

REPUBLIC BANCORP INC /KY/

Form 10-K

March 11, 2016

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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, 2015

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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, 2015 (the last business day of the registrant’s most recently completed second fiscal quarter) was approximately \$251,521,884 (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 12, 2016 was 18,659,147 and 2,245,250.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes:

Portions of the Registrant’s Proxy Statement for the Annual Meeting of Shareholders to be held April 21, 2016 are incorporated by reference into Part III of this Form 10-K.

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Cautionary Statement Regarding Forward-Looking Statements

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

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

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by the forward-looking statements. Actual results may differ materially from those expressed or implied as a result of certain risks and uncertainties, including, but not limited to: changes in political and economic conditions; interest rate fluctuations; competitive product and pricing pressures; equity and fixed income market fluctuations; client bankruptcies; inflation; recession; acquisitions and integrations of acquired businesses; technological changes; changes in law and regulations or the interpretation and enforcement thereof; changes in fiscal, monetary, regulatory and tax policies; monetary fluctuations; success in gaining regulatory approvals when required; information security breaches or cyber security attacks involving either the Company or one of the Company’s third party service providers; as well as other risks and uncertainties reported from time to time in the Company’s filings with the Securities and Exchange Commission (“SEC”), including Part 1 Item 1A “Risk Factors.”

Broadly speaking, forward-looking statements include:

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

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

- loan delinquencies; non-performing, classified, or impaired loans; and troubled debt restructurings (“TDRs”);
- further developments in the Bank’s ongoing review of and efforts to resolve possible problem credit relationships, which could result in, among other things, additional provisions for loan and lease losses (“Provision”);
- future credit quality, credit losses and the overall adequacy of the Allowance for Loan and Lease Losses (“Allowance”);
- potential impairment charges or write-downs of other real estate owned (“OREO”);
- future short-term and long-term interest rates and the respective impact on net interest income, net interest spread, net income, liquidity, capital and economic value of equity (“EVE”);
- the future impact of Company strategies to mitigate interest rate risk;
- future long-term interest rates and their impact on the demand for Mortgage Banking products, Warehouse lines of credit and Correspondent Lending products;
- the future value of mortgage servicing rights (“MSRs”);
- the potential impairment of investment securities;
- the growth in the Bank’s loan portfolio, in general, and overall mix of such portfolio;
- the growth in single family residential, first lien real estate loans originated through the Bank’s Correspondent Lending delivery channel;
- the growth in the Bank’s Warehouse Lending (“Warehouse”) portfolio;
- usage rates on Warehouse lines of credit;
- the volatility of the Bank’s Warehouse portfolio outstanding balances;
- the Bank’s ability to maintain and/or grow deposits;
- the concentrations and volatility of the Bank’s securities sold under agreements to repurchase;

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- the Company’s intentions regarding its Trust Preferred Securities (“TPS”);
- the Company’s ability to successfully implement strategic plans, including, but not limited to, those related to pending or future business acquisitions;
- future accretion of discounts on loans acquired in the Bank’s 2012 FDIC-assisted transactions and the effect of such accretion on the Bank’s net interest income and net interest margin;
- future amortization of premiums on loans acquired through the Bank’s Correspondent Lending channel and the effect of such amortization on the Bank’s net interest income and net interest margin;
- the future financial performance of Tax Refund Solutions (“TRS”), a division of the Republic Processing Group (“RPG”) segment;
- future Refund Transfer (“RT”) volume for TRS;
- future Easy Advance (“EA”) volume for TRS;
- the future net revenue associated with RTs at TRS;
- the future financial performance of Republic Payment Solutions (“RPS”), a division of RPG;
- the future financial performance of Republic Credit Solutions (“RCS”), a division of RPG;
- the extent to which regulations written and implemented by the Consumer Financial Protection Bureau (“CFPB”), and other federal, state and local governmental regulation of consumer lending and related financial products and services, may limit or prohibit the operation of the Company’s business;
- financial services reform and other current, pending or future legislation or regulation that could have a negative effect on the Company’s revenue and businesses, including but not limited to, Basel III capital reforms; the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”); and legislation and regulation relating to overdraft fees (and changes to the Bank’s overdraft practices as a result thereof), interchange fees, credit card income, and other bank services;
- the impact of new accounting pronouncements;
- legal and regulatory matters including results and consequences of regulatory guidance, litigation, administrative proceedings, rule-making, interpretations, actions and examinations;
- future capital expenditures; and
 - the strength of the U.S. economy in general and the strength of the local and regional economies in which the Company conducts operations.

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.

See additional discussion under the sections titled 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.”

PART I

Item 1. Business.

Republic Bancorp, Inc. (“Republic” or the “Company”) is a financial holding company headquartered in Louisville, Kentucky. Republic is the parent company of Republic Bank & Trust Company (“RB&T” or the “Bank”) and Republic Insurance Services, Inc. (the “Captive”). The Bank is a Kentucky-based, state chartered non-member financial institution. The Captive, which was formed during the third quarter of 2014, is a wholly-owned insurance subsidiary of the Company. The Captive provides property and casualty insurance coverage to the Company and the Bank as well as eight other third-party insurance captives for which insurance may not be available or economically feasible. Republic Bancorp Capital Trust is a Delaware statutory business trust that is a 100%-owned unconsolidated finance subsidiary of Republic Bancorp, Inc.

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As of December 31, 2015, in addition to Internet Banking and Correspondent Lending delivery channels, Republic had 40 full-service banking centers with locations as follows:

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

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

The 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, 2015, Republic had total assets of \$4.2 billion, total deposits of \$2.5 billion and total stockholders' equity of \$577 million. Based on total assets as of December 31, 2015, 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.

General Business Overview

As of December 31, 2015, the Company was divided into four distinct operating segments: Traditional Banking, Warehouse, Mortgage Banking and RPG. Management considers the first three segments to collectively constitute “Core Bank” or “Core Banking” activities. Correspondent Lending operations are considered part of Traditional Banking operations. The RPG segment includes the following divisions: TRS, RPS and RCS. TRS generates the majority of RPG’s income, with the relatively smaller divisions of RPG, RPS and RCS, considered immaterial for separate and independent segment reporting. All divisions of the RPG segment operate through the Bank.

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Net income, total assets and net interest margin by business segment for the years ended December 31, 2015, 2014 and 2013 are presented below:

Year Ended December 31, 2015

Core Banking

	Traditional	Warehouse	Mortgage	Total	Republic	Total
(dollars in thousands)	Banking	Lending	Banking	Core	Processing	Company
	Banking	Lending	Banking	Banking	Group	Company
Net income (loss)	\$ 23,919	\$ 5,964	\$ (26)	\$ 29,857	\$ 5,309	\$ 35,166
Total assets	3,809,526	386,414	9,348	4,205,288	25,001	4,230,289
Net interest margin	3.15 %	3.58 %	NM	3.19 %	NM	3.27 %

Year Ended December 31, 2014

Core Banking

	Traditional	Warehouse	Mortgage	Total	Republic	Total
(dollars in thousands)	Banking	Lending	Banking	Core	Processing	Company
	Banking	Lending	Banking	Banking	Group	Company
Net income (loss)	\$ 21,315	\$ 3,402	\$ (385)	\$ 24,332	\$ 4,455	\$ 28,787
Total assets	3,404,323	319,153	11,593	3,735,069	11,944	3,747,013
Net interest margin	3.32 %	3.77 %	NM	3.35 %	NM	3.33 %

Year Ended December 31, 2013

Core Banking

	Traditional	Warehouse	Mortgage	Total	Republic	Total
(dollars in thousands)	Banking	Lending	Banking	Core	Processing	Company
	Banking	Lending	Banking	Banking	Group	Company
Net income (loss)	\$ 21,265	\$ 2,663	\$ 2,887	\$ 26,815	\$ (1,392)	\$ 25,423
Total assets	3,205,499	149,351	9,307	3,364,157	7,747	3,371,904
Net interest margin	3.47 %	4.28 %	NM	3.50 %	NM	3.48 %

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

NM — Not Meaningful

For expanded segment financial data see Footnote 23 “Segment Information” of Part II Item 8 “Financial Statements and Supplementary Data.”

The Company’s pending acquisition of Cornerstone Bancorp, Inc. (“Cornerstone”), and its wholly-owned bank subsidiary Cornerstone Community Bank, is expected to close during the first half of 2016 for approximately \$32.3 million in cash. The acquisition of Cornerstone will expand the Company’s footprint in the Tampa, Florida metropolitan statistical area. On December 31, 2015, Cornerstone operated four banking centers in the Tampa, Florida metropolitan statistical area, with approximately \$250 million in total assets, approximately \$190 million in loans and approximately \$200 million in deposits.

For additional information concerning the Company’s acquisition of Cornerstone Bancorp, Inc., see Footnote 2 “Acquisition (Subsequent Event)” of Part II Item 8 “Financial Statements and Supplementary Data.”

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(I) Traditional Banking segment

Lending Activities

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

Retail Mortgage Lending — Through its retail banking centers detailed above, its Correspondent Lending channel and its Internet Banking channel, the Bank originates single family, residential real estate loans. In addition, the Bank originates home equity amortizing loans (“HEAL”) and home equity lines of credit (“HELOCs”) through its retail banking centers. All such loans are generally collateralized by owner occupied property. In 2015, the Bank embarked on an aggressive marketing campaign to increase its HELOCs utilizing a promotional rate product. Under the terms of the promotional product during 2015, clients received a fixed interest rate of 1.99% for the first twelve months with no upfront closing costs. When the promotional rate expires after twelve months, rates are adjusted to an index based on the New York Prime Rate (“Prime”). During January 2016, the Company increased its offering rate on the promotional product to 2.99% for the first twelve months with no upfront closing costs.

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 channel and Internet Banking are generally secured by owner occupied collateral located outside of the Bank's market footprint. All mortgage loans retained on balance sheet are included as a component of the Company's “Traditional Banking” segment and are discussed below and elsewhere in this filing.

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

Depending on the term and amount of the ARM, loans collateralized by single family, owner-occupied first lien residential real estate may be originated with a loan-to-value (“LTV”) up to 90% and a combined LTV up to 100%. During the fourth quarter of 2013, the Bank introduced 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 ("ETP"). Effective January 10, 2014, with the implementation of the Ability to Repay ("ATR") Rule, the Bank eliminated ETPs for newly 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. All 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.

For additional information regarding the Bank's interest rate sensitivity, see the section titled "Asset/Liability Management and Market Risk" under Part II Item 7 "Management's Discussion and Analysis of Financial condition and Results of Operations."

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

In January 2014, the CFPB’s final rule implementing the ATR requirements in the Dodd-Frank Act became effective. The rule, among other things, requires lenders to consider a consumer’s ability to repay a mortgage loan before extending credit to the consumer and limits prepayment penalties. The rule provides a presumption of compliance with the ATR requirements and certain protections from liability for a mortgage loan meeting the parameters of a qualified mortgage (“QM”). While regulatory agencies have explained that there is no legal requirement or supervisory expectation to originate any QMs at all, transactions covered by the ATR requirements that do not meet the parameters of a QM, i.e. “non-QMs,” do not maintain the presumed protections from liability like their QM counterparts.

Management believes that ARM loans originated through the Bank’s retail origination channel during 2014 were predominantly QMs; however, the Bank made strategic changes to its underwriting guidelines in 2015 that resulted in the substantial majority of ARM loans originated through its retail origination channel to be non-QMs. Management made these strategic changes to provide a better client experience for the Bank’s mortgage loan clients and to reduce the overall costs to the Bank of originating loans subject to the QM parameters. Management still expects all of its ARM loans to meet the ATR requirements.

See additional discussion regarding ATR requirements and QMs under the sections titled:

- “Supervision and Regulation” in this section of the filing
- Part I Item 1A “Risk Factors”

Commercial Lending — The Bank’s Commercial and Corporate Banking department (the “CCB Department”) is composed of Corporate Banking, Commercial Finance, Municipal Lending, and Republic Realty. All credit approvals and processing for this Division are prepared and underwritten through the Bank’s existing Credit Administration Department (“CAD”).

Corporate Banking’s marketing focus is locally-based companies within the Bank’s market footprint, typically with revenues of \$15 million to \$150 million. Credit opportunities are generally driven by the following: companies expanding their businesses; companies acquiring new businesses; generational transfers from existing owners to

children, existing management, or employees (Employee Stock Ownership Plans); and refinancing of existing debt at other banks. Corporate Banking's primary product focus is Commercial & Industrial ("C&I") lending, and to a lesser degree, Commercial Real Estate ("CRE") opportunities. The targeted C&I credit size for client relationships is \$2.5 million to \$25 million, with limited exceptions for corporate borrowers of the highest credit quality. It is the Bank's goal to be the primary bank for these clients including obtaining the clients' full depository relationships as well. On an exception basis, for large locally-based public institutions, the Bank may consider participations in larger credit facilities. In these cases, the client is not expected to maintain its primary banking relationship with the Bank.

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

The Commercial Finance Group targets financing for equipment, typically ranging from \$100,000 to \$500,000 per unit financed with five to seven year terms. Credit exposures to individual relationships are expected to be \$500,000 to \$5 million. It is not a requirement in this area that the Bank maintain the borrower's primary banking relationship. Both leasing and lending are used to accommodate financing needs, with EBITDA, company financial history, and collateral values/useful life primary underwriting considerations.

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The Municipal Lending Area responds to financing requests from cities and counties, largely in the state of Kentucky and in southern Indiana. The Bank issues general obligation and/or appropriation leases/loans to cities and counties. General obligation leases/loans range between \$100,000 to \$5 million, with leases above \$5 million requiring approval from the Bank's Executive Loan Committee. Appropriation leases generally do not exceed \$1 million. It is not a requirement in this area that the Bank maintain the client's primary banking relationship.

The Bank started Republic Realty in 2015 to focus on stabilized CRE loans with low leverage and strong cash flows. The majority of interest rates offered are based on the 30-day London Interbank Offered Rate ("LIBOR"). Fixed rates are facilitated to borrowers with terms of up to 10 years, by utilizing interest rate swaps. In some cases, limited or non-recourse (of owners) loans will be issued, based upon the capital position, cash flows, and stabilization of the borrowing entity. Most all borrowers are single-asset entities. Loan sizes will typically range from \$3 million up to \$25 million. Loans will be located within the Bank's market footprint or within adjacent markets. Primary underwriting considerations are property cash flow (current and historical), quality of leases, financial capacity of sponsors, and collateral value of property financed.

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.

During 2015, while continuing to increase its total commercial-related loan portfolio, the Bank strategically diversified its commercial loan mix by increasing the ratio of C&I loans to total commercial loans and conversely decreasing the ratio of CRE loans to total commercial loans. At December 31, 2015, the CRE, C&I and Lease Financing Receivables ("LFR") classes accounted for 78%, 21% and 1%, respectively, of the commercial lending portfolio, compared to 83%, 16% and less than 1%, respectively, at December 31, 2014. The Bank looks to continue this trend in the near-term.

Construction and Land Development Lending — The Bank originates residential construction real estate loans to finance the construction of single family dwellings. Such loans may be made to contractors to build single family dwellings under contract or directly to consumers. Construction loans are generally offered on the same basis as other single family, first lien residential real estate loans, except that a larger percentage down payment is typically required.

Construction loans are structured either to be converted to permanent loans with the Bank at the end of the construction phase or to be paid off at closing. Residential properties are generally made in amounts up to 80% of anticipated cost of construction. Loans to developers and builders generally have terms of nine to twelve months. Loan proceeds on builders' projects are typically disbursed in increments as construction progresses and as property inspections warrant.

The Bank also originates land development loans to real estate developers for the acquisition, development and construction of commercial projects. Such loans may involve additional risks because the funds are advanced to fund the project while under construction, and the project is of speculative value prior to completion. Moreover, because it is relatively difficult to evaluate completion value accurately, the total amount of funds required to complete a development may be subject to change. Repayments of these loans depend to a large degree on the conditions in the real estate market or the economy.

Internet Lending — The Bank accepts online loan applications through its website, www.republicbank.com. Historically, the majority of loans originated through the internet have been within the Bank's traditional markets of Kentucky and Indiana. Other states where loans are marketed include Tennessee, Florida, Ohio, Virginia, and Minnesota, as well as, the District of Columbia.

Correspondent Lending — The Bank began acquiring single family, first lien mortgage loans for investment through its Correspondent Lending channel in May 2014. Correspondent Lending generally involves the Bank acquiring, primarily from its Warehouse clients, closed loans that meet the Bank's specifications. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium. Premiums on loans acquired through the Correspondent Lending channel are amortized into interest income on the level-yield method over the expected life of the loan. Loans acquired through the Correspondent Lending channel are generally made to borrowers outside of the Bank's market footprint. As of December 31, 2015, a substantial majority of loans originated through the Company's Correspondent Lending channel were secured by single family residences located in the state of California.

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

The Bank began acquiring unsecured consumer installment loans for investment from a third-party originator in April 2014. Such consumer loans are purchased at par and are selected by the Bank based on certain underwriting characteristics.

Indirect Lending – In the fourth quarter of 2015, the Bank initiated a formal indirect lending division to grow its presence in the consumer auto loan market. The program involves setting up relationships with automobile dealers in the Bank's market footprint and obtaining new loans in a low cost delivery method. Management believes that this initiative also places the Bank in a position to enter floor plan lending in 2016.

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 consists of the following:

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

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

Internet Banking — The Bank expands its market penetration and service delivery 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 trust, 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. The Company expects to complete its pending acquisition of Cornerstone Bancorp, Inc., headquartered in St. Petersburg, Florida during the first half of 2016.

See additional discussion regarding the Traditional Banking segment under Footnote 23 “Segment Information” of Part II Item 8 “Financial Statements and Supplementary Data.”

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(II) Warehouse Lending segment

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

See additional discussion regarding the Warehouse Lending segment under Footnote 23 “Segment Information” of Part II Item 8 “Financial Statements and Supplementary Data.”

(III) Mortgage Banking segment

Mortgage Banking activities primarily include 15-, 20- and 30-year fixed-term single family, first lien residential real estate loans that are sold into the secondary market, primarily to the Federal Home Loan Mortgage Corporation (“FHLMC” or “Freddie Mac”). 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 by interest rates. Any impairment of a grouping

is reported as a valuation allowance. A primary factor influencing the fair value is the estimated life of the underlying loans serviced. The estimated life of the loans serviced is significantly influenced by market interest rates. During a period of declining interest rates, the fair value of the MSR is expected to decline due to increased anticipated prepayment speed assumptions within the portfolio. Alternatively, during a period of rising interest rates, the fair value of MSR is expected to increase, as prepayment speed assumptions on the underlying loans would be anticipated to decline.

See additional discussion regarding the Mortgage Banking segment under Footnote 23 “Segment Information” of Part II Item 8 “Financial Statements and Supplementary Data.”

(IV) Republic Processing Group segment

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

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Tax Refund Solutions division:

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

RTs are products whereby a tax refund is issued to the taxpayer after the Bank has received the refund from the federal or state government. There is no credit risk or borrowing cost for the Bank associated with these products because they are only delivered to the taxpayer upon receipt of the refund directly from the governmental paying authority. Fees earned on RTs, net of rebates, are the primary source of revenue for the TRS division and the RPG segment, and are reported in the income statement as non interest income under the line item "Net refund transfer fees."

Introduction of the "Easy Advance"

Since RB&T's discontinuance of the Refund Anticipation Loans ("RALs") in April 2012, the tax industry, as a whole, has continued to make credit alternatives available to its customer base each year, including the availability of RALs in various states through finance companies. One credit alternative to a traditional RAL the industry has developed is a product that allows a taxpayer to receive an advance of a portion of their refund with no additional fee paid by the taxpayer, and all fees for the advance being paid by the tax preparer or tax software company (collectively, the "Tax Providers") to the lenders that offer this product. In an effort to gain a competitive marketing advantage, some Tax Providers offered this no-fee advance product to the public in 2015 with others offering a similar program during the first quarter 2016 tax season.

TRS began offering a no-fee tax credit product during the first quarter of 2016. As part of the program, the Tax Providers pay the Bank a flat fee per approved advance. RPG's credit product, which is named "Easy Advance," has the following features:

- An advance amount of \$750 per customer;
- Product offered through February 29, 2016;
- All fees for the product to be paid by the Tax Providers;
- No requirement that the customer pay for another bank product, such as an RT;
- The customer can elect to have proceeds disbursed by direct deposit, prepaid card, check or the Walmart Direct2Cash® product;
- The Tax Providers may not impose an upcharge to the Easy Advance customer to offset the cost of the advance,
- Repayment to the Bank is deducted from the customer's tax refund proceeds; and

- If an insufficient refund to repay the Easy Advance occurs:
 - o there is no recourse to the customer,
 - o no negative credit reporting on the customer, and
 - o no collection efforts against the customer.

Prior to the 2016 tax season, the Bank's senior management team reviewed with its primary federal regulator, the FDIC, the features listed above for the Easy Advance product and the Bank's plans to offer the product during the first quarter of 2016.

Management believes the overall volume of the product is primarily dependent on the marketing of the product by the Tax Providers. The Tax Providers' willingness to market the product is highly dependent upon the actual value and perceived value of the product by the Tax Providers. The product is a no-fee value-added product to the taxpayer customer. This no-fee product to the customer is intended to retain existing customers or to attract additional tax preparation customers to the Tax Providers, with the Tax Providers' expectation to earn more than enough revenue on tax preparation services to cover the costs they incur in offering the product.

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Related to the overall credit losses for the Easy Advance, the Bank's ability to control those losses is highly dependent upon its ability to predict the taxpayer's likelihood to receive their tax refund filed with the IRS. The Bank's approval model for the Easy Advance is based on prior year IRS funding patterns with on-going changes made in-season to adjust for any new current year funding patterns recognized by the Bank. Because much of the loan volume overall occurs each year before that year's funding patterns can be analyzed and subsequent underwriting changes made, credit losses in the current year could be higher than management's predictions if IRS funding patterns change materially between the prior year and current year.

Republic Payment Solutions division:

The RPS division is an issuing bank offering general purpose reloadable prepaid cards through third party program managers. This program's objectives include:

- generate a low-cost deposit source;
- generate float revenue from the previously mentioned low cost deposit source;
- serve as a source of fee income; and
- generate interchange revenue.

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

The Company divides prepaid cards into two general categories:

Reloadable Cards: These types of cards are considered general purpose reloadable ("GPR") cards. These cards may take the form of payroll cards issued to an employee by an employer to receive the direct deposit of their payroll. GPR cards can also be issued to a consumer at a retail location or mailed to a consumer after completing an online application. GPR cards can be reloaded multiple times with a consumer's payroll, government benefit, a federal or state tax refund or through cash reload networks located at retail locations. Reloadable cards are generally open loop cards as described below.

Non-Reloadable Cards: These are generally one-time use cards that are only active until the funds initially loaded to the card are expended. These types of cards are considered gift or incentive cards. These cards may be open loop or

closed loop, as described below. Normally these types of cards are used for the purchase of goods or services at retail locations and cannot be used to receive cash.

Prepaid cards may be open loop, closed loop or semi-closed loop. Open loop cards can be used to receive cash at automatic teller machines (“ATM”s) or purchase goods or services by use of personal identification numbers (“PINs”) or signature at retail locations. These cards can be used virtually anywhere that Visa® or MasterCard® is accepted. Closed loop cards can only be used at a specific merchant. Semi-closed loop cards can be used at several merchants.

The prepaid card market is one of the fastest growing segments of the payments industry throughout the Nation. This market has experienced significant growth in recent years due to consumers and merchants embracing improved technology, greater convenience, more product choices and greater flexibility. Prepaid cards have also proven to be an attractive alternative to traditional bank accounts for certain segments of the population, particularly those without, or who could not qualify for, a checking or savings account.

The RPS division will work with various third parties to distribute prepaid cards to consumers throughout the Nation. The Company will also likely work with these third parties to develop additional financial services for consumers to increase the functionality of the program and prepaid card usage.

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Republic Credit Solutions division:

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

During the third quarter of 2015, one of RCS' small dollar consumer loan programs exited the program's pilot phase. Under the operation of this program, the Company retains a 10% ownership in the loans originated and sells a 90% participation interest. During 2015, RPG sold approximately \$137 million of loans from this program to a third party compared to \$636,000 during 2014. As of December 31, 2015, RCS carried approximately \$7 million of such loans on its balance sheet, representing its 10% retained ownership.

See additional discussion regarding RPG 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 23 "Segment Information"

Employees

As of December 31, 2015, Republic had 785 full-time equivalent employees ("FTE"s). Altogether, Republic had 771 full-time and 28 part-time employees. None of the Company's employees are subject to a collective bargaining agreement, and Republic has never experienced a work stoppage. The Company believes that its employee relations have been and continue to be good.

Executive Officers

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

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 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 which 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 and other financial intermediaries operating in Kentucky, Indiana, Florida, Tennessee and Ohio. The Bank also competes with insurance companies, consumer finance companies, investment banking firms and mutual fund managers. Some of the Company's competitors are not subject to the same degree of regulatory review and restrictions that apply to the Company and the Bank. Many of the Bank's primary competitors, some of which are affiliated with large bank holding companies or other larger financial based institutions, have substantially greater resources, larger established client bases, higher lending limits, more extensive banking center networks, numerous ATMs, 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.

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

Warehouse Lending

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

Mortgage Banking

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

Republic Processing Group

Tax Refund Solutions division

The TRS division faces direct competition for RT market share from independently-owned processing groups partnered with banks. The Bank continues to incur substantial pressure on its profit margin for its RT products, as it competes with rebate and pricing incentives in the RT marketplace.

Republic Payment Solutions division

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

Republic Credit Solutions division

The small dollar consumer loan industry is highly competitive. Management believes principal competitors for its small dollar loan programs will be billers who accept late payments for a fee, overdraft privilege programs of other banks and credit unions, as well as payday lenders.

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 in the Nation.

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Supervision and Regulation

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

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

The Bank is a Kentucky-chartered commercial banking and trust corporation and as such, it is subject to supervision and regulation by the FDIC and the Kentucky Department of Financial Institutions (“KDFI”). The Bank also operates in Florida, Indiana, Ohio and Tennessee. All deposits, subject to regulatory prescribed limitations, held by the Bank are insured by the FDIC.

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

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

Regulators have broad enforcement powers over banks and their holding companies, including, but not limited to: the power to mandate or restrict particular actions, activities, or divestitures; impose monetary fines and other penalties for violations of laws and regulations; issue cease and desist or removal orders; seek injunctions; publicly disclose such actions; and prohibit unsafe or unsound practices. This authority includes both informal and formal actions to

effect corrective actions and/or sanctions. In addition, the Bank is subject to regulation and potential enforcement actions by other state and federal agencies.

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

Prepaid Card Regulation

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

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State Wage Payment Laws and Regulations

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

Card Association and Payment Network Operating Rules

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act

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

- Requiring publicly traded companies to provide stockholders the opportunity to cast a non-binding vote on executive compensation at least every three years and on “golden parachute” payments in connection with approvals of mergers and acquisitions. The legislation also authorizes the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company’s proxy materials. Additionally, the Dodd-Frank Act directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of \$1 billion, regardless of whether the company is publicly traded or not. The Dodd-Frank Act gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

- Applying Section 23A and Section 22(h) of the Federal Reserve Act (governing transactions with insiders) to derivative transactions, repurchase agreements and securities lending and borrowing transactions that create credit exposure to an affiliate or an insider. Any such transactions with affiliates must be fully secured. The exemption from Section 23A for transactions with financial subsidiaries was effectively eliminated. The Dodd-Frank Act additionally prohibits an insured depository institution from purchasing an asset from or selling an asset to an insider unless the transaction is on market terms and, if representing more than 10% of capital, is approved in advance by the disinterested directors.
- Creating the CFPB, which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws. The CFPB has examination and primary enforcement authority with respect to depository institutions with \$10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB, but continue to be examined and supervised by federal banking regulators for consumer compliance purposes.

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- Permanently increasing the maximum deposit insurance amount for financial institutions from \$100,000 to \$250,000 per depositor, retroactive to January 1, 2009. The Dodd-Frank Act also broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also required the FDIC to increase the reserve ratio of the DIF from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. The Dodd-Frank Act eliminates the federal statutory prohibition against the payment of interest on business checking accounts.
- Imposing new requirements for mortgage lending, including prohibitions on certain compensation to mortgage originators and special consumer protections, including limitations on certain mortgage terms. Additionally, requiring lenders to consider a consumer's ability to repay a mortgage loan before extending credit to the consumer and limiting prepayment penalties.
- Limiting permissible debit interchange fees for certain financial institutions.
- Revising certain corporate governance requirements for public companies.

Incentive Compensation — In 2011, seven federal agencies, including the FDIC, the FRB and the SEC, issued a Notice of Proposed Rulemaking designed to implement section 956 of the Dodd-Frank Act, which applies only to financial institutions with total consolidated assets of \$1 billion or more. This seeks to strengthen the incentive compensation practices at covered institutions by better aligning employee rewards with longer-term institutional objectives. The proposed orders are designed to:

- prohibit incentive-based compensation arrangements that encourage inappropriate risks by providing covered persons with “excessive” compensation;
- prohibit incentive-based compensation arrangements that encourage inappropriate risk taking by providing covered persons with compensation that “could lead to a material financial loss” to an institution;
- require disclosures that will enable the appropriate federal regulator to determine compliance with the rule; and
- require the institution to maintain policies and procedures to ensure compliance with these requirements and prohibitions commensurate with the size and complexity of the organization and the scope of its use of incentive compensation.

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

I. The Company

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

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

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

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

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

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

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

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

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

Code of Ethics — The Company has adopted a code of ethics that applies to all employees, including the Company’s principal executive, financial and accounting officers. The Company’s code of ethics is posted on the Bank’s website. The Company intends to disclose information about any amendments to, or waivers from, the code of 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 ethics is not available on the Company’s website, the Company will provide a copy of it free of charge upon written request.

II. The Bank

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

Branching — Kentucky law generally permits a Kentucky chartered bank to establish a branch office in any county in Kentucky. A Kentucky bank may also, subject to regulatory approval and certain restrictions, establish a branch office outside of Kentucky. Well-capitalized Kentucky chartered banks that have been in operation at least three years and that satisfy certain criteria relating to, among other things, their composite and management ratings, may establish a branch in Kentucky without the approval of the Commissioner of the KDFI, upon notice to the KDFI and any other state bank with its main office located in the county where the new branch will be located. Branching by all banks not meeting these criteria requires the approval of the Commissioner of the KDFI, who must ascertain and determine that the public convenience and advantage will be served and promoted and that there is a reasonable probability of the successful operation of the branch. In any case, the proposed branch must also be approved by the FDIC, which considers a number of factors, including financial condition, capital adequacy, earnings prospects, character of management, needs of the community and consistency with corporate powers. As a result of the Dodd Frank Act, the Bank, along with any other national or state chartered bank generally may branch across state lines. Such unlimited branching authority has the potential to increase competition within the markets in which the Company and the Bank operate.

Affiliate Transaction Restrictions — Transactions between the Bank and its affiliates, and in some cases the Bank’s correspondent banks, are subject to FDIC regulations, the FRB’s Regulations O and W, and Sections 23A, 23B,

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

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

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

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

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

In addition to assessments for deposit insurance premiums, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize the predecessor to the DIF. These assessments will continue until the Financing Corporation (“FICO”) bonds mature between 2017 through 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 three basis points from the base scale without notice and comment. No institution may pay a dividend if in default of paying FDIC deposit insurance assessments.

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

- Redefined the deposit insurance assessment base as average consolidated total assets minus average tangible equity (defined as Tier 1 Capital);
- Made generally conforming changes to the unsecured debt and brokered deposit adjustments to assessment rates;
- Created a depository institution debt adjustment;
- Eliminated the secured liability adjustment; and
- Adopted a new assessment rate schedule, and, in lieu of dividends, other rate schedules when the reserve ratio reaches certain levels.

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

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

In November 2014, the FDIC revised the risk-based deposit insurance assessment system to reflect changes in the regulatory capital rules in accordance with Basel III that became effective in 2015 and 2018. For deposit insurance assessment purposes, the updated system will revise the ratios and ratio thresholds relating to capital evaluations.

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

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

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

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.

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

parties registered under the Commodity Exchange Act. Among other requirements, the Patriot Act imposes the following obligations on financial institutions:

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

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

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

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

In the event of a default on an advance, the Federal Home Loan Bank Act establishes priority of the FHLB’s claim over various other claims. Regulations provide that each FHLB has joint and several liability for the obligations of the other FHLBs in the system. If an FHLB falls below its minimum capital requirements, the FHLB may seek to require its members to purchase additional capital stock of the FHLB. If problems within the FHLB system were to occur, it could adversely affect the pricing or availability of advances, the amount and timing of dividends on capital stock issued by FHLBs to its members, or the ability of members to have their FHLB capital stock redeemed on a timely basis. Congress continues to consider various proposals which 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 non interest-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 non interest-bearing account at the FRB, or a pass-through account as defined by the FRB. The effect of this reserve requirement is to reduce the Bank’s interest-earning assets. The balances maintained to meet the reserve requirements imposed by the FRB may be used to satisfy liquidity requirements imposed by the FDIC. The Bank is authorized to borrow from the FRB discount window.

General Lending Regulations

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

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

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

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

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

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

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

Truth in Lending Act ("TLA") — The TLA governs disclosures of credit terms to consumer borrowers and is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As result of the TLA, all creditors must use the same credit terminology and expressions of rates, and disclose the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule for each proposed loan. Violations of the TLA may result in regulatory sanctions and in the imposition of both civil and, in the case of willful violations, criminal penalties. Under certain circumstances, the TLA

also provides a consumer with a right of rescission, which if exercised within three business days would require the creditor to reimburse any amount paid by the consumer to the creditor or to a third party in connection with the loan, including finance charges, application fees, commitment fees, title search fees and appraisal fees. Consumers may also seek actual and punitive damages for violations of the TLA.

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

Real Estate Settlement Procedures Act (“RESPA”) — The RESPA requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. The RESPA also prohibits certain abusive practices, such as kickbacks, and places

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limitations on the amount of escrow accounts. Violations of the RESPA may result in imposition of penalties, including: (i) civil liability equal to three times the amount of any charge paid for the settlement services or civil liability of up to \$1,000 per claimant, depending on the violation; (ii) awards of court costs and attorneys' fees; and (iii) fines of not more than \$10,000 or imprisonment for not more than one year, or both. A rule requiring integrated disclosures from the TLA and RESPA became effective in October 2015.

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

Ability to Repay ("ATR") Rule and Qualified Mortgage Loans ("QMs") — In January 2014, the CFPB's final rule implementing the ATR requirements in the Dodd-Frank Act became effective. The rule, among other things, requires lenders to consider a consumer's ability to repay a mortgage loan before extending credit to the consumer and limits prepayment penalties. The rule also establishes certain protections from liability for mortgage lenders with regard to QMs they originate. For this purpose, the rule defines QMs to include loans with a borrower debt-to-income ratio of less than or equal to 43% or, alternatively, a loan eligible for purchase by the FNMA or Freddie Mac while they operate under Federal conservatorship or receivership, and loans eligible for insurance or guarantee by the Federal Housing Administration ("FHA"), U.S. Department of Veterans Affairs ("VA") or U.S. Department of Agriculture ("USDA"). Additionally, QMs may not: (i) contain excess upfront points and fees; (ii) have a term greater than 30 years; or (iii) include interest-only or negative amortization payments.

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

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

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

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

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

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Capital Adequacy Requirements

Capital Guidelines — Both the Company and the Bank are required to comply with capital adequacy guidelines. 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.

Through December 31, 2014, the guidelines required a minimum total risk based capital ratio of 8.0%, of which at least 4.0% was required to consist of Tier 1 capital elements (generally, common shareholders' equity, minority interests in the equity accounts of consolidated subsidiaries, non-cumulative perpetual preferred stock, less goodwill and certain other intangible assets). Total capital is the sum of Tier 1 and Tier 2 capital. Tier 2 capital generally may consist of limited amounts of subordinated debt, qualifying hybrid capital instruments, other preferred stock, loan loss reserves and unrealized gains on certain equity investment securities. Tier 2 capital may not exceed 100% of Tier 1 capital.

In addition to the risk based capital guidelines, the FRB utilized a leverage ratio as a tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company's Tier 1 capital divided by its average total consolidated assets (less goodwill and certain other intangible assets).

New Capital Rules — Effective January 1, 2015 the Company and the Bank became subject to the new capital regulations in accordance with Basel III. The new regulations establish higher minimum risk-based capital ratio requirements, a new common equity Tier 1 risk-based capital ratio and a new capital conservation buffer. The capital conservation buffer requirement is phased in beginning in January 2016, and will increase until fully implemented in 2019. The new regulations also include revisions to the definition of capital and changes in the risk-weighting of certain assets. For prompt corrective action, the new regulations establish definitions of "well capitalized" as a 6.5% common equity Tier 1 risk-based capital ratio, an 8.0% Tier 1 risk-based capital ratio, a 10.0% total risk-based capital ratio and a 5.0% Tier 1 leverage ratio. As of December 31, 2015, the ratios for both the Company and the Bank exceeded the minimum capital ratio requirements for "well-capitalized" including the 2.5% capital conservation buffer, when fully implemented.

Under the new capital rules, Tier 1 capital generally consists of common stock (plus related surplus) and retained earnings, a restricted amount of minority interest as additional Tier 1 capital, and non-cumulative preferred stock (plus related surplus), subject to certain eligibility requirements, minus goodwill and other specified intangible assets and other regulatory deductions. Proceeds of trust preferred securities are excluded from Tier 1 capital unless such securities were issued before 2010 by bank or savings and loan holding companies with less than \$15 billion of 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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As of December 31, 2015 and 2014 the Company's capital ratios were as follows:

December 31, (dollars in thousands)	2015 Actual Amount	Ratio	2014 Actual Amount	Ratio
Total capital to risk weighted assets				
Republic Bancorp, Inc.	\$ 631,820	20.58 %	\$ 608,658	22.17 %
Republic Bank & Trust Company	494,575	16.12	472,357	17.21
Common equity tier 1 capital to risk weighted				
Republic Bancorp, Inc.	\$ 564,329	18.39 %	NA	NA
Republic Bank & Trust Company	467,084	15.23	NA	NA
Tier 1 (core) capital to risk weighted assets				
Republic Bancorp, Inc.	\$ 604,329	19.69 %	\$ 584,248	21.28 %
Republic Bank & Trust Company	467,084	15.23	447,947	16.32
Tier 1 leverage capital to average assets				
Republic Bancorp, Inc.	\$ 604,329	14.82 %	\$ 584,248	15.92 %
Republic Bank & Trust Company	467,084	11.46	447,947	12.21

NA - Not applicable

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.

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In addition, a bank holding company may face significant consequences if its bank subsidiary fails to maintain the required capital and management ratings, including entering into an agreement with the FRB which imposes limitations on its operations and may even require divestitures. Such possible ramifications may limit the ability of a bank subsidiary to significantly expand or acquire less than well-capitalized and well-managed institutions. More specifically, the FRB's regulations require a FHC to notify the FRB within 15 days of becoming aware that any depository institution controlled by the company has ceased to be well-capitalized or well-managed. If the FRB determines that a FHC controls a depository institution that is not well-capitalized or well-managed, the FRB will notify the FHC that it is not in compliance with applicable requirements and may require the FHC to enter into an agreement acceptable to the FRB to correct any deficiencies, or require the FHC to decertify as a FHC. Until such deficiencies are corrected, the FRB may impose any limitations or conditions on the conduct or activities of the FHC and its affiliates that the FRB determines are appropriate, and the FHC may not commence any additional activity or acquire control of any company under Section 4(k) of the BHC Act without prior FRB approval. Unless the period of time for compliance is extended by the FRB, if a FHC fails to correct deficiencies in maintaining its qualification for FHC status within 180 days of entering into an agreement with the FRB, the FRB may order divestiture of any depository institution controlled by the company. A company may comply with a divestiture order by ceasing to engage in any financial or other activity that would not be permissible for a bank holding company that has not elected to be treated as a FHC. The Company is currently classified as a FHC.

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

Other Legislative Initiatives

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

Statistical Disclosures

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

Item 1A. Risk Factors.

FACTORS THAT MAY AFFECT FUTURE RESULTS

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

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

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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 than amounts previously estimated. Management has identified several accounting policies and estimates as being critical to the presentation of the Company's financial statements. These policies are described in Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the section titled "Critical Accounting Policies and Estimates." The Company's management must exercise judgment in selecting and applying many accounting policies and methods in order to comply with generally accepted accounting principles and reflect management's judgment of the most appropriate manner to report the Company's financial condition and results. In some cases, management may select an accounting policy which 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 future goodwill impairment, which could reduce its earnings. The Bank performed its annual goodwill impairment test during the fourth quarter of 2015 as of September 30, 2015. The evaluation of the fair value of goodwill requires management judgment. If management's judgment was incorrect and goodwill impairment was later deemed to exist, the Bank would be required to write down its goodwill resulting in a charge to earnings, which would adversely affect its results of operations, perhaps materially.

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

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, assurances 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.

If the Bank's other real estate owned ("OREO") portfolio is not properly valued or sufficiently reserved to cover actual losses, or if the Bank is required to increase its valuation reserves, the Bank's earnings could be reduced. Management

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

REPUBLIC PROCESSING GROUP ("RPG")

The Company's lines of business and products not typically associated with Traditional Banking expose earnings to additional risks and uncertainties. The RPG segment is comprised of three distinct divisions: Tax Refund Solutions ("TRS"), Republic Payment Solutions ("RPS") and Republic Credit Solutions ("RCS").

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

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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 the Refund Transfer ("RT") product through RPG, it will have a material adverse effect on its profits.

The TRS division represents a significant operational risk, and if the Bank were unable to properly service this business, it could materially impact earnings. This division requires continued increases in technology and employees to service its business. 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 division. Any failure, sustained interruption or breach in security of these systems could result in failures or disruptions in client relationship management and other systems. Significant operational problems could also cause a material portion of the Bank's tax-preparer base to switch to a competitor to process their bank product transactions, significantly reducing the Bank's projected revenue without a corresponding decrease in expenses.

The Bank's Easy Advance product represents a significant third party management risk, and if RB&T fails to comply with all the statutory and regulatory requirements, it could have a material negative impact on earnings. RPG and its third party partners operate in a highly regulated environment and deliver products and services that are subject to strict legal and regulatory requirements. Failure by either RB&T or its third party partners to comply with laws and regulations could result in fines and penalties that materially and adversely affect RB&T's earnings.

The Bank's Easy Advance product represents 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 Easy Advance. 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.

Easy Advances represent a significant credit risk, and if RB&T is unable to collect a significant portion of its Easy Advances, it would materially, negatively impact earnings. There is credit risk associated with an Easy Advance because the funds are disbursed to the customer prior to RB&T receiving the customer's refund from the IRS. Because there is no recourse to the customer if the Easy Advance is not paid off by the customer's tax refund, RB&T may collect all of its payments related to Easy Advances from the IRS. Losses will generally occur on Easy Advances when RB&T does not receive payment from the IRS 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 RB&T during its underwriting process. Although RB&T's underwriting will take these factors into consideration during the Easy Advance approval process, if the IRS significantly alters its revenue protection strategies for a given tax season, or 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 component of the RPG segment's overall earnings.

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

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

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

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

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

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

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

The Bank is highly dependent upon programs administered by the Federal Home Loan Mortgage Corporation (“Freddie Mac” or the “FHLMC”). 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 the FHLMC. This entity plays a powerful role in the residential mortgage industry, and the Bank has significant business relationships with it. The Bank’s status as an FHLMC approved seller/servicer is subject to compliance with its selling and servicing guides.

Any discontinuation of, or significant reduction or material change in, the operation of the FHLMC or any significant adverse change in the level of activity in the secondary mortgage market or the underwriting criteria of the FHLMC 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.

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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. In 2015, the Bank's Correspondent Lending channel originated loans in 20 different states, with the largest concentration of 78% from the state of California.

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

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

WAREHOUSE LENDING ("WAREHOUSE")

The Warehouse Lending business is subject to numerous risks which could 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. The Bank has a moderate 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. Such volatility may materially impact the Company's balance sheet and results of operations.

Warehouse lines of credit may continue to experience margin compression due to several factors, such as competition, overall mortgage demand, interest rate environment, banking regulations and financial strength of our target client base. The Bank experienced margin compression on its Warehouse lines of credit during 2015 due primarily to strong industry competition combined with an improved financial position of the Bank's overall client base. Continued margin compression 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 around the Nation. Mergers and acquisitions affecting such clients may lead to an end to the client relationship with the Bank. The loss of a significant amount of clients may have a material adverse impact on the Company's results of operations.

INVESTMENT SECURITIES AND BANK OWNED LIFE INSURANCE

The Bank's investment securities may incur other-than-temporary-impairment ("OTTI") charges. The Bank's investment portfolio is periodically evaluated for OTTI. From 2008 through 2011, OTTI charges were recognized on the Bank's private label mortgage backed securities. The Bank's remaining private label mortgage backed security may still require an OTTI charge in the future should the financial condition of the underlying mortgages and/or the underlying third party insurance wrap, or guarantee deteriorate.

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The Bank holds a significant amount of bank owned life insurance. At December 31, 2015, the Bank held bank-owned life insurance (“BOLI”) on certain employees with a cash surrender value of \$53 million. 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.

ASSET/LIABILITY MANAGEMENT AND LIQUIDITY

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

A continued low interest rate environment may reduce profitability. An on-going low interest rate environment will cause the Bank’s interest-earning assets to continue to reprice into lower yielding assets without the ability for the Bank to offset the decline in interest income through a reduction in its cost of funds. Continued contraction in the Bank’s net interest margin may cause net interest income to decrease if growth in interest-earning assets cannot fully compensate for such contraction in net interest margin. The overall impact of such contraction in net interest margin will depend on the period of time that the current interest rate environment remains and the Bank’s interest-earning asset growth and asset mix over such time period.

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

Mortgage Banking activities could be adversely impacted by increasing or stagnant long-term interest rates. The Company is unable to predict changes in market interest rates. Changes in interest rates can impact the gain on sale of loans, loan origination fees and loan servicing fees, which account for a significant portion of Mortgage Banking income. A decline in market interest rates generally results in higher demand for mortgage products, while an increase

in rates generally results in reduced demand. Generally, if demand increases, Mortgage Banking income will be positively impacted by more gains on sale; however, the valuation of existing mortgage servicing rights will decrease and may result in a significant impairment. A decline in demand for Mortgage Banking products resulting from rising interest rates could also adversely impact other programs/products such as home equity lending, title insurance commissions and service charges on deposit accounts.

The Bank may be compelled to offer market-leading interest rates to maintain sufficient funding and liquidity levels. The Bank has traditionally relied on client deposits, brokered deposits and advances from the FHLB to fund operations. Such traditional sources may be unavailable, limited or insufficient in the future. If the Bank were to lose a significant funding source, such as a few major depositors, or if any of its lines of credit were canceled or curtailed, such as its borrowing line at the FHLB, or if the Bank cannot obtain brokered deposits, the Bank may be compelled to offer market leading deposit 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.

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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.

COMPANY COMMON STOCK

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

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

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

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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.

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.

The Company's insiders hold voting rights that give them significant control over matters requiring stockholder approval. The Company's Chairman/CEO and President 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.

GOVERNMENT REGULATION / ECONOMIC FACTORS

The Company is significantly impacted by the regulatory, fiscal and monetary policies of federal and state governments which 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. Also, failure to comply with laws, regulations or policies, or adverse examination findings, could result in significant penalties, negatively impact operations, or result in other sanctions against the Company. The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the U.S. Its policies determine, in large part, the Company's cost of funds for lending and investing and the return the Company earns on these loans and investments, all of which impact net interest margin.

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

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

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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 which 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. Recently, federal and state taxing authorities have become increasingly 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 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.

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The Company's operations, including third party and client interactions, are increasingly done via electronic means, and this has increased the risks related to cyber security. The Company is exposed to the risk of cyber-attacks in the normal course of business. In general, cyber incidents can result from deliberate attacks or unintentional events. Management has observed an increased level of attention in the industry focused on cyber-attacks that include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyber-attacks may also be carried out in a manner that does not require gaining unauthorized access, such as by causing denial-of-service attacks on websites. Cyber-attacks may be carried out by third parties or insiders using techniques that range from highly sophisticated efforts to electronically circumvent network security or overwhelm websites to more traditional intelligence gathering and social engineering aimed at obtaining information necessary to gain access. The objectives of cyber-attacks vary widely and can include theft of financial assets, intellectual property, or other sensitive information, including the information belonging to the Bank's clients. Cyber-attacks may also be directed at disrupting operations. While the Company has not incurred any material losses related to cyber-attacks, nor is management aware of any specific or threatened cyber-incidents as of the date of this report, the Bank may incur substantial costs and suffer other negative consequences if the Bank or one of the Bank's third party service providers fall victim to successful cyber-attacks. Such negative consequences could include: remediation costs for stolen assets or information; system repairs; consumer protection costs; increased cyber security protection costs that may include organizational changes; deploying additional personnel and protection technologies, training employees, and engaging third party experts and consultants; lost revenues resulting from unauthorized use of proprietary information or the failure to retain or attract clients following an attack; litigation and payment of damages; and reputational damage adversely affecting client or investor confidence.

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

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 which may be provided in the future, may become more risky due to changes in economic, competitive and market conditions beyond the Company's control.

Negative public opinion could damage the Company's reputation and adversely affect earnings. Reputational risk is the risk to Company operations from negative public opinion. Negative public opinion can result from the actual or perceived manner in which the Company conducts its business activities, including 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.

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The Company's ability to successfully complete acquisitions will affect its ability to grow its franchise and compete effectively in its market footprint. The Company has announced plans to pursue a policy of growth through acquisitions in the near-future to supplement internal growth. The Company's efforts to acquire other financial institutions and financial service companies or branches may not be successful. Numerous potential acquirers exist for many acquisition candidates, creating intense competition, which affects the purchase price for which the institution can be acquired. In many cases, the Company's competitors have significantly greater resources than the Company has, and greater flexibility to structure the consideration for the transaction. The Company may also not be the successful bidder in acquisition opportunities that it pursues due to the willingness or ability of other potential acquirers to propose a higher purchase price or more attractive terms and conditions than the Company is willing or able to propose. The Company expects to complete its pending acquisition of Cornerstone Bancorp, Inc. during the first half of 2016 and 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.

For additional information concerning the Company's acquisition of Cornerstone Bancorp, Inc., see Footnote 2 "Acquisition (Subsequent Event)" of Part II Item 8 "Financial Statements and Supplementary Data."

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 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.

The Company may engage in FDIC-assisted transactions, which could present additional risks to its business. The Company may have additional opportunities to acquire the assets and liabilities of failed banks in FDIC-assisted transactions similar to the Bank's 2012 FDIC-assisted transactions. Although these FDIC-assisted transactions typically provide for FDIC assistance to an acquirer to mitigate certain risks, such as sharing exposure to loan losses and providing indemnification against certain liabilities of the failed institution, the Company is (and would be in future transactions) subject to many of the same risks it would face in acquiring another bank in a negotiated transaction, including risks associated with maintaining client relationships and failure to realize the anticipated acquisition benefits in the amounts and within the timeframes the Company expects. In addition, because these acquisitions are structured in a manner that would not allow the Company the time and access to information normally associated with preparing for and evaluating a negotiated acquisition, the Company may face additional risks in FDIC-assisted transactions, including additional strain on management resources, management of problem loans,

problems related to integration of personnel and operating systems and impact to capital resources requiring the Company to raise additional capital. Moreover, if the Company seeks to participate in additional FDIC-assisted transactions, the Company can only participate in the bid process if it receives approval of bank regulators. The Company's inability to overcome these risks could have a material adverse effect on its business, financial condition and results of operations.

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, 2015, Republic had 32 banking centers located in Kentucky, two banking centers located in Florida, three banking centers in Indiana, two 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
6401 Claymont Crossing, Crestwood	4,000	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

Northern Kentucky

535 Madison Avenue, Covington	4,000	L
8513 U.S. Highway 42, Florence	4,000	L
2051 Centennial Boulevard, Independence	2,000	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	6,000	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:		
9037 U.S. Highway 19, Port Richey	11,000	O
11502 North 56th Street, Temple Terrace	3,000	L
Southern Indiana Banking Centers:		
4571 Duffy Road, Floyds Knobs	4,000	O/L(2)
3141 Highway 62, Jeffersonville	4,000	O
3001 Charlestown Crossing Way, New Albany	2,000	L
Tennessee Banking Centers:		
2034 Richard Jones Road, Nashville	3,000	L
113 Seaboard Lane, Franklin	2,000	L
Ohio Banking Center:		
9683 Kenwood Road, Blue Ash	3,000	L
Support and Operations:		
200 South Seventh Street, Louisville, KY	64,000	L(1)
651 Perimeter Drive, Lexington, KY	5,000	L

(1) Locations are leased from partnerships in which Steven E. Trager, Chairman and Chief Executive Officer and A. Scott Trager, President, are partners. See additional discussion included under Part III Item 13 “Certain Relationships and Related Transactions, and Director Independence.” For additional discussion regarding Republic’s lease obligations, see Part II Item 8 “Financial Statements and Supplementary Data” Footnote 19 “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 Bancorp, Inc. (“Republic”) and Republic Bank & Trust Company (the “Bank”) are defendants in various legal proceedings. There is no proceeding pending or threatened litigation, to the knowledge of management, in which an adverse decision could result in a material adverse change in the business or consolidated financial position of Republic or the Bank.

Item 4. Mine Safety Disclosures.

Not applicable.

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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

Republic Bancorp, Inc.'s ("Republic" or the "Company") Class A Common Stock is traded on The NASDAQ Global Select Market® ("NASDAQ") under the symbol "RBCAA." The following table sets forth the high and low market value of the Class A Common Stock and the respective dividends declared during 2015 and 2014.

2015				
Quarter Ended	Sales Price(1)		Dividend	
	High	Low	Class A	Class B
March 31st	\$ 24.85	\$ 22.79	0.187	0.170
June 30th	26.43	23.38	0.198	0.180
September 30th	26.53	23.95	0.198	0.180
December 31st	27.26	24.39	0.198	0.180

2014				
Quarter Ended	Sales Price(1)		Dividend	
	High	Low	Class A	Class B
March 31st	\$ 24.56	\$ 22.50	0.176	0.160
June 30th	24.51	21.92	0.187	0.170
September 30th	24.26	22.51	0.187	0.170
December 31st	25.48	22.38	0.187	0.170

(1) — Sales price based on closing market price.

At February 12, 2016, the Company's Class A Common Stock was held by 513 shareholders of record and the Class B Common Stock was held by 107 shareholders of record. There is no established public trading market for the Company's Class B Common Stock. The Company intends to continue its historical practice of paying quarterly cash

dividends; however, there is no assurance by the Board of Directors that such dividends will continue to be paid in the future. The payment of dividends in the future is dependent upon future income, financial position, capital requirements, the discretion and judgment of the Board of Directors and numerous other considerations.

For additional discussion regarding regulatory restrictions on dividends, see Part II Item 8 “Financial Statements and Supplementary Data” Footnote 16 “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

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December 31, 2015, the trustee held 228,281 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 2015 are included in the following table:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs
October 1 - October 31	—	\$ —	—	
November 1 - November 30	—	—	—	
December 1 - December 31	2,950	25.20	—	
Total	2,950	\$ 25.20	—	293,750

During 2015, the Company repurchased 21,890 shares and there were 31,052 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, 2015, the Company had 293,750 shares which could be repurchased under its current share repurchase programs.

During 2015, there were approximately 242 shares of Class A Common Stock issued upon conversion of shares of Class B Common Stock by stockholders of Republic in accordance with the share-for-share conversion provision option of the Class B Common Stock. The exemption from registration of the newly issued Class A Common Stock relied upon was Section (3)(a)(9) of the Securities Act of 1933.

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

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STOCK PERFORMANCE GRAPH

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

The following stock performance graph sets forth the cumulative total shareholder return (assuming reinvestment of dividends) on Republic's Class A Common Stock as compared to the NASDAQ Bank Stocks Index and the Standard & Poor's ("S&P") 500 Index. The graph covers the period beginning December 31, 2010 and ending December 31, 2015. 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, 2010. The stock price performance shown on the graph below is not necessarily indicative of future stock price performance.

	December 31, 2010	December 31, 2011	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015
Republic Class A Common Stock (RBCAA)	\$ 100.00	\$ 99.26	\$ 98.96	\$ 118.24	\$ 122.80	\$ 131.12
NASDAQ Bank Index	100.00	89.50	104.96	105.97	158.18	174.05
S&P 500 Index	100.00	102.11	116.46	156.15	180.74	182.11

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Item 6. Selected Financial Data.

The following table sets forth Republic Bancorp Inc.'s selected financial data from 2011 through 2015. 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.

	As of and Years Ended December 31,				
	2015	2014	2013	2012	2011
(in thousands, except per share data, FTEs and # of banking centers)					
Balance Sheet Data:					
and cash equivalents	\$ 210,082	\$ 72,878	\$ 170,863	\$ 137,691	\$ 36,211
investment securities	555,785	481,348	483,537	484,256	674,111
held for sale	4,597	6,388	3,506	10,614	4,311
loans	3,326,610	3,040,495	2,589,792	2,650,197	2,211,111
allowance for loan and lease losses	(27,491)	(24,410)	(23,026)	(23,729)	(24,111)
bill	10,168	10,168	10,168	10,168	10,168
owned life insurance	52,817	51,415	25,086	—	—
assets	4,230,289	3,747,013	3,371,904	3,394,399	3,441,111
interest-bearing deposits	634,863	502,569	488,642	479,046	401,111
non-interest-bearing deposits	1,852,614	1,555,613	1,502,215	1,503,882	1,311,111
deposits	2,487,477	2,058,182	1,990,857	1,982,928	1,712,222
securities sold under agreements to repurchase and other short-term investments	395,433	356,108	165,555	250,884	231,111
Home Loan Bank advances	699,500	707,500	605,000	542,600	931,111
derivative note	41,240	41,240	41,240	41,240	41,111
liabilities	3,653,742	3,188,282	2,829,111	2,857,697	2,911,111
stockholders' equity	576,547	558,731	542,793	536,702	451,111
Balance Sheet Data:					
deposits and funds sold and other interest-earning deposits	\$ 68,847	\$ 118,803	\$ 145,970	\$ 187,790	\$ 311,111
investment securities, including FHLB stock	546,655	525,748	527,681	640,830	674,111
loans, including loans held for sale	3,174,234	2,738,304	2,575,146	2,504,150	2,211,111
allowance for loan and lease losses	(25,570)	(23,067)	(23,287)	(25,226)	(24,111)
assets	3,982,840	3,559,617	3,385,345	3,560,739	3,441,111
interest-bearing deposits	651,275	553,929	513,891	624,053	501,111
non-interest-bearing deposits	1,714,214	1,510,201	1,514,847	1,512,455	1,311,111
interest-bearing liabilities	2,734,561	2,432,153	2,305,106	2,351,768	2,411,111
stockholders' equity	574,766	557,378	546,880	530,096	431,111

Statement Data - Total Company:

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Interest income	\$ 142,432	\$ 132,377	\$ 134,568	\$ 183,459	\$ 199,345
Interest expense	18,462	19,604	21,393	22,804	30,000
Net interest income	123,970	112,773	113,175	160,655	169,345
Provision for loan and lease losses	5,396	2,859	2,983	15,043	17,000
Income before interest income	47,994	42,519	46,230	163,465	111,345
Income before interest expenses	113,324	108,118	115,924	125,132	122,345
Income before income tax expense	53,244	44,315	40,498	183,945	144,345
Income tax expense	18,078	15,528	15,075	64,606	50,000
Income	35,166	28,787	25,423	119,339	94,345

Statement Data - Core Banking(1):

Interest income	\$ 139,155	\$ 132,014	\$ 134,419	\$ 137,886	\$ 133,345
Interest expense	18,424	19,571	21,392	22,655	29,000
Net interest income	120,731	112,443	113,027	115,231	104,345
Provision for loan and lease losses	3,065	3,392	3,828	8,167	6,400
Income before interest income	28,441	24,607	31,471	85,157	30,945
Income before interest expenses	101,184	96,451	99,743	102,825	90,945
Income before income tax expense	44,923	37,207	40,927	89,396	39,545
Income tax expense	15,066	12,875	14,112	30,943	12,000
Income	29,857	24,332	26,815	58,453	26,545

(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 Years Ended December 31,			
	2015	2014	2013	2012
Per Share Data:				
Basic weighted average shares outstanding	20,861	20,804	20,807	20,959
Diluted weighted average shares outstanding	20,942	20,899	20,904	21,028
End of year shares outstanding:				
Class A Common Stock	18,652	18,603	18,541	18,694
Class B Common Stock	2,245	2,245	2,260	2,271
Basic earnings per share:				
Class A Common Stock	\$ 1.70	\$ 1.39	\$ 1.23	\$ 5.71
Class B Common Stock	1.55	1.32	1.17	5.55
Diluted earnings per share:				
Class A Common Stock	\$ 1.70	\$ 1.38	\$ 1.22	\$ 5.69
Class B Common Stock	1.54	1.32	1.16	5.53
Cash dividends declared per share:				
Class A Common Stock	\$ 0.781	\$ 0.737	\$ 0.693	\$ 1.749
Class B Common Stock	0.710	0.670	0.630	1.590
Market value per share at December 31,	\$ 26.41	\$ 24.72	\$ 24.54	\$ 21.13
Book value per share at December 31,	27.59	26.80	26.09	25.60
Tangible book value per share at December 31,(2)	26.87	26.08	25.35	24.86
Performance Ratios:				
Return on average assets (ROA)	0.88 %	0.81 %	0.75 %	3.35 %
Return on average equity (ROE)	6.12 %	5.16 %	4.65 %	22.51 %
Efficiency ratio(3)	66 %	70 %	73 %	39 %
Yield on average interest-earning assets	3.76 %	3.91 %	4.14 %	5.50 %
Cost of average interest-bearing liabilities	0.68 %	0.81 %	0.93 %	0.97 %
Cost of deposits(4)	0.19 %	0.19 %	0.20 %	0.24 %
Net interest spread	3.08 %	3.10 %	3.21 %	4.53 %
Net interest margin - Total Company	3.27 %	3.33 %	3.48 %	4.82 %
Net interest margin - Core Banking(1)	3.19 %	3.35 %	3.50 %	3.63 %
Capital Ratios:				
Average stockholders' equity to average total assets	14.43 %	15.66 %	16.15 %	14.89 %
Total risk based capital - Total Company	20.58 %	22.17 %	26.71 %	25.28 %
Common equity tier 1 capital - Total Company	18.39 %	NA	NA	NA
Tier 1 risk based capital - Total Company	19.69 %	21.28 %	25.67 %	24.31 %
Tier 1 leverage capital - Total Company	14.82 %	15.92 %	16.81 %	16.36 %
Dividend payout ratio	46 %	53 %	56 %	31 %

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Dividend yield	2.96	%	2.98	%	2.82	%	8.28	%
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Other Information:

Period end full time equivalent employees - Total Company	785		723		736		797
Number of banking centers	40		41		45		44

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Item 6. Selected Financial Data. (continued)

(in thousands, except per share data, FTEs and # of banking centers)	As of and Years Ended December 31,			
	2015	2014	2013	2012
Credit Quality Data and Ratios:				
Loans on nonaccrual status	\$ 21,712	\$ 23,337	\$ 19,104	\$ 18,506
Loans past due 90-days-or-more and still on accrual	224	322	1,974	3,173
Total nonperforming loans	21,936	23,659	21,078	21,679
Other real estate owned	1,220	11,243	17,102	26,203
Total nonperforming assets	\$ 23,156	\$ 34,902	\$ 38,180	\$ 47,882
Total delinquent loans	\$ 11,731	\$ 15,851	\$ 16,223	\$ 20,844
Nonperforming loans to total loans	0.66 %	0.78 %	0.81 %	0.82 %
Nonperforming assets to total loans (including OREO)	0.70 %	1.14 %	1.46 %	1.79 %
Nonperforming assets to total assets	0.55 %	0.93 %	1.13 %	1.41 %
Allowance for loan and lease losses to total loans	0.83 %	0.80 %	0.89 %	0.90 %
Allowance for loan and lease losses to nonperforming loans	125 %	103 %	109 %	109 %
Delinquent loans to total loans(5)	0.35 %	0.52 %	0.63 %	0.79 %
Net loan charge-offs to average loans - Total Company	0.07 %	0.05 %	0.14 %	0.61 %
Net loan charge-offs to average loans - Core Banking(1)	0.05 %	0.08 %	0.18 %	0.34 %

(1) See Footnote 23 “Segment Information” under Part II Item 8 “Financial Statements and Supplemental Data” for additional information regarding the segments which constitute the Company’s Core Banking operations.

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

(in thousands, except per share data)	As of and Years Ended December 31,				
	2015	2014	2013	2012	2011
Total stockholders’ equity (a)	\$ 576,547	\$ 558,731	\$ 542,793	\$ 536,702	\$ 452,367
Less: Goodwill	10,168	10,168	10,168	10,168	10,168
Less: Core deposit intangible	—	—	—	510	58

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Less: Mortgage servicing rights	4,912	4,813	5,409	4,777	6,087
Tangible stockholders' equity (c)	\$ 561,467	\$ 543,750	\$ 527,216	\$ 521,247	\$ 436,054
Total assets (b)	\$ 4,230,289	\$ 3,747,013	\$ 3,371,904	\$ 3,394,399	\$ 3,419,991
Less: Goodwill	10,168	10,168	10,168	10,168	10,168
Less: Core deposit intangible	—	—	—	510	58
Less: Mortgage servicing rights	4,912	4,813	5,409	4,777	6,087
Tangible assets (d)	\$ 4,215,209	\$ 3,732,032	\$ 3,356,327	\$ 3,378,944	\$ 3,403,678
Total stockholders' equity to total assets (a/b)	13.63	% 14.91	% 16.10	% 15.81	% 13.23
Tangible stockholders' equity to tangible assets (c/d)	13.32	% 14.57	% 15.71	% 15.43	% 12.81
Number of shares outstanding (e)	20,897	20,848	20,801	20,965	20,952
Book value per share (a/e)	\$ 27.59	\$ 26.80	\$ 26.09	\$ 25.60	\$ 21.59
Tangible book value per share (c/e)	26.87	26.08	25.35	24.86	20.81

(3) The efficiency ratio equals total non interest expense divided by the sum of net interest income and non interest income. The ratio excludes net gain (loss) on sales, calls and impairment of investment securities, if applicable.

(4) The cost of deposits ratio equals total interest expense on deposits divided by total average interest-bearing deposits plus total average non interest-bearing deposits.

(5) The delinquent loans to total loans ratio equals loans 30-days-or-more past due loans divided by total loans.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations of Republic Bancorp, Inc. ("Republic" or the "Company") analyzes the major elements of Republic's consolidated balance sheets and statements of income. Republic, a financial holding company headquartered in Louisville, Kentucky, is the parent company of Republic Bank & Trust Company ("RB&T" or the "Bank") and Republic Insurance Services, Inc. (the "Captive"). The Bank is a Kentucky-based, state chartered non-member financial institution.

The Captive, which was formed during the third quarter of 2014, is a wholly-owned insurance subsidiary of the Company. The Captive provides property and casualty insurance coverage to the Company and the Bank as well as eight other third-party insurance captives for which insurance may not be available or economically feasible.

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

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

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by the forward-looking statements. Actual results may differ materially from those expressed or implied as a result of certain risks and uncertainties, including, but not limited to: changes in political and economic conditions; interest rate fluctuations; competitive product and pricing pressures; equity and fixed income market fluctuations; client bankruptcies; inflation; recession; acquisitions and integrations of acquired businesses; technological changes; changes in law and regulations or the interpretation and enforcement thereof; changes in fiscal, monetary, regulatory and tax policies; monetary fluctuations; success in gaining regulatory approvals when required; information security breaches or cyber security attacks involving either the Company or one of the Company's third party service providers; as well as other risks and uncertainties reported from time to time in the Company's filings with the Securities and Exchange Commission ("SEC"), including Part 1 Item 1A "Risk Factors."

Broadly speaking, forward-looking statements include:

- projections of revenue, income, expenses, losses, earnings per share, capital expenditures, dividends, capital structure or other financial items;
- descriptions of plans or objectives for future operations, products or services;

- forecasts of future economic performance; and
- descriptions of assumptions underlying or relating to any of the foregoing.

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

- loan delinquencies; non-performing, classified, or impaired loans; and troubled debt restructurings ("TDRs");
- further developments in the Bank's ongoing review of and efforts to resolve possible problem credit relationships, which could result in, among other things, additional provisions for loan and lease losses ("Provision");
- future credit quality, credit losses and the overall adequacy of the Allowance for Loan and Lease Losses ("Allowance");
- potential impairment charges or write-downs of other real estate owned ("OREO");
- future short-term and long-term interest rates and the respective impact on net interest income, net interest spread, net income, liquidity, capital and economic value of equity ("EVE");
- the future impact of Company strategies to mitigate interest rate risk;
- future long-term interest rates and their impact on the demand for Mortgage Banking products, Warehouse lines of credit and Correspondent Lending products;
- the future value of mortgage servicing rights ("MSRs");
- the potential impairment of investment securities;
- the growth in the Bank's loan portfolio, in general, and overall mix of such portfolio;

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- the growth in single family residential, first lien real estate loans originated through the Bank’s Correspondent Lending delivery channel;
- the growth in the Bank’s Warehouse Lending (“Warehouse”) portfolio;
- usage rates on Warehouse lines of credit;
- the volatility of the Bank’s Warehouse portfolio outstanding balances;
- the Bank’s ability to maintain and/or grow deposits;
- the concentrations and volatility of the Bank’s securities sold under agreements to repurchase;
- the Company’s intentions regarding its Trust Preferred Securities (“TPS”);
- the Company’s ability to successfully implement strategic plans, including, but not limited to, those related to pending or future business acquisitions;
- future accretion of discounts on loans acquired in the Bank’s 2012 FDIC-assisted transactions and the effect of such accretion on the Bank’s net interest income and net interest margin;
- future amortization of premiums on loans acquired through the Bank’s Correspondent Lending channel and the effect of such amortization on the Bank’s net interest income and net interest margin;
- the future financial performance of Tax Refund Solutions (“TRS”), a division of the Republic Processing Group (“RPG”) segment;
- future Refund Transfer (“RT”) volume for TRS;
- future Easy Advance (“EA”) volume for TRS;
- the future net revenue associated with RTs at TRS;
- the future financial performance of Republic Payment Solutions (“RPS”), a division of RPG;
- the future financial performance of Republic Credit Solutions (“RCS”), a division of RPG;
- the extent to which regulations written and implemented by the Consumer Financial Protection Bureau (“CFPB”), and other federal, state and local governmental regulation of consumer lending and related financial products and services, may limit or prohibit the operation of the Company’s business;
- financial services reform and other current, pending or future legislation or regulation that could have a negative effect on the Company’s revenue and businesses, including but not limited to, Basel III capital reforms; the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”); and legislation and regulation relating to overdraft fees (and changes to the Bank’s overdraft practices as a result thereof), interchange fees, credit card income, and other bank services;
- the impact of new accounting pronouncements;
- legal and regulatory matters including results and consequences of regulatory guidance, litigation, administrative proceedings, rule-making, interpretations, actions and examinations;
- future capital expenditures; and
 - the strength of the U.S. economy in general and the strength of the local and regional economies in which the Company conducts operations.

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.

See additional discussion under Part I Item 1 “Business” and Part I Item 1A “Risk Factors.”

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

Republic believes its critical accounting policies and estimates relate to:

- Allowance for Loan and Lease Losses and Provision for Loan and Lease Losses
- Acquisition Accounting
- Goodwill and Other Intangible Assets
- Mortgage Servicing Rights
- Income Tax Accounting
- Investment Securities
- Other Real Estate Owned
- Correspondent Loan Premiums

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

the Audit Committee and the Board of Directors on a quarterly basis.

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

The Bank defines impaired loans as follows:

- All loans internally rated as “Substandard,” “Doubtful” or “Loss”;
 - All loans on non-accrual status and non-PCI loans past due 90 days-or-more still on accrual;
- All retail and commercial TDRs;
- All loans internally rated in a purchased credit impaired (“PCI”) category with cash flows that have deteriorated from management’s initial acquisition day estimate; and
- Any other situation where the full collection of the total amount due for a loan is improbable or otherwise meets the definition of impaired.

Generally, loans are designated as classified or Special Mention to ensure more frequent monitoring. These loans are reviewed to ensure proper earning status and management strategy. If it is determined that there is serious doubt as to performance in accordance with original or modified contractual terms, then the loan is generally downgraded and often placed on non-accrual status.

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GAAP recognizes three methods to measure specific loan impairment, including:

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

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

The general component of the Allowance covers loans collectively evaluated for impairment and is based on historical loss experience, with potential adjustments for current relevant qualitative factors. Historical loss experience is determined by loan performance and class and is based on the actual loss history experienced by the Bank. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are included in the general component unless the loans are classified as TDRs or on non-accrual.

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

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

In order to take account of periods of economic growth and economic downturn, management generally uses the highest of the rolling four, eight, twelve, sixteen, twenty, twenty-four, or twenty-eight quarter averages for each loan class when determining its historical loss factors for its “Pass” rated and nonrated credits.

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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, non-performing 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 institution's existing portfolio.

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

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 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 Allowance was 7% at December 31, 2015, compared to 9% for December 31, 2014. The Core Bank's five year annual average for this ratio was 19% as of December 31, 2015. Management believes the Core Bank's net charge-off ratio to beginning Allowance was within a reasonable range at December 31, 2015 and 2014.

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 three to six years. The Core Bank's Allowance exhaustion rate at December 31, 2015 and 2014 was 5.6 years and 4.6 years compared to the five year annual average of 3.8 years as of December 31, 2015. Management believes the Bank's Allowance exhaustion rate was within a reasonable range at December 31, 2015 and 2014.

Based on management's calculation, a Core Bank Allowance of \$26 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, 2015 compared to \$24

million, or 0.80%, at December 31, 2014. This estimate resulted in Core Banking Provision of \$3.1 million during 2015 compared to \$3.4 million in 2014. 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, 2015 primarily related to loans originated through the RCS division. During the third quarter of 2015, one of RCS' small dollar consumer loan programs exited the program's pilot phase. As part of this program, the Company retains a 10% ownership in the loans originated and sells a 90% participation interest. During 2015, the Company sold approximately \$137 million of loans from this program compared to \$636,000 during 2014. As of December 31, 2015, RCS carried approximately \$7 million of such loans on its balance sheet, representing its 10% retained ownership.

For RCS loans, management conducts an analysis of historical losses and delinquencies by month of loan origination when determining the Allowance. Due to their small-dollar, short-term nature, such loans are expected to experience higher loss rates than Core Bank consumer products. Based on management's calculation, an RPG Allowance of \$1.7 million, or 24%, of total loans was an adequate estimate of probable incurred losses within the portfolio as of December 31, 2015 compared to an Allowance of \$44,000, or 1%, at December 31, 2014.

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RPG recorded a charge of \$2.6 million and \$49,000 to the Provision during 2015 and 2014 due to growth in short-term consumer loans originated by the RCS division. If the amount of future RCS charge-offs differs 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.

During 2015 and 2014, RPG recorded recoveries of \$278,000 and \$582,000 to the Provision for the collection of prior period Refund Anticipation Loan (“RAL”) charge-offs.

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

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

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

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

- ASC Topic 310-20, Non Refundable Fees and Other Costs, is used to value loans that have not demonstrated post origination credit quality deterioration and the acquirer expects to collect all contractually required payments from the borrower. For these loans, the difference between the loan’s day-one fair value and amortized cost would be amortized or accreted into income using the interest method.

- ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, is used to value PCI loans. For these loans, it is probable the acquirer will be unable to collect all contractually required payments from the borrower. Under ASC Topic 310-30, the expected cash flows that exceed the initial investment in the loan, or fair value, represent the “accretable yield,” which is recognized as interest income on a level-yield basis over the expected cash flow periods of the loans.

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

In determining the day-one fair values of PCI loans, management considers a number of factors including, among other things, the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, and net present value of cash flows expected to be received. The Bank typically accounts for PCI loans individually, as opposed to aggregating the loans into pools based on common risk characteristics such as loan type.

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

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

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

PCI loans are placed on non-accrual if management cannot reasonably estimate future cash flows on such loans.

If a troubled debt restructuring is performed on a PCI loan, the loan is considered impaired under the applicable TDR accounting standards and transferred out of the PCI population. The loan may require an additional Provision if its restructured cash flows are less than management's initial day-one expectations. PCI loans for which the Bank simply chooses to extend the maturity date are generally not considered TDRs and remain in the PCI population.

Goodwill and Other Intangible Assets — Goodwill resulting from business combinations 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 combinations 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 purchase business combination 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.

Based on its assessment, the Company believes its goodwill of \$10 million was not impaired and is properly recorded in the consolidated financial statements as of December 31, 2015 and 2014.

Other intangible assets consist of core deposit and acquired client relationship intangible assets arising from bank acquisitions. They are initially measured at fair value and then are amortized on an accelerated method over their estimated useful lives, which can range from two to ten years. During 2013, the Company amortized all \$510,000 in other intangible assets held as of December 31, 2012, with no such assets recorded as of December 31, 2015 and 2014.

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

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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 portfolios 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 serviced loans. The estimated life of the serviced loans is significantly influenced by market interest rates. During a period of declining interest rates, the fair value of the MSRs generally will decline due to higher expected prepayments within the portfolio. Alternatively, during a period of rising interest rates the fair value of MSRs generally will increase as prepayments on the underlying loans would be expected to decline. Based on the estimated fair value at December 31, 2015 and 2014, management determined there was no impairment within the MSR portfolio.

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 deferred tax liability or asset 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 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. There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, 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, 2015 and 2014.

In accordance with ASC 740-10, Accounting for Uncertainty in Income Taxes, the Company's RPG segment recorded additional income tax expense of \$1.1 million for the fourth quarter of 2013 primarily related to additional accruals recorded for possible state income tax payments beyond the Company's original estimates related to the tax years 2010 through 2013. The Company attributed the increased state income taxes to the RPG segment, as RPG generated the substantial majority of the Company's state income tax exposure outside of its geographic footprint during the tax years noted.

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

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

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

The Bank held one security at December 31, 2015 and 2014 with a total carrying value of \$5 million for which it recorded OTTI charges in previous years.

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

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

The Bank’s total OREO recorded was \$1 million and \$11 million at December 31, 2015 and 2014.

Correspondent Loan Premiums — The Bank began acquiring single family, first lien mortgage loans for investment through its Correspondent Lending channel in May 2014. Correspondent Lending generally involves the Bank acquiring, primarily from its Warehouse Lending clients, closed loans that meet the Bank’s specifications. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium.

Premiums on loans held for investment acquired through the Correspondent Lending channel are amortized into interest income on the level-yield method over the expected life of the loan. During a period of declining interest rates, the expected life of Correspondent Loans would generally be expected to decline due to anticipated prepayments within the portfolio. Alternatively, during a period of rising interest rates, the expected life of Correspondent Loans would generally be expected to increase as prepayments on the underlying loans would be anticipated to decline. Shorter estimated lives will increase premium amortization expense and decrease interest income, with longer lives having the reverse effect.

Unamortized premiums totaled \$4 million at December 31, 2015 and 2014, with estimated lives between five and seven years.

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RECENT DEVELOPMENTS

The Company's pending acquisition of Cornerstone Bancorp, Inc. ("Cornerstone"), and its wholly-owned bank subsidiary Cornerstone Community Bank, is expected to close during the first half of 2016 for approximately \$32.3 million in cash. The acquisition of Cornerstone will expand the Company's footprint in the Tampa, Florida metropolitan statistical area. On December 31, 2015, Cornerstone operated four banking centers in the Tampa, Florida metropolitan statistical area, with approximately \$250 million in total assets, approximately \$190 million in loans and approximately \$200 million in deposits.

OVERVIEW

Net income for 2015 was \$35.2 million, representing an increase of \$6.4 million, or 22%, compared to 2014. Diluted earnings per Class A Common Share increased 23% to \$1.70 for 2015 compared to \$1.38 for 2014.

Table 1 — Summary

Years Ended December 31, (dollars in thousands, except per share data)	2015	2014	2013
Net income	\$ 35,166	\$ 28,787	\$ 25,423
Diluted earnings per Class A Common Stock	\$ 1.70	\$ 1.38	\$ 1.22
Return on average assets	0.88 %	0.81 %	0.75 %
Return on average equity	6.12 %	5.16 %	4.65 %

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

General highlights by business segment for the year ended December 31, 2015 consisted of the following:

Traditional Banking segment

- Net income increased \$2.6 million, or 12%, for 2015 compared to 2014, primarily due to an increase in net interest income, driven by solid loan growth.

- Net interest income increased \$3.5 million, or 3%, for 2015 to \$108.3 million. The Traditional Banking segment net interest margin decreased 17 basis points for the year ended December 31, 2015 to 3.15%.
- The Traditional Banking Provision was \$2.9 million for 2015 compared to \$3.0 million for 2014.
- Total non interest income increased \$2.3 million, or 11%, for 2015 compared to 2014.
- Total non interest expense increased \$3.0 million, or 3%, during 2015 compared 2014.
- Gross Traditional Bank loans increased by \$216 million, or 8%, from December 31, 2014 to December 31, 2015.
- Traditional Bank deposits grew by \$395 million, or 19%, from December 31, 2014 to December 31, 2015.
- Total non-performing loans to total loans for the Traditional Banking segment was 0.75% at December 31, 2015 compared to 0.87% at December 31, 2014.
- Delinquent loans to total loans for the Traditional Banking segment was 0.38% at December 31, 2015 compared to 0.58% at December 31, 2014.

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Warehouse Lending segment

- Net income increased \$2.6 million, or 75%, for 2015 compared to 2014, as both total commitments and usage of such commitments increased significantly during 2015.
- Net interest income increased \$4.8 million, or 64%, for 2015 compared to 2014. The Warehouse segment net interest margin decreased 19 basis points from 2014 to 3.58% for 2015.
- The Warehouse Provision was \$168,000 for 2015 compared to \$350,000 for 2014.
- Total committed lines increased from \$528 million at December 31, 2014 to \$728 million at December 31, 2015.
- Average line usage was 55% during 2015 compared to 47% during 2014.
- Outstanding balances for Warehouse lines of credit increased by \$67 million, or 21% during 2015.
- There were no non-performing loans or delinquent loans associated with the Warehouse segment at December 31, 2015 and 2014.

Mortgage Banking segment

- Within the Mortgage Banking segment, mortgage banking income increased \$1.5 million, or 54%, during 2015 compared to 2014.
- Overall, Republic's proceeds from the sale of secondary market loans totaled \$167 million during 2015 compared to \$82 million during 2014. Volume during 2015 benefited from favorably low, long-term mortgage rates during the period.

Republic Processing Group segment

- Net income increased \$854,000, or 19%, for 2015 compared to 2014.
-

RPG recorded a net charge to the Provision of \$2.3 million during 2015, compared to a net credit of \$533,000 for 2014.

- Non interest income was \$19.6 million for 2015 compared to \$17.9 million for 2014.
- Net RT revenue increased \$1.3 million, or 8%, during 2015 compared to 2014. Total RTs processed during the 2015 tax season by the TRS division increased by 39% from the 2014 tax season, driven by growth in retail store-front product demand resulting from an increase in the number of tax preparation offices served through existing contracts and new contracts between the Company and third party tax preparation companies.
- Non interest expenses were \$12.1 million for 2015 compared to \$11.7 million for 2014.

General highlights by business segment for the year ended December 31, 2014 consisted of the following:

Traditional Banking segment

- Net income remained at \$21.3 million for 2014 compared to 2013.
- Net interest income decreased \$2.1 million, or 2%, for 2014 to \$104.8 million. The Traditional Banking segment net interest margin decreased 15 basis points for 2014 to 3.32%.
- Provision expense was \$3.0 million for 2014 compared to \$3.9 million for 2013.
- Total non interest income decreased \$2.6 million, or 11%, for 2014 compared to 2013.

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- Total non interest expense decreased \$4.0 million, or 4%, during 2014 compared to 2013.
- Total non-performing loans to total loans for the Traditional Banking segment was 0.87% at December 31, 2014, compared to 0.86% at December 31, 2013.
- Delinquent loans to total loans for the Traditional Banking segment was 0.58% at December 31, 2014, compared to 0.67% at December 31, 2013.
- Gross Traditional Bank loans increased by \$279 million, or 11%, from December 31, 2013 to December 31, 2014. Growth during 2014 was primarily driven by the Traditional Bank's Correspondent Lending channel, which acquired \$230 million in gross loans since initiation in April 2014.
- Traditional Bank deposits grew by \$59 million, or 3%, from December 31, 2013 to December 31, 2014.
- Securities sold under agreements to repurchase increased \$191 million, or 115%, from December 31, 2013 to December 31, 2014, with 57% of this growth concentrated in one client relationship.

Warehouse Lending segment

- Net income increased \$739,000, or 28%, for 2014 compared to 2013.
- Net interest income increased \$1.8 million, or 31%, for 2014 to \$7.4 million. The Warehouse segment net interest margin decreased 51 basis points during 2014 to 3.77%.
- Provision expense was \$350,000 for 2014 compared to a net credit of \$92,000 for 2013.
- Outstanding balances for Warehouse lines of credit increased by \$170 million, or 114%, from December 31, 2013 to December 31, 2014.
- There were no non-performing loans or delinquent loans associated with the Warehouse segment at both December 31, 2014 and 2013.

Mortgage Banking segment

- Within the Mortgage Banking segment, mortgage banking income decreased \$4.4 million, or 61%, during 2014 compared to 2013.
- Overall, Republic's proceeds from the sale of secondary market loans totaled \$82 million during 2014 compared to \$305 million during 2013. During 2013, the Company significantly benefited from favorable long-term interest rates through May 2013, when sharp increases in such interest rates began negatively affecting demand for mortgage banking products. This negative impact on demand continued through the remainder of 2013 and throughout 2014.

Republic Processing Group segment

- Net income for RPG was \$4.5 million during 2014 compared to a net loss of \$1.4 million during 2013.
- The total dollar volume of tax refunds processed during 2014 tax season increased \$3 billion, or 74%, from the 2013 tax season due primarily to a rise in self-prepared, on-line product volume in combination with growth in retail store-front traffic resulting from new contracts between the Company and third party tax preparation companies.
- RPG recorded a net credit to the Provision of \$533,000 for 2014, compared to a \$845,000 credit for 2013.
- Non interest income was \$17.9 million for 2014 compared to \$14.8 million for 2013.

- Net RT revenue increased \$2.2 million, or 16%, during 2014 compared to 2013.
- Non interest expenses were \$11.7 million for 2014 compared to \$16.2 million for 2013. TRS experienced a \$3.0 million decrease in legal fees for 2014, as the Company incurred substantial legal expenses in the prior year related to contract disputes with its previously two largest product providers and the Bank's unsuccessful effort to acquire H&R Block Bank.

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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 2015 vs. 2014

Total Company net interest income increased \$11.2 million, or 10%, during 2015 compared to 2014. The primary driver of the increase in total Company net interest income was growth in the Company's average loans during 2015, which increased \$436 million, or 16%, over this time period. The benefit from loan growth was partially offset by a continuing general decline in the Company's interest-earning asset yields. The total Company net interest margin decreased to 3.27% for 2015 from 3.33% during 2014.

The most significant components affecting the total Company's net interest income by business segment were as follow:

Traditional Banking segment

Net interest income within the Traditional Banking segment increased \$3.5 million, or 3%, for 2015 compared to 2014. The Traditional Banking net interest margin decreased 17 basis points from 2014 to 3.15%. The increase in the Traditional Bank's net interest income and decrease in net interest margin during 2015 was primarily attributable to the following:

- Traditional Bank loans, excluding loans acquired through the Company's 2012 FDIC-assisted transactions, experienced yield compression of 23 basis points during 2015. Average loans outstanding, excluding loans from the 2012 FDIC-assisted transactions, were \$2.8 billion with a weighted average yield of 4.06% during 2015 compared to

\$2.5 billion with a weighted average yield of 4.29% during 2014. The overall effect of these changes in rate and volume was an increase of \$7.2 million in interest income.

- Net interest income related to loans from the Company's 2012 FDIC-assisted transactions was lower during 2015 due to payoffs on the portfolio over the previous twelve months together with diminishing benefits from discount accretion. Overall, the average balance of the portfolio was \$32 million with a yield of 13.60% for 2015 compared to \$57 million with a yield of 15.79% for 2014. The overall effect of these changes in rate and volume was a decrease of \$4.7 million in interest income. Interest income on this portfolio was \$4.3 million for 2015, with \$2.4 million, or 55%, of such income attributable to discount accretion compared to \$9.0 million during 2014, with \$5.2 million, or 58%, of such income attributable to discount accretion. Discount accretion income on this portfolio contributed seven and sixteen basis points, respectively, to the overall Traditional Bank's net interest margin during 2015 and 2014. Management projects accretion of loan discounts related to the 2012 FDIC-assisted transactions to decline further in 2016, with such income largely dependent upon workout arrangements in which the Bank may receive loan payoffs for amounts greater than the loans' respective carrying values.
- The weighted average cost of FHLB advances during 2015 compared to 2014 declined to 1.99% from 2.24%. The average outstanding advances increased \$15 million during the same period, with the Traditional Bank employing a higher mix of lower cost overnight borrowings during 2015. The net effect of these changes in rate and volume was an increase in net interest income of \$1.1 million.
- The weighted average cost of time deposits during 2015 compared to 2014 increased to 0.96% from 0.65%, while average time deposits increased \$26 million during the same period. These changes in rate and volume drove a \$788,000 increase in interest expense and were primarily driven by the Bank's promotion of its five-year certificate of deposit product. This promotion first began in September of 2014, and through December 31, 2015, had raised \$67 million in certificates of deposit at a weighted average cost of 1.90%.

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In 2005, Republic Bancorp Capital Trust (“RBCT”), an unconsolidated trust subsidiary of Republic, was formed and issued \$40 million in Trust Preferred Securities (“TPS”). The sole asset of RBCT represents the proceeds of the offering loaned to Republic in exchange for a subordinated note with similar terms to the TPS. The subordinated note and related interest expense are included in Republic’s consolidated financial statements. The subordinated note paid a fixed interest rate of 6.015% through September 30, 2015 and adjusted to LIBOR + 1.42% thereafter. Based on this repricing, the note’s coupon rate repriced from 6.015% through September 30, 2015 to 1.75% on October 1, 2015 to 2.02% on January 1, 2016. The overall savings during 2015 from the change in rate when compared to 2014 totaled \$459,000. The subordinated note matures on December 31, 2035 and is now redeemable at the Company’s option on a quarterly basis. The Company elected not to redeem its subordinated note on October 1, 2015 or January 1, 2016.

The Federal Funds Target Rate (“FFTR”), the index that many of the Bank’s short-term deposit rates track, increased for the first time in nine years during December 2015. Additionally, the Federal Open Market Committee (“FOMC”) of the FRB has provided further guidance that additional FFTR increases are likely during 2016. While an increase in short-term interest rates is generally believed by management to be favorable to the Bank’s net interest income and net interest margin in the near-term, such increases in short-term interest rates could have a negative impact to net interest income and net interest margin if the Bank is unable to maintain its overall funding costs at those levels assumed in its interest rate risk model or the yield curve flattens causing the spread between long-term interest rates and short-term interest rates to decrease. The Bank is unable to precisely determine its net interest income and net interest margin in the future because several factors remain unknown, including, but not limited to, the actual steepness of the interest rate yield curve, the future demand for the Bank’s financial products and its overall future liquidity needs, among many other factors.

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, 2015” under “Financial Condition.”

Warehouse Lending segment

Net interest income within the Warehouse Lending segment increased \$4.8 million, or 64%, for 2015 compared to 2014, despite a decline in net interest margin of 19 basis points. The increase in net interest income was primarily attributable to higher average outstanding balances for the current period as compared to 2014.

Total Warehouse line commitments increased to \$728 million at December 31, 2015 from \$528 million at December 31, 2014. Average line usage rates of such commitments increased to 55% during 2015 compared to 47% during 2014. Usage rates for 2015 benefitted from continued low, long-term mortgage rates during the period, while the overall yield declined due to competitive pricing pressures within the industry.

Driven by the increase in outstanding commitments and usage rates, average outstanding Warehouse lines of credit during 2015 increased \$144 million, or 73%, compared to 2014. Average outstanding warehouse lines were \$341 million during 2015 with a weighted average yield of 3.84%, compared to average outstanding lines of \$197 million with a weighted average yield of 4.00% for 2014.

Net interest income at Warehouse Lending is greatly influenced by the overall mortgage market and the competitive environment. The Mortgage Bankers Association's economic forecast released in February 2016 projected mortgage originations to decline 9% across the Nation from 2015 to 2016, which leads management to believe that usage rates among the Bank's Warehouse Lending clients may also decrease. This predicted decline in mortgage volume along with a very competitive landscape, will likely negatively impact the Bank's ability to maintain its existing Warehouse Lending clients and to attract new mortgage companies to its warehouse platform, thus making it difficult to increase net interest income overall within the Warehouse Lending segment.

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Republic Processing Group segment

Net interest income within the RPG segment increased \$2.9 million for 2015 compared to 2014. The increase in net interest income was primarily attributable to year over year growth in higher yielding short-term, consumer credit products. In addition, net interest income at RPG also increased due to loan fees earned on two new, large short-term commercial loans to one of the Company's third party program managers in the tax business. Average RPG loans were \$8 million during 2015 compared to \$5 million during 2014. Net interest income at RPG is expected to increase once again in 2016 due to growth in existing RCS programs and a new RCS program that will start during the first quarter of 2016.

Discussion of 2014 vs. 2013

Total Company net interest income decreased \$402,000, or less than 1%, in 2014 compared to 2013. The total Company net interest margin decreased to 3.33% in 2014 from 3.48% during 2013. The primary driver of the decrease in total Company net interest income and net interest margin was a continuing general decline in the Company's interest-earning asset yields without a similar offsetting decline in funding costs. Partially offsetting the contraction in the Company's net interest income was growth in the Company's average loans, which increased \$163 million, or 6%, during 2014.

The most significant components affecting the total Company's net interest income by business segment were as follows:

Traditional Banking segment

Net interest income within the Traditional Banking segment decreased \$2.1 million, or 2%, in 2014 compared to 2013. The Traditional Banking net interest margin decreased 15 basis points during 2014 to 3.32%. The decrease in the Traditional Bank's net interest income and net interest margin during 2014 was primarily attributable to the following factors:

- The Traditional Banking segment continued to experience downward repricing in its loans and investment portfolios during 2014 resulting from ongoing paydowns and early payoffs of higher interest-earning assets, with new originations and purchases being made into lower yielding assets. As a result, the yield in both the loan and investment portfolios declined in 2014 when compared to 2013.

- o Traditional Bank loans experienced yield compression of 35 basis points during 2014. Average loans outstanding were \$2.5 billion with a weighted average yield of 4.55% during 2014 compared to \$2.4 billion with a weighted average yield of 4.90% during 2013. The overall effect of these changes in rate and volume was a decrease of \$3.3 million in interest income. Volume during 2014 was driven significantly by the Bank's Correspondent Lending origination channel, which was initiated in May 2014 and originated \$230 million in gross loans during the year.

- o Net interest income continued to benefit from discount accretion on loans acquired from the Bank's 2012 FDIC-assisted transactions. Altogether, this discount accretion totaled \$5.2 million for 2014 compared to \$6.3 million for 2013, adding 16 and 20 basis points, respectively, to the net interest margin for these periods.

- Average FHLB advances decreased \$6 million during 2014. Average FHLB advances were \$585 million with a weighted average cost of 2.24% for 2014 compared to \$579 million during 2013 with a weighted average cost of 2.54%. Almost exclusively due to the reduction in rate, interest expense on FHLB advances decreased \$1.6 million during 2014 compared to 2013.

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Warehouse Lending segment

Net interest income within the Warehouse Lending segment increased \$1.8 million, or 31%, during 2014, despite a decline in net interest margin of 51 basis points to 3.77%. The increase in net interest income was primarily attributable to growth in commitments and increased usage. Warehouse line commitments increased \$170 million during 2014 and average line usage increased to 47% in 2014 compared to 40% in 2013.

Average outstanding Warehouse lines of credit during 2014 increased \$65 million. Average outstanding warehouse lines were \$197 million during 2014 with a weighted average yield of 4.00%, compared to average outstanding lines of \$132 million with a weighted average yield of 4.50% for 2013. As a result, interest income on warehouse lines of credit increased \$1.9 million, or 32%, during 2014.

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Table 2 — Total Company Average Balance Sheets and Interest Rates for Years Ended December 31,

(Thousands)	2015 Average Balance	Interest	Average Rate	2014 Average Balance	Interest	Average Rate	2013 Average Balance	Interest	A	R
ing										
stment cluding (1)	\$ 546,655	\$ 8,265	1.51 %	\$ 525,748	\$ 8,673	1.65 %	\$ 527,681	\$ 9,312	1	
s sold and t-earning	68,847	209	0.30 %	118,803	344	0.29 %	145,970	413	0	
nd	8,479	3,149	37.14 %	5,482	275	5.02 %	11,369	65	0	
ines of es(2)(3)	340,938	13,075	3.84 %	197,226	7,889	4.00 %	132,258	5,958	4	
ns and	2,824,817	117,734	4.17 %	2,535,596	115,196	4.54 %	2,431,519	118,820	4	
t-earning	3,789,736	142,432	3.76 %	3,382,855	132,377	3.91 %	3,248,797	134,568	4	
or loan ses	(25,570)			(23,067)			(23,287)			
earning										
earning h	81,503			75,837			77,322			
l et life	32,868			33,296			33,165			
	52,127			44,545			3,179			
(1)	52,176			46,151			46,169			
	\$ 3,982,840			\$ 3,559,617			\$ 3,385,345			

S AND
LDERS'

ing											
accounts	\$ 840,815	\$ 563	0.07	%	\$ 750,693	\$ 488	0.07	%	\$ 696,295	\$ 484	0
et	485,508	762	0.16	%	477,129	761	0.16	%	508,288	631	0
ts	200,863	1,930	0.96	%	174,904	1,142	0.65	%	187,076	1,365	0
oney											
rokered											
f deposit	187,028	1,125	0.60	%	107,475	1,514	1.41	%	123,188	1,613	1
t-bearing											
	1,714,214	4,380	0.26	%	1,510,201	3,905	0.26	%	1,514,847	4,093	0
ld under											
o											
nd other											
orrowings	379,477	92	0.02	%	296,196	112	0.04	%	170,386	70	0
e Loan											
es	599,630	11,934	1.99	%	584,516	13,072	2.24	%	578,633	14,715	2
l note	41,240	2,056	4.99	%	41,240	2,515	6.10	%	41,240	2,515	6
t-bearing											
	2,734,561	18,462	0.68	%	2,432,153	19,604	0.81	%	2,305,106	21,393	0
bearing											
l											
' equity:											
bearing											
	651,275				553,929				513,891		
ies	22,238				16,157				19,468		
' equity	574,766				557,378				546,880		
ies and											
' equity	\$ 3,982,840				\$ 3,559,617				\$ 3,385,345		
ncome		\$ 123,970				\$ 112,773				\$ 113,175	
pread			3.08	%			3.10	%			3
margin			3.27	%			3.33	%			3

-
- (1) For purpose of this calculation, the 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) The amount of loan fee income included in total interest income was \$10.3 million, \$9.4 million and \$10.9 million for 2015, 2014 and 2013.
 - (3) Average balances for loans include the principal balance of non-accrual loans and loans held for sale and are inclusive of all 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)	Years Ended December 31, 2015 Compared to Years Ended December 31, 2014			Years Ended December 31, 2014 Compared to Years Ended December 31, 2013		
	Total Net Change	Increase / (Decrease) Due to Volume	Rate	Total Net Change	Increase / (Decrease) Due to Volume	Rate
Interest income:						
Taxable investment securities, including FHLB stock	\$ (408)	\$ 336	\$ (744)	\$ (639)	\$ (34)	\$ (605)
Federal funds sold and other interest-earning deposits	(135)	(151)	16	(69)	(79)	10
RPG loans and fees	2,874	226	2,648	210	(51)	261
Warehouse lines of credit and fees	5,186	5,524	(338)	1,931	2,660	(729)
All other loans and fees	2,538	12,511	(9,973)	(3,624)	4,951	(8,575)
Net change in interest income	10,055	18,446	(8,391)	(2,191)	7,447	(9,638)
Interest expense:						
Transaction accounts	75	61	14	4	37	(33)
Money market accounts	1	13	(12)	130	(41)	171
Time deposits	788	188	600	(223)	(86)	(137)
Brokered money market and brokered certificates of deposit	(389)	759	(1,148)	(99)	(216)	117
Securities sold under agreements to repurchase and other short-term borrowings	(20)	26	(46)	42	48	(6)
Federal Home Loan Bank advances	(1,138)	331	(1,469)	(1,643)	149	(1,792)

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Subordinated note	(459)	—	(459)	—	—	—
Net change in interest expense	(1,142)	1,378	(2,520)	(1,789)	(109)	(1,680)
Net change in net interest income	\$ 11,197	\$ 17,068	\$ (5,871)	\$ (402)	\$ 7,556	\$ (7,958)

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Provision for Loan and Lease Losses

Discussion of 2015 vs. 2014

The Company recorded total Provision of \$5.4 million for 2015 compared to \$2.9 million during 2014. The significant components comprising the Company's Provision by business segment were as follows:

Traditional Banking segment

The Traditional Banking Provision during 2015 was \$2.9 million compared to \$3.0 million recorded during 2014. An analysis of the Provision for 2015 compared to 2014 follows:

- Related to the Bank's pass rated and non-rated credits, the Bank recorded net charges of \$2.0 million and \$2.5 million to the Provision during 2015 and 2014, primarily driven by loan growth.
- Related to the Bank's loans rated Substandard or Special Mention, the Bank recorded net charges of \$680,000 and \$1.2 million to the Provision during 2015 and 2014. The net charge recorded during 2015 was primarily the result of an increase in the assumed lives for a large portion of the Bank's retail TDRs based on an updated analysis of payment histories of these loans. The longer assumed lives on such loans increased the impairment for these loans measured under the cash flow method. By comparison, the net charge to the Provision during 2014 was partially due to loss allocations on collateral dependent impaired loans and partially due to an updated migration analysis on the Bank's small dollar, retail nonaccrual loans.
- The Bank recorded a net charge of \$173,000 to the Provision in 2015 compared to a net credit to the Provision of \$726,000 for 2014 for PCI loans. The charges generally reflect a deterioration in the projected future cash flows for the PCI loans from the Bank's initial acquisition day estimates of those cash flows, while the credits generally reflect improvements in their projected cash flows.

As a percentage of total loans, the Traditional Banking Allowance decreased to 0.85% at December 31, 2015 compared to 0.87% at December 31, 2014. The Company believes, based on information presently available, that it has adequately provided for loan losses at December 31, 2015.

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

Bank's delinquent, non-performing, impaired and TDR loans.

Warehouse Lending segment

The Warehouse Provision was \$168,000 for 2015, a decrease of \$182,000 from \$350,000 recorded during 2014. The higher Provision during 2014 was due to higher year over year growth compared to 2015, with the Provision attributable to growth during 2014 partially offset by a five basis point reduction in the qualitative factor applied to the portfolio during 2014. The qualitative factor was lowered during 2014 because the portfolio had over three years of vintage with no losses incurred.

As a percentage of total Warehouse outstanding balances, the Warehouse Allowance was 0.25% at December 31, 2015 and 2014. The Company believes, based on information presently available, that it has adequately provided for Warehouse loan losses at December 31, 2015.

Republic Processing Group segment

RPG recorded recoveries of \$278,000 and \$582,000 during 2015 and 2014 to the Provision for the collection of prior period RAL charge-offs. Additionally, RPG recorded charges of \$2.6 million and \$49,000 to the Provision during 2015 and 2014 due to growth in short-term consumer loans originated by the RCS division. The increase in Provision for RPG during 2015 was primarily driven by the growth in one of RCS' loan programs, as the Company moved beyond the pilot phase for this particular program. The Company believes, based on information presently available, that it has adequately provided for RPG loan losses at December 31, 2015.

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Discussion of 2014 vs. 2013

The Company recorded total Provision of \$2.9 million for 2014 compared to \$3.0 million during 2013. The significant components comprising the Company's Provision by business segment were as follows:

Traditional Banking segment

The Traditional Banking Provision was \$3.0 million for 2014, an \$878,000 improvement from the \$3.9 million Provision recorded during 2013. The improvement in the Provision from 2013 to 2014 was primarily due to the following:

- The Traditional Bank posted a net decrease of \$726,000 to the Provision during 2014 associated with PCI loans compared to a net increase of \$1.3 million for 2013. Increases in the Provision during 2013 generally reflected projected probable shortfalls in cash flows below initial acquisition day estimates for these loans. The net credit to the Provision during 2014 generally reflected reversals of charges made in prior periods due to positive loan workouts. The change associated with the Bank's PCI loans, represented a positive swing to pre-tax earnings related to the Provision of approximately \$2.0 million for 2014 as compared to 2013.
- The Traditional Bank posted a net decrease of \$671,000 in the Provision associated with loans rated Special Mention during 2014 compared to a net increase in the Provision of \$648,000 during 2013. The decrease in Provision during 2014 was primarily driven by payoffs and paydowns of existing retail TDRs and a reduction in the number of newly modified retail TDRs made by the Bank. The increase in the Provision during 2013 related to an increase in the number of loans newly modified as TDRs. The change associated with the Bank's Special Mention credits, represented a positive swing to pre-tax earnings related to the Provision of approximately \$1.3 million for 2014 as compared to 2013.
- The Traditional Bank posted a net increase of \$948,000 in Provision associated with loans individually evaluated and rated Substandard for 2014 compared to a net decrease of \$476,000 for 2013. During 2014 and 2013, the Bank had no significant impairment charges for individually evaluated Substandard relationships. The change associated with the Bank's Substandard rated credits, represented a negative swing to pre-tax earnings related to the Provision of approximately \$1.4 million for 2014 as compared to 2013.
- The Traditional Bank posted net increases of \$948,000 and \$382,000 to the Provision during 2014 and 2013 associated with small-dollar, primarily retail, nonaccrual loans. Provisions for these loans during the periods were partially driven by an increase in the portfolio balance and partially by the Bank's updated migration analysis. The change associated with this portfolio represented a negative swing to pre-tax earnings related to the Provision of approximately \$566,000 for 2014 as compared to 2013.

- The Traditional Bank posted a net increase of \$2.5 million in allocations associated with Pass rated and non rated loans during 2014 compared to a net increase of \$2.1 million for 2013. The change during 2014 was primarily driven by increases in residential real estate loans originated through the Bank's correspondent lending channel. The change in allocations during 2013 was generally associated with increases in commercial real estate ("CRE") loans driven by the Bank's 2013 CRE promotional products. The change associated with the Bank's Pass rated and non rated loans, represented a negative swing in pre-tax earnings related to the Provision of approximately \$479,000 for 2014 as compared to 2013.

As a percentage of total loans, the Traditional Banking Allowance decreased to 0.87% at December 31, 2014 compared to 0.93% at December 31, 2013.

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Warehouse Lending segment

The Warehouse Provision was \$350,000 for 2014, a \$442,000 increase from a net credit of \$92,000 recorded during 2013. The increased Provision from 2013 to 2014 was due to a \$170 million increase in the Warehouse portfolio during 2014. The Warehouse segment has incurred no loan losses in its approximate four year history, with all loan loss reserves currently applied to the portfolio being qualitative in nature.

As a percentage of total loans, the Warehouse Allowance decreased to 0.25% at December 31, 2014 compared to 0.30% at December 31, 2013.

Republic Processing Group segment

During 2014 and 2013, the Bank recorded recoveries of \$582,000 and \$845,000 to the Provision for the collection of prior period RAL charge-offs. Additionally, the Bank recorded a charge of \$49,000 to the Provision during 2014 associated with growth in short-term consumer loans originated by the RCS division. Since RCS loans first began piloting loans in September 2013, no such expense was recorded 2013.

Non Interest Income

Table 4 — Analysis of Non Interest Income

Years Ended December 31, (dollars in thousands)	2015	2014	2013	Percent Increase/(Decrease)		
				2015/2014	2014/2013	
Service charges on deposit accounts	\$ 13,015	\$ 13,807	\$ 13,954	(6)	% (1)	%
Net refund transfer fees	17,388	16,130	13,884	8	% 16	%
Mortgage banking income	4,411	2,862	7,258	54	% (61)	%
Interchange fee income	8,353	7,017	6,927	19	% 1	%
Bargain purchase gain	—	—	1,324	—	% (100)	%
Gain on call of security available for sale	88	—	—	100	% —	%
Net gain (loss) on other real estate owned	(301)	(2,218)	346	86	% (741)	%
Increase in cash surrender value of bank owned life insurance	1,402	1,329	86	5	% 1,445	%
Other	3,638	3,592	2,451	1	% 47	%

Total non interest income	\$ 47,994	\$ 42,519	\$ 46,230	13	% (8)	%
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Discussion of 2015 vs. 2014

Non interest income increased \$5.5 million, or 13%, for 2015 compared to 2014. The most significant components comprising the total Company's change in non interest income by business segment were as follows:

Traditional Banking segment

Traditional Banking segment non interest income increased \$2.3 million, or 11%, for 2015 compared to 2014. The most significant categories affecting the change in non interest income for 2015 were as follows:

Service charges on deposit accounts decreased from \$13.8 million for 2014 to \$13.0 million for 2015. 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 2015 and 2014 were \$7.5 million and \$7.7 million. The total daily overdraft charges, net of refunds, included in interest income for 2015 and 2014 was \$1.6 million in both periods. The negative overall trend for deposit fees has occurred for several periods and is the direct result of a continued reduction in consumer overdraft activity combined with a low growth rate in the number of active checking accounts at the Bank. At this time, management does not anticipate that this trend will reverse anytime in the near-future.

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Interchange income increased from \$6.2 million during 2014 to \$7.5 million during 2015. The increase in interchange income was primarily driven by increases in both credit and debit card sales volume of 31% and 4%, respectively. Such sales growth was further complemented by a greater mix of commercial credit and signature debit transactions, which generally generate higher margins than consumer and PIN related transactions.

Net losses on OREO fluctuated from a net loss of \$2.2 million during 2014 to a net loss of \$301,000 for 2015. The net losses during 2015 and 2014 were primarily driven by mark-to-market writedowns of OREO properties.

Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income increased \$1.5 million, or 54%, during 2015 compared to 2014. Overall, Republic's proceeds from the sale of secondary market loans totaled \$167 million during 2015 compared to \$82 million during 2014. Volume during 2015 benefited from continued low, long-term interest rates.

Republic Processing Group segment

The TRS division of RPG accounts for the majority of RPG's annualized revenues. TRS derives substantially all of its revenues during the first half of the year and historically operates at a net loss during the second half of the year, as the Company prepares for the next tax season.

RPG's non interest income increased \$1.6 million, or 9%, to \$19.6 million during 2015. The higher profitability was primarily driven by higher RT product volume, as RT volume increased 39% over 2014. This higher RT volume was driven by growth in retail store-front product demand resulting from an increase in the number of tax preparation offices served through existing contracts and new contracts between the Company and third party tax preparation companies.

The higher RT volume more than offset the impact of a lower profit margin the Company earned on its RT product during the year due to less favorable pricing the Company is receiving on some of its newer contracts. Driving the overall decline in profit margin for the RT product from its new contracts was stiff competition in the marketplace. In addition, also driving a decline in RT profit margin was a shift in program management responsibilities, along with the corresponding revenue of those responsibilities, away from Republic over to some of its third party partners in the business.

Management is not currently aware of any drivers in the near-term that would reverse the trend of the declining RT profit margin. As a result, management believes the Company's ability to increase net income in the future within the TRS division of RPG will be highly dependent upon its ability to grow volume in order to offset the negative trend of a declining profit margin on the RT product.

Discussion of 2014 vs. 2013

Total Company non interest income decreased \$3.7 million, or 8%, for 2014 compared to 2013. The most significant components comprising the total Company decrease in non interest income by business segment were as follows:

Traditional Banking segment

Traditional Banking segment non interest income decreased \$2.6 million, or 11%, during 2014 compared to 2013.

Service charges on deposit accounts decreased \$153,000, or 1%, for 2014 to \$13.8 million. The lack of growth in service charges on deposits reflects a generally flat to downward trend for the Bank over the past several years due primarily to on-going regulatory changes that have negatively impacted overdraft fee income. The total per item fees, net of refunds, included in service charges on deposits for 2014 and 2013 were \$7.7 million and \$8.0 million. The total daily overdraft charges, net of refunds, included in interest income for 2014 and 2013 were \$1.6 million and \$1.7 million.

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

Net gains (losses) on OREO fluctuated from a net gain of \$346,000 during 2013 to a net loss of \$2.2 million during 2014. The net loss during 2014 was primarily driven by \$3.1 million in mark-to-market writedowns of OREO during 2014 compared to \$1.8 million in writedowns during 2013.

The Bank recorded a \$1.3 million increase to the cash surrender value of its Bank Owned Life Insurance (“BOLI”) during 2014 compared to \$86,000 for 2013. The increase during 2014 was a result of the Bank making its initial BOLI investment of \$25 million in the fourth quarter of 2013 and an additional investment of \$25 million in the first quarter of 2014. BOLI offers tax-advantaged non interest income to assist the Bank in covering employee-related expenses.

Mortgage Banking segment

Within the Mortgage Banking segment, mortgage banking income decreased \$4.4 million, or 61%, during 2014 compared to 2013. Overall, Republic’s proceeds from the sale of secondary market loans totaled \$82 million during 2014 compared to \$305 million during 2013. In 2013, the Bank significantly benefited from favorable long-term interest rates through May 2013, when sharp increases in such interest rates began negatively affecting demand for mortgage banking products.

Republic Processing Group segment

RPG non interest income increased \$3.2 million, or 21%, during 2014 compared to 2013 primarily due to the TRS division, which experienced a 74% increase in the dollar volume of tax refunds processed. This increase was driven by a rise in self-prepared, on-line product volume in combination with growth in retail store-front traffic resulting from new contracts between the Company and third party tax preparation companies.

Non Interest Expenses

Table 5 — Analysis of Non Interest Expenses

Years Ended December 31, (dollars in thousands)	2015	2014	2013	Percent Increase/(Decrease)		
				2015/2014	2014/2013	
Salaries and employee benefits	\$ 58,091	\$ 54,373	\$ 57,778	7	% (6)	%
Occupancy and equipment, net	20,689	22,008	21,918	(6)	% —	%
Communication and transportation	3,752	3,866	4,128	(3)	% (6)	%
Marketing and development	3,161	3,264	3,106	(3)	% 5	%
FDIC insurance expense	2,084	1,865	1,682	12	% 11	%
Bank franchise tax expense	4,734	4,616	4,115	3	% 12	%
Data processing	4,340	3,513	3,120	24	% 13	%
Interchange related expense	3,873	3,450	3,063	12	% 13	%
Supplies	1,101	1,009	1,157	9	% (13)	%
Other real estate owned expense	735	1,024	1,948	(28)	% (47)	%
Legal and professional fees	3,306	2,766	5,955	20	% (54)	%
Other	7,458	6,364	7,954	17	% (20)	%
Total non interest expenses	\$ 113,324	\$ 108,118	\$ 115,924	5	% (7)	%

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Discussion of 2015 vs. 2014

Total Company non interest expenses increased \$5.2 million, or 5%, during 2015 compared to 2014. The most significant components comprising the change in non interest expense by business segment were as follows:

Traditional Banking segment

For 2015 compared to 2014, Traditional Banking non interest expenses increased \$3.0 million, or 3%.

Salaries and benefits increased \$1.8 million, or 4%, for 2015 compared to 2014. The higher expense for the year was primarily the result of an increase in the Traditional Bank's full time equivalent employees ("FTEs") from 657 at December 31, 2014 to 711 at December 31, 2015. The increased staffing was generally spread throughout the Traditional Bank in order to meet current loan demand and execute the Company's overall long-term growth objectives.

Occupancy expense decreased \$802,000, or 4%, during 2015, due primarily to the Company's closure of five banking centers over the past two years and a reduction in overhead costs associated with the Company's new telecommunications system that was implemented during the fourth quarter of 2014.

Data processing expenses increased \$753,000, or 25%, during 2015, partially due to \$233,000 in costs associated with the Company's pending acquisition of Cornerstone Bancorp, Inc. and partially due to additional technology employed by the Traditional Bank during 2015 concentrated in the loan and deposit operational areas.

Interchange related expenses increased \$360,000, or 13%, during 2015, driven by increased credit and debit card sales volume during 2015.

Legal expense increased \$434,000, or 41%, during 2015, primarily due to costs associated with the Company's acquisition efforts, including the Company's pending acquisition of Cornerstone Bancorp, Inc.

Warehouse Lending segment

For 2015 compared to 2014, Warehouse non interest expenses increased \$669,000, or 36%. The increase was primarily related to an increase in salaries and employee benefits expense, driven primarily by additional staffing over the previous twelve months.

Republic Processing Group segment

For 2015 compared to 2014, RPG non interest expenses increased \$473,000, or 4%.

Salaries and employee benefits increased \$499,000, or 8%, primarily due to increased contract labor costs, driven by the 39% increase in RT's processed during 2015 compared to 2014.

Occupancy expenses decreased \$627,000, or 37%, for 2015 compared to 2014, primarily due to the Company's new telecommunications system that was implemented during the fourth quarter of 2014.

Legal fees increased \$209,000, primarily related to increased usage of outside legal counsel for contract review and program design of new prepaid card and small dollar credit programs.

Discussion of 2014 vs. 2013

Total Company non interest expenses in 2014 decreased \$7.8 million, or 7%, from 2013. The most significant components comprising the change in non interest expense by business segment were as follows:

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Traditional Banking segment

For 2014 compared to 2013, Traditional Banking non interest expenses decreased \$4.0 million, or 4%.

Salaries and benefits decreased \$3.3 million, or 7%, for 2014 compared to 2013 primarily due to a modest reduction in force during the fourth quarter of 2013.

Occupancy expense increased \$758,000, or 4%, during 2014, primarily due to an acceleration of depreciation on defunct assets, as well as additional space acquired for back office support areas.

OREO expense decreased \$924,000, or 47%, during 2014, consistent with a net decrease of eight OREO properties held by the Bank during 2014.

Legal expense decreased \$579,000, or 37%, primarily due to a decrease in legal collection expenses associated with the Bank's 2012 FDIC-assisted transactions.

Warehouse Lending segment

For 2014 compared to 2013, Warehouse non interest expenses increased \$200,000, or 12%.

Salaries and employee benefits increased \$55,000, or 5%, during 2014 primarily due to additional staffing.

Bank franchise expense related to the Warehouse segment increased \$80,000 during 2014 compared to 2013, as additional tax was apportioned to the Warehouse segment due to its greater pro rata share of Company gross receipts.

Republic Processing Group segment

For 2014 compared to 2013, RPG non interest expenses decreased \$4.5 million, or 28%.

Legal expenses decreased \$3.0 million during 2014. Substantial legal expenses were incurred during 2013 related to contract disputes with TRS's previously two largest product providers and the Bank's unsuccessful effort to acquire H&R Block Bank.

Salaries and employee benefits decreased \$922,000, or 13%, primarily due to lower contract labor staffing costs and a decline in RPG FTEs during the period.

Occupancy expenses decreased \$803,000, or 32%, for 2014 compared to 2013 primarily due to a reduction in leased square footage and depreciation expense.

Offsetting the decreases above, the Bank franchise expense related to the RPG segment increased \$643,000, or 74%, during 2014 compared to 2013, as additional tax was apportioned to the RPG segment due to its greater pro rata share of Company gross receipts.

Income Tax Expenses

Discussion of 2014 vs. 2013

Republic Processing Group segment

In accordance with ASC 740-10, Accounting for Uncertainty in Income Taxes, the Company's RPG segment recorded additional income tax expense of \$1.1 million for the fourth quarter of 2013 primarily related to additional accruals recorded for possible state income tax payments beyond the Company's original estimates related to the tax years 2010 through 2013. The Company attributed the increased state income taxes to the RPG segment, as RPG generated the substantial majority of the Company's state income tax exposure outside of its geographic footprint during the tax years noted.

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FINANCIAL CONDITION

Cash and Cash Equivalents

Cash and cash equivalents include cash, deposits with other financial institutions with original maturities less than 90 days and federal funds sold. Republic had \$210 million in cash and cash equivalents at December 31, 2015 compared to \$73 million at December 31, 2014. The Company maintained a higher level of cash and cash equivalents at December 31, 2015, primarily to support its liquidity position for its Easy Advance product to be offered during the first quarter 2016 tax season.

For cash held at the FRB, the Bank earned a yield of 0.25% for most of 2015 on amounts in excess of required reserves. In mid-December 2015, this rate increased to 0.50% in connection with the FOMC's action to increase the Federal Funds Target Rate. For all other cash held within the Bank's banking center and ATM networks, the Bank does not earn interest.

The Company's Captive maintains cash reserves to cover insurable claims. Captive cash reserves totaled approximately \$2 million and \$1 million at December 31, 2015 and 2014.

Investment Securities

Table 6 — Investment Securities Portfolio

December 31, (in thousands)	2015	2014	2013	2012	2011
Securities available for sale (fair value):					
U.S. Treasury securities and U.S.					
Government agencies	\$ 286,479	\$ 146,922	\$ 97,465	\$ 39,472	\$ 152,674
Private label mortgage backed security	5,132	5,250	5,485	5,687	4,542
Mortgage backed securities - residential	92,268	124,256	150,087	197,210	293,329
Collateralized mortgage obligations	113,668	143,171	163,946	195,877	195,403
Freddie Mac preferred stock	173	231	—	—	—
Mutual fund	1,011	1,018	995	—	—
Corporate bonds	14,922	15,063	14,915	—	—

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Trust preferred security	3,405	—	—	—	—
Total securities available for sale	517,058	435,911	432,893	438,246	645,948
Securities held to maturity (carrying value):					
U.S. Treasury securities and U.S.					
Government agencies	515	1,747	2,311	4,388	4,233
Mortgage backed securities - residential	53	147	420	827	1,376
Collateralized mortgage obligations	33,159	38,543	42,913	40,795	22,465
Corporate bonds	5,000	5,000	5,000	—	—
Total securities held to maturity	38,727	45,437	50,644	46,010	28,074
Total investment securities	\$ 555,785	\$ 481,348	\$ 483,537	\$ 484,256	\$ 674,022

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

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Table 7 — Mortgage Backed Investment Securities

December 31, (in thousands)	2015	2014	2013	2012	2011
Private label mortgage backed security	5,132	\$ 5,250	\$ 5,485	\$ 5,687	\$ 4,542
Mortgage backed securities - residential	92,327	124,423	150,550	198,100	294,806
Collateralized mortgage obligations	147,291	182,133	207,062	236,988	218,027
Total mortgage backed securities fair value	\$ 244,750	\$ 311,806	\$ 363,097	\$ 440,775	\$ 517,375

Table 8 — Securities Available for Sale

December 31, 2015 (dollars in thousands)	Amortized Cost	Fair Value	Weighted Average Yield	Weighted Average Maturity in Years
U.S. Treasury securities and U.S. Government agencies:				
Due in one year or less	\$ 49,998	\$ 49,979	0.44	% 0.21
Due from one year to five years	236,916	236,500	1.12	% 1.98
Total U.S. Treasury securities and U.S. Government agencies	286,914	286,479	0.92	% 1.31
Corporate bonds:				
Due from one year to five years	5,009	5,025	1.58	% 2.22
Due from five years to ten years	10,000	9,897	1.31	% 7.29
Total Corporate bonds	15,009	14,922	1.40	% 5.60
Trust preferred security, due beyond ten years	3,405	3,405	4.27	% 21.43
Private label mortgage backed security	4,037	5,132	6.77	% 4.86
Total mortgage backed securities - residential	88,968	92,268	2.05	% 4.14
Total collateralized mortgage obligations	113,972	113,668	1.42	% 5.04
Freddie Mac preferred stock	—	173	NM	NM
Mutual fund	1,000	1,011	NM	NM
Total securities available for sale	\$ 513,305	\$ 517,058	1.35	% 3.11

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

Table 9 — Securities Held to Maturity

December 31, 2015 (dollars in thousands)	Carrying Value	Fair Value	Weighted Average Yield	Weighted Average Maturity in Years
U.S. Treasury securities and U.S. Government agencies:				
Due from one year to five years	\$ 515	\$ 516	2.50	% 1.75
Total U.S. Treasury securities and U.S. Government agencies	515	516	2.50	% 1.75
Corporate bonds:				
Due from one year to five years	5,000	4,998	1.61	% 4.38
Total corporate bonds	5,000	4,998	1.61	% 4.38
Total mortgage backed securities - residential	53	59	5.44	% 3.64
Total collateralized mortgage obligations	33,159	33,623	1.01	% 5.78
Total securities held to maturity	\$ 38,727	\$ 39,196	1.10	% 5.54

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Loan Portfolio

Table 10 — Loan Portfolio Composition

December 31, (in thousands)	2015	2014	2013	2012	2011
Residential real estate:					
Owner occupied	\$ 1,081,934	\$ 1,118,341	\$ 1,097,795	\$ 1,145,495	\$ 985,735
Owner occupied - correspondent*	249,344	226,628	NA	NA	NA
Non owner occupied	116,294	96,492	110,809	74,539	99,161
Commercial real estate	824,887	772,309	773,173	714,642	639,966
Commercial real estate - purchased whole loans*	35,674	34,898	34,186	33,531	32,741
Construction & land development	66,500	38,480	44,351	68,214	67,406
Commercial & industrial	229,721	157,339	127,763	130,681	119,117
Lease financing receivables	8,905	2,530	NA	NA	NA
Warehouse lines of credit	386,729	319,431	149,576	216,576	41,496
Home equity	289,194	245,679	226,782	241,607	280,235
Consumer:					
RPG loans*	7,204	4,095	1,827	—	—
Credit cards	11,068	9,573	9,030	8,716	8,580
Overdrafts	685	1,180	944	955	950
Purchased whole loans*	5,892	4,626	NA	NA	NA
Other consumer	12,579	8,894	13,556	15,241	9,908
Total loans**	3,326,610	3,040,495	2,589,792	2,650,197	2,285,295
Allowance for loan and lease losses	(27,491)	(24,410)	(23,026)	(23,729)	(24,063)
Total loans, net	\$ 3,299,119	\$ 3,016,085	\$ 2,566,766	\$ 2,626,468	\$ 2,261,232

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

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

NA - Not applicable.

Gross loans increased by \$286 million, or 9%, during 2015 to \$3.3 billion at December 31, 2015.

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

Commercial Lending

The Bank's commercial portfolio consists of its CRE, commercial and industrial ("C&I") and Lease Financing Receivables ("LFR") loan classes. All together, the Bank's commercial portfolio increased \$132 million, or 14%, during 2015, driven by the Bank's hiring of additional key officers over the past two years in order to accomplish its strategic goal of growing the commercial portfolio along with increasing the C&I pro rata share of the commercial portfolio. At December 31, 2015 the CRE, C&I and LFR classes accounted for 78%, 21% and 1%, respectively, of the commercial lending portfolio, compared to 83%, 16% and less than 1%, respectively, at December 31, 2014.

During 2015, the Bank created a separate Commercial and Corporate Lending department with a focus of originating commercial credits between \$5 million and \$10 million to businesses within the Bank's market footprint. This new department was responsible for approximately \$100 million of commercial related originations during 2015, which substantially contributed to the overall growth in commercial related loans during the year.

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Warehouse Lines of Credit

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

As of December 31, 2015, the Bank had \$387 million outstanding on total committed Warehouse credit lines of \$728 million. As of December 31, 2014, the Bank had \$319 million outstanding on total committed Warehouse credit lines of \$528 million. The \$67 million, or 21%, increase in outstanding balances was due primarily to the increase in overall usage of the Bank's Warehouse lines during the 2015. The average Warehouse line commitment was approximately \$33 million and \$26 million at December 31, 2015 and 2014. The average Warehouse line usage increased to 55% during 2015 compared to 47% for 2014. The increased usage during 2015 was primarily driven by an increase in home loan purchase activity across the Nation as long-term mortgage rates reached multi-year lows during 2015.

The Bank's Warehouse Lending business is significantly influenced by the overall residential mortgage market and the volume and composition of residential mortgage purchase and refinance transactions among the Bank's mortgage banking clients. For 2015, the Bank's Warehouse volume consisted of 61% purchase transactions, in which the mortgage company's borrower was purchasing a new residence, and 39% refinance transactions, in which the mortgage company's client was refinancing an existing mortgage loan. For 2014, Warehouse volume consisted of 70% purchase and 30% refinance transactions. Purchase volume is driven by a number of factors, including but not limited to, the overall economy, the housing market, and long-term residential mortgage interest rates, while refinance volume is primarily driven by long-term residential mortgage interest rates.

The growth of the Bank's Warehouse Lending business greatly depends on the overall mortgage market and typically follows industry trends. Since its entrance into this business segment during 2011, the Bank has experienced volatility in the Warehouse portfolio consistent with overall demand for mortgage products. Weighted average quarterly usage rates on the Bank's Warehouse lines have ranged from a low of 31% during the fourth quarter of 2013 to a high of 64% during the second quarter of 2015. On an annual basis, weighted average usage rates on the Bank's Warehouse lines have ranged from a low of 40% during 2013 to a high of 55% during 2015. The Mortgage Bankers Association's economic forecast released in February 2016 projected mortgage originations to decline 9% across the Nation from 2015 to 2016, which leads management to believe that usage rates among the Bank's Warehouse Lending clients may also decrease. A decline as predicted, along with a very competitive landscape, will likely negatively impact the

Bank's ability to maintain its existing Warehouse Lending clients and to attract new mortgage companies to its warehouse platform.

Due to the volatility and seasonality of the mortgage market, it is difficult to project future outstanding balances of Warehouse lines of credit.

Retail Mortgage Lending

The Bank's retail mortgage lending consists of single family, residential real estate loan classes as well as home equity lines of credit ("HELOCs"). Retail mortgage loans increased \$50 million, or 3%, during 2015. Generally, growth in the retail mortgage portfolio was concentrated in HELOCs and Correspondent loans, which grew \$44 million and \$23 million, respectively. Growth in HELOCs was primarily driven by promotions during 2015, as the Bank embarked on an aggressive marketing campaign to increase its HELOCs utilizing a promotional rate product to substantially drive volume. Under the terms of the promotional product during 2015, clients received a fixed interest rate of 1.99% for the first twelve months of the HELOC with no upfront closing costs. When the promotional rate expires after twelve months, clients' rates are adjusted to an index based on the New York Prime Rate ("Prime"). During January 2016, the Company increased its offering rate on the promotional product to 2.99% for the first twelve months with no upfront closing costs.

The growth in HELOCs was partially offset by a \$36 million, or 3%, decline in owner occupied organically originated loans, as a decrease in mortgage rates during 2015 incentivized a higher volume of clients to refinance into the secondary market.

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

Table 11 — Selected Loan Distribution

December 31, 2015 (in thousands)	Total	One Year Or Less	Over One Through Five Years	Over Five Years
Fixed rate loan maturities:				
Residential real estate	\$ 474,897	\$ 53,742	\$ 126,056	\$ 295,099
Commercial real estate	371,665	58,109	225,622	87,934
Construction & land development	11,838	6,569	2,281	2,988
Commercial & industrial	107,131	35,426	50,687	21,018
Lease financing receivables	8,905	2,076	6,336	493
Warehouse lines of credit	—	—	—	—
Home equity	—	—	—	—
Consumer	13,325	2,611	3,489	7,225
Total fixed rate loans	\$ 987,761	\$ 158,533	\$ 414,471	\$ 414,757
Variable rate loan maturities:				
Residential real estate	\$ 972,675	\$ 52,088	\$ 120,573	\$ 800,014
Commercial real estate	488,896	75,490	187,432	225,974
Construction & land development	54,662	15,164	28,608	10,890
Commercial & industrial	122,590	48,211	51,972	22,407
Lease financing receivables	—	—	—	—
Warehouse lines of credit	386,729	386,729	—	—
Home equity	289,194	12,295	90,046	186,853
Consumer	24,103	15,877	7,653	573
Total variable rate loans	\$ 2,338,849	\$ 605,854	\$ 486,284	\$ 1,246,711
Total:				
Residential real estate	\$ 1,447,572	\$ 105,830	\$ 246,629	\$ 1,095,113
Commercial real estate	860,561	133,599	413,054	313,908
Construction & land development	66,500	21,733	30,889	13,878
Commercial & industrial	229,721	83,637	102,659	43,425
Lease financing receivables	8,905	2,076	6,336	493
Warehouse lines of credit	386,729	386,729	—	—
Home equity	289,194	12,295	90,046	186,853
Consumer	37,428	18,488	11,142	7,798
Total loans	\$ 3,326,610	\$ 764,387	\$ 900,755	\$ 1,661,468

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Allowance for Loan and Lease Losses (“Allowance”)

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

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

The Bank defines impaired loans as follows:

- All loans internally rated as “Substandard,” “Doubtful” or “Loss”;
 - All loans on non-accrual status and non-PCI loans past due 90 days-or-more still on accrual;
- All retail and commercial TDRs;
- All loans internally rated in a purchased credit impaired (“PCI”) category with cash flows that have deteriorated from management’s initial acquisition day estimate; and
- Any other situation where the full collection of the total amount due for a loan is improbable or otherwise meets the definition of impaired.

Generally, loans are designated as classified or Special Mention to ensure more frequent monitoring. These loans are reviewed to ensure proper earning status and management strategy. If it is determined that there is serious doubt as to performance in accordance with original or modified contractual terms, then the loan is generally downgraded and often placed on non-accrual status.

GAAP recognizes three methods to measure specific loan impairment, including:

- Cash Flow Method — The recorded investment in the loan is measured against the present value of expected future cash flows discounted at the effective interest rate. The Bank employs this method for a significant portion of its impaired TDRs. Impairment amounts under this method are reflected in the Bank’s Allowance as specific reserves on the respective impaired loan. These specific reserves are adjusted quarterly based upon reevaluation of the expected future cash flows and changes in the recorded investment.

Collateral Method — The recorded investment in the loan is measured against the fair value of the collateral value less applicable selling costs. The Bank employs the fair value of collateral method for its impaired loans when repayment is based solely on the sale of or the operations of the underlying collateral. Collateral fair value is typically based on the most recent real estate valuation on file. Measured impairment under this method is generally charged off unless the loan is a smaller balance, homogeneous mortgage loan. The Bank's selling costs for its collateral dependent loans typically range from 10-13% of the fair value of the underlying collateral, depending on the asset class. Selling costs are not applicable for collateral dependent loans whose repayment is based solely on the operations of the underlying collateral.

- Market Value Method — The recorded investment in the loan is measured against the loan's obtainable market value. The Bank does not currently employ this technique, as it is typically found impractical.

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

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The general component of the Allowance covers loans collectively evaluated for impairment and is based on historical loss experience, with potential adjustments for current relevant qualitative factors. Historical loss experience is determined by loan performance and class and is based on the actual loss history experienced by the Bank. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are included in the general component unless the loans are classified as TDRs or on non-accrual.

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

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

In order to take account of periods of economic growth and economic downturn, management currently uses the highest of the rolling four, eight, twelve, sixteen, twenty, twenty-four, or twenty-eight quarter averages for each loan class when determining its historical loss factors for its “Pass” rated and nonrated credits.

Loan classes are also evaluated utilizing subjective factors in addition to the historical loss calculations to determine a loss allocation for each 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, non-performing 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 institution’s existing portfolio.

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

The Bank's Allowance increased \$3 million, or 13%, during 2015 to \$27 million at December 31, 2015, with the additional reserves primarily attributable to a \$308 million increase in loans collectively evaluated for impairment. As a percent of total loans, the Allowance increased to 0.83% at December 31, 2015 compared to 0.80% at December 31, 2014.

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Table 12 — Summary of Loan and Lease Loss Experience

Years Ended December 31, (dollars in thousands)	2015	2014	2013	2012	2011
Allowance at beginning of year	\$ 24,410	\$ 23,026	\$ 23,729	\$ 24,063	\$ 23,079
Charge-offs:					
Residential real estate					
Owner occupied	(622)	(836)	(1,886)	(3,128)	(2,116)
Owner occupied - correspondent	—	—	NA	NA	NA
Non owner occupied	(126)	(185)	(241)	(520)	(644)
Commercial real estate	(546)	(868)	(1,190)	(1,033)	(1,125)
Commercial real estate - purchased whole loans	—	—	—	—	—
Construction & land development	—	(18)	(619)	(1,922)	(845)
Commercial & industrial	(56)	(20)	(466)	(176)	(100)
Lease financing receivables	—	—	NA	NA	NA
Warehouse lines of credit	—	—	—	—	—
Home equity	(466)	(548)	(632)	(2,252)	(1,279)
Consumer:					
RPG loans	(971)	(5)	—	(11,097)	(15,484)
Credit cards	(146)	(88)	(142)	(123)	(241)
Overdrafts	(598)	(591)	(601)	(468)	(678)
Purchased whole loans	(123)	—	NA	NA	NA
Other consumer	(318)	(404)	(408)	(266)	(281)
Total charge-offs	(3,972)	(3,563)	(6,185)	(20,985)	(22,793)
Recoveries:					
Residential real estate					
Owner occupied	308	137	285	256	239
Owner occupied - correspondent	—	—	NA	NA	NA
Non owner occupied	10	27	172	137	6
Commercial real estate	98	155	117	90	301
Commercial real estate - purchased whole loans	—	—	—	—	—
Construction & land development	—	89	48	104	237
Commercial & industrial	62	114	99	25	128
Lease financing receivables	—	—	NA		