

REPUBLIC BANCORP INC /KY/

Form 10-K

March 15, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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, 2018

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	NASDAQ Global Select Market
(Title of each class)	(Name of each exchange on which registered)

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark 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, 2018 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$445,663,266 (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 15, 2019 was 18,680,709 and 2,212,487.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held April 24, 2019 are incorporated by reference into Part III of this Form 10-K.

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GLOSSARY OF ABBREVIATIONS AND ACRONYMS

The acronyms and abbreviations identified in alphabetical order below are used throughout this Form 10-K. You may find it helpful to refer to this page as you read this report.

Acronym or Abbreviation	Definition	Acronym or Abbreviation	Definition	Acronym or Abbreviation	Definition
ACH	Automated Clearing House	EVP	Executive Vice President	OREO	Other Real Estate Owned
AFS	Available for Sale	FCRA	Fair Credit Reporting Act	Patriot Act	U.S. Patriot Act
Allowance	Allowance for Loan and Lease Losses	FASB	Financial Accounting Standards Board	PCI	Purchased Credit Impaired
AML	Anti-Money Laundering	FDIA	Federal Deposit Insurance Act	PCI-1	PCI - Group 1
AOCI	Accumulated Other Comprehensive Income	FDICIA	Federal Deposit Insurance Corporation Improvement Act	PCI-Sub	PCI - Substandard
ARM	Adjustable Rate Mortgage	FFTR	Federal Funds Target Rate	Prime	The Wall Street Journal Prime Interest Rate
ASC	Accounting Standards Codification	FHA	Federal Housing Administration	Provision	Provision for Loan and Lease Losses
ASU	Accounting Standards Update	FHC	Financial Holding Company	PSU	Performance Stock Unit
ATM	Automated Teller Machine	FHLB	Federal Home Loan Bank	QM	Qualified Mortgage
ATR	Ability to Repay	FHLMC	Federal Home Loan Mortgage Corporation	R&D	Research and Development
Basic EPS	Basic earnings per Class A Common Share	FICO	Fair Isaac Corporation	RB&T / the Bank	Republic Bank & Trust Company
BHC	Bank Holding Company	FNMA	Federal National Mortgage Association	RBCT	Republic Bancorp Capital Trust
BHCA	Bank Holding Company Act	FOMC	Federal Open Market Committee	RCS	Republic Credit Solutions
BOLI		FRA	Federal Reserve Act		

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BPO	Bank Owned Life Insurance Brokered Price Opinion	FRB	Federal Reserve Bank	Republic / the Company RESPA	Republic Bancorp, Inc. Real Estate Settlement Procedures Act
BSA	Bank Secrecy Act	FTE	Full Time Equivalent	ROA	Return on Average Assets
C&D	Construction and Development	FTP	Funds Transfer Pricing	ROE	Return on Average Equity
C&I	Commercial and Industrial	GAAP	Generally Accepted Accounting Principles in the United States	RPG	Republic Processing Group
CARD Act	Credit Card Accountability Responsibility and Disclosure Act of 2009	GLBA	Gramm-Leach-Bliley Act	RPS	Republic Payment Solutions
CCAD	Commercial Credit Administration Department	HEAL	Home Equity Amortizing Loan	RT	Refund Transfer
CDI	Core Deposit Intangible	HELOC	Home Equity Line of Credit	S&P	Standard and Poor's
CEO	Chief Executive Officer	HMDA	Home Mortgage Disclosure Act	SAC	Special Asset Committee
CFO	Chief Financial Officer	HTM	Held to Maturity	SBA	Small Business Administration
CFPB	Consumer Financial Protection Bureau	IRS	Internal Revenue Service	SEC	Securities and Exchange Commission
CFTC	Commodity Futures Trading Commission	ITM	Interactive Teller Machine	SERP	Supplemental Executive Retirement Plan
CMO	Collateralized Mortgage Obligation	KDFI	Kentucky Department of Financial Institutions	SSUAR	Securities Sold Under Agreements to Repurchase
Core Bank	The Traditional Banking, Warehouse Lending, and Mortgage Banking reportable segments	LIBOR	London Interbank Offered Rate	SVP	Senior Vice President
CRA	Community Reinvestment Act	LPO	Loan Production Office	TCJA	2017 Tax Cuts and Jobs Act
CRE	Commercial Real Estate	LTV	Loan to Value	TDR	Troubled Debt Restructuring
DIF	Deposit Insurance Fund	MBS	Mortgage Backed Securities	The Captive	Republic Insurance Services, Inc.
Diluted EPS		MPP		TILA	

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	Diluted earnings per Class A Common Share		Mortgage Purchase Program		Truth in Lending Act
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act	MSRs	Mortgage Servicing Rights	TPS	Trust Preferred Securities
DTA	Deferred Tax Assets	NASDAQ	NASDAQ Global Select Market®	TRS	Tax Refund Solutions
DTL	Deferred Tax Liabilities	NA	Not Applicable	TRUP	TPS Investment
EA	Easy Advance	NM	Not Meaningful	USDA	U.S. Department of Agriculture
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization	OCI	Other Comprehensive Income	VA	U.S. Department of Veterans Affairs
EFTA	Electronic Fund Transfers Act	OFAC	Office of Foreign Assets Control	Warehouse	Warehouse Lending
ESPP	Employee Stock Purchase Plan				

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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. The term the “Bank” refers to the Company’s subsidiary bank: Republic Bank & Trust Company. The term the “Captive” refers to the Company’s insurance subsidiary: Republic Insurance Services, 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 TCJA;

- the magnitude and frequency of changes to the FFTR implemented by the FOMC of the 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;
- the Company's ability to qualify for future R&D federal tax credits;

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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 SEC, including Part 1 Item 1A "Risk Factors."

PART I

Item 1. Business.

Republic is a financial holding company headquartered in Louisville, Kentucky. Republic is the parent company of the Bank and 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.

RBCT is a Delaware statutory business trust that is a 100%-owned unconsolidated finance subsidiary of Republic.

As of December 31, 2018, Republic had 45 full-service banking centers and one LPO with locations as follows:

Kentucky — 32

Metropolitan Louisville — 18

Central Kentucky — 9

Elizabethtown — 1

Frankfort — 1

Georgetown — 1

Lexington — 5

Shelbyville — 1

Western Kentucky — 2

Owensboro — 2

Northern Kentucky — 3

Covington — 1

Crestview Hills — 1

Florence — 1

Southern Indiana — 3

Floyds Knobs — 1

Jeffersonville — 1

New Albany — 1

Metropolitan Tampa, Florida — 7

Metropolitan Cincinnati, Ohio — 1

Metropolitan Nashville, Tennessee — 3*

*Includes one LPO

Republic's headquarters are 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, 2018, Republic had total assets of \$5.2 billion, total deposits of \$3.5 billion, and total stockholders' equity of \$690 million. Based on total assets as of December 31, 2018, 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.

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, 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. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

General Business Overview

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

(I) Traditional Banking segment

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

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 HEALs and HELOCs through its retail banking centers. Such loans are generally collateralized by owner occupied property. During 2018, the Bank changed the marketing of its HELOCs, still utilizing a promotional rate product, but charging a nominal level of closing costs. Under the terms of the promotional product during 2018, clients received a fixed interest rate for 12 months at the prevailing Prime Rate minus 0.25% (at time of application). At the expiration of the promotional rate period, rates are adjusted to an index based on Prime. In the fourth quarter of 2018, the Bank reverted to a no closing costs promotion as a result of decreased volume throughout the first half of the year, coupled with an increased interest rate environment.

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, ARMs 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

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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 an 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 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. Effective January 10, 2014, with the implementation of the ATR Rule, the Bank eliminated early termination penalties 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. MSR's attached to the sold portfolio are either sold along with the loan or retained. Loans sold into the secondary market, along with their corresponding MSR's, 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 made to low-to-moderate income borrowers and/or secured by property located in low-to-moderate income areas in order to meet its obligations under the CRA. 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, Commercial Lending, Business Banking, and Retail Banking channels.

In general, commercial lending credit approvals and processing are prepared and underwritten through the Bank's 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 C&I lending and CRE lending, specifically owner occupied. The targeted C&I credit size for client relationships is typically between \$2 million to \$10 million, with higher targets, \$10 million to \$25 million for large Corporate Banking borrowers of higher credit quality.

C&I loans typically include those secured by general business assets, 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 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 \$10 million to \$25 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 LIBOR; however, this is expected to change in the coming years when LIBOR is discontinued. 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.

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Commercial Lending focuses on medium size C&I and CRE opportunities. Borrowers are generally single-asset entities and loan sizes typically range from \$5 million to \$10 million. As with Corporate Banking, the primary underwriting considerations are property cash flow (current and historical), quality of leases, financial capacity of sponsors, and collateral value of property financed. Interest rates offered are based on both fixed and variable interest rate formulas.

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.

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, and borrowings between \$2 million and \$5 million. The needs of these clients range from expansion or acquisition financing, equipment financing, owner-occupied real estate financing, and operating lines of credit. The Bank's lenders utilize all appropriate programs of the SBA to reduce credit risk exposure. In 2018, the Bank became an SBA Preferred Lending Partner, which allows the Bank to underwrite and approve its own SBA loans in an expedited manner. 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 — To a lesser extent, 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.

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 owners occupied and non-owner occupied CRE properties.

Consumer Direct Lending — Through its Consumer Direct Lending channel, formerly named its Internet Lending channel, the Bank accepts online loan applications for its RB&T branded products through its website at www.republicbank.com. Historically, the majority of loans originated through its Consumer Direct Lending channel have been within the Bank's traditional markets of Kentucky, Florida and Indiana. Other states where loans are marketed include Alabama, Arizona, California, Colorado, Georgia, Illinois, Michigan, Minnesota, Missouri, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Utah, Washington, Wisconsin, and Virginia, as well as, the District of Columbia.

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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 Banking consumer loans made by the Bank include home improvement and home equity loans, other secured and unsecured personal loans, and credit cards. Except for home equity loans, which are actively marketed in conjunction with single family, first lien residential real estate loans, other Traditional Banking consumer loan products (not including products offered through Republic Processing Group), while available, are not and have not been actively promoted in the Bank’s markets.

Dealer Services — The Bank offers dealer-floor-plan loans and consumer-indirect automobile loans through its Dealer Services Department. Dealer-floor-plan loans are commercial lines of credit to automobile dealers secured by the dealer’s current inventory of vehicles, typically in or around 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.

Aircraft Lending — Also included in the Bank’s Dealer Services Department is the Aircraft Lending Division. First offered by the Bank in October 2017, aircraft loans typically range in amounts from \$55,000 to \$1,000,000, with terms up to 20 years, to purchase or refinance a piston aircraft (non-jet aircraft), 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 4 “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 interest-bearing 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 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.

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.

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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

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

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 FHLMC and the FNMA. 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 MSRs to be recorded when the loans are initially sold with servicing retained by the Bank. The carrying value of MSRs 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 MSRs 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 MSRs 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 would be expected to increase, as prepayment speeds on the underlying loans would be expected 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.”

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(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.

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

The EA tax credit product is a loan that allows a taxpayer to borrow funds as an advance of a portion of their tax refund. First offered by TRS in 2016, the EA had the following features during its 2018, 2017, and 2016 offering periods:

Offered only during the first two months of each year;

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

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

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.

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 ensure 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. For the first quarter 2019 tax season, the Company modified the EA product offering to increase the maximum advance amount and to also charge a direct fee to the taxpayer-customer. The annual percentage rate to the taxpayer for his or her portion of the EA fee is less than 36% for all EA offering amounts.

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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 4 “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, as the majority of the cards issued are through TRS relationships, 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”

(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 and are dependent on various factors including the consumer’s ability to repay. RCS loans typically earn a higher yield but also have higher credit risk compared to loans originated through the Traditional Banking segment, with a significant portion of RCS clients considered subprime or near-prime borrowers. Additional information regarding consumer loan products offered through RCS follows:

- RCS line-of-credit product – The Bank originates a line-of-credit product to generally subprime borrowers across the United States through Elevate Credit, Inc., its third-party servicer provider. RCS sells 90% of the balances generated

within two business days of loan origination to a special purpose entity related to Elevate Credit, Inc. and retains the remaining 10% interest. The line-of-credit product represents the substantial majority of RCS activity. Loan balances held for sale are carried at the lower of cost or fair value.

- RCS credit-card product – From the fourth quarter of 2015 through the first quarter of 2018, the Bank piloted a credit-card product to generally subprime borrowers across the United States through one third-party marketer/servicer. For outstanding cards, RCS sold 90% of the balances generated within two business days of each transaction occurrence to a special purpose entity related to its third-party marketer/servicer and retained the remaining 10% interest. During the fourth quarter of 2018, the Bank and its third-party marketer/servicer finalized an agreement to sell 100% of the existing portfolio to an unrelated third party. The sale of the RCS credit-card portfolio receivables was settled in January 2019.
- RCS healthcare receivables product – The Bank originates a healthcare-receivables product across the United States through two different third-party service providers. For one third-party service provider, the Bank retains 100% of the receivables originated. For the other third-party service provider, the Bank retains 100% of the receivables originated in some instances, and in other instances, sells 100% of the receivables within one month of origination. Loan balances held for sale are carried at the lower of cost or fair value.

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

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

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, 2018, Republic had 1,051 FTE employees. Altogether, Republic had 1,038 full-time and 26 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 it has had and continues to have good employee relations.

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 and in other states where the Bank offers its products. 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 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 Consumer Direct 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 promotes these products to Tax Providers using various revenue-share and pricing incentives, as well as product features and overall service levels.

Republic Payment Solutions

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 general-purpose-reloadable, 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.

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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 separate and distinct entities and 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 limited under the BHCA to banking, managing or controlling banks, and other activities that the FRB has determined to be closely related to banking. The Company, a BHC, elected to become an FHC under the GLBA, allowing it to engage in a broader range of activities that are (i) financial in nature or incidental to financial activities or (ii) complementary to a financial activity and do not pose a substantial risk to the safety and soundness of depository institutions or the financial system in general. The FRB conducts periodic examinations to review the Company’s safety and soundness, and compliance with various legal and safety and soundness requirements. As an umbrella supervisor under the GLBA's system of functional regulation, the FRB requires that FHCs operate in a safe and sound manner so that their financial condition does not threaten the viability of affiliated depository institutions.

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 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's regulation of the Company with monetary policies and operational rules directly impact the Bank. The Bank is a member of the FHLB System. As a member of the FHLB system, the Bank must also comply with applicable regulations of the Federal Housing Finance Agency. Regulation by each of these agencies is intended primarily for the protection of the Bank's depositors and the DIF and not for the benefit of the Company's stockholders. The Bank's activities are also regulated under federal and state consumer protection laws applicable to the Bank's lending, deposit, and other activities. An adverse ruling or finding against the Company or the Bank under these laws could have a material adverse effect on results of operations.

The Company and the Bank are also subject to the regulations of the CFPB, which was established under the Dodd-Frank Act. The CFPB has consolidated rules and orders with respect to consumer financial products and services and has substantial power to define the rights of consumers and responsibilities of lending institutions, such as the Bank. The CFPB does not, however, examine or supervise the Bank for compliance with such regulations; rather, based on the Bank's size (less than \$10 billion in assets), enforcement authority remains with the FDIC although the Bank may be required to submit reports or other materials to the CFPB upon its request. Notwithstanding jurisdictional limitations set forth in the Dodd-Frank Act, the CFPB and federal banking regulators may endeavor to work jointly in investigating and resolving cases as they arise.

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 also 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.

The Dodd-Frank Act

The Dodd-Frank Act, among other things, implemented changes that affected the oversight and supervision of financial institutions, provided for a new resolution procedure for large financial companies, created the CFPB, introduced more stringent regulatory capital requirements and significant changes in the regulation of OTC derivatives, reformed the regulation of credit rating agencies, increased controls and transparency in corporate governance and executive compensation practices, incorporated the Volcker Rule, required registration of advisers to certain private funds, and influenced significant changes in the securitization market.

The Dodd-Frank Act included provisions which restrict interchange fees to those which are “reasonable and proportionate” for certain debit card issuers and limits the ability of networks and issuers to restrict debit card transaction routing (known as the “Durbin Amendment”). The Federal Reserve issued final rules implementing the Durbin Amendment on June 29, 2011. Notably, the interchange fee restrictions in the Durbin Amendment do not apply to the Bank because debit card issuers with total worldwide assets of less than \$10 billion are exempt.

Incentive Compensation — In 2010, the FRB and other regulators jointly published final guidance for structuring incentive compensation arrangements at financial organizations. The guidance does not set forth any formulas or pay caps but contains certain principles that companies are required to follow with respect to employees and groups of employees that may expose the company to material amounts of risk. The three primary principles are (i) balanced risk-taking incentives, (ii) compatibility with effective controls and risk management, and (iii) strong corporate governance. The FRB monitors compliance with this guidance as part of its safety and soundness oversight.

In 2016, the FRB, SEC, and other regulators jointly published proposed rules on incentive compensation under Section 956 of the Dodd-Frank Act. The proposed rules are intended to (i) prohibit incentive-based payment arrangements that the banking regulators determine could encourage certain financial institutions to take inappropriate

risks by providing excessive compensation or that could lead to material financial loss, (ii) require the board of directors of those financial institutions to take certain oversight actions related to incentive-based compensation, and (iii) require those financial institutions to disclose information concerning incentive-based compensation arrangements to the appropriate federal regulator. The Company and the Bank would be Level 3 covered institutions under the proposed rules because both have average total consolidated assets between \$1 billion and \$50 billion. As a Level 3 covered institution, the Company and the Bank would only be subject to the most basic set of prohibitions and requirements, which prohibit “excessive compensation, fees, or benefits” or any compensation agreement that “could lead to material financial loss.”

The proposed rules would also require that the Company’s board of directors, or a committee thereof, conduct oversight of its incentive-based compensation program and approve incentive-based compensation arrangements for senior executive officers. Additionally, the Company and the Bank would be required to create and maintain records that document the structure of all the incentive-based compensation arrangements, demonstrate compliance with the final rules, and disclose those records to the appropriate Federal regulator upon request. In July 2017, the SEC released its rulemaking agenda and did not include the rules under Section 956 of the Dodd-Frank Act. As a result, it is not certain when the final rules may be issued.

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 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

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that do not hedge a specific identified risk. Affected institutions were required to fully conform to the Volcker Rule by July 21, 2015. As of the date of this filing, the Bank has been and is in compliance with the Volcker Rule.

I. The Company

Source of Strength Doctrine — Under FRB policy, a BHC 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 BHC 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 BHC's bankruptcy, any commitment by the BHC 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. FRB policies and regulations also prohibit bank holding companies from engaging in unsafe and unsound banking practices. The FDIC and the KDFI have similar restrictions with respect to the Bank.

Acquisitions — The Company is required to obtain the prior approval of the FRB under the 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 BHC, 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 BHC 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 BHC 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 before any person or company acquiring control of a state bank or BHC. 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 of 1934; 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 — As an FHC, the Company is permitted to engage directly or indirectly in a broader range of activities than those permitted for a BHC under the BHCA. Permitted activities for an FHC include securities underwriting and dealing, insurance underwriting and brokerage, merchant banking and other activities that are declared by the FRB, in cooperation with the Treasury Department, to be “financial in nature or incidental thereto” or are declared by the FRB unilaterally to be “complementary” to financial activities. In addition, an FHC is allowed to conduct permissible new financial activities or acquire permissible non-bank financial companies with after-the-fact notice to the FRB. A BHC may elect to become an FHC if each of its banking subsidiaries is well capitalized, is well managed and has at least a “Satisfactory” rating under the CRA. The Dodd-Frank Act also extended the well capitalized and well managed requirement to the BHC. To maintain FHC status, the Company must continue to meet certain

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requirements. The failure to meet such requirements could result in material restrictions on the activities of the Company and may also adversely affect the Company's ability to enter into certain transactions (including mergers and acquisitions) or obtain necessary approvals in connection therewith, as well as loss of FHC status. If restrictions are imposed on the activities of an FHC, such information may not necessarily be available to the public.

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.

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 association operating in any other state, a federal savings bank or a federal thrift meeting the qualified thrift lender test engages, provided it first obtains a legal opinion from counsel specifying the statutory or regulatory provisions that permit the activity.

Safety and Soundness – The federal banking regulatory agencies have prescribed, by regulation, guidelines for all insured depository institutions relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; (v) asset growth; (vi) asset quality; (vii) earnings; and (viii) compensation, fees and benefits. The guidelines set forth safety and soundness standards that the federal banking regulatory agencies use to identify and address problems at FDIC member institutions before capital becomes impaired. If the FDIC determines that the Bank fails to meet any standard prescribed by the guidelines, the FDIC may require the Bank to submit to it an acceptable plan to achieve compliance with the standard. FDIC regulations establish deadlines for the submission and review of such safety and soundness compliance plans in response to any such determination. We are not aware of any conditions relating to these safety and soundness standards that would require us to submit a plan of compliance to the FDIC.

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 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

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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 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 Financial Corporation, a mixed-ownership government corporation established to recapitalize the predecessor to the DIF. These assessments will continue until the last Financial Corporation 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.

Effective July 1, 2016, the FDIC revised the deposit insurance premium assessment method for banks with less than \$10 billion in assets that have been insured by the FDIC for at least five years. This revision changed the assessment method to the financial ratios method, which is based on a statistical model estimating the probability of failure of a bank over three years. The FDIC also updated the financial measures used in the financial ratios method consistent with the statistical model, eliminated risk categories for established small banks, and used the financial ratios method to determine assessment rates for all such banks (subject to minimum or maximum initial assessment rates based upon a bank's composite examination rating). The initial base assessment rates for all insured institutions were reduced from 5 to 35 basis points to 3 to 30 basis points. Total base assessment rates after possible adjustments were reduced from 2.5 to 45 basis points to 1.5 to 40 basis points. Management cannot predict what insurance assessment rates will be in the future.

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.

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Anti-Money Laundering, Patriot ACT; OFAC Sanctions – AML measures and economic sanctions have long been a matter of regulatory focus in the U.S. The Currency and Foreign Transactions Reporting Act of 1970, commonly referred to as the "Bank Secrecy Act" or "BSA," requires U.S. financial institutions to assist U.S. government agencies to detect and prevent money laundering by imposing various reporting and recordkeeping requirements on financial institutions. Passage of the Patriot Act renewed and expanded this focus, extending greatly the breadth and depth of AML measures required under the BSA. The Patriot Act requires all financial institutions to establish certain anti-money laundering compliance and due diligence programs, including enhanced due diligence policies, procedures, and controls for certain types of relationships deemed to pose heightened risks. In cooperation with federal banking regulatory agencies, the Financial Crimes Enforcement Network is responsible for implementing, administering, and enforcing BSA compliance.

Failure to comply with these laws or maintain an adequate compliance program can lead to significant monetary penalties and reputational damage. Federal regulators evaluate the effectiveness of an applicant in combating money laundering when determining whether to approve a proposed bank merger, acquisition, restructuring, or other expansionary activity. There have been a number of significant enforcement actions by regulators, as well as state attorneys general and the Department of Justice, against banks, broker-dealers and non-bank financial institutions with respect to these laws and some have resulted in substantial penalties, including criminal pleas.

Consumer Laws and Regulations — The Dodd-Frank Act established the CFPB in order to regulate any person who offers or provides personal, family or household financial products or services. The CFPB is an independent “watchdog” within the Federal Reserve System to enforce and create “Federal consumer financial laws.” Banks as well as nonbanks are subject to any rule, regulation or guideline created by the CFPB. Congress established the CFPB to create one agency in charge of protecting consumers by overseeing the application and implementation of “Federal consumer financial laws,” which includes (i) rules, orders and guidelines of the CFPB, (ii) all consumer financial protection functions, powers and duties transferred from other federal agencies, such as the Federal Reserve, the OCC, the FDIC, the Federal Trade Commission, and the Department of Housing and Urban Development, and (iii) a long list of consumer financial protection laws enumerated in the Dodd-Frank Act. The Bank is subject to a number of federal and state consumer protection laws, including, but not limited to, the Controlling the Assault of Non-Solicited Pornography and Marketing Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Military Lending Act, the Real Estate Settlement Procedures Act, the Servicemembers Civil Relief Act, the Telephone Consumer Protection Act, and these laws’ respective state-law counterparts, among many others. Moreover, as discussed in more detail below, we further comply with fair lending and privacy laws.

The CFPB is authorized to prescribe rules applicable to any covered person or service provider identifying and prohibiting acts or practices that are unfair, deceptive or abusive in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The authority to prohibit “abusive” acts or practices was newly added to federal law with the passage of the Dodd-Frank Act. The CFPB has engaged in rulemaking and taken enforcement actions that directly impact the business operations of financial institutions offering consumer financial products or services including the Bank and its divisions, and is expected to adopt a regulation related to the definition of “abusive” acts or practices in the near future. Depository institutions with \$10 billion or less in assets, such as the Bank, will continue to be examined for compliance with the consumer protection laws and regulations by their primary bank regulators (the FDIC for the Bank), rather than the

CFPB. The FDIC also regulates what it considers unfair and deceptive practices under Section 5 of the Federal Trade Commission Act.

Such laws and regulations and the other consumer protection laws and regulations to which the Bank has been subject have historically mandated certain disclosure requirements and regulated the manner in which financial institutions must deal with customers when taking deposits from, making loans to, or engaging in other types of transactions with, such customers. The continued effect of the CFPB on the development and promulgation of consumer protection rules and guidelines and the enforcement of federal “consumer financial laws” on the Bank, if any, cannot be determined with certainty at this time.

Community Reinvestment Act and the Fair Lending Laws – Banks have a responsibility under the CRA and related regulations of the FDIC to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. An institution’s failure to comply with the provisions of the CRA could, at a minimum, result in regulatory restrictions on its activities and the denial of applications. In addition, an institution’s failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in the FDIC, other federal regulatory agencies or the Department of Justice, taking enforcement actions against the institution. Failure by the Bank to fully comply with these laws could result in

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material penalties being assessed against the Bank. In May 2018, 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.

Privacy and Data Security – The FRB, FDIC, and other bank regulatory agencies have adopted guidelines (the “Guidelines) for safeguarding confidential, personal customer information. The Guidelines require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazards to the security or integrity of such information and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. If the Bank fails to properly safeguard customer information or is the subject of a successful cyber-attack, it could result in material fines and/or liabilities that would materially affect the Company’s results of operations.

In addition, various U.S. regulators, including the Federal Reserve and the SEC, have increased their focus on cyber-security through guidance, examinations and regulations. The Company has adopted a customer information security program that has been approved by the Company’s Board of Directors.

The GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to non-affiliated third parties. In general, the statute requires explanations to consumers on policies and procedures regarding the disclosure of such nonpublic personal information, and, except as otherwise required by law, prohibits disclosing such information except as provided in the banking subsidiary’s policies and procedures. In addition to the GLBA, the Company and the Bank are also subject to state and international privacy laws.

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.

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 BHC, 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 BHC, or for any assistance provided by the FDIC to another FDIC-insured depository institution controlled by the same BHC 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 Agency. 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 MPP. The Bank has never sold loans to the MPP.

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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.

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.

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.

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: (a) 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 (b) 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 used 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.

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Banking regulators have categorized the Bank as well-capitalized. For purposes of prompt corrective action, “well capitalized” banks must have a minimum 6.5% Common Equity Tier 1 Risk-Based Capital ratio, 8.0% Tier 1 Risk-Based Capital ratio, 10.0% Total Risk-Based Capital ratio and 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 phased in from 2016 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.

As of December 31, 2018 and 2017, the Company’s capital ratios were as follows:

December 31, (dollars in thousands)	2018		2017	
	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets				
Republic Bancorp, Inc.	\$ 757,726	16.80 %	\$ 694,369	16.04 %
Republic Bank & Trust Company	654,258	14.52	591,592	13.69
Common equity tier 1 capital to risk-weighted assets				
Republic Bancorp, Inc.	\$ 673,051	14.92 %	\$ 612,315	14.15 %
Republic Bank & Trust Company	609,583	13.53	548,823	12.70
Tier 1 (core) capital to risk-weighted assets				
Republic Bancorp, Inc.	\$ 713,051	15.81 %	\$ 651,600	15.06 %
Republic Bank & Trust Company	609,583	13.53	548,823	12.70
Tier 1 leverage capital to average assets				
Republic Bancorp, Inc.	\$ 713,051	14.11 %	\$ 651,600	13.21 %
Republic Bank & Trust Company	609,583	12.06	548,823	11.15

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 BHC 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

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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 an FHC, such as the Company, 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 an 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 an 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 BHCA without prior FRB approval. Unless the period for compliance is extended by the FRB, if an 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 BHC that has not elected to be treated as an FHC. The Company is currently classified as an FHC.

Under 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 Regulation and Legislative Initiatives

Any change in the regulations affecting the Bank's operations is not predictable and could affect the Bank's operations and profitability. The U.S. Congress and state legislative bodies also 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."

Item 1A. Risk Factors.

FACTORS THAT MAY AFFECT FUTURE RESULTS

An investment in Republic's 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

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“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.

The Bank may experience goodwill impairment, which could reduce its earnings. The Bank performed its annual goodwill impairment test during the fourth quarter of 2018 as of September 30, 2018. 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 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 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.

TRADITIONAL BANK LENDING AND THE 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. If the Bank relies on incomplete and/or inaccurate information, the Bank may incur additional charge-offs that adversely affect its 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

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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.

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 FHLMC and the FNMA. 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, 2018, the Bank's Correspondent Lending channel maintained loans with collateral in 25 different states, with the largest concentration of 74% 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 Consumer Direct 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 Consumer Direct 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,

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failure to appropriately identify the end-borrower could result in regulatory sanctions resulting from failure to comply with various customer identification regulations.

BANK OWNED LIFE INSURANCE

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, 2018, 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 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

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 number of clients may materially impact the Company's results of operations.

REPUBLIC PROCESSING GROUP

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: TRS and 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

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, including the cyber 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 revenue without a corresponding decrease in expenses.

The Bank's EA and 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 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 IRS revenue protection strategies, including audits of returns, errors in the tax return, tax return fraud and tax debts not previously disclosed to

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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 ensure 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 Protecting Americans from Tax Hikes Act of 2015, 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

Consumer loans originated through the RCS segment represent a higher credit risk than Traditional Bank loans. RCS originates a short-term line-of-credit product, sells 90% of the balances maintained through this product within two days of balance origination and retains a 10% interest. This product is unsecured and made to borrowers with below prime credit scores, therefore representing an elevated credit risk. The loss rates for this product has 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, 2018, RCS's revenues and earnings were concentrated in one line-of-credit product. Through the Bank, RCS works with Elevate Credit, Inc. 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 laws relating to the permissibility of interest rates and fees charged could have a material negative impact on the Company's earnings.

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.

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A pause in the FOMC's increases to short-term interest rates may lead to reduced profitability. The FOMC of the FRB has periodically increased short-term interest rates since 2015. These increases have been generally positive for the Bank's net interest margin and overall profitability, as the Bank has been able to reprice its interest-earning assets higher and at a faster pace than it has repriced its interest-bearing deposits. This lag effect occurs because many banks have deposit accounts whose rates are decision-based and not tied to a specific market-based index, while most interest earning assets are tied to a specific market-based index. If the FOMC does not continue to increase short-term interest rates in the future, but leaves them unchanged, the Bank's net interest margin and profitability may be negatively impacted because the yield on the Bank's interest-earning assets may remain stagnant, while the cost of its interest-bearing deposits continues to rise as competition for deposits forces many banks to decide to raise deposit rates higher for liquidity and/or growth purposes. A rise in the Bank's cost of interest-bearing deposits without a corresponding increase in the yield on its interest-earning assets would have an adverse effect on the Bank's net interest margin and overall results of operations.

A flattening or inversion of the 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 interest-bearing liabilities tend to be shorter in duration than its interest-earning assets, when the yield curve flattens or even inverts, the Bank's net interest margin could decrease as its cost of funds rises higher and at a faster pace than the yield on its interest-earning assets. A rise in the Bank's cost of interest-bearing liabilities without a corresponding increase in the yield on its interest-earning assets, would have an adverse effect on the Bank's net interest margin and overall results of operations.

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;

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- 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;
- 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

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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.

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 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.

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.

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

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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 directly against the Company, or against the Company's clients or vendors 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, the Bank's clients, 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.

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 riskier 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 and compete effectively in its market footprint. The Company has announced plans to pursue a policy of growth through acquisitions 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

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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.

REPUBLIC INSURANCE SERVICES, INC.

Transactions between the Company and its insurance subsidiary, 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, 2018, Republic had 32 banking centers located in Kentucky, seven 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.

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
Lexington		
3098 Helmsdale Place	5,000	O/L(2)
3608 Walden Drive	4,000	O/L(2)
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
8513 U.S. Highway 42, Florence	4,000	L
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	3,000	L
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
6906 E. Fowler Avenue, Temple Terrace, FL 33617	2,088	L
1300 North West Shore Blvd. Suite 150, Tampa	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 the Company's Chairman and Chief Executive Officer, Steven E. Trager, its Vice Chairman and President, A. Scott Trager, or family members of Steven E. Trager and A. Scott Trager, have a financial interest. 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 20 "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.

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Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

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

Market and Dividend Information

At February 15, 2019, the Company’s Class A Common Stock was held by 605 shareholders of record and the Class B Common Stock was held by 103 shareholders of record. Republic’s Class A Common Stock is traded on the NASDAQ under the symbol “RBCAA.” 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 13 “Stockholders’ Equity and Regulatory Capital Matters.”

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, 2018, the trustee held 222,850 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 2018 are included in the following table:

Total Number of	Average Price	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
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Period	Shares Purchased	Paid Per Share	or Programs	or Programs
October 1 - October 31	—	\$ —	—	
November 1 - November 30	5,695	44.82	5,695	
December 1 - December 31	14,100	40.54	14,100	
Total	19,795	\$ 41.77	19,795	203,901

During 2018, the Company repurchased 19,795 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, 2018, the Company had 203,901 shares which could be repurchased under its current share repurchase programs.

During 2018, there were approximately 30,137 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 S&P 500 Index. The graph covers the period beginning December 31, 2013 and ending December 31, 2018. 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, 2013. The stock price performance shown on the graph below is not necessarily indicative of future stock price performance.

	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018
Republic Class A Common Stock (RBCAA)	\$ 100.00	\$ 103.85	\$ 114.39	\$ 176.44	\$ 173.58	\$ 180.66
NASDAQ Bank Index	100.00	104.92	114.20	157.56	166.16	138.50
S&P 500 Index	100.00	114.27	113.02	130.04	157.22	144.79

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Item 6. Selected Financial Data.

The following table sets forth Republic Bancorp Inc.'s selected financial data from 2014 through 2018. 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,				
	2018	2017	2016	2015	2014
Balance Sheet Data:					
Cash and cash equivalents	\$ 351,474	\$ 299,351	\$ 289,309	\$ 210,082	\$ 72,878
Investment securities	543,771	591,458	534,139	555,785	481,348
Loans held for sale	21,809	16,989	15,170	4,597	6,388
Gross loans	4,148,227	4,014,034	3,810,778	3,326,610	3,040,495
Allowance for loan and lease losses	(44,675)	(42,769)	(32,920)	(27,491)	(24,410)
Goodwill	16,300	16,300	16,300	10,168	10,168
Bank owned life insurance	64,883	63,356	61,794	52,817	51,415
Total assets	5,240,404	5,085,362	4,816,309	4,230,289	3,747,013
Noninterest-bearing deposits	1,003,969	1,022,042	971,952	634,863	502,569
Interest-bearing deposits	2,452,176	2,411,116	2,188,740	1,852,614	1,555,613
Total deposits	3,456,145	3,433,158	3,160,692	2,487,477	2,058,182
Securities sold under agreements to repurchase and other short-term borrowings	182,990	204,021	173,473	395,433	356,108
Federal Home Loan Bank advances	810,000	737,500	802,500	699,500	707,500
Subordinated note	41,240	41,240	41,240	41,240	41,240
Total liabilities	4,550,470	4,452,938	4,211,903	3,653,742	3,188,282
Total stockholders' equity	689,934	632,424	604,406	576,547	558,731
Average Balance Sheet Data:					
Federal funds sold and other interest-earning deposits	\$ 255,708	\$ 188,427	\$ 130,889	\$ 68,847	\$ 118,803
Investment securities, including FHLB stock	542,258	574,027	572,599	546,655	525,748
Gross loans, including loans held for sale	4,094,918	3,831,406	3,568,383	3,174,234	2,738,304
Allowance	(47,774)	(39,202)	(29,880)	(25,570)	(23,067)
Total assets	5,130,628	4,826,208	4,485,829	3,982,840	3,559,617
Noninterest-bearing deposits	1,147,432	1,073,181	894,049	651,275	553,929

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Interest-bearing deposits	2,445,385	2,267,663	2,058,592	1,714,214	1,510,201
Total interest-bearing liabilities	3,268,860	3,091,970	2,964,981	2,734,561	2,432,153
Total stockholders' equity	666,979	628,329	597,463	574,766	557,378

Income Statement Data - Total Company:

Total interest income	\$ 256,181	\$ 218,778	\$ 173,992	\$ 142,432	\$ 132,377
Total interest expense	30,123	20,258	17,938	18,462	19,604
Net interest income	226,058	198,520	156,054	123,970	112,773
Provision for loan and lease losses	31,368	27,704	14,493	5,396	2,859
Total noninterest income	63,425	58,414	57,509	47,994	42,519
Total noninterest expense	163,852	150,844	130,107	113,324	108,118
Income before income tax expense	94,263	78,386	68,963	53,244	44,315
Income tax expense	16,411	32,754	23,060	18,078	15,528
Net income	77,852	45,632	45,903	35,166	28,787

Income Statement Data - Core Bank(1):

Total interest income	\$ 203,764	\$ 179,986	\$ 156,252	\$ 139,155	\$ 132,014
Total interest expense	27,238	19,284	17,831	18,424	19,571
Net interest income	176,526	160,702	138,421	120,731	112,443
Provision for loan and lease losses	3,568	3,773	3,945	3,065	3,392
Total noninterest income	35,380	32,410	33,350	28,441	24,607
Total noninterest expense	144,162	132,794	116,190	101,184	96,451
Income before income tax expense	64,176	56,545	51,636	44,923	37,207
Income tax expense	9,986	23,097	16,777	15,066	12,875
Net income	54,190	33,448	34,859	29,857	24,332

(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,			
	2018	2017	2016	2015
Per Share Data:				
Basic weighted average shares outstanding	20,960	20,921	20,942	20,861
Diluted weighted average shares outstanding	21,065	21,007	20,954	20,942
Period-end shares outstanding:				
Class A Common Stock	18,675	18,607	18,615	18,652
Class B Common Stock	2,213	2,243	2,245	2,245
Basic earnings per share:				
Class A Common Stock	\$ 3.76	\$ 2.21	\$ 2.22	\$ 1.70
Class B Common Stock	3.41	2.01	2.02	1.55
Diluted earnings per share:				
Class A Common Stock	\$ 3.74	\$ 2.20	\$ 2.22	\$ 1.70
Class B Common Stock	3.40	2.00	2.01	1.54
Cash dividends declared per share:				
Class A Common Stock	\$ 0.968	\$ 0.869	\$ 0.825	\$ 0.781
Class B Common Stock	0.880	0.790	0.750	0.710
Market value per share at December 31,	\$ 38.72	\$ 38.02	\$ 39.54	\$ 26.41
Book value per share at December 31,(2)	33.03	30.33	28.97	27.59
Tangible book value per share at December 31,(2)	31.98	29.27	27.89	26.87
Performance Ratios:				
Return on average assets	1.52	0.95	1.02	0.88
Return on average equity	11.67	7.26	7.68	6.12
Efficiency ratio(3)	57	59	61	66
Yield on average interest-earning assets	5.24	4.76	4.07	3.76
Cost of average interest-bearing liabilities	0.92	0.66	0.60	0.68
Cost of average deposits(4)	0.47	0.29	0.21	0.19
Net interest spread	4.32	4.10	3.47	3.08
Net interest margin - Total Company	4.62	4.32	3.65	3.27
Net interest margin - Core Bank	3.70	3.55	3.30	3.24
Capital Ratios - Total Company:				
Average stockholders' equity to average total assets	13.00	13.02	13.32	14.43
Total risk-based capital	16.80	16.04	16.37	20.58
Common equity tier 1 capital	14.92	14.15	14.59	18.39
Tier 1 risk-based capital	15.81	15.06	15.55	19.69
Tier 1 leverage capital	14.11	13.21	13.54	14.82
Dividend payout ratio	26	39	37	46

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Dividend yield	2.50	2.29	2.09	2.96
Other Information:				
Period-end FTEs(5) - Total Company	1,051	997	938	785
Period-end FTEs - Core Bank	968	915	869	726
Number of banking centers	45	45	44	40

(continued)

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Item 6. Selected Financial Data. (continued)

(dollars in thousands)	As of and for the Years Ended December 31,									
	2018	2017	2016	2015	2014					
Credit Quality Data and Ratios:										
Credit Quality Asset Balances:										
Nonperforming Assets - Total Company:										
Loans on nonaccrual status	\$ 15,993	\$ 14,118	\$ 15,892	\$ 21,712	\$ 23,337					
Loans past due 90-days-or-more and still on accrual	145	956	167	224	322					
Total nonperforming loans	16,138	15,074	16,059	21,936	23,659					
Other real estate owned	160	115	1,391	1,220	11,243					
Total nonperforming assets	\$ 16,298	\$ 15,189	\$ 17,450	\$ 23,156	\$ 34,902					
Nonperforming Assets - Core Bank(1):										
Loans on nonaccrual status	\$ 15,993	\$ 14,118	\$ 15,892	\$ 21,712	\$ 23,337					
Loans past due 90-days-or-more and still on accrual	13	19	85	224	322					
Total nonperforming loans	16,006	14,137	15,977	21,936	23,659					
Other real estate owned	160	115	1,391	1,220	11,243					
Total nonperforming assets	\$ 16,166	\$ 14,252	\$ 17,368	\$ 23,156	\$ 34,902					
Delinquent loans:										
Delinquent loans - Core Bank	\$ 8,875	\$ 8,460	\$ 6,821	\$ 11,485	\$ 15,710					
Delinquent loans - RPG(6)	7,087	5,641	2,137	246	141					
Total delinquent loans - Total Company	\$ 15,962	\$ 14,101	\$ 8,958	\$ 11,731	\$ 15,851					
Credit Quality Ratios - Total Company:										
Nonperforming loans to total loans	0.39	%	0.38	%	0.42	%	0.66	%	0.78	%
Nonperforming assets to total loans (including OREO)	0.39		0.38		0.46		0.70		1.14	
Nonperforming assets to total assets	0.31		0.30		0.36		0.55		0.93	
Allowance to total loans	1.08		1.07		0.86		0.83		0.80	
Allowance to nonperforming loans	277		284		205		125		103	
Delinquent loans to total loans(7)	0.38		0.35		0.24		0.35		0.52	
Net loan charge-offs to average loans	0.72		0.47		0.25		0.07		0.05	
Credit Quality Ratios - Core Bank:										
Nonperforming loans to total loans	0.40	%	0.36	%	0.42	%	0.66	%	0.78	%

Nonperforming assets to total loans (including OREO)	0.40	0.36	0.46	0.70	1.15
Nonperforming assets to total assets	0.32	0.28	0.36	0.55	0.93
Allowance to total loans	0.78	0.77	0.74	0.78	0.80
Allowance to nonperforming loans	197	213	175	118	103
Delinquent loans to total loans	0.22	0.21	0.18	0.35	0.52
Net charge-offs to average loans	0.06	0.04	0.05	0.05	0.08

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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 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)	2018	2017	2016	2015	2014
Total stockholders' equity - GAAP					
(a)	\$ 689,934	\$ 632,424	\$ 604,406	\$ 576,547	\$ 558,731
Less: Goodwill	16,300	16,300	16,300	10,168	10,168
Less: Mortgage servicing rights	4,919	5,044	5,180	4,912	4,813
Less: Core deposit intangible	654	858	1,070	—	—
Tangible stockholders' equity - Non-GAAP (c)	\$ 668,061	\$ 610,222	\$ 581,856	\$ 561,467	\$ 543,750
Total assets - GAAP (b)	\$ 5,240,404	\$ 5,085,362	\$ 4,816,309	\$ 4,230,289	\$ 3,747,013
Less: Goodwill	16,300	16,300	16,300	10,168	10,168
Less: Mortgage servicing rights	4,919	5,044	5,180	4,912	4,813
Less: Core deposit intangible	654	858	1,070	—	—
Tangible assets - Non-GAAP (d)	\$ 5,218,531	\$ 5,063,160	\$ 4,793,759	\$ 4,215,209	\$ 3,732,032
Total stockholders' equity to total assets - GAAP (a/b)	13.17	% 12.44	% 12.55	% 13.63	% 14.91
Tangible stockholders' equity to tangible assets - Non-GAAP (c/d)	12.80	% 12.05	% 12.14	% 13.32	% 14.57
Number of shares outstanding (e)	20,888	20,850	20,860	20,897	20,848
Book value per share - GAAP (a/e)	\$ 33.03	\$ 30.33	\$ 28.97	\$ 27.59	\$ 26.80
Tangible book value per share - Non-GAAP (c/e)	31.98	29.27	27.89	26.87	26.08

(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) RPG operations consist of the TRS and RCS 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 (the “Parent Company”) and its wholly-owned subsidiaries, the Bank and 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. The term the “Bank” refers to the Company’s subsidiary bank: Republic Bank & Trust Company. The term the “Captive” refers to the Company’s insurance subsidiary: Republic Insurance Services, Inc. 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 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.

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 TCJA;
 - the magnitude and frequency of changes to the FFTR implemented by the FOMC of the 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;

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- 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;
- the Company's ability to qualify for future R&D federal tax credits;
- 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 SEC, including Part 1 Item 1A "Risk Factors."

Issued but Not Yet Effective Accounting Standards Updates

For disclosure regarding the impact to the Company's financial statements of issued-but-not-yet-effective ASUs, see Footnote 1 "Summary of Significant Accounting Policies" of Part II Item 8 "Financial Statements and Supplementary Data."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Republic's consolidated financial statements and accompanying footnotes have been prepared in accordance with 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 and Provision
- Goodwill and Other Intangible Assets
- Mortgage Servicing Rights
- Income Tax Accounting
- Investment Securities

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

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

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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 TDRs;
- All loans internally rated in a 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 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.

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

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- 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
- Rolling forty 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 consider other significant factors that may be necessary or prudent in order to reflect probable incurred losses in the total loan portfolio.

Management's Evaluation of the Allowance

Management evaluates the Allowance for its more traditional Core Banking operations differently than its non-traditional 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 TRS and 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 7% at December 31, 2018 compared to 6% at December 31, 2017. The Core Bank's five-year annual average for this ratio was 7% as of December 31, 2018. Management believes the Core Bank's net charge-off ratio to beginning Allowance was within a reasonable range at December 31, 2018 and 2017.

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, 2018 and 2017 were 8.4 years and 10.0 years compared to the five-year annual average of 7.2 years as of

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December 31, 2018. Management believes the Core Bank's Allowance exhaustion rates were within a reasonable range at December 31, 2018 and 2017.

Based on management's calculation, a Core Bank Allowance of \$32 million, or 0.78% of total loans and leases, was an adequate estimate of probable incurred losses within the loan portfolio as of December 31, 2018 compared to \$30 million, or 0.77%, at December 31, 2017. This estimate resulted in Core Banking Provision of \$3.6 million during 2018 compared to \$3.8 million in 2017. 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, 2018 and 2017 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 36% and 42% of the RCS held-for-investment loan portfolio at December 31, 2018 and 2017. For this product, management conducted an analysis of historical losses and delinquencies by month of loan origination when determining the Allowance through September 30, 2018.

Subsequent to September 30, 2018, management conducted an analysis of its line-of-credit product using a method similar to that employed for pooled loans collectively evaluated, as described above. This change in method of analysis did not have a material impact on the Allowance calculated for RCS's line-of-credit product as of December 31, 2018, September 30, 2018 or December 31, 2017. For RCS's other products, the Allowance is and has been traditionally estimated using a method similar to that employed for pooled loans collectively evaluated, as described above.

RPG maintained an Allowance for two loan products offered through its RCS segment at December 31, 2018, including its line-of-credit product and its healthcare-receivables product. At December 31, 2018, the Allowance to total loans estimated for each RCS product ranged from as low as 0.25% for its healthcare-receivables portfolio to as high as 40% for its line-of-credit portfolio. A lower reserve percentage was provided for RCS's healthcare receivables at December 31, 2018, 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 13%, of total RPG loans was an adequate estimate of probable incurred losses within the RPG portfolio as of December 31, 2018 compared to an Allowance of \$13 million, or 16%, at December 31, 2017.

RPG's TRS segment first offered its 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, 2018 and 2017, as all EAs originated during the first two months of each year had either been paid off or charged-off within 111 days of origination. The majority of EA charge-offs are recorded during the second quarter of each 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.

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 ensure 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. For the first quarter 2019 tax season, the Company modified the EA product offering to increase the maximum advance amount and to also charge a direct fee to the taxpayer-customer. The annual percentage rate to the taxpayer for his or her portion of the EA fee is less than 36% for all EA offering amounts.

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

- Part I Item 1A "Risk Factors"

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- Part II Item 8 “Financial Statements and Supplementary Data,” Footnote 4 “Loans and Allowance for Loan and Lease Losses”

RPG recorded a net charge of \$27.8 million, \$23.9 million, and \$10.5 million to the Provision during 2018, 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 number 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.

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.

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, 2018 and 2017 was not impaired and is properly recorded in the consolidated financial.

Other intangible assets consist of 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 \$654,000 and \$858,000 of CDI assets as of December 31, 2018 and 2017. The Cornerstone related CDI is scheduled to amortize through 2022.

Mortgage Servicing Rights — Mortgage loans held for sale are generally sold with the MSRs 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 MSR 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 MSRs 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, 2018 and 2017, 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, 2018 and 2017.

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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 and assets 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.

The TCJA was enacted on December 22, 2017 and reduced the federal corporate tax rate from 35% to 21%, effective January 1, 2018. 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. At December 31, 2017, except for a planned cost-segregation study, based on facts and circumstances known at that time, the Company believed it had substantially completed its accounting for the tax effects of the TCJA.

During 2018, the Company began and completed a cost-segregation study. The Company's cost-segregation study assigned revised tax lives to select fixed assets resulting from a detailed engineering-based analysis. The more detailed classification of fixed assets allowed the Company a large one-time recognition of additional depreciation expense for its 2017 federal tax return at a 35% income tax rate, as opposed to the TCJA rate of 21% it previously expected to receive for these deductions in the future. The Company also made the decision to adopt an automatic tax-accounting-method change related to deferred loan costs during the third quarter of 2018, as it was preparing its 2017 federal tax return. The Company's tax-accounting-method change related to the immediate recognition of loan origination costs for income tax purposes, as opposed to the amortization of those costs over the life of the loan. The cost-segregation study and the change in tax-accounting-method did result in a further impact from the TCJA, as they affected the Company's 2017 federal tax return due October 15, 2018.

In addition to the completed cost-segregation study and the change in the tax-accounting-method related to loan origination costs, the Company also completed an R&D tax-credit study during the third quarter of 2018, which resulted in the recognition of R&D credits dating back to 2014. In total, these three tax-related items provided \$3.4 million in federal income tax benefits for 2018, of which \$3.2 million was the cumulative benefit related to years prior to 2018.

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, 2018 and 2017.

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

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

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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 with a total carrying value of \$4 million at both December 31, 2018 and 2017 for which it recorded OTTI charges in previous years.

OVERVIEW

Total Company pre-tax net income for 2018 was \$94.3 million, a 20% increase over 2017. As discussed in more detail below, net interest margin expansion, loan and deposit growth, and continued strong credit quality within the Company’s Core Banking operations all contributed to growth in the Company’s pre-tax net income during 2018.

Total Company net income was \$77.9 million and Diluted EPS was \$3.74 for 2018, representing increases of 71% and 70% over similar metrics for 2017. As illustrated in Table 1 below, the TCJA, which among other things, lowered the federal corporate tax rate from 35% to 21%, effective January 1, 2018, drove a meaningful discrepancy in growth between the Company’s net-income-based metrics and pre-tax net income when comparing 2018 to 2017 and 2017 to 2016. Net-income-based metrics for 2018 included the benefit of a 14% lower federal income tax rate, as well as the cumulative benefits of a cost segregation and R&D tax credit studies completed by the Company during 2018.

Additionally, as previously reported, the Company’s 2017 net-income-based metrics included the negative impact of a \$6.3 million charge representing the devaluation of the Company’s net DTA upon enactment of the TCJA.

See additional detail regarding the TCJA’s impact on the Company’s income tax expense under Footnote 18 “Income Taxes” of Part II Item 8 “Financial Statements and Supplementary Data.”

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The following table presents Republic's financial performance for the years ended December 31, 2018, 2017 and 2016:

Table 1 — Summary

Years Ended December 31, (dollars in thousands, except per share data)				Percent Increase/(Decrease)		
	2018	2017	2016	2018/2017	2017/2016	
Income before income tax expense	\$ 94,263	\$ 78,386	\$ 68,963	20	% 14	%
Net income	77,852	45,632	45,903	71	(1)	
Diluted EPS of Class A Common Stock	3.74	2.20	2.22	70	(1)	
ROA	1.52	% 0.95	% 1.02	% 60	(7)	
ROE	11.67	7.26	7.68	61	(5)	

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

General highlights by reportable segment for the year ended December 31, 2018 consisted of the following:

Traditional Banking segment

- Traditional Banking pre-tax net income increased \$8.5 million, or 20%, while net income increased \$19.9 million, or 85%, for 2018 compared to 2017. Net income growth benefitted from a TCJA-driven \$11.4 million decrease in income tax expense.
- Net interest income increased \$17.6 million, or 12%, to \$160.4 million during 2018. Traditional Banking net interest margin increased 21 basis points to 3.76%.
- The Traditional Banking Provision was \$3.7 million for 2018 compared to \$3.9 million for 2017.
- Noninterest income increased \$2.5 million, or 9% during 2018.

- Noninterest expense increased \$11.8 million, or 9% during 2018.
- Gross Traditional Bank loans increased by \$167 million, or 5% from December 31, 2017 to December 31, 2018.
- Traditional Bank deposits grew \$64 million, or 2%, from December 31, 2017 to December 31, 2018.
- Total nonperforming Traditional Bank loans to total Traditional Bank loans was 0.45% at December 31, 2018 compared to 0.41% at December 31, 2017.
- Delinquent Traditional Bank loans to total Traditional Bank loans was 0.25% at December 31, 2018 compared to 0.25% at December 31, 2017.

Warehouse Lending segment

- Warehouse pre-tax net income decreased \$1.8 million, or 12%, while net income increased \$765,000, or 9% during 2018. The TCJA drove a \$2.6 million positive swing in income tax expense.
- Warehouse net interest income decreased \$1.8 million, or 10%, during 2018. Warehouse net interest margin decreased 36 basis points from 2017 to 3.17% for 2018.
- The Warehouse Provision was a credit of \$142,000 for 2018 compared to a credit of \$150,000 for 2017.
- Total committed Warehouse lines remained at \$1.1 billion from December 31, 2017 to December 31, 2018.

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- Average line usage was 48% during both 2018 and 2017.

Mortgage Banking segment

- Within the Mortgage Banking segment, mortgage banking income increased \$183,000, or 4%, during 2018.
- Overall, Republic's originations of secondary market loans totaled \$177 million during 2018 compared to \$160 million during the same period in 2017, with the Company's gain recognized as a percent of total originations decreasing to 2.17% during 2018 from 2.48% in 2017.

Tax Refund Solutions segment

- TRS pre-tax net income increased \$2.1 million, or 16%, while net income increased \$3.8 million, or 46%, during 2018. The TCJA drove a \$1.7 million decrease in income tax expense.
- TRS net interest income increased \$4.0 million, or 26%, during 2018.
- The TRS Provision was \$10.9 million during 2018, compared to \$6.5 million for 2017.
- Noninterest income was \$21.6 million for 2018 compared to \$18.8 million for 2017.
- Net RT revenue increased \$1.5 million, or 8%, during 2018.
- Noninterest expense was \$14.7 million for 2018 compared to \$14.5 million for 2017.

Republic Credit Solution segment

- RCS pre-tax net income increased \$6.1 million, or 69%, while net income increased \$7.7 million, or 196%, during 2018. The TCJA drove a \$1.5 million decrease in income tax expense.
- RCS net interest income increased \$7.7 million, or 34%, during 2018.

- The RCS Provision was \$16.9 million during 2018 compared to \$17.4 million for 2017.
- Noninterest income decreased \$672,000, or 9%, during 2018.
- Noninterest expense increased \$1.4 million, or 41%, during 2018.
- Total nonperforming RCS loans to total RCS loans was 0.14% at December 31, 2018 compared to 1.40% at December 31, 2017.
- Delinquent RCS loans to total RCS loans was 7.97% at December 31, 2018 compared to 8.43% at December 31, 2017.

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

Traditional Banking segment

- Pre-tax net income 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 2017 TCJA-related charge to income tax expense was tied to the Traditional Banking segment.
- Traditional Banking net interest income increased \$21.1 million, or 17%, for 2017 to \$142.8 million. Traditional Banking net interest margin increased 29 basis points for the year ended December 31, 2017 to 3.55%.

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- 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 Traditional Bank loans to total Traditional Bank loans was 0.41% at December 31, 2017 compared to 0.50% at December 31, 2016.
- Delinquent Traditional Bank loans to total Traditional Bank loans was 0.25% at December 31, 2017 compared to 0.21% at December 31, 2016.

Warehouse Lending segment

- Warehouse pre-tax net income 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 2017 TCJA-related charge to income tax expense was tied to the Warehouse segment.
- Warehouse net interest income increased \$1.0 million, or 6%, for 2017 compared to 2016. Warehouse net interest margin decreased six basis points 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.

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.
- 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

- TRS pre-tax net income increased \$1.2 million, or 11%, while net income increased \$787,000, or 10%, for 2017 compared to 2016. TRS segment did not incur a 2017 TCJA-related charge to income tax expense.
- TRS 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 RT revenue decreased \$740,000, or 4%, during 2017 compared to 2016.

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- Noninterest expense was \$14.5 million for 2017 compared to \$11.7 million for 2016.

Republic Credit Solution segment

- RCS pre-tax net income 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 2017 TCJA-related charge to income tax expense was tied to the RCS segment.
- RCS 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 RCS loans to total RCS loans was 1.40% at December 31, 2017 compared to 0.25% at December 31, 2016.
- Delinquent RCS loans to total RCS loans was 8.43% at December 31, 2017 compared to 6.63% at December 31, 2016.

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 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 2018 vs. 2017

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

Total Company net interest income increased \$27.5 million, or 14%, during 2018 compared to the same period in 2017. Net interest margin expansion was the primary driver of the increase in net interest income, with loan growth providing a complement to the net interest margin expansion. Total Company net interest margin increased to 4.62% during 2018 compared to 4.32% in 2017.

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

Traditional Banking segment

The Traditional Banking segment's net interest income increased \$17.6 million, or 12%, during 2018 compared to 2017. The Traditional Banking net interest margin was 3.76% for 2018, an increase of 21 basis points from 2017.

The following factors primarily drove the increases in the Traditional Bank's net interest income and net interest margin during 2018:

- In general, with market interest rates rising, the Traditional Bank's interest-earning assets repriced at a faster pace than its interest-bearing liabilities during 2018, leading to a higher spread for this operating segment. Altogether the Traditional Bank's net interest spread increased 17 basis points from 2017 to 2018. Contributing significantly to this overall expansion in net interest spread was the ability of the Traditional Bank to constrain its overall funding costs related to its non-maturity deposits, whose costs increased 17 basis points from 2017 to 2018, compared to a 60-basis-point increase in the investment portfolio yield and a 20-basis-point increase in the Traditional Bank loan yield during these same periods.
- The difference between the Traditional Bank's net interest margin and net interest spread was 14 basis points during 2018 compared to 10 basis points during 2017. The differential between the net interest margin and net interest spread represents the value of the Traditional Bank's noninterest-bearing deposits and stockholders' equity to its net interest margin. Because of rising short-term interest rates from December 31, 2017 to December 31, 2018, as measured by the increase of 100 basis points in the FFTR during this period, the contribution of the Traditional Bank's noninterest-bearing deposits and stockholders' equity to the net interest margin increased significantly.
- Average Traditional Bank loans outstanding, excluding loans from the Company's 2012 FDIC-assisted transactions, grew to \$3.5 billion during 2018 from \$3.2 billion during 2017, an increase of 7%. This growth was largely concentrated in the commercial loan sector, with average CRE balances growing \$121 million, or 11%, and average C&I balances growing \$66 million, or 25%.
- The Traditional Bank's 2012 FDIC-assisted transactions contributed \$3.8 million less in net interest income during 2018 compared to the same period in 2017, as two large pay-offs during 2017 contributed approximately \$3.5 million of accretion to net interest income. Substantially all of the accretable discount on the acquired loans had been recognized by December 31, 2017.

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, 2018 and 2017" under "Financial Condition."

Warehouse Lending segment

Warehouse's net interest income decreased \$1.8 million, or 10%, for 2018 compared to the same period in 2017. An internal change in the way the Company assigns cost of funds to its Warehouse segment through its FTP methodology resulted in the Warehouse segment's fluctuation in net interest income. Effective January 1, 2018, the Company changed its Warehouse FTP methodology to be more consistent with that used for other Core Bank loan products with similar pricing and duration characteristics. This change had a \$1.3 million negative comparable impact on the Warehouse net interest income for 2018 and a corresponding positive comparable impact of \$1.3 million to the Traditional Bank's net interest income.

Total Warehouse line commitments remained at \$1.1 billion from December 31, 2017 to December 31, 2018. Average line usage on Warehouse commitments was 48% during both 2018 and 2017.

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 2019 projected mortgage originations to decrease 2% across the United States from 2018 to 2019, which leads management to believe that usage rates among the Bank's Warehouse Lending clients may also decrease. This predicted decrease in mortgage volume, along with the competitive environment, may negatively

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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 \$4.0 million during 2018 compared to 2017. TRS's EA product earned \$17.8 million in interest income during 2018, a \$3.6 million, or 25%, increase from the same period in 2017. The higher EA income was driven by an increase in EA origination volume, as the Company originated \$430 million in EAs during 2018 compared to \$329 million during the 2017. The increase in EA origination volume during 2018 resulted primarily from an increase in the maximum EA advance amount.

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 4 "Loans and Allowance for Loan and Lease Losses"

Republic Credit Solutions segment

RCS's net interest income increased \$7.7 million, or 34%, from 2017 to 2018. The increase was driven primarily by an increase in fee income from RCS's line-of-credit product. Loan fees on RCS's line-of-credit product recorded as interest income increased to \$26.3 million during 2018 compared to \$20.2 million during 2017 and accounted for 82% and 88% of all RCS interest income on loans during the periods.

Future long-term growth in interest income from RCS's line-of-credit product is restricted by a current on-balance-sheet Board-approved risk limit of \$40 million for the Company. As of December 31, 2018, the total outstanding on-balance-sheet amount, including loans held for sale, related to this product was \$34 million.

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 fee-driven loans 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 CRE, C&I and 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

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unearned discount on such loans is immediately accreted into income. Accretion income during 2017 from this portfolio was \$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 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.

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, as the Company continued to grow its Warehouse client base. Average line usage on Warehouse commitments was 48% during 2017 compared to 57% in 2016.

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.

- 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.

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Table 2 — Total Company Average Balance Sheets and Interest Rates

	Years Ended December 31, 2018			2017			2016		
(in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	
g									
Sold and Earning	\$ 255,708	\$ 4,752	1.86	% \$ 188,427	\$ 2,126	1.13	% \$ 130,889	\$ 828	
Securities, B	542,258	13,808	2.55	574,027	11,070	1.93	572,599	8,932	
Finance	31,112	17,832	57.32	19,596	14,220	72.57	5,268	5,210	
	91,923	32,247	35.08	49,475	23,452	47.40	23,090	12,081	
es of	496,380	25,526	5.14	496,665	22,144	4.46	460,285	18,357	
tional (6)	3,475,503	162,016	4.66	3,265,670	145,766	4.46	3,079,740	128,584	
Earning	4,892,884	256,181	5.24	4,593,860	218,778	4.76	4,271,871	173,992	
loan s	(47,774)			(39,202)			(29,880)		
rning									
rning									
	109,798			99,888			88,190		
	46,300			44,519			38,591		
fe	64,132			62,572			58,242		
	65,288			64,571			58,815		
	\$ 5,130,628			\$ 4,826,208			\$ 4,485,829		

AND
 ERS'

g

counts	\$ 1,120,633	\$ 4,341	0.39	%	\$ 1,095,276	\$ 2,448	0.22	%	\$ 962,473	\$ 953
	639,560	4,026	0.63		554,336	1,586	0.29		546,360	1,094
	348,670	5,699	1.63		266,332	3,166	1.19		221,634	2,218
ney e	301,291	2,289	0.76		235,127	1,072	0.46		188,267	616
sits	35,231	662	1.88		116,592	1,530	1.31		139,858	1,177
bearing	2,445,385	17,017	0.70		2,267,663	9,802	0.43		2,058,592	6,058
under										
l other rowings	225,145	1,125	0.50		219,515	502	0.23		280,296	65
Loan	557,090	10,473	1.88		563,552	8,860	1.57		583,591	10,900
s ote	41,240	1,508	3.66		41,240	1,094	2.65		42,502	915
bearing	3,268,860	30,123	0.92		3,091,970	20,258	0.66		2,964,981	17,938
aring										
equity: aring	1,147,432				1,073,181				894,049	
s	47,357				32,728				29,336	
equity	666,979				628,329				597,463	
s and equity	\$ 5,130,628				\$ 4,826,208				\$ 4,485,829	
come		\$ 226,058				\$ 198,520				\$ 156,054
read			4.32	%			4.10	%		
margin			4.62	%			4.32	%		

-
- (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 \$27.2 million, \$20.8 million and \$11.1 million for 2018, 2017 and 2016.
- (4) Interest income includes loan fees of \$3.0 million, \$3.2 million and \$3.2 million for 2018, 2017 and 2016.

- (5) Interest income includes loan fees of \$5.7 million, \$7.9 million and \$4.6 million for 2018, 2017 and 2016.
- (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, 2018 Compared to Year Ended December 31, 2017			Year Ended December 31, 2017 Compared to Year Ended December 31, 2016		
	Total Net Change	Increase / (Decrease) Due to Volume	Rate	Total Net Change	Increase / (Decrease) Due to Volume	Rate
Interest income:						
Federal funds sold and other interest-earning deposits	\$ 2,626	\$ 934	\$ 1,692	\$ 1,298	\$ 466	\$ 832
Investment securities, including FHLB stock TRS Easy Advance loans	2,738	(642)	3,380	2,138	22	2,116
Other RPG loans	3,612	7,063	(3,451)	9,010	10,733	(1,723)
Outstanding Warehouse lines of credit	8,795	16,107	(7,312)	11,371	12,606	(1,235)
All other Traditional Bank loans	3,382	(13)	3,395	3,787	1,520	2,267
Net change in interest income	16,250	9,612	6,638	17,182	8,013	9,169
	37,403	33,061	4,342	44,786	33,360	11,426
Interest expense:						
Transaction accounts	1,893	58	1,835	1,495	147	1,348
Money market accounts	2,440	277	2,163	492	16	476
Time deposits	2,533	1,145	1,388	948	490	458
Reciprocal money market and time deposits	1,217	362	855	456	176	280
Brokered deposits	(868)	(1,353)	485	353	(221)	574
Securities sold under agreements to repurchase and other short-term borrowings	623	13	610	437	(17)	454

Federal Home Loan						
Bank advances	1,613	(103)	1,716	(2,040)	(363)	(1,677)
Subordinated note	414	—	414	179	(28)	207
Net change in interest expense	9,865	399	9,466	2,320	200	2,120
Net change in net interest income	\$ 27,538	\$ 32,662	\$ (5,124)	\$ 42,466	\$ 33,160	\$ 9,306

Provision for Loan and Lease Losses

Discussion of 2018 vs. 2017

The Company recorded a Provision of \$31.4 million during 2018, compared to \$27.7 million in 2017. The most significant components comprising the Company's Provision by reportable segment follow:

Traditional Banking segment

The Traditional Banking Provision during 2018 was \$3.7 million, compared to \$3.9 million in 2017. An analysis of the Provision for 2018 compared to 2017 follows:

- Related to the Bank's pass-rated and non-rated credits, the Bank recorded net charges of \$3.1 million and \$3.7 million to the Provision for 2018 and 2017. Loan growth primarily drove the net charge to the Provision in both periods.

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- The Bank recorded net charges to the Provision of \$643,000 and \$65,000 for 2018 and 2017 for activity related to loans rated Substandard and Special Mention. Charges of \$631,000 related to three residential real estate relationships drove the 2018 Provision.

As a percentage of total loans, the Traditional Banking Allowance remained at 0.85% from December 31, 2017 to December 31, 2018. The Company believes, based on information presently available, that it has adequately provided for Traditional Bank loan losses at December 31, 2018.

See the sections titled “Allowance 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 \$142,000 for 2018 compared to a net credit of \$150,000 for 2017. Provision expense for both 2018 and 2017 reflects general reserves for changes in outstanding balances during the periods. Outstanding Warehouse balances decreased \$57 million during 2018 and \$60 million during 2017.

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

Tax Refund Solutions segment

TRS recorded a net charge to the Provision of \$10.9 million during 2018 compared to a net charge of \$6.5 million in 2017. An increase in net loss on EA loans resulting from both a higher volume of EA originations and a higher EA loss rate drove the increased TRS Provision. TRS originated \$430 million of EAs during 2018 compared to \$329 million in 2017. The Company’s net loss on EAs to total EA originations for 2018 increased 43 basis points from 2017 to 2.50%. Each 0.10% in estimated loan loss reserves for EAs during 2018 equates to approximately \$430,000 in Provision expense, while each 0.10% during 2017 equated to approximately \$329,000.

As of December 31, 2018 and 2017, all unpaid EAs originated during each year had been charged-off. The Company believes, based on information presently available, that it has adequately provided for TRS loan losses at December 31, 2018.

See additional detail regarding the EA product under Footnote 4 “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 \$16.9 million during 2018, a decrease of \$515,000 compared to same period in 2017. A \$1.0 million reduction in Provision related to RCS’s line-of-credit product was partially offset by a \$495,000 increase in Provision related to RCS’s credit-card product. The lower Provision for RCS’s line-of-credit product resulted from a seasoning of the portfolio. An increase in net charge-offs from 2017 to 2018 primarily drove the increase in Provision related to the credit-card product.

During the second quarter of 2018, the Bank and its third-party marketer/servicer discontinued the marketing of RCS’s credit-card product to potential new clients as the two parties deliberated the future direction of the program. During the third quarter of 2018, the Bank and its third-party marketer/servicer reached an agreement in concept to sell 100% of the existing portfolio to an unrelated third party. As a result, the Bank reclassified its 10% interest into a held-for-sale category and charged the entire RCS credit-card portfolio down to its estimated net realizable value.

Concurrent with this reclassification, the Company relieved all Allowance connected to this product against the RCS Provision. During the fourth quarter of 2018, the Bank and its third-party marketer/servicer finalized the agreement to sell 100% of its existing portfolio, with the final settlement occurring in January 2019.

The following table presents RCS Provision by product:

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Table 4 — RCS Provision by Product

Years Ended December 31, (in thousands)	2018	2017	2016	Percent Increase/(Decrease)		
				2018/2017	2017/2016	
Product:						
Line of credit	\$ 14,100	\$ 15,112	\$ 7,413	(6.7)	% 104	%
Credit card	2,728	2,233	331	22.2	575	
Hospital receivables	53	51	32	3.9	59	
Total	\$ 16,881	\$ 17,396	\$ 7,776	(3.0)	124	

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 14.70% and 18.85% at December 31, 2018 and 2017. The Company believes, based on information presently available, that it has adequately provided for RCS loan losses at December 31, 2018.

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.

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.

Tax Refund Solutions segment

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

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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.

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.

As a percentage of total RCS loans, the RCS Allowance was 18.85% and 15.40% at December 31, 2017 and 2016.

Noninterest Income

Table 5 — Analysis of Noninterest Income

Years Ended December 31, (dollars in thousands)	2018	2017	2016	Percent Increase/(Decrease)	
				2018/2017	2017/2016
Service charges on deposit accounts	\$ 14,273	\$ 13,357	\$ 13,176	7	1
Net refund transfer fees	20,029	18,500	19,240	8	(4)
Mortgage banking income	4,825	4,642	6,882	4	(33)
Interchange fee income	11,159	9,881	9,009	13	10
Program fees	6,225	5,824	3,044	7	91
Increase in cash surrender value of bank owned life insurance	1,527	1,562	1,516	(2)	3
Net losses on debt securities	—	(136)	—	NM	NM
Net gains on other real estate owned	729	676	244	8	177
Other	4,658	4,108	4,398	13	(7)
Total noninterest income	\$ 63,425	\$ 58,414	\$ 57,509	9	2

NM - Not meaningful

Discussion of 2018 vs. 2017

Total Company noninterest income increased \$5.0 million, or 9%, for 2018 compared to 2017. The following were the most significant components comprising the total Company's noninterest income by reportable segment:

Traditional Banking segment

Traditional Banking noninterest income increased \$2.5 million, or 9%, for 2018 compared to 2017. The most significant categories affecting the change in noninterest income for 2018 follow:

- Service charges on deposit accounts increased \$874,000, or 7%, to \$14.2 million during 2018 compared to \$13.4 million during 2017 driven by an 8% growth in the Company's transactional account base during 2018. 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 2018 and 2017 were \$8.7 million and \$8.1 million. The total daily overdraft charges, net of refunds, included in interest income during 2018 and 2017 were \$2.1 million and \$1.8 million. A \$2 per day increase in daily overdraft charges initiated in July 2018 primarily drove the Bank's increase in daily overdraft charges.
- Interchange income increased \$1.3 million, or 13%, due to a 9% increase in the number of active debit cards along with an increase in usage on the Company's existing debit cards.

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Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income increased \$183,000, or 4%, during 2018 compared to 2017. Overall, Republic's originations of secondary market loans totaled \$177 million during 2018 compared to \$160 million during 2017. The ratio of net gain on sale of mortgage loans originated for sale was 2.17% and 2.48% during 2018 and 2017.

Tax Refund Solutions segment

Within the TRS segment, noninterest income increased \$2.7 million, or 14%, during 2018 compared to 2017. Net RT revenue increased \$1.5 million, or 8%, compared to 2017, consistent with a 7% increase in the number of RTs funded when comparing the two periods. Additionally, TRS received and recorded a \$1.0 million nonrefundable capital commitment fee during 2018. The fee was paid by a third party upon the Company's completion of its contractual obligations to build the infrastructure and disburse funds for a new collaborative credit product offered through the Bank to the third party's customers.

Republic Credit Solutions segment

Within the RCS segment, noninterest income decreased \$672,000, or 9%, during 2018 compared to 2017. The following primarily drove the decrease:

- Within other income, RCS recorded a \$486,000 mark-to-market charge to its held-for-sale subprime credit card portfolio during 2018.
- Within other income, RCS recorded a \$425,000 first-year-guarantee payment during 2017.
- Offsetting the decreases above, program fees increased \$282,000 during 2018. As illustrated in Table 6 below, the increase in program fees resulted from an increase in fees associated with RCS's line-of-credit and credit-card products partially offset by a decrease in fees associated with RCS's installment loan product. Program fees are the largest component of RCS's noninterest income and primarily represent net gains from the sale of consumer loans. RCS sold \$782 million of consumer loans in 2018 compared to \$661 million in 2017.

The decrease in program fees associated with RCS’s installment loan product resulted from the suspension of loan originations and sales through this program during the second quarter of 2018. Concurrent with the suspension of this program, the Bank reclassified approximately \$2.2 million of these loans from “held for sale” on the balance sheet to “held for investment” and recorded a \$427,000 charge to its mark-to-market fair value adjustment for these loans. Mark-to-market adjustments for this product are recorded as a component of program fees.

The following table presents RCS program fees by product:

Table 6 — RCS Program Fees by Product

Years Ended December 31, (in thousands)	2018	2017	2016	Percent Increase/(Decrease)		
				2018/2017	2017/2016	
Product:						
Line of credit	\$ 4,486	\$ 3,854	\$ 2,378	16	% 62	%
Credit card	1,703	1,376	122	24	1,028	
Hospital receivables	144	26	—	454	—	
Installment loans*	(403)	392	334	(203)	17	
Total	\$ 5,930	\$ 5,648	\$ 2,834	5	99	

*The Company has elected the fair value option for this product, with mark-to-market adjustments recorded as a component of program fees.

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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 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 on OREO from 2017 compared to 2016.

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 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.

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Noninterest Expense

Table 7 — Analysis of Noninterest Expense

Years Ended December 31, (dollars in thousands)	2018	2017	2016	Percent Increase/(Decrease)		
				2018/2017	2017/2016	
Salaries and employee benefits	\$ 91,189	\$ 82,233	\$ 69,882	11	% 18	%
Occupancy and equipment, net	24,883	24,019	21,586	4	11	
Communication and transportation	4,785	4,711	4,256	2	11	
Marketing and development	4,432	5,188	3,778	(15)	37	
FDIC insurance expense	1,494	1,378	1,780	8	(23)	
Bank franchise tax expense	4,951	4,626	4,757	7	(3)	
Data processing	9,613	7,748	6,121	24	27	
Interchange related expense	4,480	3,988	4,140	12	(4)	
Supplies	1,444	1,594	1,406	(9)	13	
Other real estate owned expense	94	388	503	(76)	(23)	
Legal and professional fees	3,459	2,410	2,556	44	(6)	
FHLB advance prepayment penalty	—	—	846	—	(100)	
Impairment of premises held for sale	482	1,175	191	(59)	515	
Other	12,546	11,386	8,305	10	37	
Total noninterest expense	\$ 163,852	\$ 150,844				