seek to require its members to purchase additional capital stock of the FHLB. If problems within the FHLB system were to occur, it could adversely affect the pricing or availability of advances, the amount and timing of dividends on capital stock issued by FHLBs to its members, or the ability of members to have their FHLB capital stock redeemed on a timely basis. Congress continues to consider various proposals that could establish a new regulatory structure for the FHLB system, as well as for other government-sponsored entities. The Bank cannot predict at this time, which, if any, of these proposals may be adopted or what effect they would have on the Bank’s business.

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Federal Reserve System — Under regulations of the FRB, the Bank is required to maintain noninterest-earning reserves against its transaction accounts (primarily NOW and regular checking accounts). The Bank is in compliance with the foregoing reserve requirements. Required reserves must be maintained in the form of vault cash, a depository account at the FRB, or a pass-through account as defined by the FRB. The effect of this reserve requirement is to reduce the Bank's interest-earning assets. The balances maintained to meet the reserve requirements imposed by the FRB may be used to satisfy liquidity requirements imposed by the FDIC. The Bank is authorized to borrow from the FRB discount window.

### General Lending Regulations

Pursuant to FDIC regulations, the Bank may extend credit subject to certain restrictions. State law may impose additional restrictions. While the discussion of extensions of credit set forth in this filing is not exhaustive, federal laws and regulations include but are not limited to the following:

- Community Reinvestment Act
- Home Mortgage Disclosure Act
- Equal Credit Opportunity Act
- Truth in Lending Act
- Real Estate Settlement Procedures Act
- Fair Credit Reporting Act
- CARD Act

Community Reinvestment Act (“CRA”) — Under the CRA, financial institutions have a continuing and affirmative obligation to help meet the credit needs of their designated community, including low and moderate income neighborhoods, consistent with safe and sound banking practices. The CRA does not establish specific lending requirements or programs for the Bank, nor does it limit the Bank's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. In particular, the CRA assessment system focuses on three tests:

- a lending test, to evaluate the institution's record of making loans in its assessment areas;
- an investment test, to evaluate the institution's record of investing in community development projects, affordable housing and programs benefiting low or moderate income individuals and businesses in its assessment area or a broader area that includes its assessment area; and
- a service test, to evaluate the institution's delivery of services through its retail banking channels and the extent and innovativeness of its community development services.

The CRA requires all institutions to make public disclosure of their CRA ratings. In June 2015, the Bank received a “Satisfactory” CRA Performance Evaluation. A copy of the public section of this CRA Performance Evaluation is available to the public upon request.

Home Mortgage Disclosure Act (“HMDA”) — The HMDA grew out of public concern over credit shortages in certain urban neighborhoods. One purpose of the HMDA is to provide public information that will help show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a “fair lending” aspect that requires the collection and disclosure of data about applicant and borrower characteristics, as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes. The HMDA requires institutions to report data regarding applications for loans for the purchase or improvement of single family and multi-family dwellings, as well as information concerning originations and purchases of such loans. Federal bank regulators rely, in part, upon data provided under HMDA to determine whether depository institutions engage in discriminatory lending practices. The appropriate federal banking agency, or in some cases the Department of Housing and Urban Development, enforces compliance with HMDA and implements its regulations. Administrative sanctions, including civil money penalties, may be imposed by supervisory agencies for violations of the HMDA.

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Equal Credit Opportunity Act; Fair Housing Act (“ECOA”) — The ECOA prohibits discrimination against an applicant in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs or good faith exercise of any rights under the Consumer Credit Protection Act. Under the Fair Housing Act, it is unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. Among other things, these laws prohibit a lender from denying or discouraging credit on a discriminatory basis, making excessively low appraisals of property based on racial considerations, or charging excessive rates or imposing more stringent loan terms or conditions on a discriminatory basis. In addition to private actions by aggrieved borrowers or applicants for actual and punitive damages, the U.S. Department of Justice and other regulatory agencies can take enforcement action seeking injunctive and other equitable relief or sanctions for alleged violations.

Truth in Lending Act (“TLA”) — The TLA governs disclosures of credit terms to consumer borrowers and is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As result of the TLA, all creditors must use the same credit terminology and expressions of rates, and disclose the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule for each proposed loan. Violations of the TLA may result in regulatory sanctions and in the imposition of both civil and, in the case of willful violations, criminal penalties. Under certain circumstances, the TLA also provides a consumer with a right of rescission, which if exercised within three business days would require the creditor to reimburse any amount paid by the consumer to the creditor or to a third party in connection with the loan, including finance charges, application fees, commitment fees, title search fees and appraisal fees. Consumers may also seek actual and punitive damages for violations of the TLA.

Real Estate Settlement Procedures Act (“RESPA”) — The RESPA requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. The RESPA also prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts. Violations of the RESPA may result in imposition of penalties, including: (i) civil liability equal to three times the amount of any charge paid for the settlement services or civil liability of up to \$2,000 per claimant, depending on the violation; (ii) awards of court costs and attorneys’ fees; and (iii) fines of not more than \$10,000 or imprisonment for not more than one year, or both. A rule requiring integrated disclosures from the TLA and RESPA became effective in October 2015.

Fair Credit Reporting Act (“FACT”) — The FACT requires the Bank to adopt and implement a written identity theft prevention program, paying particular attention to several identified “red flag” events. The program must assess the validity of address change requests for card issuers and for users of consumer reports to verify the subject of a consumer report in the event of notice of an address discrepancy. The FACT gives consumers the ability to challenge the Bank with respect to credit reporting information provided by the Bank. The FACT also prohibits the Bank from using certain information it may acquire from an affiliate to solicit the consumer for marketing purposes unless the consumer has been given notice and an opportunity to opt out of such solicitation for a period of five years.

Ability to Repay (“ATR”) Rule and Qualified Mortgage Loans (“QMs”) — In January 2014, the CFPB’s final rule implementing the ATR requirements in the Dodd-Frank Act became effective. The rule, among other things,

requires lenders to consider a consumer's ability to repay a mortgage loan before extending credit to the consumer and limits prepayment penalties. The rule also establishes certain protections from liability for mortgage lenders with regard to QMs they originate. For this purpose, the rule defines QMs to include loans with a borrower debt-to-income ratio of less than or equal to 43% or, alternatively, a loan eligible for purchase by the FNMA or Freddie Mac while they operate under Federal conservatorship or receivership, and loans eligible for insurance or guarantee by the Federal Housing Administration ("FHA"), U.S. Department of Veterans Affairs ("VA") or U.S. Department of Agriculture ("USDA"). Additionally, QMs may not: (i) contain excess upfront points and fees; (ii) have a term greater than 30 years; or (iii) include interest-only or negative amortization payments.

The Dodd-Frank Act did not specify whether the presumption of ATR compliance is conclusive (i.e., creates a safe harbor) or is rebuttable. For mortgages that are not QMs, the final rule describes certain minimum requirements for creditors making ATR determinations, but does not dictate that they follow particular underwriting models. At a minimum, creditors generally must consider eight underwriting factors: (1) current or reasonably expected income or assets; (2) current employment status; (3) the monthly payment on the covered transaction; (4) the monthly payment on any simultaneous loan; (5) the monthly payment for mortgage-related obligations; (6) current debt obligations, alimony, and child support; (7) the monthly debt-to-income ratio or residual income; and (8) credit history. Creditors must generally use reasonably reliable third-party records to verify the information they use to evaluate the factors.

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**Loans to One Borrower** — Under current limits, loans and extensions of credit outstanding at one time to a single borrower and not fully secured generally may not exceed 15% of the institution's unimpaired capital and unimpaired surplus. Loans and extensions of credit fully secured by certain readily marketable collateral may represent an additional 10% of unimpaired capital and unimpaired surplus.

**Interagency Guidance on Non Traditional Mortgage Product Risks** — In 2006, final guidance was issued to address the risks posed by residential mortgage products that allow borrowers to defer repayment of principal and sometimes interest (such as "interest-only" mortgages and "payment option" ARMs). The guidance discusses the importance of ensuring that loan terms and underwriting standards are consistent with prudent lending practices, including consideration of a borrower's repayment capacity. The guidance also suggests that banks i) implement strong risk management standards, ii) maintain capital levels commensurate with risk and iii) establish an allowance that reflects the collectability of the portfolio. The guidance urges banks to ensure that consumers have sufficient information to clearly understand loan terms and associated risks before making product or payment choices.

**Loans to Insiders** — The Bank's authority to extend credit to its directors, executive officers and principal shareholders, as well as to entities controlled by such persons, is governed by the requirements of Sections 22(g) and 22(h) of the FRA and Regulation O of the Federal Reserve Board. Among other things, these provisions require that extensions of credit to insiders:

- be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with non-insiders and that do not involve more than the normal risk of repayment or present other features that are unfavorable to the Bank; and
- not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital.

The regulations allow small discounts on fees on residential mortgages for directors, officers and employees. In addition, extensions of credit to insiders in excess of certain limits must be approved by the Bank's Board of Directors.

## Capital Adequacy Requirements

**Capital Guidelines** — The Company and the Bank are subject to capital regulations in accordance with Basel III, as administered by banking regulators. Regulatory guidelines are established by the FRB in the case of the Company and the FDIC in the case of the Bank. The FRB and FDIC have substantially similar risk-based and leverage ratio guidelines for banking organizations, which are intended to ensure that banking organizations have adequate capital related to the risk levels of assets and off balance sheet instruments. Under the risk-based guidelines, specific categories of assets are assigned different risk weights based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a risk-weighted asset base. In addition to the risk-based capital guidelines, the FRB utilized a leverage ratio as a tool to evaluate the capital adequacy of bank

holding companies. The leverage ratio is a company's Tier 1 Capital divided by its average total consolidated assets (less goodwill and certain other intangible assets).

The federal banking agencies' risk-based and leverage ratios represent minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria, assuming that they have the highest regulatory capital rating. Banking organizations not meeting these criteria are required to operate with capital positions above the minimum ratios. FRB guidelines also provide that banking organizations experiencing internal growth or making acquisitions may be expected to maintain strong capital positions above the minimum supervisory levels, without significant reliance on intangible assets. The FDIC may establish higher minimum capital adequacy requirements if, for example, a bank proposes to make an acquisition requiring regulatory approval, has previously warranted special regulatory attention, rapid growth presents supervisory concerns, or, among other factors, has a high susceptibility to interest rate and other types of risk. The Bank is not subject to any such individual minimum regulatory capital requirement.

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



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As of December 31, 2017 and 2016, the Company's capital ratios were as follows:

December 31, (dollars in thousands)	2017 Actual Amount	Ratio	2016 Actual Amount	Ratio
Total capital to risk-weighted assets				
Republic Bancorp, Inc.	\$ 694,369	16.04 %	\$ 655,908	16.37 %
Republic Bank & Trust Company	591,592	13.69	553,905	13.86
Common equity tier 1 capital to risk-weighted assets				
Republic Bancorp, Inc.	\$ 612,315	14.15 %	\$ 584,530	14.59 %
Republic Bank & Trust Company	548,823	12.70	520,985	13.03
Tier 1 (core) capital to risk-weighted assets				
Republic Bancorp, Inc.	\$ 651,600	15.06 %	\$ 622,988	15.55 %
Republic Bank & Trust Company	548,823	12.70	520,985	13.03
Tier 1 leverage capital to average assets				
Republic Bancorp, Inc.	\$ 651,600	13.21 %	\$ 622,988	13.54 %
Republic Bank & Trust Company	548,823	11.15	520,985	11.34

Corrective Measures for Capital Deficiencies — The banking regulators are required to take “prompt corrective action” with respect to capital deficient institutions. Agency regulations define, for each capital category, the levels at which institutions are well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A bank is undercapitalized if it fails to meet any one of the ratios required to be adequately capitalized.

Undercapitalized, significantly undercapitalized and critically undercapitalized institutions are required to submit a capital restoration plan, which must be guaranteed by the holding company of the institution. In addition, agency regulations contain broad restrictions on certain activities of undercapitalized institutions including asset growth, acquisitions, branch establishment, and expansion into new lines of business. With certain exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment. A bank's capital classification will also affect its ability to accept brokered deposits. Under banking regulations, a bank may not lawfully accept, roll over or renew brokered deposits, unless it is either well capitalized or it is adequately capitalized and receives a waiver from its applicable regulator.

If a banking institution's capital decreases below acceptable levels, bank regulatory enforcement powers become more enhanced. A significantly undercapitalized institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management and other restrictions. Banking regulators

have limited discretion in dealing with a critically undercapitalized institution and are normally required to appoint a receiver or conservator. Banks with risk-based capital and leverage ratios below the required minimums may also be subject to certain administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing if the institution has no tangible capital.

In addition, a bank holding company may face significant consequences if its bank subsidiary fails to maintain the required capital and management ratings, including entering into an agreement with the FRB that imposes limitations on its operations and may even require divestitures. Such possible ramifications may limit the ability of a bank subsidiary to significantly expand or acquire less than well-capitalized and well-managed institutions. More specifically, the FRB's regulations require a FHC to notify the FRB within 15 days of becoming aware that any depository institution controlled by the company has ceased to be well-capitalized or well-managed. If the FRB determines that a FHC controls a depository institution that is not well-capitalized or well-managed, the FRB will notify the FHC that it is not in compliance with applicable requirements and may require the FHC to enter into an agreement acceptable to the FRB to correct any deficiencies, or require the FHC to decertify as a FHC. Until such deficiencies are corrected, the FRB may impose any limitations or conditions on the conduct or activities of the FHC and its affiliates that the FRB determines are appropriate, and the FHC may not commence any additional activity or acquire control of any company under Section 4(k) of the BHC Act without

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prior FRB approval. Unless the period of time for compliance is extended by the FRB, if a FHC fails to correct deficiencies in maintaining its qualification for FHC status within 180 days of notice to the FRB, the FRB may order divestiture of any depository institution controlled by the company. A company may comply with a divestiture order by ceasing to engage in any financial or other activity that would not be permissible for a bank holding company that has not elected to be treated as a FHC. The Company is currently classified as a FHC.

Under the Federal Deposit Insurance Corporation Improvement Act (“FDICIA”), each federal banking agency has prescribed, by regulation, non-capital safety and soundness standards for institutions under its authority. These standards cover internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, such other operational and managerial standards as the agency determines to be appropriate, and standards for asset quality, earnings and stock valuation. An institution that fails to meet these standards must develop a plan acceptable to the agency, specifying the steps that the institution will take to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions.

## Other Legislative Initiatives

The U.S. Congress and state legislative bodies continually consider proposals for altering the structure, regulation and competitive relationships of financial institutions. It cannot be predicted whether, or in what form, any of these potential proposals or regulatory initiatives will be adopted, the impact the proposals will have on the financial institutions industry or the extent to which the business or financial condition and operations of the Company and its subsidiaries may be affected.

## Statistical Disclosures

The statistical disclosures required by Part I Item 1 “Business” are located under Part II Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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Item 1A. Risk Factors.

FACTORS THAT MAY AFFECT FUTURE RESULTS

An investment in Republic Bancorp, Inc.'s ("Republic" or the "Company") common stock is subject to risks inherent in its business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this filing. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially and adversely affect its business, financial condition and results of operations in the future. The value or market price of the Company's common stock could decline due to any of these identified or other risks, and an investor could lose all or part of their investment.

There are factors, many beyond the Company's control, which may significantly change the results or expectations of the Company. Some of these factors are described below, however, many are described in the other sections of this Annual Report on Form 10-K.

ACCOUNTING POLICIES/ESTIMATES, ACCOUNTING STANDARDS AND INTERNAL CONTROL

The Company's accounting policies and estimates are critical components of the Company's presentation of its financial statements. Management must exercise judgment in selecting and adopting various accounting policies and in applying estimates. Actual outcomes may be materially different from amounts previously estimated. Management has identified several accounting policies and estimates as being critical to the presentation of the Company's financial statements. These policies are described in Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the section titled "Critical Accounting Policies and Estimates." The Company's management must exercise judgment in selecting and applying many accounting policies and methods in order to comply with generally accepted accounting principles and reflect management's judgment of the most appropriate manner to report the Company's financial condition and results. In some cases, management may select an accounting policy that might be reasonable under the circumstances, yet might result in the Company's reporting different results than would have been reported under a different alternative. Materially different amounts could be reported under different conditions or using different assumptions or estimates.

Republic Bank & Trust Company ("RB&T" or the "Bank") may experience goodwill impairment, which could reduce its earnings. The Bank performed its annual goodwill impairment test during the fourth quarter of 2017 as of September 30, 2017. The evaluation of the fair value of goodwill requires management judgment. If management's judgment was incorrect and goodwill impairment was later deemed to exist, the Bank would be required to write down

its goodwill resulting in a charge to earnings, which would adversely affect its results of operations, perhaps materially.

Changes in accounting standards could materially impact the Company's financial statements. The Financial Accounting Standards Board ("FASB") may change the financial accounting and reporting standards that govern the preparation of the Company's financial statements. These changes can be difficult to predict and can materially impact how the Company records and reports its financial condition and results of operations. In addition, those who interpret the accounting standards, such as the Securities and Exchange Commission ("SEC"), the banking regulators and the Company's independent registered public accounting firm may amend or reverse their previous interpretations or conclusions regarding how various standards should be applied. In some cases, the Company could be required to apply a new or revised standard retroactively, resulting in the Company recasting, or possibly restating, prior period financial statements. See additional discussion regarding accounting standard updates in Part II Item 8 "Financial Statements and Supplemental Data" under the section titled "Accounting Standards Updates."

If the Company does not maintain strong internal controls and procedures, it may impact profitability. Management reviews and updates its internal controls, disclosure controls and procedures, and corporate governance policies and procedures on a routine basis. This system is designed to provide reasonable, not absolute, assurance that the internal controls comply with appropriate regulatory guidance. Any undetected circumvention of these controls could have a material adverse impact on the Company's financial condition and results of operations.

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If the Bank's other real estate owned ("OREO") portfolio is not properly valued or sufficiently reserved to cover actual losses, or if the Bank is required to increase its valuation reserves, the Bank's earnings could be reduced. Management typically obtains updated valuations in the form of appraisals and broker price opinions when a loan has been foreclosed and the property is taken in as OREO and at certain other times during the asset's holding period. The Bank's net book value of the loan at the time of foreclosure and thereafter is compared to the updated market value of the foreclosed property less estimated selling costs (fair value). A writedown is recorded for any excess in the asset's net book value over its fair value. If the Bank's valuation process is incorrect, or if property values decline, the fair value of the Bank's OREO may not be sufficient to recover its carrying value in such assets, resulting in the need for additional writedowns. Significant additional writedowns to OREO could have a material adverse effect on the Bank's financial condition and results of operations.

TRADITIONAL BANK LENDING AND THE ALLOWANCE FOR LOAN AND LEASE LOSSES  
("ALLOWANCE")

The Allowance could be insufficient to cover the Bank's actual loan losses. The Bank makes various assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of its borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of its loans. In determining the amount of the Allowance, among other things, the Bank reviews its loss and delinquency experience, economic conditions, etc. If its assumptions are incorrect, the Allowance may not be sufficient to cover losses inherent in its loan portfolio, resulting in additions to its Allowance. In addition, regulatory agencies periodically review the Allowance and may require the Bank to increase its provision for loan and lease losses or recognize further loan charge-offs. A material increase in the Allowance or loan charge-offs would have a material adverse effect on the Bank's financial condition and results of operations.

Deterioration in the quality of the Traditional Banking loan portfolio may result in additional charge-offs, which would adversely impact the Bank's operating results. Despite the various measures implemented by the Bank to address the economic environment, there may be further deterioration in the Bank's loan portfolio. When borrowers default on their loan obligations, it may result in lost principal and interest income and increased operating expenses associated with the increased allocation of management time and resources associated with the collection efforts. In certain situations where collection efforts are unsuccessful or acceptable "work-out" arrangements cannot be reached or performed, the Bank may charge-off loans, either in part or in whole. Additional charge-offs will adversely affect the Bank's operating results and financial condition.

The Bank's financial condition and earnings could be negatively impacted to the extent the Bank relies on borrower information that is false, misleading or inaccurate. The Bank relies on the accuracy and completeness of information provided by vendors, clients and other parties in deciding whether to extend credit, or enter into transactions with other parties. Additional charge-offs will adversely affect the Bank's operating results and financial condition.

The Bank's use of appraisals as part of the decision process to make a loan on or secured by real property does not ensure the value of the real property collateral. As part of the decision process to make a loan secured by real property, the Bank generally requires an independent third-party appraisal of the real property. An appraisal, however, is only an estimate of the value of the property at the time the appraisal is made. An error in fact or judgment could adversely affect the reliability of the appraisal. In addition, events occurring after the initial appraisal may cause the value of the real estate to decrease. As a result of any of these factors, the value of collateral securing a loan may be less than supposed, and if a default occurs, the Bank may not recover the outstanding balance of the loan. Additional charge-offs will adversely affect the Bank's operating results and financial condition.

The Bank is exposed to risk of environmental liabilities with respect to properties to which it takes title. In the course of its business, the Bank may own or foreclose and take title to real estate and could be subject to environmental liabilities with respect to these properties. The Bank may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if the Bank is the owner or former owner of a contaminated site, the Bank may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. These costs and claims could adversely affect the Bank.

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Prepayment of loans may negatively impact the Bank's business. The Bank's clients may prepay the principal amount of their outstanding loans at any time. The speeds at which such prepayments occur, as well as the size of such prepayments, are within the Bank clients' discretion. If clients prepay the principal amount of their loans, and the Bank is unable to lend those funds to other clients or invest the funds at the same or higher interest rates, the Bank's interest income will be reduced. A significant reduction in interest income would have a negative impact on the Bank's results of operations and financial condition.

The Bank is highly dependent upon programs administered by the Federal Home Loan Mortgage Corporation ("Freddie Mac" or the "FHLMC") and the Federal National Mortgage Association ("FNMA" or "Fannie Mae"). Changes in existing U.S. government-sponsored mortgage programs or servicing eligibility standards could materially and adversely affect its business, financial position, results of operations and cash flows. The Bank's ability to generate revenues through mortgage loan sales to institutional investors depends to a significant degree on programs administered by Freddie Mac and Fannie Mae. These entities play powerful roles in the residential mortgage industry, and the Bank has significant business relationships with them. The Bank's status as an approved seller/servicer for both is subject to compliance with their selling and servicing guides.

Any discontinuation of, or significant reduction or material change in, the operation of Freddie Mac or Fannie Mae or any significant adverse change in the level of activity in the secondary mortgage market or the underwriting criteria of Freddie Mac or Fannie Mae would likely prevent the Bank from originating and selling most, if not all, of its mortgage loan originations.

Loans originated through the Bank's Correspondent Lending channel subject the Bank to additional negative earnings sensitivity as the result of prepayments and additional credit risks that the Bank does not have through its historical origination channels. Loans acquired through the Bank's Correspondent Lending channel are typically purchased at a premium and also represent out-of-market loans originated by a non-Republic representative. Loans purchased at a premium inherently subject the Bank's earnings to additional sensitivity related to prepayments, as increases in prepayment speeds will negatively affect the overall yield to maturity on such loans, potentially even causing the net loan yield to be negative for the period of time the loan is owned by the Bank.

Loans originated out of the Bank's market footprint by non-Republic representatives will inherently carry additional credit risk from potential fraud due to the increased level of third-party involvement on such loans. In addition, the Bank will also experience an increase in complexity for customer service and the collection process, given the number of different state laws the Bank could be subject to from loans purchased throughout the U.S. As of December 31, 2017, the Bank's Correspondent Lending channel maintained loans with collateral in 25 different states, with the largest concentration of 72% from the state of California.



Failure to appropriately manage the additional risks related to this lending channel could lead to reduced profitability and/or operating losses through this origination channel.

Loans originated through the Bank's Internet Lending channel will subject the Bank to credit and regulatory risks that the Bank does not have through its historical origination channels. The dollar volume of loans originated through the Bank's Internet Lending channel is expected to be increasingly out-of-market. Loans originated out of the Bank's market footprint inherently carry additional credit risk, as the Bank will experience an increase in the complexity of the customer authentication requirements for such loans. Failure to appropriately identify the end-borrower for such loans could lead to fraud losses. Failure to appropriately manage these additional risks could lead to reduced profitability and/or operating losses through this origination channel. In addition, failure to appropriately identify the end-borrower could result in regulatory sanctions resulting from failure to comply with various customer identification regulations.

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### BANK OWNED LIFE INSURANCE (“BOLI”)

The Bank holds a significant amount of BOLI, which creates credit risk relative to the insurers and liquidity risk relative to the product. At December 31, 2017, the Bank held BOLI on certain employees. The eventual repayment of the cash surrender value is subject to the ability of the various insurance companies to pay death benefits or to return the cash surrender value to the Bank if needed for liquidity purposes. The Bank continually monitors the financial strength of the various insurance companies that carry these policies. However, any one of these companies could experience a decline in financial strength, which could impair its ability to pay benefits or return the Bank’s cash surrender value. If the Bank needs to liquidate these policies for liquidity purposes, it would be subject to taxation on the increase in cash surrender value and penalties for early termination, both of which would adversely impact earnings.

### DEPOSITS AND RELATED ITEMS

Clients could pursue alternatives to bank deposits, causing the Bank to lose a relatively inexpensive source of funding. Checking and savings account balances and other forms of client deposits could decrease if clients perceive alternative investments, such as the stock market, as providing superior expected returns. If clients move money out of bank deposits in favor of alternative investments, the Bank could lose a relatively inexpensive source of funds, increasing its funding costs and negatively impacting its overall results of operations.

The loss of large deposit relationships could increase the Bank’s funding costs. The Bank has several large deposit relationships that do not require collateral; therefore, cash from these accounts can generally be utilized to fund the loan portfolio. If any of these balances are moved from the Bank, the Bank would likely utilize overnight borrowing lines on a short-term basis to replace the balances. The overall cost of gathering brokered deposits and/or Federal Home Loan Bank (“FHLB”) advances, however, could be substantially higher than the Traditional Bank deposits they replace, increasing the Bank’s funding costs and reducing the Bank’s overall results of operations.

The Bank’s “Overdraft Honor” program represents a significant business risk, and if the Bank terminated the program, it would materially impact the earnings of the Bank. There can be no assurance that Congress, the Bank’s regulators, or others, will not impose additional limitations on this program or prohibit the Bank from offering the program. The Bank’s “Overdraft Honor” program permits eligible clients to overdraft their checking accounts up to a predetermined dollar amount for the Bank’s customary overdraft fee(s). Limitations or adverse modifications to this program, either voluntary or involuntary, would significantly reduce net income.

### WAREHOUSE LENDING (“WAREHOUSE”)

The Warehouse Lending business is subject to numerous risks that may result in losses. Risks associated with warehouse loans include, without limitation, (i) credit risks relating to the mortgage bankers that borrow from the Bank, (ii) the risk of intentional misrepresentation or fraud by any of such mortgage bankers and their third-party service providers, (iii) changes in the market value of mortgage loans originated by the mortgage banker during the time in warehouse, the sale of which is the expected source of repayment of the borrowings under a warehouse line of credit, or (iv) unsalable or impaired mortgage loans so originated, which could lead to decreased collateral value and the failure of a purchaser of the mortgage loan to purchase the loan from the mortgage banker. Failure to mitigate these risks could have a material adverse impact on the Bank's financial statements and results of operations.

Outstanding Warehouse lines of credit can fluctuate significantly and negatively impact the Bank's liquidity and earnings. The Bank has a lending concentration in outstanding Warehouse lines of credit. Because outstanding Warehouse balances are contingent upon residential mortgage lending activity, changes in the residential real estate market nationwide can lead to wide fluctuations of balances in this product. Additionally, Warehouse Lending period-end balances are generally higher than the average balance during the period due to increased mortgage activity that occurs at the end of a month. A sudden increase in loans may materially impact the Company's liquidity position, while a sudden decrease in loans may materially impact the Company's results of operations.

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Outstanding Warehouse lines of credit and their corresponding earnings could decline due to several factors, such as intense industry competition, overall mortgage demand and the interest rate environment. The Bank may experience decreased earnings on its Warehouse lines of credit due primarily to strong industry competition, overall mortgage demand and the interest rate environment. Such decreased earnings may materially impact the Company's results of operations.

The Company may lose Warehouse clients due to mergers and acquisitions in the industry. The Bank's Warehouse clients are primarily mortgage companies across the United States. Mergers and acquisitions affecting such clients may lead to an end to the client relationship with the Bank. The loss of a significant amount of clients may materially impact the Company's results of operations.

REPUBLIC PROCESSING GROUP ("RPG")

The Company's lines of business and products not typically associated with traditional banking expose earnings to additional risks and uncertainties. The RPG operations are comprised of two reportable segments: Tax Refund Solutions ("TRS") and Republic Credit Solutions ("RCS").

RPG's products represent a significant business risk and management believes the Bank could be subject to additional regulatory and public pressure to exit these product lines, which may have a material adverse effect on the Bank's operations.

Various governmental, regulatory and consumer groups have, from time to time, questioned the fairness of the products offered by RPG. Actions of these groups and others could result in regulatory, governmental, or legislative action or litigation against the Bank, which could have a material adverse effect on the Bank's operations. If the Bank can no longer offer its RPG products, it will have a material adverse effect on its profits.

TAX REFUND SOLUTIONS ("TRS")

The TRS segment represents a significant operational risk, and if the Bank were unable to properly service this business, it could materially impact earnings. In order to process its business, the Bank must implement and test new systems, as well as train new employees. The Bank relies heavily on communications and information systems to operate the TRS segment. Any failure, sustained interruption or breach in security of these systems could result in failures or disruptions in client relationship management and other systems. Significant operational problems could

also cause a material portion of the Bank's tax-preparer base to switch to a competitor to process their bank product transactions, significantly reducing the Bank's projected revenue without a corresponding decrease in expenses.

The Bank's Easy Advance ("EA") and Refund Transfer ("RT") products represent a significant third-party management risk, and if RB&T's third-party service providers fail to comply with all the statutory and regulatory requirements for these products or if RB&T fails to properly monitor its third-party service providers offering these products, it could have a material negative impact on earnings. TRS and its third-party service providers operate in a highly regulated environment and deliver products and services that are subject to strict legal and regulatory requirements. Failure by RB&T's third-party service providers or failure of RB&T to properly monitor the compliance of its third-party service providers with laws and regulations could result in fines and penalties that materially and adversely affect RB&T's earnings. Such penalties could also include the discontinuance of any and all third-party program manager products and services.

The Bank's EA and RT products represent a significant compliance and regulatory risk, and if RB&T fails to comply with all statutory and regulatory requirements, it could have a material negative impact on earnings. Federal and state laws and regulations govern numerous matters relating to the offering of consumer loan products, such as the EA, and consumer deposit products such as the RT. Failure to comply with disclosure requirements or with laws relating to the permissibility of interest rates and fees charged could have a material negative impact on earnings. In addition, failure to comply with applicable laws and regulations could also expose RB&T to civil money penalties and litigation risk, including shareholder actions.

EAs represent a significant credit risk, and if RB&T is unable to collect a significant portion of its EAs, it would materially, negatively impact earnings. There is credit risk associated with an EA because the funds are disbursed to the taxpayer customer prior to RB&T receiving the taxpayer customer's refund as claimed on the return. Because there is no recourse to the taxpayer customer if the EA is

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not paid off by the taxpayer customer's tax refund, RB&T must collect all of its payments related to EAs through the refund process. Losses will generally occur on EAs when RB&T does not receive payment due to a number of reasons, such as Internal Revenue Service ("IRS") revenue protection strategies, including audits of returns, errors in the tax return, tax return fraud and tax debts not previously disclosed to RB&T during its underwriting process. While RB&T's underwriting during the EA approval process takes these factors into consideration based on prior years' payment patterns, if the IRS significantly alters its revenue protection strategies, if refund payment patterns for a given tax season meaningfully change, if the federal government fails to timely deliver refunds, or if RB&T is incorrect in its underwriting assumptions, RB&T could experience higher loan loss provisions above those projected. The provision for loan losses is a significant determining factor of the RPG operations' overall net earnings.

Changes to the EA's product parameters by management could have a material negative impact on the performance of the EA. In response to changes in the legal, regulatory and competitive environment, management annually reviews and revises the EA's product parameters. Further changes in EA product parameters do not insure positive results and could have an overall material negative impact on the performance of the EA and therefore on the Company's financial condition and results of operations.

Due diligence measures implemented by the federal and state governments, which delay the timing of individual tax refund payments or possibly deny those individual payments outright, could present an increased credit risk to the Company. To protect against fraudulent tax returns, the federal government and many state governments have enacted laws and procedures that provide for additional due diligence by the applicable governmental authority prior to issuing an income tax refund. This additional due diligence has generally driven longer periods between the filing of a tax return and the receipt of the corresponding refund. The federal government, specifically as a result of the PATH Act, announced that taxpayers filing tax returns with certain characteristics will not receive their corresponding refunds before February 15. These funding delays will negatively impact the Company's ability to make mid-season modifications to its EA underwriting model based on then-current year tax refund funding patterns, because the substantial majority of all EAs will have been issued prior to February 15. In addition, these enhanced due diligence measures implemented by the federal and state governments could prevent the taxpayer's refund from being issued altogether. These governmental changes by themselves, or in combination with management's changes to EA product parameters, could have a material negative impact on the performance of the EA product and therefore on the Company's financial condition and results of operations if the loss rate on the EA product increases materially.

## REPUBLIC CREDIT SOLUTIONS ("RCS")

Consumer loans originated through the RCS segment represent a higher credit risk than Traditional Bank loans. RCS originates both a short-term line-of-credit product and a credit card product. The Bank sells 90% of the balances maintained through these two products within two days of balance origination and retains a 10% interest. Both of these products are unsecured and made to borrowers with below prime credit scores, therefore representing an elevated credit risk. The loss rates for these two products have consistently been higher than Traditional Bank loss rates for unsecured consumer loans. A material increase in RCS loan charge-offs would have a material adverse effect on the Bank's financial condition and results of operations.

RCS revenues and earnings are highly concentrated in its line-of-credit product. For the year ended December 31, 2017, RCS's revenues and earnings were concentrated in one line-of-credit product. Through the Bank, RCS works with one third party service provider to market, originate and service this line-of-credit product. The discontinuation of this line-of-credit product would have a material adverse effect on the Bank's financial condition and results of operations.

RCS loans represent a significant compliance and regulatory risk, and if the Company fails to comply with all statutory and regulatory requirements it could have a material negative impact on the Company's earnings. Federal and state laws and regulations govern numerous matters relating to the offering of RCS loans. Failure to comply with disclosure requirements such as Regulation B, Fair Lending and Regulation Z, Truth in Lending, or with laws relating to the permissibility of interest rates and fees charged could have a material negative impact on the Company's earnings.

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ASSET/LIABILITY MANAGEMENT AND LIQUIDITY

Fluctuations in interest rates could reduce profitability. The Bank's asset/liability management strategy may not be able to prevent changes in interest rates from having a material adverse effect on results of operations and financial condition. The Bank's primary source of income is from the difference between interest earned on loans and investments and the interest paid on deposits and borrowings. The Bank expects to periodically experience "gaps" in the interest rate sensitivities of its assets and liabilities, meaning that either interest-bearing liabilities will be more sensitive to changes in market interest rates than interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to the Bank's position, earnings may be negatively affected.

A flattening interest rate yield curve may reduce profitability. Changes in the slope of the "yield curve," or the spread between short-term and long-term interest rates, could reduce the Bank's net interest margin. Normally, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. Because the Bank's liabilities tend to be shorter in duration than its assets, when the yield curve flattens, as is the case in the current interest rate environment, or even inverts, the Bank's net interest margin could decrease as its cost of funds increases relative to the yield it can earn on its assets.

Mortgage Banking activities could be adversely impacted by increasing or stagnant long-term interest rates. The Company is unable to predict changes in market interest rates. Changes in interest rates can impact the gain on sale of loans, loan origination fees and loan servicing fees, which account for a significant portion of Mortgage Banking income. A decline in market interest rates generally results in higher demand for mortgage products, while an increase in rates generally results in reduced demand. Generally, if demand increases, Mortgage Banking income will be positively impacted by more gains on sale; however, the valuation of existing mortgage servicing rights will decrease and may result in a significant impairment. A decline in demand for Mortgage Banking products resulting from rising interest rates could also adversely impact other programs/products such as home equity lending, title insurance commissions and service charges on deposit accounts.

The Bank may be compelled to offer market-leading interest rates to maintain sufficient funding and liquidity levels. The Bank has traditionally relied on client deposits, brokered deposits and advances from the FHLB to fund operations. Such traditional sources may be unavailable, limited or insufficient in the future. 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 curtailed, such as its borrowing line at the FHLB, or if the Bank cannot obtain brokered deposits, the Bank may be compelled to offer market-leading interest rates to meet its funding and liquidity needs. Obtaining funds at market-leading interest rates may have an adverse impact on the Company's net interest income and overall results of operations.

COMPANY COMMON STOCK



The Company's common stock generally has a low average daily trading volume, which limits a stockholder's ability to quickly accumulate or quickly sell large numbers of shares of Republic's stock without causing wide price fluctuations. Republic's stock price can fluctuate widely in response to a variety of factors, as detailed in the next risk factor. A low average daily stock trading volume can lead to significant price swings even when a relatively small number of shares are being traded.

The market price for the Company's common stock may be volatile. The market price of the Company's common stock could fluctuate substantially in the future in response to a number of factors, including those discussed below. The market price of the Company's common stock has in the past fluctuated significantly and is likely to continue to fluctuate significantly. Some of the factors that may cause the price of the Company's common stock to fluctuate include:

- Variations in the Company's and its competitors' operating results;
- Actual or anticipated quarterly or annual fluctuations in operating results, cash flows and financial condition;
- Changes in earnings estimates or publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to the Bank or other financial institutions;
- Announcements by the Company or its competitors of mergers, acquisitions and strategic partnerships;
- Additions or departure of key personnel;
- The announced exiting of or significant reductions in material lines of business within the Company;
- Changes or proposed changes in banking laws or regulations or enforcement of these laws and regulations;
- Events affecting other companies that the market deems comparable to the Company;

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- Developments relating to regulatory examinations;
- Speculation in the press or investment community generally or relating to the Company's reputation or the financial services industry;
- Future issuances or re-sales of equity or equity-related securities, or the perception that they may occur;
- General conditions in the financial markets and real estate markets in particular, developments related to market conditions for the financial services industry;
- Domestic and international economic factors unrelated to the Company's performance;
- Developments related to litigation or threatened litigation;
- The presence or absence of short selling of the Company's common stock; and,
- Future sales of the Company's common stock or debt securities.

In addition, the stock market, in general, has historically experienced extreme price and volume fluctuations. This is due, in part, to investors' shifting perceptions of the effect of changes and potential changes in the economy on various industry sectors. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to their performance or prospects. These broad market fluctuations may adversely affect the market price of the Company's common stock, notwithstanding its actual or anticipated operating results, cash flows and financial condition. The Company expects that the market price of its common stock will continue to fluctuate due to many factors, including prevailing interest rates, other economic conditions, operating performance and investor perceptions of the outlook for the Company specifically and the banking industry in general. There can be no assurance about the level of the market price of the Company's common stock in the future or that you will be able to resell your shares at times or at prices you find attractive.

The Company's insiders hold voting rights that give them significant control over matters requiring stockholder approval. The Company's Chairman/CEO and Vice Chairman hold substantial voting authority over the Company's Class A Common Stock and Class B Common Stock. Each share of Class A Common Stock is entitled to one vote and each share of Class B Common Stock is entitled to ten votes. This group generally votes together on matters presented to stockholders for approval. These actions may include, for example, the election of directors, the adoption of amendments to corporate documents, the approval of mergers and acquisitions, sales of assets and the continuation of the Company as a registered company with obligations to file periodic reports and other filings with the SEC. Consequently, other stockholders' ability to influence Company actions through their vote may be limited and the non-insider stockholders may not have sufficient voting power to approve a change in control even if a significant premium is being offered for their shares. Majority stockholders may not vote their shares in accordance with minority stockholder interests.

An investment in the Company's Common Stock is not an insured deposit. The Company's common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in the Company's common stock is inherently risky for the reasons described in this section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire the Company's common stock, you could lose some or all of your investment.

## GOVERNMENT REGULATION / ECONOMIC FACTORS

The Company is significantly impacted by the regulatory, fiscal and monetary policies of federal and state governments that could negatively impact the Company's liquidity position and earnings. These policies can materially affect the value of the Company's financial instruments and can also adversely affect the Company's clients and their ability to repay their outstanding loans. In addition, failure to comply with laws, regulations or policies, or adverse examination findings, could result in significant penalties, negatively impact operations, or result in other sanctions against the Company. The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the U.S. Its policies determine, in large part, the Company's cost of funds for lending and investing and the return the Company earns on these loans and investments, all of which impact net interest margin.

The Company and the Bank are heavily regulated at both the federal and state levels and are subject to various routine and non-routine examinations by federal and state regulators. This regulatory oversight is primarily intended to protect depositors, the Deposit Insurance Fund and the banking system as a whole, not the stockholders of the Company. Changes in policies, regulations and statutes, or the interpretation thereof, could significantly impact the product offerings of Republic causing the Company to terminate or modify its product offerings in a manner that could materially adversely affect the earnings of the Company.

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Federal and state laws and regulations govern numerous matters including changes in the ownership or control of banks and bank holding companies, maintenance of adequate capital and the financial condition of a financial institution, permissible types, amounts and terms of extensions of credit and investments, permissible non-banking activities, the level of reserves against deposits and restrictions on dividend payments. Various federal and state regulatory agencies possess cease and desist powers, and other authority to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulations. The Federal Reserve (“FRB”) possesses similar powers with respect to bank holding companies. These, and other restrictions, can limit in varying degrees, the manner in which Republic conducts its business.

The Tax Cuts and Jobs Act (“TCJA”) may have a negative impact on demand for the Company’s mortgage-related products and services. On December 22, 2017, President Donald Trump signed into law the TCJA. The TCJA, among other things, reduces some of the individual tax benefits of home ownership, including the elimination of the deductibility of home equity interest and further limiting the deductibility of home mortgage interest. These changes may have an overall negative impact on demand for the Company’s mortgage-related products and services.

Government responses to economic conditions may adversely affect the Company’s operations, financial condition and earnings. Enacted financial reform legislation has changed and will continue to change the bank regulatory framework. Ongoing uncertainty and adverse developments in the financial services industry and the domestic and international credit markets, and the effect of new legislation and regulatory actions in response to these conditions, may adversely affect Company operations by restricting business activities, including the Company’s ability to originate or sell loans, modify loan terms, or foreclose on property securing loans. These measures are likely to increase the Company’s costs of doing business and may have a significant adverse effect on the Company’s lending activities, financial performance and operating flexibility. In addition, these risks could affect the performance and value of the Company’s loan and investment securities portfolios, which also would negatively affect financial performance.

The Company may be subject to examinations by taxing authorities that could adversely affect results of operations. In the normal course of business, the Company may be subject to examinations from federal and state taxing authorities regarding the amount of taxes due in connection with investments it has made and the businesses in which the Company is engaged. Federal and state taxing authorities have continued to be aggressive in challenging tax positions taken by financial institutions. The challenges made by taxing authorities may result in adjustments to the timing or amount of taxable income or deductions or the allocation of income among tax jurisdictions. If any such challenges are made and are not resolved in the Company’s favor, they could have an adverse effect on the Company’s financial condition and results of operations.

The Company may be adversely affected by the soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. The Company has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose the Company to credit risk in the event of a default by a counterparty or client. In addition, the Company’s credit risk may be exacerbated when the collateral held by the Company cannot be

realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to the Company. Any such losses could have a material adverse effect on the Company's financial condition and results of operations.

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MANAGEMENT, INFORMATION SYSTEMS, ACQUISITIONS, ETC.

The Company is dependent upon the services of its management team and qualified personnel. The Company is dependent upon the ability and experience of a number of its key management personnel who have substantial experience with Company operations, the financial services industry and the markets in which the Company offers services. It is possible that the loss of the services of one or more of its senior executives or key managers would have an adverse effect on operations; moreover, the Company depends on its account executives and loan officers to attract bank clients by developing relationships with commercial and consumer clients, mortgage companies, real estate agents, brokers and others. The Company believes that these relationships lead to repeat and referral business. The market for skilled account executives and loan officers is highly competitive and historically has experienced a high rate of turnover. In addition, if a manager leaves the Company, other members of the manager's team may follow. Competition for qualified account executives and loan officers may lead to increased hiring and retention costs. The Company's success also depends on its ability to continue to attract, manage and retain other qualified personnel as the Company grows.

The Company's operations could be impacted if its third-party service providers experience difficulty. The Company depends on a number of relationships with third-party service providers, including core systems processing and web hosting. These providers are well-established vendors that provide these services to a significant number of financial institutions. If these third-party service providers experience difficulty or terminate their services and the Company is unable to replace them with other providers, its operations could be interrupted, which would adversely impact its business.

The Company's operations, including third-party and client interactions, are increasingly done via electronic means, and this has increased the risks related to cyber security. The Company is exposed to the risk of cyber-attacks in the normal course of business. In general, cyber incidents can result from deliberate attacks or unintentional events. Management has observed an increased level of attention in the industry focused on cyber-attacks that include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyber-attacks may also be carried out in a manner that does not require gaining unauthorized access, such as by causing denial-of-service attacks on websites. Cyber-attacks may be carried out by third parties or insiders using techniques that range from highly sophisticated efforts to electronically circumvent network security or overwhelm websites to more traditional intelligence gathering and social engineering aimed at obtaining information necessary to gain access. While the Company has not incurred any material losses related to cyber-attacks, the Bank may incur substantial costs and suffer other negative consequences if the Bank or one of the Bank's third-party service providers fall victim to successful cyber-attacks. Such negative consequences could include: remediation costs for stolen assets or information; system repairs; consumer protection costs; increased cyber security protection costs that may include organizational changes; deploying additional personnel and protection technologies, training employees, and engaging third-party experts and consultants; lost revenues resulting from unauthorized use of proprietary information or the failure to retain or attract clients following an attack; litigation and payment of damages; and reputational damage adversely affecting client or investor confidence.

The Company's information systems may experience an interruption that could adversely impact the Company's business, financial condition and results of operations. The Company relies heavily on communications and information systems to conduct its business. Any failure or interruption of these systems could result in failures or disruptions in client relationship management, general ledger, deposit, loan and other systems. While the Company has policies and procedures designed to prevent or limit the impact of the failure or interruption of information systems, there can be no assurance that any such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed. The occurrences of any failures or interruptions of the Company's information systems could damage the Company's reputation, result in a loss of client business, subject the Company to additional regulatory scrutiny, or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's financial condition and results of operations.

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New lines of business or new products and services may subject the Company to additional risks. From time to time, the Company may develop and grow new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, the Company may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of the Company's system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on the Company's business, results of operations and financial condition. All service offerings, including current offerings and those that may be provided in the future, may become more risky due to changes in economic, competitive and market conditions beyond the Company's control.

Negative public opinion could damage the Company's reputation and adversely affect earnings. Reputational risk is the risk to Company operations from negative public opinion. Negative public opinion can result from the actual or perceived manner in which the Company conducts its business activities, including product offerings, sales practices, practices used in origination and servicing operations, the management of actual or potential conflicts of interest and ethical issues, and the Company's protection of confidential client information. Negative public opinion can adversely affect the Company's ability to keep and attract clients and can expose the Company to litigation.

The Company's ability to successfully complete acquisitions will affect its ability to grow its franchise and compete effectively in its market footprint. The Company has announced plans to pursue a policy of growth through acquisitions in the near future to supplement internal growth. The Company's efforts to acquire other financial institutions and financial service companies or branches may not be successful. Numerous potential acquirers exist for many acquisition candidates, creating intense competition, which affects the purchase price for which the institution can be acquired. In many cases, the Company's competitors have significantly greater resources than the Company has, and greater flexibility to structure the consideration for the transaction. The Company may also not be the successful bidder in acquisition opportunities that it pursues due to the willingness or ability of other potential acquirers to propose a higher purchase price or more attractive terms and conditions than the Company is willing or able to propose. The Company intends to continue to pursue acquisition opportunities in its market footprint. The risks presented by the acquisition of other financial institutions could adversely affect the Bank's financial condition and results of operations.

Successful Company acquisitions present many risks that could adversely affect the Company's financial condition and results of operations. An institution that the Company acquires may have unknown asset quality issues or unknown or contingent liabilities that the Company did not discover or fully recognize in the due diligence process, thereby resulting in unanticipated losses. The acquisition of other institutions also typically requires the integration of different corporate cultures, loan and deposit products, pricing strategies, data processing systems and other technologies, accounting, internal audit and financial reporting systems, operating systems and internal controls, marketing



programs and personnel of the acquired institution, in order to make the transaction economically advantageous. The integration process is complicated and time consuming and could divert the Company's attention from other business concerns and may be disruptive to its clients and the clients of the acquired institution. The Company's failure to successfully integrate an acquired institution could result in the loss of key clients and employees, and prevent the Company from achieving expected synergies and cost savings. Acquisitions and failed acquisitions also result in professional fees and may result in creating goodwill that could become impaired, thereby requiring the Company to recognize further charges. The Company may finance acquisitions with borrowed funds, thereby increasing the Company's leverage and reducing liquidity, or with potentially dilutive issuances of equity securities.

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REPUBLIC INSURANCE SERVICES, INC.

Transactions between the Company and its insurance subsidiary, Republic Insurance Services, Inc. (the “Captive”), may be subject to certain IRS responsibilities and penalties. The Company’s Captive is a Nevada-based, wholly-owned insurance subsidiary of the Company that provides property and casualty insurance coverage to the Company and the Bank as well as a group of other third-party insurance captives for which insurance may not be available or economically feasible. The Treasury Department of the United States and the IRS by way of Notice 2016-66 have stated that transactions believed similar in nature to transactions between the Company and the Captive may be deemed “transactions of interest” because such transactions may have potential for tax avoidance or evasion. If the IRS ultimately concludes such transactions do create tax avoidance or evasion issues, the Company could be subject to the payment of penalties and interest.

Item 1B. Unresolved Staff Comments.

None

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## Item 2. Properties.

The Company's executive offices, principal support and operational functions are located at 601 West Market Street in Louisville, Kentucky. As of December 31, 2017, Republic had 33 banking centers located in Kentucky, six banking centers located in Florida, three banking centers in Indiana, two banking centers and a loan production office in Tennessee and one banking center in Ohio. During the first quarter of 2018, Republic opened a banking center in Crestview Hills, Kentucky. Also, during the first quarter of 2018, Republic closed a banking center in Crestwood, Kentucky and another in Independence, Kentucky.

The location of Republic's facilities, their respective approximate square footage and their form of occupancy are as follows:

Bank Offices	Approximate Square Footage	Owned (O)/ Leased (L)
Kentucky Banking Centers:		
Louisville Metropolitan Area		
2801 Bardstown Road, Louisville	5,000	L(1)
601 West Market Street, Louisville	57,000	L(1)
661 South Hurstbourne Parkway, Louisville	42,000	L(1)
9600 Brownsboro Road, Louisville	15,000	L(1)
5250 Dixie Highway, Louisville	5,000	O/L(2)
10100 Brookridge Village Boulevard, Louisville	5,000	O/L(2)
9101 U.S. Highway 42, Prospect	3,000	O/L(2)
11330 Main Street, Middletown	6,000	O/L(2)
3902 Taylorsville Road, Louisville	4,000	O/L(2)
3811 Ruckriegel Parkway, Louisville	4,000	O/L(2)
5125 New Cut Road, Louisville	4,000	O/L(2)
4808 Outer Loop, Louisville	4,000	O/L(2)
438 Highway 44 East, Shepherdsville	4,000	O/L(2)
1420 Poplar Level Road, Louisville	3,000	O
4921 Brownsboro Road, Louisville	3,000	L
3950 Kresge Way, Suite 108, Louisville	1,000	L
3726 Lexington Road, Louisville	4,000	L
2028 West Broadway, Suite 105, Louisville	2,000	L
6401 Claymont Crossing, Crestwood	4,000	L(3)
Lexington		
3098 Helmsdale Place	5,000	O/L(2)
3608 Walden Drive	4,000	O/L(2)

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2401 Harrodsburg Road	6,000	O
641 East Euclid Avenue	3,000	O
333 West Vine Street	4,000	L
Northern Kentucky		
535 Madison Avenue, Covington	4,000	L
25 Town Center Blvd., Suite 104, Crestview Hills	3,000	L(4)
8513 U.S. Highway 42, Florence	4,000	L
2051 Centennial Boulevard, Independence	2,000	L(3)
Owensboro		
3500 Frederica Street	5,000	O
3332 Villa Point Drive, Suite 101	2,000	L

(continued)

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Bank Offices (continued)	Approximate Square Footage	Owned (O)/ Leased (L)
Elizabethtown, 1690 Ring Road	4,000	L
Frankfort, 100 Highway 676	3,000	O/L(2)
Georgetown, 430 Connector Road	5,000	O/L(2)
Shelbyville, 1614 Midland Trail	6,000	L(2)
Florida Banking Centers:		
12933 Walsingham Road, Largo	4,000	O
9037 U.S. Highway 19, Port Richey	11,000	O(5)
6300 4th Street N, St. Petersburg	10,000	O
6600 Central Avenue, St. Petersburg	9,000	O
7800 Seminole Blvd, Seminole	3,000	O
11502 North 56th Street, Temple Terrace	3,000	L
Southern Indiana Banking Centers:		
4571 Duffy Road, Floyds Knobs	4,000	O/L(2)
3141 Highway 62, Jeffersonville	4,000	O
3001 Charlestown Crossing Way, New Albany	2,000	L
Tennessee Banking Centers:		
113 Seaboard Lane, Franklin	2,000	L
2034 Richard Jones Road, Nashville	3,000	L
Tennessee Loan Production Office:		
8 Cadillac Drive, Brentwood	4,000	L
Ohio Banking Center:		
4030 Smith Road, Norwood	5,000	L
Support and Operations:		
200 South Seventh Street, Louisville, KY	64,000	L(1)
Closed Banking Centers Currently Marketed for Sale:		
9100 Hudson Avenue, Hudson, FL	4,000	O
5800 38th Avenue North, St. Petersburg, FL	3,000	O
3320 E. Bay Drive, Largo, FL	3,000	O

(1) Locations are leased from partnerships in which Steven E. Trager, Chairman and Chief Executive Officer and A. Scott Trager, Vice Chairman and President, are partners. See additional discussion included under Part III Item 13

“Certain Relationships and Related Transactions, and Director Independence.” For additional discussion regarding Republic’s lease obligations, see Part II Item 8 “Financial Statements and Supplementary Data” Footnote 21 “Transactions with Related Parties and Their Affiliates.”

- (2) The banking centers at these locations are owned by Republic; however, the banking center is located on land that is leased through long-term agreements with third parties.
- (3) Banking center closed during the first quarter of 2018.
- (4) Banking center opened during the first quarter of 2018.
- (5) The Company intends to market this Banking center for sale.

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Item 3. Legal Proceedings.

In the ordinary course of operations, Republic Bancorp, Inc. (“Republic”) and Republic Bank & Trust Company (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 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market and Dividend Information

Republic Bancorp, Inc.’s (“Republic” or the “Company”) Class A Common Stock is traded on The NASDAQ Global Select Market® (“NASDAQ”) under the symbol “RBCAA.” The following table sets forth the high and low market value of the Class A Common Stock and the respective dividends declared during 2017 and 2016.

2017 Quarter Ended	Sales Price(1)		Dividends Declared	
	High	Low	Class A	Class B
March 31st	\$ 39.94	\$ 32.66	\$ 0.209	\$ 0.190
June 30th	37.05	32.28	0.220	0.200
September 30th	39.08	33.50	0.220	0.200
December 31st	43.05	37.60	0.220	0.200

2016 Quarter Ended	Sales Price(1)		Dividends Declared	
	High	Low	Class A	Class B
March 31st	\$ 26.71	\$ 23.53	\$ 0.198	\$ 0.180
June 30th	28.18	24.69	0.209	0.190
September 30th	32.62	27.14	0.209	0.190
December 31st	39.95	28.67	0.209	0.190

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(1) Sales price based on closing market price.

At February 9, 2018, the Company's Class A Common Stock was held by 554 shareholders of record and the Class B Common Stock was held by 108 shareholders of record. There is no established public trading market for the Company's Class B Common Stock. The Company intends to continue its historical practice of paying quarterly cash dividends; however, there is no assurance by the Board of Directors that such dividends will continue to be paid in the future. The payment of dividends in the future is dependent upon future income, financial position, capital requirements, the discretion and judgment of the Board of Directors and numerous other considerations.

For additional discussion regarding regulatory restrictions on dividends, see Part II Item 8 "Financial Statements and Supplementary Data" Footnote 14 "Stockholders' Equity and Regulatory Capital Matters."



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Republic has made available to its employees participating in its 401(k) Plan the opportunity, at the employee's sole discretion, to invest funds held in their accounts under the plan in shares of Class A Common Stock of Republic. Shares are purchased by the independent trustee administering the plan from time to time in the open market in the form of broker's transactions. As of December 31, 2017, the trustee held 233,382 shares of Class A Common Stock and 2,648 shares of Class B Common Stock on behalf of the plan.

Details of Republic's Class A Common Stock purchases during the fourth quarter of 2017 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
October 1 - October 31	—	\$ —	—	
November 1 - November 30	6,880	38.56	6,880	
December 1 - December 31	5,400	41.61	5,400	
Total	12,280	\$ 39.90	12,280	223,696

During 2017, the Company repurchased 26,629 shares and there were no shares exchanged for stock option exercises. During 2011, the Company's Board of Directors amended its existing share repurchase program by approving the repurchase of 300,000 additional shares from time to time, as market conditions are deemed attractive to the Company. The repurchase program will remain effective until the total number of shares authorized is repurchased or until Republic's Board of Directors terminates the program. As of December 31, 2017, the Company had 223,696 shares which could be repurchased under its current share repurchase programs.

During 2017, there were approximately 2,387 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 the newly issued Class A Common Stock relied upon was 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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## STOCK PERFORMANCE GRAPH

The following stock performance graph does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates the performance graph by reference therein.

The following stock performance graph sets forth the cumulative total shareholder return (assuming reinvestment of dividends) on Republic's Class A Common Stock as compared to the NASDAQ Bank Stocks Index and the Standard & Poor's ("S&P") 500 Index. The graph covers the period beginning December 31, 2012 and ending December 31, 2017. The calculation of cumulative total return assumes an initial investment of \$100 in Republic's Class A Common Stock, the NASDAQ Bank Index and the S&P 500 Index on December 31, 2012. The stock price performance shown on the graph below is not necessarily indicative of future stock price performance.

	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017
Republic Class A Common Stock (RBCAA)	\$ 100.00	\$ 119.49	\$ 124.09	\$ 136.68	\$ 210.82	\$ 207.40
NASDAQ Bank Index	100.00	136.49	143.01	157.36	214.42	226.12
S&P 500 Index	100.00	132.37	148.39	149.51	166.05	202.28

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## Item 6. Selected Financial Data.

The following table sets forth Republic Bancorp Inc.'s selected financial data from 2013 through 2017. This information should be read in conjunction with Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II Item 8 "Financial Statements and Supplementary Data." Certain amounts presented in prior periods have been reclassified to conform to the current period presentation.

(in thousands)	As of and for the Years Ended December 31,				
	2017	2016	2015	2014	2013
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 299,351	\$ 289,309	\$ 210,082	\$ 72,878	\$ 170,863
Investment securities	591,458	534,139	555,785	481,348	483,537
Loans held for sale	16,989	15,170	4,597	6,388	3,506
Gross loans	4,014,034	3,810,778	3,326,610	3,040,495	2,589,792
Allowance for loan and lease losses ("Allowance")	(42,769)	(32,920)	(27,491)	(24,410)	(23,026)
Goodwill	16,300	16,300	10,168	10,168	10,168
Bank owned life insurance	63,356	61,794	52,817	51,415	25,086
Total assets	5,085,362	4,816,309	4,230,289	3,747,013	3,371,904
Noninterest-bearing deposits	1,022,042	971,952	634,863	502,569	488,642
Interest-bearing deposits	2,411,116	2,188,740	1,852,614	1,555,613	1,502,215
Total deposits	3,433,158	3,160,692	2,487,477	2,058,182	1,990,857
Securities sold under agreements to repurchase and other short-term borrowings	204,021	173,473	395,433	356,108	165,555
Federal Home Loan Bank advances	737,500	802,500	699,500	707,500	605,000
Subordinated note	41,240	41,240	41,240	41,240	41,240
Total liabilities	4,452,938	4,211,903	3,653,742	3,188,282	2,829,111
Total stockholders' equity	632,424	604,406	576,547	558,731	542,793
<b>Average Balance Sheet Data:</b>					
Federal funds sold and other interest-earning deposits	\$ 188,427	\$ 130,889	\$ 68,847	\$ 118,803	\$ 145,970
Investment securities, including FHLB stock	574,027	572,599	546,655	525,748	527,681
Gross loans, including loans held for sale	3,831,406	3,568,383	3,174,234	2,738,304	2,575,146
Allowance	(39,202)	(29,880)	(25,570)	(23,067)	(23,287)
Total assets	4,826,208	4,485,829	3,982,840	3,559,617	3,385,345
Noninterest-bearing deposits	1,073,181	894,049	651,275	553,929	513,891

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Interest-bearing deposits	2,267,663	2,058,592	1,714,214	1,510,201	1,514,847
Total interest-bearing liabilities	3,091,970	2,964,981	2,734,561	2,432,153	2,305,106
Total stockholders' equity	628,329	597,463	574,766	557,378	546,880

Income Statement Data - Total Company:

Total interest income	\$ 218,778	\$ 173,992	\$ 142,432	\$ 132,377	\$ 134,568
Total interest expense	20,258	17,938	18,462	19,604	21,393
Net interest income	198,520	156,054	123,970	112,773	113,175
Provision for loan and lease losses	27,704	14,493	5,396	2,859	2,983
Total noninterest income	58,414	57,509	47,994	42,519	46,230
Total noninterest expense	150,844	130,107	113,324	108,118	115,924
Income before income tax expense	78,386	68,963	53,244	44,315	40,498
Income tax expense	32,754	23,060	18,078	15,528	15,075
Net income	45,632	45,903	35,166	28,787	25,423

Income Statement Data - Core Bank(1):

Total interest income	\$ 179,986	\$ 156,252	\$ 139,155	\$ 132,014	\$ 134,419
Total interest expense	19,284	17,831	18,424	19,571	21,392
Net interest income	160,702	138,421	120,731	112,443	113,027
Provision for loan and lease losses	3,773	3,945	3,065	3,392	3,828
Total noninterest income	32,410	33,350	28,441	24,607	31,471
Total noninterest expense	132,794	116,190	101,184	96,451	99,743
Income before income tax expense	56,545	51,636	44,923	37,207	40,927
Income tax expense	23,097	16,777	15,066	12,875	14,112
Net income	33,448	34,859	29,857	24,332	26,815

(continued)

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## Item 6. Selected Financial Data. (continued)

(in thousands, except per share data, FTEs and # of banking centers)	As of and for the Years Ended December 31,			
	2017	2016	2015	2014
<b>Per Share Data:</b>				
Basic weighted average shares outstanding	20,921	20,942	20,861	20,804
Diluted weighted average shares outstanding	21,007	20,954	20,942	20,899
Period-end shares outstanding:				
Class A Common Stock	18,607	18,615	18,652	18,603
Class B Common Stock	2,243	2,245	2,245	2,245
Basic earnings per share:				
Class A Common Stock	\$ 2.21	\$ 2.22	\$ 1.70	\$ 1.39
Class B Common Stock	2.01	2.02	1.55	1.32
Diluted earnings per share:				
Class A Common Stock	\$ 2.20	\$ 2.22	\$ 1.70	\$ 1.38
Class B Common Stock	2.00	2.01	1.54	1.32
Cash dividends declared per share:				
Class A Common Stock	\$ 0.869	\$ 0.825	\$ 0.781	\$ 0.737
Class B Common Stock	0.790	0.750	0.710	0.670
Market value per share at December 31,	\$ 38.02	\$ 39.54	\$ 26.41	\$ 24.72
Book value per share at December 31,(2)	30.33	28.97	27.59	26.80
Tangible book value per share at December 31,(2)	29.27	27.89	26.87	26.08
<b>Performance Ratios:</b>				
Return on average assets (ROA)	0.95 %	1.02 %	0.88 %	0.81 %
Return on average equity (ROE)	7.26	7.68	6.12	5.16
Efficiency ratio(3)	59	61	66	70
Yield on average interest-earning assets	4.76	4.07	3.76	3.91
Cost of average interest-bearing liabilities	0.66	0.60	0.68	0.81
Cost of average deposits(4)	0.29	0.21	0.19	0.19
Net interest spread	4.10	3.47	3.08	3.10
Net interest margin - Total Company	4.32	3.65	3.27	3.33
Net interest margin - Core Bank	3.55	3.30	3.24	3.35
<b>Capital Ratios - Total Company:</b>				
Average stockholders' equity to average total assets	13.02 %	13.32 %	14.43 %	15.66 %
Total risk based capital	16.04	16.37	20.58	22.17
Common equity tier 1 capital	14.15	14.59	18.39	NA
Tier 1 risk based capital	15.06	15.55	19.69	21.28
Tier 1 leverage capital	13.21	13.54	14.82	15.92
Dividend payout ratio	39	37	46	53

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Dividend yield	2.29	2.09	2.96	2.98
Other Information:				
Period-end FTEs(5) - Total Company	997	938	785	723
Period-end FTEs(5) - Core Bank	915	869	726	672
Number of banking centers	45	44	40	41

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## Item 6. Selected Financial Data. (continued)

(dollars in thousands)	As of and for the Years Ended December 31,									
	2017	2016	2015	2014	2013					
Credit Quality Data and Ratios:										
Credit Quality Asset Balances:										
Nonperforming Assets - Total Company:										
Loans on nonaccrual status	\$ 14,118	\$ 15,892	\$ 21,712	\$ 23,337	\$ 19,104					
Loans past due 90-days-or-more and still on accrual	956	167	224	322	1,974					
Total nonperforming loans	15,074	16,059	21,936	23,659	21,078					
Other real estate owned	115	1,391	1,220	11,243	17,102					
Total nonperforming assets	\$ 15,189	\$ 17,450	\$ 23,156	\$ 34,902	\$ 38,180					
Nonperforming Assets - Core Bank(1):										
Loans on nonaccrual status	\$ 14,118	\$ 15,892	\$ 21,712	\$ 23,337	\$ 19,104					
Loans past due 90-days-or-more and still on accrual	19	85	224	322	1,974					
Total nonperforming loans	14,137	15,977	21,936	23,659	21,078					
Other real estate owned	115	1,391	1,220	11,243	17,102					
Total nonperforming assets	\$ 14,252	\$ 17,368	\$ 23,156	\$ 34,902	\$ 38,180					
Delinquent loans:										
Delinquent loans - Core Bank	\$ 8,460	\$ 6,821	\$ 11,485	\$ 15,710	\$ 16,223					
Delinquent loans - RPG(6)	5,641	2,137	246	141	—					
Total delinquent loans - Total Company	\$ 14,101	\$ 8,958	\$ 11,731	\$ 15,851	\$ 16,223					
Credit Quality Ratios - Total Company:										
Nonperforming loans to total loans	0.38	%	0.42	%	0.66	%	0.78	%	0.81	%
Nonperforming assets to total loans (including OREO)	0.38		0.46		0.70		1.14		1.46	
Nonperforming assets to total assets	0.30		0.36		0.55		0.93		1.13	
Allowance to total loans	1.07		0.86		0.83		0.80		0.89	
Allowance to nonperforming loans	284		205		125		103		109	
Delinquent loans to total loans(7)	0.35		0.24		0.35		0.52		0.63	
Net loan charge-offs to average loans	0.47		0.25		0.07		0.05		0.14	
Credit Quality Ratios - Core Bank:										
Nonperforming loans to total loans	0.36	%	0.42	%	0.66	%	0.78	%	0.81	%

Nonperforming assets to total loans (including OREO)	0.36	0.46	0.70	1.15	1.46
Nonperforming assets to total assets	0.28	0.36	0.55	0.93	1.13
Allowance to total loans	0.77	0.74	0.78	0.80	0.89
Allowance to nonperforming loans	213	175	118	103	109
Delinquent loans to total loans	0.21	0.18	0.35	0.52	0.63
Net charge-offs to average loans	0.04	0.05	0.05	0.08	0.18



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## Item 6. Selected Financial Data. (continued)

(1) “Core Bank” or “Core Banking” operations consist of the Traditional Banking, Warehouse Lending and Mortgage Banking segments.

See Footnote 24 “Segment Information” under Part II Item 8 “Financial Statements and Supplemental Data” for additional information regarding the segments that constitute the Company’s Core Banking operations.

(2) The following table provides a reconciliation of total stockholders’ equity in accordance with U.S. generally accepted accounting principles (“GAAP”) to tangible stockholders’ equity in accordance with applicable regulatory requirements, a non-GAAP measure. The Company provides the tangible book value per share, another non-GAAP measure, in addition to those defined by banking regulators, because of its widespread use by investors as a means to evaluate capital adequacy.

December 31, (dollars in thousands, except per share data)	2017	2016	2015	2014	2013
Total stockholders' equity - GAAP					
(a)	\$ 632,424	\$ 604,406	\$ 576,547	\$ 558,731	\$ 542,793
Less: Goodwill	16,300	16,300	10,168	10,168	10,168
Less: Mortgage servicing rights	5,044	5,180	4,912	4,813	5,409
Less: Core deposit intangible	858	1,070	—	—	—
Tangible stockholders' equity - Non-GAAP (c)	\$ 610,222	\$ 581,856	\$ 561,467	\$ 543,750	\$ 527,216
Total assets - GAAP (b)	\$ 5,085,362	\$ 4,816,309	\$ 4,230,289	\$ 3,747,013	\$ 3,371,904
Less: Goodwill	16,300	16,300	10,168	10,168	10,168
Less: Mortgage servicing rights	5,044	5,180	4,912	4,813	5,409
Less: Core deposit intangible	858	1,070	—	—	—
Tangible assets - Non-GAAP (d)	\$ 5,063,160	\$ 4,793,759	\$ 4,215,209	\$ 3,732,032	\$ 3,356,327
Total stockholders' equity to total assets - GAAP (a/b)	12.44	% 12.55	% 13.63	% 14.91	% 16.10
Tangible stockholders' equity to tangible assets - Non-GAAP (c/d)	12.05	% 12.14	% 13.32	% 14.57	% 15.71
Number of shares outstanding (e)	20,850	20,860	20,897	20,848	20,801
Book value per share - GAAP (a/e)	\$ 30.33	\$ 28.97	\$ 27.59	\$ 26.80	\$ 26.09
Tangible book value per share - Non-GAAP (c/e)	29.27	27.89	26.87	26.08	25.35

- (3) The efficiency ratio, a non-GAAP measure, equals total noninterest expense divided by the sum of net interest income and noninterest income. The ratio excludes net gains (losses) on sales, calls and impairment of investment securities, if applicable.
- (4) The cost of average deposits ratio equals total interest expense on deposits divided by total average interest-bearing deposits plus total average noninterest-bearing deposits.
- (5) FTEs – Full-time-equivalent employees.
- (6) Republic Processing Group (“RPG”) operations consist of the Tax Refund Solutions and Republic Credit Solutions segments.
- (7) The delinquent loans to total loans ratio equals loans 30-days-or-more past due divided by total loans. Depending on loan class, loan delinquency is determined by the number of days or the number of payments past due.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The consolidated financial statements include the accounts of Republic Bancorp, Inc. (the "Parent Company") and its wholly-owned subsidiaries, Republic Bank & Trust Company ("RB&T" or the "Bank") and Republic Insurance Services, Inc. (the "Captive"). As used in this filing, the terms "Republic," the "Company," "we," "our" and "us" refer to Republic Bancorp, Inc., and, where the context requires, Republic Bancorp, Inc. and its subsidiaries; and the term the "Bank" refers to the Company's subsidiary bank, RB&T. All significant intercompany balances and transactions are eliminated in consolidation.

Management's Discussion and Analysis of Financial Condition and Results of Operations of Republic should be read in conjunction with Part II Item 8 "Financial Statements and Supplementary Data."

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

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

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

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

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

Broadly speaking, forward-looking statements include:

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

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

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

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- recession;
- natural disasters impacting Company operations;
- future acquisitions;
- integrations of acquired businesses;
- changes in technology;
- changes in applicable laws and regulations or the interpretation and enforcement thereof;
- changes in fiscal, monetary, regulatory and tax policies;
- changes in accounting standards;
- monetary fluctuations;
- changes to the Company's overall internal control environment;
- success in gaining regulatory approvals when required;
- information security breaches or cyber security attacks involving either the Company or one of the Company's third-party service providers; and
- other risks and uncertainties reported from time to time in the Company's filings with the Securities and Exchange Commission ("SEC"), including Part 1 Item 1A "Risk Factors."

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Republic's consolidated financial statements and accompanying footnotes have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported periods.

Management continually evaluates the Company's accounting policies and estimates that it uses to prepare the consolidated financial statements. In general, management's estimates and assumptions are based on historical experience, accounting and regulatory guidance, and information obtained from independent third-party professionals. Actual results may differ from those estimates made by management.

Critical accounting policies are those that management believes are the most important to the portrayal of the Company's financial condition and operating results and require management to make estimates that are difficult, subjective and complex. Most accounting policies are not considered by management to be critical accounting policies. Several factors are considered in determining whether or not a policy is critical in the preparation of the financial statements. These factors include, among other things, whether the estimates have a significant impact on the financial statements, the nature of the estimates, the ability to readily validate the estimates with other information including independent third parties or available pricing, sensitivity of the estimates to changes in economic conditions and whether alternative methods of accounting may be utilized under GAAP. Management has discussed each critical accounting policy and the methodology for the identification and determination of critical accounting policies with the Company's Audit Committee.

Republic believes its critical accounting policies and estimates relate to the following:

- Allowance for Loan and Lease Losses (“Allowance”) and Provisions for Loan and Lease losses (“Provision”)
- Accounting for Business Acquisitions
- Goodwill and Other Intangible Assets
- Mortgage Servicing Rights (“MSRs”)
- Income Tax Accounting
- Investment Securities
- Other Real Estate Owned (“OREO”)

Allowance for Loan and Leases Losses and Provision for Loan and Lease 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.

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

### Specific Component – Loans Individually Classified as Impaired

The Bank defines impaired loans as follows:

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

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

Under GAAP, the Bank uses the following methods to measure specific loan impairment, including:

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

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



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General Component – Pooled Loans Collectively Evaluated

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

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

- Current year to date historical loss factor average
- Rolling four quarter average
- Rolling eight quarter average
- Rolling twelve quarter average
- Rolling sixteen quarter average
- Rolling twenty quarter average
- Rolling twenty-four quarter average
- Rolling twenty-eight quarter average
- Rolling thirty-two quarter average
- Rolling thirty-six quarter average

In order to take account of periods of economic growth and economic downturn, management generally uses the highest of the evaluated averages above for each loan class when determining its historical loss factors.

Loan classes are also evaluated utilizing subjective factors in addition to the historical loss calculations to determine a loss allocation for each class. 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;
- Changes in the quality of the Bank's credit review system;
- Changes in lending 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, nonperforming 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 collectability 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 Bank'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.

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Management's Evaluation of the Allowance

Management evaluates the Allowance for its more traditional Core Banking operations differently than its non-traditional Republic Processing Group ("RPG") operations. Core Banking operations consist of the Company's Traditional Banking, Warehouse Lending and Mortgage Banking segments. RPG operations consist of the Company's Tax Refund Solutions ("TRS") and Republic Credit Solutions ("RCS") segments.

For Core Banking operations, management performs two calculations at year-end in order to confirm the reasonableness of its Allowance. In the first calculation, management compares the beginning Allowance to the net charge-offs for the most recent calendar year. The ratio of net charge-offs to the beginning-of-year Allowance indicates how adequately the beginning-of-year Allowance accommodated subsequent charge-offs. Higher ratios suggest the beginning-of-year Allowance may not have been large enough to absorb impending charge-offs, while inordinately low ratios might indicate the accumulation of excessive allowances. The Core Bank's net charge-off ratio to the beginning-of-year Allowance was 6% at December 31, 2017 compared to 7% at December 31, 2016. The Core Bank's five-year annual average for this ratio was 9% as of December 31, 2017. Management believes the Core Bank's net charge-off ratio to beginning Allowance was within a reasonable range at December 31, 2017 and 2016.

For the second calculation, management assesses the Core Bank's Allowance exhaustion rate. Exhaustion rates indicate the time (expressed in years) taken to use the beginning-of-year Allowance in the form of actual charge-offs. Management believes an exhaustion rate that indicates a reasonable Allowance is in a range of five to twelve years. The Core Bank's Allowance exhaustion rates at December 31, 2017 and 2016 were 10.0 years and 7.6 years compared to the five-year annual average of 6.2 years as of December 31, 2017. Management believes the Core Bank's Allowance exhaustion rates were within a reasonable range at December 31, 2017 and 2016.

Based on management's calculation, a Core Bank Allowance of \$30 million, or 0.77% of total loans and leases, was an adequate estimate of probable incurred losses within the loan portfolio as of December 31, 2017 compared to \$28 million, or 0.74%, at December 31, 2016. This estimate resulted in Core Banking Provision of \$3.8 million during 2017 compared to \$3.9 million in 2016. If the mix and amount of future charge-off percentages differ significantly from those assumptions used by management in making its determination, an adjustment to the Core Bank Allowance and the resulting effect on the income statement could be material.

The RPG Allowance at December 31, 2017 and 2016 primarily related to loans originated and held for investment through the RCS segment. RCS generally originates small-dollar, consumer credit products. In some instances, the Bank originates these products, sells 90% of the balances within two days of loan origination, and retains a 10% interest. RCS loans typically earn a higher yield but also have higher credit risk compared to loans originated through Core Banking operations, with a significant portion of RCS clients considered subprime or near-prime borrowers.

RCS's short-term line-of-credit product represented 42% and 60% of the RCS held-for-investment loan portfolio at December 31, 2017 and 2016. For this product, management conducts an analysis of historical losses and delinquencies by month of loan origination when determining the Allowance. For RCS's other products, the Allowance is estimated using a method similar to that employed for pooled loans collectively evaluated, as described above.

RPG maintained an Allowance for three loan products offered through its RCS segment at December 31, 2017, including its line-of-credit product, its credit card product and its healthcare-receivables product. At December 31, 2017, the Allowance to total loans estimated for each RCS product ranged from as low as 0.25% for its healthcare-receivables portfolio to as high as 38% for its line-of-credit portfolio. A lower reserve percentage was provided for RCS's healthcare receivables at December 31, 2017, as such receivables have recourse back to the Company's third-party service providers in the transactions. Based on management's calculation, an Allowance of \$13 million, or 16%, of total RPG loans was an adequate estimate of probable incurred losses within the RPG portfolio as of December 31, 2017 compared to an Allowance of \$5 million, or 13%, at December 31, 2016.

RPG's TRS segment first offered its Easy Advance ("EA") tax-credit product during the first two months of 2016 and again during the first two months of 2017 and 2018. An Allowance for losses on EAs is estimated during the limited, short-term period the product is offered. EAs are generally repaid within three weeks of origination. Provisions for loan losses on EAs are estimated when advances are made, with all provisions made in the first quarter of each year. No Allowance for EAs existed as of December 31, 2017 and 2016, as all EAs originated during the first two months of each year had either been paid off or charged-off within 81 days of origination. The majority of EA charge-offs are recorded during the second quarter of each year.

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Related to the overall credit losses on EAs, the Bank's ability to control losses is highly dependent upon its ability to predict the taxpayer's likelihood to receive the tax refund as claimed on the taxpayer's tax return. Each year, the Bank's EA approval model is based primarily on the prior-year's tax refund funding patterns. Because much of the loan volume occurs each year before that year's tax refund funding patterns can be analyzed and subsequent underwriting changes made, credit losses during a current year could be higher than management's predictions if tax refund funding patterns change materially between years. For the first quarter 2018 tax season, the Company modified the EA product offering to increase the maximum advance amount, which is expected to increase overall EA loan volume, absent any other changes. Any increase in the frequency and/or magnitude of EA losses in 2018 would be heightened by an increase in overall EA loan volume.

See additional discussion regarding the EA product under the sections titled:

- Part I Item 1A "Risk Factors"
- Part II Item 8 "Financial Statements and Supplementary Data," Footnote 5 "Loans and Allowance for Loan and Lease Losses"

RPG recorded a net charge of \$23.9 million and \$10.5 million to the Provision during 2017 and 2016, with the Provision for each year primarily due to net losses on EAs and growth in short-term, consumer loans originated through the RCS segment. If the amount of future charge-offs on EAs and RCS loans differ significantly from assumptions used by management in making its determination, an adjustment to the RPG Allowance and the resulting effect on the income statement could be material.

Accounting for Business Acquisitions — The Bank accounts for its business acquisitions in accordance with the acquisition method as outlined in Account Standards Codification ("ASC") Topic 805, Business Combinations. The acquisition method requires: a) identification of the entity that obtains control of the acquiree; b) determination of the acquisition date; c) recognition and measurement of the identifiable assets acquired and liabilities assumed, and any noncontrolling interest in the acquiree; and d) recognition and measurement of goodwill or bargain purchase gain.

Identifiable assets acquired, liabilities assumed, and any noncontrolling interest in acquirees are generally recognized at their acquisition date ("day-one") fair values based on the requirements of ASC Topic 820, Fair Value Measurements and Disclosures. The measurement period for day-one fair values begins on the acquisition date and ends the earlier of: (a) the day management believes it has all the information necessary to determine day-one fair values; or (b) one year following the acquisition date. In many cases, the determination of day-one fair values requires management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly complex and subjective in nature and subject to recast adjustments, which are retrospective adjustments to reflect new information existing at the acquisition date affecting day-one fair values. More specifically, these recast adjustments for loans and other real estate owned may be made, as market value data, such as valuations, are received by the Bank. Increases or decreases to day-one fair values are reflected with a corresponding increase or decrease to

bargain purchase gain or goodwill.

Acquisition related costs are expensed as incurred unless those costs are related to issuing debt or equity securities used to finance the acquisition.

Loans purchased in a business acquisition are accounted for using one of the following accounting standards:

- ASC Topic 310-20, Non Refundable Fees and Other Costs, is used to value loans that have not demonstrated post origination credit quality deterioration and the acquirer expects to collect all contractually required payments from the borrower. For these loans, the difference between the loan's day-one fair value and amortized cost would be amortized or accreted into income using the interest method.
- ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, is used to value PCI loans. For these loans, it is probable the acquirer will be unable to collect all contractually required payments from the borrower. Under ASC Topic 310-30, the expected cash flows that exceed the initial investment in the loan, or fair value, represent the "accretable yield," which is recognized as interest income on a level-yield basis over the expected cash flow periods of the loans. Additionally, the difference between contractual cash flows and expected cash flows of PCI loans is referred to as the "non-accretable discount."

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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 day-one fair values are final.

Management utilized the following criteria in determining which loans were classified as PCI loans for its May 17, 2016 acquisition of Cornerstone Bancorp, Inc. ("Cornerstone"):

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

See additional detail regarding the Company's Cornerstone acquisition under Footnote 2 "2016 Acquisition of Cornerstone Bancorp, Inc." of Part II Item 8 "Financial Statements and Supplementary Data."

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, and net present value of cash flows expected to be received. The Bank typically accounts 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 discount 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 by management 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 acquisition day estimate. Provisions 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 discount 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 discount, which would have a positive impact on interest income.

PCI loans are placed on nonaccrual if management cannot reasonably estimate future cash flows on such loans.

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. PCI loans for which the Bank simply chooses to extend the maturity date are generally not considered TDRs and remain in the PCI population.

Goodwill and Other Intangible Assets — Goodwill resulting from business acquisitions prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business acquisitions after January 1, 2009 represents the future economic benefits arising from other assets acquired that are individually identified and separately recognized. Goodwill and intangible assets acquired in a business acquisition and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually.



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The Company has selected September 30th as the date to perform its annual goodwill impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the Bank's balance sheet.

All goodwill is attributable to the Company's Traditional Banking segment and is not expected to be deductible for tax purposes. Based on its assessment, the Company believes its goodwill of \$16 million at both December 31, 2017 and 2016 was not impaired and is properly recorded in the consolidated financial. Related to the Company's May 17, 2016 Cornerstone acquisition, the Company recorded \$6 million of goodwill.

Other intangible assets consist of core deposit intangible ("CDI") assets arising from business acquisitions. CDI assets are initially measured at fair value and then amortized on an accelerated method over their estimated useful lives.

Related to the Company's May 17, 2016 Cornerstone acquisition, the Company maintained \$858,000 and \$1 million of CDI assets as of December 31, 2017 and 2016. The Cornerstone related CDI is scheduled to amortize through 2022.

See additional detail regarding the Company's Cornerstone acquisition under Footnote 2 "2016 Acquisition of Cornerstone Bancorp, Inc." of Part II Item 8 "Financial Statements and Supplementary Data."

**Mortgage Servicing Rights** — Mortgage loans held for sale are generally sold with the MSR retained. When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value, with the income statement effect recorded as a component of net servicing income within Mortgage Banking income. Fair value is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method, which requires servicing rights to be amortized into Mortgage Banking income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. Amortization of MSRs are initially set at seven years and subsequently adjusted on a quarterly basis based on the weighted average remaining life of the underlying loans.

MSRs are evaluated for impairment quarterly based upon the fair value of the MSRs as compared to carrying amount. Impairment is determined by stratifying MSRs into groupings based on predominant risk characteristics, such as interest rate, loan type, loan terms and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Bank later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the valuation allowance is recorded as an increase to income. Changes in valuation allowances are reported within Mortgage Banking income on the income statement. The fair value of the MSR portfolio is subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates.

A primary factor influencing the fair value is the estimated life of the underlying loans serviced. The estimated life of the loans serviced is significantly influenced by market interest rates. During a period of declining interest rates, the fair value of the MSR is expected to decline due to increased anticipated prepayment speeds within the portfolio. Alternatively, during a period of rising interest rates, the fair value of MSRs is expected to increase, as prepayment speeds on the underlying loans would be anticipated to decline. Based on the estimated fair value at December 31, 2017 and 2016, management determined there was no impairment within the MSR portfolio.

The Bank's carrying value of its MSR portfolio was \$5 million at both December 31, 2017 and 2016.

**Income Tax Accounting** — Income tax liabilities or assets are established for the amount of taxes payable or refundable for the current year. Deferred tax liabilities (“DTLs”) and assets (“DTAs”) are also established for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. A DTL or DTA is recognized for the estimated future tax effects attributable to temporary differences and deductions that can be carried forward (used) in future years. The valuation of current and deferred income tax liabilities and assets is considered critical, as it requires management to make estimates based on provisions of the enacted tax laws. The assessment of tax liabilities and assets involves the use of estimates, assumptions, interpretations and judgments concerning certain accounting pronouncements and federal and state tax codes.

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On December 22, 2017, President Donald Trump signed into law the Tax Cuts and Jobs Act (“TCJA”). The TCJA, among other things, reduces the federal corporate tax rate from 35% to 21%, effective January 1, 2018. As a result of the reduced tax rate, the Company incurred a charge of \$6.3 million to income tax expense during 2017 representing the decrease in value of its net DTA upon enactment of the TCJA. With the exception of deferred taxes related to depreciation on a portion of its property and equipment, the Company has materially completed its accounting for the tax effects upon enactment of the TCJA. Regarding its deferred taxes related to depreciation, the Company awaits the completion of a cost segregation study. For the year ended December 31, 2017, the Company did not have the necessary information available, analyzed or prepared to make a reasonable estimate of the impact of the cost segregation study on its deferred taxes related to depreciation. The cost segregation study is scheduled to be completed in the latter half of 2018, prior to the Company’s filing of its 2017 income tax returns. The cost segregation study is expected to provide the Company with the necessary information to complete the accounting for the deferred taxes related to depreciation.

There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, or additional information concerning the TCJA’s impact on the Company’s net DTAs, will not differ from management’s current assessment, the impact of which could be significant to the consolidated results of operations and reported earnings. The Company believes its tax assets and liabilities are adequate and are properly recorded in the consolidated financial statements at December 31, 2017 and 2016.

Investment Securities — Unrealized losses for all investment securities are reviewed to determine whether the losses are “other-than-temporary.” Investment securities are evaluated for other-than-temporary impairment (“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 held one security at December 31, 2017 and 2016 with a total carrying value of \$4 million and \$5 million for which it recorded OTTI charges in previous years.

Other Real Estate Owned — Assets acquired through loan foreclosures are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. The Bank's selling costs for OREO typically range from 10-13% of each property's fair value, depending on property class. Fair value is commonly based on recent real estate appraisals or BPO. Appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Operating costs after acquisition are expensed.

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. Appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Once the appraisal is received, a member of the Bank's Credit Administration Department

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(“CAD”) typically reviews the assumptions and approaches utilized in the appraisal, as well as the fair value in comparison with independent data sources, such as recent market data or industry-wide statistics. On at least an annual basis, the Bank performs a back test of collateral appraisals by comparing actual selling prices on recent collateral sales to the most recent appraisal of such collateral. Back tests are performed for each collateral class and may lead to additional adjustments to the value of unliquidated collateral of similar class.

The Bank’s total OREO recorded was \$115,000 and \$1 million at December 31, 2017 and 2016.

## OVERVIEW

While the Company’s pre-tax earnings increased 14% to \$78.4 million during 2017, net income and diluted earnings per Class A Common Share both decreased 1% to \$45.6 million and \$2.20. The directional inconsistency between the increase in pre-tax earnings and decreases in net income and earnings per share (“EPS”) was driven by a \$6.3 million charge to income tax expense during the fourth quarter of 2017 resulting from the enactment of the TCJA on December 22, 2017.

The TCJA, among other things, reduces the federal corporate tax rate from 35% to 21%, effective January 1, 2018. As a result of the reduced tax rate, the Company incurred a charge of \$6.3 million to income tax expense during 2017 representing the decrease in value of its net DTA upon enactment of the TCJA.

See additional detail regarding the TCJA’s impact on the Company’s income tax expense under Footnote 19 “Income Taxes” of Part II Item 8 “Financial Statements and Supplementary Data.”

The following table presents Republic’s financial performance in accordance with GAAP for the years ended December 31, 2017, 2016 and 2015, along with adjusted non-GAAP performance and a reconciliation to GAAP for the impact of the previously mentioned charge to income tax expense during the fourth quarter of 2017. The non-GAAP presentation and the reconciliation to GAAP are presented to allow appropriate comparability between the reported periods and to illustrate the impact of the TCJA-driven charge to income tax expense on the Company’s financial performance.

Table 1 — Summary

				Percent Increase/(Decrease)	
	2017	2016	2015	2017/2016	2016/2015

Years Ended December 31, (dollars  
in thousands, except per share data)

Income before income tax expense - GAAP	\$ 78,386	\$ 68,963	\$ 53,244	14	%	30	%			
Net income:										
Net income - GAAP	\$ 45,632	\$ 45,903	\$ 35,166	(1)	%	31	%			
Impact of TCJA	6,326	—	—	NM		NM				
Adjusted net income - Non-GAAP	\$ 51,958	\$ 45,903	\$ 35,166	13		31				
Diluted earnings per share ("EPS") of Class A Common Stock:										
Diluted EPS of Class A Common Stock - GAAP	\$ 2.20	\$ 2.22	\$ 1.70	(1)	%	31	%			
Impact of TCJA	0.30	—	—	NM		NM				
Adjusted diluted EPS of Class A Common Stock - Non-GAAP	\$ 2.50	\$ 2.22	\$ 1.70	13		31				
Return on average assets ("ROA"):										
ROA - GAAP	0.95	%	1.02	%	0.88	%	(7)	%	16	%
Impact of TCJA	0.13		—		—		NM		NM	
Adjusted ROA - Non-GAAP	1.08		1.02		0.88		6		16	
Return on average equity ("ROE"):										
ROE - GAAP	7.26	%	7.68	%	6.12	%	(5)	%	25	%
Impact of TCJA	1.01		—		—		NM		NM	
Adjusted ROE - Non-GAAP	8.27		7.68		6.12		8		25	

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NM – Not meaningful

Additional discussion follows in this section of the filing under “Results of Operations.”

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General highlights by reportable segment for the year ended December 31, 2017 consisted of the following:

Traditional Banking segment

- Pre-tax earnings increased \$5.7 million, or 16%, while net income decreased \$1.4 million, or 6%, for 2017 compared to 2016. Approximately \$5.1 million of the Company's previously mentioned TCJA-related charge to income tax expense was tied to the Traditional Banking segment.
- Net interest income increased \$21.1 million, or 17%, for 2017 to \$142.8 million. The Traditional Banking segment net interest margin increased 29 basis points for the year ended December 31, 2017 to 3.55%.
- The Traditional Banking Provision was \$3.9 million for 2017 compared to \$3.4 million for 2016.
- Noninterest income increased \$1.4 million, or 5%, for 2017 compared to 2016.
- Noninterest expense increased \$16.3 million, or 15%, during 2017 compared to 2016.
- Gross Traditional Bank loans increased by \$224 million, or 7%, from December 31, 2016 to December 31, 2017.
- Traditional Bank deposits grew \$243 million, or 8%, from December 31, 2016 to December 31, 2017.
- Total nonperforming loans to total loans for the Traditional Banking segment was 0.41% at December 31, 2017 compared to 0.50% at December 31, 2016.
- Delinquent loans to total loans for the Traditional Banking segment was 0.25% at December 31, 2017 compared to 0.21% at December 31, 2016.

Warehouse Lending segment

- Pre-tax earnings increased \$1.4 million, or 11%, while net income increased \$797,000, or 10%, for 2017 compared to 2016. Approximately \$181,000 of the Company's previously mentioned TCJA-related charge to income tax expense was tied to the Warehouse segment.

- Net interest income increased \$1.0 million, or 6%, for 2017 compared to 2016. The Warehouse segment net interest margin decreased six basis point from 2016 to 3.53% for 2017.
- The Warehouse Provision was a credit of \$150,000 for 2017 compared to a charge of \$497,000 for 2016.
- Total committed Warehouse lines increased from \$1.0 billion at December 31, 2016 to \$1.1 billion at December 31, 2017.
- Average line usage was 48% during 2017 compared to 57% during 2016.
- There were no nonperforming loans or delinquent loans associated with the Warehouse segment at December 31, 2017 and 2016.

#### Mortgage Banking segment

- Within the Mortgage Banking segment, mortgage banking income decreased \$2.2 million, or 33%, during 2017 compared to 2016, with \$1.1 million of the decrease attributable to a bulk loan sale of \$71 million representing a portion of the Company's correspondent loan portfolio during the third quarter of 2016.



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- Overall, excluding the aforementioned bulk loan sale, Republic's originations of secondary market loans totaled \$160 million during 2017 compared to \$217 million during the same period in 2016.

Tax Refund Solutions segment

- Pre-tax earnings increased \$1.2 million, or 11%, while net income increased \$787,000, or 10%, for 2017 compared to 2016. The TRS segment did not incur a TCJA-related charge to income tax expense during 2017.
- Net interest income increased \$8.6 million for 2017 compared to 2016.
- The TRS Provision was \$6.5 million during 2017, compared to \$2.8 million for 2016.
- Noninterest income was \$18.8 million for 2017 compared to \$19.6 million for 2016.
- Net Refund Transfers ("RT") revenue decreased \$740,000, or 4%, during 2017 compared to 2016.
- Noninterest expense was \$14.5 million for 2017 compared to \$11.7 million for 2016.
- There were no nonperforming loans or delinquent loans associated with the TRS segment at December 31, 2017 and 2016.

Republic Credit Solution segment

- Pre-tax earnings increased \$3.3 million, or 59%, while net income increased \$353,000, or 10%, for 2017 compared to 2016. Approximately \$1.7 million of the Company's previously mentioned TCJA-related charge to income tax expense was tied to the RCS segment.
- Net interest income increased \$11.6 million, or 105%, for 2017 compared to 2016.
- RCS recorded a Provision of \$17.4 million during 2017, compared to \$7.8 million for 2016.
- Noninterest income increased \$2.6 million, or 58%, for 2017 compared to 2016.

- Noninterest expense increased \$1.3 million, or 61%, for 2017 compared to 2016.
- Total nonperforming loans to total loans for the RCS segment was 1.40% at December 31, 2017 compared to 0.25% at December 31, 2016.
- Delinquent loans to total loans for the RCS segment was 8.43% at December 31, 2017 compared to 6.63% at December 31, 2016.

General highlights by reportable segment for the year ended December 31, 2016 consisted of the following:

Traditional Banking segment

- Net income increased \$1.0 million, or 4%, for 2016 compared to 2015.
- Net interest income increased \$13.4 million, or 12%, for 2016 to \$121.7 million.
- The Traditional Banking Provision was \$3.4 million for 2016 compared to \$2.9 million for 2015.
- Total noninterest income increased \$2.3 million, or 10%, for 2016 compared to 2015.
- Total noninterest expense increased \$14.6 million, or 16%, during 2016 compared 2015.

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- Gross Traditional Bank loans increased by \$254 million, or 9%, from December 31, 2015 to December 31, 2016.
- Traditional Bank deposits grew by \$647 million, or 27%, from December 31, 2015 to December 31, 2016.
- Total nonperforming loans to total loans for the Traditional Banking segment was 0.50% at December 31, 2016 compared to 0.75% at December 31, 2015.
- Delinquent loans to total loans for the Traditional Banking segment was 0.21% at December 31, 2016 compared to 0.39% at December 31, 2015.

Warehouse Lending segment

- Net income increased \$2.1 million, or 36%, for 2016 compared to 2015.
- Net interest income increased \$4.3 million, or 35%, for 2016 compared to 2015. The Warehouse segment net interest margin increased one basis point from 2015 to 3.59% for 2016.
- The Warehouse Provision was \$497,000 for 2016 compared to \$168,000 for 2015.
- Total committed Warehouse lines increased from \$670 million at December 31, 2015 to \$1.0 billion at December 31, 2016.
- Average line usage was 57% during 2016 compared to 55% during 2015.
- There were no nonperforming loans or delinquent loans associated with the Warehouse segment at December 31, 2016 and 2015.

Mortgage Banking segment

- Within the Mortgage Banking segment, mortgage banking income increased \$2.5 million, or 56%, during 2016 compared to 2015, with \$1.1 million of the increase attributable to a bulk loan sale of \$71 million representing a portion of the Company's correspondent loan portfolio during the third quarter of 2016.

- Overall, excluding the aforementioned bulk loan sale, Republic's originations of secondary market loans totaled \$217 million during 2016 compared to \$161 million during the same period in 2015.

Tax Refund Solution segment

- Net income increased \$1.8 million, or 31%, for 2016 compared to 2015.
- Net interest income increased \$5.7 million for 2016 compared to 2015.
- TRS recorded a net charge to the Provision of \$2.8 million during 2016, compared to a net credit of \$279,000 for 2015.
- Noninterest income was \$19.6 million for 2016 compared to \$18.6 million for 2015.
- Net RT revenue increased \$1.9 million, or 11%, during 2016 compared to 2015.
- Noninterest expense was \$11.7 million for 2016 compared to \$10.8 million for 2015.
- There were no nonperforming loans or delinquent loans associated with the TRS segment at December 31, 2016 and 2015.

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### Republic Credit Solutions segment

- Net income increased \$4.0 million for 2016 compared to 2015.
- Net interest income increased \$8.7 million for 2016 compared to 2015.
- RCS recorded a Provision of \$7.8 million during 2016, compared to \$2.6 million for 2015.
- Noninterest income was \$4.5 million for 2016 compared to \$979,000 for 2015.
- Noninterest expense was \$2.2 million for 2016 compared to \$1.4 million for 2015.
- Total nonperforming loans to total loans for the RCS segment was 0.25% at December 31, 2016. There were no nonperforming loans associated with the RCS segment at December 31, 2015.
- Delinquent loans to total loans for the RCS segment was 6.63% at December 31, 2016 compared to 3.63% at December 31, 2015.

## RESULTS OF OPERATIONS

### Net Interest Income

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

### Discussion of 2017 vs. 2016

Total Company net interest income increased \$42.5 million, or 27%, during 2017 compared to the same period in 2016. A 67-basis point expansion in the Company’s net interest margin, complemented by growth in average loans

throughout each of the Company's reportable segments, drove the increase in net interest income. Growth in higher-yielding balances for TRS's EA product and RCS's small-dollar consumer loans were the primary drivers of the overall increase in the Company's net interest margin.

The most significant components affecting the total Company's net interest income and net interest margin by reportable segment follow:

#### Traditional Banking segment

Net interest income within the Traditional Banking segment increased \$21.1 million, or 17%, during 2017 compared to 2016. The Traditional Banking net interest margin was 3.55% for 2017, an increase of 29 basis points from 2016.

The increases in the Traditional Bank's net interest income and net interest margin during 2017 were primarily attributable to the following:

- Average Traditional Bank loans outstanding, excluding loans from the Company's 2012 FDIC-assisted transactions, were \$3.2 billion with a weighted average yield of 4.35% during 2017 compared to \$3.1 billion with a weighted average yield of 4.11% during 2016. The overall effect of these changes in rate and volume was an increase of \$15.5 million in interest income. This increase in average loans for 2017 over 2016 was driven primarily by growth in the Bank's commercial real estate ("CRE"), commercial and industrial ("C&I") and construction and development ("C&D") portfolios.
- Net interest income related to loans from the Company's 2012 FDIC-assisted transactions was higher during 2017 compared to 2016 primarily due to the payoff of two relatively large loans. When loans from these transactions are paid off, all unearned discount on such loans is immediately accreted into income. Accretion income during 2017 from this portfolio was

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\$3.5 million compared to \$1.1 million in 2016. Overall, the average balance of the portfolio was \$12 million with a yield of 37.11% during 2017 compared to \$20 million with a yield of 13.30% in 2016. The overall effect of these changes in rate and volume was an increase of \$1.7 million in interest income. Prospective accretion income related to these loans is expected to be nominal, as the substantial majority of discount accretion from these loans has now been recognized.

- The weighted average cost of interest-bearing deposits during 2017 compared to 2016 increased to 0.43% from 0.29%, while the average outstanding interest-bearing deposits increased \$209 million when comparing the two periods. The net effect of these changes in rate and volume was a decrease in net interest income of \$3.7 million.
- The weighted average cost of FHLB advances during 2017 compared to 2016 declined to 1.57% from 1.87%. The average outstanding FHLB advances decreased \$20 million during the same period, with the Traditional Bank continuing to employ a higher mix of lower cost overnight borrowings during 2017. The net effect of these changes in rate and volume was an increase in net interest income of \$2.0 million.

The FFTR, the index that many of the Bank's short-term deposit rates track, increased four times in 25-basis-point increments between December 2016 and December 2017. Additionally, the FOMC of the FRB has provided further guidance that additional FFTR increases are probable in 2018. While additional increases in short-term interest rates are generally believed by management to be favorable to the Bank's net interest income and net interest margin in the near-term, such increases in short-term interest rates could have a negative impact to net interest income and net interest margin if the Bank is unable to maintain its overall funding costs at those levels assumed in its interest rate risk model or the yield curve flattens causing the spread between long-term interest rates and short-term interest rates to decrease. Unknown variables, which may impact the Bank's net interest income and net interest margin in the future, include, but are not limited to, the actual steepness of the yield curve, future demand for the Bank's financial products and the Bank's overall future liquidity needs.

For additional information on the potential future effect of changes in short-term interest rates on Republic's net interest income, see the table titled "Bank Interest Rate Sensitivity at December 31, 2017" under "Financial Condition."

### Warehouse Lending segment

Net interest income within the Warehouse Lending segment increased \$1.0 million, or 6%, during 2017 compared to 2016. The increase in net interest income was primarily attributable to higher average outstanding balances. Overall, average outstanding Warehouse balances during 2017 increased \$36 million, or 8%, compared to the same period in 2016.

Total Warehouse line commitments increased to \$1.1 billion at December 31, 2017 from \$1.0 billion at December 31, 2016, with the Company continuing to grow its Warehouse client base over the previous 12 months. Average line

usage on Warehouse commitments was 48% during 2017 compared to 57% in 2016.

Warehouse Lending net interest income is greatly influenced by the overall mortgage market and the competitive environment. The Mortgage Bankers Association's economic forecast released in January 2018 projected mortgage originations to decline 6% across the United States from 2017 to 2018, which leads management to believe that usage rates among the Bank's Warehouse Lending clients may also decrease. This predicted decline in mortgage volume, along with a very competitive landscape, may negatively impact the Bank's ability to maintain its existing Warehouse Lending clients and to attract new mortgage companies to its warehouse platform, thus making it difficult to increase net interest income overall within the Warehouse Lending segment.

#### Tax Refund Solutions segment

Net interest income within the TRS segment increased \$8.6 million during 2017 compared to 2016 primarily due to the following:

- The TRS segment's EA product earned \$14.2 million in interest income during 2017, a \$9.0 million increase from 2016. The higher EA income was driven by an increase in EA origination volume as the Company originated \$329 million in EAs during 2017 compared to \$123 million during 2016. Additional demand for EAs during 2017 was partially driven by the previously disclosed delays in certain taxpayer refunds from the U.S. Treasury due to additional fraud prevention measures taken by the Federal government. In addition, the Company's increase in EA dollar volume during 2017 was driven by a higher weighted average advance amount as compared to 2016.



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See additional discussion regarding the EA product under the sections titled:

- o Part I Item 1A “Risk Factors”
- o Part II Item 8 “Financial Statements and Supplementary Data,” Footnote 5 “Loans and Allowance for Loan and Lease Losses”

- Partially offsetting growth in EA-related interest income, the TRS segment did not renew a short-term commercial loan from which it earned \$1.1 million in loan fees during 2016. However, TRS did earn \$635,000 in loan fees during 2017 from other commercial loan relationships.

Republic Credit Solutions segment

Net interest income within the RCS segment increased \$11.6 million during 2017 compared to 2016. The increase was driven by product expansion at RCS over the previous 12 months, particularly within the segment’s line-of-credit product. Average RCS loans increased to \$46 million during 2017 from \$17 million during 2016. Loan fees on RCS’s line-of-credit product recorded as interest income increased to \$20.2 million during 2017 compared to \$10.1 million during 2016 and accounted for 88% and 92% of all RCS interest income on loans during the periods.

Discussion of 2016 vs. 2015

Total Company net interest income increased \$32.1 million, or 26%, during 2016 compared to the same period in 2015. The primary drivers of the increase in total Company net interest income were growth in the Core Bank’s average loans, loan volume associated with the EA product at TRS and growth in the RCS small-dollar consumer loan programs. The total Company net interest margin increased to 3.65% during 2016 compared to 3.27% for the same period in 2015, with higher margins on TRS’s EA product and RCS’s small-dollar consumer loan programs being significant drivers of the overall increase in the Company’s net interest margin.

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

Traditional Banking segment

Net interest income within the Traditional Banking segment increased \$13.4 million, or 12%, during 2016 compared to 2015. The Traditional Banking net interest margin was 3.26% for 2016, an increase of six basis points from 2015.

The increases in the Traditional Bank's net interest income and net interest margin during 2016 were primarily attributable to the following:

- Average Traditional Bank loans outstanding, excluding loans from the Company's May 17, 2016 Cornerstone acquisition and 2012 FDIC-assisted transactions, were \$2.9 billion with a weighted average yield of 4.09% during 2016 compared to \$2.8 billion with a weighted average yield of 4.06% during 2015. The overall effect of these changes in rate and volume was an increase of \$6.7 million in interest income. This increase in average loans for 2016 over 2015 was driven primarily by growth in the Bank's CRE, C&I and home equity line of credit ("HELOC") portfolios.
- Net interest income related to the Company's May 17, 2016 Cornerstone acquisition contributed \$4.9 million to the Traditional Bank's overall net interest income during 2016. Loan accretion income related to the Cornerstone acquisition was approximately \$240,000 for 2016.
- Net interest income related to loans from the Company's 2012 FDIC-assisted transactions was lower during 2016 compared to 2015 primarily due to a lower rate of favorable payoffs and paydowns on the portfolio. Accretion income during 2016 from this portfolio was \$1.1 million compared to \$2.4 million in 2015. Overall, the average balance of the portfolio was \$20 million with a yield of 13.30% during 2016 compared to \$32 million with a yield of 13.60% in 2015. The overall effect of these changes in rate and volume was a decrease of \$1.7 million in interest income.

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- The weighted average cost of FHLB advances during 2016 compared to 2015 declined to 1.87% from 1.99%. The average outstanding FHLB advances decreased \$16 million during the same period, with the Traditional Bank continuing to employ a higher mix of lower cost overnight borrowings during 2016. The net effect of these changes in rate and volume was an increase in net interest income of \$1.0 million.
- The Company's subordinated note related to RBCT paid a fixed interest rate of 6.015% through September 30, 2015 and adjusted to LIBOR plus 1.42% thereafter. During 2016, the note's coupon rate was based on the LIBOR index and approximately 4.00% lower than the note's coupon rate during 2015. The overall lower rate during 2016 equated to \$1.2 million less in interest expense compared to 2015. This subordinated note matures on December 31, 2035 and is currently redeemable at the Company's option on a quarterly basis.

Warehouse Lending segment

Net interest income within the Warehouse Lending segment increased \$4.3 million, or 35%, in 2016 compared to 2015. The increase in net interest income was partially attributable to higher average outstanding balances and partially to higher weighted average loan yield for 2016 as compared to 2015. Total Warehouse line commitments increased to \$1.0 billion at December 31, 2016 from \$670 million at December 31, 2015, with the Company continuing to grow its Warehouse client base over the previous 12 months. Furthermore, average line usage on Warehouse commitments increased to 57% during 2016 compared to 55% during 2015. Usage rates during both years benefitted from continued low, long-term mortgage rates. The yield for Warehouse lines of credit during 2016 increased 15 basis points from the same period in 2015, as the Warehouse yield was positively impacted by an increase in short-term interest rates.

Overall, average outstanding Warehouse lines of credit during 2016 increased \$119 million, or 35%, compared to 2015. Average outstanding warehouse lines were \$460 million during 2016 with a weighted average yield of 3.99%, compared to average outstanding lines of \$341 million with a weighted average yield of 3.84% during 2015.

Tax Refund Solutions segment

Net interest income within the TRS segment increased \$5.7 million during 2016 compared to 2015. The increase in RPG's net interest income was primarily attributed to the following factors:

- The TRS segment's new EA product earned \$5.2 million in interest income during 2016, with the substantial majority of this income earned during the first quarter of 2016.

- The TRS segment had a short-term commercial loan relationship with one of the Company's third-party service providers in the tax business. TRS earned \$1.1 million in loan fees from this relationship during 2016 compared to \$700,000 in 2015.

#### Republic Credit Solutions segment

Net interest income within the RCS segment increased \$8.7 million during 2016 compared to 2015. The increase was driven by product expansion at RCS over the previous 12 months, particularly within the segment's line-of-credit product. Average RCS loans increased to \$17 million during 2016 from \$6 million during 2015. Loan fees on RCS's line-of-credit product recorded as interest income increased \$7.9 million to \$10.1 million during 2016 compared to \$2.2 million during 2015 and accounted for 92% and 92% of all RCS interest income on loans during the periods.

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Table 2 — Total Company Average Balance Sheets and Interest Rates

	Years Ended December 31, 2017			2016			2015		
(in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	
g									
urities, B	\$ 574,027	\$ 11,070	1.93	% \$ 572,599	\$ 8,932	1.56	% \$ 546,655	\$ 8,265	
old and arning	188,427	2,126	1.13	130,889	828	0.63	68,847	209	
ance (2)	19,596	14,220	72.57	5,268	5,210	98.90	—	—	
ns and	49,475	23,452	47.40	23,090	12,081	52.32	8,479	3,149	
es of (4)(6)	496,665	22,144	4.46	460,285	18,357	3.99	340,938	13,075	
tional d	3,265,670	145,766	4.46	3,079,740	128,584	4.18	2,824,817	117,734	
arning	4,593,860	218,778	4.76	4,271,871	173,992	4.07	3,789,736	142,432	
loan s	(39,202)			(29,880)			(25,570)		
arning									
arning									
	99,888			88,190			81,503		
	44,519			38,591			32,868		
fe	62,572			58,242			52,127		
	64,571			58,815			52,176		
	\$ 4,826,208			\$ 4,485,829			\$ 3,982,840		

AND  
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counts	\$ 1,095,276	\$ 2,448	0.22	%	\$ 962,473	\$ 953	0.10	%	\$ 840,815	\$ 563
	554,336	1,586	0.29		546,360	1,094	0.20		485,508	762
	266,332	3,166	1.19		221,634	2,218	1.00		200,863	1,930
ey kered deposit	351,719	2,602	0.74		328,125	1,793	0.55		187,028	1,125
bearing	2,267,663	9,802	0.43		2,058,592	6,058	0.29		1,714,214	4,380
under										
l other rowings	219,515	502	0.23		280,296	65	0.02		379,477	92
Loan	563,552	8,860	1.57		583,591	10,900	1.87		599,630	11,934
s ote	41,240	1,094	2.65		42,502	915	2.15		41,240	2,056
bearing	3,091,970	20,258	0.66		2,964,981	17,938	0.60		2,734,561	18,462
aring										
equity: aring	1,073,181				894,049				651,275	
s	32,728				29,336				22,238	
equity	628,329				597,463				574,766	
s and equity	\$ 4,826,208				\$ 4,485,829				\$ 3,982,840	
come		\$ 198,520				\$ 156,054				\$ 123,970
read			4.10	%			3.47	%		
margin			4.32	%			3.65	%		

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

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

(3) Interest income includes loan fees of \$20.8 million, \$11.1 million and \$3.1 million for 2017, 2016 and 2015.

(4) Interest income includes loan fees of \$3.2 million, \$3.2 million and \$2.2 million for 2017, 2016 and 2015.

(5) Interest income includes loan fees of \$7.9 million, \$4.6 million and \$5.8 million for 2017, 2016 and 2015.

- (6) Average balances for loans include the principal balance of nonaccrual loans and loans held for sale, and are inclusive of all loan premiums, discounts, fees and costs.

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

Table 3 — Total Company Volume/Rate Variance Analysis

(in thousands)	Year Ended December 31, 2017 Compared to Year Ended December 31, 2016			Year Ended December 31, 2016 Compared to Year Ended December 31, 2015		
	Total Net Change	Increase / (Decrease) Due to Volume	Rate	Total Net Change	Increase / (Decrease) Due to Volume	Rate
Interest income:						
Investment securities, including FHLB stock	\$ 2,138	\$ 22	\$ 2,116	\$ 667	\$ 399	\$ 268
Federal funds sold and other interest-earning deposits	1,298	466	832	619	280	339
TRS Easy Advance loans and fees	9,010	10,733	(1,723)	5,210	5,210	—
Other RPG loans and fees	11,371	12,606	(1,235)	8,932	7,219	1,713
Outstanding Warehouse lines of credit and fees	3,787	1,520	2,267	5,282	4,741	541
All other Traditional Bank loans and fees	17,182	8,013	9,169	10,850	10,644	206
Net change in interest income	44,786	33,360	11,426	31,560	28,493	3,067
Interest expense:						
Transaction accounts	1,495	147	1,348	390	103	287
Money market accounts	492	16	476	332	102	230
Time deposits	948	490	458	288	229	59
Brokered money market and brokered certificates of deposit	809	137	672	668	811	(143)
Securities sold under agreements to	437	(17)	454	(27)	(20)	(7)



repurchase and other short-term borrowings						
Federal Home Loan Bank advances	(2,040)	(363)	(1,677)	(1,034)	(516)	(518)
Subordinated note	179	(28)	207	(1,141)	61	(1,202)
Net change in interest expense	2,320	382	1,938	(524)	770	(1,294)
Net change in net interest income	\$ 42,466	\$ 32,978	\$ 9,488	\$ 32,084	\$ 27,723	\$ 4,361

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Provision for Loan and Lease Losses

Discussion of 2017 vs. 2016

The Company recorded a Provision of \$27.7 million during 2017, compared to \$14.5 million in 2016. The most significant components comprising the Company's Provision by reportable segment follow:

Traditional Banking segment

The Traditional Banking Provision during 2017 was \$3.9 million, compared to \$3.4 million in 2016. An analysis of the Provision for 2017 compared to 2016 follows:

- Related to the Bank's pass-rated and non-rated credits, the Bank recorded net charges of \$3.7 million and \$3.1 million to the Provision during 2017 and 2016. Loan growth primarily drove the net charges to the Provision in both periods, as gross loans increased \$224 million during 2017 compared to \$254 million during the same period in 2016. Growth during 2016 was primarily driven by the Company's May 2016 Cornerstone acquisition, while growth during 2017 was primarily organic in nature. Since business-acquisition loans are purchased at fair value and the credit risk is a component of the valuation when determining the fair value, only a minimal Provision was recorded during 2016 for loan growth attributable to the Cornerstone acquisition.
- Related to the Bank's loans rated Substandard and Special Mention, the Bank recorded net charges of \$65,000 and \$756,000 to the Provision during 2017 and 2016. Charges of \$472,000 related to one CRE relationship and \$234,000 related to one C&I relationship drove the 2016 Provision.
- Related to PCI loans, the Bank recorded a net charge of \$176,000 to the Provision during 2017 compared to a net credit of \$410,000 during 2016. Charges generally reflect projected shortfalls in cash flows below initial day-one estimates for PCI loans, while credits are primarily attributable to generally positive dispositions.

As a percentage of total loans, the Traditional Banking Allowance increased to 0.85% at December 31, 2017 compared to 0.83% at December 31, 2016. The Company believes, based on information presently available, that it has adequately provided for Traditional Bank loan losses at December 31, 2017.

See the sections titled "Allowance for Loan and Lease Losses and Provision for Loan and Lease Losses" and "Asset Quality" in this section of the filing under "Financial Condition" for additional discussion regarding the Provision and the

Bank's delinquent, nonperforming, impaired and TDR loans.

Warehouse Lending segment

The Warehouse Provision was a net credit of \$150,000 for 2017 compared to a net charge of \$497,000 for 2016. Provision expense for both 2017 and 2016 reflects general reserves for changes in outstanding balances during the periods. Outstanding Warehouse balances decreased \$60 million during 2017 compared to growth of \$199 million during 2016.

As a percentage of total Warehouse outstanding balances, the Warehouse Allowance was 0.25% at December 31, 2017 and 2016. The Company believes, based on information presently available, that it has adequately provided for Warehouse loan losses at December 31, 2017.

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Tax Refund Solutions segment

TRS recorded a Provision of \$6.5 million during 2017 compared to \$2.8 million during 2016.

The increase in Provision at TRS was attributable to an increase in estimated losses for EA loans, as EA volume increased \$206 million, or 167%, during 2017 compared to 2016. The Company recorded Provisions of 2.07% and 2.47% of total EAs originated during 2017 and 2016. Of the \$329 million in EAs originated during 2017, all were either collected or charged off at December 31, 2017. The Company believes, based on information presently available, that it has adequately provided for TRS loan losses at December 31, 2017.

See additional detail regarding the EA product under Footnote 5 “Loans and Allowance for Loan and Lease Losses” of Part II Item 8 “Financial Statements and Supplemental Data.”

Republic Credit Solutions segment

RCS recorded a Provision of \$17.4 million during 2017, an increase of \$9.6 million compared to same period in 2016. Loan growth and an increase in the historical loss factors for general reserves resulting from a rise in charge-offs from the prior year drove the increased 2017 Provision.

While RCS loans generally return higher yields, they also present a greater credit risk than Traditional Banking loan products. As a percentage of total RCS loans, the RCS Allowance was 18.85% and 15.40% at December 31, 2017 and 2016. The Company believes, based on information presently available, that it has adequately provided for RCS loan losses at December 31, 2017.

Discussion of 2016 vs. 2015

The Company recorded a Provision of \$14.5 million during 2016, compared to \$5.4 million in 2015. The most significant components comprising the Company’s Provision by reportable segment follow

Traditional Banking segment

The Traditional Banking Provision during 2016 was \$3.4 million, compared to \$2.9 million in 2015. An analysis of the Provision for 2016 compared to 2015 follows:

- Related to the Bank's pass-rated and non-rated credits, the Bank recorded net charges of \$3.1 million and \$2.0 million to the Provision for 2016 and 2015. Loan growth primarily drove the net charges to the Provision in both periods.
- Related to the Bank's loans rated Substandard and Special Mention, the Bank recorded net charges of \$756,000 and \$680,000 to the Provision during 2016 and 2015. Charges of \$472,000 related to one CRE relationship and \$234,000 related to one C&I relationship drove the 2016 Provision. The net charge during 2015 was the result of an increase in the assumed lives for a large portion of the Bank's retail TDRs based on an updated analysis of the payment histories of these loans.
- Related to PCI loans, the Bank recorded a net credit of \$410,000 to the Provision during 2016 compared to a net charge of \$173,000 during 2015.

As a percentage of total loans, the Traditional Banking Allowance decreased to 0.83% at December 31, 2016 compared to 0.85% at December 31, 2015.

#### Warehouse Lending segment

The Warehouse Provision was \$497,000 for 2016, a \$329,000 increase from 2015. Provision expense for both 2016 and 2015 reflects general reserves for growth in outstanding balances. Outstanding Warehouse balances grew \$199 million during 2016 compared to growth of \$67 million during 2015.

As a percentage of total Warehouse outstanding balances, the Warehouse Allowance was 0.25% at December 31, 2016 and 2015.

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## Tax Refund Solutions segment

The TRS segment recorded a Provision of \$2.8 million during 2016 on its new EA product. Of the \$123 million in EAs originated during 2016, all were either collected or charged off at December 31, 2016.

## Republic Credit Solutions segment

RCS recorded a Provision of \$7.8 million during 2016, an increase of \$5.2 million compared to same period in 2015. Provision expense was higher at RCS due to an increase in general loss reserves for growth in RCS loans.

As a percentage of total RCS loans, the RCS Allowance was 15.40% and 25.11% at December 31, 2016 and 2015.

## Noninterest Income

Table 4 — Analysis of Noninterest Income

Years Ended December 31, (dollars in thousands)	2017	2016	2015	Percent Increase/(Decrease)		
				2017/2016	2016/2015	
Service charges on deposit accounts	\$ 13,357	\$ 13,176	\$ 13,015	1	% 1	%
Net refund transfer fees	18,500	19,240	17,388	(4)	11	
Mortgage banking income	4,642	6,882	4,411	(33)	56	
Interchange fee income	9,881	9,009	8,353	10	8	
Program fees	5,824	3,044	1,233	91	147	
Increase in cash surrender value of bank owned life insurance	1,562	1,516	1,402	3	8	
Net gains (losses) on securities available for sale	(136)	—	88	NM	(100)	
Net gains (losses) on other real estate owned	676	244	(301)	177	181	
Other	4,108	4,398	2,405	(7)	83	
Total noninterest income	\$ 58,414	\$ 57,509	\$ 47,994	2	20	

NM - Not meaningful

Discussion of 2017 vs. 2016

Noninterest income increased \$905,000, or 2%, for 2017 compared to 2016. The most significant components comprising the total Company's change in noninterest income by reportable segment follow:

Traditional Banking segment

Traditional Banking noninterest income increased \$1.4 million, or 5%, for 2017 compared to 2016. The most significant categories affecting the change in noninterest income for 2017 follow:

- Service charges on deposit accounts increased \$201,000, or 2%, to \$13.4 million during 2017 compared to \$13.2 million during 2016 driven by a 7% growth in the Company's transactional account base during 2017. The Bank earns a substantial majority of its fee income related to its overdraft service program from the per item fee it assesses its customers for each insufficient funds check or electronic debit presented for payment. The total per item fees, net of refunds, included in service charges on deposits during 2017 and 2016 were \$8.1 million and \$7.8 million. The total daily overdraft charges, net of refunds, included in interest income during 2017 and 2016 were \$1.8 million and \$1.7 million.
- Interchange income increased \$683,000, or 8%, due to an 11% increase in the number of active debit cards and an 8% increase in the number of transactions experienced by the Company for such cards.
- The Traditional Bank recorded an increase of \$353,000 on net gains (losses) on other real estate owned ("OREO") from 2017 compared to 2016.

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Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income decreased \$2.2 million during 2017 compared to 2016. Approximately \$1.1 million of the decrease in mortgage banking income was attributable to a nonrecurring gain recorded during the third quarter of 2016 from the bulk sale of \$71 million in mortgage loans, which represented a portion of the Company's correspondent loan portfolio. The remainder of the decrease in mortgage banking income was consistent with a decrease in consumer refinance activity during 2017.

Overall, excluding the aforementioned bulk loan sale, Republic's originations of secondary market loans totaled \$160 million during 2017 compared to \$217 million during 2016. Excluding the bulk sale, the ratio of net gain on sale of mortgage loans originated for sale was 2.48% and 3.07% during 2017 and 2016.

Tax Refund Solutions segment

Within the TRS segment, noninterest income decreased \$799,000, or 4%, during 2017 compared to 2016. The overall decrease was primarily attributable to a \$740,000, or 4%, decrease in net RT revenue from 2016 to 2017, consistent with the 10% decrease in RT product volume during 2017.

Republic Credit Solutions segment

Within the RCS segment, noninterest income increased \$2.6 million, or 57%, during 2017 compared to 2016. The overall increase was primarily attributable to an increase of \$2.8 million in RCS program fees, which represents net gains from the sale of consumer loans. The increase in program fees resulted from an increase in volume from RCS's small-dollar consumer loan programs. During 2017, loans sold through the RCS programs increased \$281 million, or 74%, to \$661 million compared to \$380 million during 2016.

Discussion of 2016 vs. 2015

Noninterest income increased \$9.5 million, or 20%, for 2016 compared to 2015. The most significant components comprising the total Company's change in noninterest income by reportable segment follow:



Traditional Banking segment

Traditional Banking noninterest income increased \$2.3 million, or 10%, for 2016 compared to 2015. The most significant categories affecting the change in noninterest income for 2016 follow:

- Interchange fees increased \$1.4 million, or 19%, primarily due to a 7% increase in checking accounts, which helped to drive an 11% increase in the Company's active debit cards.
- Net gains (losses) on OREO improved \$545,000, as the Bank's OREO required \$270,000 in mark-to-market writedowns during 2016 compared to approximately \$1.3 million in such charges during the same period in 2015. Partially offsetting the difference related to mark-to-market writedowns was a decrease of \$443,000 in net realized gains on the final disposition of OREO from 2016 to 2015.

Service charges on deposit accounts increased from \$13.0 million during 2015 to \$13.2 million during 2016. The total per item fees, net of refunds, included in service charges on deposits for 2016 and 2015 were \$7.8 million and \$7.5 million. The total daily overdraft charges, net of refunds, included in interest income were \$1.7 million and \$1.6 million for 2016 and 2015.

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## Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income increased \$2.5 million, or 56%, during 2016 compared to the same period in 2015, with \$1.1 million of the increase attributable to a bulk loan sale of \$71 million representing a portion of the Company's correspondent loan portfolio during the third quarter of 2016.

Overall, excluding the aforementioned bulk loan sale, Republic's originations of secondary market loans totaled \$217 million during 2016 compared to \$161 million during 2015.

## Tax Refund Solutions segment

TRS noninterest income increased \$1.1 million, or 6%, during 2016 compared to 2015. The increase was due to a \$1.9 million, or 11%, increase in net RT revenue from 2015, primarily driven by an increase in RT volume.

## Republic Credit Solutions segment

Within the RCS segment, noninterest income increased \$3.5 million during 2016 compared to 2015. Program fees increased \$1.9 million to \$2.8 million for 2016 compared to \$979,000 in 2015. The increase in program fees resulted from an increase in volume from RCS loan sales. During the 2016, the Company sold approximately \$380 million in loans compared to \$138 million during 2015. Furthermore, the RCS segment benefited during 2016 from the recognition of \$1.2 million of income related to a first-year volume guarantee for its installment credit product.

## Noninterest Expense

Table 5 — Analysis of Noninterest Expense

Years Ended December 31, (dollars in thousands)	2017	2016	2015	Percent Increase/(Decrease)		
				2017/2016	2016/2015	
Salaries and employee benefits	\$ 82,233	\$ 69,882	\$ 58,091	18	% 20	%

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Occupancy and equipment, net	24,019	21,586	20,557	11	5
Communication and transportation	4,711	4,256	3,752	11	13
Marketing and development	5,188	3,778	3,161	37	20
FDIC insurance expense	1,378	1,780	2,084	(23)	(15)
Bank franchise tax expense	4,626	4,757	4,734	(3)	—
Data processing	7,748	6,121	4,340	27	41
Interchange related expense	3,988	4,140	3,873	(4)	7
Supplies	1,594	1,406	1,101	13	28
Other real estate owned expense	388	503	735	(23)	(32)
Legal and professional fees	2,410	2,556	3,306	(6)	(23)
FHLB advance prepayment penalty	—	846	—	(100)	—
Impairment of premises held for sale	1,175	191	132	515	45
Other	11,386	8,305	7,458	37	11
Total noninterest expense	\$ 150,844	\$ 130,107	\$ 113,324	16	15

Discussion of 2017 vs. 2016

Total Company noninterest expense increased \$20.7 million, or 16%, during 2017 compared to 2016. The most significant components comprising the change in noninterest expense by reportable segment follow:

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### Traditional Banking segment

For 2017 compared to 2016, Traditional Banking noninterest expense increased \$16.3 million, or 15%. The following factors drove the increase:

- Salaries and benefits expense increased \$9.5 million, or 17%, primarily due to an increase of 48 full-time-equivalent (“FTEs”) employees during 2017. The increase in FTEs was driven by additional staffing needed to implement the Company’s strategic initiatives.
- Occupancy expense increased \$2.4 million, or 12%, driven by increases in rent, depreciation, and equipment service expense resulting from new locations, existing banking center renovations and the cost of technology to support the Bank’s strategic initiatives.
- Marketing and development expense increased \$1.1 million, or 32%, with \$430,000 of the increase attributable to the Company’s national branchless banking platform, MemoryBank. The remainder of the increase was focused on driving loan and deposit growth in markets outside of the Company’s Louisville, Kentucky footprint. In addition, the Company also instituted a marketing awareness campaign in its Louisville, Kentucky market as part of a mortgage lending initiative.
- Data processing expense increased \$1.1 million, primarily driven by estimated conversion-related expenses resulting from a change in the Company’s digital-banking vendor for its commercial clients.
- Impairment of premises held for sale increased \$984,000 resulting primarily from a mark-to-market charge during the third quarter of 2017 for a bank property that the Company plans to begin marketing for sale during the first quarter of 2018.

### Warehouse Lending segment

For 2017 compared to 2016, Warehouse noninterest expense increased \$250,000, or 8%. The increase was primarily related to an increase in salaries and employee benefits expense, driven by additional staffing over the previous 12 months along with annual merit increases.

### Tax Refund Solutions segment

For 2017 compared to 2016, TRS segment, noninterest expense increased \$2.8 million, or 24%, during 2017 compared to 2016. The increase was primarily due to a \$2.0 million increase in salaries and benefits expense, driven by additional staff added during 2017 to support growth and new initiatives. The remaining increase was primarily in the other expense category and was related to an accrual for future Tax Provider payments triggered by the attainment of certain agreed upon incentive metrics for the applicable program.

Republic Credit Solutions segment

For 2017 compared to 2016, RCS noninterest expense increased \$1.3 million, or 61%, during 2017 compared to 2016. The increase was primarily due to increases of \$716,000 in data processing expenses and \$208,000 in marketing expenses, with both increases consistent with RCS product growth during 2017.

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Discussion of 2016 vs. 2015

Total Company noninterest expense increased \$16.8 million, or 15%, during 2016 compared to 2015. The most significant components comprising the change in noninterest expense by reportable segment follow:

Traditional Banking segment

For 2016 compared to 2015, Traditional Banking noninterest expense increased \$14.6 million, or 16%. The following factors drove the increase:

- Salaries and benefits expense increased \$9.6 million, or 20%, primarily due to an increase of 141 FTE employees during 2016. A total of 36 of these additions were directly attributable to the Company's Cornerstone acquisition. The remaining increase of 105 FTEs was driven by additional staffing needed to implement the Company's strategic initiatives.
- Data processing expenses increased \$1.6 million, or 42%, with \$628,000 of the increase attributable to the Company's Cornerstone acquisition. The remainder of the increase was spread across multiple loan and deposit platforms and was due to growth in the Company's overall customer base and their associated activity.
- Occupancy expense increased \$1.2 million, or 6%, with \$532,000 of the increase attributable to the Company's Cornerstone acquisition. The remaining increase of \$639,000 primarily reflects recent renovations to the Traditional Bank's premises over the previous 12 months, which drove an 8% increase in depreciation expense.
- Interchange-related expense increased \$694,000, or 22%, consistent with the increases in debit card and credit card transaction volume over the previous 12 months.
- Marketing expenses increased \$474,000, or 16%, partially driven by new sponsorship agreements with two professional sports teams in the Company's market footprint and partially by increased promotions of both RB&T and MemoryBank branded products.
- Legal and professional fees decreased \$537,000, or 19%, during 2016 compared to 2015 primarily due to higher legal expenses incurred during 2015 related to the Company's Cornerstone acquisition.
- The Company incurred an \$846,000 prepayment penalty on payoff of \$50 million in higher-costing FHLB advances during the third quarter of 2016, with no similar penalty in 2015.

Warehouse Lending segment

For 2016 compared to 2015, Warehouse noninterest expense increased \$616,000, or 24%. The increase was primarily related to an increase in salaries and employee benefits expense, driven by additional staffing over the previous 12 months along with annual merit increases.

Tax Refund Solutions segment

For 2016 compared to 2015, TRS noninterest expense increased \$931,000, or 9%, primarily due to an increase in salaries and employee benefits expense, driven by additional staffing to support TRS's new EA product.

Republic Credit Solutions segment

For 2016 compared to 2015, RPG noninterest expense increased \$846,000, or 62%, primarily due to an increase in salaries and employee benefits expense, driven by additional staffing to support RCS lending initiatives.

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Income Tax Expense

Discussion of 2017 vs. 2016

As previously mentioned, on December 22, 2017, President Donald Trump signed into law the TCJA. The TCJA, among other things, reduces the federal corporate tax rate from 35% to 21%, effective January 1, 2018. As a result of the reduced tax rate, the Company incurred a charge of \$6.3 million to income tax expense during 2017 representing the decrease in value of its net DTA upon enactment of the TCJA. With the exception of deferred taxes related to depreciation on a portion of its property and equipment, the Company has materially completed its accounting for the tax effects upon enactment of the TCJA. Regarding its deferred taxes related to depreciation, the Company awaits the completion of a cost segregation study. For the year ended December 31, 2017, the Company did not have the necessary information available, analyzed or prepared to make a reasonable estimate of the impact of the cost segregation study on its deferred taxes related to depreciation. The cost segregation study is scheduled to be completed in the latter half of 2018, prior to the Company's filing of its 2017 income tax returns. The cost segregation study is expected to provide the Company with the necessary information to complete the accounting for the deferred taxes related to depreciation.

Driven primarily by the \$6.3 million TCJA-driven charge, the Company's effective tax rate was 42% in 2017 compared to 33% in 2016.

The most significant components comprising the change in income tax expense by reportable segment follow:

Traditional Banking segment

Driven by its \$5.1 million portion of the TCJA-driven charge, the Traditional Banking segment's effective tax rate was 44% in 2017 compared to 31% in 2016.

The TCJA-driven charge tied to the Traditional Banking segment primarily represents the decrease in value of a DTA associated with the Traditional Banking segment's Allowance.

Republic Credit Services segment



Driven primarily by its \$1.7 million portion of the TCJA-driven charge, the RCS segment's effective tax rate was 56% in 2017 compared to 36% in 2016.

The TCJA-driven charge tied to the RCS segment represents the decrease in value of a DTA associated with the RCS segment's Allowance.

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## FINANCIAL CONDITION

## 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 \$299 million in cash and cash equivalents at December 31, 2017 compared to \$289 million at December 31, 2016. During 2017, the Bank maintained a relatively high cash balance on its balance sheet for liquidity purposes.

For cash held at the FRB, the Bank earned a yield of 0.50% for most of 2016 on amounts in excess of required reserves. In connection with the FOMC's action to increase the FFTR, this yield increased to 0.75% in mid-December 2016, to 1.00% in mid-March 2017, to 1.25% in mid-June 2017, and to 1.50% in mid-December 2017. For cash held within the Bank's banking center and ATM networks, the Bank does not earn interest.

The Company's Captive maintains cash reserves to cover insurable claims. Captive cash reserves totaled approximately \$3 million and \$2 million at December 31, 2017 and 2016.

## Investment Securities

Table 6 — Investment Securities Portfolio

December 31, (in thousands)	2017	2016	2015	2014	2013
Securities available for sale (fair value):					
U.S. Treasury securities and U.S. Government agencies	\$ 307,592	\$ 294,544	\$ 286,479	\$ 146,922	\$ 97,465
Private label mortgage backed security	4,449	4,777	5,132	5,250	5,485
Mortgage backed securities - residential	106,374	73,004	92,268	124,256	150,087
Collateralized mortgage obligations	87,163	87,654	113,668	143,171	163,946
Freddie Mac preferred stock	473	483	173	231	—
	2,455	2,455	1,011	1,018	995

## Community Reinvestment Act mutual fund

Corporate bonds	15,125	15,158	14,922	15,063	14,915
Trust preferred security	3,600	3,200	3,405	—	—
Total securities available for sale	527,231	481,275	517,058	435,911	432,893

## Securities held to maturity (carrying value):

## U.S. Treasury securities and U.S.

Government agencies	—	506	515	1,747	2,311
Mortgage backed securities - residential	151	158	53	147	420
Collateralized mortgage obligations	23,437	27,142	33,159	38,543	42,913
Corporate bonds	40,175	25,058	5,000	5,000	5,000
Obligations of state and political subdivisions	464	—	—	—	—
Total securities held to maturity	64,227	52,864	38,727	45,437	50,644
Total investment securities	\$ 591,458	\$ 534,139	\$ 555,785	\$ 481,348	\$ 483,537

Securities available for sale primarily consists 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 the Federal National Mortgage Association (“FNMA” or “Fannie Mae”). 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 FHLB as collateral for the Bank’s borrowing line.

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During 2017, the Bank purchased \$90 million, \$52 million and \$64 million of U.S. Treasury, U.S. Government Agency and U.S. Government Agency mortgage-backed securities. The U.S. Treasury and U.S. Government Agency securities purchased during 2017 had overall expected weighted average yield to maturity of 1.52% and a weighted average expected life of approximately 1.4 years, while the US Government Agency mortgage-backed securities purchased during the year had an overall expected weighted average yield to maturity of 2.06% and an expected weighted average expected life of approximately 4.0 years.

Strategies for the investment securities portfolio are influenced by economic and market conditions, loan demand, deposit mix, and liquidity needs. For the past several years, the Bank has continued to utilize a general strategy within the investment portfolio of purchasing securities with shorter-term durations. The Bank has used this general strategy for liquidity purposes and as an interest rate risk management tool in what has been a long period of historically low interest rates. Management believes the Bank will likely continue with this general strategy into the foreseeable future as market interest rates are expected to continue to rise in 2018.

Table 7 — Mortgage Backed Investment Securities

December 31, (in thousands)	2017	2016	2015	2014	2013
Private label mortgage backed security	\$ 4,449	\$ 4,777	\$ 5,132	\$ 5,250	\$ 5,485
Mortgage backed securities - residential	106,535	73,174	92,327	124,423	150,550
Collateralized mortgage obligations	110,819	114,922	147,291	182,133	207,062
Total fair value of mortgage backed securities	\$ 221,803	\$ 192,873	\$ 244,750	\$ 311,806	\$ 363,097

Table 8 — Securities Available for Sale

December 31, 2017 (dollars in thousands)	Amortized Cost	Fair Value	Weighted Average Yield	Weighted Average Maturity in Years
U.S. Treasury securities and U.S. Government agencies:				
Due in one year or less	\$ 169,963	\$ 169,788	1.20	% 0.25
Due from one year to five years	139,079	137,804	1.56	2.29

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Total U.S. Treasury securities and U.S. Government agencies	309,042	307,592	1.37	1.17
Corporate bonds:				
Due in one year or less	5,001	5,010	2.32	0.22
Due from five years to ten years	10,000	10,115	2.34	5.29
Total Corporate bonds	15,001	15,125	2.34	3.60
Trust preferred security, due beyond ten years	3,493	3,600	5.62	19.43
Private label mortgage backed security	3,065	4,449	6.46	15.63
Total mortgage backed securities - residential	105,644	106,374	2.42	18.36
Total collateralized mortgage obligations	87,867	87,163	2.22	22.67
Freddie Mac preferred stock	—	473	NM	NM
Community Reinvestment Act mutual fund	2,500	2,455	NM	NM
Total securities available for sale	\$ 526,612	\$ 527,231	1.80	8.47

NM - Not meaningful, as the security does not have a finite maturity.

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Table 9 — Securities Held to Maturity

December 31, 2017 (dollars in thousands)	Carrying Value	Fair Value	Weighted Average Yield	Weighted Average Maturity in Years
Corporate bonds:				
Due from one year to five years	\$ 10,106	\$ 10,137	2.45	% 3.31
Due from five years to ten years	30,069	30,721	2.50	5.65
Total corporate bonds	40,175	40,858	2.48	5.06
Obligations of state and political subdivisions:				
Due from one year to five years	464	458	1.77	% 4.16
Total obligations of state and political subdivisions	464	458	1.77	4.16
Total mortgage backed securities - residential	151	161	4.04	16.80
Total collateralized mortgage obligations	23,437	23,656	2.17	20.97
Total securities held to maturity	\$ 64,227	\$ 65,133	2.37	10.89

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NM - Not meaningful.

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## Loan Portfolio

Table 10 — Loan Portfolio Composition

December 31, (in thousands)	2017	2016	2015	2014	2013
<b>Traditional Banking:</b>					
<b>Residential real estate:</b>					
Owner occupied	\$ 921,565	\$ 1,000,148	\$ 1,081,934	\$ 1,118,341	\$ 1,097,795
Owner occupied - correspondent*	116,792	149,028	249,344	226,628	NA
Nonowner occupied	205,081	156,605	116,294	96,492	110,809
Commercial real estate	1,207,293	1,060,496	860,561	807,207	807,359
Construction & land development	150,065	119,650	66,500	38,480	44,351
Commercial & industrial	341,692	259,026	229,307	157,067	127,542
Lease financing receivables	16,580	13,614	8,905	2,530	NA
Home equity	347,655	341,285	289,194	245,679	226,782
<b>Consumer:</b>					
Credit cards	16,078	13,414	11,068	9,573	9,030
Overdrafts	974	803	685	1,180	944
Automobile loans	65,650	52,579	6,473	3,231	5,395
Other consumer	20,501	19,744	11,998	10,289	8,161
Total Traditional Banking	3,409,926	3,186,392	2,932,263	2,716,697	2,438,168
Warehouse lines of credit*	525,572	585,439	386,729	319,431	149,576
Total Core Banking	3,935,498	3,771,831	3,318,992	3,036,128	2,587,744
<b>Republic Processing Group*:</b>					
<b>Tax Refund Solutions:</b>					
Easy Advances	—	—	—	—	—
Commercial & industrial	11,648	6,695	414	272	221
Republic Credit Solutions	66,888	32,252	7,204	4,095	1,827
Total Republic Processing Group	78,536	38,947	7,618	4,367	2,048
Total loans**	4,014,034	3,810,778	3,326,610	3,040,495	2,589,792
Allowance for loan and lease losses	(42,769)	(32,920)	(27,491)	(24,410)	(23,026)
Total loans, net	\$ 3,971,265	\$ 3,777,858	\$ 3,299,119	\$ 3,016,085	\$ 2,566,766

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

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

Gross loans increased by \$203 million, or 5%, during 2017 to \$4.0 billion at December 31, 2017. The most significant components comprising the change in loans by reportable segment follow:

Traditional Banking segment

Traditional Banking loans increased \$224 million, or 7%, during 2017. Within the Traditional Banking segment's portfolio, CRE loans experienced the largest increase of \$147 million, or 14%, with the Bank's Commercial and Corporate Banking Department primarily driving growth. Approximately \$96 million of the growth within the CRE category resulted from the successful promotion of a 10-year fixed rate product with a 15-year amortization schedule and a weighted average rate of 4.08%.

The Bank's owner occupied residential real estate loans, including correspondent loans, declined \$111 million in total. These category fluctuations were generally in-line with the Company's overall long-term loan growth strategy, which is to reduce the Bank's reliance on residential real estate loans for balance sheet growth and to rely more on commercial type loans for future growth. While the Company does currently intend to reduce its reliance on owner occupied residential real estate loans for future balance sheet growth, it



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also continues to make plans to expand its agency-eligible volume of first mortgage residential real estate loans, which it intends to sell into the secondary market in order to generate fee income.

Warehouse Lending segment

As of December 31, 2017, the Bank had approximately \$525 million outstanding on total committed Warehouse credit lines of \$1.1 billion compared to \$585 million outstanding on total committed Warehouse credit lines of \$1.0 billion at December 31, 2016. The \$60 million, or 10%, decrease in outstanding balances generally reflects lower usage rates on outstanding Warehouse lines during 2017, with usage rates consistent with a general industry decline in mortgage refinance activity. For 2018, management currently believes that usage rates for its Warehouse lines will likely continue to be lower than comparable periods in 2017, as the mortgage industry anticipates higher long-term interest rates and lower mortgage refinance volume than 2017.

Due to the volatility and seasonality of the mortgage market, it is difficult to project future outstanding balances of Warehouse lines of credit. The growth of the Bank's Warehouse Lending business greatly depends on the overall mortgage market and typically follows industry trends. Since its entrance into this business during 2011, the Bank has experienced volatility in the Warehouse portfolio consistent with overall demand for mortgage products. Weighted average quarterly usage rates on the Bank's Warehouse lines have ranged from a low of 31% during the fourth quarter of 2013 to a high of 64% during the third quarter of 2015. On an annual basis, weighted average usage rates on the Bank's Warehouse lines have ranged from a low of 40% during 2013 to a high of 57% during 2016.

Republic Credit Solutions segment

RCS loans increased \$35 million, or 107%, during 2017, with RCS expanding all three of its held-for-investment product lines during the year. RCS's healthcare receivables grew \$21 million during 2017, as RCS worked with another third-party service provider to originate this product during the latter half of the year. RCS's line-of-credit product increased \$9 million, or 47%, during 2017, with this product generating the substantial majority of RCS's profitability during both 2017 and 2016. The remaining growth occurred in RCS credit card product, which represents receivables to borrowers who are generally considered subprime.

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The table below illustrates the Bank's fixed and variable rate loan maturities:

Table 11 — Selected Loan Distribution

December 31, 2017 (in thousands)	Total	One Year Or Less	Over One Through Five Years	Over Five Years
Fixed rate loan maturities:				
Residential real estate	\$ 427,164	\$ 60,965	\$ 110,650	\$ 255,549
Commercial real estate	412,009	76,564	148,626	186,819
Construction & land development	25,905	9,372	11,371	5,162
Commercial & industrial	135,465	24,954	79,602	30,909
Lease financing receivables	12,409	519	11,890	—
Warehouse lines of credit	—	—	—	—
Home equity	—	—	—	—
Consumer	148,558	90,066	50,511	7,981
Total fixed rate loans	\$ 1,161,510	\$ 262,440	\$ 412,650	\$ 486,420
Variable rate loan maturities:				
Residential real estate	\$ 816,274	\$ 25,225	\$ 85,631	\$ 705,418
Commercial real estate	795,284	51,381	146,974	596,929
Construction & land development	124,160	36,762	47,865	39,533
Commercial & industrial	217,875	85,240	82,473	50,162
Lease financing receivables	4,171	2,344	1,827	—
Warehouse lines of credit	525,572	525,572	—	—
Home equity	347,655	86,444	151,408	109,803
Consumer	21,533	21,271	215	47
Total variable rate loans	\$ 2,852,524	\$ 834,239	\$ 516,393	\$ 1,501,892
Total:				
Residential real estate	\$ 1,243,438	\$ 86,190	\$ 196,281	\$ 960,967
Commercial real estate	1,207,293	127,945	295,600	783,748
Construction & land development	150,065	46,134	59,236	44,695
Commercial & industrial	353,340	110,194	162,075	81,071
Lease financing receivables	16,580	2,863	13,717	—
Warehouse lines of credit	525,572	525,572	—	—
Home equity	347,655	86,444	151,408	109,803
Consumer	170,091	111,337	50,726	8,028
Total loans	\$ 4,014,034	\$ 1,096,679	\$ 929,043	\$ 1,988,312

Loans at maturity interval to overall total loans	100	%	27	%	23	%	50	%
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Allowance for Loan and Lease Losses (“Allowance”)

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

The Bank’s Allowance increased \$10 million, or 30%, during 2017 to \$43 million at December 31, 2017, primarily driven by reserves for growth in RCS small-dollar credit products and general growth in Core Bank portfolios. As a percent of total loans, the total Bank’s Allowance increased to 1.07% at December 31, 2017 compared to 0.86% at December 31, 2016. An analysis of the Allowance by reportable segment follows:

Traditional Banking segment

The Allowance at the Traditional Banking segment, increased to \$29 million at December 31, 2017 from \$26 million at December 31, 2016. The Allowance to total Traditional Bank loans increased to 0.85% at December 31, 2017 from 0.83% at December 31, 2016. The growth in the Allowance for the Traditional Banking segment was generally related to the growth in the overall loan portfolio, with changes to the historical loss percentages and qualitative factors of the calculation providing minimal impact.

Warehouse Lending segment

The Allowance on loans originated through the Company’s Warehouse segment decreased to \$1.3 million at December 31, 2017 from \$1.5 million at December 31, 2016, with the Allowance to total outstanding Warehouse balances remaining at 0.25% at both period ends. The decrease in the Allowance for the Warehouse Lending segment was entirely related to the decline in the overall loan portfolio.

Republic Credit Solutions segment

The Allowance on loans originated through the Company’s RCS segment increased to \$13 million at December 31, 2017 from \$5 million at December 31, 2016. Loan growth and an increase in the historical loss factors for general reserves resulting from a rise in charge-offs from the prior year drove the increase in the RCS Allowance. The Allowance to total RCS loans increased to 18.85% at December 31, 2017 from 15.40% at December 31, 2016.

RCS maintained an Allowance for three loan products offered at December 31, 2017, including its line-of-credit product, its credit card product and its healthcare-receivables product. At December 31, 2017, the Allowance to total loans estimated for each RCS product ranged from as low as 0.25% for its healthcare-receivables portfolio to as high as 38% for its line-of-credit portfolio. The lower reserve percentage of 0.25% was provided for RCS's healthcare receivables at December 31, 2017, as such receivables have recourse back to the third-party healthcare providers.

For additional discussion regarding Republic's methodology for determining the adequacy of the Allowance, see the section titled "Critical Accounting Policies and Estimates" in this section of the filing.

See additional detail regarding Republic Credit Solution's loan products under Item 1 "Business."

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Table 12 — Summary of Loan and Lease Loss Experience

Years Ended December 31, (dollars in thousands)	2017	2016	2015	2014	2013
Allowance at beginning of period	\$ 32,920	\$ 27,491	\$ 24,410	\$ 23,026	\$ 23,729
Charge-offs:					
Traditional Banking:					
Residential real estate	(330)	(416)	(748)	(1,021)	(2,127)
Commercial real estate	—	(514)	(546)	(868)	(1,190)
Construction & land development	—	(44)	—	(18)	(619)
Commercial & industrial	(189)	(330)	(56)	(20)	(466)
Lease financing receivables	—	—	—	—	NA
Home equity	(222)	(351)	(466)	(548)	(632)
Consumer	(2,042)	(1,727)	(1,185)	(1,083)	(1,151)
Total Traditional Banking	(2,783)	(3,382)	(3,001)	(3,558)	(6,185)
Warehouse lines of credit	—	—	—	—	—
Total Core Banking	(2,783)	(3,382)	(3,001)	(3,558)	(6,185)
Republic Processing Group:					
Tax Refund Solutions:					
Easy Advances	(8,121)	(3,474)	—	—	—
Commercial & industrial	—	—	—	—	—
Republic Credit Solutions	(10,659)	(5,000)	(971)	(5)	—
Total Republic Processing Group	(18,780)	(8,474)	(971)	(5)	—
Total charge-offs	(21,563)	(11,856)	(3,972)	(3,563)	(6,185)
Recoveries:					
Traditional Banking:					
Residential real estate	272	429	318	164	457
Commercial real estate	139	152	98	155	117
Construction & land development	6	78	—	89	48
Commercial & industrial	34	127	62	114	99
Lease financing receivables	—	—	—	—	NA
Home equity	182	151	148	183	165
Consumer	596	636	736	801	768
Total Traditional Banking	1,229	1,573	1,362	1,506	1,654
Warehouse lines of credit	—	—	—	—	—
Total Core Banking	1,229	1,573	1,362	1,506	1,654
Republic Processing Group:					
Tax Refund Solutions:					
Easy Advances	1,332	426	—	—	—

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Refund Anticipation Loans	241	301	278	582	845
Commercial & industrial	—	—	—	—	—
Republic Credit Solutions	906	492	17	—	—
Total Republic Processing Group	2,479	1,219	295	582	845
Total recoveries	3,708	2,792	1,657	2,088	2,499
Net loan charge-offs	(17,855)	(9,064)	(2,315)	(1,475)	(3,686)
Provision - Core Banking	3,773	3,945	3,065	3,392	3,828
Provision - RPG	23,931	10,548	2,331	(533)	(845)
Total Provision	27,704	14,493	5,396	2,859	2,983
Allowance at end of period	\$ 42,769	\$ 32,920	\$ 27,491	\$ 24,410	\$ 23,026

Credit Quality Ratios - Total Company:

Allowance to total loans	1.07	%	0.86	%	0.83	%	0.80	%	0.89	%
Allowance to nonperforming loans	284		205		125		103		109	
Net loan charge-offs to average loans	0.47		0.25		0.07		0.05		0.14	

Credit Quality Ratios - Core Banking:

Allowance to total loans	0.77	%	0.74	%	0.78	%	0.80	%	0.89	%
Allowance to nonperforming loans	213		175		118		103		109	
Net loan charge-offs to average loans	0.04		0.05		0.05		0.08		0.18	

NA - not applicable

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The following table sets forth management's allocation of the Allowance by loan class. The Allowance allocation is based on management's assessment of economic conditions, historical loss experience, loan volume, past due and nonaccrual loans and various other qualitative factors. Since these factors and management's assumptions are subject to change, the allocation is not necessarily indicative of future loan portfolio performance or future Allowance allocation.

Table 13 — Management's Allocation of the Allowance for Loan and Lease Losses

2017	2016		2015		2014		2013	
	Percent of Loans to Total	Allowance	Percent of Loans to Total	Allowance	Percent of Loans to Total	Allowance	Percent of Loans to Total	Allowance
6,182	22 %	\$ 7,158	27 %	\$ 8,301	34 %	\$ 8,565	38 %	\$ 7,816
292	3	373	4	623	7	567	7	NA
1,396	5	1,139	4	1,052	3	837	3	1,023
9,043	30	8,078	28	7,672	26	7,774	27	8,343
2,364	4	1,850	3	1,303	2	926	1	1,296
2,198	9	1,511	7	1,455	7	1,167	5	1,089
174	—	136	—	89	—	25	—	NA
3,754	9	3,757	9	2,996	9	2,730	8	2,396
607	—	490	—	448	—	285	—	289
974	—	675	—	351	—	382	—	199
687	2	526	1	56	—	32	—	54
1,162	1	771	1	479	—	277	—	72



28,833	85	26,464	84	24,825	88	23,567	89	22,577
1,314	13	1,464	15	967	12	799	11	449
30,147	98	27,928	99	25,792	100	24,366	100	23,026
—	—	—	—	—	—	—	—	—
12	—	25	—	—	—	—	—	—
12,610	2	4,967	1	1,699	—	44	—	—
12,622	2	4,992	1	1,699	—	44	—	—
42,769	100	\$ 32,920	100	\$ 27,491	100	\$ 24,410	100	\$ 23,026

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NA - Not Applicable

\*See Table 10 in this section of the filing for loan portfolio balances. Values of less than 50 basis points are rounded down to zero.

Management believes, based on information presently available, that it has adequately provided for loan and lease losses at December 31, 2017.

For additional discussion regarding Republic's methodology for determining the adequacy of the Allowance, see the section titled "Critical Accounting Policies and Estimates" in this section of the filing.

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## Asset Quality

## Classified and Special Mention Loans

The Bank applies credit quality indicators, or “ratings,” to individual loans based on internal Bank policies. Such internal policies are informed by regulatory standards. Loans rated “Loss,” “Doubtful,” “Substandard,” and PCI-Substandard (“PCI-Sub”) are considered “Classified.” Loans rated “Special Mention” or PCI Group 1 (“PCI-1”) are considered Special Mention. The Bank’s Classified and Special Mention loans decreased \$14 million during 2017, primarily due to the payoffs and paydowns of Special Mention and PCI loans during the period.

See Footnote 5 “Loans and Allowance for Loan and Lease Losses” of Part II Item 8 “Financial Statements and Supplementary Data” for additional discussion regarding Classified and Special mention loans.

Table 14 — Classified and Special Mention Loans

December 31, (in thousands)	2017	2016	2015	2014	2013
Loss	\$ —	\$ —	\$ —	\$ —	\$ —
Doubtful	—	—	—	—	—
Substandard	21,202	21,412	27,833	39,999	44,305
Purchased Credit Impaired - Substandard	1,771	2,366	—	—	—
Total Classified Loans	22,973	23,778	27,833	39,999	44,305
Special Mention	23,813	30,702	31,312	36,268	40,167
Purchased Credit Impaired - Group 1	1,833	7,908	12,543	17,490	40,731
Total Special Mention Loans	25,646	38,610	43,855	53,758	80,898
Total Classified and Special Mention Loans	\$ 48,619	\$ 62,388	\$ 71,688	\$ 93,757	\$ 125,203

## Nonperforming Loans

Nonperforming loans include loans on nonaccrual status and loans past due 90-days-or-more and still accruing. Impaired loans that are not placed on nonaccrual status are not included as nonperforming loans. The nonperforming loan category includes TDRs totaling approximately \$6 million and \$10 million at December 31, 2017 and

2016. Generally, all nonperforming loans are considered impaired.

Nonperforming loans to total loans decreased to 0.38% at December 31, 2017 from 0.42% at December 31, 2016, as the total balance of nonperforming loans decreased by \$985,000, or 6%, while total loans increased \$203 million, or 5% during 2017.

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Table 15 — Nonperforming Loans and Nonperforming Assets Summary

December 31, (dollars in thousands)	2017	2016	2015	2014	2013					
Loans on nonaccrual status*	\$ 14,118	\$ 15,892	\$ 21,712	\$ 23,337	\$ 19,104					
Loans past due 90-days-or-more and still on accrual**	956	167	224	322	1,974					
Total nonperforming loans	15,074	16,059	21,936	23,659	21,078					
Other real estate owned	115	1,391	1,220	11,243	17,102					
Total nonperforming assets	\$ 15,189	\$ 17,450	\$ 23,156	\$ 34,902	\$ 38,180					
Credit Quality Ratios - Total Company:										
Nonperforming loans to total loans	0.38	%	0.42	%	0.66	%	0.78	%	0.81	%
Nonperforming assets to total loans (including OREO)	0.38		0.46		0.70		1.14		1.46	
Nonperforming assets to total assets	0.30		0.36		0.55		0.93		1.13	
Credit Quality Ratios - Core Bank:										
Nonperforming loans to total loans	0.36	%	0.42	%	0.66	%	0.78	%	0.81	%
Nonperforming assets to total loans (including OREO)	0.36		0.46		0.70		1.15		1.46	
Nonperforming assets to total assets	0.28		0.36		0.55		0.93		1.13	

\*Loans on nonaccrual status include impaired loans. See Footnote 5 “Loans and Allowance for Loan and Lease Losses” of Part II Item 8 “Financial Statements and Supplementary Data” for additional discussion regarding impaired loans.

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

Approximately \$11 million, or 71%, of the Bank’s total nonperforming loans at December 31, 2017, compared to \$13 million, or 80%, as of December 31, 2016, were concentrated in the residential real estate and HELOC categories, with the underlying collateral predominantly located in the Bank’s primary market area of Kentucky.

Approximately \$3 million, or 22%, of the Bank’s total nonperforming loans at December 31, 2017, compared to \$3 million, or 17%, at December 31, 2016 were concentrated in the CRE and construction and land development portfolios. While CRE is the primary collateral for such loans, the Bank also obtains in many cases, at the time of origination, personal guarantees from the principal borrowers and/or secured liens on the guarantors’ primary residences.



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Table 16 — Nonperforming Loan Composition

	2017		2016		2015		2014		2013	
	Balance	Percent of Total	Balance	Percent of Total	Balance	Percent of Total	Balance	Percent of Total	Balance	Percent of Total
	Loan Class		Loan Class		Loan Class		Loan Class		Loan Class	
December 31, (in thousands)										
Commercial real estate:										
Commercial - owner occupied	\$ 9,230	1.00 %	\$ 10,955	1.10 %	\$ 13,197	1.22 %	\$ 11,225	1.00 %	\$ 9,211	0.84 %
Commercial - non-owner occupied	—	—	—	—	—	—	—	—	NA	NA
Commercial - construction & development	257	0.13	852	0.54	935	0.80	2,352	2.44	1,279	1.15
Commercial - construction & development	3,247	0.27	2,725	0.26	4,165	0.50	6,151	0.80	7,643	0.99
Commercial - construction & development	67	0.04	77	0.06	1,589	2.39	1,990	5.17	167	0.38
Commercial - construction & development	—	—	154	0.06	194	0.08	169	0.11	1,558	1.22
Commercial - construction & development	—	—	—	—	—	—	—	—	NA	NA
Commercial - construction & development	1,217	0.35	1,069	0.31	1,793	0.62	1,678	0.68	1,128	0.50
Commercial - construction & development	—	—	—	—	—	—	—	—	—	—
Commercial - construction & development	—	—	—	—	—	—	—	—	—	—
Commercial - construction & development	68	0.10	—	—	—	—	—	—	—	—
Commercial - construction & development	51	0.25	145	0.73	63	0.53	94	0.91	92	1.13
Commercial - construction & development	14,137	0.41	15,977	0.50	21,936	0.75	23,659	0.87	21,078	0.86
Commercial - construction & development	—	—	—	—	—	—	—	—	—	—
Commercial - construction & development	14,137	0.36	15,977	0.42	21,936	0.66	23,659	0.78	21,078	0.81

Public											
Issuing											
to:											
Refund											
ptions:											
Advances	—	—	—	—	—	—	—	—	—	—	—
Commercial &											
trial	—	—	—	—	—	—	—	—	—	—	—
Public											
t											
ions	937	1.40	82	0.25	—	—	—	—	—	—	—
Republic											
Issuing											
o	937	1.19	82	0.21	—	—	—	—	—	—	—
performing											
	\$ 15,074	0.38	\$ 16,059	0.42	\$ 21,936	0.66	\$ 23,659	0.78	\$ 21,078	0.81	

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NA - Not Applicable

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Table 17 — Stratification of Nonperforming Loans

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



December 31, 2016 (dollars in thousands)	Number of Nonperforming Loans and Recorded Investment							
	No.	Balance ≤ \$100	No.	Balance > \$100 & ≤ \$500	No.	Balance > \$500	No.	Total Balance
Traditional Banking:								
Residential real estate:								
Owner occupied	120	\$ 5,417	30	\$ 5,538	—	\$ —	150	\$ 10,955
Owner occupied - correspondent	—	—	—	—	—	—	—	—
Nonowner occupied	5	77	—	—	1	775	6	852
Commercial real estate	2	106	5	1,190	1	1,429	8	2,725
Construction & land development	1	77	—	—	—	—	1	77
Commercial & industrial	—	—	1	154	—	—	1	154
Lease financing receivables	—	—	—	—	—	—	—	—
Home equity	25	589	3	480	—	—	28	1,069
Consumer:								
Credit cards	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—
Automobile loans	—	—	—	—	—	—	—	—
Other consumer	39	145	—	—	—	—	39	145
Total Traditional Banking	192	6,411	39	7,362	2	2,204	233	15,977
Warehouse lines of credit	—	—	—	—	—	—	—	—
Total Core Banking	192	6,411	39	7,362	2	2,204	233	15,977
Republic Processing Group:								
Tax Refund Solutions:								
Easy Advances	—	—	—	—	—	—	—	—
Commercial & industrial	—	—	—	—	—	—	—	—
Republic Credit Solutions	1,163	82	—	—	—	—	1,163	82
Total Republic Processing Group	1,163	82	—	—	—	—	1,163	82
Total	1,355	\$ 6,493	39	\$ 7,362	2	\$ 2,204	1,396	\$ 16,059



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Interest income that would have been recorded if nonaccrual loans were on a current basis in accordance with their original terms was \$734,000, \$888,000 and \$1.1 million in 2017, 2016 and 2015.

Based on the Bank's review as of December 31, 2017, management believes that its reserves are adequate to absorb probable losses on all nonperforming credits.

Table 18 — Rollforward of Nonperforming Loan

Years Ended December 31, (in thousands)	2017	2016	2015	2014	2013
Nonperforming loans at the beginning of the period	\$ 16,059	\$ 21,936	\$ 23,659	\$ 21,078	\$ 21,679
Loans added to nonperforming status during the period that remained nonperforming at the end of the period	7,204	3,784	7,861	15,657	15,403
Loans removed from nonperforming status during the period that were nonperforming at the beginning of the period(see table below)	(8,196)	(8,086)	(8,505)	(12,060)	(15,374)
Paydown on the principal balance of loans nonperforming at both period ends	(782)	(1,742)	(1,079)	(1,016)	(630)
Other changes in principal balance on loans nonperforming at both the period ends*	789	167	—	—	—
Nonperforming loans at the end of the period	\$ 15,074	\$ 16,059	\$ 21,936	\$ 23,659	\$ 21,078

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

Table 19 — Detail of Loans Removed from Nonperforming Status

Years Ended December 31, (in thousands)	2017	2016	2015	2014	2013
Loans charged-off	\$ (287)	\$ (329)	\$ (210)	\$ (119)	\$ (1,520)
Loans transferred to OREO	(574)	(2,986)	(2,034)	(4,365)	(3,340)
Loans refinanced at other institutions	(3,841)	(4,771)	(4,026)	(5,034)	(5,626)
Loans returned to accrual status	(3,494)	—	(2,235)	(2,542)	(4,888)

Total loans removed from nonperforming status during the period that were in nonperforming status at the beginning of the period

\$ (8,196)	\$ (8,086)	\$ (8,505)	\$ (12,060)	\$ (15,374)
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Delinquent Loans

Delinquent loans to total loans increased to 0.35% at December 31, 2017, from 0.24% at December 31, 2016, as the total balance of delinquent loans increased by \$5 million, or 57%. With the exception of PCI loans and smaller-balance consumer loans, all loans past due 90-days-or-more as of December 31, 2017 and 2016 were on nonaccrual status.

Core Banking delinquent loans to total loans increased three basis points to 0.21% during 2017 primarily due to the addition of a \$1.1 million CRE nonaccrual loan with collateral located in the Bank's southern Indiana market.

RPG delinquent loans to total loans increased to approximately 7% during 2017 primarily due to product expansion at the RCS segment.

Table 20 — Delinquent Loan Composition\*

	2017		2016		2015		2014		2013		
	Balance	Percent of Total Loan Class	Balance	Percent of Total Loan Class	Balance	Percent of Total Loan Class	Balance	Percent of Total Loan Class	Balance	Percent of Total Loan Class	Percent of Total Loan Class
December 31, 2017	\$ 4,782	0.52 %	\$ 4,554	0.46 %	\$ 6,882	0.64 %	\$ 8,008	0.72 %	\$ 6,357	0.58 %	0.58 %
Commercial	146	0.07	46	0.03	53	0.05	776	0.80	1,293	1.17	1.17
Commercial	1,727	0.14	425	0.04	1,111	0.13	2,972	0.37	5,198	0.64	0.64
Construction & Development	67	0.04	—	—	1,500	2.26	1,990	5.17	499	1.13	1.13

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Commercial & Industrial	15	0.00	342	0.13	299	0.13	211	0.13	1,415	1.11
Processing	—	—	—	—	—	—	—	—	NA	NA
Equity	1,221	0.35	970	0.28	1,393	0.48	1,362	0.55	1,110	0.49
Number:										
ATM cards	74	0.46	18	0.13	12	0.11	134	1.40	98	1.09
Drafts	233	23.92	161	20.05	133	19.42	178	15.08	159	16.84
Mobile	60	0.09	—	—	1	0.02	19	0.59	34	0.63
Number	135	0.66	305	1.54	101	0.84	60	0.58	60	0.74
Additional										
Processing	8,460	0.25	6,821	0.21	11,485	0.39	15,710	0.58	16,223	0.67
House	—	—	—	—	—	—	—	—	—	—
of credit	—	—	—	—	—	—	—	—	—	—
Core	8,460	0.21	6,821	0.18	11,485	0.35	15,710	0.52	16,223	0.63
Processing										
Public										
Processing										
Refund										
Advances	—	—	—	—	—	—	—	—	—	—
Commercial & Industrial	—	—	—	—	—	—	—	—	—	—
Public										
Advances	5,641	8.43	2,137	6.63	246	3.41	141	3.44	—	—
Republic										
Processing	5,641	7.18	2,137	5.49	246	3.23	141	3.23	—	—
Advances										
Delinquent	\$ 14,101	0.35	\$ 8,958	0.24	\$ 11,731	0.35	\$ 15,851	0.52	\$ 16,223	0.63

\*Represents total loans 30-days-or-more past due. Delinquent status may be determined by either the number of days past due or number of payments past due.

NA — Not applicable.



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Table 21 — Rollforward of Delinquent Loans

Years Ended December 31, (in thousands)	2017	2016	2015	2014	2013
Delinquent loans at the beginning of the period	\$ 8,958	\$ 11,731	\$ 15,851	\$ 16,223	\$ 20,844
Loans added to delinquency status during the period and remained in delinquency status at the end of period	7,015	5,399	6,942	13,750	12,989
Loans removed from delinquency status during the period that were in delinquency status at the beginning of the period (see table below)	(5,181)	(10,205)	(10,969)	(14,079)	(17,328)
Paydown of principal balance of loans delinquent at both period ends	(170)	(94)	(207)	(245)	(309)
Other changes in principal balance of loans delinquent at both period ends*	3,479	2,127	114	202	27
Delinquent loans at the end of period	\$ 14,101	\$ 8,958	\$ 11,731	\$ 15,851	\$ 16,223

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

Table 22 — Detail of Loans Removed From Delinquent Status

Years Ended December 31, (in thousands)	2017	2016	2015	2014	2013
Loans charged-off	\$ (114)	\$ (150)	\$ (302)	\$ (159)	\$ (1,380)
Loans transferred to OREO	(526)	(2,805)	(2,207)	(4,889)	(6,331)
Loans refinanced at other institutions	(2,529)	(3,926)	(4,072)	(5,617)	(6,115)
Loans paid current	(2,012)	(3,324)	(4,388)	(3,414)	(3,502)
Total loans removed from delinquency status during the period that were in delinquency status at the beginning of the period	\$ (5,181)	\$ (10,205)	\$ (10,969)	\$ (14,079)	\$ (17,328)

## Impaired Loans and Troubled Debt Restructurings



The Bank's policy is to charge-off all or that portion of its recorded investment in a collateral-dependent impaired credit upon a determination that it is probable the full amount of contractual principal and interest will not be collected. Impaired loans totaled \$46 million at December 31, 2017 compared to \$53 million at December 31, 2016.

A TDR is the situation where, due to a borrower's financial difficulties, the Bank grants a concession to the borrower that the Bank would not otherwise have considered. The majority of the Bank's TDRs involve a restructuring of loan terms such as a temporary reduction in the payment amount to require only interest and escrow (if required), reducing the loan's interest rate and/or extending the maturity date of the debt. Nonaccrual loans modified as TDRs remain on nonaccrual status and continue to be reported as nonperforming loans. Accruing loans modified as TDRs are evaluated for nonaccrual status based on a current evaluation of the borrower's financial condition and ability and willingness to service the modified debt. As of December 31, 2017, the Bank had \$35 million in TDRs, of which \$6 million were also on nonaccrual status. As of December 31, 2016, the Bank had \$42 million in TDRs, of which \$10 million were also on nonaccrual status.

Table 23 — Impaired Loan Composition

December 31, (in thousands)	2017	2016	2015	2014	2013
Troubled debt restructurings	\$ 34,637	\$ 41,586	\$ 49,580	\$ 65,266	\$ 73,972
Impaired loans (which are not TDRs)	10,979	11,098	16,543	20,914	34,022
Total recorded investment in impaired loans	\$ 45,616	\$ 52,684	\$ 66,123	\$ 86,180	\$ 107,994

See Footnote 5 "Loans and Allowance for Loan and Lease Losses" of Part II Item 8 "Financial Statements and Supplementary Data" for additional discussion regarding impaired loans and TDRs.

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## Other Real Estate Owned

Table 24 — Stratification of Other Real Estate Owned

December 31, 2017 (dollars in thousands)	Number of OREO Properties and Carrying Value Range							Total Carrying Value
	No.	Carrying Value <= \$100	No.	Carrying Value > \$100 & <= \$500	No.	Carrying Value > \$500	No.	
Residential real estate	2	\$ 115	—	\$ —	—	\$ —	2	\$ 115
Total	2	\$ 115	—	\$ —	—	\$ —	2	\$ 115

December 31, 2016 (dollars in thousands)	Number of OREO Properties and Carrying Value Range							Total Carrying Value
	No.	Carrying Value <= \$100	No.	Carrying Value > \$100 & <= \$500	No.	Carrying Value > \$500	No.	
Residential real estate	3	\$ 848	1	\$ 543	—	\$ —	4	\$ 1,391
Total	3	\$ 848	1	\$ 543	—	\$ —	4	\$ 1,391

Table 25 — Rollforward of Other Real Estate Owned Activity

Years Ended December 31, (in thousands)	2017	2016	2015	2014	2013
OREO at beginning of period	\$ 1,391	\$ 1,220	\$ 11,243	\$ 17,102	\$ 26,203
Transfer from loans to OREO	841	4,778	2,938	7,333	14,197
Proceeds from sale*	(2,793)	(4,851)	(12,660)	(10,974)	(23,644)
Net gain on sale	831	514	956	883	2,170
Writedowns	(155)	(270)	(1,257)	(3,101)	(1,824)

OREO at end of period	\$ 115	\$ 1,391	\$ 1,220	\$ 11,243	\$ 17,102
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\*Inclusive of non-cash proceeds where the Bank financed the sale of the property.

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 relevant factors to estimate the current value of the property.

#### Bank Owned Life Insurance (“BOLI”)

BOLI offers tax advantaged noninterest income to help the Bank offset employee benefits expenses. The Company carried \$63 million and \$62 million of BOLI on its consolidated balance sheet at December 31, 2017 and 2016. The Company acquired \$7 million of BOLI during 2016 in association with its May 17, 2016 Cornerstone acquisition.

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Table 26 — Rollforward of Bank Owned Life Insurance

Years ended December 31, (in thousands)	2017	2016	2015	2014
BOLI at beginning of period	\$ 61,794	\$ 52,817	\$ 51,415	\$ 25,086
BOLI acquired	—	7,461	—	25,000
Increase in cash surrender value	1,562	1,516	1,402	1,329
BOLI at end of period	\$ 63,356	\$ 61,794	\$ 52,817	\$ 51,415

## Deposits

Table 27 — Deposit Composition

December 31, (in thousands)	2017	2016	2015	2014	2013
<b>Core Bank:</b>					
Demand	\$ 944,812	\$ 872,709	\$ 783,054	\$ 691,787	\$ 651,134
Money market accounts	546,998	541,622	501,059	471,339	479,569
Brokered money market accounts	373,242	360,597	200,126	35,649	35,533
Savings	182,800	164,410	117,408	91,625	78,020
Individual retirement accounts*	47,982	42,642	36,016	28,771	28,767
Time deposits, \$250 and over*	77,891	37,200	42,775	56,556	67,255
Other certificates of deposit*	189,661	140,894	127,878	104,010	75,516
Brokered certificates of deposit*	46,089	28,666	44,298	75,876	86,421
Total Core Bank interest-bearing deposits	2,409,475	2,188,740	1,852,614	1,555,613	1,502,215
Total Core Bank noninterest-bearing deposits	988,537	943,459	606,154	494,244	482,411
Total Core Bank deposits	3,398,012	3,132,199	2,458,768	2,049,857	1,984,626
<b>Republic Processing Group ("RPG"):</b>					
Money market accounts	1,641	—	—	—	—
Total RPG interest-bearing deposits	1,641	—	—	—	—

Brokered prepaid card deposits	1,509	15	1,540	—	—
Other noninterest-bearing deposits	31,996	28,478	27,169	8,325	6,231
Total RPG noninterest-bearing deposits	33,505	28,493	28,709	8,325	6,231
Total RPG deposits	35,146	28,493	28,709	8,325	6,231
Total deposits	\$ 3,433,158	\$ 3,160,692	\$ 2,487,477	\$ 2,058,182	\$ 1,990,857

\*Represents a time deposit.

Total Company deposits increased \$272 million, or 9%, from December 31, 2016 to \$3.4 billion at December 31, 2017.

Total Company interest-bearing deposits increased \$222 million, or 10%, during 2017 largely driven by \$53 million in interest-bearing deposits raised through the Company's separately branded digital platform, MemoryBank. In addition, the Bank experienced an increase of \$89 million, or 50%, in its non-brokered time deposits during 2017, as it maintained a more attractive and competitive offering rate on its certificates of deposit in order to attract longer-term deposits for liquidity and interest rate risk management purposes.

Total Company noninterest bearing deposits increased \$50 million, or 5%, during 2017. Core Bank noninterest-bearing deposits increased \$45 million, or 5%. This growth was largely driven by the Bank's free-business-checking products, which are the Bank's primary product offering for small business accounts.

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Table 28 — Average Deposits

2017		2016		2015		2014		2013
Average	Average	Average	Average	Average	Average	Average	Average	Average
Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance
\$ 1,095,276	0.22	% \$ 962,473	0.10	% \$ 840,815	0.07	% \$ 750,693	0.07	% \$ 696,000
554,336	0.29	546,360	0.20	485,508	0.16	477,129	0.16	508,000
266,332	1.19	221,634	1.00	200,863	0.96	174,904	0.65	187,000
314,788	0.68	289,612	0.43	132,623	0.21	34,586	0.20	34,600
36,931	1.25	38,513	1.45	54,405	1.57	72,889	2.12	88,400
2,267,663	0.43	2,058,592	0.29	1,714,214	0.26	1,510,201	0.26	1,510,000
1,073,181	—	894,049	—	651,275	—	553,929	—	513,000
\$ 3,340,844	0.29	\$ 2,952,641	0.21	\$ 2,365,489	0.19	\$ 2,064,130	0.19	\$ 2,020,000

Table 29 — Maturities of Time Deposits Greater than \$100,000 at December 31, 2017

Maturity (dollars in thousands)	Principal	Weighted Average Rate
Three months or less	\$ 16,991	0.63 %
Over three months through six months	38,122	0.91
Over six months through 12 months	20,879	0.96
Over 12 months	94,882	1.87
Total	\$ 170,874	1.42

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

Securities Sold under Agreements to Repurchase (“SSUARs”) are collateralized by securities and are treated as financings; accordingly, the securities involved with the agreements are recorded as assets and are held by a safekeeping agent and the obligations to repurchase the securities are reflected as liabilities. All securities underlying the agreements are under the Bank’s control.

SSUARs totaled \$204 million and \$173 million at December 31, 2017 and 2016. The substantial majority of SSUARs are indexed to immediately repricing indices such as the FFTR.

Table 30 — Securities Sold Under Agreements to Repurchase

As of and for the Years Ended December 31, (dollars in thousands)	2017		2016		2015		2014		2013	
Outstanding balance at end of period	\$ 204,021		\$ 173,473		\$ 395,433		\$ 356,108		\$ 165,555	
Weighted average interest rate at period end	0.31	%	0.05	%	0.02	%	0.04	%	0.04	%
Average outstanding balance during the period	\$ 219,515		\$ 280,296		\$ 379,477		\$ 296,196		\$ 170,386	
Average interest rate during the period	0.23	%	0.02	%	0.02	%	0.04	%	0.04	%
Maximum outstanding at any month end	\$ 293,944		\$ 367,373		\$ 442,981		\$ 408,891		\$ 242,721	

#### Federal Home Loan Bank Advances

FHLB advances decreased \$65 million, or 8%, from December 31, 2016 to \$738 million at December 31, 2017, with the Bank reducing its term advances by \$110 million and increasing its overnight advances by \$45 million during the 2017. During 2017, the Bank obtained \$95 million in additional fixed-rate term advances with a weighted average rate of 1.92% and a weighted average term of 3.3 years, while \$205 million of fixed-rate term advances with a weighted average rate of 1.79% and an original weighted average term of 3.6 years matured during the period. The Bank held \$330 million in overnight advances at a rate of 1.42% as of December 31, 2017, compared to \$285 million in overnight advances at a rate of 0.64% at December 31, 2016.

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The Bank chose to increase its overnight advances and reduce its term advances during 2017 in order to take advantage of the lower borrowing costs associated with overnight borrowings. The Bank was able to implement this strategy due to its projected favorable risk position in the event of rising interest rates. See the section titled “Asset/Liability Management and Market Risk” in this section of the filing for additional discussion regarding the Bank’s interest-rate sensitivity.

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

Table 31 — Federal Home Loan Bank Advances

As of and for the Years Ended December 31, (dollars in thousands)	2017	2016	2015	2014	2013
Outstanding balance at end of period	\$ 737,500	\$ 802,500	\$ 699,500	\$ 707,500	\$ 605,000
Weighted average interest rate at period end	1.61 %	1.35 %	1.77 %	1.60 %	2.42 %
Average outstanding balance during the period	\$ 563,552	\$ 583,591	\$ 599,630	\$ 584,516	\$ 578,633
Average interest rate during the period	1.57 %	1.87 %	1.99 %	2.24 %	2.54 %
Maximum outstanding at any month end	\$ 1,002,500	\$ 987,500	\$ 916,500	\$ 707,500	\$ 605,000

## Interest Rate Swaps

## Interest Rate Swaps Used as Cash Flow Hedges



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

#### Non-hedge Interest Rate Swaps

During 2015, the Bank began entering into interest rate swaps to facilitate client transactions and meet their financing needs. Upon entering into these instruments, the Bank enters into offsetting positions in order to minimize the Bank's interest rate risk. These swaps are derivatives, but are not designated as hedging instruments, and therefore changes in fair value are reported in current year earnings.

See Footnote 8 "Interest Rate Swaps" of Part II Item 8 "Financial Statements and Supplementary Data" for further information regarding the Bank's interest rate swaps.

#### Liquidity

The Bank had a loan to deposit ratio (excluding brokered deposits) of 133% and 138% at December 31, 2017 and 2016. At December 31, 2017 and 2016, the Company had cash and cash equivalents on-hand of \$299 million and \$289 million. In addition, the Bank had available collateral to borrow an additional \$347 million and \$378 million from the FHLB at December 31, 2017 and 2016. In addition to its borrowing line with the FHLB, the Bank also had unsecured lines of credit totaling \$125 million and \$150 million available through various other financial institutions as of December 31, 2017 and 2016.

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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 December 31, 2017 and 2016, these pledged investment securities had a fair value of \$263 million and \$232 million. Republic's banking centers and its website, [www.republicbank.com](http://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 could not obtain brokered deposits, the Bank would be compelled to offer market leading deposit interest rates to meet its funding and liquidity needs.

At December 31, 2017, the Bank had approximately \$974 million in deposits, including retail-brokered deposits, from 121 large non-sweep deposit relationships where the individual relationship individually exceeded \$2 million. The 20 largest non-sweep deposit relationships represented approximately \$637 million, or 19%, of the Company's total deposit balances at December 31, 2017. These accounts do not require collateral; therefore, cash from these accounts can generally be utilized to fund the loan portfolio. If any of these balances were moved from the Bank, the Bank would likely utilize overnight borrowing lines in the short-term to replace the balances. On a longer-term basis, the Bank would likely utilize wholesale-brokered deposits to replace withdrawn balances, or alternatively, higher-costing internet-sourced deposits. Based on past experience utilizing brokered deposits and internet-sourced deposits, the Bank believes it can quickly obtain these types of deposits if needed. The overall cost of gathering these types of deposits, however, could be substantially higher than the Traditional Bank deposits they replace, potentially decreasing the Bank's earnings.

Due to the its historical success of growing loans and its overall use of non-core funding sources, the Bank has approached, and periodically has fallen short of, its minimum internal policy limits for liquidity management, as set forth by the Bank's Board of Directors. As of December 31, 2017, the Bank was in compliance with all Board-approved liquidity policies, however, the Bank will likely continue to maintain its liquidity levels near the Bank's board approved minimums for the foreseeable future. It is also likely the Bank, as it manages its liquidity levels in order to maximize its overall earnings, will continue to fall short of these minimums on occasion in the future, particularly during the first quarter of each year when short-term Easy Advance loans are originated.

## Capital

## Table 32 — Capital

Information pertaining to the Company's capital balances and ratios follows:

December 31, (dollars in thousands, except per share data)	2017	2016	2015	2014	2013
Stockholders' equity	\$ 632,424	\$ 604,406	\$ 576,547	\$ 558,731	\$ 542,793
Book value per share at December 31,	30.33	28.97	27.59	26.80	26.09
Tangible book value per share at December 31,*	29.27	27.89	26.87	26.08	25.35
Dividends declared per share - Class A Common Stock	0.869	0.825	0.781	0.737	0.693
Dividends declared per share - Class B Common Stock	0.790	0.750	0.710	0.670	0.630
Average stockholders' equity to average total assets	13.02 %	13.32 %	14.43 %	15.66 %	16.15 %
Total risk based capital	16.04	16.37	20.58	22.17	26.72
Common equity tier 1 capital	14.15	14.59	18.39	NA	NA
Tier 1 risk based capital	15.06	15.55	19.69	21.28	25.67
Tier 1 leverage capital	13.21	13.54	14.82	15.92	16.81
Dividend payout ratio	39	37	46	53	56
Dividend yield	2.29	2.09	2.96	2.98	2.82

\*See Footnote 2 of Part II, Item 6 "Selected Financial Data" for additional detail.

NA – Not applicable.

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Total stockholders' equity increased from \$604 million at December 31, 2016 to \$632 million at December 31, 2017. The increase in stockholders' equity was primarily attributable to net income earned during 2017 reduced by cash dividends declared and common stock repurchases.

See Part II, Item 5. "Unregistered Sales of Equity Securities and Use of Proceeds" for additional detail regarding stock repurchases and stock buyback programs.

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

**Dividend Restrictions** — The Parent Company's principal source of funds for dividend payments are dividends received from the Bank. 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 December 31, 2017, the Bank could, without prior approval, declare dividends of approximately \$74 million.

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

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

Republic continues to exceed the regulatory requirements for Total Risk Based Capital, Common Equity Tier I Risk Based, Tier I Risk Based Capital and Tier I Leverage Capital. Republic and the Bank intend to maintain a capital position that meets or exceeds the “well-capitalized” requirements as defined by the FRB and the FDIC, in addition to the Capital Conservation Buffer. Republic’s average stockholders’ equity to average assets ratio was 13.02% at December 31, 2017 compared to 13.32% at December 31, 2016. Formal measurements of the capital ratios for Republic and the Bank are performed by the Company at each quarter end.

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

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

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## Off Balance Sheet Items

Summarized credit-related financial instruments, including both commitments to extend credit and letters of credit follows:

Table 33 — Off Balance Sheet Items

December 31, 2017 (in thousands)	Maturity by Period				Total
	Less than one year	Greater than one year to three years	Greater than three years to five years	Greater than five years	
Unused warehouse lines of credit	\$ 525,328	\$ —	\$ —	\$ —	\$ 525,328
Unused home equity lines of credit	32,479	36,690	57,720	240,998	367,887
Unused loan commitments - other	412,162	87,919	32,782	65,139	598,002
Standby letters of credit	11,754	555	334	—	12,643
FHLB letter of credit	10,000	—	—	—	10,000
Total off balance sheet items	\$ 991,723	\$ 125,164	\$ 90,836	\$ 306,137	\$ 1,513,860

A portion of the unused commitments above are expected to expire or may not be fully used, therefore the total amount of commitments above does not necessarily indicate future cash requirements.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a client to a third party. The terms and risk of loss involved in issuing standby letters of credit are similar to those involved in issuing loan commitments and extending credit. Commitments outstanding under standby letters of credit totaled \$12 million and \$16 million at December 31, 2017 and 2016. 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.

Commitments to extend credit generally consist of unfunded lines of credit. These commitments generally have variable rates of interest.



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## Aggregate Contractual Obligations

In addition to owned banking facilities, the Bank has entered into long-term leasing arrangements to support the ongoing activities of the Company. The Bank also has required future payments for long-term and short-term debt as well as the maturity of time deposits. The required payments under such commitments follow:

Table 34 — Aggregate Contractual Obligations

December 31, 2017 (in thousands)	Maturity by Period				Total
	Less than one year	Greater than one year to three years	Greater than three years to five years	Greater than five years	
Deposits without a stated maturity*	\$ 2,049,161	\$ —	\$ —	\$ —	\$ 2,049,161
Time deposits (including brokered CDs)*	174,724	131,833	55,435	—	361,992
Federal Home Loan Bank advances*	458,194	220,000	50,000	10,000	738,194
Subordinated note*	—	—	—	41,240	41,240
Securities sold under agreements to repurchase*	204,021	—	—	—	204,021
Lease commitments	6,484	11,491	8,309	6,670	32,954
Other commitments**	10,166	8,346	4,418	1,629	24,559
<b>Total contractual obligations</b>	<b>\$ 2,902,750</b>	<b>\$ 371,670</b>	<b>\$ 118,162</b>	<b>\$ 59,539</b>	<b>\$ 3,452,121</b>

\*Includes accrued interest.

\*\*Primarily includes dividends declared on common stock, the Bank's Supplemental Executive Retirement Plan ("SERP"), and the Bank's significant long-term vendor contracts.

See Footnote 9 "Deposits" of Part II Item 8 "Financial Statements and Supplementary Data" for further information regarding the Bank's time deposits.

See Footnote 11 "Federal Home Loan Bank Advances" of Part II Item 8 "Financial Statements and Supplementary Data" for further information regarding the Bank's FHLB advances.



See Footnote 12 “Subordinated Note” of Part II Item 8 “Financial Statements and Supplementary Data” for further information regarding the Bank’s subordinated note.

Securities sold under agreements to repurchase generally have indeterminate maturity periods and are predominantly included in the less than one-year category above.

See Footnote 18 “Benefit Plans” of Part II Item 8 “Financial Statements and Supplementary Data” for further information regarding the Bank’s SERP commitments.

Lease commitments represent the total minimum lease payments under non-cancelable operating leases.

See Footnote 21 “Transactions with Related Parties and their Affiliates” of Part II Item 8 “Financial Statements and Supplementary Data” for further information regarding the Bank’s lease commitments.

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### Asset/Liability Management and Market Risk

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

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

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

As of December 31, 2017, a dynamic simulation model was run for interest rate changes from "Down 100" basis points to "Up 400" basis points. From December 2016 to December 2017, the Federal Open Market Committee raised the FFTR four times in 25-basis-point increments, with further guidance suggesting that increases to the FFTR were more likely than not for 2018.

The Bank's dynamic simulation model run for December 2017 projected improvement in the Bank's net interest income relative to the Base case in the Up 100 to Up 400 basis points scenarios. With the exception of the Up 100 scenario,

the improvement in each of these scenarios was greater than the projected improvement reflected in the same scenarios for the December 2016 simulation. The improvements in the “up rate” December 2017 scenarios were generally due to higher balances of noninterest bearing deposits in that simulation as compared to the December 2016 simulation. In addition, because of the Bank’s continued improvement in its interest rate risk position, the December 2017 simulation has a general assumption that maturing FHLB advances will be refinanced into lower costing overnight borrowings as compared to the December 2016 simulation, which assumed maturing FHLB advances will be refinanced into longer-term borrowings. The lack of improvement in the Up 100 scenario for the December 2017 simulation as compared to the prior year’s simulation was driven by the Bank’s use of more conservative beta assumptions on its non-maturity deposit (“NMD”) portfolio, specifically for the Up 100 scenario for its 2017 simulation.

Related to the Bank’s Down 100 scenario, the Bank’s December 2017 interest rate risk position deteriorated from the prior year. In 2017, while the Bank’s short-term assets generally repriced to higher rates as short-term interest rates rose, the Bank chose not to increase the rate paid on many of its NMDs. While this strategy helped to increase the Bank’s net interest margin compared to 2016, its interest rate risk position in a declining interest rate environment increased because the Bank will not be able to reduce the rate it pays on many of its NMDs at the same pace as its interest-earning assets are projected to decline.

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The following table illustrates the Bank's projected percent change from its Base net interest income as of December 31, 2017 and 2016 based on instantaneous movements in interest rates from Down 100 to Up 400 basis points equally across all points on the yield curve. The Bank's dynamic earnings simulation model excludes Traditional Bank loan fees.

Table 35 — Bank Interest Rate Sensitivity at December 31, 2017 and 2016

	Change in Rates									
	(100)		+100		+200		+300		+400	
	Basis Points	%	Basis Points	%	Basis Points	%	Basis Points	%	Basis Points	%
% Change from base net interest income at December 31, 2017	(4.60)	%	3.80	%	4.80	%	5.40	%	5.40	%
% Change from base net interest income at December 31, 2016	0.40	%	3.80	%	4.30	%	4.60	%	3.80	%

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

During the fourth quarter of 2017, the Bank was not in compliance with its Board approved policy of -4.0% for a Down 100 scenario for its month-end November and month-end December dynamic simulations. Management discussed these issues with the Bank's Board of Directors during its regularly scheduled January 2018 board meeting. Given the minimal amount that the Bank was out of compliance with the Board's Down 100 policy, the projected likelihood for future rate increases of the FFTR, and the remote likelihood for any future rate decreases of the FFTR, management and the Board concluded at the January 2018 meeting that the Bank would take no specific action to bring its Down 100 scenario back into compliance with the Board's current policy. The Bank is, instead, taking a "wait and see" approach and will take appropriate action when management and the Board believe the variance to the Board-approved policy becomes too great in the context of all factors or when they believe the chances for a future rate decrease becomes more likely.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

See the section titled “Asset/Liability Management and Market Risk” included under Part II Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Item 8. Financial Statements and Supplementary Data.

The following are included in this section:

<u>Management’s Report on Internal Control Over Financial Reporting</u>	101
<u>Report of Independent Registered Public Accounting Firm</u>	102
<u>Consolidated balance sheets — December 31, 2017 and 2016</u>	104
<u>Consolidated statements of income and comprehensive income — years ended December 31, 2017, 2016 and 2015</u>	105
<u>Consolidated statements of stockholders’ equity — years ended December 31, 2017, 2016 and 2015</u>	107
<u>Consolidated statements of cash flows — years ended December 31, 2017, 2016 and 2015</u>	110
<u>Footnotes to consolidated financial statements</u>	111

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Management of Republic Bancorp, Inc. (the "Company") is responsible for the preparation, integrity, and fair presentation of the Company's annual consolidated financial statements. All information has been prepared in accordance with U.S. generally accepted accounting principles and, as such, includes certain amounts that are based on Management's best estimates and judgments.

Management is responsible for establishing and maintaining adequate internal control over financial reporting presented in conformity with U.S. generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Two of the objectives of internal control are to provide reasonable assurance to Management and the Board of Directors that transactions are properly authorized and recorded in the Company's financial records, and that the preparation of the Company's financial statements and other financial reporting is done in accordance with U.S. generally accepted accounting principles. There are inherent limitations in the effectiveness of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to reliability of financial statements. Furthermore, internal control can vary with changes in circumstances.

Management has made its own assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, in relation to the criteria described in the report, Internal Control — Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based on its assessment, Management believes that as of December 31, 2017, the Company's internal control was effective in achieving the objectives stated above. Crowe Horwath LLP has provided its report on the audited 2017 and 2016 consolidated financial statements and on the effectiveness of the Company's internal control in their report dated March 8, 2018.

Steven E. Trager  
Chairman and Chief Executive Officer

Kevin Sipes  
Chief Financial Officer and Chief Accounting Officer

March 8, 2018

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Crowe Horwath LLP

Independent Member Crowe Horwath International

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of Republic Bancorp, Inc.

Louisville, Kentucky

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Republic Bancorp, Inc. (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Basis for Opinions



The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have served as the Company's auditor since 1996.

Louisville, Kentucky  
March 8, 2018

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## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, (in thousands, except share data)

	2017	2016
<b>ASSETS</b>		
Cash and cash equivalents	\$ 299,351	\$ 289,309
Securities available for sale	527,231	481,275
Securities held to maturity (fair value of \$65,133 in 2017 and \$53,249 in 2016)	64,227	52,864
Mortgage loans held for sale, at fair value	5,761	11,662
Consumer loans held for sale, at fair value	2,677	2,198
Consumer loans held for sale, at the lower of cost or fair value	8,551	1,310
Loans	4,014,034	3,810,778
Allowance for loan and lease losses	(42,769)	(32,920)
Loans, net	3,971,265	3,777,858
Federal Home Loan Bank stock, at cost	32,067	28,208
Premises and equipment, net	42,588	40,462
Premises, held for sale	3,017	2,407
Goodwill	16,300	16,300
Other real estate owned	115	1,391
Bank owned life insurance	63,356	61,794
Other assets and accrued interest receivable	48,856	49,271
<b>TOTAL ASSETS</b>	<b>\$ 5,085,362</b>	<b>\$ 4,816,309</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 1,022,042	\$ 971,952
Interest-bearing	2,411,116	2,188,740
Total deposits	3,433,158	3,160,692
Securities sold under agreements to repurchase and other short-term borrowings	204,021	173,473
Federal Home Loan Bank advances	737,500	802,500
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	37,019	33,998
Total liabilities	4,452,938	4,211,903
Commitments and contingent liabilities (Footnote 13)	—	—
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, no par value, 100,000 shares authorized,	—	—

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Class A Common Stock, no par value, 30,000,000 shares authorized, 18,606,338 shares (2017) and 18,614,961 shares (2016) issued and outstanding; Class B Common Stock, no par value, 5,000,000 shares authorized, 2,242,624 shares (2017) and 2,245,011 shares (2016) issued and outstanding	4,902	4,906
Additional paid in capital	139,406	138,192
Retained earnings	487,700	460,621
Accumulated other comprehensive income	416	687
Total stockholders' equity	632,424	604,406
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 5,085,362</b>	<b>\$ 4,816,309</b>

See accompanying footnotes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, (in thousands, except per share data)

	2017	2016	2015
<b>INTEREST INCOME:</b>			
Loans, including fees	\$ 205,582	\$ 164,232	\$ 133,958
Taxable investment securities	9,404	7,876	7,046
Federal Home Loan Bank stock and other	3,792	1,884	1,428
Total interest income	218,778	173,992	142,432
<b>INTEREST EXPENSE:</b>			
Deposits	9,802	6,058	4,380
Securities sold under agreements to repurchase and other short-term borrowings	502	65	92
Federal Home Loan Bank advances	8,860	10,900	11,934
Subordinated note	1,094	915	2,056
Total interest expense	20,258	17,938	18,462
<b>NET INTEREST INCOME</b>	<b>198,520</b>	<b>156,054</b>	<b>123,970</b>
Provision for loan and lease losses	27,704	14,493	5,396
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES</b>	<b>170,816</b>	<b>141,561</b>	<b>118,574</b>
<b>NONINTEREST INCOME:</b>			
Service charges on deposit accounts	13,357	13,176	13,015
Net refund transfer fees	18,500	19,240	17,388
Mortgage banking income	4,642	6,882	4,411
Interchange fee income	9,881	9,009	8,353
Program fees	5,824	3,044	1,233
Increase in cash surrender value of bank owned life insurance	1,562	1,516	1,402
Net gains (losses) on securities available for sale	(136)	—	88
Net gains (losses) on other real estate owned	676	244	(301)
Other	4,108	4,398	2,405
Total noninterest income	58,414	57,509	47,994
<b>NONINTEREST EXPENSE:</b>			
Salaries and employee benefits	82,233	69,882	58,091

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Occupancy and equipment, net	24,019	21,586	20,557
Communication and transportation	4,711	4,256	3,752
Marketing and development	5,188	3,778	3,161
FDIC insurance expense	1,378	1,780	2,084
Bank franchise tax expense	4,626	4,757	4,734
Data processing	7,748	6,121	4,340
Interchange related expense	3,988	4,140	3,873
Supplies	1,594	1,406	1,101
Other real estate owned expense	388	503	735
Legal and professional fees	2,410	2,556	3,306
FHLB advance prepayment penalty	—	846	—
Impairment of premises held for sale	1,175	191	132
Other	11,386	8,305	7,458
Total noninterest expense	150,844	130,107	113,324
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	<b>78,386</b>	<b>68,963</b>	<b>53,244</b>
<b>INCOME TAX EXPENSE:</b>			
Income tax expense - TCJA	6,326	—	—
Income tax expense - Other	26,428	23,060	18,078
Total income tax expense	32,754	23,060	18,078
<b>NET INCOME</b>	<b>\$ 45,632</b>	<b>\$ 45,903</b>	<b>\$ 35,166</b>
<b>BASIC EARNINGS PER SHARE:</b>			
Class A Common Stock	\$ 2.21	\$ 2.22	\$ 1.70
Class B Common Stock	2.01	2.02	1.55
<b>DILUTED EARNINGS PER SHARE:</b>			
Class A Common Stock	\$ 2.20	\$ 2.22	\$ 1.70
Class B Common Stock	2.00	2.01	1.54
<b>DIVIDENDS DECLARED PER COMMON SHARE:</b>			
Class A Common Stock	\$ 0.869	\$ 0.825	\$ 0.781
Class B Common Stock	0.790	0.750	0.710

See accompanying footnotes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, (in thousands)

	2017	2016	2015
Net income	\$ 45,632	\$ 45,903	\$ 35,166
OTHER COMPREHENSIVE INCOME			
Change in fair value of derivatives used for cash flow hedges	83	(125)	(514)
Reclassification amount for derivative losses realized in income	219	332	402
Change in unrealized gain (loss) on securities available for sale	(1,265)	(2,294)	(3,160)
Reclassification adjustment for net (gain) loss on securities available for sale recognized in earnings	136	—	(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	298	(9)	(125)
Total other comprehensive loss before income tax	(529)	(2,096)	(3,485)
Tax effect	258	734	1,219
Total other comprehensive loss, net of tax	(271)	(1,362)	(2,266)
COMPREHENSIVE INCOME	\$ 45,361	\$ 44,541	\$ 32,900

See accompanying footnotes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2017, 2016 and 2015

(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, 2015	18,603	2,245	\$ 4,904	\$ 134,889	\$ 414,623	\$ 4,315	\$ 558,731
Net income	—	—	—	—	35,166	—	35,166
Net change in accumulated other comprehensive income	—	—	—	—	—	(2,266)	(2,266)