

REPUBLIC BANCORP INC /KY/

Form 10-K

March 15, 2019

Table of Contents

0

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

---

FORM 10-K

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

For the fiscal year ended December 31, 2018

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

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

Class A Common Stock	NASDAQ Global Select Market
(Title of each class)	(Name of each exchange on which registered)

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

None

(Title of Class)

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

Yes No

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

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of June 30, 2018 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$445,663,266 (for purposes of this calculation, the market value of the Class B Common Stock was based on the market value of the Class A Common Stock into which it is convertible).

The number of shares outstanding of the registrant's Class A Common Stock and Class B Common Stock, as of February 15, 2019 was 18,680,709 and 2,212,487.

#### DOCUMENTS INCORPORATED BY REFERENCE

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

Table of Contents

## TABLE OF CONTENTS

PART I

<u>Item 1.</u>	<u>Business.</u>	5
<u>Item 1A.</u>	<u>Risk Factors.</u>	24
<u>Item 1B.</u>	<u>Unresolved Staff Comments.</u>	34
<u>Item 2.</u>	<u>Properties.</u>	35
<u>Item 3.</u>	<u>Legal Proceedings.</u>	37
<u>Item 4.</u>	<u>Mine Safety Disclosures.</u>	37

PART II

<u>Item 5.</u>	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.</u>	38
<u>Item 6.</u>	<u>Selected Financial Data.</u>	40
<u>Item 7.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u>	44
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk.</u>	92
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data.</u>	92
<u>Item 9.</u>	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.</u>	182
<u>Item 9A.</u>	<u>Controls and Procedures.</u>	182
<u>Item 9B.</u>	<u>Other Information.</u>	182

PART III

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance.</u>	183
<u>Item 11.</u>	<u>Executive Compensation.</u>	184
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.</u>	184
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence.</u>	185
<u>Item 14.</u>	<u>Principal Accounting Fees and Services.</u>	185

PART IV

<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules.</u>	185
<u>Item 16.</u>	<u>Form 10-K Summary.</u>	185
	<u>Index to Exhibits</u>	186
	<u>Signatures</u>	194

Table of Contents

## GLOSSARY OF ABBREVIATIONS AND ACRONYMS

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

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

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

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

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

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

Table of Contents

Cautionary Statement Regarding Forward-Looking Statements

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

As used in this filing, the terms “Republic,” the “Company,” “we,” “our,” and “us” refer to Republic Bancorp, Inc., and, where the context requires, Republic Bancorp, Inc. and its subsidiaries. The term the “Bank” refers to the Company’s subsidiary bank: Republic Bank & Trust Company. The term the “Captive” refers to the Company’s insurance subsidiary: Republic Insurance Services, Inc.

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

Broadly speaking, forward-looking statements include:

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

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

- changes in political and economic conditions;
- new information concerning the impact of the TCJA;



- the magnitude and frequency of changes to the FFTR implemented by the FOMC of the FRB;
- long-term and short-term interest rate fluctuations as well as the overall steepness of the yield curve;
- competitive product and pricing pressures in each of the Company's five reportable segments;
- equity and fixed income market fluctuations;
- client bankruptcies and loan defaults;
- inflation;
- recession;
- natural disasters impacting Company operations;
- future acquisitions;
- integrations of acquired businesses;
- changes in technology;
- changes in applicable laws and regulations or the interpretation and enforcement thereof;
- changes in fiscal, monetary, regulatory and tax policies;
- changes in accounting standards;
- monetary fluctuations;
- changes to the Company's overall internal control environment;
- success in gaining regulatory approvals when required;
- the Company's ability to qualify for future R&D federal tax credits;

Table of Contents

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

PART I

Item 1. Business.

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

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

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

Kentucky — 32

Metropolitan Louisville — 18

Central Kentucky — 9

Elizabethtown — 1

Frankfort — 1

Georgetown — 1

Lexington — 5

Shelbyville — 1

Western Kentucky — 2

Owensboro — 2

Northern Kentucky — 3

Covington — 1

Crestview Hills — 1

Florence — 1

Southern Indiana — 3

Floyds Knobs — 1

Jeffersonville — 1

New Albany — 1

Metropolitan Tampa, Florida — 7

Metropolitan Cincinnati, Ohio — 1

Metropolitan Nashville, Tennessee — 3\*

---

\*Includes one LPO

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

## Table of Contents

The principal business of Republic is directing, planning, and coordinating the business activities of the Bank. The financial condition and results of operations of Republic are primarily dependent upon the results of operations of the Bank. At December 31, 2018, Republic had total assets of \$5.2 billion, total deposits of \$3.5 billion, and total stockholders' equity of \$690 million. Based on total assets as of December 31, 2018, Republic ranked as the largest Kentucky-based financial holding company. The executive offices of Republic are located at 601 West Market Street, Louisville, Kentucky 40202, telephone number (502) 584-3600. The Company's website address is [www.republicbank.com](http://www.republicbank.com).

## Website Access to Reports

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

## General Business Overview

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

### (I) Traditional Banking segment

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

## Lending Activities

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

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

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

The Bank offers single family, first lien residential real estate, ARMs with interest rate adjustments tied to various market indices with specified minimum and maximum adjustments. The Bank generally charges a higher interest rate for its ARMs if the property is not owner occupied. The interest rates on the majority of ARMs are adjusted after their fixed rate periods on an annual basis, with most having annual and lifetime limitations on upward rate adjustments to the loan. These loans typically feature amortization periods of up to 30 years and have fixed interest rate periods generally ranging from five to ten years, with demand dependent upon market conditions. In general, ARMs containing longer fixed rate periods have historically been more attractive to the Bank's clients in a relatively low rate environment, while ARMs with shorter fixed rate periods have historically

## Table of Contents

been more attractive to the Bank's clients in a relatively high rate environment. While there is no requirement for clients to refinance their loans at the end of the fixed rate period, clients have historically done so the majority of the time, as most clients are interest rate risk averse on their first mortgage loans.

Depending on the term and amount of the ARM, loans collateralized by single family, owner-occupied first lien residential real estate may be originated with an LTV up to 90% and a combined LTV up to 100%. The Bank also offers a 100% LTV product for home purchase transactions within its primary markets. The Bank does not require the borrower to obtain private mortgage insurance for ARM loans. Except for the HEAL product under \$150,000, the Bank requires mortgagee's title insurance on single family, first lien residential real estate loans to protect the Bank against defects in its liens on the properties that collateralize the loans. The Bank normally requires title, fire, and extended casualty insurance to be obtained by the borrower and, when required by applicable regulations, flood insurance. The Bank maintains an errors and omissions insurance policy to protect the Bank against loss in the event a borrower fails to maintain proper fire and other hazard insurance policies.

Single family, first lien residential ARMs originated prior to January 10, 2014 generally contain an early termination penalty. Effective January 10, 2014, with the implementation of the ATR Rule, the Bank eliminated early termination penalties for subsequently originated ARMs.

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

The Bank does, on occasion, purchase single family, first lien residential real estate loans made to low-to-moderate income borrowers and/or secured by property located in low-to-moderate income areas in order to meet its obligations under the CRA. In connection with loan purchases, the Bank receives various representations and warranties from the sellers regarding the quality and characteristics of the loans.

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

In general, commercial lending credit approvals and processing are prepared and underwritten through the Bank's CCAD. Clients are generally located within the Bank's market footprint, or in an adjacent area to the market footprint.

Credit opportunities are generally driven by the following: companies expanding their businesses; companies acquiring new businesses; and/or companies refinancing existing debt from other institutions. The Bank has a focus on C&I lending and CRE lending, specifically owner occupied. The targeted C&I credit size for client relationships is typically between \$2 million to \$10 million, with higher targets, \$10 million to \$25 million for large Corporate Banking borrowers of higher credit quality.

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

Corporate Banking focuses on larger C&I and CRE opportunities. For CRE loans, Corporate Banking focuses on stabilized CRE with low leverage and strong cash flows. Borrowers are generally single-asset entities and loan sizes typically range from \$10 million to \$25 million. Primary underwriting considerations are property cash flow (current and historical), quality of leases, financial capacity of sponsors, and collateral value of property financed. The majority of interest rates offered are based on LIBOR; however, this is expected to change in the coming years when LIBOR is discontinued. Fixed rate terms of up to 10 years are available to borrowers by utilizing interest rate swaps. In some cases, limited or non-recourse (of owners) loans will be issued, with such cases based upon the capital position, cash flows, and stabilization of the borrowing entity.

Table of Contents

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

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

The Business Banking Department, and to some extent the Bank's Retail Banking group, focuses on locally based small-to-medium sized businesses in the Bank's market footprint with annual revenues between \$1 million and \$20 million, and borrowings between \$2 million and \$5 million. The needs of these clients range from expansion or acquisition financing, equipment financing, owner-occupied real estate financing, and operating lines of credit. The Bank's lenders utilize all appropriate programs of the SBA to reduce credit risk exposure. In 2018, the Bank became an SBA Preferred Lending Partner, which allows the Bank to underwrite and approve its own SBA loans in an expedited manner. Additionally, the Bank looks to make loans to real estate investors for various types of investment properties, including rental homes and apartments, shopping centers, office buildings, and loans to various not-for-profit agencies located within the Bank's market footprint. The targeted credit size for a relationship in this area is between \$500,000 and \$5 million.

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

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



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

Construction-to-permanent loans are another type of construction-related financing offered by the Bank. These loans are made to borrowers who are going to build a property and retain it for ownership after construction completion.

The construction phase is handled just like all other construction loans, and the permanent phase offers similar terms to a permanent CRE loan, while allowing the borrower a one-time closing process at loan origination. These loans are offered on both owners occupied and non-owner occupied CRE properties.

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

## Table of Contents

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

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

**Dealer Services** — The Bank offers dealer-floor-plan loans and consumer-indirect automobile loans through its Dealer Services Department. Dealer-floor-plan loans are commercial lines of credit to automobile dealers secured by the dealer’s current inventory of vehicles, typically in or around the Bank’s market footprint. The Indirect Automobile program involves establishing relationships with automobile dealers and obtaining consumer automobile loans in a low-cost delivery method.

**Aircraft Lending** — Also included in the Bank’s Dealer Services Department is the Aircraft Lending Division. First offered by the Bank in October 2017, aircraft loans typically range in amounts from \$55,000 to \$1,000,000, with terms up to 20 years, to purchase or refinance a piston aircraft (non-jet aircraft), along with engine overhauls and avionics upgrades. The aircraft loan program is open to all states, except for Alaska and Hawaii.

See additional discussion regarding Lending Activities under the sections titled:

- Part I Item 1A “Risk Factors”
- Part II Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations”
- Part II Item 8 “Financial Statements and Supplementary Data,” Footnote 4 “Loans and Allowance for Loan and Lease Losses.”

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

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

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

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

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

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

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

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

Table of Contents

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

(II) Warehouse Lending segment

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

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

(III) Mortgage Banking segment

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

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

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

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

Table of Contents

(IV) Tax Refund Solutions segment

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

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

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

Offered only during the first two months of each year;

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

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

Related to the overall credit losses on EAs, the Bank’s ability to control losses is highly dependent upon its ability to predict the taxpayer’s likelihood to receive the tax refund as claimed on the taxpayer’s tax return. Each year, the Bank’s EA approval model is based primarily on the prior-year’s tax refund funding patterns. Because much of the loan volume occurs each year before that year’s tax refund funding patterns can be analyzed and subsequent underwriting

changes made, credit losses during a current year could be higher than management's predictions if tax refund funding patterns change materially between years.

In response to changes in the legal, regulatory and competitive environment, management annually reviews and revises the EA's product parameters. Further changes in EA product parameters do not ensure positive results and could have an overall material negative impact on the performance of the EA and therefore on the Company's financial condition and results of operations. For the first quarter 2019 tax season, the Company modified the EA product offering to increase the maximum advance amount and to also charge a direct fee to the taxpayer-customer. The annual percentage rate to the taxpayer for his or her portion of the EA fee is less than 36% for all EA offering amounts.

Table of Contents

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

- Part I Item 1A “Risk Factors”
- Part II Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations”
- Part II Item 8 “Financial Statements and Supplementary Data,” Footnote 4 “Loans and Allowance for Loan and Lease Losses”

Republic Payment Solutions division

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

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

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

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

(V) Republic Credit Solutions segment

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

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



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

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

## Table of Contents

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

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

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

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

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

## Employees

As of December 31, 2018, Republic had 1,051 FTE employees. Altogether, Republic had 1,038 full-time and 26 part-time employees. None of the Company’s employees are subject to a collective bargaining agreement, and Republic has never experienced a work stoppage. The Company believes that it has had and continues to have good employee relations.

## Executive Officers

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



## Table of Contents

### Competition

#### Traditional Banking

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

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

#### Warehouse Lending

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

attempting to retain or grow its Warehouse client base.

#### Mortgage Banking

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

#### Tax Refund Solutions

The TRS segment encounters direct competition for RT and EA market share from a limited number of banks in the industry. The Bank promotes these products to Tax Providers using various revenue-share and pricing incentives, as well as product features and overall service levels.

#### Republic Payment Solutions

The prepaid card industry is subject to intense and increasing competition. The Bank competes with a number of companies that market different types of prepaid card products, such as general-purpose-reloadable, gift, incentive, and corporate disbursement cards. There is also competition from large retailers who are seeking to integrate more financial services into their product offerings.

## Table of Contents

Increased competition is also expected from alternative financial services providers who are often well-positioned to service the “underbanked” and who may wish to develop their own prepaid card programs.

### Republic Credit Solutions

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

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

### Supervision and Regulation

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

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

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

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

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

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

## Table of Contents

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

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

### The Dodd-Frank Act

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

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

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

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



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

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

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

## Table of Contents

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

### I. The Company

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

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

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

Kentucky.

The BHCA and the Change in Bank Control Act also generally require the approval of the Federal Reserve before any person or company acquiring control of a state bank or BHC. Acquiring control conclusively occurs if immediately after a transaction, the acquiring person or company owns, controls, or holds voting securities of the institution with the power to vote 25% or more of any class. Acquiring control is refutably presumed if, immediately after a transaction, the acquiring person or company owns, controls, or holds voting securities of the institution with the power to vote 10% or more of any class, and (i) the institution has registered securities under Section 12 of the Securities Exchange Act of 1934; or (ii) no other person will own, control, or hold the power to vote a greater percentage of that class of voting securities immediately after the transaction.

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

## Table of Contents

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

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

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

## II. The Bank

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

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

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

Affiliate Transaction Restrictions — Transactions between the Bank and its affiliates, and in some cases the Bank's correspondent banks, are subject to FDIC regulations, the FRB's Regulations O and W, and Sections 23A, 23B, 22(g) and 22(h) of the Federal Reserve Act ("FRA"). In general, these transactions must be on terms and conditions that are consistent with safe and sound banking practices and substantially the same, or at least as favorable to the bank or its subsidiary, as those for comparable transactions with non-affiliated parties. In addition, certain types of these transactions referred to as "covered transactions" are subject to quantitative limits based on a percentage of the Bank's capital, thereby restricting the total dollar amount of transactions the Bank may engage in

## Table of Contents

with each individual affiliate and with all affiliates in the aggregate. Affiliates must pledge qualifying collateral in amounts between 100% and 130% of the covered transaction in order to receive loans from the Bank. Limitations are also imposed on loans and extensions of credit by a bank to its executive officers, directors and principal stockholders and each of their related interests.

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

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

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

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

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

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

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

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

## Table of Contents

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

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

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

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



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

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

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

Table of Contents

material penalties being assessed against the Bank. In May 2018, the Bank received a “Satisfactory” CRA Performance Evaluation. A copy of the public section of this CRA Performance Evaluation is available to the public upon request.

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

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

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

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

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

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

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

## Table of Contents

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

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

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

**Loans to Insiders** — The Bank's authority to extend credit to its directors, executive officers and principal shareholders, as well as to entities controlled by such persons, is governed by the requirements of Sections 22(g) and 22(h) of the FRA and Regulation O of the Federal Reserve Board. Among other things, these provisions require that extensions of credit to insiders: (a) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with non-insiders and that do not involve more than the normal risk of repayment or present other features that are unfavorable to the Bank; and (b) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital.

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

## Capital Adequacy Requirements

Capital Guidelines — The Company and the Bank are subject to capital regulations in accordance with Basel III, as administered by banking regulators. Regulatory guidelines are established by the FRB in the case of the Company and the FDIC in the case of the Bank. The FRB and FDIC have substantially similar risk-based and leverage ratio guidelines for banking organizations, which are intended to ensure that banking organizations have adequate capital related to the risk levels of assets and off-balance sheet instruments. Under the risk-based guidelines, specific categories of assets are assigned different risk weights based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a risk-weighted asset base. In addition to the risk-based capital guidelines, the FRB used a leverage ratio as a tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company's Tier 1 Capital divided by its average total consolidated assets (less goodwill and certain other intangible assets).

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

Table of Contents

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

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

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

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

Undercapitalized, significantly undercapitalized and critically undercapitalized institutions are required to submit a capital restoration plan, which must be guaranteed by the holding company of the institution. In addition, agency regulations contain broad restrictions on certain activities of undercapitalized institutions including asset growth, acquisitions, branch establishment, and expansion into new lines of business. With certain exceptions, an insured

depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment. A bank's capital classification will also affect its ability to accept brokered deposits. Under banking regulations, a bank may not lawfully accept, roll over or renew brokered deposits, unless it is either well capitalized or it is adequately capitalized and receives a waiver from its applicable regulator.

If a banking institution's capital decreases below acceptable levels, bank regulatory enforcement powers become more enhanced. A significantly undercapitalized institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management and other restrictions. Banking regulators have limited discretion in dealing with a critically undercapitalized institution and are normally required to appoint a receiver or conservator. Banks with risk-based capital and leverage ratios below the required minimums may also be subject to certain administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing if the institution has no tangible capital.

In addition, a BHC may face significant consequences if its bank subsidiary fails to maintain the required capital and management ratings, including entering into an agreement with the FRB that imposes limitations on its operations and may even require

## Table of Contents

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

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

## Other Regulation and Legislative Initiatives

Any change in the regulations affecting the Bank's operations is not predictable and could affect the Bank's operations and profitability. The U.S. Congress and state legislative bodies also continually consider proposals for altering the structure, regulation, and competitive relationships of financial institutions. It cannot be predicted whether, or in what form, any of these potential proposals or regulatory initiatives will be adopted, the impact the proposals will have on the financial institutions industry or the extent to which the business or financial condition and operations of the Company and its subsidiaries may be affected.

## Statistical Disclosures

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



Item 1A. Risk Factors.

FACTORS THAT MAY AFFECT FUTURE RESULTS

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

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

ACCOUNTING POLICIES/ESTIMATES, ACCOUNTING STANDARDS, AND INTERNAL CONTROL

The Company's accounting policies and estimates are critical components of the Company's presentation of its financial statements. Management must exercise judgment in selecting and adopting various accounting policies and in applying estimates. Actual outcomes may be materially different from amounts previously estimated. Management has identified several accounting policies and estimates as being critical to the presentation of the Company's financial statements. These policies are described in Part II Item 7

## Table of Contents

“Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the section titled “Critical Accounting Policies and Estimates.” The Company’s management must exercise judgment in selecting and applying many accounting policies and methods in order to comply with generally accepted accounting principles and reflect management’s judgment of the most appropriate manner to report the Company’s financial condition and results. In some cases, management may select an accounting policy that might be reasonable under the circumstances, yet might result in the Company’s reporting different results than would have been reported under a different alternative. Materially different amounts could be reported under different conditions or using different assumptions or estimates.

The Bank may experience goodwill impairment, which could reduce its earnings. The Bank performed its annual goodwill impairment test during the fourth quarter of 2018 as of September 30, 2018. The evaluation of the fair value of goodwill requires management judgment. If management’s judgment was incorrect and goodwill impairment was later deemed to exist, the Bank would be required to write down its goodwill resulting in a charge to earnings, which would adversely affect its results of operations, perhaps materially.

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

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

## TRADITIONAL BANK LENDING AND THE ALLOWANCE

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

charge-offs. A material increase in the Allowance or loan charge-offs would have a material adverse effect on the Bank's financial condition and results of operations.

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

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

The Bank's use of appraisals as part of the decision process to make a loan on or secured by real property does not ensure the value of the real property collateral. As part of the decision process to make a loan secured by real property, the Bank generally requires an

## Table of Contents

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

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

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

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

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

Loans originated through the Bank's Correspondent Lending channel subject the Bank to additional negative earnings sensitivity as the result of prepayments and additional credit risks that the Bank does not have through its historical

origination channels. Loans acquired through the Bank's Correspondent Lending channel are typically purchased at a premium and also represent out-of-market loans originated by a non-Republic representative. Loans purchased at a premium inherently subject the Bank's earnings to additional sensitivity related to prepayments, as increases in prepayment speeds will negatively affect the overall yield to maturity on such loans, potentially even causing the net loan yield to be negative for the period of time the loan is owned by the Bank.

Loans originated out of the Bank's market footprint by non-Republic representatives will inherently carry additional credit risk from potential fraud due to the increased level of third-party involvement on such loans. In addition, the Bank will also experience an increase in complexity for customer service and the collection process, given the number of different state laws the Bank could be subject to from loans purchased throughout the U.S. As of December 31, 2018, the Bank's Correspondent Lending channel maintained loans with collateral in 25 different states, with the largest concentration of 74% from the state of California.

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

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

## Table of Contents

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

### BANK OWNED LIFE INSURANCE

The Bank holds a significant amount of BOLI, which creates credit risk relative to the insurers and liquidity risk relative to the product. At December 31, 2018, the Bank held BOLI on certain employees. The eventual repayment of the cash surrender value is subject to the ability of the various insurance companies to pay death benefits or to return the cash surrender value to the Bank if needed for liquidity purposes. The Bank continually monitors the financial strength of the various insurance companies that carry these policies. However, any one of these companies could experience a decline in financial strength, which could impair its ability to pay benefits or return the Bank's cash surrender value. If the Bank needs to liquidate these policies for liquidity purposes, it would be subject to taxation on the increase in cash surrender value and penalties for early termination, both of which would adversely impact earnings.

### DEPOSITS AND RELATED ITEMS

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

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

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

## WAREHOUSE LENDING

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

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

## Table of Contents

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

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

## REPUBLIC PROCESSING GROUP

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

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

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

## TAX REFUND SOLUTIONS

The TRS segment represents a significant operational risk, and if the Bank were unable to properly service this business, it could materially impact earnings. In order to process its business, the Bank must implement and test new systems, as well as train new employees. The Bank relies heavily on communications and information systems to operate the TRS segment. Any failure, sustained interruption or breach in security, including the cyber security, of these systems could result in failures or disruptions in client relationship management and other systems. Significant operational problems could also cause a material portion of the Bank's tax-preparer base to switch to a competitor to process their bank product transactions, significantly reducing the Bank's revenue without a corresponding decrease in expenses.



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

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

EAs represent a significant credit risk, and if RB&T is unable to collect a significant portion of its EAs, it would materially, negatively impact earnings. There is credit risk associated with an EA because the funds are disbursed to the taxpayer customer prior to RB&T receiving the taxpayer customer's refund as claimed on the return. Because there is no recourse to the taxpayer customer if the EA is not paid off by the taxpayer customer's tax refund, RB&T must collect all of its payments related to EAs through the refund process. Losses will generally occur on EAs when RB&T does not receive payment due to a number of reasons, such as IRS revenue protection strategies, including audits of returns, errors in the tax return, tax return fraud and tax debts not previously disclosed to

## Table of Contents

RB&T during its underwriting process. While RB&T's underwriting during the EA approval process takes these factors into consideration based on prior years' payment patterns, if the IRS significantly alters its revenue protection strategies, if refund payment patterns for a given tax season meaningfully change, if the federal government fails to timely deliver refunds, or if RB&T is incorrect in its underwriting assumptions, RB&T could experience higher loan loss provisions above those projected. The provision for loan losses is a significant determining factor of the RPG operations' overall net earnings.

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

Due diligence measures implemented by the federal and state governments, which delay the timing of individual tax refund payments or possibly deny those individual payments outright, could present an increased credit risk to the Company. To protect against fraudulent tax returns, the federal government and many state governments have enacted laws and procedures that provide for additional due diligence by the applicable governmental authority prior to issuing an income tax refund. This additional due diligence has generally driven longer periods between the filing of a tax return and the receipt of the corresponding refund. The federal government, specifically as a result of the Protecting Americans from Tax Hikes Act of 2015, announced that taxpayers filing tax returns with certain characteristics will not receive their corresponding refunds before February 15. These funding delays will negatively impact the Company's ability to make mid-season modifications to its EA underwriting model based on then-current year tax refund funding patterns, because the substantial majority of all EAs will have been issued prior to February 15. In addition, these enhanced due diligence measures implemented by the federal and state governments could prevent the taxpayer's refund from being issued altogether. These governmental changes by themselves, or in combination with management's changes to EA product parameters, could have a material negative impact on the performance of the EA product and therefore on the Company's financial condition and results of operations if the loss rate on the EA product increases materially.

## REPUBLIC CREDIT SOLUTIONS

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

RCS revenues and earnings are highly concentrated in its line-of-credit product. For the year ended December 31, 2018, RCS's revenues and earnings were concentrated in one line-of-credit product. Through the Bank, RCS works with Elevate Credit, Inc. to market, originate and service this line-of-credit product. The discontinuation of this line-of-credit product would have a material adverse effect on the Bank's financial condition and results of operations.

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

#### ASSET/LIABILITY MANAGEMENT AND LIQUIDITY

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

## Table of Contents

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

A flattening or inversion of the interest rate yield curve may reduce profitability. Changes in the slope of the "yield curve," or the spread between short-term and long-term interest rates, could reduce the Bank's net interest margin. Normally, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. Because the Bank's interest-bearing liabilities tend to be shorter in duration than its interest-earning assets, when the yield curve flattens or even inverts, the Bank's net interest margin could decrease as its cost of funds rises higher and at a faster pace than the yield on its interest-earning assets. A rise in the Bank's cost of interest-bearing liabilities without a corresponding increase in the yield on its interest-earning assets, would have an adverse effect on the Bank's net interest margin and overall results of operations.

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

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

## COMPANY COMMON STOCK

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

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

- Variations in the Company's and its competitors' operating results;
- Actual or anticipated quarterly or annual fluctuations in operating results, cash flows and financial condition;
- Changes in earnings estimates or publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to the Bank or other financial institutions;
- Announcements by the Company or its competitors of mergers, acquisitions and strategic partnerships;
- Additions or departure of key personnel;

Table of Contents

- The announced exiting of or significant reductions in material lines of business within the Company;
- Changes or proposed changes in banking laws or regulations or enforcement of these laws and regulations;
- Events affecting other companies that the market deems comparable to the Company;
- Developments relating to regulatory examinations;
- Speculation in the press or investment community generally or relating to the Company's reputation or the financial services industry;
- Future issuances or re-sales of equity or equity-related securities, or the perception that they may occur;
- General conditions in the financial markets and real estate markets in particular, developments related to market conditions for the financial services industry;
- Domestic and international economic factors unrelated to the Company's performance;
- Developments related to litigation or threatened litigation;
- The presence or absence of short selling of the Company's common stock; and,
- Future sales of the Company's common stock or debt securities.

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

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

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

GOVERNMENT REGULATION / ECONOMIC FACTORS

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

The Company and the Bank are heavily regulated at both the federal and state levels and are subject to various routine and non-routine examinations by federal and state regulators. This regulatory oversight is primarily intended to protect depositors, the Deposit Insurance Fund and the banking system as a whole, not the stockholders of the Company. Changes in policies, regulations and

Table of Contents

statutes, or the interpretation thereof, could significantly impact the product offerings of Republic causing the Company to terminate or modify its product offerings in a manner that could materially adversely affect the earnings of the Company.

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

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

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

The Company may be adversely affected by the soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. The Company has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose the Company to credit risk in the event of a default by a counterparty or client. In addition, the Company's credit risk may be exacerbated when the collateral held by the Company cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to the Company. Any such losses could have a material adverse effect on the Company's financial condition and



results of operations.

#### MANAGEMENT, INFORMATION SYSTEMS, ACQUISITIONS, ETC.

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

The Company's operations could be impacted if its third-party service providers experience difficulty. The Company depends on a number of relationships with third-party service providers, including core systems processing and web hosting. These providers are well-established vendors that provide these services to a significant number of financial institutions. If these third-party service

Table of Contents

providers experience difficulty or terminate their services and the Company is unable to replace them with other providers, its operations could be interrupted, which would adversely impact its business.

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

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

New lines of business or new products and services may subject the Company to additional risks. From time to time, the Company may develop and grow new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, the Company may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of the Company's system of internal controls. Failure to successfully manage these risks in the

development and implementation of new lines of business or new products or services could have a material adverse effect on the Company's business, results of operations and financial condition. All service offerings, including current offerings and those that may be provided in the future, may become riskier due to changes in economic, competitive and market conditions beyond the Company's control.

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

The Company's ability to successfully complete acquisitions will affect its ability to grow and compete effectively in its market footprint. The Company has announced plans to pursue a policy of growth through acquisitions to supplement internal growth. The Company's efforts to acquire other financial institutions and financial service companies or branches may not be successful. Numerous potential acquirers exist for many acquisition candidates, creating intense competition, which affects the purchase price for

Table of Contents

which the institution can be acquired. In many cases, the Company's competitors have significantly greater resources than the Company has, and greater flexibility to structure the consideration for the transaction. The Company may also not be the successful bidder in acquisition opportunities that it pursues due to the willingness or ability of other potential acquirers to propose a higher purchase price or more attractive terms and conditions than the Company is willing or able to propose. The Company intends to continue to pursue acquisition opportunities in its market footprint. The risks presented by the acquisition of other financial institutions could adversely affect the Bank's financial condition and results of operations.

Successful Company acquisitions present many risks that could adversely affect the Company's financial condition and results of operations. An institution that the Company acquires may have unknown asset quality issues or unknown or contingent liabilities that the Company did not discover or fully recognize in the due diligence process, thereby resulting in unanticipated losses. The acquisition of other institutions also typically requires the integration of different corporate cultures, loan and deposit products, pricing strategies, data processing systems and other technologies, accounting, internal audit and financial reporting systems, operating systems and internal controls, marketing programs and personnel of the acquired institution, in order to make the transaction economically advantageous. The integration process is complicated and time consuming and could divert the Company's attention from other business concerns and may be disruptive to its clients and the clients of the acquired institution. The Company's failure to successfully integrate an acquired institution could result in the loss of key clients and employees, and prevent the Company from achieving expected synergies and cost savings. Acquisitions and failed acquisitions also result in professional fees and may result in creating goodwill that could become impaired, thereby requiring the Company to recognize further charges. The Company may finance acquisitions with borrowed funds, thereby increasing the Company's leverage and reducing liquidity, or with potentially dilutive issuances of equity securities.

REPUBLIC INSURANCE SERVICES, INC.

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

Item 1B. Unresolved Staff Comments.

None



Table of Contents

## Item 2. Properties.

The Company's executive offices, principal support and operational functions are located at 601 West Market Street in Louisville, Kentucky. As of December 31, 2018, Republic had 32 banking centers located in Kentucky, seven banking centers located in Florida, three banking centers in Indiana, two banking centers and a loan production office in Tennessee, and one banking center in Ohio.

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

Bank Offices	Approximate Square Footage	Owned (O)/ Leased (L)
Kentucky Banking Centers:		
Louisville Metropolitan Area		
2801 Bardstown Road, Louisville	5,000	L(1)
601 West Market Street, Louisville	57,000	L(1)
661 South Hurstbourne Parkway, Louisville	42,000	L(1)
9600 Brownsboro Road, Louisville	15,000	L(1)
5250 Dixie Highway, Louisville	5,000	O/L(2)
10100 Brookridge Village Boulevard, Louisville	5,000	O/L(2)
9101 U.S. Highway 42, Prospect	3,000	O/L(2)
11330 Main Street, Middletown	6,000	O/L(2)
3902 Taylorsville Road, Louisville	4,000	O/L(2)
3811 Ruckriegel Parkway, Louisville	4,000	O/L(2)
5125 New Cut Road, Louisville	4,000	O/L(2)
4808 Outer Loop, Louisville	4,000	O/L(2)
438 Highway 44 East, Shepherdsville	4,000	O/L(2)
1420 Poplar Level Road, Louisville	3,000	O
4921 Brownsboro Road, Louisville	3,000	L
3950 Kresge Way, Suite 108, Louisville	1,000	L
3726 Lexington Road, Louisville	4,000	L
2028 West Broadway, Suite 105, Louisville	2,000	L
Lexington		
3098 Helmsdale Place	5,000	O/L(2)
3608 Walden Drive	4,000	O/L(2)
2401 Harrodsburg Road	6,000	O
641 East Euclid Avenue	3,000	O
333 West Vine Street	4,000	L

Northern Kentucky		
535 Madison Avenue, Covington	4,000	L
25 Town Center Blvd., Suite 104, Crestview Hills	3,000	L
8513 U.S. Highway 42, Florence	4,000	L
Owensboro		
3500 Frederica Street	5,000	O
3332 Villa Point Drive, Suite 101	2,000	L

(continued)

Table of Contents

Bank Offices (continued)	Approximate Square Footage	Owned (O)/ Leased (L)
Elizabethtown, 1690 Ring Road	4,000	L
Frankfort, 100 Highway 676	3,000	O/L(2)
Georgetown, 430 Connector Road	5,000	O/L(2)
Shelbyville, 1614 Midland Trail	6,000	L(2)
Florida Banking Centers:		
12933 Walsingham Road, Largo	4,000	O
9037 U.S. Highway 19, Port Richey	3,000	L
6300 4th Street N, St. Petersburg	10,000	O
6600 Central Avenue, St. Petersburg	9,000	O
7800 Seminole Blvd., Seminole	3,000	O
11502 North 56th Street, Temple Terrace	3,000	L
6906 E. Fowler Avenue, Temple Terrace, FL 33617	2,088	L
1300 North West Shore Blvd. Suite 150, Tampa	3,000	L
Southern Indiana Banking Centers:		
4571 Duffy Road, Floyds Knobs	4,000	O/L(2)
3141 Highway 62, Jeffersonville	4,000	O
3001 Charlestown Crossing Way, New Albany	2,000	L
Tennessee Banking Centers:		
113 Seaboard Lane, Franklin	2,000	L
2034 Richard Jones Road, Nashville	3,000	L
Tennessee Loan Production Office:		
8 Cadillac Drive, Brentwood	4,000	L
Ohio Banking Center:		
4030 Smith Road, Norwood	5,000	L
Support and Operations:		
200 South Seventh Street, Louisville, KY	64,000	L(1)
Closed Banking Centers Currently Marketed for Sale:		
9100 Hudson Avenue, Hudson, FL	4,000	O
5800 38th Avenue North, St. Petersburg, FL	3,000	O
3320 E. Bay Drive, Largo, FL	3,000	O



- (1) Locations are leased from partnerships in which the Company's Chairman and Chief Executive Officer, Steven E. Trager, its Vice Chairman and President, A. Scott Trager, or family members of Steven E. Trager and A. Scott Trager, have a financial interest. See additional discussion included under Part III Item 13 "Certain Relationships and Related Transactions, and Director Independence." For additional discussion regarding Republic's lease obligations, see Part II Item 8 "Financial Statements and Supplementary Data" Footnote 20 "Transactions with Related Parties and Their Affiliates."
  
- (2) The banking centers at these locations are owned by Republic; however, the banking center is located on land that is leased through long-term agreements with third parties.

Table of Contents

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

Not applicable.

37

---

Table of Contents

PART II

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

Market and Dividend Information

At February 15, 2019, the Company’s Class A Common Stock was held by 605 shareholders of record and the Class B Common Stock was held by 103 shareholders of record. Republic’s Class A Common Stock is traded on the NASDAQ under the symbol “RBCAA.” There is no established public trading market for the Company’s Class B Common Stock.

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

For additional discussion regarding regulatory restrictions on dividends, see Part II Item 8 “Financial Statements and Supplementary Data” Footnote 13 “Stockholders’ Equity and Regulatory Capital Matters.”

Republic has made available to its employees participating in its 401(k) Plan the opportunity, at the employee’s sole discretion, to invest funds held in their accounts under the plan in shares of Class A Common Stock of Republic. Shares are purchased by the independent trustee administering the plan from time to time in the open market in the form of broker’s transactions. As of December 31, 2018, the trustee held 222,850 shares of Class A Common Stock and 2,648 shares of Class B Common Stock on behalf of the plan.

Details of Republic’s Class A Common Stock purchases during the fourth quarter of 2018 are included in the following table:

Total Number of	Average Price	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
-----------------	---------------	--	--

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Period	Shares Purchased	Paid Per Share	or Programs	or Programs
October 1 - October 31	—	\$ —	—	
November 1 - November 30	5,695	44.82	5,695	
December 1 - December 31	14,100	40.54	14,100	
Total	19,795	\$ 41.77	19,795	203,901

During 2018, the Company repurchased 19,795 shares and there were no shares exchanged for stock option exercises. During 2011, the Company's Board of Directors amended its existing share repurchase program by approving the repurchase of 300,000 additional shares from time to time, as market conditions are deemed attractive to the Company. The repurchase program will remain effective until the total number of shares authorized is repurchased or until Republic's Board of Directors terminates the program. As of December 31, 2018, the Company had 203,901 shares which could be repurchased under its current share repurchase programs.

During 2018, there were approximately 30,137 shares of Class A Common Stock issued upon conversion of shares of Class B Common Stock by stockholders of Republic in accordance with the share-for-share conversion provision option of the Class B Common Stock. The exemption from registration of the newly issued Class A Common Stock relied upon was Section (3)(a)(9) of the Securities Act of 1933.

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

Table of Contents

## STOCK PERFORMANCE GRAPH

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

The following stock performance graph sets forth the cumulative total shareholder return (assuming reinvestment of dividends) on Republic's Class A Common Stock as compared to the NASDAQ Bank Stocks Index and the S&P 500 Index. The graph covers the period beginning December 31, 2013 and ending December 31, 2018. The calculation of cumulative total return assumes an initial investment of \$100 in Republic's Class A Common Stock, the NASDAQ Bank Index and the S&P 500 Index on December 31, 2013. The stock price performance shown on the graph below is not necessarily indicative of future stock price performance.

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

Table of Contents

## Item 6. Selected Financial Data.

The following table sets forth Republic Bancorp Inc.'s selected financial data from 2014 through 2018. This information should be read in conjunction with Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II Item 8 "Financial Statements and Supplementary Data." Certain amounts presented in prior periods have been reclassified to conform to the current period presentation.

(in thousands)	As of and for the Years Ended December 31,				
	2018	2017	2016	2015	2014
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 351,474	\$ 299,351	\$ 289,309	\$ 210,082	\$ 72,878
Investment securities	543,771	591,458	534,139	555,785	481,348
Loans held for sale	21,809	16,989	15,170	4,597	6,388
Gross loans	4,148,227	4,014,034	3,810,778	3,326,610	3,040,495
Allowance for loan and lease losses	(44,675)	(42,769)	(32,920)	(27,491)	(24,410)
Goodwill	16,300	16,300	16,300	10,168	10,168
Bank owned life insurance	64,883	63,356	61,794	52,817	51,415
Total assets	5,240,404	5,085,362	4,816,309	4,230,289	3,747,013
Noninterest-bearing deposits	1,003,969	1,022,042	971,952	634,863	502,569
Interest-bearing deposits	2,452,176	2,411,116	2,188,740	1,852,614	1,555,613
Total deposits	3,456,145	3,433,158	3,160,692	2,487,477	2,058,182
Securities sold under agreements to repurchase and other short-term borrowings	182,990	204,021	173,473	395,433	356,108
Federal Home Loan Bank advances	810,000	737,500	802,500	699,500	707,500
Subordinated note	41,240	41,240	41,240	41,240	41,240
Total liabilities	4,550,470	4,452,938	4,211,903	3,653,742	3,188,282
Total stockholders' equity	689,934	632,424	604,406	576,547	558,731
<b>Average Balance Sheet Data:</b>					
Federal funds sold and other interest-earning deposits	\$ 255,708	\$ 188,427	\$ 130,889	\$ 68,847	\$ 118,803
Investment securities, including FHLB stock	542,258	574,027	572,599	546,655	525,748
Gross loans, including loans held for sale	4,094,918	3,831,406	3,568,383	3,174,234	2,738,304
Allowance	(47,774)	(39,202)	(29,880)	(25,570)	(23,067)
Total assets	5,130,628	4,826,208	4,485,829	3,982,840	3,559,617
Noninterest-bearing deposits	1,147,432	1,073,181	894,049	651,275	553,929

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

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

Income Statement Data - Total Company:

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

Income Statement Data - Core Bank(1):

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

(continued)

Table of Contents

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

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



Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

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

(continued)

Table of Contents

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

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

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

Table of Contents

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

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

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

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

December 31, (dollars in thousands, except per share data)	2018	2017	2016	2015	2014
Total stockholders' equity - GAAP					
(a)	\$ 689,934	\$ 632,424	\$ 604,406	\$ 576,547	\$ 558,731
Less: Goodwill	16,300	16,300	16,300	10,168	10,168
Less: Mortgage servicing rights	4,919	5,044	5,180	4,912	4,813
Less: Core deposit intangible	654	858	1,070	—	—
Tangible stockholders' equity - Non-GAAP (c)	\$ 668,061	\$ 610,222	\$ 581,856	\$ 561,467	\$ 543,750
Total assets - GAAP (b)	\$ 5,240,404	\$ 5,085,362	\$ 4,816,309	\$ 4,230,289	\$ 3,747,013
Less: Goodwill	16,300	16,300	16,300	10,168	10,168
Less: Mortgage servicing rights	4,919	5,044	5,180	4,912	4,813
Less: Core deposit intangible	654	858	1,070	—	—
Tangible assets - Non-GAAP (d)	\$ 5,218,531	\$ 5,063,160	\$ 4,793,759	\$ 4,215,209	\$ 3,732,032
Total stockholders' equity to total assets - GAAP (a/b)	13.17	% 12.44	% 12.55	% 13.63	% 14.91
Tangible stockholders' equity to tangible assets - Non-GAAP (c/d)	12.80	% 12.05	% 12.14	% 13.32	% 14.57
Number of shares outstanding (e)	20,888	20,850	20,860	20,897	20,848
Book value per share - GAAP (a/e)	\$ 33.03	\$ 30.33	\$ 28.97	\$ 27.59	\$ 26.80
Tangible book value per share - Non-GAAP (c/e)	31.98	29.27	27.89	26.87	26.08

(3) The efficiency ratio, a non-GAAP measure, equals total noninterest expense divided by the sum of net interest income and noninterest income. The ratio excludes net gains (losses) on sales, calls and impairment of investment securities, if applicable.

- (4) The cost of average deposits ratio equals total interest expense on deposits divided by total average interest-bearing deposits plus total average noninterest-bearing deposits.
- (5) FTEs – Full-time-equivalent employees.
- (6) RPG operations consist of the TRS and RCS segments.
- (7) The delinquent loans to total loans ratio equals loans 30-days-or-more past due divided by total loans. Depending on loan class, loan delinquency is determined by the number of days or the number of payments past due.

Table of Contents

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

The consolidated financial statements include the accounts of Republic (the “Parent Company”) and its wholly-owned subsidiaries, the Bank and the Captive. As used in this filing, the terms “Republic,” the “Company,” “we,” “our,” and “us” refer to Republic Bancorp, Inc., and, where the context requires, Republic Bancorp, Inc. and its subsidiaries. The term the “Bank” refers to the Company’s subsidiary bank: Republic Bank & Trust Company. The term the “Captive” refers to the Company’s insurance subsidiary: Republic Insurance Services, Inc. All significant intercompany balances and transactions are eliminated in consolidation.

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

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

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

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

Broadly speaking, forward-looking statements include:

- projections of revenue, income, expenses, losses, earnings per share, capital expenditures, dividends, capital structure or other financial items;

- descriptions of plans or objectives for future operations, products or services;
- forecasts of future economic performance; and
- descriptions of assumptions underlying or relating to any of the foregoing.

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

- changes in political and economic conditions;
- new information concerning the impact of the TCJA;
  - the magnitude and frequency of changes to the FFTR implemented by the FOMC of the FRB;
- long-term and short-term interest rate fluctuations as well as the overall steepness of the yield curve;
- competitive product and pricing pressures in each of the Company's five reportable segments;
- equity and fixed income market fluctuations;
- client bankruptcies and loan defaults;
- inflation;
- recession;
- natural disasters impacting Company operations;
- future acquisitions;
- integrations of acquired businesses;
- changes in technology;

## Table of Contents

- changes in applicable laws and regulations or the interpretation and enforcement thereof;
- changes in fiscal, monetary, regulatory and tax policies;
- changes in accounting standards;
- monetary fluctuations;
- changes to the Company's overall internal control environment;
- success in gaining regulatory approvals when required;
- the Company's ability to qualify for future R&D federal tax credits;
- information security breaches or cyber security attacks involving either the Company or one of the Company's third-party service providers; and
- other risks and uncertainties reported from time to time in the Company's filings with the SEC, including Part 1 Item 1A "Risk Factors."

## Issued but Not Yet Effective Accounting Standards Updates

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

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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



accounting policy and the methodology for the identification and determination of critical accounting policies with the Company's Audit Committee.

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

- Allowance and Provision
- Goodwill and Other Intangible Assets
- Mortgage Servicing Rights
- Income Tax Accounting
- Investment Securities

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

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

Table of Contents

Specific Component – Loans Individually Classified as Impaired

The Bank defines impaired loans as follows:

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

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

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

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

In addition to obtaining appraisals at the time of origination, the Bank typically updates appraisals and/or BPOs for loans with potential impairment. Updated valuations for commercial-related credits exhibiting an increased risk of loss

are typically obtained within one year of the previous valuation. Collateral values for delinquent residential mortgage loans and home equity loans are generally updated prior to a loan becoming 90 days delinquent, but no more than 180 days past due. When measuring impairment, to the extent updated collateral values cannot be obtained due to the lack of recent comparable sales or for other reasons, the Bank discounts such stale valuations primarily based on age of valuation and market conditions of the underlying collateral.

#### General Component – Pooled Loans Collectively Evaluated

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

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

- Current year to date historical loss factor average
- Rolling four quarter average

## Table of Contents

- Rolling eight quarter average
- Rolling twelve quarter average
- Rolling sixteen quarter average
- Rolling twenty quarter average
- Rolling twenty-four quarter average
- Rolling twenty-eight quarter average
- Rolling thirty-two quarter average
- Rolling thirty-six quarter average
- Rolling forty quarter average

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

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

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

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

## Management's Evaluation of the Allowance

Management evaluates the Allowance for its more traditional Core Banking operations differently than its non-traditional RPG operations. Core Banking operations consist of the Company's Traditional Banking, Warehouse

Lending and Mortgage Banking segments. RPG operations consist of the Company's TRS and RCS segments.

For Core Banking operations, management performs two calculations at year-end in order to confirm the reasonableness of its Allowance. In the first calculation, management compares the beginning Allowance to the net charge-offs for the most recent calendar year. The ratio of net charge-offs to the beginning-of-year Allowance indicates how adequately the beginning-of-year Allowance accommodated subsequent charge-offs. Higher ratios suggest the beginning-of-year Allowance may not have been large enough to absorb impending charge-offs, while inordinately low ratios might indicate the accumulation of excessive allowances. The Core Bank's net charge-off ratio to the beginning-of-year Allowance was 7% at December 31, 2018 compared to 6% at December 31, 2017. The Core Bank's five-year annual average for this ratio was 7% as of December 31, 2018. Management believes the Core Bank's net charge-off ratio to beginning Allowance was within a reasonable range at December 31, 2018 and 2017.

For the second calculation, management assesses the Core Bank's Allowance exhaustion rate. Exhaustion rates indicate the time (expressed in years) taken to use the beginning-of-year Allowance in the form of actual charge-offs. Management believes an exhaustion rate that indicates a reasonable Allowance is in a range of five to twelve years. The Core Bank's Allowance exhaustion rates at December 31, 2018 and 2017 were 8.4 years and 10.0 years compared to the five-year annual average of 7.2 years as of

Table of Contents

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

Based on management's calculation, a Core Bank Allowance of \$32 million, or 0.78% of total loans and leases, was an adequate estimate of probable incurred losses within the loan portfolio as of December 31, 2018 compared to \$30 million, or 0.77%, at December 31, 2017. This estimate resulted in Core Banking Provision of \$3.6 million during 2018 compared to \$3.8 million in 2017. If the mix and amount of future charge-off percentages differ significantly from those assumptions used by management in making its determination, an adjustment to the Core Bank Allowance and the resulting effect on the income statement could be material.

The RPG Allowance at December 31, 2018 and 2017 primarily related to loans originated and held for investment through the RCS segment. RCS generally originates small-dollar, consumer credit products. In some instances, the Bank originates these products, sells 90% of the balances within two days of loan origination, and retains a 10% interest. RCS loans typically earn a higher yield but also have higher credit risk compared to loans originated through Core Banking operations, with a significant portion of RCS clients considered subprime or near-prime borrowers.

RCS's short-term line-of-credit product represented 36% and 42% of the RCS held-for-investment loan portfolio at December 31, 2018 and 2017. For this product, management conducted an analysis of historical losses and delinquencies by month of loan origination when determining the Allowance through September 30, 2018.

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

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

RPG's TRS segment first offered its EA tax-credit product during the first two months of 2016 and again during the first two months of 2017 and 2018. An Allowance for losses on EAs is estimated during the limited, short-term period the product is offered. EAs are generally repaid within three weeks of origination. Provisions for loan losses on EAs are estimated when advances are made, with all provisions made in the first quarter of each year. No Allowance for

EAs existed as of December 31, 2018 and 2017, as all EAs originated during the first two months of each year had either been paid off or charged-off within 111 days of origination. The majority of EA charge-offs are recorded during the second quarter of each year.

Related to the overall credit losses on EAs, the Bank's ability to control losses is highly dependent upon its ability to predict the taxpayer's likelihood to receive the tax refund as claimed on the taxpayer's tax return. Each year, the Bank's EA approval model is based primarily on the prior-year's tax refund funding patterns. Because much of the loan volume occurs each year before that year's tax refund funding patterns can be analyzed and subsequent underwriting changes made, credit losses during a current year could be higher than management's predictions if tax refund funding patterns change materially between years.

In response to changes in the legal, regulatory and competitive environment, management annually reviews and revises the EA's product parameters. Further changes in EA product parameters do not ensure positive results and could have an overall material negative impact on the performance of the EA and therefore on the Company's financial condition and results of operations. For the first quarter 2019 tax season, the Company modified the EA product offering to increase the maximum advance amount and to also charge a direct fee to the taxpayer-customer. The annual percentage rate to the taxpayer for his or her portion of the EA fee is less than 36% for all EA offering amounts.

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

- Part I Item 1A "Risk Factors"

Table of Contents

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

RPG recorded a net charge of \$27.8 million, \$23.9 million, and \$10.5 million to the Provision during 2018, 2017 and 2016, with the Provision for each year primarily due to net losses on EAs and growth in short-term, consumer loans originated through the RCS segment. If the number of future charge-offs on EAs and RCS loans differ significantly from assumptions used by management in making its determination, an adjustment to the RPG Allowance and the resulting effect on the income statement could be material.

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

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

All goodwill is attributable to the Company’s Traditional Banking segment and is not expected to be deductible for tax purposes. Based on its assessment, the Company believes its goodwill of \$16 million at both December 31, 2018 and 2017 was not impaired and is properly recorded in the consolidated financial.

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

Related to the Company’s May 17, 2016 Cornerstone acquisition, the Company maintained \$654,000 and \$858,000 of CDI assets as of December 31, 2018 and 2017. The Cornerstone related CDI is scheduled to amortize through 2022.

Mortgage Servicing Rights — Mortgage loans held for sale are generally sold with the MSRs retained. When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value, with the income statement effect recorded as a component of net servicing income within Mortgage Banking income. Fair value is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method, which requires servicing rights to be amortized into Mortgage



Banking income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. Amortization of MSR are initially set at seven years and subsequently adjusted on a quarterly basis based on the weighted average remaining life of the underlying loans.

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

A primary factor influencing the fair value is the estimated life of the underlying loans serviced. The estimated life of the loans serviced is significantly influenced by market interest rates. During a period of declining interest rates, the fair value of the MSRs is expected to decline due to increased anticipated prepayment speeds within the portfolio. Alternatively, during a period of rising interest rates, the fair value of MSRs is expected to increase, as prepayment speeds on the underlying loans would be anticipated to decline. Based on the estimated fair value at December 31, 2018 and 2017, management determined there was no impairment within the MSR portfolio.

The Bank's carrying value of its MSR portfolio was \$5 million at both December 31, 2018 and 2017.

Table of Contents

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

The TCJA was enacted on December 22, 2017 and reduced the federal corporate tax rate from 35% to 21%, effective January 1, 2018. The Company incurred a charge of \$6.3 million to income tax expense during 2017 representing the decrease in value of its net DTA upon enactment of the TCJA. At December 31, 2017, except for a planned cost-segregation study, based on facts and circumstances known at that time, the Company believed it had substantially completed its accounting for the tax effects of the TCJA.

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

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

There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, or additional information concerning the TCJA's impact on the Company's net DTAs, will not differ from management's current assessment, the impact of which could be significant to the consolidated results of operations and reported earnings. The Company believes its tax assets and liabilities are adequate and are properly recorded in the consolidated financial statements at December 31, 2018 and 2017.

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

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

Table of Contents

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

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

OVERVIEW

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

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

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

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

Table of Contents

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

Table 1 — Summary

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

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

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

## Traditional Banking segment

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

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

#### Warehouse Lending segment

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

Table of Contents

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

Mortgage Banking segment

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

Tax Refund Solutions segment

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

Republic Credit Solution segment

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

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

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

#### Traditional Banking segment

- Pre-tax net income increased \$5.7 million, or 16%, while net income decreased \$1.4 million, or 6%, for 2017 compared to 2016. Approximately \$5.1 million of the Company's previously mentioned 2017 TCJA-related charge to income tax expense was tied to the Traditional Banking segment.
- Traditional Banking net interest income increased \$21.1 million, or 17%, for 2017 to \$142.8 million. Traditional Banking net interest margin increased 29 basis points for the year ended December 31, 2017 to 3.55%.



Table of Contents

- The Traditional Banking Provision was \$3.9 million for 2017 compared to \$3.4 million for 2016.
- Noninterest income increased \$1.4 million, or 5%, for 2017 compared to 2016.
- Noninterest expense increased \$16.3 million, or 15%, during 2017 compared to 2016.
- Gross Traditional Bank loans increased by \$224 million, or 7%, from December 31, 2016 to December 31, 2017.
- Traditional Bank deposits grew \$243 million, or 8%, from December 31, 2016 to December 31, 2017.
- Total nonperforming Traditional Bank loans to total Traditional Bank loans was 0.41% at December 31, 2017 compared to 0.50% at December 31, 2016.
- Delinquent Traditional Bank loans to total Traditional Bank loans was 0.25% at December 31, 2017 compared to 0.21% at December 31, 2016.

Warehouse Lending segment

- Warehouse pre-tax net income increased \$1.4 million, or 11%, while net income increased \$797,000, or 10%, for 2017 compared to 2016. Approximately \$181,000 of the Company's previously mentioned 2017 TCJA-related charge to income tax expense was tied to the Warehouse segment.
- Warehouse net interest income increased \$1.0 million, or 6%, for 2017 compared to 2016. Warehouse net interest margin decreased six basis points from 2016 to 3.53% for 2017.
- The Warehouse Provision was a credit of \$150,000 for 2017 compared to a charge of \$497,000 for 2016.
- Total committed Warehouse lines increased from \$1.0 billion at December 31, 2016 to \$1.1 billion at December 31, 2017.
- Average line usage was 48% during 2017 compared to 57% during 2016.

Mortgage Banking segment

- Within the Mortgage Banking segment, mortgage banking income decreased \$2.2 million, or 33%, during 2017 compared to 2016, with \$1.1 million of the decrease attributable to a bulk loan sale of \$71 million, representing a portion of the Company's Correspondent loan portfolio during the third quarter of 2016.
- Overall, excluding the aforementioned bulk loan sale, Republic's originations of secondary market loans totaled \$160 million during 2017 compared to \$217 million during the same period in 2016.

#### Tax Refund Solutions segment

- TRS pre-tax net income increased \$1.2 million, or 11%, while net income increased \$787,000, or 10%, for 2017 compared to 2016. TRS segment did not incur a 2017 TCJA-related charge to income tax expense.
- TRS net interest income increased \$8.6 million for 2017 compared to 2016.
- The TRS Provision was \$6.5 million during 2017, compared to \$2.8 million for 2016.
- Noninterest income was \$18.8 million for 2017 compared to \$19.6 million for 2016.
- Net RT revenue decreased \$740,000, or 4%, during 2017 compared to 2016.

Table of Contents

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

Republic Credit Solution segment

- RCS pre-tax net income increased \$3.3 million, or 59%, while net income increased \$353,000, or 10%, for 2017 compared to 2016. Approximately \$1.7 million of the Company's previously mentioned 2017 TCJA-related charge to income tax expense was tied to the RCS segment.
- RCS net interest income increased \$11.6 million, or 105%, for 2017 compared to 2016.
- RCS recorded a Provision of \$17.4 million during 2017 compared to \$7.8 million for 2016.
- Noninterest income increased \$2.6 million, or 58%, for 2017 compared to 2016.
- Noninterest expense increased \$1.3 million, or 61%, for 2017 compared to 2016.
- Total nonperforming RCS loans to total RCS loans was 1.40% at December 31, 2017 compared to 0.25% at December 31, 2016.
- Delinquent RCS loans to total RCS loans was 8.43% at December 31, 2017 compared to 6.63% at December 31, 2016.

RESULTS OF OPERATIONS

Net Interest Income

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

Discussion of 2018 vs. 2017

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

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

Table of Contents

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

Traditional Banking segment

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

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

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

For additional information on the potential future effect of changes in short-term interest rates on Republic's net interest income, see the table titled "Bank Interest Rate Sensitivity at December 31, 2018 and 2017" under "Financial Condition."

#### Warehouse Lending segment

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

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

Warehouse Lending net interest income is greatly influenced by the overall mortgage market and the competitive environment. The Mortgage Bankers Association's economic forecast released in January 2019 projected mortgage originations to decrease 2% across the United States from 2018 to 2019, which leads management to believe that usage rates among the Bank's Warehouse Lending clients may also decrease. This predicted decrease in mortgage volume, along with the competitive environment, may negatively

Table of Contents

impact the Bank's ability to maintain its existing Warehouse Lending clients and to attract new mortgage companies to its warehouse platform, thus making it difficult to increase net interest income overall within the Warehouse Lending segment.

Tax Refund Solutions segment

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

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

- Part I Item 1A "Risk Factors"
- Part II Item 8 "Financial Statements and Supplementary Data," Footnote 4 "Loans and Allowance for Loan and Lease Losses"

Republic Credit Solutions segment

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

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

Discussion of 2017 vs. 2016

Total Company net interest income increased \$42.5 million, or 27%, during 2017 compared to the same period in 2016. A 67-basis point expansion in the Company's net interest margin, complemented by growth in average loans throughout each of the Company's reportable segments, drove the increase in net interest income. Growth in fee-driven loans for TRS's EA product and RCS's small-dollar consumer loans were the primary drivers of the overall increase in the Company's net interest margin.

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

#### Traditional Banking segment

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

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

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



## Table of Contents

unearned discount on such loans is immediately accreted into income. Accretion income during 2017 from this portfolio was \$3.5 million compared to \$1.1 million in 2016. Overall, the average balance of the portfolio was \$12 million with a yield of 37.11% during 2017 compared to \$20 million with a yield of 13.30% in 2016.

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

### Warehouse Lending segment

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

Total Warehouse line commitments increased to \$1.1 billion at December 31, 2017 from \$1.0 billion at December 31, 2016, as the Company continued to grow its Warehouse client base. Average line usage on Warehouse commitments was 48% during 2017 compared to 57% in 2016.

### Tax Refund Solutions segment

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

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

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

Republic Credit Solutions segment

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

Table of Contents

Table 2 — Total Company Average Balance Sheets and Interest Rates

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

AND  
 ERS'

g

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

- 
- (1) For the purpose of this calculation, the fair market value adjustment on investment securities resulting from ASC Topic 320, Investments — Debt and Equity Securities, is included as a component of other assets.
- (2) Interest income for Easy Advances is composed entirely of loan fees.
- (3) Interest income includes loan fees of \$27.2 million, \$20.8 million and \$11.1 million for 2018, 2017 and 2016.
- (4) Interest income includes loan fees of \$3.0 million, \$3.2 million and \$3.2 million for 2018, 2017 and 2016.

- (5) Interest income includes loan fees of \$5.7 million, \$7.9 million and \$4.6 million for 2018, 2017 and 2016.
- (6) Average balances for loans include the principal balance of nonaccrual loans and loans held for sale, and are inclusive of all loan premiums, discounts, fees and costs.

Table of Contents

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

Table 3 — Total Company Volume/Rate Variance Analysis

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

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

#### Provision for Loan and Lease Losses

#### Discussion of 2018 vs. 2017

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

#### Traditional Banking segment

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

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

## Table of Contents

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

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

See the sections titled “Allowance for Loan and Lease Losses” and “Asset Quality” in this section of the filing under “Financial Condition” for additional discussion regarding the Provision and the Bank’s delinquent, nonperforming, impaired, and TDR loans.

### Warehouse Lending segment

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

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

### Tax Refund Solutions segment

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

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



See additional detail regarding the EA product under Footnote 4 “Loans and Allowance for Loan and Lease Losses” of Part II Item 8 “Financial Statements and Supplemental Data.”

#### Republic Credit Solutions segment

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

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

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

The following table presents RCS Provision by product:

Table of Contents

Table 4 — RCS Provision by Product

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

While RCS loans generally return higher yields, they also present a greater credit risk than Traditional Banking loan products. As a percentage of total RCS loans, the RCS Allowance was 14.70% and 18.85% at December 31, 2018 and 2017. The Company believes, based on information presently available, that it has adequately provided for RCS loan losses at December 31, 2018.

## Discussion of 2017 vs. 2016

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

## Traditional Banking segment

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

- Related to the Bank's pass-rated and non-rated credits, the Bank recorded net charges of \$3.7 million and \$3.1 million to the Provision during 2017 and 2016. Loan growth primarily drove the net charges to the Provision in both periods, as gross loans increased \$224 million during 2017 compared to \$254 million during the same period in 2016. Growth during 2016 was primarily driven by the Company's May 2016 Cornerstone acquisition, while growth during 2017 was primarily organic in nature. Since business-acquisition loans are purchased at fair value and the credit risk is a component of the valuation when determining the fair value, only a minimal Provision was recorded during 2016 for loan growth attributable to the Cornerstone acquisition.

- Related to the Bank's loans rated Substandard and Special Mention, the Bank recorded net charges of \$65,000 and \$756,000 to the Provision during 2017 and 2016. Charges of \$472,000 related to one CRE relationship and \$234,000 related to one C&I relationship drove the 2016 Provision.
- Related to PCI loans, the Bank recorded a net charge of \$176,000 to the Provision during 2017 compared to a net credit of \$410,000 during 2016. Charges generally reflect projected shortfalls in cash flows below initial day-one estimates for PCI loans, while credits are primarily attributable to generally positive dispositions.

As a percentage of total loans, the Traditional Banking Allowance increased to 0.85% at December 31, 2017 compared to 0.83% at December 31, 2016.

#### Warehouse Lending segment

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

As a percentage of total Warehouse outstanding balances, the Warehouse Allowance was 0.25% at December 31, 2017 and 2016.

#### Tax Refund Solutions segment

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

Table of Contents

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

## Republic Credit Solutions segment

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

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

## Noninterest Income

Table 5 — Analysis of Noninterest Income

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

NM - Not meaningful

Discussion of 2018 vs. 2017

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

Traditional Banking segment

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

- Service charges on deposit accounts increased \$874,000, or 7%, to \$14.2 million during 2018 compared to \$13.4 million during 2017 driven by an 8% growth in the Company's transactional account base during 2018. The Bank earns a substantial majority of its fee income related to its overdraft service program from the per item fee it assesses its customers for each insufficient funds check or electronic debit presented for payment. The total per item fees, net of refunds, included in service charges on deposits during 2018 and 2017 were \$8.7 million and \$8.1 million. The total daily overdraft charges, net of refunds, included in interest income during 2018 and 2017 were \$2.1 million and \$1.8 million. A \$2 per day increase in daily overdraft charges initiated in July 2018 primarily drove the Bank's increase in daily overdraft charges.
- Interchange income increased \$1.3 million, or 13%, due to a 9% increase in the number of active debit cards along with an increase in usage on the Company's existing debit cards.

Table of Contents

Mortgage Banking segment

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

Tax Refund Solutions segment

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

Republic Credit Solutions segment

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

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

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

The following table presents RCS program fees by product:

Table 6 — RCS Program Fees by Product

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

---

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

Table of Contents

Discussion of 2017 vs. 2016

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

Traditional Banking segment

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

- Service charges on deposit accounts increased \$201,000, or 2%, to \$13.4 million during 2017 compared to \$13.2 million during 2016 driven by a 7% growth in the Company's transactional account base during 2017. The total per item fees, net of refunds, included in service charges on deposits during 2017 and 2016 were \$8.1 million and \$7.8 million. The total daily overdraft charges, net of refunds, included in interest income during 2017 and 2016 were \$1.8 million and \$1.7 million.
- Interchange income increased \$683,000, or 8%, due to an 11% increase in the number of active debit cards and an 8% increase in the number of transactions experienced by the Company for such cards.
- The Traditional Bank recorded an increase of \$353,000 on net gains on OREO from 2017 compared to 2016.

Mortgage Banking segment

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

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



Tax Refund Solutions segment

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

Republic Credit Solutions segment

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

Table of Contents

## Noninterest Expense

Table 7 — Analysis of Noninterest Expense

Years Ended December 31, (dollars in thousands)	2018	2017	2016	Percent Increase/(Decrease)		
				2018/2017	2017/2016	
Salaries and employee benefits	\$ 91,189	\$ 82,233	\$ 69,882	11	% 18	%
Occupancy and equipment, net	24,883	24,019	21,586	4	11	
Communication and transportation	4,785	4,711	4,256	2	11	
Marketing and development	4,432	5,188	3,778	(15)	37	
FDIC insurance expense	1,494	1,378	1,780	8	(23)	
Bank franchise tax expense	4,951	4,626	4,757	7	(3)	
Data processing	9,613	7,748	6,121	24	27	
Interchange related expense	4,480	3,988	4,140	12	(4)	
Supplies	1,444	1,594	1,406	(9)	13	
Other real estate owned expense	94	388	503	(76)	(23)	
Legal and professional fees	3,459	2,410	2,556	44	(6)	
FHLB advance prepayment penalty	—	—	846	—	(100)	
Impairment of premises held for sale	482	1,175	191	(59)	515	
Other	12,546	11,386	8,305	10	37	
Total noninterest expense	\$ 163,852	\$ 150,844	\$ 130,107	9	16	

## Discussion of 2018 vs. 2017

Total Company noninterest expense increased \$13.0 million, or 9%, during 2018 compared to 2017. The most significant components comprising the change in noninterest expense by reportable segment follow:

## Traditional Banking segment

For 2018 compared to 2017, Traditional Banking noninterest expense increased \$11.8 million, or 9%. The following were the most significant categories affecting the change in noninterest expense:

- Salaries and benefits expense increased \$9.2 million, or 14%, driven by the following:
  - o Annual merit increases.

- o An increase of approximately 53 Traditional Bank FTE employees over the previous 12 months to support growth.
  - o An \$814,000 increase in healthcare benefits.
  - o A \$1.4 million increase in incentive compensation, as the Company achieved some of its more aggressive budgeted targets for the year, resulting in higher incentive payouts.
- 
- New and upgraded technology implemented in the previous 12 months to support several Traditional Bank key strategic initiatives caused data processing expenses to increase \$1.1 million, or 17%. Such initiatives include improving the Company's client relationship management system, its online banking functionality, and the overall security of client information and assets.
    - A 12% increase in depreciation expense associated with banking center renovations over the previous year drove a \$1.2 million, or 5%, increase in occupancy expense.
  - Additional consulting concerning the Company's cost segregation and R&D studies primarily drove a \$648,000 increase in legal and professional fees.
  - Offsetting the increases above was a decrease of \$693,000 in impairment of premises held for sale. During 2017, the Traditional Bank recorded a \$907,000 nonrecurring impairment charge for a property the Company sold in December 2018.

Table of Contents

- A reduction in marketing spend for the Traditional Bank's separately branded digital banking products drove a \$686,000 decrease in marketing expense.

Republic Credit Solutions segment

For 2018 compared to 2017, RCS noninterest expense increased \$1.4 million, or 41%, during 2018 compared to 2017. The increase was primarily driven by higher legal and professional fees resulting from corporate income-tax consultation matters and contingent legal reserves.

Discussion of 2017 vs. 2016

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

Traditional Banking segment

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

- Salaries and benefits expense increased \$9.5 million, or 17%, primarily due to an increase of 48 FTE employees during 2017. The increase in FTE employees was driven by additional staffing needed to implement the Company's strategic initiatives.
- Occupancy expense increased \$2.4 million, or 12%, driven by increases in rent, depreciation, and equipment service expense resulting from new locations, existing banking center renovations and the cost of technology to support the Bank's strategic initiatives.
- Marketing and development expense increased \$1.1 million, or 32%, with \$430,000 of the increase attributable to the Company's national branchless banking platform, MemoryBank. The remainder of the increase was focused on driving loan and deposit growth in markets outside of the Company's Louisville, Kentucky footprint. In addition, the Company also instituted a marketing awareness campaign in its Louisville, Kentucky market as part of a mortgage lending initiative.

- Data processing expense increased \$1.1 million, primarily driven by estimated conversion-related expenses resulting from a change in the Company's digital-banking vendor for its commercial clients.
- Impairment of premises held for sale increased \$984,000 resulting primarily from a mark-to-market charge during the third quarter of 2017 for a bank property that the Company sold during the fourth quarter of 2018.

#### Warehouse Lending segment

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

#### Tax Refund Solutions segment

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

Table of Contents

Republic Credit Solutions segment

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

Income Tax Expense

Discussion of 2018 vs. 2017

On December 22, 2017, the TCJA lowered the federal corporate tax rate from 35% to 21%, effective January 1, 2018. While the Company benefitted during 2018 from a 14% lower federal corporate tax rate, the TCJA negatively impacted 2017 because the Company recorded a \$6.3 million charge to income tax expense representing the decrease in value of its net DTA upon enactment of the TCJA.

In addition to the income tax benefit received during 2018 from the TCJA, Republic also recognized additional federal income tax benefits of approximately \$3.4 million as part of preparing its fiscal-year 2017 federal tax return due October 15, 2018. Approximately \$3.2 million of the \$3.4 million in federal income tax benefits represented cumulative benefits for years prior to 2018. The \$3.4 million of additional tax benefits recognized during 2018 was primarily driven by three distinct items, which were comprised of (1) a cost-segregation study, (2) an automatic change in tax-accounting method, and (3) R&D federal tax credits.

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

In addition to the completed cost-segregation study and the change in the tax-accounting method related to loan origination costs, the Company also completed an R&D tax-credit study during 2018, which resulted in the

recognition of R&D credits dating back to 2014.

Driven by the lower federal corporate tax rate during 2018 and the above mentioned three distinct items, the Company's effective tax rate was 17% during 2018. Driven primarily by the \$6.3 million TCJA-driven charge, the Company's effective tax rate was 42% in 2017.

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

#### Traditional Banking segment

The Traditional Bank's effective tax rate was 14% in 2018 and 44% in 2017. During 2018, the Traditional Bank's effective tax rate benefitted from the lower federal corporate tax rate, the Company's cost segregation study, and the Company's automatic change in tax-accounting method. During 2017, the TCJA-driven charge tied to the Traditional Banking segment primarily represents the decrease in value of a DTA associated with the Traditional Banking segment's Allowance.

#### Tax Refund Solutions segment

TRS's effective tax rate was 20% in 2018 and 36% in 2017. During 2018, TRS's effective tax rate benefitted from the lower federal corporate tax rate and the Company's R&D federal tax credits.

Table of Contents

Republic Credit Services segment

RCS's effective tax rate was 23% in 2018 and 56% in 2017. During 2018, RCS's effective tax rate benefitted from the lower federal corporate tax rate and the Company's R&D federal tax credits. During 2017, the TCJA-driven charge tied to RCS represents the decrease in value of a DTA associated with the RCS segment's Allowance.

Discussion of 2017 vs. 2016

As previously mentioned, the Company incurred a charge of \$6.3 million to income tax expense during 2017 representing the decrease in value of its net DTA upon enactment of the TCJA. Driven primarily by the \$6.3 million TCJA-driven charge, the Company's effective tax rate was 42% in 2017 compared to 33% in 2016.

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

Traditional Banking segment

Driven by its portion of the TCJA-driven charge, the Traditional Banking segment's effective tax rate was 44% in 2017 compared to 31% in 2016. The TCJA-driven charge tied to the Traditional Banking segment primarily represents the decrease in value of a DTA associated with the Traditional Banking segment's Allowance.

Republic Credit Services segment

Driven primarily by its portion of the TCJA-driven charge, RCS's effective tax rate was 56% in 2017 compared to 36% in 2016. The TCJA-driven charge tied to RCS represents the decrease in value of a DTA associated with the RCS segment's Allowance.

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 \$351 million in cash and cash equivalents at December 31, 2018 compared to \$299 million at December 31, 2017. During 2018 and 2017, the Bank maintained a relatively high cash balance on its balance sheet for liquidity purposes.

For cash held at the FRB, the Bank earns a yield on amounts more than required reserves. This yield increased from 1.25% at January 1, 2017 to 2.40% at December 31, 2018. For cash held within the Bank's banking center and ATM networks, the Bank does not earn interest.

The Company's Captive maintains cash reserves to cover insurable claims. Captive cash reserves totaled approximately \$3 million and \$3 million at December 31, 2018 and 2017.

Table of Contents

## Investment Securities

Table 8 — Investment Securities Portfolio

December 31, (in thousands)	2018	2017	2016	2015	2014
Available-for-sale debt securities (fair value):					
U.S. Treasury securities and U.S. Government agencies	\$ 216,873	\$ 307,592	\$ 294,544	\$ 286,479	\$ 146,922
Private label mortgage backed security	3,712	4,449	4,777	5,132	5,250
Mortgage backed securities - residential	169,209	106,374	73,004	92,268	124,256
Collateralized mortgage obligations	72,811	87,163	87,654	113,668	143,171
Corporate bonds	9,058	15,125	15,158	14,922	15,063
Trust preferred security	4,075	3,600	3,200	3,405	—
Total available-for-sale debt securities	475,738	524,303	478,337	515,874	434,662
Held-to-maturity debt securities (carrying value):					
U.S. Treasury securities and U.S. Government agencies	—	—	506	515	1,747
Mortgage backed securities - residential	132	151	158	53	147
Collateralized mortgage obligations	19,544	23,437	27,142	33,159	38,543
Corporate bonds	45,088	40,175	25,058	5,000	5,000
Obligations of state and political subdivisions	463	464	—	—	—
Total held-to-maturity debt securities	65,227	64,227	52,864	38,727	45,437
Equity securities with a readily determinable fair value (fair value):					
Freddie Mac preferred stock	410	473	483	173	231
Community Reinvestment Act mutual fund	2,396	2,455	2,455	1,011	1,018
Total equity securities with a readily determinable fair value	2,806	2,928	2,938	1,184	1,249
Total investment securities	\$ 543,771	\$ 591,458	\$ 534,139	\$ 555,785	\$ 481,348

AFS debt securities primarily consists of U.S. Treasury securities and U.S. Government agency obligations, including agency MBS and agency CMOs. The agency MBSs primarily consist of hybrid mortgage investment securities, as well as other adjustable rate mortgage investment securities, underwritten and guaranteed by the GNMA, the FHLMC and the 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 SSUARs. 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.

During 2018, the Bank purchased \$174 million in long-term investment debt securities, allocated among \$90 million in mortgage-backed securities, \$79 million in US government agencies, and a \$5 million corporate bond. The mortgage-backed securities have an expected weighted-average yield of approximately 3.24% and a weighted average expected life of 3.53 years. The U.S. Government agencies have an expected weighted average yield of approximately 2.83% and a weighted average life of 3.06 years. The corporate bond has a floating rate and matures in 2026.

From 2013 to 2018, the Bank purchased various floating-rate corporate bonds. These bonds were rated "investment grade" by accredited rating agencies as of their respective purchase dates. The total fair value of the Bank's corporate bonds represented 10% and 9% of the Bank's investment portfolio as of December 31, 2018 and 2017. During 2018, one of these bonds was downgraded to BBB+ (S&P/Fitch), driving a significant decrease in the bond's market value. As of December 31, 2018, this bond reflected an unrealized loss of \$942,000. The Bank does not intend to sell this bond, and it is likely that it will not be required to sell this bond before the bond's anticipated recovery, therefore, management does not consider this bond to have OTTI.

Strategies for the investment securities portfolio are influenced by economic and market conditions, loan demand, deposit mix, and liquidity needs. For the past several years, the Bank has continued to utilize a general strategy within the investment portfolio of purchasing securities with shorter-term durations. The Bank has used this general strategy for liquidity purposes and as an interest rate

Table of Contents

risk management tool in what has been a long period of historically low interest rates. Management believes the Bank will likely continue with this general strategy into the foreseeable future as market interest rates are expected to continue to rise in 2018.

Table 9 — Mortgage Backed Investment Securities

December 31, (in thousands)	2018	2017	2016	2015	2014
Private label mortgage backed security	\$ 3,712	\$ 4,449	\$ 4,777	\$ 5,132	\$ 5,250
Mortgage backed securities - residential	169,349	106,535	73,174	92,327	124,423
Collateralized mortgage obligations	92,487	110,819	114,922	147,291	182,133
Total fair value of mortgage backed securities	\$ 265,548	\$ 221,803	\$ 192,873	\$ 244,750	\$ 311,806

Table 10 — Available-for-Sale Debt Securities

December 31, 2018 (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	\$ 74,692	\$ 74,083	1.31	% 0.63
Due from one year to five years	143,810	142,790	2.40	2.33
Total U.S. Treasury securities and U.S. Government agencies	218,502	216,873	2.03	1.75
Corporate bonds:				
Due from one year to five years	10,000	9,058	3.44	4.29
Total Corporate bonds	10,000	9,058	3.44	4.29
Trust preferred security, due beyond ten years	3,533	4,075	6.72	18.43
Private label mortgage backed security	2,348	3,712	7.06	14.59
Total mortgage backed securities - residential	168,992	169,209	2.97	18.05
Total collateralized mortgage obligations	73,740	72,811	2.59	21.75
Total available-for-sale debt securities	\$ 477,115	\$ 475,738	2.51	10.84

Table 11 — Held-to-Maturity Debt Securities

December 31, 2018 (dollars in thousands)	Carrying Value	Fair Value	Weighted Average Yield	Weighted Average Maturity in Years
Corporate bonds:				
Due from one year or less	\$ 75	\$ 75	2.60	% 0.75
Due from one year to five years	40,073	39,814	3.57	4.04
Due from five years to ten years	4,940	4,701	3.54	7.10
Total corporate bonds	45,088	44,590	3.56	4.38
Obligations of state and political subdivisions:				
Due from one year to five years	463	452	1.76	% 3.16
Total obligations of state and political subdivisions	463	452	1.76	3.16
Total mortgage backed securities - residential	132	140	4.94	16.00
Total collateralized mortgage obligations	19,544	19,676	2.81	20.58
Total held-to-maturity debt securities	\$ 65,227	\$ 64,858	3.33	9.25

Table of Contents

## Loan Portfolio

Table 12 — Loan Portfolio Composition

December 31, (in thousands)	2018	2017	2016	2015	2014
Traditional Banking:					
Residential real estate:					
Owner occupied	\$ 907,005	\$ 921,565	\$ 1,000,148	\$ 1,081,934	\$ 1,118,341
Owner occupied - correspondent*	94,827	116,792	149,028	249,344	226,628
Nonowner occupied	242,846	205,081	156,605	116,294	96,492
Commercial real estate	1,248,940	1,207,293	1,060,496	860,561	807,207
Construction & land development	175,178	150,065	119,650	66,500	38,480
Commercial & industrial	430,355	341,692	259,026	229,307	157,067
Lease financing receivables	15,031	16,580	13,614	8,905	2,530
Home equity	332,548	347,655	341,285	289,194	245,679
Consumer:					
Credit cards	19,095	16,078	13,414	11,068	9,573
Overdrafts	1,102	974	803	685	1,180
Automobile loans	63,475	65,650	52,579	6,473	3,231
Other consumer	46,642	20,501	19,744	11,998	10,289
Total Traditional Banking	3,577,044	3,409,926	3,186,392	2,932,263	2,716,697
Warehouse lines of credit*	468,695	525,572	585,439	386,729	319,431
Total Core Banking	4,045,739	3,935,498	3,771,831	3,318,992	3,036,128
Republic Processing Group*:					
Tax Refund Solutions:					
Easy Advances	—	—	—	—	—
Other TRS loans	13,744	11,648	6,695	414	272
Republic Credit Solutions	88,744	66,888	32,252	7,204	4,095
Total Republic Processing Group	102,488	78,536	38,947	7,618	4,367
Total loans**	4,148,227	4,014,034	3,810,778	3,326,610	3,040,495
Allowance for loan and lease losses	(44,675)	(42,769)	(32,920)	(27,491)	(24,410)
Total loans, net	\$ 4,103,552	\$ 3,971,265	\$ 3,777,858	\$ 3,299,119	\$ 3,016,085

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

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

Gross loans increased by \$134 million, or 3%, during 2018 to \$4.1 billion at December 31, 2018. The most significant components comprising the change in loans by reportable segment follow:

Traditional Banking segment

Traditional Banking loans increased \$167 million, or 5%, during 2018. Growth was primarily concentrated in commercial purpose loans, which is the Company's primary sales focus for on-balance sheet loan growth. C&I, CRE, nonowner-occupied residential real estate, and C&D portfolios experienced growth of \$89 million, \$42 million, \$38 million, and \$25 million, respectively, during 2018. Additionally, a \$26 million increase in loans collateralized by consumer aircraft drove a \$26 million increase in other consumer loans during 2018.

The Bank's owner occupied residential real estate loans, including correspondent loans, declined \$37 million in total. These category fluctuations were generally in-line with the Company's overall long-term loan growth strategy, which is to reduce the Bank's reliance on residential real estate loans for balance sheet growth and to rely more on commercial purpose loans for future growth. While the Company does currently intend to reduce its reliance on owner occupied residential real estate loans for future balance sheet growth, it

Table of Contents

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

Warehouse Lending segment

Outstanding Warehouse loans decreased \$57 million from December 31, 2017 to December 31, 2018. Due to the volatility and seasonality of the mortgage market, it is difficult to project future outstanding balances of Warehouse lines of credit. The growth of the Bank's Warehouse Lending business greatly depends on the overall mortgage market and typically follows industry trends. Since its entrance into this business during 2011, the Bank has experienced volatility in the Warehouse portfolio consistent with overall demand for mortgage products. Weighted average quarterly usage rates on the Bank's Warehouse lines have ranged from a low of 31% during the fourth quarter of 2013 to a high of 64% during the third quarter of 2015. On an annual basis, weighted average usage rates on the Bank's Warehouse lines have ranged from a low of 40% during 2013 to a high of 57% during 2016.

Republic Credit Solutions segment

RCS loans increased \$22 million from December 31, 2017 to December 31, 2018 driven primarily by the addition of \$21 million in hospital receivables during 2018.

During 2018, the Company agreed to sell its entire 10% interest in RCS's credit-card product. The sale settled in January 2019.

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

Table 13 — Selected Loan Distribution

December 31, 2018 (in thousands)	Total	One Year Or Less	Over One Through Five Years	Over Five Years
----------------------------------	-------	---------------------	-----------------------------------	--------------------

Fixed rate loan maturities:



Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Residential real estate	\$ 454,659	\$ 53,435	\$ 103,676	\$ 297,548
Commercial real estate	461,801	64,517	151,365	245,919
Construction & land development	39,274	9,636	17,053	12,585
Commercial & industrial	192,369	51,933	100,957	39,479
Lease financing receivables	13,203	5,976	7,227	—
Warehouse lines of credit	—	—	—	—
Home equity	—	—	—	—
Consumer	199,153	116,892	53,513	28,748
Total fixed rate loans	\$ 1,360,459	\$ 302,389	\$ 433,791	\$ 624,279

Variable rate loan maturities:

Residential real estate	\$ 790,019	\$ 21,504	\$ 82,739	\$ 685,776
Commercial real estate	787,139	60,057	144,507	582,575
Construction & land development	135,904	37,698	53,275	44,931
Commercial & industrial	251,730	105,809	106,936	38,985
Lease financing receivables	1,828	1,828	—	—
Warehouse lines of credit	468,695	468,695	—	—
Home equity	332,548	78,491	151,499	102,558
Consumer	19,905	19,112	748	45
Total variable rate loans	\$ 2,787,768	\$ 793,194	\$ 539,704	\$ 1,454,870

Total:

Residential real estate	\$ 1,244,678	\$ 74,939	\$ 186,415	\$ 983,324
Commercial real estate	1,248,940	124,574	295,872	828,494
Construction & land development	175,178	47,334	70,328	57,516
Commercial & industrial	444,099	157,742	207,893	78,464
Lease financing receivables	15,031	7,804	7,227	—
Warehouse lines of credit	468,695	468,695	—	—
Home equity	332,548	78,491	151,499	102,558
Consumer	219,058	136,004	54,261	28,793
Total loans	\$ 4,148,227	\$ 1,095,583	\$ 973,495	\$ 2,079,149

Loans at maturity interval to overall total loans

100      %      26      %      23      %      50      %

Table of Contents

Allowance 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 monthly and presents and discusses the analysis with the Audit Committee and the Board of Directors quarterly.

The Bank's Allowance increased \$2 million, or 4%, during 2018 to \$45 million at December 31, 2018, primarily driven by reserves for general growth in Traditional Bank portfolios. As a percent of total loans, the total Bank's Allowance increased to 1.08% at December 31, 2018 compared to 1.07% at December 31, 2017. An analysis of the Allowance by reportable segment follows:

Traditional Banking segment

The Allowance at the Traditional Banking segment, increased to \$30 million at December 31, 2018 from \$29 million at December 31, 2017. The Allowance to total Traditional Bank loans remained at 0.85% from December 31, 2017 to December 31, 2018. The growth in the Allowance for the Traditional Banking segment was generally related to the growth in the overall loan portfolio, with changes to the historical loss percentages and qualitative factors of the calculation providing minimal impact.

Warehouse Lending segment

The Allowance on loans originated through the Company's Warehouse segment decreased to \$1.2 million at December 31, 2018 from \$1.3 million at December 31, 2017, with the Allowance to total outstanding Warehouse balances remaining at 0.25% at both period ends. The decrease in the Allowance for the Warehouse Lending segment was entirely related to the decline in the overall loan portfolio.

Republic Credit Solutions segment

The Allowance on loans originated through the Company's RCS segment remained at \$13 million from December 31, 2017 to December 31, 2018. Additional reserves for growth in RCS's line-of-credit and hospital receivables products were offset by reserves released upon the reclassification of RCS's credit-card product into the held-for-sale category. The Allowance to total RCS loans decreased to 14.70% at December 31, 2018 from 18.85% at December 31, 2017 due to a higher concentration of lower-risk healthcare receivables within the RCS loan portfolio at December 31,

2018.

RCS maintained an Allowance for two loan products offered at December 31, 2018, including its line-of-credit product and its healthcare-receivables product. At December 31, 2018, the Allowance to total loans estimated for each RCS product ranged from as low as 0.25% for its healthcare-receivables portfolio to as high as 40% for its line-of-credit portfolio. The lower reserve percentage of 0.25% was provided for RCS's healthcare receivables at December 31, 2018, as such receivables have recourse back to a third-party provider.

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

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

74

---

Table of Contents

Table 14 — Summary of Loan and Lease Loss Experience

Years Ended December 31, (dollars in thousands)	2018	2017	2016	2015	2014
Allowance at beginning of period	\$ 42,769	\$ 32,920	\$ 27,491	\$ 24,410	\$ 23,026
Charge-offs:					
Traditional Banking:					
Residential real estate	(1,187)	(330)	(416)	(748)	(1,021)
Commercial real estate	(7)	—	(514)	(546)	(868)
Construction & land development	—	—	(44)	—	(18)
Commercial & industrial	(200)	(189)	(330)	(56)	(20)
Lease financing receivables	—	—	—	—	—
Home equity	(115)	(222)	(351)	(466)	(548)
Consumer	(2,099)	(2,042)	(1,727)	(1,185)	(1,083)
Total Traditional Banking	(3,608)	(2,783)	(3,382)	(3,001)	(3,558)
Warehouse lines of credit	—	—	—	—	—
Total Core Banking	(3,608)	(2,783)	(3,382)	(3,001)	(3,558)
Republic Processing Group:					
Tax Refund Solutions:					
Easy Advances	(12,478)	(8,121)	(3,474)	—	—
Other TRS loans	(74)	—	—	—	—
Republic Credit Solutions	(17,692)	(10,659)	(5,000)	(971)	(5)
Total Republic Processing Group	(30,244)	(18,780)	(8,474)	(971)	(5)
Total charge-offs	(33,852)	(21,563)	(11,856)	(3,972)	(3,563)
Recoveries:					
Traditional Banking:					
Residential real estate	285	272	429	318	164
Commercial real estate	131	139	152	98	155
Construction & land development	30	6	78	—	89
Commercial & industrial	51	34	127	62	114
Lease financing receivables	—	—	—	—	—
Home equity	311	182	151	148	183
Consumer	604	596	636	736	801
Total Traditional Banking	1,412	1,229	1,573	1,362	1,506
Warehouse lines of credit	—	—	—	—	—
Total Core Banking	1,412	1,229	1,573	1,362	1,506
Republic Processing Group:					
Tax Refund Solutions:					
Easy Advances	1,718	1,332	426	—	—

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Other TRS loans	10	—	—	—	—
Republic Credit Solutions	1,250	906	492	17	—
Total Republic Processing Group	2,978	2,479	1,219	295	582
Total recoveries	4,390	3,708	2,792	1,657	2,088
Net loan charge-offs	(29,462)	(17,855)	(9,064)	(2,315)	(1,475)
Provision - Core Banking	3,568	3,773	3,945	3,065	3,392
Provision - RPG	27,800	23,931	10,548	2,331	(533)
Total Provision	31,368	27,704	14,493	5,396	2,859
Allowance at end of period	\$ 44,675	\$ 42,769	\$ 32,920	\$ 27,491	\$ 24,410

Credit Quality Ratios - Total Company:

Allowance to total loans	1.08	%	1.07	%	0.86	%	0.83	%	0.80	%
Allowance to nonperforming loans	277		284		205		125		103	
Net loan charge-offs to average loans	0.72		0.47		0.25		0.07		0.05	

Credit Quality Ratios - Core Banking:

Allowance to total loans	0.78	%	0.77	%	0.74	%	0.78	%	0.80	%
Allowance to nonperforming loans	197		213		175		118		103	
Net loan charge-offs to average loans	0.06		0.04		0.05		0.05		0.08	

Table of Contents

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

Table 15 — Management's Allocation of the Allowance for Loan and Lease Losses

2018	2017		2016		2015		2014	
	Percent of Loans to Total	Allowance	Percent of Loans to Total	Allowance	Percent of Loans to Total	Allowance	Percent of Loans to Total	Allowance
Allowance	Loans*	Allowance	Loans*	Allowance	Loans*	Allowance	Loans*	Allowance
5,798	24 %	\$ 6,182	22 %	\$ 7,158	27 %	\$ 8,301	34 %	\$ 8,565
237	2	292	3	373	4	623	7	567
1,662	6	1,396	5	1,139	4	1,052	3	837
10,030	30	9,043	30	8,078	28	7,672	26	7,774
2,555	4	2,364	4	1,850	3	1,303	2	926
2,873	10	2,198	9	1,511	7	1,455	7	1,167
158	—	174	—	136	—	89	—	25
3,477	8	3,754	9	3,757	9	2,996	9	2,730
1,140	—	607	—	490	—	448	—	285
1,102	—	974	—	675	—	351	—	382
724	2	687	2	526	1	56	—	32
591	1	1,162	1	771	1	479	—	277

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

30,347	87	28,833	85	26,464	84	24,825	88	23,567
1,172	11	1,314	13	1,464	15	967	12	799
31,519	98	30,147	98	27,928	99	25,792	100	24,366
—	—	—	—	—	—	—	—	—
107	—	12	—	25	—	—	—	—
13,049	2	12,610	2	4,967	1	1,699	—	44
13,156	2	12,622	2	4,992	1	1,699	—	44
44,675	100	\$ 42,769	100	\$ 32,920	100	\$ 27,491	100	\$ 24,410

---

\*See Table 12 in this section of the filing for loan portfolio balances. Values of less than 50 basis points are rounded down to zero.

Management believes, based on information presently available, that it has adequately provided for loan and lease losses at December 31, 2018.

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

Table of Contents

## Asset Quality

## Classified and Special Mention Loans

The Bank applies credit quality indicators, or “ratings,” to individual loans based on internal Bank policies. Such internal policies are informed by regulatory standards. Loans rated “Loss,” “Doubtful,” “Substandard,” and PCI-Sub are considered “Classified.” Loans rated “Special Mention” or PCI-1 are considered Special Mention. The Bank’s Classified and Special Mention loans decreased \$5 million during 2018, primarily due to the payoffs and paydowns of Special Mention loans during the period.

See Footnote 4 “Loans and Allowance for Loan and Lease Losses” of Part II Item 8 “Financial Statements and Supplementary Data” for additional discussion regarding Classified and Special mention loans.

Table 16 — Classified and Special Mention Loans

Years Ended December 31, (in thousands)	2018	2017	2016	2015	2014
Loss	\$ —	\$ —	\$ —	\$ —	\$ —
Doubtful	—	—	—	—	—
Substandard	19,860	21,202	21,412	27,833	39,999
Purchased Credit Impaired - Substandard	1,559	1,771	2,366	—	—
Total Classified Loans	21,419	22,973	23,778	27,833	39,999
Special Mention	21,205	23,813	30,702	31,312	36,268
Purchased Credit Impaired - Group 1	1,121	1,833	7,908	12,543	17,490
Total Special Mention Loans	22,326	25,646	38,610	43,855	53,758
Total Classified and Special Mention Loans	\$ 43,745	\$ 48,619	\$ 62,388	\$ 71,688	\$ 93,757

## Nonperforming Loans

Nonperforming loans include loans on nonaccrual status and loans past due 90-days-or-more and still accruing. Impaired loans that are not placed on nonaccrual status are not included as nonperforming loans. The nonperforming loan category included TDRs totaling approximately \$8 million and \$6 million at December 31, 2018 and 2017.



Generally, all nonperforming loans are considered impaired.

Nonperforming loans to total loans increased to 0.39% at December 31, 2018 from 0.38% at December 31, 2017, as the total balance of nonperforming loans increased by \$1 million, or 7%, while total loans increased \$134 million, or 3% during 2018.

Table of Contents

Table 17 — Nonperforming Loans and Nonperforming Assets Summary

(in thousands)	2018	2017	2016	2015	2014					
Loans on nonaccrual status*	\$ 15,993	\$ 14,118	\$ 15,892	\$ 21,712	\$ 23,337					
Loans past due 90-days-or-more and still on accrual**	145	956	167	224	322					
Total nonperforming loans	16,138	15,074	16,059	21,936	23,659					
Other real estate owned	160	115	1,391	1,220	11,243					
Total nonperforming assets	\$ 16,298	\$ 15,189	\$ 17,450	\$ 23,156	\$ 34,902					
Credit Quality Ratios - Total Company:										
Nonperforming loans to total loans	0.39	%	0.38	%	0.42	%	0.66	%	0.78	%
Nonperforming assets to total loans (including OREO)	0.39		0.38		0.46		0.70		1.14	
Nonperforming assets to total assets	0.31		0.30		0.36		0.55		0.93	
Credit Quality Ratios - Core Bank:										
Nonperforming loans to total loans	0.40	%	0.36	%	0.42	%	0.66	%	0.78	%
Nonperforming assets to total loans (including OREO)	0.40		0.36		0.46		0.70		1.15	
Nonperforming assets to total assets	0.32		0.28		0.36		0.55		0.93	

\*Loans on nonaccrual status include impaired loans. See Footnote 4 “Loans and Allowance for Loan and Lease Losses” of Part II Item 8 “Financial Statements and Supplementary Data” for additional discussion regarding impaired loans.

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

Approximately \$13 million, or 80%, of the Bank’s total nonperforming loans at December 31, 2018, compared to \$11 million, or 71%, as of December 31, 2017, were concentrated in the residential real estate and HELOC categories, with the underlying collateral predominantly located in the Bank’s primary market area of Kentucky.

Approximately \$2 million, or 14%, of the Bank’s total nonperforming loans at December 31, 2018, compared to \$3 million, or 22%, at December 31, 2017 were concentrated in the CRE and C&D portfolios. While CRE is the primary collateral for such loans, the Bank also obtains in many cases, at the time of origination, personal guarantees from the principal borrowers and/or secured liens on the guarantors’ primary residences.

Table 18 — Nonperforming Loan Composition

	2018		2017		2016		2015		2014	
	Balance	Percent of Total	Balance	Percent of Total	Balance	Percent of Total	Balance	Percent of Total	Balance	Percent of Total
Ended December 31, (thousands)										
Commercial real estate:										
Commercial	\$ 10,800	1.19 %	\$ 9,230	1.00 %	\$ 10,955	1.10 %	\$ 13,197	1.22 %	\$ 11,225	1.00 %
Commercial - independent owner	382	0.40	—	—	—	—	—	—	—	—
Commercial - state	669	0.28	257	0.13	852	0.54	935	0.80	2,352	2.44
Commercial - construction & equipment	2,318	0.19	3,247	0.27	2,725	0.26	4,165	0.50	6,151	0.80
Commercial - equipment	—	—	67	0.04	77	0.06	1,589	2.39	1,990	5.17
Commercial - equipment & material	630	0.15	—	—	154	0.06	194	0.08	169	0.11
Commercial - equipment & material	—	—	—	—	—	—	—	—	—	—
Commercial - equipment & material	1,095	0.33	1,217	0.35	1,069	0.31	1,793	0.62	1,678	0.68
Commercial - equipment & material	—	—	—	—	—	—	—	—	—	—
Commercial - equipment & material	—	—	—	—	—	—	—	—	—	—
Commercial - equipment & material	75	0.12	68	0.10	—	—	—	—	—	—
Commercial - equipment & material	37	0.08	51	0.25	145	0.73	63	0.53	94	0.91
Commercial - equipment & material	16,006	0.45	14,137	0.41	15,977	0.50	21,936	0.75	23,659	0.87
Commercial - equipment & material	—	—	—	—	—	—	—	—	—	—
Commercial - equipment & material	16,006	0.40	14,137	0.36	15,977	0.42	21,936	0.66	23,659	0.78

Refund										
ions:										
Advances	—	—	—	—	—	—	—	—	—	—
TRS	4	0.03	—	—	—	—	—	—	—	—
ublic										
t										
ions	128	0.14	937	1.40	82	0.25	—	—	—	—
Republic										
ssing										
o	132	0.13	937	1.19	82	0.21	—	—	—	—
performing	\$ 16,138	0.39	\$ 15,074	0.38	\$ 16,059	0.42	\$ 21,936	0.66	\$ 23,659	0.78

Table of Contents

Table 19 — Stratification of Nonperforming Loans

December 31, 2018 (dollars in thousands)	Number of Nonperforming Loans and Recorded Investment						Total Balance	
	No.	Balance ≤ \$100	No.	Balance > \$100 & ≤ \$500	No.	Balance > \$500		
Traditional Banking:								
Residential real estate:								
Owner occupied	108	\$ 4,859	11	\$ 2,401	3	\$ 3,540	122	\$ 10,800
Owner occupied - correspondent	—	—	1	382	—	—	1	382
Nonowner occupied	4	169	—	—	1	500	5	669
Commercial real estate	5	201	1	397	2	1,720	8	2,318
Construction & land development	—	—	—	—	—	—	—	—
Commercial & industrial	2	59	2	571	—	—	4	630
Lease financing receivables	—	—	—	—	—	—	—	—
Home equity	19	417	4	678	—	—	23	1,095
Consumer:								
Credit cards	—	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—	—
Automobile loans	5	75	—	—	—	—	5	75
Other consumer	14	37	—	—	—	—	14	37
Total Traditional Banking	157	5,817	19	4,429	6	5,760	182	16,006
Warehouse lines of credit	—	—	—	—	—	—	—	—
Total Core Banking	157	5,817	19	4,429	6	5,760	182	16,006
Republic Processing Group:								
Tax Refund Solutions:								
Easy Advances	—	—	—	—	—	—	—	—
Other TRS loans	6	4	—	—	—	—	6	4
Republic Credit Solutions	960	128	—	—	—	—	960	128
Total Republic Processing Group	966	132	—	—	—	—	966	132
Total	1,123	\$ 5,949	19	\$ 4,429	6	\$ 5,760	1,148	\$ 16,138

## Number of Nonperforming Loans and Recorded Investment

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

Interest income that would have been recorded if nonaccrual loans were on a current basis in accordance with their original terms was \$852,000, \$734,000 and \$888,000 in 2018, 2017 and 2016.



Table of Contents

Based on the Bank's review as of December 31, 2018, management believes that its reserves are adequate to absorb probable losses on all nonperforming credits.

Table 20 — Rollforward of Nonperforming Loan

Years Ended December 31, (in thousands)	2018	2017	2016	2015	2014
Nonperforming loans at the beginning of the period	\$ 15,074	\$ 16,059	\$ 21,936	\$ 23,659	\$ 21,078
Loans added to nonperforming status during the period that remained nonperforming at the end of the period	8,129	7,204	3,784	7,861	15,657
Loans removed from nonperforming status during the period that were nonperforming at the beginning of the period (see table below)	(5,079)	(8,196)	(8,086)	(8,505)	(12,060)
Principal balance paydowns of loans nonperforming at both period ends	(1,175)	(782)	(1,742)	(1,079)	(1,016)
Net change in principal balance of other loans nonperforming at both period ends*	(811)	789	167	—	—
Nonperforming loans at the end of the period	\$ 16,138	\$ 15,074	\$ 16,059	\$ 21,936	\$ 23,659

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

Table 21 — Detail of Loans Removed from Nonperforming Status

Years Ended December 31, (in thousands)	2018	2017	2016	2015	2014
Loans charged-off	\$ (46)	\$ (287)	\$ (329)	\$ (210)	\$ (119)
Loans transferred to OREO	(569)	(574)	(2,986)	(2,034)	(4,365)
Loans refinanced at other institutions	(4,043)	(3,841)	(4,771)	(4,026)	(5,034)
Loans returned to accrual status	(421)	(3,494)	—	(2,235)	(2,542)
Total loans removed from nonperforming status during the period that were nonperforming at the beginning of the period	\$ (5,079)	\$ (8,196)	\$ (8,086)	\$ (8,505)	\$ (12,060)



## Delinquent Loans

Delinquent loans to total loans increased to 0.38% at December 31, 2018, from 0.35% at December 31, 2017, as the total balance of delinquent loans increased by \$2 million, or 13%. With the exception of smaller-balance consumer loans, all loans past due 90-days-or-more as of December 31, 2018 and 2017 were on nonaccrual status.

Core Banking delinquent loans to total loans increased one basis point to 0.22% during 2018, while RPG delinquent loans to total loans remained at approximately 7% during 2018.

Table of Contents

Table 22 — Delinquent Loan Composition\*

	2018		2017		2016		2015		2014	
	Balance	Percent of Total	Balance	Percent of Total	Balance	Percent of Total	Balance	Percent of Total	Balance	Percent of Total
Years Ended December 31, (thousands)										
Additional financing:										
Residential mortgage:										
Consumer:										
Occupied	\$ 5,525	0.61 %	\$ 4,782	0.52 %	\$ 4,554	0.46 %	\$ 6,882	0.64 %	\$ 8,008	0.72 %
Consumer:										
Occupied - respondent	—	—	—	—	—	—	—	—	—	—
Owner-occupied	1,008	0.42	146	0.07	46	0.03	53	0.05	776	0.80
Commercial										
Residential	1,099	0.09	1,727	0.14	425	0.04	1,111	0.13	2,972	0.37
Construction & development	—	—	67	0.04	—	—	1,500	2.26	1,990	5.17
Commercial & industrial	25	0.01	15	0.00	342	0.13	299	0.13	211	0.13
Lease financing										
Receivables	—	—	—	—	—	—	—	—	—	—
Home equity	784	0.24	1,221	0.35	970	0.28	1,393	0.48	1,362	0.55
Consumer:										
Credit cards	129	0.68	74	0.46	18	0.13	12	0.11	134	1.40
overdrafts	230	20.87	233	23.92	161	20.05	133	19.42	178	15.08
Automobile										
Leases	28	0.04	60	0.09	—	—	1	0.02	19	0.59
Consumer:										
Commercial	47	0.10	135	0.66	305	1.54	101	0.84	60	0.58
Additional financing:										
Warehouse	8,875	0.25	8,460	0.25	6,821	0.21	11,485	0.39	15,710	0.58
Lines of credit	—	—	—	—	—	—	—	—	—	—
Total Core Financing	8,875	0.22	8,460	0.21	6,821	0.18	11,485	0.35	15,710	0.52

Public Processing Group:											
Refund Provisions:											
Loan Advances under TRS	—	—	—	—	—	—	—	—	—	—	—
Loans	10	0.07	—	—	—	—	—	—	—	—	—
Public Credit Provisions	7,077	7.97	5,641	8.43	2,137	6.63	246	3.41	141	3.44	
Total Republic Processing Group	7,087	6.91	5,641	7.18	2,137	5.49	246	3.23	141	3.23	
Total Delinquent Loans	\$ 15,962	0.38	\$ 14,101	0.35	\$ 8,958	0.24	\$ 11,731	0.35	\$ 15,851	0.52	

---

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

Table of Contents

Table 23 — Rollforward of Delinquent Loans

Years Ended December 31, (in thousands)	2018	2017	2016	2015	2014
Delinquent loans at the beginning of the period	\$ 14,101	\$ 8,958	\$ 11,731	\$ 15,851	\$ 16,223
Loans added to delinquency status during the period and remained in delinquency status at the end of the period	7,092	7,015	5,399	6,942	13,750
Loans removed from delinquency status during the period that were in delinquency status at the beginning of the period (see table below)	(6,332)	(5,181)	(10,205)	(10,969)	(14,079)
Principal balance paydowns of loans delinquent at both period ends	(334)	(170)	(94)	(207)	(245)
Net change in principal balance of other loans delinquent at both period ends*	1,435	3,479	2,127	114	202
Delinquent loans at the end of period	\$ 15,962	\$ 14,101	\$ 8,958	\$ 11,731	\$ 15,851

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

Table 24 — Detail of Loans Removed from Delinquent Status

Years Ended December 31, (in thousands)	2018	2017	2016	2015	2014
Loans charged-off	\$ (50)	\$ (114)	\$ (150)	\$ (302)	\$ (159)
Loans transferred to OREO	(502)	(526)	(2,805)	(2,207)	(4,889)
Loans refinanced at other institutions	(3,523)	(2,529)	(3,926)	(4,072)	(5,617)
Loans paid current	(2,257)	(2,012)	(3,324)	(4,388)	(3,414)
Total loans removed from delinquency status during the period that were in delinquency status at the beginning of the period	\$ (6,332)	\$ (5,181)	\$ (10,205)	\$ (10,969)	\$ (14,079)

## Impaired Loans and Troubled Debt Restructurings

The Bank's policy is to charge-off all or that portion of its recorded investment in a collateral-dependent impaired credit upon a determination that it is probable the full amount of contractual principal and interest will not be collected. Impaired loans totaled \$41 million at December 31, 2018 compared to \$46 million at December 31, 2017.

A TDR is the situation where, due to a borrower's financial difficulties, the Bank grants a concession to the borrower that the Bank would not otherwise have considered. The majority of the Bank's TDRs involve a restructuring of loan terms such as a temporary reduction in the payment amount to require only interest and escrow (if required), reducing the loan's interest rate and/or extending the maturity date of the debt. Nonaccrual loans modified as TDRs remain on nonaccrual status and continue to be reported as nonperforming loans. Accruing loans modified as TDRs are evaluated for nonaccrual status based on a current evaluation of the borrower's financial condition and ability and willingness to service the modified debt. As of December 31, 2018, the Bank had \$33 million in TDRs, of which \$8 million were also on nonaccrual status. As of December 31, 2017, the Bank had \$35 million in TDRs, of which \$6 million were also on nonaccrual status.

Table 25 — Impaired Loan Composition

Years Ended December 31, (in thousands)	2018	2017	2016	2015	2014
Troubled debt restructurings	\$ 32,863	\$ 34,637	\$ 41,586	\$ 49,580	\$ 65,266
Impaired loans (which are not TDRs)	8,572	10,979	11,098	16,543	20,914
Total recorded investment in impaired loans	\$ 41,435	\$ 45,616	\$ 52,684	\$ 66,123	\$ 86,180

See Footnote 4 "Loans and Allowance for Loan and Lease Losses" of Part II Item 8 "Financial Statements and Supplementary Data" for additional discussion regarding impaired loans and TDRs.

Table of Contents

## Other Real Estate Owned

Table 26 — Stratification of Other Real Estate Owned

December 31, 2018 (dollars in thousands)	Number of OREO Properties and Carrying Value Range							Total Carrying Value
	No.	Carrying Value <= \$100	No.	Carrying Value > \$100 & <= \$500	No.	Carrying Value > \$500	No.	
Residential real estate	3	\$ 160	—	\$ —	—	\$ —	3	\$ 160
Total	3	\$ 160	—	\$ —	—	\$ —	3	\$ 160

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

Table 27 — Rollforward of Other Real Estate Owned Activity

Years Ended December 31, (in thousands)	2018	2017	2016	2015	2014
OREO at beginning of period	\$ 115	\$ 1,391	\$ 1,220	\$ 11,243	\$ 17,102
Transfer from loans to OREO	662	841	4,778	2,938	7,333
Proceeds from sale*	(1,346)	(2,793)	(4,851)	(12,660)	(10,974)
Net gain on sale	729	831	514	956	883
Writedowns	—	(155)	(270)	(1,257)	(3,101)

OREO at end of period	\$ 160	\$ 115	\$ 1,391	\$ 1,220	\$ 11,243
-----------------------	--------	--------	----------	----------	-----------

---

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

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

#### Bank Owned Life Insurance

BOLI offers tax advantaged noninterest income to help the Bank offset employee benefits expenses. The Company carried \$65 million and \$63 million of BOLI on its consolidated balance sheet at December 31, 2018 and 2017. The Company acquired \$7 million of BOLI during 2016 in association with its May 17, 2016 Cornerstone acquisition.

Table of Contents

Table 28 — Rollforward of Bank Owned Life Insurance

Years ended December 31, (in thousands)	2018	2017	2016	2015	2014
BOLI at beginning of period	\$ 63,356	\$ 61,794	\$ 52,817	\$ 51,415	\$ 25,086
BOLI acquired	—	—	7,461	—	25,000
Increase in cash surrender value	1,527	1,562	1,516	1,402	1,329
BOLI at end of period	\$ 64,883	\$ 63,356	\$ 61,794	\$ 52,817	\$ 51,415

## Deposits

Table 29 — Deposit Composition

Years Ended December 31, (in thousands)	2018	2017	2016	2015	2014
<b>Core Bank:</b>					
Demand	\$ 937,402	\$ 944,812	\$ 872,709	\$ 783,054	\$ 691,787
Money market accounts	717,954	546,998	541,622	501,059	471,339
Savings	187,868	182,800	164,410	117,408	91,625
Individual retirement accounts(1)	53,524	47,982	42,642	36,016	28,771
Time deposits, \$250 and over(1)	84,104	77,891	37,200	42,775	56,556
Other certificates of deposit(1)	239,324	189,661	140,894	127,878	104,010
Reciprocal money market and time deposits(1)(2)	217,153	346,613	221,113	174,653	62,176
Brokered deposits(1)	9,394	72,718	168,150	69,771	49,349
<b>Total Core Bank interest-bearing deposits</b>	<b>2,446,723</b>	<b>2,409,475</b>	<b>2,188,740</b>	<b>1,852,614</b>	<b>1,555,613</b>
<b>Total Core Bank noninterest-bearing deposits</b>	<b>971,422</b>	<b>988,537</b>	<b>943,329</b>	<b>606,154</b>	<b>494,244</b>
<b>Total Core Bank deposits</b>	<b>3,418,145</b>	<b>3,398,012</b>	<b>3,132,069</b>	<b>2,458,768</b>	<b>2,049,857</b>
<b>Republic Processing Group:</b>					
Money market accounts	5,453	1,641	—	—	—
<b>Total RPG interest-bearing deposits</b>	<b>5,453</b>	<b>1,641</b>	<b>—</b>	<b>—</b>	<b>—</b>



Brokered prepaid card deposits	4,350	1,509	145	1,540	—
Other noninterest-bearing deposits	28,197	31,996	28,478	27,169	8,325
Total RPG noninterest-bearing deposits	32,547	33,505	28,623	28,709	8,325
Total RPG deposits	38,000	35,146	28,623	28,709	8,325
Total deposits	\$ 3,456,145	\$ 3,433,158	\$ 3,160,692	\$ 2,487,477	\$ 2,058,182

(1) Represents a time deposit.

(2) Prior to June 2018, reciprocal deposits were classified as “brokered deposits.” The Economic Growth, Regulatory Relief, and Consumer Protection Act, enacted in May 2018, provides that most reciprocal deposits are no longer classified as brokered deposits if the Bank meets certain regulatory criteria.

Total Company deposits increased \$23 million, or 1%, from December 31, 2017 to \$3.5 billion at December 31, 2018.

Core Bank deposits increased \$20 million during 2018, with generally lower-cost deposits such as noninterest-bearing, savings, money markets, and time deposits growing \$185 million, in total. Largely offsetting this growth were reductions in generally higher-costing reciprocal and brokered deposits of \$129 million and \$63 million. A payoff of \$50 million in wholesale-brokered money market deposits in April 2018 drove the decline in brokered deposits, while competitive market conditions generally drove the decrease in reciprocal deposits, which typically carry larger balances and tend to be more interest rate sensitive.

Table of Contents

Table 30 — Average Deposits

2018		2017		2016		2015		2014
Average	Average	Average	Average	Average	Average	Average	Average	Average
Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Balance
\$ 1,120,633	0.39	% \$ 1,095,276	0.22	% \$ 962,473	0.10	% \$ 840,815	0.07	% \$ 750,000
639,560	0.63	554,336	0.29	546,360	0.20	485,508	0.16	477,000
348,670	1.63	266,332	1.19	221,634	1.00	200,863	0.96	174,000
289,441	0.78	314,788	0.68	289,612	0.43	132,623	0.21	34,500
47,081	1.50	36,931	1.25	38,513	1.45	54,405	1.57	72,800
2,445,385	0.70	2,267,663	0.43	2,058,592	0.29	1,714,214	0.26	1,510,000
1,147,432	—	1,073,181	—	894,049	—	651,275	—	553,000
\$ 3,592,817	0.47	\$ 3,340,844	0.29	\$ 2,952,641	0.21	\$ 2,365,489	0.19	\$ 2,000,000

Table 31 — Maturities of Time Deposits Greater than \$100,000 at December 31, 2018

Maturity (dollars in thousands)	Principal	Weighted Average Rate
Three months or less	\$ 13,037	0.98 %
Over three months through six months	9,728	1.07
Over six months through 12 months	55,348	1.72
Over 12 months	124,183	2.28
Total	\$ 202,296	1.99

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

SSUARs are collateralized by securities and are treated as financings; accordingly, the securities involved with the agreements are recorded as assets and are held by a safekeeping agent and the obligations to repurchase the securities are reflected as liabilities. All securities underlying the agreements are under the Bank's control.

SSUARs totaled \$183 million and \$204 million at December 31, 2018 and 2017. The substantial majority of SSUARs are indexed to immediately repricing indices such as the FFTR.

Table 32 — Securities Sold Under Agreements to Repurchase

As of and for the Years Ended December 31, (dollars in thousands)	2018	2017	2016	2015	2014
Outstanding balance at end of period	\$ 182,990	\$ 204,021	\$ 173,473	\$ 395,433	\$ 356,108
Weighted average interest rate at period end	0.83 %	0.31 %	0.05 %	0.02 %	0.04 %
Average outstanding balance during the period	\$ 225,145	\$ 219,515	\$ 280,296	\$ 379,477	\$ 296,196
Average interest rate during the period	0.50 %	0.23 %	0.02 %	0.02 %	0.04 %
Maximum outstanding at any month end	\$ 260,147	\$ 293,944	\$ 367,373	\$ 442,981	\$ 408,891

#### Federal Home Loan Bank Advances

FHLB advances increased \$73 million, or 10%, from December 31, 2017 to \$810 million at December 31, 2018, with the Bank reducing its term advances by \$107 million and increasing its overnight advances by \$180 million during 2018. During 2018, the Bank obtained \$20 million in additional term advances with a weighted average rate of 2.96% and a weighted average term of 3.0 years, while \$127 million of term advances with a weighted average rate of 1.61% matured during the period. The Bank held \$510 million in overnight advances at a rate of 2.45% as of December 31, 2018, compared to \$330 million in overnight advances at a rate of 1.42% at December 31, 2017.

The Bank chose to increase its overnight advances and reduce its term advances during 2018 in order to take advantage of the lower borrowing costs associated with overnight borrowings. The Bank was able to implement this strategy due to its projected favorable

Table of Contents

risk position in the event of rising interest rates. See the section titled “Asset/Liability Management and Market Risk” in this section of the filing for additional discussion regarding the Bank’s interest-rate sensitivity.

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

Table 33 — Federal Home Loan Bank Advances

As of and for the Years Ended December 31, (dollars in thousands)	2018	2017	2016	2015	2014
Outstanding balance at end of period	\$ 810,000	\$ 737,500	\$ 802,500	\$ 699,500	\$ 707,500
Weighted average interest rate at period end	2.26 %	1.61 %	1.35 %	1.77 %	1.60 %
Average outstanding balance during the period	\$ 557,090	\$ 563,552	\$ 583,591	\$ 599,630	\$ 584,516
Average interest rate during the period	1.88 %	1.57 %	1.87 %	1.99 %	2.24 %
Maximum outstanding at any month end	\$ 967,500	\$ 1,002,500	\$ 987,500	\$ 916,500	\$ 707,500

## Interest Rate Swaps

## Interest Rate Swaps Used as Cash Flow Hedges

The Bank entered into two interest rate swap agreements during 2013 as part of its interest rate risk management strategy. The Bank designated the swaps as cash flow hedges intended to reduce the variability in cash flows attributable to either FHLB advances tied to the 3-month LIBOR or the overall changes in cash flows on certain money market deposit accounts tied to 1-month LIBOR. The counterparty for both swaps met the Bank’s credit

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

#### Non-hedge Interest Rate Swaps

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

See Footnote 7 "Interest Rate Swaps" of Part II Item 8 "Financial Statements and Supplementary Data" for further information regarding the Bank's interest rate swaps.

#### Liquidity

The Bank had a loan to deposit ratio (excluding brokered deposits) of 120% at December 31, 2018 and 120% at December 31, 2017. The December 31, 2017 ratio was recasted for the Economic Growth, Regulatory Relief, and Consumer Protection Act enacted in May 2018, which provides that most reciprocal deposits are no longer classified as brokered deposits if the Bank meets certain regulatory criteria. At December 31, 2018 and December 31, 2017, the Company had cash and cash equivalents on-hand of \$351 million and \$299 million. In addition, the Bank had available borrowing capacity of \$254 million and \$347 million from the FHLB at December 31, 2018 and December 31, 2017. In addition to its borrowing capacity with the FHLB, the Bank's liquidity resources included unencumbered securities of \$300 million and \$326 million as of December 31, 2018 and December 31, 2017 and unsecured lines of credit totaling \$125 million available through various other financial institutions as of December 31, 2018 and December 31, 2017.

The Bank maintains sufficient liquidity to fund routine loan demand and routine deposit withdrawal activity. Liquidity is managed by maintaining sufficient liquid assets in the form of investment securities. Funding and cash flows can also be realized by the sale of

## Table of Contents

AFS debt securities, principal paydowns on loans and mortgage backed securities and proceeds realized from loans held for sale. The Bank's liquidity is impacted by its ability to sell certain investment securities, which is limited due to the level of investment securities that are needed to secure public deposits, securities sold under agreements to repurchase, FHLB borrowings, and for other purposes, as required by law. At December 31, 2018 and December 31, 2017, these pledged investment securities had a fair value of \$241 million and \$263 million. Republic's banking centers and its websites, [www.republicbank.com](http://www.republicbank.com) and [www.mymemorybank.com](http://www.mymemorybank.com), provide access to retail deposit markets. These retail deposit products, if offered at attractive rates, have historically been a source of additional funding when needed. If the Bank were to lose a significant funding source, such as a few major depositors, or if any of its lines of credit were canceled, or if the Bank cannot obtain brokered deposits, the Bank would be compelled to offer market leading deposit interest rates to meet its funding and liquidity needs.

At December 31, 2018, the Bank had approximately \$979 million in deposits from 151 large non-sweep deposit relationships, including reciprocal deposits, where the individual relationship exceeded \$2 million. The 20 largest non-sweep deposit relationships represented approximately \$519 million, or 15%, of the Company's total deposit balances at December 31, 2018. These accounts do not require collateral; therefore, cash from these accounts can generally be utilized to fund the loan portfolio. If any of these balances were moved from the Bank, the Bank would likely utilize overnight borrowing lines in the short-term to replace the balances. On a longer-term basis, the Bank would likely utilize wholesale-brokered deposits to replace withdrawn balances, or alternatively, higher-cost internet-sourced deposits. Based on past experience, utilizing brokered deposits and internet-sourced deposits, the Bank believes it can quickly obtain these types of deposits if needed. The overall cost of gathering these types of deposits, however, could be substantially higher than the Traditional Bank deposits they replace, potentially decreasing the Bank's earnings.

Due to the its historical success of growing loans and its overall use of non-core funding sources, the Bank has approached, and periodically during each quarter, has fallen short of its minimum internal policy limits for liquidity management, as set forth by the Bank's Board of Directors. As of December 31, 2018, the Bank was in compliance with all Board-approved liquidity policies, however, the Bank will likely continue to maintain its liquidity levels near the Bank's Board-approved minimums for the foreseeable future. It is also likely the Bank, as it manages its liquidity levels in order to maximize its overall earnings, will continue to fall short of these minimums on occasion in the future, particularly during the first quarter of each year when short-term Easy Advance loans are originated.

## Capital

### Table 34 — Capital

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

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

(dollars in thousands, except per share data)	As of and for the Years Ended December 31,										
	2018		2017		2016		2015		2014		
Stockholders' equity	\$	689,934	\$	632,424	\$	604,406	\$	576,547	\$	558,731	
Book value per share		33.03		30.33		28.97		27.59		26.80	
Tangible book value per share*		31.98		29.27		27.89		26.87		26.08	
Dividends declared per share - Class A Common Stock		0.968		0.869		0.825		0.781		0.737	
Dividends declared per share - Class B Common Stock		0.880		0.790		0.750		0.710		0.670	
Average stockholders' equity to average total assets		13.00	%	13.02	%	13.32	%	14.43	%	15.66	%
Total risk-based capital		16.80		16.04		16.37		20.58		22.17	
Common equity tier 1 capital		14.92		14.15		14.59		18.39		NA	
Tier 1 risk-based capital		15.81		15.06		15.55		19.69		21.28	
Tier 1 leverage capital		14.11		13.21		13.54		14.82		15.92	
Dividend payout ratio		26		39		37		46		53	
Dividend yield		2.50		2.29		2.09		2.96		2.98	

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

NA – Not applicable.

## Table of Contents

Total stockholders' equity increased from \$632 million at December 31, 2017 to \$690 million at December 31, 2018. The increase in stockholders' equity was primarily attributable to net income earned during 2018 reduced by cash dividends declared and common stock repurchases.

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

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

**Dividend Restrictions** — The Parent Company's principal source of funds for dividend payments are dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid to the Parent Company by the Bank without prior approval of the respective states' banking regulators. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years. At December 31, 2018, the Bank could, without prior approval, declare dividends of approximately \$111 million.

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

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



Republic continues to exceed the regulatory requirements for Total Risk Based Capital, Common Equity Tier I Risk Based, Tier I Risk Based Capital and Tier I Leverage Capital. Republic and the Bank intend to maintain a capital position that meets or exceeds the “well-capitalized” requirements as defined by the FRB and the FDIC, in addition to the Capital Conservation Buffer. Republic’s average stockholders’ equity to average assets ratio was 13.00% at December 31, 2018 compared to 13.02% at December 31, 2017. Formal measurements of the capital ratios for Republic and the Bank are performed by the Company at each quarter end.

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

The subordinated note and related interest expense are included in Republic’s consolidated financial statements. The subordinated note paid a fixed interest rate of 6.015% through September 30, 2015 and adjusted to 3-month LIBOR plus 1.42% on a quarterly basis thereafter. The subordinated note matures on December 31, 2035 and is redeemable at the Company’s option on a quarterly basis. The Company chose not to redeem the subordinated note on January 1, 2019, and is currently carrying the note at a cost of 3-LIBOR plus 1.42%, or 4.22%.

Table of Contents

## Off Balance Sheet Items

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

Table 35 — Off Balance Sheet Items

	Maturity by Period				Total
	Less than one year	Greater than one year to three years	Greater than three years to five years	Greater than five years	
December 31, 2018 (in thousands)					
Unused warehouse lines of credit	\$ 591,305	\$ —	\$ —	\$ —	\$ 591,305
Unused home equity lines of credit	30,257	30,896	64,778	251,346	377,277
Unused loan commitments - other	546,259	100,556	11,399	62,431	720,645
Standby letters of credit	9,760	569	313	—	10,642
FHLB letter of credit	10,000	—	—	—	10,000
Total off balance sheet items	\$ 1,187,581	\$ 132,021	\$ 76,490	\$ 313,777	\$ 1,709,869

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a client to a third party. The terms and risk of loss involved in issuing standby letters of credit are similar to those involved in issuing loan commitments and extending credit. Commitments outstanding under standby letters of credit totaled \$11 million and \$12 million at December 31, 2018 and 2017. In addition to credit risk, the Bank also has liquidity risk associated with standby letters of credit because funding for these obligations could be required immediately. The Bank does not deem this risk to be material.

At December 31, 2018, the Bank had a \$10 million letter of credit from the FHLB issued on behalf of a Bank client. This letter of credit was used as credit enhancements for client bond offerings and reduced the Bank's available borrowing line at the FHLB. The Bank uses a blanket pledge of eligible real estate loans to secure these letters of

credit.

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

#### Aggregate Contractual Obligations

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

89

---

Table of Contents

Table 36 — Aggregate Contractual Obligations

December 31, 2018 (in thousands)	Maturity by Period				Total
	Less than one year	Greater than one year to three years	Greater than three years to five years	Greater than five years	
Deposits without a stated maturity*	\$ 2,035,792	\$ —	\$ —	\$ —	\$ 2,035,792
Time deposits (including brokered CDs)*	178,209	144,539	94,234	—	416,982
Federal Home Loan Bank advances*	620,486	150,000	40,000	—	810,486
Subordinated note*	—	—	—	41,240	41,240
Securities sold under agreements to repurchase*	182,990	—	—	—	182,990
Lease commitments	7,293	13,616	9,909	18,487	49,305
Other commitments**	12,716	10,592	4,669	1,473	29,450
<b>Total contractual obligations</b>	<b>\$ 3,037,486</b>	<b>\$ 318,747</b>	<b>\$ 148,812</b>	<b>\$ 61,200</b>	<b>\$ 3,566,245</b>

\*Includes accrued interest.

\*\*Primarily includes dividends declared on common stock, the Bank's SERP, and the Bank's significant long-term vendor contracts.

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

See Footnote 10 "Federal Home Loan Bank Advances" of Part II Item 8 "Financial Statements and Supplementary Data" for further information regarding the Bank's FHLB advances.

See Footnote 11 "Subordinated Note" of Part II Item 8 "Financial Statements and Supplementary Data" for further information regarding the Bank's subordinated note.

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

See Footnote 17 “Benefit Plans” of Part II Item 8 “Financial Statements and Supplementary Data” for further information regarding the Bank’s SERP commitments.

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

See Footnote 20 “Transactions with Related Parties and their Affiliates” of Part II Item 8 “Financial Statements and Supplementary Data” for further information regarding the Bank’s lease commitments.

## Table of Contents

### Asset/Liability Management and Market Risk

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

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

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

As of December 31, 2018, a dynamic simulation model was run for interest rate changes from "Down 100" basis points to "Up 400" basis points. Since December 2015, the Federal Open Market Committee has incrementally raised the FFTR, with further guidance suggesting that increases to the FFTR were possible in 2019.

The following table illustrates the Bank's projected percent change from its Base net interest income for the next 12 months as of December 31, 2018 and 2017 based on instantaneous movements in interest rates from Down 100 to Up 400 basis points equally across all points on the yield curve. The Bank's dynamic earnings simulation model excludes

Traditional Bank loan fees.

Table 37 — Bank Interest Rate Sensitivity at December 31, 2018 and 2017

	Change in Rates									
	(100) Basis Points		+100 Basis Points		+200 Basis Points		+300 Basis Points		+400 Basis Points	
% Change from base net interest income at December 31, 2018	(2.9)	%	0.9	%	0.3	%	(0.9)	%	(1.7)	%
% Change from base net interest income at December 31, 2017	(4.6)	%	3.8	%	4.8	%	5.4	%	5.4	%

The Bank's dynamic simulation model run for December 2018 projected modest improvement in the Bank's net interest income over the next 12 months relative to the Base case for the Up 100 through the Up 200 scenarios, while the prior year's simulation reflected greater improvement than December 2018 for the Up 100 through the Up 200 scenarios, as well as improvement in the Up 300 and Up 400 scenarios. A 100-basis point increase in the FFTR from December 31, 2017 to December 31, 2018, and a continued flattening of the yield curve over the same period were both drivers of the diminished projections reflected in the December 2018 scenarios. Additionally, conservative revisions to the Bank's beta assumptions concerning its non-maturing deposits in response to deposit pricing trends contributed to the diminished 2018 projections. The Bank's dynamic simulation model run for both December 2018 and 2017 projected a decline in the Bank's net interest income over the next 12 months relative to the Base case for the Down 100 scenario.

Table of Contents

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

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

Item 8. Financial Statements and Supplementary Data.

The following are included in this section:

<u>Management’s Report on Internal Control Over Financial Reporting</u>	93
<u>Report of Independent Registered Public Accounting Firm</u>	94
<u>Consolidated balance sheets — December 31, 2018 and 2017</u>	96
<u>Consolidated statements of income and comprehensive income — years ended December 31, 2018, 2017 and 2016</u>	97
<u>Consolidated statements of stockholders’ equity — years ended December 31, 2018, 2017 and 2016</u>	99
<u>Consolidated statements of cash flows — years ended December 31, 2018, 2017 and 2016</u>	100
<u>Footnotes to consolidated financial statements</u>	101



Table of Contents

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

Management has made its own assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2018, in relation to the criteria described in the report, Internal Control — Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based on its assessment, Management believes that as of December 31, 2018, the Company's internal control was effective in achieving the objectives stated above. Crowe LLP has provided its report on the audited 2018 and 2017 consolidated financial statements and on the effectiveness of the Company's internal control in their report dated March 14, 2019.

Steven E. Trager  
Chairman and Chief Executive Officer

Kevin Sipes  
Chief Financial Officer and Chief Accounting Officer

March 14, 2019

Table of Contents

Crowe LLP

Independent Member Crowe Global

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors of Republic Bancorp, Inc.

Louisville, Kentucky

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Republic Bancorp, Inc. (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting,

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

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

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

Table of Contents

Definition and Limitations of Internal Control Over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

Louisville, Kentucky  
March 14, 2019

Table of Contents

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, (in thousands, except share data)

	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 351,474	\$ 299,351
Available-for-sale debt securities	475,738	524,303
Held-to-maturity debt securities (fair value of \$64,858 in 2018 and \$65,133 in 2017)	65,227	64,227
Equity securities with readily determinable fair value	2,806	2,928
Mortgage loans held for sale, at fair value	8,971	5,761
Consumer loans held for sale, at fair value	—	2,677
Consumer loans held for sale, at the lower of cost or fair value	12,838	8,551
Loans (includes \$1,922 of loans carried at fair value in 2018)	4,148,227	4,014,034
Allowance for loan and lease losses	(44,675)	(42,769)
Loans, net	4,103,552	3,971,265
Federal Home Loan Bank stock, at cost	32,067	32,067
Premises and equipment, net	43,126	42,588
Premises, held for sale	1,694	3,017
Goodwill	16,300	16,300
Other real estate owned	160	115
Bank owned life insurance	64,883	63,356
Other assets and accrued interest receivable	61,568	48,856
<b>TOTAL ASSETS</b>	<b>\$ 5,240,404</b>	<b>\$ 5,085,362</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 1,003,969	\$ 1,022,042
Interest-bearing	2,452,176	2,411,116
Total deposits	3,456,145	3,433,158
Securities sold under agreements to repurchase and other short-term borrowings	182,990	204,021
Federal Home Loan Bank advances	810,000	737,500
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	60,095	37,019
Total liabilities	4,550,470	4,452,938
Commitments and contingent liabilities (Footnote 12)	—	—
<b>STOCKHOLDERS' EQUITY</b>		

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Preferred stock, no par value	—	—
Class A Common Stock, no par value, 30,000,000 shares authorized, 18,675,262 shares (2018) and 18,606,338 shares (2017) issued and outstanding; Class B Common Stock, no par value, 5,000,000 shares authorized, 2,212,487 shares (2018) and 2,242,624 shares (2017) issued and outstanding	4,900	4,902
Additional paid in capital	141,018	139,406
Retained earnings	545,013	487,700
Accumulated other comprehensive (loss) income	(997)	416
Total stockholders' equity	689,934	632,424
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 5,240,404</b>	<b>\$ 5,085,362</b>

See accompanying footnotes to consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENTS OF INCOME

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

	2018	2017	2016
<b>INTEREST INCOME:</b>			
Loans, including fees	\$ 237,621	\$ 205,582	\$ 164,232
Taxable investment securities	11,830	9,404	7,876
Federal Home Loan Bank stock and other	6,730	3,792	1,884
Total interest income	256,181	218,778	173,992
<b>INTEREST EXPENSE:</b>			
Deposits	17,017	9,802	6,058
Securities sold under agreements to repurchase and other short-term borrowings	1,125	502	65
Federal Home Loan Bank advances	10,473	8,860	10,900
Subordinated note	1,508	1,094	915
Total interest expense	30,123	20,258	17,938
<b>NET INTEREST INCOME</b>	<b>226,058</b>	<b>198,520</b>	<b>156,054</b>
Provision for loan and lease losses	31,368	27,704	14,493
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES</b>	<b>194,690</b>	<b>170,816</b>	<b>141,561</b>
<b>NONINTEREST INCOME:</b>			
Service charges on deposit accounts	14,273	13,357	13,176
Net refund transfer fees	20,029	18,500	19,240
Mortgage banking income	4,825	4,642	6,882
Interchange fee income	11,159	9,881	9,009
Program fees	6,225	5,824	3,044
Increase in cash surrender value of bank owned life insurance	1,527	1,562	1,516
Net losses on debt securities	—	(136)	—
Net gains on other real estate owned	729	676	244
Other	4,658	4,108	4,398
Total noninterest income	63,425	58,414	57,509
<b>NONINTEREST EXPENSE:</b>			
Salaries and employee benefits	91,189	82,233	69,882
Occupancy and equipment, net	24,883	24,019	21,586
Communication and transportation	4,785	4,711	4,256



Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Marketing and development	4,432	5,188	3,778
FDIC insurance expense	1,494	1,378	1,780
Bank franchise tax expense	4,951	4,626	4,757
Data processing	9,613	7,748	6,121
Interchange related expense	4,480	3,988	4,140
Supplies	1,444	1,594	1,406
Other real estate owned expense	94	388	503
Legal and professional fees	3,459	2,410	2,556
FHLB advance prepayment penalty	—	—	846
Impairment of premises held for sale	482	1,175	191
Other	12,546	11,386	8,305
Total noninterest expense	163,852	150,844	130,107
INCOME BEFORE INCOME TAX EXPENSE	94,263	78,386	68,963
INCOME TAX EXPENSE	16,411	32,754	23,060
NET INCOME	\$ 77,852	\$ 45,632	\$ 45,903
BASIC EARNINGS PER SHARE:			
Class A Common Stock	\$ 3.76	\$ 2.21	\$ 2.22
Class B Common Stock	3.41	2.01	2.02
DILUTED EARNINGS PER SHARE:			
Class A Common Stock	\$ 3.74	\$ 2.20	\$ 2.22
Class B Common Stock	3.40	2.00	2.01

See accompanying footnotes to consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, (in thousands)

	2018	2017	2016
Net income	\$ 77,852	\$ 45,632	\$ 45,903
<b>OTHER COMPREHENSIVE INCOME</b>			
Change in fair value of derivatives used for cash flow hedges	178	83	(125)
Reclassification amount for net derivative losses realized in income	28	219	332
Change in unrealized (loss) gain on AFS debt securities (2018), debt and equity securities (2017 and 2016)	(1,548)	(1,265)	(2,294)
Adjustment for adoption of ASU 2016-01	(428)	—	—
Reclassification adjustment for net (gain) loss on AFS debt securities recognized in earnings	—	136	—
Change in unrealized gain on AFS debt security for which a portion of OTTI has been recognized in earnings	(20)	298	(9)
Total other comprehensive (loss) income before income tax	(1,790)	(529)	(2,096)
Tax effect	377	258	734
Total other comprehensive (loss) income, net of tax	(1,413)	(271)	(1,362)
<b>COMPREHENSIVE INCOME</b>	<b>\$ 76,439</b>	<b>\$ 45,361</b>	<b>\$ 44,541</b>

See accompanying footnotes to consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2018, 2017 and 2016

(in thousands)	Common Stock		Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Class A Shares Outstanding	Class B Shares Outstanding					
Balance, January 1, 2016	18,652	2,245	\$ 4,915	\$ 136,910	\$ 432,673	\$ 2,049	\$ 576,547
2016 Activity:							
Net income	—	—	—	—	45,903	—	45,903
Net change in accumulated other comprehensive income	—	—	—	—	—	(1,362)	(1,362)
Dividends declared on Common Stock:							
Class A Shares (\$0.825 per share)	—	—	—	—	(15,359)	—	(15,359)
Class B Shares (\$0.75 per share)	—	—	—	—	(1,685)	—	(1,685)
Stock options exercised, net of shares redeemed	4	—	—	80	—	—	80
Repurchase of Class A Common Stock	(43)	—	(9)	(287)	(911)	—	(1,207)
Conversion of Class B to Class A Common Shares	—	—	—	—	—	—	—
Net change in notes receivable on Class A Common Stock	—	—	—	289	—	—	289
Deferred director compensation expense - Class A Common Stock	4	—	—	170	—	—	170
Stock-based awards - Class A Common Stock:	—	—	—	524	—	—	524

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Performance stock units							
Restricted stock	(2)	—	—	258	—	—	258
Stock options	—	—	—	248	—	—	248
Balance, December 31, 2016	18,615	2,245	\$ 4,906	\$ 138,192	\$ 460,621	\$ 687	\$ 604,400
2017 Activity:							
Net income	—	—	—	—	45,632	—	45,632
Net change in accumulated other comprehensive income	—	—	—	—	—	(271)	(271)
Dividends declared on Common Stock: Class A Shares (\$0.869 per share)	—	—	—	—	(16,158)	—	(16,158)
Class B Shares (\$0.79 per share)	—	—	—	—	(1,773)	—	(1,773)
Stock options exercised, net of shares redeemed	4	—	—	68	—	—	68
Repurchase of Class A Common Stock	(26)	—	(4)	(422)	(622)	—	(1,048)
Conversion of Class B Common Stock to Class A Common Stock	2	(2)	—	—	—	—	—
Net change in notes receivable on Class A Common Stock	—	—	—	235	—	—	235
Deferred director compensation expense - Class A Common Stock	5	—	—	191	—	—	191
Stock-based awards - Class A Common Stock: Performance stock units	—	—	—	491	—	—	491
Restricted stock	7	—	—	424	—	—	424
Stock options	—	—	—	227	—	—	227
Balance, December 31, 2017	18,607	2,243	\$ 4,902	\$ 139,406	\$ 487,700	\$ 416	\$ 632,400
2018 Activity:							

Adjustment for adoption of ASU 2016-01	—	—	—	—	(35)	(338)	(373)
Net income	—	—	—	—	77,852	—	77,852
Net change in accumulated other comprehensive income	—	—	—	—	—	(1,075)	(1,075)
Dividends declared on Common Stock:							
Class A Shares (\$0.968 per share)	—	—	—	—	(18,076)	—	(18,076)
Class B Shares (\$0.88 per share)	—	—	—	—	(1,955)	—	(1,955)
Stock options exercised, net of shares redeemed	3	—	—	83	—	—	83
Conversion of Class B to Class A Common Shares	30	(30)	—	—	—	—	—
Repurchase of Class A Common Stock	(14)	—	(5)	(349)	(473)	—	(827)
Net change in notes receivable on Class A Common Stock	—	—	—	5	—	—	5
Deferred compensation - Class A Common Stock:							
Directors	5	—	1	214	—	—	215
Designated key employees	—	—	—	430	—	—	430
Employee stock purchase plan - Class A Common Stock	6	—	2	228	—	—	230
Stock-based awards - Class A Common Stock:							
Performance stock units	—	—	—	106	—	—	106
Restricted stock	38	—	—	630	—	—	630
Stock options	—	—	—	265	—	—	265
Balance, December 31, 2018	18,675	2,213	\$ 4,900	\$ 141,018	\$ 545,013	\$ (997)	\$ 689,900

See accompanying footnotes to consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, (in thousands)

	2018	2017	2016
<b>OPERATING ACTIVITIES:</b>			
Net income	\$ 77,852	\$ 45,632	\$ 45,903
Adjustments to reconcile net income to net cash provided by operating activities:			
Net amortization on investment securities	97	245	503
Net accretion on loans and amortization of core deposit intangible	(3,540)	(6,373)	(2,573)
Unrealized losses on equity securities with readily determinable fair value	122	—	—
Depreciation of premises and equipment	9,347	8,472	7,304
Amortization of mortgage servicing rights	1,432	1,504	1,757
Provision for loan and lease losses	31,368	27,704	14,493
Net gain on sale of mortgage loans held for sale	(3,839)	(3,977)	(6,656)
Origination of mortgage loans held for sale	(176,916)	(160,091)	(216,812)
Proceeds from sale of mortgage loans held for sale	177,545	169,969	214,760
Net gain on sale of consumer loans held for sale	(5,930)	(5,647)	(2,835)
Origination of consumer loans held for sale	(778,476)	(663,171)	(380,066)
Proceeds from sale of consumer loans held for sale	781,951	661,098	379,907
Net realized losses on debt securities	—	136	—
Net gain realized on sale of other real estate owned	(729)	(831)	(514)
Writedowns of other real estate owned	—	155	270
Impairment of premises held for sale	482	1,175	191
Deferred compensation expense - Class A Common Stock	645	191	170
Stock-based awards expense - Class A Common Stock	1,001	1,142	1,030
Increase in cash surrender value of bank owned life insurance	(1,527)	(1,562)	(1,516)
Net change in other assets and liabilities:			
Accrued interest receivable	(1,860)	(1,726)	(659)
Accrued interest payable	(16)	152	(298)
Other assets	2,822	730	(7,227)
Other liabilities	7,368	2,850	540
Net cash provided by operating activities	119,199	77,777	47,672
<b>INVESTING ACTIVITIES:</b>			
Net change in cash for acquisition of Cornerstone Bancorp, Inc.	—	—	(9,088)
Purchases of available-for-sale debt securities	(173,875)	(225,212)	(419,254)
Purchases of held-to-maturity debt securities	(4,934)	(15,595)	(19,935)
Proceeds from calls, maturities and paydowns of available-for-sale debt securities	220,798	158,056	452,247
Proceeds from calls, maturities and paydowns of held-to-maturity debt securities	3,911	4,207	6,112
Proceeds from sales of available-for-sale debt securities	—	20,012	—
Net change in outstanding warehouse lines of credit	56,877	59,867	(198,710)

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Purchase of non-business-acquisition loans, including premiums paid	—	(6,160)	(51,868)
Net change in other loans	(216,600)	(268,839)	(125,756)
Proceeds from sale of mortgage loans transferred to held for sale	—	—	72,330
Proceeds from redemption of Federal Home Loan Bank stock	—	—	224
Purchase of Federal Home Loan Bank stock	—	(3,859)	—
Proceeds from sales of other real estate owned	1,346	2,793	4,595
Net purchases of premises and equipment	(9,044)	(12,383)	(7,031)
Net cash used in investing activities	(121,521)	(287,113)	(296,134)
<b>FINANCING ACTIVITIES:</b>			
Net change in deposits	22,987	272,466	468,544
Net change in securities sold under agreements to repurchase and other short-term borrowings	(21,031)	30,548	(221,960)
Payments of Federal Home Loan Bank advances	(457,500)	(490,000)	(292,000)
Proceeds from Federal Home Loan Bank advances	530,000	425,000	395,000
Payoff of subordinated note, net of common security interest	—	—	(4,000)
Repurchase of Class A Common Stock	(827)	(1,048)	(1,207)
Net proceeds from Class A Common Stock purchased through employee stock purchase plan	230	—	—
Net proceeds from Class A Common Stock options exercised	83	68	80
Cash dividends paid	(19,497)	(17,656)	(16,768)
Net cash provided by financing activities	54,445	219,378	327,689
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>52,123</b>	<b>10,042</b>	<b>79,227</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>299,351</b>	<b>289,309</b>	<b>210,082</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 351,474</b>	<b>\$ 299,351</b>	<b>\$ 289,309</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION:</b>			
Cash paid during the period for:			
Interest	\$ 30,139	\$ 20,106	\$ 18,219
Income taxes	11,119	28,779	26,069
<b>SUPPLEMENTAL NONCASH DISCLOSURES:</b>			
Transfers from loans to real estate acquired in settlement of loans	\$ 662	\$ 841	\$ 4,778
Transfers from loans held for sale to held for investment	2,237	—	71,201
Loans provided for sales of other real estate owned	—	—	256
Transfers from loans held for investment to held for sale	1,392	—	—
Unfunded commitments in low-income-housing investments	14,029	9,736	—

See accompanying footnotes to consolidated financial statements.



Table of Contents

FOOTNOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation — The consolidated financial statements include the accounts of Republic (the “Parent Company”) and its wholly-owned subsidiaries, the Bank and the Captive. All significant intercompany balances and transactions are eliminated in consolidation. All companies are collectively referred to as Republic or the Company. The term the “Bank” refers to the Company’s subsidiary bank: Republic Bank & Trust Company. The term the “Captive” refers to the Company’s insurance subsidiary: Republic Insurance Services, Inc.

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

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

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

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

Core Bank

Traditional Banking segment — The Traditional Banking segment provides traditional banking products primarily to customers in the Company’s market footprint. As of December 31, 2018, Republic had 45 full-service banking centers and one LPO with locations as follows:

Kentucky — 32

Metropolitan Louisville — 18

Central Kentucky — 9

Elizabethtown — 1

Frankfort — 1

Georgetown — 1

Lexington — 5

Shelbyville — 1

Western Kentucky — 2

Owensboro — 2

Northern Kentucky — 3

Covington — 1

Crestview Hills — 1

Florence — 1

Southern Indiana — 3

Floyds Knobs — 1

Jeffersonville — 1

New Albany — 1

Metropolitan Tampa, Florida — 7

Metropolitan Cincinnati, Ohio — 1

Metropolitan Nashville, Tennessee — 3\*

---

\*Includes one LPO

Table of Contents

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

Traditional Banking results of operations are primarily dependent upon net interest income, which represents the difference between the interest income and fees on interest-earning assets and the interest expense on interest-bearing liabilities. Principal interest-earning Traditional Banking assets represent investment securities and commercial and consumer loans primarily secured by real estate and/or personal property. Interest-bearing liabilities primarily consist of interest-bearing deposit accounts, securities sold under agreements to repurchase, as well as short-term and long-term borrowing sources. FHLB advances have traditionally been a significant borrowing source for the Bank.

Other sources of Traditional Banking income include service charges on deposit accounts, debit and credit card interchange fee income, title insurance commissions, fees charged to clients for trust services, and increases in the cash surrender value of BOLI.

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

The Traditional Bank has acquired for investment single family, first lien mortgage loans that meet the Traditional Bank's specifications through its Correspondent Lending channel. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium.

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

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 originated and sold into the secondary market, primarily to the FHLMC and the FNMA. The Bank typically retains servicing on loans sold into the secondary market. Administration of loans with servicing retained by the Bank includes collecting principal and interest payments, escrowing funds for property taxes and property insurance, and remitting payments to secondary market investors. The Bank receives fees for performing these standard servicing functions.

#### Republic Processing Group

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

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

## Table of Contents

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

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

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

Related to the overall credit losses on EAs, the Bank's ability to control losses is highly dependent upon its ability to predict the taxpayer's likelihood to receive the tax refund as claimed on the taxpayer's tax return. Each year, the Bank's EA approval model is based primarily on the prior-year's tax refund funding patterns. Because much of the EA volume occurs each year before that year's tax refund funding patterns can be analyzed and subsequent underwriting changes made, credit losses during a current year could be higher than management's predictions if tax refund funding patterns change materially between years.

Republic Payment Solutions — RPS is managed and operated within the TRS segment. The RPS division is an issuing bank offering general-purpose reloadable prepaid cards through third-party service providers. For the projected near-term, as the prepaid card program matures, the operating results of the RPS division are expected to be immaterial to the Company's overall results of operations and will be reported as part of the TRS segment. The RPS division will not be considered a separate reportable segment until such time, if any, that it meets quantitative reporting thresholds.

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

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

- RCS line-of-credit product – The Bank originates a line-of-credit product to generally subprime borrowers across the United States through Elevate Credit, Inc., its third-party servicer provider. RCS sells 90% of the balances generated within two business days of loan origination to a special purpose entity related to Elevate Credit, Inc. and retains the remaining 10% interest. The line-of-credit product represents the substantial majority of RCS activity. Loan balances held for sale are carried at the lower of cost or fair value.
- RCS credit-card product – From the fourth quarter of 2015 through the first quarter of 2018, the Bank piloted a credit-card product to generally subprime borrowers across the United States through one third-party marketer/servicer. For outstanding

Table of Contents

cards, RCS sold 90% of the balances generated within two business days of each transaction occurrence to a special purpose entity related to its third-party marketer/servicer and retained the remaining 10% interest. During the fourth quarter of 2018, the Bank and its third-party marketer/servicer finalized an agreement to sell 100% of the existing portfolio to an unrelated third party. The sale of the RCS credit-card portfolio receivables was settled in January 2019.

- RCS healthcare receivables product – The Bank originates a healthcare-receivables product across the United States through two different third-party service providers. For one third-party service provider, the Bank retains 100% of the receivables originated. For the other third-party service provider, the Bank retains 100% of the receivables originated in some instances, and in other instances, sells 100% of the receivables within one month of origination. Loan balances held for sale are carried at the lower of cost or fair value.
- RCS installment loan product – From the first quarter of 2016 through the first quarter of 2018, the Bank piloted a consumer installment-loan product across the United States using a third-party marketer/service. As part of the program, the Bank sold 100% of the balances generated through the program back to the third-party marketer/servicer approximately 21 days after origination. The Bank carried all unsold loans under the program as “held for sale” on its balance sheet. At the initiation of this program in 2016, the Bank elected to carry these loans at fair value under a fair-value option, with the portfolio thereafter marked to market monthly.

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

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

Use of Estimates — Financial statements prepared in conformity with GAAP require management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. These estimates and assumptions impact the amounts reported in the financial statements and the disclosures provided. Actual amounts could differ from these estimates.

Concentration of Credit Risk — With the exception of loans originated through its Correspondent Lending channel, most of the Company’s Traditional Banking business activity is with clients located in Kentucky, Indiana, Florida, and Tennessee. The Company’s Traditional Banking exposure to credit risk is significantly affected by changes in the economy in these specific areas.

Loans originated through the Traditional Bank's Correspondent Lending channel are primarily secured by single family, first lien residences located outside the Company's market footprint, with 74% of such loans secured by collateral located in the state of California as of December 31, 2018. Furthermore, warehouse lines of credit are secured by single family, first lien residential real estate loans originated by the Bank's mortgage clients across the United States. As of December 31, 2018, 32% of collateral securing warehouse lines were located in California.

Earnings Concentration — For 2018, 2017 and 2016, approximately 27%, 25% and 19% of total Company net revenues (net interest income plus noninterest income) were derived from the RPG operations. Within RPG, the TRS segment accounted for 14%, 13% and 12%, while the RCS segment accounting for 13%, 12% and 7% of total Company net revenues.

For 2018, 2017 and 2016, approximately 5%, 7% and 8% of total Company net revenues (net interest income plus noninterest income) were derived from the Company's Warehouse segment.

Cash Flows — Cash and cash equivalents include cash, deposits with other financial institutions with original maturities less than 90 days and federal funds sold. Net cash flows are reported for client loan and deposit transactions, interest-bearing deposits in other financial institutions, repurchase agreements and income taxes.



## Table of Contents

**Interest-Bearing Deposits in Other Financial Institutions** — Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

**Debt Securities** — Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Available-for-sale debt securities are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premiums and accretion of discounts. Premiums on callable securities are amortized to the earliest call date. Other premiums and discounts on securities are amortized and accreted on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for OTTI on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more-likely-than-not that it would be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in OCI. OTTI related to credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

In order to determine OTTI for purchased beneficial interests that, on the purchase date, were not highly rated, the Bank compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

**Equity Securities** — On January 1, 2018, the Company adopted ASU 2016-01, Financial Instruments. Among other things, ASU 2016-01 requires the Company recognize changes in the fair value of equity investments with a readily determinable fair value in net income unless those investments are accounted for under the equity method of accounting.

**Accounting for Business Acquisitions** — The Bank maintains an acquisition strategy to selectively grow its franchise as a complement to its internal growth strategies.

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

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

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

## Table of Contents

Mortgage Banking Activities — Mortgage loans originated and intended for sale in the secondary market are carried at fair value, as determined by outstanding commitments from investors. Net gains on mortgage loans held for sale are recorded as a component of Mortgage Banking income and represent the difference between the selling price and the carrying value of the loans sold. Substantially all of the gains or losses on the sale of loans are reported in earnings when the interest rates on loans are locked.

Commitments to fund mortgage loans (“interest rate lock commitments”) to be sold into the secondary market and non-exchange traded mandatory forward sales contracts (“forward contracts”) for the future delivery of these mortgage loans are accounted for as free-standing derivatives. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the Bank enters into the derivative. Generally, the Bank enters into forward contracts for the future delivery of mortgage loans when interest rate lock commitments are entered into, in order to hedge the change in interest rates resulting from its commitments to fund the loans. Changes in the fair values of these mortgage derivatives are included in net gains on sales of loans, which is a component of Mortgage Banking income on the income statement.

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

MSR<sub>s</sub> are evaluated for impairment quarterly based upon the fair value of the MSR<sub>s</sub> as compared to carrying amount. Impairment is determined by stratifying MSR<sub>s</sub> 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 MSR<sub>s</sub> generally will decline due to higher expected prepayments within the portfolio. Alternatively, during a period of rising interest rates the fair value of MSR<sub>s</sub> generally will increase, as prepayments on the underlying loans would be expected to decline. Based on the estimated fair value at December 31, 2018 and 2017, management determined there was no impairment within the MSR portfolio.

Loan servicing income is reported on the income statement as a component of Mortgage Banking income. Loan servicing income is recorded as loan payments are collected and includes servicing fees from investors and certain charges collected from borrowers. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan and are recorded as income when earned. Loan servicing income totaled \$2.4 million, \$2.2 million and \$2.0 million for the years ended December 31, 2018, 2017 and 2016. Late fees and ancillary fees related to loan servicing are considered nominal.

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

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

## Table of Contents

Interest income on mortgage and commercial loans is typically discontinued at the time the loan is 80 days delinquent unless the loan is well secured and in process of collection. Past due status is based on the contractual terms of the loan, which may define past due status by the number of days or the number of payments past due. In most cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 80 days still on accrual include both smaller balance, homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

Interest accrued but not received for all classes of loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured, typically a minimum of six months of performance. Consumer and credit card loans, are not placed on nonaccrual status, but are reviewed periodically and charged off when the loan is deemed uncollectible, generally no more than 120 days.

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

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

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.

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 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 discount established as part of its initial day-one evaluation, such loan would be classified 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.

## Table of Contents

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

If a TDR 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.

**Allowance 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. Loan losses are charged against the Allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the Allowance. Management estimates the Allowance required using historical loan loss experience, the nature and volume of the portfolio, information about specific borrower situations, estimated collateral values, economic conditions and other factors. Allocations of the Allowance may be made for specific classes, but the entire Allowance is available for any loan that, in management's judgment, should be charged off.

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.

### Specific Component –Loans Individually Classified as Impaired

The Bank defines impaired loans as follows:

- All loans internally rated as "Substandard," "Doubtful" or "Loss";
- All loans on nonaccrual status;
- All TDRs;

- All loans internally rated in a PCI category with cash flows that have deteriorated from management's initial acquisition day estimate; and
- Any other situation where the full collection of the total amount due for a loan is improbable or otherwise meets the definition of impaired.

Generally, loans are designated as "Classified" or "Special Mention" to ensure more frequent monitoring. These loans are reviewed to ensure proper 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 nonaccrual status.

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

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



## Table of Contents

In addition to obtaining appraisals at the time of origination, the Bank typically updates appraisals and/or BPOs for loans with potential impairment. Updated valuations for commercial-related credits exhibiting an increased risk of loss are typically obtained within one year of the previous valuation. Collateral values for 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 such stale valuations primarily based on age and market conditions of the underlying collateral.

### General Component – Pooled Loans Collectively Evaluated

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

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

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

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

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

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

## Table of Contents

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

A “portfolio segment” is defined as the level at which an entity develops and documents a systematic methodology to determine its Allowance. A “class” of loans represents further disaggregation of a portfolio segment based on risk characteristics and the entity’s method for monitoring and assessing credit risk. In developing its Allowance methodology, the Company has identified the following Traditional Banking portfolio segments:

Portfolio Segment 1 — Loans where the Allowance methodology is determined based on a loan review and grading system (primarily commercial related loans and retail TDRs).

For this portfolio, the Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, public information, and current economic trends. The Bank also considers the fair value of the underlying collateral and the strength and willingness of the guarantor(s). The Bank analyzes loans individually, and based on this analysis, establishes a credit risk rating consistent with its credit risk matrix.

Portfolio Segment 2 — Loans where the Allowance methodology is driven by delinquency and nonaccrual data (primarily small dollar, retail mortgage or consumer related).

For this portfolio, the Bank analyzes risk classes based on delinquency and/or nonaccrual status.

### Allowance for Loans Originated Through the Republic Processing Group

The RPG Allowance at December 31, 2018 and 2017 primarily related to loans originated and held for investment through the RCS segment. RCS generally originates small-dollar, consumer credit products. In some instances, the Bank originates these products, sells 90% of the balances within two days of loan origination, and retains a 10% interest. RCS loans typically earn a higher yield but also have higher credit risk compared to loans originated through the Traditional Banking segment, with a significant portion of RCS clients considered subprime or near-prime borrowers.

RCS's short-term line-of-credit product represented 36% and 42% of the RCS held-for-investment loan portfolio at December 31, 2018 and 2017. For this product, management conducted an analysis of historical losses and delinquencies by month of loan origination when determining the Allowance through September 30, 2018. Subsequent to September 30, 2018, management conducted an analysis of its line-of-credit product using a method similar to that employed for pooled loans collectively evaluated, as described above. This change in method of analysis did not have a material impact on the Allowance calculated for RCS's line-of-credit product as of December 31, 2018, September 30, 2018 or December 31, 2017. For RCS's other products, the Allowance is and has been traditionally estimated using a method similar to that employed for pooled loans collectively evaluated, as described above.

RPG's TRS segment first offered its EA tax-credit product during the first two months of 2016 and again during the first two months of 2017 and 2018. An Allowance for losses on EAs is estimated during the limited, short-term period the product is offered. EAs are generally repaid within three weeks of origination. Provisions for loan losses on EAs are estimated when advances are made, with all provisions made in the first quarter of each year. No Allowance for EAs existed as of December 31, 2018 and 2017, as all EAs originated during the first two months of each year had either been paid off or charged-off within 111 days of origination. The majority of EA charge-offs are recorded during the second quarter of each year.

See Footnote 4 "Loans and Allowance for Loan and Lease Losses" in this section of the filing for additional discussion regarding the Company's Allowance.

Transfers of Financial Assets — Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

## Table of Contents

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

Appraisals for both collateral-dependent impaired loans and OREO 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 CCAD reviews the assumptions and approaches utilized in the appraisal, as well as the overall resulting fair value in comparison with independent data sources, such as recent market data or industry-wide statistics. On 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, e.g. residential real estate or commercial real estate, and may lead to additional adjustments to the value of unliquidated collateral of similar class.

**Premises and Equipment, Net** — Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed over the estimated useful lives of the related assets on the straight-line method. Estimated lives typically range from 25 to 39 years for buildings and improvements, three to ten years for furniture, fixtures and equipment and three to five years for leasehold improvements.

**Federal Home Loan Bank Stock** — The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security and annually evaluated for impairment. Because this stock is viewed as a long-term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are recorded as interest income.

**Bank Owned Life Insurance** — The Bank maintains BOLI policies on certain employees. BOLI is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. The Bank recognizes tax-free income from the periodic increases in cash surrender value of these policies and from death benefits in noninterest income. Credit ratings for the Bank's BOLI carriers are reviewed at least annually.

**Goodwill and Other Intangible Assets** — Goodwill resulting from business acquisitions represents the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair

value of the net assets assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase combination and determined to have an indefinite useful life are not amortized, but tested annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed.

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

All goodwill is attributable to the Company's Traditional Banking segment and is not expected to be deductible for tax purposes. Based on its assessment, the Company believes its goodwill of \$16 million at December 31, 2018 and 2017 was not impaired and is properly recorded in the consolidated financial.

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

Off Balance Sheet Financial Instruments — Financial instruments include off-balance sheet credit instruments, such as commitments to fund loans and standby letters of credit. The face amount for these items represents the exposure to loss, before

## Table of Contents

considering client collateral or ability to repay. Such financial instruments are recorded upon funding. Instruments such as standby letters of credit are considered financial guarantees and are recorded at fair value.

Derivatives —Derivatives are reported at fair value in other assets or other liabilities. The Company's derivatives include interest rate swap agreements. For asset/liability management purposes, the Bank uses interest rate swap agreements to hedge the exposure or to modify the interest rate characteristic of certain immediately repricing liabilities.

The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship. For a derivative designated as a cash flow hedge, the effective portion of the derivative's unrealized gain or loss

is recorded as a component of other comprehensive income (loss). For derivatives not designated as hedges, the gain or loss is recognized in current period earnings.

Net cash settlements on interest rate swaps are recorded in interest expense and cash flows related to the swaps are classified in the cash flow statement the same as the interest expense and cash flows from the liabilities being hedged. The Bank formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking cash flow hedges to specific assets and liabilities on the balance sheet. The Bank also formally assesses, both at the hedge's inception and on an ongoing basis, whether a swap is highly effective in offsetting changes in cash flows of the hedged items. The Bank discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in cash flows of the hedged item, the derivative is settled or terminates, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

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

Interest rate swap contracts involve the risk of dealing with counterparties and their ability to meet contractual terms. When the fair value of a derivative instrument contract is positive, this generally indicates that the counterparty or client owes the Bank, and results in credit risk to the Bank. When the fair value of a derivative instrument contract is

negative, the Bank owes the client or counterparty and therefore, has no credit risk.

**Stock Based Compensation** — For stock options and restricted stock awards issued to employees, compensation cost is recognized based on the fair value of these awards at the date of grant. The Company utilizes a Black-Scholes model to estimate the fair value of stock options, while the market price of the Company’s common stock at the date of grant is used for restricted stock awards. Compensation expense is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. Forfeitures of stock-based awards are accounted for when incurred in lieu of using forfeiture estimates.

**Income Taxes** — Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. DTAs and DTLs are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces DTAs to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more-likely-than-not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more-likely-than-not” test, no tax benefit is recorded.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.



Table of Contents

Retirement Plans — 401(k) plan expense is recorded as a component of salaries and employee benefits and represents the amount of Company matching contributions.

Earnings Per Common Share — Basic earnings per share is based on net income (in the case of Class B Common Stock, less the dividend preference on Class A Common Stock), divided by the weighted average number of shares outstanding during the period. Diluted earnings per share include the dilutive effect of additional potential Class A common shares issuable under stock options. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Earnings and dividends per share are restated for all stock dividends through the date of issuance of the financial statements.

Comprehensive Income — Comprehensive income consists of net income and OCI. OCI includes, net of tax, unrealized gains and losses on available-for-sale debt securities and unrealized gains and losses on cash flow hedges, which are also recognized as separate components of equity.

Loss Contingencies — Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable, and an amount or range of loss can be reasonably estimated. Management does not believe there are any outstanding matters that would have a material effect on the financial statements.

Restrictions on Cash and Cash Equivalents — Republic is required by the FRB to maintain average reserve balances. Cash and due from banks on the consolidated balance sheet included no required reserve balances at December 31, 2018 and 2017.

The Company's Captive maintains cash reserves to cover insurable claims. Reserves totaled \$3 million and \$3 million as of December 31, 2018 and 2017.

Equity — Stock dividends in excess of 20% are reported by transferring the par value of the stock issued from retained earnings to common stock. Stock dividends for 20% or less are reported by transferring the fair value, as of the ex-dividend date, of the stock issued from retained earnings to common stock and additional paid in capital. Fractional share amounts are paid in cash with a reduction in retained earnings.

Dividend Restrictions — Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to Republic or by Republic to shareholders.

**Fair Value of Financial Instruments** — Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Footnote 14 “Fair Value” in this section of the filing. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

**Revenue from contracts with Customers** - On January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively, “ASC 606”). While this update modified guidance for recognizing revenue, it did not have a material impact on the timing or presentation of the Company’s revenue. The majority of Company’s revenue comes from interest income and other sources, including loans, leases, securities, and derivatives, which are not subject to ASC 606. The Company’s services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to its client. The Company did elect a practical expedient permitted under this guidance which allows it to expense as-incurred incremental costs of obtaining a contract when the amortization period of those costs would be less than one year.

**Segment Information** — Reportable segments represent parts of the Company evaluated by management with separate financial information. Republic’s internal information is primarily reported and evaluated in five reportable segments – Traditional Banking, Warehouse, Mortgage Banking, TRS and RCS.

**Reclassifications** — Certain amounts presented in prior periods have been reclassified to conform to the current period presentation. These reclassifications had no impact on previously reported prior periods’ net income or shareholders’ equity.

Table of Contents

## Accounting Standards Updates

The following ASUs were issued prior to December 31, 2018 and are considered relevant to the Company's financial statements. Generally, if an issued-but-not-yet-effective ASU with an expected immaterial impact to the Company has been disclosed in prior Company financial statements, it will not be included below.

ASU No.	Topic	Nature of Update	Date Adoption Required	Permitted Adoption Methods	Expected Financial Statement Impact
2016-02	Leases (Topic 842)	Most leases are considered operating leases, which are not accounted for on the lessees' balance sheets. The significant change under this ASU is that those operating leases will be recorded on the balance sheet.	January 1, 2019	Modified-retrospective approach, which includes a number of optional practical expedients.	The Company adopted this ASU on January 1, 2019 and upon adoption recorded \$41 million of right-of-use lease assets and \$42 million of operating lease liabilities on its balance sheet. The Company does not expect the adoption of this ASU to have a meaningful impact on the Company's performance metrics, including regulatory capital ratios and return on average assets. Additionally, the Company does not believe that the adoption of this ASU by its clients will have a significant impact on the Company's ability to underwrite credit when client financial statements are presented inclusive of the requirements of this ASU.

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Financial Instruments – Credit Losses (Topic 326)	This ASU amends guidance on reporting credit losses for assets held at amortized-cost basis and available-for-sale debt securities.	January 1, 2020	Modified-retrospective approach.	As a result of this ASU, the Company expects an as yet undetermined increase in its allowance for credit losses. A committee formed by the Company to oversee its transition to a current expected credit losses (“CECL”) methodology has analyzed the Company’s loan-level data and preliminarily concluded that no additional loan level segmentation beyond its current methodology segmentation would be warranted under CECL. The Company is also currently performing iterations of its allowance calculation under a “beta” CECL model provided by the same third-party software solution currently-employed to calculate the Company’s allowance for loan and lease losses.	
2018-10	Codification Improvements to Topic 842, Leases	This ASU affects narrow aspects of the guidance issued in the amendments in ASU 2016-02.	January 1, 2019	Adoption should conform to the adoption of ASU 2016-02 above.	Immaterial
2018-11	Leases (Topic 842): Targeted Improvements	This ASU provides the Company with an additional (and optional) transition method to adopt	January 1, 2019	Adoption should conform to the adoption of ASU 2016-02 above.	The Company elected the optional transition method permitted by this ASU, allowing the Company to

		<p>ASU 2016-02. This ASU also provides the Company with a practical expedient to not separate non-lease components from the associated lease component under certain circumstances.</p>			<p>adopt ASU 2016-02, effective January 1, 2019 with a cumulative-effect adjustment to the opening balance of retained earnings on January 1, 2019.</p>
2018-16	Derivatives and Hedging (Topic 815)	<p>This ASU permits the use of the Overnight Index Swap (OIS) rate based on Secured Overnight Financing Rate (SOFR) as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815.</p>	January 1, 2019	Prospectively.	Immaterial
2018-18	Collaborative Arrangements (Topic 808)	<p>This ASU makes targeted improvements for accounting for collaborative arrangements in order to better align the accounting with guidance in Topic 606, Revenue from Contracts with Customers.</p>	January 1, 2020	Retrospectively.	Immaterial
2018-20	Leases (Topic 842)	<p>This ASU permits lessors, as an accounting policy election, to not evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs, but instead</p>	January 1, 2019	Prospectively.	Immaterial

account for such costs as lessee costs. This ASU also requires that lessors allocate rather than recognize certain variable payments to the lease and non-lease components when the changes in facts and circumstances on which the variable payment is based occur.

Table of Contents

The following ASUs were adopted by the Company during the year ended December 31, 2018:

ASU No.	Topic	Nature of Update	Date Adopted	Method of Adoption	Financial Statement Impact
2014-09	Revenue from Contracts with Customers (Topic 606)	Requires that revenue from contracts with clients be recognized upon transfer of control of a good or service in the amount of consideration expected to be received. Changes the accounting for certain contract costs, including whether they may be offset against revenue in the statements of income, and requires additional disclosures about revenue and contract costs.	January 1, 2018	Modified-retrospective approach.	Because most financial instruments are not subject to this ASU, a substantial portion of the Company's revenue was not impacted by this standard. Furthermore, this new standard did not have a material impact on the timing of revenue recognition for any of the Company's revenue for 2018 nor is it expected to going forward. Additionally, the Company took the following actions in association with the adoption of this ASU: 1) amended its accounting policies and procedures to ensure proper revenue recognition in conformity with this ASU; and 2) updated its revenue-recognition financial statement disclosures (see footnote 23 in this section of the filing).
2016-01	Financial Instruments – Overall (Topic 825-10)	Among other things: Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the	January 1, 2018	Modified-retrospective approach.	The Company has updated its policies, procedures, and financial statement presentation and disclosures for this ASU. As provided by this ASU, the Company now reports its financial

investee) to be measured at fair value with changes in fair value recognized in net income. Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost.

instruments at exit price (see footnote 14 in this section of the filing) and recognizes changes in the fair value of applicable equity investments in net income (see footnote 2 in this section of the filing).

2016-15	Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments	This ASU provides cash flow statement classification guidance on eight reportable topics.	January 1, 2018	Retrospective transition.	Immaterial.
2016-18	Statement of Cash Flows	Requires that a statement of cash	January 1, 2018	Retrospective transition.	Immaterial.



(Topic 230)	flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents.				
2017-09	Compensation - Stock Compensation (Topic 718)	The amendments provide guidance on determining which changes to the terms and conditions of share-based payment awards require the Company to apply modification accounting under Topic 718.	January 1, 2018	Prospectively.	Immaterial.
2018-05	Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting	This ASU updates the FASB's ASC for guidance issued by the SEC in SAB 118. Among other things, SAB 118 allows companies a one-year	Upon addition to the ASC	Not Applicable.	For the Company's financial statement disclosures in accordance with SAB 118, see footnote 18 in this section of the filing.

Bulletin No. 118 ("SAB 118")	measurement period to complete their accounting for the impact of the 2017 Tax Cuts and Jobs Act.
------------------------------------	--

Table of Contents

## 2.INVESTMENT SECURITIES

## Available-for-Sale Debt Securities

The gross amortized cost and fair value of AFS debt securities and the related gross unrealized gains and losses recognized in AOCI were as follows:

December 31, 2018 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 218,502	\$ 25	\$ (1,654)	\$ 216,873
Private label mortgage backed security	2,348	1,364	—	3,712
Mortgage backed securities - residential	168,992	1,470	(1,253)	169,209
Collateralized mortgage obligations	73,740	222	(1,151)	72,811
Corporate bonds	10,000	—	(942)	9,058
Trust preferred security	3,533	542	—	4,075
Total available-for-sale debt securities	\$ 477,115	\$ 3,623	\$ (5,000)	\$ 475,738

December 31, 2017 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	\$ 309,042	\$ 1	\$ (1,451)	\$ 307,592
Private label mortgage backed security	3,065	1,384	—	4,449
Mortgage backed securities - residential	105,644	1,603	(873)	106,374
Collateralized mortgage obligations	87,867	371	(1,075)	87,163
Corporate bonds	15,001	124	—	15,125
Trust preferred security	3,493	107	—	3,600
Total available-for-sale debt securities	\$ 524,112	\$ 3,590	\$ (3,399)	\$ 524,303

## Held-to-Maturity Debt Securities

The carrying value, gross unrecognized gains and losses, and fair value of HTM debt securities were as follows:

December 31, 2018 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities - residential	\$ 132	\$ 8	\$ —	\$ 140
Collateralized mortgage obligations	19,544	178	(46)	19,676
Corporate bonds	45,088	16	(514)	44,590
Obligations of state and political subdivisions	463	—	(11)	452
Total held-to-maturity debt securities	\$ 65,227	\$ 202	\$ (571)	\$ 64,858

  

December 31, 2017 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities - residential	\$ 151	\$ 10	\$ —	\$ 161
Collateralized mortgage obligations	23,437	236	(17)	23,656
Corporate bonds	40,175	686	(3)	40,858
Obligations of state and political subdivisions	464	—	(6)	458
Total held-to-maturity debt securities	\$ 64,227	\$ 932	\$ (26)	\$ 65,133

At December 31, 2018 and 2017, there were no holdings of debt securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

Table of Contents

## Sales of Available-for-Sale Debt Securities

During 2017, the Bank recognized a gross loss of \$136,000 on the sale of two AFS debt securities. The tax benefit related to the Bank's realized losses totaled \$48,000 for the year ended December 31, 2017.

During 2018 and 2016, there were no sales of AFS debt securities.

## Debt Securities by Contractual Maturity

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2018 follows. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are detailed separately.

December 31, 2018 (in thousands)	Available-for-Sale Debt Securities		Held-to-Maturity Debt Securities	
	Amortized Cost	Fair Value	Carrying Value	Fair Value
Due in one year or less	\$ 74,692	\$ 74,083	\$ 75	\$ 75
Due from one year to five years	153,810	151,848	40,536	40,266
Due from five years to ten years	—	—	4,940	4,701
Due beyond ten years	3,533	4,075	—	—
Private label mortgage backed security	2,348	3,712	—	—
Mortgage backed securities - residential	168,992	169,209	132	140
Collateralized mortgage obligations	73,740	72,811	19,544	19,676
Total debt securities	\$ 477,115	\$ 475,738	\$ 65,227	\$ 64,858

## Market Loss Analysis

Securities with unrealized losses at December 31, 2018 and 2017, aggregated by investment category and length of time that individual debt securities have been in a continuous unrealized loss position, are as follows:

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

December 31, 2018 (in thousands)	Less than 12 months		12 months or more		Total	Unrealized
	Unrealized		Unrealized			
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Available-for-sale debt securities:						
U.S. Treasury securities and U.S. Government agencies	\$ 71,627	\$ (598)	\$ 106,136	\$ (1,056)	\$ 177,763	\$ (1,654)
Mortgage backed securities - residential	43,691	(484)	32,003	(769)	75,694	(1,253)
Collateralized mortgage obligations	16,487	(473)	31,071	(678)	47,558	(1,151)
Corporate bonds	9,058	(942)	—	—	9,058	(942)
Total available-for-sale debt securities	\$ 140,863	\$ (2,497)	\$ 169,210	\$ (2,503)	\$ 310,073	\$ (5,000)

December 31, 2017 (in thousands)	Less than 12 months		12 months or more		Total	Unrealized
	Unrealized		Unrealized			
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Available-for-sale debt securities:						
U.S. Treasury securities and U.S. Government agencies	\$ 209,165	\$ (499)	\$ 88,415	\$ (952)	\$ 297,580	\$ (1,451)
Mortgage backed securities - residential	61,348	(617)	10,192	(256)	71,540	(873)
Collateralized mortgage obligations	30,963	(642)	18,603	(433)	49,566	(1,075)
Total available-for-sale debt securities	\$ 301,476	\$ (1,758)	\$ 117,210	\$ (1,641)	\$ 418,686	\$ (3,399)

Table of Contents

December 31, 2018 (in thousands)	Less than 12 months		12 months or more		Total	Unrealized
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Losses
Held-to-maturity debt securities:						
Collateralized mortgage obligations	\$ —	\$ —	\$ 5,539	\$ (46)	\$ 5,539	\$ (46)
Corporate bonds	39,499	(514)	—	—	39,499	(514)
Obligations of state and political subdivisions	105	(1)	347	(10)	452	(11)
Total held-to-maturity debt securities:	\$ 39,604	\$ (515)	\$ 5,886	\$ (56)	\$ 45,490	\$ (571)

December 31, 2017 (in thousands)	Less than 12 months		12 months or more		Total	Unrealized
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Losses
Held-to-maturity debt securities:						
Collateralized mortgage obligations	\$ —	\$ —	\$ 6,390	\$ (17)	\$ 6,390	\$ (17)
Corporate bonds	4,997	(3)	—	—	4,997	(3)
Obligations of state and political subdivisions	458	(6)	—	—	458	(6)
Total held-to-maturity debt securities:	\$ 5,455	\$ (9)	\$ 6,390	\$ (17)	\$ 11,845	\$ (26)

At December 31, 2018, the Bank's portfolio consisted of 182 securities, 65 of which were in an unrealized loss position.

At December 31, 2017, the Bank's portfolio consisted of 185 securities, 58 of which were in an unrealized loss position.

## Corporate Bonds

From 2013 to 2018, the Bank purchased various floating-rate corporate bonds. These bonds were rated “investment grade” by accredited rating agencies as of their respective purchase dates. The total fair value of the Bank’s corporate bonds represented 10% and 9% of the Bank’s investment portfolio as of December 31, 2018 and 2017. During 2018, one of these bonds was downgraded to BBB+ (S&P/Fitch), driving a significant decrease in the bond’s market value. As of December 31, 2018, this bond reflected an unrealized loss of \$942,000. The Bank does not intend to sell this bond, and it is likely that it will not be required to sell this bond before the bond’s anticipated recovery, therefore, management does not consider this bond to have OTTI.

#### Mortgage Backed Securities and Collateralized Mortgage Obligations

At December 31, 2018, with the exception of the \$3.7 million private label mortgage backed security, all other mortgage backed securities and CMOs held by the Bank were issued by U.S. government-sponsored entities and agencies, primarily the FNMA. At December 31, 2018 and December 31, 2017, there were gross unrealized losses of \$2.4 million and \$1.9 million related to available for sale mortgage backed securities and CMOs. Because these unrealized losses are attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to have OTTI.

#### Trust Preferred Security

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

#### Other-Than-Temporary Impairment

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

- The length of time and the extent to which fair value has been less than the amortized cost basis;





Table of Contents

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

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

The Bank owns one private label mortgage backed security with a total carrying value of \$3.7 million at December 31, 2018. This security is mostly backed by “Alternative A” first lien mortgage loans, but also has an insurance “wrap” or guarantee as an added layer of protection to the security holder. This asset is illiquid, and as such, the Bank determined it to be a Level 3 security in accordance with ASC Topic 820, Fair Value Measurements and Disclosures. Based on this determination, the Bank utilized an income valuation model (“present value model”) approach, in determining the fair value of the security. This approach is beneficial for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management’s best estimate is used. Management’s best estimate consists of both internal and external support for this investment.

See additional discussion regarding the Bank’s private label mortgage backed security in this section of the filing under Footnote 14 “Fair Value.”

The following table presents a rollforward of the Bank’s private label mortgage backed security credit losses recognized in earnings:

Years Ended December 31, (in thousands)	2018	2017	2016
Balance, beginning of period	\$ 1,765	\$ 1,765	\$ 1,765
Recovery of losses previously recorded	(152)	—	—
Balance, end of period	\$ 1,613	\$ 1,765	\$ 1,765

Further deterioration in economic conditions could cause the Bank to record an additional impairment charge related to credit losses of up to \$2.3 million, which is the current gross amortized cost of the Bank's remaining private label mortgage backed security.

Pledged Debt Securities

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

December 31, (in thousands)	2018	2017
Carrying amount	\$ 240,590	\$ 262,679
Fair value	240,700	262,902

Table of Contents

## Equity Securities

The following tables present the carrying value, gross unrealized gains and losses, and fair value of equity securities with readily determinable fair values:

December 31, 2018 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Freddie Mac preferred stock	\$ —	\$ 410	\$ —	\$ 410
Community Reinvestment Act mutual fund	2,500	—	(104)	2,396
Total equity securities with readily determinable fair values	\$ 2,500	\$ 410	\$ (104)	\$ 2,806

December 31, 2017 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Freddie Mac preferred stock	\$ —	\$ 473	\$ —	\$ 473
Community Reinvestment Act mutual fund	2,500	—	(45)	2,455
Total equity securities with readily determinable fair values	\$ 2,500	\$ 473	\$ (45)	\$ 2,928

For equity securities with readily determinable fair values, the gross realized and unrealized gains and losses recognized in the Company's consolidated statements of income were as follows:

(in thousands)	Year Ended December 31, 2018		
	Realized	Unrealized	Total
Freddie Mac preferred stock	\$ —	\$ (63)	\$ (63)
Community Reinvestment Act mutual fund	—	(59)	(59)
Total equity securities with readily determinable fair value	\$ —	\$ (122)	\$ (122)

Freddie Mac Preferred Stock

During 2008, the U.S. Treasury, the FRB, and the FHFA announced that the FHFA was placing Freddie Mac under conservatorship and giving management control to the FHFA. The Bank contemporaneously determined that its 40,000 shares of Freddie Mac preferred stock were fully impaired and recorded an OTTI charge of \$2.1 million in 2008. The OTTI charge brought the carrying value of the stock to \$0. During 2014, based on active trading volume of Freddie Mac preferred stock, the Company determined it appropriate to record an unrealized gain to OCI related to its Freddie Mac preferred stock holdings. Based on the stock's market closing price as of December 31, 2018, the Company's unrealized gain for its Freddie Mac preferred stock totaled \$410,000.

### 3.LOANS HELD FOR SALE

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

#### Mortgage Loans Held for Sale, at Fair Value

See additional detail regarding mortgage loans originated for sale, at fair value under Footnote 15 "Mortgage Banking Activities" of this section of the filing.

#### Consumer Loans Held for Sale, at Fair Value

From the first quarter of 2016 through the first quarter of 2018, the Bank piloted a consumer installment-loan product across the United States using a third-party marketer/service. As part of the program, the Bank sold 100% of the balances generated through the program back to the third-party marketer/servicer approximately 21 days after origination. The Bank carried all unsold loans under the

Table of Contents

program as “held for sale” on the its balance sheet. At the initiation of this program in 2016, the Bank elected to carry these loans at fair value under a fair-value option, with the portfolio thereafter marked to market monthly.

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

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

Years Ended December 31, (in thousands)	2018	2017	2016
Balance, beginning of period	\$ 2,677	\$ 2,198	\$ —
Origination of consumer loans held for sale	16,985	59,467	45,274
Loans transferred to held for investment	(2,237)	—	—
Proceeds from the sale of consumer loans held for sale	(17,022)	(59,380)	(43,410)
Net gain (loss) recognized on consumer loans held for sale	(403)	392	334
Balance, end of period	\$ —	\$ 2,677	\$ 2,198

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

RCS originates balances for a line-of-credit product and, through December 31, 2018, originated balances on a credit-card product. The Bank has sold 90% of the balances maintained through these products within two days of transactional activity and retained a 10% interest. The line-of-credit product represents the substantial majority of balances retained as consumer loans held for sale that are carried at the lower of cost or fair value. During the third quarter of 2018, the Bank and its third-party marketer/servicer agreed to sell 100% of the existing credit-card portfolio to an unrelated third party. As a result, the Bank reclassified its 10% interest into a held-for-sale category and charged the entire RCS credit-card portfolio down to its estimated net realizable value. The Bank and its third-party marketer/servicer closed the sale of the credit-card portfolio in January 2019. Gains or losses on the sale of RCS products are reported as a component of “Program fees.”

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

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Years Ended December 31, (in thousands)	2018	2017	2016
Balance, beginning of period	\$ 8,551	\$ 1,310	\$ 514
Origination of consumer loans held for sale	761,491	603,704	334,792
Loans transferred from held for investment	1,392	—	—
Proceeds from the sale of consumer loans held for sale	(764,929)	(601,718)	(336,497)
Net gain on sale of consumer loans held for sale	6,333	5,255	2,501
Balance, end of period	\$ 12,838	\$ 8,551	\$ 1,310

121

---

Table of Contents

## 4.LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

Ending loan balances at December 31, 2018 and 2017 were as follows:

December 31, (in thousands)	2018	2017
Traditional Banking:		
Residential real estate:		
Owner occupied	\$ 907,005	\$ 921,565
Owner occupied - correspondent*	94,827	116,792
Nonowner occupied	242,846	205,081
Commercial real estate	1,248,940	1,207,293
Construction & land development	175,178	150,065
Commercial & industrial	430,355	341,692
Lease financing receivables	15,031	16,580
Home equity	332,548	347,655
Consumer:		
Credit cards	19,095	16,078
Overdrafts	1,102	974
Automobile loans	63,475	65,650
Other consumer	46,642	20,501
Total Traditional Banking	3,577,044	3,409,926
Warehouse lines of credit*	468,695	525,572
Total Core Banking	4,045,739	3,935,498
Republic Processing Group*:		
Tax Refund Solutions:		
Easy Advances	—	—
Other TRS loans	13,744	11,648
Republic Credit Solutions	88,744	66,888
Total Republic Processing Group	102,488	78,536
Total loans**	4,148,227	4,014,034
Allowance for loan and lease losses	(44,675)	(42,769)
Total loans, net	\$ 4,103,552	\$ 3,971,265

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

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



The following table reconciles the contractually receivable and carrying amounts of loans at December 31, 2018 and 2017:

December 31, (in thousands)	2018	2017
Contractually receivable	\$ 4,147,249	\$ 4,014,673
Unearned income(1)	(1,038)	(1,157)
Unamortized premiums(2)	588	1,069
Unaccreted discounts(3)	(3,174)	(4,643)
Net unamortized deferred origination fees and costs(4)	4,602	4,092
Carrying value of loans	\$ 4,148,227	\$ 4,014,034

---

(1) Unearned income relates to lease financing receivables.

(2) Unamortized premiums predominately relate to loans acquired through the Bank's Correspondent Lending channel.

(3) Unaccreted discounts include accretable and non-accretable discounts and relate to loans acquired in the Bank's 2016 Cornerstone acquisition and its 2012 FDIC-assisted transactions.

(4) Primarily attributable to the Traditional Banking segment.

Table of Contents

## Purchased-Credit-Impaired Loans

The following table reconciles the contractually required and carrying amounts of all PCI loans at December 31, 2018 and 2017:

December 31, (in thousands)	2018	2017
Contractually required principal	\$ 4,251	\$ 5,435
Non-accretable amount	(1,521)	(1,691)
Accretable amount	(50)	(140)
Carrying value of loans	\$ 2,680	\$ 3,604

The following table presents a rollforward of the accretable amount on all PCI loans for years ended December 31, 2018, 2017 and 2016:

Years Ended December 31, (in thousands)	2018	2017	2016
Balance, beginning of period	\$ (140)	\$ (3,600)	\$ (4,125)
Transfers between non-accretable and accretable*	(573)	(28)	(206)
Net accretion into interest income on loans, including loan fees	663	3,488	1,120
Generated from acquisition of Cornerstone Bancorp, Inc. (recasted)	—	—	(389)
Balance, end of period	\$ (50)	\$ (140)	\$ (3,600)

\*Transfers are primarily attributable to changes in estimated cash flows of the underlying loans.

## Credit Quality Indicators

Bank procedures for assessing and maintaining credit gradings differs slightly depending on whether a new or renewed loan is being underwritten, or whether an existing loan is being re-evaluated for potential credit quality concerns. The latter usually occurs upon receipt of updated financial information, or other pertinent data, that would potentially cause a change in the loan grade. Specific Bank procedures follow:

- For new and renewed C&I, CRE and C&D loans, the Bank's CCAD assigns the credit quality grade to the loan.

- Commercial loan officers are responsible for monitoring their respective loan portfolios and reporting any adverse material changes to senior management. When circumstances warrant a review and possible change in the credit quality grade, loan officers are required to notify the Bank's CCAD.
- A senior officer meets monthly with commercial loan officers to discuss the status of past due loans and possible classified loans. These meetings are designed to give loan officers an opportunity to identify existing loans that should be downgraded.
- Monthly, members of senior management along with managers of Commercial Lending, CCAD, Accounting, Special Assets and Retail Collections attend a Special Asset Committee meeting. The SAC reviews all C&I and CRE, classified, and impaired loans and discusses the relative trends and current status of these assets. In addition, the SAC reviews all classified and impaired retail residential real estate loans and all classified and impaired home equity loans. SAC also reviews the actions taken by management regarding credit-quality grades, foreclosure mitigation, loan extensions, troubled debt restructurings and collateral repossessions. Based on the information reviewed in this meeting, the SAC approves all specific loan loss allocations to be recognized by the Bank within the Allowance analysis.
- All new and renewed warehouse lines of credit are approved by the Executive Loan Committee. The CCAD assigns the initial credit quality grade to warehouse facilities. Monthly, members of senior management review warehouse lending activity including data associated with the underlying collateral to the warehouse facilities, i.e., the mortgage loans associated with the balances drawn. Key performance indicators monitored include average days outstanding for each draw, average

Table of Contents

FICO credit report score for the underlying collateral, average LTV for the underlying collateral and other factors deemed relevant.

On at least an annual basis, the Bank's internal loan review department analyzes all aggregate lending relationships with outstanding balances greater than \$1 million that are internally classified as "Special Mention," "Substandard," "Doubtful" or "Loss." In addition, on an annual basis, the Bank analyzes a sample of "Pass" rated loans.

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, public information, and current economic trends. The Bank also considers the fair value of the underlying collateral and the strength and willingness of the guarantor(s). The Bank analyzes loans individually, and based on this analysis, establishes a credit risk rating. The Bank uses the following definitions for risk ratings:

**Risk Grade 1 — Excellent (Pass):** Loans fully secured by liquid collateral, such as certificates of deposit, reputable bank letters of credit, or other cash equivalents; loans fully secured by publicly traded marketable securities where there is no impediment to liquidation; or loans to any publicly held company with a current long-term debt rating of A or better.

**Risk Grade 2 — Good (Pass):** Loans to businesses that have strong financial statements containing an unqualified opinion from a Certified Public Accounting firm and at least three consecutive years of profits; loans supported by unaudited financial statements containing strong balance sheets, five consecutive years of profits, a five-year satisfactory relationship with the Bank, and key balance sheet and income statement trends that are either stable or positive; loans that are guaranteed or otherwise backed by the full faith and credit of the U.S. government or an agency thereof, such as the Small Business Administration; or loans to publicly held companies with current long-term debt ratings of Baa or better.

**Risk Grade 3 — Satisfactory (Pass):** Loans supported by financial statements (audited or unaudited) that indicate average or slightly below average risk and having some deficiency or vulnerability to changing economic conditions; loans with some weakness but offsetting features of other support are readily available; loans that are meeting the terms of repayment, but which may be susceptible to deterioration if adverse factors are encountered.

**Risk Grade 4 — Satisfactory/Monitored (Pass):** Loans in this category are considered to be of acceptable credit quality, but contain greater credit risk than Satisfactory loans due to weak balance sheets, marginal earnings or cash flow, or other uncertainties. These loans warrant a higher than average level of monitoring to ensure that weaknesses do not advance. The level of risk in a Satisfactory/Monitored loan is within acceptable underwriting guidelines so long as the loan is given the proper level of management supervision.

Risk Grade 5 — Special Mention: Loans that possess some credit deficiency or potential weakness that deserves close attention. Such loans pose an unwarranted financial risk that, if not corrected, could weaken the loan by adversely impacting the future repayment ability of the borrower. The key distinctions of a Special Mention classification are that (1) it is indicative of an unwarranted level of risk and (2) credit weaknesses are considered potential and are not defined impairments to the primary source of repayment.

Purchased Credit Impaired Loans — Group 1: 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 PCI-1 category, whose credit risk is considered by management equivalent to a non-PCI "Special Mention" loan within the Bank's credit rating matrix. PCI-1 loans are considered impaired if, based on current information and events, it is probable that the future estimated cash flows of the loan have deteriorated from management's initial acquisition day estimate. Provisions are made for impaired PCI-1 loans to further discount the loan and allow its yield to conform to at least management's initial expectations. Any improvement in the expected performance of a PCI-1 loan would result in a reversal of the Provision to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income.

Purchased Credit Impaired Loans — Substandard: 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-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

## Table of Contents

more analogous to a non-PCI “Substandard” loan within the Bank’s credit rating matrix. 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.

**Risk Grade 6 — Substandard:** One or more of the following characteristics may be exhibited in loans classified as Substandard:

- Loans that possess a defined credit weakness. The likelihood that a loan will be paid from the primary source of repayment is uncertain. Financial deterioration is under way and very close attention is warranted to ensure that the loan is collected without loss.
- Loans are inadequately protected by the current net worth and paying capacity of the obligor.
- The primary source of repayment is gone, and the Bank is forced to rely on a secondary source of repayment, such as collateral liquidation or guarantees.
- Loans have a distinct possibility that the Bank will sustain some loss if deficiencies are not corrected.
- Unusual courses of action are needed to maintain a high probability of repayment.
- The borrower is not generating enough cash flow to repay loan principal, however, it continues to make interest payments.
- The Bank is forced into a subordinated or unsecured position due to flaws in documentation.
- The Bank is seriously contemplating foreclosure or legal action due to the apparent deterioration in the loan.
  - There is significant deterioration in market conditions to which the borrower is highly vulnerable.

**Risk Grade 7 — Doubtful:** One or more of the following characteristics may be present in loans classified as Doubtful:

- Loans have all of the weaknesses of those classified as Substandard. However, based on existing conditions, these weaknesses make full collection of principal highly improbable.
- The primary source of repayment is gone, and there is considerable doubt as to the quality of the secondary source of repayment.
- The possibility of loss is high but because of certain important pending factors, which may strengthen the loan, loss classification is deferred until the exact status of repayment is known.

**Risk Grade 8 — Loss:** Loans are considered uncollectible and of such little value that continuing to carry them as assets is not feasible. Loans will be classified “Loss” when it is neither practical nor desirable to defer writing off or reserving all or a portion of a basically worthless asset, even though partial recovery may be possible at some time in the future.

For all real estate and consumer loans, including small-dollar RPG loans, which do not meet the scope above, the Bank uses a grading system based on delinquency and nonaccrual status. Loans that are 90 days or more past due or on nonaccrual are graded Substandard. Occasionally, a real estate loan below scope may be graded as “Special Mention”

or “Substandard” if the loan is cross-collateralized with a classified C&I or CRE loan.

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

Management separately monitors PCI loans and no less than quarterly reviews them against the factors and assumptions used in determining day-one fair values. In addition to its quarterly evaluation, a PCI loan is typically reviewed when it is modified or extended, or when information becomes available to the Bank that provides additional insight regarding the loan’s performance, the status of the borrower, or the quality or value of the underlying collateral.

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.

Table of Contents

The following tables include loans by risk category based on the Bank's internal analysis performed:

December 31, 2018 (in thousands)	Pass	Special Mention	Substandard	Doubtful Loss	PCI /Loans - Group 1	PCI Loans - Substandard	Total Rated Loans*
<b>Traditional Banking:</b>							
<b>Residential real estate:</b>							
Owner occupied	\$ —	\$ 14,536	\$ 11,690	\$ —	\$ 170	\$ 1,476	\$ 27,872
Owner occupied - correspondent	—	—	382	—	—	—	382
Nonowner occupied	—	575	1,889	—	—	—	2,464
Commercial real estate	1,239,576	5,281	3,162	—	921	—	1,248,940
Construction & land development	175,113	—	65	—	—	—	175,178
Commercial & industrial	428,897	813	620	—	25	—	430,355
Lease financing receivables	15,031	—	—	—	—	—	15,031
Home equity	—	—	1,361	—	5	81	1,447
<b>Consumer:</b>							
Credit cards	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—
Automobile loans	—	—	91	—	—	—	91
Other consumer	—	—	462	—	—	2	464
<b>Total Traditional Banking</b>	<b>1,858,617</b>	<b>21,205</b>	<b>19,722</b>	<b>—</b>	<b>1,121</b>	<b>1,559</b>	<b>1,902,224</b>
Warehouse lines of credit	468,695	—	—	—	—	—	468,695
<b>Total Core Banking</b>	<b>2,327,312</b>	<b>21,205</b>	<b>19,722</b>	<b>—</b>	<b>1,121</b>	<b>1,559</b>	<b>2,370,919</b>
<b>Republic Processing Group:</b>							
<b>Tax Refund Solutions:</b>							
Easy Advances	—	—	—	—	—	—	—
Other TRS loans	—	—	—	—	—	—	—
Republic Credit Solutions	—	—	138	—	—	—	138
<b>Total Republic Processing Group</b>	<b>—</b>	<b>—</b>	<b>138</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>138</b>
<b>Total rated loans</b>	<b>\$ 2,327,312</b>	<b>\$ 21,205</b>	<b>\$ 19,860</b>	<b>\$ —</b>	<b>\$ 1,121</b>	<b>\$ 1,559</b>	<b>\$ 2,371,057</b>

December 31, 2017 (in thousands)	Pass	Special Mention	Substandard	Doubtful Loss	PCI /Loans - Group 1	PCI Loans - Substandard	Total Rated Loans*
-------------------------------------	------	--------------------	-------------	------------------	----------------------------	-------------------------------	-----------------------



Traditional Banking:							
Residential real estate:							
Owner occupied	\$ —	\$ 18,054	\$ 12,056	\$ —	\$ 180	\$ 1,658	\$ 31,948
Owner occupied - correspondent	—	—	—	—	—	—	—
Nonowner occupied	—	635	1,240	—	248	—	2,123
Commercial real estate	1,197,299	4,824	3,798	—	1,372	—	1,207,293
Construction & land development	149,332	—	733	—	—	—	150,065
Commercial & industrial	341,377	267	21	—	27	—	341,692
Lease financing receivables	16,580	—	—	—	—	—	16,580
Home equity	—	33	1,609	—	6	110	1,758
Consumer:							
Credit cards	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—
Automobile loans	—	—	108	—	—	—	108
Other consumer	—	—	571	—	—	3	574
Total Traditional Banking	1,704,588	23,813	20,136	—	1,833	1,771	1,752,141
Warehouse lines of credit	525,572	—	—	—	—	—	525,572
Total Core Banking	2,230,160	23,813	20,136	—	1,833	1,771	2,277,713
Republic Processing Group:							
Tax Refund Solutions:							
Easy Advances	—	—	—	—	—	—	—
Other TRS loans	11,648	—	—	—	—	—	11,648
Republic Credit Solutions	—	—	1,066	—	—	—	1,066
Total Republic Processing Group	11,648	—	1,066	—	—	—	12,714
Total rated loans	\$ 2,241,808	\$ 23,813	\$ 21,202	\$ —	\$ 1,833	\$ 1,771	\$ 2,290,427

\* The above tables exclude all non-classified or non-rated residential real estate, home equity and consumer loans at the respective period ends.

Table of Contents

## Subprime Lending

Both the Traditional Banking segment and the RCS segment of the Company have certain classes of loans that are considered to be “subprime” strictly due to the credit score of the borrower at the time of origination.

Traditional Bank loans considered subprime totaled approximately \$49 million and \$47 million at December 31, 2018 and 2017. Approximately \$18 million and \$12 million of the outstanding Traditional Bank subprime loan portfolio at December 31, 2018 and 2017 were originated for CRA purposes. Management does not consider these loans to possess significantly higher credit risk due to other underwriting qualifications.

The RCS segment originates a short-term line-of-credit product and, through December 31, 2018, originated a credit card product. The Bank has traditionally sold 90% of the balances maintained through these two products within two days of loan origination and retained a 10% interest. Both of these RCS products are unsecured and made to borrowers with subprime or near prime credit scores. The aggregate outstanding balance held-for-investment for these two portfolios totaled \$32 million and \$33 million at December 31, 2018 and 2017. The balance held as of December 31, 2018 includes only the Bank’s line-of-credit product because the Bank settled the sale of 100% of its interest in its RCS credit-card product in January 2019.

## Allowance for Loan and Lease Losses

The following tables present the activity in the Allowance by portfolio class for the years ended December 31, 2018, 2017 and 2016:

(in thousands)	Allowance Rollforward Years Ended December 31, 2018					2017				
	Beginning Balance	Provision	Charge- offs	Recoveries	Ending Balance	Beginning Balance	Provision	Charge- offs	Recoveries	Ending Balance
Traditional Banking: Residential real estate: Owner occupied	\$ 6,182	\$ 225	\$ (855)	\$ 246	\$ 5,798	\$ 7,158	\$ (933)	\$ (300)	\$ 257	\$ 5,798
	292	(55)	—	—	237	373	(81)	—	—	237

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Owner occupied - correspondent									
Nonowner occupied	1,396	559	(332)	39	1,662	1,139	272	(30)	15
Commercial real estate	9,043	863	(7)	131	10,030	8,078	826	—	139
Construction & land development	2,364	161	—	30	2,555	1,850	508	—	6
Commercial & industrial	2,198	824	(200)	51	2,873	1,511	842	(189)	34
Lease financing receivables	174	(16)	—	—	158	136	38	—	—
Home equity Consumer:	3,754	(473)	(115)	311	3,477	3,757	37	(222)	182
Credit cards	607	906	(416)	43	1,140	490	247	(168)	38
Overdrafts	974	1,082	(1,215)	261	1,102	675	1,031	(960)	228
Automobile loans	687	57	(24)	4	724	526	188	(30)	3
Other consumer	1,162	(423)	(444)	296	591	771	948	(884)	327
Total Traditional Banking	28,833	3,710	(3,608)	1,412	30,347	26,464	3,923	(2,783)	1,229
Warehouse lines of credit	1,314	(142)	—	—	1,172	1,464	(150)	—	—
Total Core Banking	30,147	3,568	(3,608)	1,412	31,519	27,928	3,773	(2,783)	1,229
Republic Processing Group:									
Tax Refund Solutions:									
Easy Advances	—	10,760	(12,478)	1,718	—	—	6,789	(8,121)	1,332
Other TRS loans	12	159	(74)	10	107	25	(254)	—	241
Republic Credit Solutions	12,610	16,881	(17,692)	1,250	13,049	4,967	17,396	(10,659)	906
Total Republic Processing Group	12,622	27,800	(30,244)	2,978	13,156	4,992	23,931	(18,780)	2,479
Total	\$ 42,769	\$ 31,368	\$ (33,852)	\$ 4,390	\$ 44,675	\$ 32,920	\$ 27,704	\$ (21,563)	\$ 3,708



Table of Contents

(in thousands)	Allowance Rollforward Year Ended December 31, 2016				Ending Balance
	Beginning Balance	Provision	Charge- offs	Recoveries	
Traditional Banking:					
Residential real estate:					
Owner occupied	\$ 8,301	\$ (1,148)	\$ (416)	\$ 421	\$ 7,158
Owner occupied - correspondent	623	(250)	—	—	373
Nonowner occupied	1,052	79	—	8	1,139
Commercial real estate	7,672	768	(514)	152	8,078
Construction & land development	1,303	513	(44)	78	1,850
Commercial & industrial	1,455	259	(330)	127	1,511
Lease financing receivables	89	47	—	—	136
Home equity	2,996	961	(351)	151	3,757
Consumer:					
Credit cards	448	154	(164)	52	490
Overdrafts	351	898	(816)	242	675
Automobile loans	56	481	(12)	1	526
Other consumer	479	686	(735)	341	771
Total Traditional Banking	24,825	3,448	(3,382)	1,573	26,464
Warehouse lines of credit	967	497	—	—	1,464
Total Core Banking	25,792	3,945	(3,382)	1,573	27,928
Republic Processing Group:					
Tax Refund Solutions:					
Easy Advances	—	3,048	(3,474)	426	—
Refund Anticipation Loans	—	(301)	—	301	—
Commercial & industrial	—	25	—	—	25
Republic Credit Solutions	1,699	7,776	(5,000)	492	4,967
Total Republic Processing Group	1,699	10,548	(8,474)	1,219	4,992
Total	\$ 27,491	\$ 14,493	\$ (11,856)	\$ 2,792	\$ 32,920

## Nonperforming Loans and Nonperforming Assets

Detail of nonperforming loans and nonperforming assets and select credit quality ratios follows:

December 31, (dollars in thousands)

2018

2017

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Loans on nonaccrual status*	\$ 15,993	\$ 14,118
Loans past due 90-days-or-more and still on accrual**	145	956
Total nonperforming loans	16,138	15,074
Other real estate owned	160	115
Total nonperforming assets	\$ 16,298	\$ 15,189

Credit Quality Ratios - Total Company:

Nonperforming loans to total loans	0.39	%	0.38	%
Nonperforming assets to total loans (including OREO)	0.39		0.38	
Nonperforming assets to total assets	0.31		0.30	

Credit Quality Ratios - Core Bank:

Nonperforming loans to total loans	0.40	%	0.36	%
Nonperforming assets to total loans (including OREO)	0.40		0.36	
Nonperforming assets to total assets	0.32		0.28	

---

\*Loans on nonaccrual status include impaired loans.

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

Table of Contents

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

December 31, (in thousands)	Nonaccrual		Past Due 90-Days-or-More and Still Accruing Interest*	
	2018	2017	2018	2017
Traditional Banking:				
Residential real estate:				
Owner occupied	\$ 10,800	\$ 9,230	\$ —	\$ —
Owner occupied - correspondent	382	—	—	—
Nonowner occupied	669	257	—	—
Commercial real estate	2,318	3,247	—	—
Construction & land development	—	67	—	—
Commercial & industrial	630	—	—	—
Lease financing receivables	—	—	—	—
Home equity	1,095	1,217	—	—
Consumer:				
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Automobile loans	75	68	—	—
Other consumer	24	32	13	19
Total Traditional Banking	15,993	14,118	13	19
Warehouse lines of credit	—	—	—	—
Total Core Banking	15,993	14,118	13	19
Republic Processing Group:				
Tax Refund Solutions:				
Easy Advances	—	—	—	—
Other TRS loans	—	—	4	—
Republic Credit Solutions	—	—	128	937
Total Republic Processing Group	—	—	132	937
Total	\$ 15,993	\$ 14,118	\$ 145	\$ 956

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

Nonaccrual loans and loans past due 90-days-or-more and still on accrual include both smaller balance, primarily retail, homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Nonaccrual loans are typically returned to accrual status when all the principal and interest amounts contractually due are brought current and held current for six consecutive months and future contractual payments are reasonably assured. TDRs on nonaccrual status are reviewed for return to accrual status on an individual basis, with additional consideration given to performance under the modified terms.





Table of Contents

The Bank considers the performance of the loan portfolio and its impact on the Allowance. For residential and consumer loan classes, the Bank also evaluates credit quality based on the aging status of the loan and by payment activity. The following tables present the recorded investment in residential and consumer loans based on payment activity as of December 31, 2018 and 2017:

	Residential Real Estate				Consumer				
	Owner Occupied	Owner Occupied - Correspondent	Nonowner Occupied	Home Equity	Credit Cards	Overdrafts	Automobile Loans	Other Consumer	
December 31, 2018 (dollars in thousands)									
Aging	\$ 896,205 10,800	\$ 94,445 382	\$ 242,177 669	\$ 331,453 1,095	\$ 19,095 —	\$ 1,102 —	\$ 63,400 75	\$ 46,605 37	\$
	\$ 907,005	\$ 94,827	\$ 242,846	\$ 332,548	\$ 19,095	\$ 1,102	\$ 63,475	\$ 46,642	\$
December 31, 2017 (dollars in thousands)									
Aging	\$ 912,335 9,230	\$ 116,792 —	\$ 204,824 257	\$ 346,438 1,217	\$ 16,078 —	\$ 974 —	\$ 65,582 68	\$ 20,450 51	\$
	\$ 921,565	\$ 116,792	\$ 205,081	\$ 347,655	\$ 16,078	\$ 974	\$ 65,650	\$ 20,501	\$

Delinquent Loans

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

December 31, 2018 (dollars in thousands)	30 - 59 Days Delinquent	60 - 89 Days Delinquent	90 or More Days Delinquent*	Total Delinquent**	Total Current	Total
Traditional Banking: Residential real estate:						
Owner occupied	\$ 1,137	\$ 748	\$ 3,640	\$ 5,525	\$ 901,480	\$ 907,005
Owner occupied - correspondent	—	—	—	—	94,827	94,827

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Nonowner occupied	349	—	659	1,008	241,838	242,846
Commercial real estate	511	—	588	1,099	1,247,841	1,248,940
Construction & land development	—	—	—	—	175,178	175,178
Commercial & industrial	—	—	25	25	430,330	430,355
Lease financing receivables	—	—	—	—	15,031	15,031
Home equity	558	—	226	784	331,764	332,548
Consumer:						
Credit cards	82	46	1	129	18,966	19,095
Overdrafts	223	5	2	230	872	1,102
Automobile loans	—	28	—	28	63,447	63,475
Other consumer	27	7	13	47	46,595	46,642
Total Traditional Banking	2,887	834	5,154	8,875	3,568,169	3,577,044
Warehouse lines of credit	—	—	—	—	468,695	468,695
Total Core Banking	2,887	834	5,154	8,875	4,036,864	4,045,739
Republic Processing Group:						
Tax Refund Solutions:						
Easy Advances	—	—	—	—	—	—
Other TRS loans	2	4	4	10	13,734	13,744
Republic Credit Solutions	5,734	1,215	128	7,077	81,667	88,744
Total Republic Processing Group	5,736	1,219	132	7,087	95,401	102,488
Total	\$ 8,623	\$ 2,053	\$ 5,286	\$ 15,962	\$ 4,132,265	\$ 4,148,227
Delinquency ratio***	0.21	% 0.05	% 0.13	% 0.38	%	%

\*All loans past due 90-days-or-more, excluding small balance consumer loans, were on nonaccrual status.

\*\*Delinquent status may be determined by either the number of days past due or number of payments past due.

\*\*\*Represents total loans 30-days-or-more past due by aging category divided by total loans.

Table of Contents

December 31, 2017 (dollars in thousands)	30 - 59 Days Delinquent	60 - 89 Days Delinquent	90 or More Days Delinquent*	Total Delinquent**	Total Current	Total
<b>Traditional Banking:</b>						
<b>Residential real estate:</b>						
Owner occupied	\$ 2,559	\$ 1,166	\$ 1,057	\$ 4,782	\$ 916,783	\$ 921,565
Owner occupied - correspondent	—	—	—	—	116,792	116,792
Nonowner occupied	47	—	99	146	204,935	205,081
Commercial real estate	398	—	1,329	1,727	1,205,566	1,207,293
Construction & land development	67	—	—	67	149,998	150,065
Commercial & industrial	15	—	—	15	341,677	341,692
Lease financing receivables	—	—	—	—	16,580	16,580
Home equity	723	50	448	1,221	346,434	347,655
<b>Consumer:</b>						
Credit cards	34	40	—	74	16,004	16,078
Overdrafts	230	3	—	233	741	974
Automobile loans	36	—	24	60	65,590	65,650
Other consumer	93	21	21	135	20,366	20,501
<b>Total Traditional Banking</b>	<b>4,202</b>	<b>1,280</b>	<b>2,978</b>	<b>8,460</b>	<b>3,401,466</b>	<b>3,409,926</b>
Warehouse lines of credit	—	—	—	—	525,572	525,572
<b>Total Core Banking</b>	<b>4,202</b>	<b>1,280</b>	<b>2,978</b>	<b>8,460</b>	<b>3,927,038</b>	<b>3,935,498</b>
<b>Republic Processing Group:</b>						
<b>Tax Refund Solutions:</b>						
Easy Advances	—	—	—	—	—	—
Other TRS loans	—	—	—	—	11,648	11,648
Republic Credit Solutions	3,631	1,073	937	5,641	61,247	66,888
<b>Total Republic Processing Group</b>	<b>3,631</b>	<b>1,073</b>	<b>937</b>	<b>5,641</b>	<b>72,895</b>	<b>78,536</b>
<b>Total</b>	<b>\$ 7,833</b>	<b>\$ 2,353</b>	<b>\$ 3,915</b>	<b>\$ 14,101</b>	<b>\$ 3,999,933</b>	<b>\$ 4,014,034</b>
<b>Delinquency ratio***</b>	<b>0.20 %</b>	<b>0.06 %</b>	<b>0.10 %</b>	<b>0.35 %</b>		

\*All loans past due 90 days-or-more, excluding small-dollar consumer loans, were on nonaccrual status.

\*\*Delinquent status may be determined by either the number of days past due or number of payments past due.

\*\*\*Represents total loans 30-days-or-more past due divided by total loans.

## Impaired Loans

Information regarding the Bank's impaired loans follows:

Years Ended December 31, (in thousands)	2018	2017	2016
Loans with no allocated Allowance	\$ 19,555	\$ 18,540	\$ 21,416
Loans with allocated Allowance	21,880	27,076	31,268
Total recorded investment in impaired loans	\$ 41,435	\$ 45,616	\$ 52,684
Amount of the allocated Allowance	\$ 3,764	\$ 4,685	\$ 4,925
Average of individually impaired loans during the year	45,620	47,361	56,981
Interest income recognized during impairment	1,245	1,392	1,466
Cash basis interest income recognized	—	—	—

Table of Contents

Approximately \$3 million and \$4 million of impaired loans at December 31, 2018 and 2017 were PCI loans. Approximately \$2 million and \$2 million of impaired loans at December 31, 2018 and 2017 were formerly PCI loans which became classified as “impaired” through a post-acquisition troubled debt restructuring.

The following tables present the balance in the Allowance and the recorded investment in loans by portfolio class based on impairment method as of December 31, 2018 and 2017:

December 31, 2018 (dollars in thousands)	Allowance for Loan and Lease Losses				Loans		PCI with Post-Acquisition Impairment	PCI without Post-Acquisition Impairment
	Individually Evaluated Excluding PCI	Collectively Evaluated	PCI with Post-Acquisition Impairment	Total Allowance	Individually Evaluated Excluding PCI	Collectively Evaluated		
<b>Traditional Banking:</b>								
<b>Residential real estate:</b>								
Owner occupied	\$ 2,052	\$ 3,365	\$ 381	\$ 5,798	\$ 24,860	\$ 880,500	\$ 1,645	\$ —
Owner occupied - correspondent	—	237	—	237	382	94,445	—	—
Nonowner occupied	4	1,658	—	1,662	2,406	240,440	—	—
<b>Commercial real estate</b>	294	9,727	9	10,030	8,104	1,239,915	919	2
Construction & land development	4	2,551	—	2,555	65	175,113	—	—
Commercial & industrial	130	2,743	—	2,873	1,020	429,310	—	25
Lease financing receivables	—	158	—	158	—	15,031	—	—
Home equity	286	3,117	74	3,477	1,361	331,101	86	—
<b>Consumer:</b>								
Credit cards	—	1,140	—	1,140	—	19,095	—	—
Overdrafts	—	1,102	—	1,102	—	1,102	—	—
Automobile loans	91	633	—	724	91	63,384	—	—
Other consumer	421	170	—	591	449	46,190	3	—
<b>Total Traditional Banking</b>	3,282	26,601	464	30,347	38,738	3,535,626	2,653	27
Warehouse lines of credit	—	1,172	—	1,172	—	468,695	—	—
<b>Total Core Banking</b>	3,282	27,773	464	31,519	38,738	4,004,321	2,653	27
<b>Republic Processing Group:</b>								
<b>Tax Refund Solutions:</b>								
Easy Advances	—	—	—	—	—	—	—	—

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Other TRS loans	—	107	—	107	—	13,744	—	—
Republic Credit Solutions	18	13,031	—	13,049	44	88,700	—	—
Total Republic Processing Group	18	13,138	—	13,156	44	102,444	—	—
Total	\$ 3,300	\$ 40,911	\$ 464	\$ 44,675	\$ 38,782	\$ 4,106,765	\$ 2,653	\$ 27

December 31, 2017 (dollars in thousands)	Allowance for Loan and Lease Losses				Loans		PCI with Post-Acquisition Impairment	PCI without Post-Acquisition Impairment
	Individually Evaluated Excluding PCI	Collectively Evaluated	PCI with Post-Acquisition Impairment Allowance	Total	Individually Evaluated Excluding PCI	Collectively Evaluated		
<b>Traditional Banking:</b>								
<b>Residential real estate:</b>								
Owner occupied	\$ 2,361	\$ 3,501	\$ 320	\$ 6,182	\$ 27,605	\$ 892,122	\$ 1,838	\$ —
Owner occupied - correspondent	—	292	—	292	—	116,792	—	—
Nonowner occupied	4	1,390	2	1,396	1,814	203,019	248	—
Commercial real estate	407	8,588	48	9,043	9,185	1,196,736	1,369	3
Construction & land development	107	2,257	—	2,364	733	149,332	—	—
Commercial & industrial	288	1,910	—	2,198	308	341,357	—	27
Lease financing receivables	—	174	—	174	—	16,580	—	—
Home equity	425	3,218	111	3,754	1,609	345,930	115	1
<b>Consumer:</b>								
Credit cards	—	607	—	607	—	16,078	—	—
Overdrafts	—	974	—	974	—	974	—	—
Automobile loans	32	655	—	687	108	65,542	—	—
Other consumer	528	631	3	1,162	552	19,946	3	—
Total Traditional Banking	4,152	24,197	484	28,833	41,914	3,364,408	3,573	31
Warehouse lines of credit	—	1,314	—	1,314	—	525,572	—	—
Total Core Banking	4,152	25,511	484	30,147	41,914	3,889,980	3,573	31
<b>Republic Processing Group:</b>								
<b>Tax Refund Solutions:</b>								
Easy Advances	—	—	—	—	—	—	—	—
Other TRS loans	—	12	—	12	—	11,648	—	—
Republic Credit Solutions	49	12,561	—	12,610	129	66,759	—	—
Total Republic Processing Group	49	12,573	—	12,622	129	78,407	—	—

Total

\$ 4,201    \$ 38,084    \$ 484    \$ 42,769    \$ 42,043    \$ 3,968,387    \$ 3,573    \$ 31    \$

132

---

Table of Contents

The following tables present loans individually evaluated for impairment by class of loans as of December 31, 2018, 2017 and 2016. The difference between the “Unpaid Principal Balance” and “Recorded Investment” columns represents life-to-date partial write downs/charge-offs taken on individual impaired credits.

(in thousands)	As of December 31, 2018			Twelve Months Ended December 31, 2018		Cash Basis Interest Income Recognized
	Unpaid Principal Balance	Recorded Investment	Allocated Allowance	Average Recorded Investment	Interest Income Recognized	
Impaired loans with no allocated Allowance:						
Residential real estate:						
Owner occupied	\$ 11,676	\$ 10,703	\$ —	\$ 10,817	\$ 198	\$ —
Owner occupied - correspondent	382	382	—	385	—	—
Nonowner occupied	2,729	2,350	—	2,561	87	—
Commercial real estate	5,688	4,607	—	5,040	151	—
Construction & land development	—	—	—	119	—	—
Commercial & industrial	712	604	—	755	3	—
Lease financing receivables	—	—	—	—	—	—
Home equity	919	876	—	682	17	—
Consumer	33	33	—	49	2	—
Impaired loans with allocated Allowance:						
Residential real estate:						
Owner occupied	16,215	15,802	2,433	17,754	528	—
Owner occupied - correspondent	—	—	—	—	—	—
Nonowner occupied	78	56	4	136	—	—
Commercial real estate	4,416	4,416	303	5,495	206	—
Construction & land development	65	65	4	113	3	—
Commercial & industrial	416	416	130	158	19	—
Lease financing receivables	—	—	—	—	—	—
Home equity	572	571	360	925	9	—
Consumer	554	554	530	631	22	—
Total impaired loans	\$ 44,455	\$ 41,435	\$ 3,764	\$ 45,620	\$ 1,245	\$ —

As of

Twelve Months Ended



## Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

(in thousands)	December 31, 2017			December 31, 2017		Cash Basis
	Unpaid Principal Balance	Recorded Investment	Allocated Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized
Impaired loans with no allocated Allowance:						
Residential real estate:						
Owner occupied	\$ 11,664	\$ 10,789	\$ —	\$ 11,253	\$ 179	\$ —
Owner occupied - correspondent	—	—	—	—	—	—
Nonowner occupied	1,784	1,704	—	1,526	86	—
Commercial real estate	5,504	4,430	—	4,863	71	—
Construction & land development	591	591	—	565	29	—
Commercial & industrial	20	20	—	116	4	—
Lease financing receivables	—	—	—	—	—	—
Home equity	1,071	981	—	1,205	11	—
Consumer	25	25	—	62	1	—
Impaired loans with allocated Allowance:						
Residential real estate:						
Owner occupied	18,676	18,654	2,681	20,212	655	—
Owner occupied - correspondent	—	—	—	—	—	—
Nonowner occupied	361	358	6	416	14	—
Commercial real estate	6,124	6,124	455	5,501	294	—
Construction & land development	142	142	107	209	3	—
Commercial & industrial	288	288	288	225	8	—
Lease financing receivables	—	—	—	—	—	—
Home equity	743	743	536	820	17	—
Consumer	767	767	612	388	20	—
Total impaired loans	\$ 47,760	\$ 45,616	\$ 4,685	\$ 47,361	\$ 1,392	\$ —

Table of Contents

(in thousands)	As of December 31, 2016			Twelve Months Ended December 31, 2016		Cash Basis Interest Income Recognized
	Unpaid Principal Balance	Recorded Investment	Allocated Allowance	Average Recorded Investment	Interest Income Recognized	
Impaired loans with no allocated Allowance:						
Residential real estate:						
Owner occupied	\$ 13,727	\$ 12,629	\$ —	\$ 13,219	\$ 140	\$ —
Owner occupied - correspondent	—	—	—	—	—	—
Non owner occupied	1,399	1,376	—	1,293	20	—
Commercial real estate	6,610	5,536	—	6,462	106	—
Construction & land development	476	476	—	476	20	—
Commercial & industrial	67	67	—	115	7	—
Lease financing receivables	—	—	—	—	—	—
Home equity	1,358	1,287	—	1,674	15	—
Consumer	45	45	—	70	—	—
Impaired loans with allocated Allowance:						
Residential real estate:						
Owner occupied	21,595	21,576	3,361	22,867	782	—
Owner occupied - correspondent	—	—	—	—	—	—
Non owner occupied	491	493	73	799	24	—
Commercial real estate	7,397	7,397	577	8,592	292	—
Construction & land development	405	406	120	421	19	—
Commercial & industrial	619	619	227	621	1	—
Lease financing receivables	—	—	—	—	—	—
Home equity	742	741	532	331	39	—
Consumer	37	36	35	41	1	—
Total impaired loans	\$ 54,968	\$ 52,684	\$ 4,925	\$ 56,981	\$ 1,466	\$ —

## Troubled Debt Restructurings

A TDR is a situation where, due to a borrower's financial difficulties, the Bank grants a concession to the borrower that the Bank would not otherwise have considered. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of their debt in the foreseeable future without the modification. This evaluation is performed in accordance with the Bank's internal underwriting policy.

All TDRs are considered "Impaired," including PCI loans subsequently restructured. The majority of the Bank's commercial related and construction TDRs involve a restructuring of financing terms such as a reduction in the payment amount to require only interest and escrow (if required) and/or extending the maturity date of the debt. The substantial majority of the Bank's residential real estate TDR concessions involve reducing the client's loan payment through a rate reduction for a set period based on the borrower's ability to service the modified loan payment. Retail loans may also be classified as TDRs due to legal modifications, such as bankruptcies.

Nonaccrual loans modified as TDRs typically remain on nonaccrual status and continue to be reported as nonperforming loans for a minimum of six consecutive months. Accruing loans modified as TDRs are evaluated for nonaccrual status based on a current evaluation of the borrower's financial condition and ability and willingness to service the modified debt. At December 31, 2018 and 2017, \$8 million and \$6 million of TDRs were on nonaccrual status.

Table of Contents

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

	Troubled Debt Restructurings on Nonaccrual Status		Troubled Debt Restructurings on Accrual Status		Total Troubled Debt Restructurings	
	Number of	Recorded	Number of	Recorded	Number of	Recorded
December 31, 2018 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate	60	\$ 6,378	156	\$ 17,232	216	\$ 23,610
Commercial real estate	3	1,203	14	6,571	17	7,774
Construction & land development	—	—	1	65	1	65
Commercial & industrial	2	571	3	408	5	979
Consumer	—	—	256	435	256	435
Total troubled debt restructurings	65	\$ 8,152	430	\$ 24,711	495	\$ 32,863

	Troubled Debt Restructurings on Nonaccrual Status		Troubled Debt Restructurings on Accrual Status		Total Troubled Debt Restructurings	
	Number of	Recorded	Number of	Recorded	Number of	Recorded
December 31, 2017 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate	62	\$ 4,926	183	\$ 20,189	245	\$ 25,115
Commercial real estate	2	1,366	14	6,499	16	7,865
Construction & land development	1	67	3	666	4	733
Commercial & industrial	—	—	2	287	2	287
Consumer	—	—	830	637	830	637
Total troubled debt restructurings	65	\$ 6,359	1,032	\$ 28,278	1,097	\$ 34,637

Table of Contents

The Bank considers a TDR to be performing to its modified terms if the loan is in accrual status and not past due 30 days-or-more as of the reporting date. A summary of the categories of TDR loan modifications outstanding and respective performance under modified terms at December 31, 2018 and 2017 follows:

	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
	Number of	Recorded	Number of	Recorded	Number of	Recorded
December 31, 2018 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate loans (including home equity loans):						
Interest only payments	—	\$ —	1	\$ 970	1	\$ 970
Rate reduction	145	16,892	12	978	157	17,870
Principal deferral	11	1,171	4	1,871	15	3,042
Legal modification	35	1,500	8	228	43	1,728
Total residential TDRs	191	19,563	25	4,047	216	23,610
Commercial related and construction/land development loans:						
Interest only payments	2	752	—	—	2	752
Rate reduction	8	2,962	—	—	8	2,962
Principal deferral	12	5,076	—	—	12	5,076
Legal modification	—	—	1	28	1	28
Total commercial TDRs	22	8,790	1	28	23	8,818
Consumer loans:						
Rate reduction	1	16	—	—	1	16
Principal deferral	255	419	—	—	255	419
Legal modification	—	—	—	—	—	—
Total consumer TDRs	256	435	—	—	256	435
Total troubled debt restructurings	469	\$ 28,788	26	\$ 4,075	495	\$ 32,863

	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
	Number of	Recorded	Number of	Recorded	Number of	Recorded

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

December 31, 2017 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate loans (including home equity loans):						
Interest only payments	2	\$ 463	—	\$ —	2	\$ 463
Rate reduction	161	18,777	17	1,902	178	20,679
Principal deferral	14	1,455	2	121	16	1,576
Legal modification	42	1,997	7	400	49	2,397
Total residential TDRs	219	22,692	26	2,423	245	25,115
Commercial related and construction/land development loans:						
Interest only payments	3	837	—	—	3	837
Rate reduction	7	3,185	1	79	8	3,264
Principal deferral	9	3,430	2	1,354	11	4,784
Total commercial TDRs	19	7,452	3	1,433	22	8,885
Consumer loans:						
Principal deferral	830	637	—	—	830	637
Total troubled debt restructurings	1,068	\$ 30,781	29	\$ 3,856	1,097	\$ 34,637

Table of Contents

As of December 31, 2018 and 2017, 88% and 89% of the Bank's TDRs were performing according to their modified terms. The Bank had provided \$3 million and \$4 million of specific reserve allocations to clients whose loan terms have been modified in TDRs as of December 31, 2018 and 2017. The Bank had no commitments to lend any additional material amounts to its existing TDR relationships at December 31, 2018 and 2017.

A summary of the categories of TDR loan modifications and respective performance as of December 31, 2018, 2017 and 2016 that were modified during the years ended December 31, 2018, 2017 and 2016 follows:

	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
	Number of	Recorded	Number of	Recorded	Number of	Recorded
December 31, 2018 (dollars in thousands)	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate loans (including home equity loans):						
Interest only payments	—	\$ —	1	\$ 970	1	\$ 970
Rate reduction	2	465	—	—	2	465
Principal deferral	3	43	3	1,849	6	1,892
Legal modification	7	121	1	18	8	139
Total residential TDRs	12	629	5	2,837	17	3,466
Commercial related and construction/land development loans:						
Principal deferral	6	1,402	—	—	6	1,402
Legal modification	—	—	1	28	1	28
Total commercial TDRs	6	1,402	1	28	7	1,430
Consumer loans:						
Principal deferral	1	52	—	—	1	52
Total consumer TDRs	1	52	—	—	1	52
Total troubled debt restructurings	19	\$ 2,083	6	\$ 2,865	25	\$ 4,948
	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

December 31, 2017 (dollars in thousands)	Number	Recorded	Number	Recorded	Number	Recorded
	of		of		of	
	Loans	Investment	Loans	Investment	Loans	Investment
Residential real estate loans (including home equity loans):						
Rate reduction	1	\$ 219	—	\$ —	1	\$ 219
Principal deferral	4	1,013	—	—	4	1,013
Legal modification	6	351	2	197	8	548
Total residential TDRs	11	1,583	2	197	13	1,780
Commercial related and construction/land development loans:						
Principal deferral	2	266	—	—	2	266
Legal modification	—	—	—	—	—	—
Total commercial TDRs	2	266	—	—	2	266
Consumer loans:						
Principal deferral	830	637	—	—	830	637
Total consumer TDRs	830	637	—	—	830	637
Total troubled debt restructurings	843	\$ 2,486	2	\$ 197	845	\$ 2,683

The tables above are inclusive of loans that were TDRs at the end of previous years and were re-modified, e.g., a maturity date extension during the current year.



Table of Contents

December 31, 2016 (dollars in thousands)	Troubled Debt Restructurings Performing to Modified Terms		Troubled Debt Restructurings Not Performing to Modified Terms		Total Troubled Debt Restructurings	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential real estate loans (including home equity loans):						
Interest only payments	1	\$ 146	—	\$ —	1	\$ 146
Rate reduction	6	566	3	149	9	715
Legal modification	4	319	7	741	11	1,060
Total residential TDRs	11	1,031	10	890	21	1,921
Commercial related and construction/land development loans:						
Interest only payments	2	1,718	—	—	2	1,718
Rate reduction	2	749	1	135	3	884
Principal deferral	1	465	1	1,429	2	1,894
Total commercial TDRs	5	2,932	2	1,564	7	4,496
Total troubled debt restructurings	16	\$ 3,963	12	\$ 2,454	28	\$ 6,417

The table above is inclusive of loans that were TDRs at the end of previous years and were re-modified, e.g., a maturity date extension during the current year.

As of December 31, 2018, 2017 and 2016, 42%, 93% and 62% of the Bank's TDRs that occurred during the years ended December 31, 2018, 2017 and 2016 were performing according to their modified terms. The Bank provided approximately \$472,000, \$885,000 and \$377,000 in specific reserve allocations to clients whose loan terms were modified in TDRs during 2018, 2017 and 2016.

There was no significant change between the pre and post modification loan balances at December 31, 2018, 2017 and 2016.

The following tables present loans by class modified as troubled debt restructurings within the previous 12 months of December 31, 2018, 2017 and 2016 and for which there was a payment default during 2018, 2017 and 2016:

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Years Ended December 31, (dollars in thousands)	2018		2017		2016	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential real estate:						
Owner occupied	6	\$ 2,920	2	\$ 197	5	\$ 498
Commercial real estate	1	28	—	—	—	—
Construction & land development	—	—	—	—	1	86
Home equity	—	—	—	—	1	286
Consumer	—	—	823	129	—	—
Total	7	\$ 2,948	825	\$ 326	7	\$ 870

Foreclosures

The following table presents the carrying amount of foreclosed properties held at December 31, 2018 and 2017 as a result of the Bank obtaining physical possession of such properties:

December 31, (in thousands)	2018	2017
Residential real estate	\$ 160	\$ 115
Total other real estate owned	\$ 160	\$ 115

Table of Contents

The following table presents the recorded investment in consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction as of December 31, 2018 and 2017:

December 31, (in thousands)	2018	2017
Recorded investment in consumer residential real estate mortgage loans in the process of foreclosure	\$ 3,293	\$ 1,392

## Easy Advances

The Company's TRS segment offered its EA product during the first two months of 2018, 2017 and 2016. The Company based its estimated provision for loan losses of EAs on current year EA delinquency information and prior year IRS funding patterns of federal tax refunds subsequent to the first quarter. At December 31, 2018, 2017 and 2016, all EAs originated had been either charged-off or collected.

Information regarding EAs follows:

Years Ended December 31, (dollars in thousands)	2018	2017	2016
Easy Advances originated	\$ 430,210	\$ 328,523	\$ 123,230
Net charge to the Provision for Easy Advances	10,760	6,789	3,048
Provision to total Easy Advances originated	2.50 %	2.07 %	2.47 %
Easy Advances net charge-offs	\$ 10,760	\$ 6,789	\$ 3,048
Easy Advances net charge-offs to total Easy Advances originated	2.50 %	2.07 %	2.47 %

## 5. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment follows:

December 31, (in thousands)	2018	2017
-----------------------------	------	------

Land	\$ 4,185	\$ 4,185
Buildings and improvements	35,264	34,513
Furniture, fixtures and equipment	43,245	40,550
Leasehold improvements	19,638	18,760
Total premises and equipment	102,332	98,008
Less: Accumulated depreciation and amortization	59,206	55,420
Premises and equipment, net	\$ 43,126	\$ 42,588

The Company held three former banking centers for sale as of December 31, 2018. The Company closed its Hudson, Florida banking center in January 2015 and has held the property for sale since closing. Additionally, the Company obtained two Florida-based, former banking centers in its May 17, 2016 Cornerstone acquisition. The Company carried all three former banking centers at a value of \$2 million, inclusive of accumulated depreciation, at December 31, 2018.

In 2018, the Company sold its banking center in Port Richey, Florida and recognized a \$14,000 loss on the transaction. The premises of the banking center were carried at approximately \$778,000, which equated to the total cost of the premises less accumulated depreciation.

Depreciation expense related to premises and equipment follows:

Years Ended December 31, (in thousands)	2018	2017	2016
Depreciation expense	\$ 9,347	\$ 8,472	\$ 7,304

Table of Contents

## 6.GOODWILL AND CORE DEPOSIT INTANGIBLE ASSETS

A progression of the balance for goodwill follows:

Years Ended December 31, (in thousands)	2018	2017	2016
Beginning of period	\$ 16,300	\$ 16,300	\$ 10,168
Acquired goodwill	—	—	6,132
Impairment	—	—	—
End of period	\$ 16,300	\$ 16,300	\$ 16,300

The goodwill balance relates entirely to the Company's Traditional Banking operations.

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At December 31, 2018 and 2017, the Company's Core Banking reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more-likely-than-not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was not more-likely-than-not that the carrying value of the reporting unit exceeded its fair value. Therefore, the Company did not complete the two-step impairment test as of December 31, 2018, 2017 and 2016.

The Company recorded a \$1 million core deposit intangible asset in association with its May 17, 2016 Cornerstone acquisition. For the years ending December 31, 2018, 2017 and 2016, aggregate CDI amortization expense was immaterial to the Company's financial statements.

## 7.INTEREST RATE SWAPS

Interest rate swap derivatives are reported at fair value in other assets or other liabilities. The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as part of a cash flow hedging relationship. For a derivative designated as a cash flow hedge, the effective portion of the derivative's unrealized gain or loss is recorded as a component of OCI. For derivatives not designated as hedges, the gain or loss is recognized in current period earnings.

## Interest Rate Swaps Used as Cash Flow Hedges

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

The swaps were determined to be fully effective during all periods presented; therefore, no amount of ineffectiveness was included in net income. The aggregate fair value of the swaps is recorded in other liabilities with changes in fair value recorded in OCI. The amount included in AOCI would be reclassified to current earnings should the hedge no longer be considered effective. The Bank expects the hedges to remain fully effective during the remaining term of the swaps.

The following table reflects information about swaps designated as cash flow hedges as of December 31, 2018 and 2017:

(dollars in thousands)	Notional Amount	Pay Rate	Receive Rate	Term	December 31, 2018		December 31, 2017	
					Assets / (Liabilities)	Unrealized Gain (Loss) AOCI	Assets / (Liabilities)	Unrealized Gain (Loss) in AOCI
Interest rate swap on money market deposits	\$ 10,000	2.17 %	1M LIBOR	12/2013 - 12/2020	\$ 58	\$ 45	\$ (60)	\$ (25)
Interest rate swap on FHLB advance	10,000	2.33 %	3M LIBOR	12/2013 - 12/2020	57	45	(31)	(48)
Total	\$ 20,000				\$ 115	\$ 90	\$ (91)	\$ (73)

Table of Contents

The following table reflects the total interest expense recorded on these swap transactions in the consolidated statements of income during the years ended December 31, 2018, 2017 and 2016:

December 31, (in thousands)	2018	2017	2016
Interest rate swap on money market deposits	\$ 18	\$ 109	\$ 168
Interest rate swap on FHLB advance	10	110	164
Total interest expense on swap transactions	\$ 28	\$ 219	\$ 332

The following table presents the net gains (losses) recorded in accumulated OCI and the consolidated statements of income relating to the swaps for the years ended December 31, 2018, 2017 and 2016:

December 31, (in thousands)	2018	2017	2016
Gains (losses) recognized in OCI on derivative (effective portion)	\$ 178	\$ 83	\$ (125)
Losses reclassified from OCI on derivative (effective portion)	(28)	(219)	(332)
Gains (losses) recognized in income on derivative (ineffective portion)	—	—	—

The estimated net amount of the existing losses reported in AOCI at December 31, 2018 expected to be reclassified into earnings within the next 12 months is considered immaterial.

#### Non-hedge Interest Rate Swaps

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

Interest rate swap contracts involve the risk of dealing with counterparties and their ability to meet contractual terms. When the fair value of a derivative instrument contract is positive, this generally indicates that the counter party or client owes the Bank, and results in credit risk to the Bank. When the fair value of a derivative instrument contract is

negative, the Bank owes the client or counterparty, and therefore, has no credit risk.

A summary of the Bank's interest rate swaps related to clients as of December 31, 2018 and 2017 is included in the following table:

December 31, (in thousands)	Bank Position	2018 Notional Amount	Fair Value	2017 Notional Amount	Fair Value
Interest rate swaps with Bank clients - Assets	Pay variable/receive fixed	\$ 26,398	\$ 1,264	\$ 48,942	\$ 312
Interest rate swaps with Bank clients - Liabilities	Pay variable/receive fixed	54,718	(908)	12,477	(228)
Interest rate swaps with Bank clients - Total	Pay variable/receive fixed	\$ 81,116	\$ 356	\$ 61,419	\$ 84
Offsetting interest rate swaps with institutional swap dealer	Pay fixed/receive variable	81,116	(356)	61,419	(84)
Total		\$ 162,232	\$ —	\$ 122,838	\$ —

The Bank is required to pledge securities as collateral when the Bank is in a net loss position for all swaps with dealer counterparties when such net loss positions exceed \$250,000. The fair value of cash or investment securities pledged as collateral by the Bank to cover such net loss positions totaled \$0 and \$1.5 million at December 31, 2018 and 2017.



Table of Contents

## 8.DEPOSITS

Ending deposit balances at December 31, 2018 and 2017 were as follows:

December 31, (in thousands)	2018	2017
Core Bank:		
Demand	\$ 937,402	\$ 944,812
Money market accounts	717,954	546,998
Savings	187,868	182,800
Individual retirement accounts(1)	53,524	47,982
Time deposits, \$250 and over(1)	84,104	77,891
Other certificates of deposit(1)	239,324	189,661
Reciprocal money market and time deposits(1)(2)	217,153	346,613
Brokered deposits(1)	9,394	72,718
Total Core Bank interest-bearing deposits	2,446,723	2,409,475
Total Core Bank noninterest-bearing deposits	971,422	988,537
Total Core Bank deposits	3,418,145	3,398,012
Republic Processing Group:		
Money market accounts	5,453	1,641
Total RPG interest-bearing deposits	5,453	1,641
Brokered prepaid card deposits	4,350	1,509
Other noninterest-bearing deposits	28,197	31,996
Total RPG noninterest-bearing deposits	32,547	33,505
Total RPG deposits	38,000	35,146
Total deposits	\$ 3,456,145	\$ 3,433,158

(1) Represents a time deposit.

(2) Prior to June 2018, reciprocal deposits were classified as “brokered deposits.” The Economic Growth, Regulatory Relief, and Consumer Protection Act, enacted in May 2018, provides that most reciprocal deposits are no longer classified as brokered deposits if the Bank meets certain regulatory criteria.

Time deposits at or above the FDIC insured limit of \$250,000 are presented in the table below:

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

December 31, (in thousands)	2018	2017
Time deposits of \$250 or more	\$ 84,104	\$ 77,891

At December 31, 2018, the scheduled maturities and weighted average rate of all time deposits, including brokered and reciprocal certificates of deposit, were as follows:

Year (dollars in thousands)	Principal	Weighted Average Rate	
2019	\$ 177,702	1.42	%
2020	91,045	1.86	
2021	53,494	2.17	
2022	34,014	2.12	
2023	60,220	2.93	
Thereafter	—	—	
Total	\$ 416,475	1.89	

Table of Contents

## 9. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase consist of short-term excess funds from correspondent banks, repurchase agreements and overnight liabilities to deposit clients arising from the Bank's treasury management program. While comparable to deposits in their transactional nature, these overnight liabilities to clients are in the form of repurchase agreements. Repurchase agreements collateralized by securities are treated as financings; accordingly, the securities involved with the agreements are recorded as assets and are held by a safekeeping agent and the obligations to repurchase the securities are reflected as liabilities. Should the fair value of currently pledged securities fall below the associated repurchase agreements, the Bank would be required to pledge additional securities. To mitigate the risk of under collateralization, the Bank typically pledges at least two percent more in securities than the associated repurchase agreements. All such securities are under the Bank's control.

At December 31, 2018 and 2017, all securities sold under agreements to repurchase had overnight maturities. Additional information regarding securities sold under agreements to repurchase follows:

December 31, (dollars in thousands)	2018		2017	
Outstanding balance at end of period	\$ 182,990		\$ 204,021	
Weighted average interest rate at end of period	0.83	%	0.31	%
Fair value of securities pledged:				
U.S. Treasury securities and U.S. Government agencies	\$ 110,854		\$ 71,824	
Mortgage backed securities - residential	84,657		83,452	
Collateralized mortgage obligations	10,136		84,693	
Total securities pledged	\$ 205,647		\$ 239,969	

Additional information regarding securities sold under agreements to repurchase for the years ended December 31, 2018, 2017 and 2016 follows:

Years Ended December 31, (dollars in thousands)	2018		2017		2016	
Average outstanding balance during the period	\$ 225,145		\$ 219,515		\$ 280,296	
Average interest rate during the period	0.50	%	0.23	%	0.02	%
Maximum outstanding at any month end during the period	\$ 260,147		\$ 293,944		\$ 367,373	

## 10.FEDERAL HOME LOAN BANK ADVANCES

At December 31, 2018 and 2017, FHLB advances were as follows:

December 31, (dollars in thousands)	2018	2017
Overnight advances	\$ 510,000	\$ 330,000
Variable interest rate advance indexed to 3-Month LIBOR plus 0.14%	10,000	10,000
Fixed interest rate advances	290,000	397,500
Total FHLB advances	\$ 810,000	\$ 737,500

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. The Company incurred an \$846,000 prepayment penalty on the payoff of \$50 million in FHLB advances during 2016, with no similar penalty incurred in 2018 or 2017.

FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At December 31, 2018 and 2017, Republic had available borrowing capacity of \$254 million and \$347 million, respectively, from the FHLB. In addition to its borrowing capacity with the FHLB, Republic also had unsecured lines of credit totaling \$125 million and \$125 million available through various other financial institutions as of December 31, 2018 and 2017.

Table of Contents

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

Year (dollars in thousands)	Principal	Weighted Average Rate	
2019 (Overnight)	\$ 510,000	2.45	%
2019 (Term)	110,000	1.91	
2020	120,000	1.81	
2021	30,000	1.93	
2022	20,000	2.12	
2023	20,000	2.56	
2024	—	—	
Thereafter	—	—	
Total	\$ 810,000	2.26	%

Due to their nature, the Bank considers average balance information more meaningful than period-end balances for its overnight borrowings from the FHLB. Information regarding overnight FHLB advances follows:

December 31, (dollars in thousands)	2018	2017
Outstanding balance at end of period	\$ 510,000	\$ 330,000
Weighted average interest rate at end of period	2.45 %	1.42 %

Years Ended December 31, (dollars in thousands)	2018	2017	2016
Average outstanding balance during the period	\$ 202,830	\$ 141,918	\$ 91,087
Average interest rate during the period	1.98 %	1.09 %	0.43 %
Maximum outstanding at any month end during the period	\$ 560,000	\$ 625,000	\$ 495,000

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

December 31, (in thousands)	2018	2017
-----------------------------	------	------

First lien, single family residential real estate	\$ 1,129,588	\$ 1,123,402
Home equity lines of credit	311,419	320,649

## 11.SUBORDINATED NOTE

In 2005, RBCT, an unconsolidated trust subsidiary of Republic, was formed and issued \$40 million in TRS. 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 TPS are treated as part of Republic's Tier I Capital.

The subordinated note and related interest expense are included in Republic's consolidated financial statements. The subordinated note paid a fixed interest rate of 6.015% through September 30, 2015 and adjusted to 3-month LIBOR + 1.42% thereafter. The subordinated note matures on December 31, 2035 and is now redeemable at the Company's option on a quarterly basis. The Company chose not to redeem the subordinated note on January 1, 2019, and carried the note at a cost of 3-month LIBOR + 1.42%, or 4.22%, at December 31, 2018.

As a result of its acquisition of Cornerstone Bancorp, Inc. on May 17, 2016, Republic became the 100% successor owner of Cornerstone Capital Trust 1 ("CCT1"), an unconsolidated finance subsidiary. In 2006, CCT1 issued \$4 million of adjustable-rate TPS

Table of Contents

due December 15, 2036. As permitted under the terms of CCT1's governing documents, Republic redeemed these securities at the par amount of approximately \$4 million, without penalty, on September 15, 2016.

## 12.OFF BALANCE SHEET RISKS, COMMITMENTS AND CONTINGENT LIABILITIES

The Company, in the normal course of business, is party to financial instruments with off balance sheet risk. These financial instruments primarily include commitments to extend credit and standby letters of credit. The contract or notional amounts of these instruments reflect the potential future obligations of the Company pursuant to those financial instruments. Creditworthiness for all instruments is evaluated on a case-by-case basis in accordance with the Company's credit policies. Collateral from the client may be required based on the Company's credit evaluation of the client and may include business assets of commercial clients, as well as personal property and real estate of individual clients or guarantors.

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

An approved but unfunded loan commitment represents a potential credit risk and a liquidity risk, since the Company's client(s) may demand immediate cash that would require funding. In addition, unfunded loan commitments represent interest rate risk as market interest rates may rise above the rate committed to the Company's client. Since a portion of these loan commitments normally expire unused, the total amount of outstanding commitments at any point in time may not require future funding.

The following table presents the Company's commitments, exclusive of Mortgage Banking loan commitments for each year ended:

December 31, (in thousands)	2018	2017
Unused warehouse lines of credit	\$ 591,305	\$ 525,328
Unused home equity lines of credit	377,277	367,887
Unused loan commitments - other	720,645	598,002
Standby letters of credit	10,642	12,643

FHLB letter of credit	10,000	10,000
Total commitments	\$ 1,709,869	\$ 1,513,860

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a client to a third party. The terms and risk of loss involved in issuing standby letters of credit are similar to those involved in issuing loan commitments and extending credit. In addition to credit risk, the Company also has liquidity risk associated with standby letters of credit because funding for these obligations could be required immediately. The Company does not deem this risk to be material.

### 13.STOCKHOLDERS' EQUITY AND REGULATORY CAPITAL MATTERS

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

**Dividend Restrictions** — The Parent Company's principal source of funds for dividend payments are dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid to the Parent Company by the Bank without prior approval of the respective states' banking regulators. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years. At December 31, 2018, the Bank could, without prior approval, declare dividends of approximately \$111 million.



Table of Contents

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

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2018 and 2017, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Effective January 1, 2015 the Company and the Bank became subject to the capital regulations in accordance with Basel III. These regulations established higher minimum risk-based capital ratio requirements, a new common equity Tier 1 Risk-Based Capital ratio and a new capital conservation buffer. The regulations included 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.

Additionally, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, the Company and Bank must hold a capital conservation buffer composed of Common Equity Tier 1 Risk-Based Capital above their minimum Risk-Based Capital requirements. The capital conservation buffer phased in from 2016 to 2019 based on the following schedule: a capital conservation buffer of 0.625% effective January 1, 2016; 1.25% effective January 1, 2017; 1.875% effective January 1, 2018; and a fully phased in capital conservation buffer of 2.5% on January 1, 2019. The capital ratios for capital adequacy and "well capitalized" do not include considerations of the capital conservation buffer.

is

(dollars in thousands)	Actual		Minimum Requirement for Capital Adequacy Purposes		Minimum Requirement to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio

As of December 31, 2018

Total capital to risk-weighted assets							
Republic Bancorp, Inc.	\$ 757,726	16.80 %	\$ 360,911	8.00 %	NA	NA	
Republic Bank & Trust Company	654,258	14.52	360,359	8.00	\$ 450,449	10.00 %	
Common equity tier 1 capital to risk-weighted assets							
Republic Bancorp, Inc.	673,051	14.92	203,012	4.50	NA	NA	
Republic Bank & Trust Company	609,583	13.53	202,702	4.50	292,792	6.50	
Tier 1 (core) capital to risk-weighted assets							
Republic Bancorp, Inc.	713,051	15.81	270,683	6.00	NA	NA	
Republic Bank & Trust Company	609,583	13.53	270,269	6.00	360,359	8.00	
Tier 1 leverage capital to average assets							
Republic Bancorp, Inc.	713,051	14.11	202,119	4.00	NA	NA	
Republic Bank & Trust Company	609,583	12.06	202,126	4.00	252,658	5.00	

Table of Contents

(dollars in thousands)	Actual		Minimum Requirement for Capital Adequacy Purposes		Minimum Requirement to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2017						
Total capital to risk-weighted assets						
Republic Bancorp, Inc.	\$ 694,369	16.04 %	\$ 346,215	8.00 %	NA	NA
Republic Bank & Trust Company	591,592	13.69	345,589	8.00	\$ 431,987	10.00 %
Common equity tier 1 capital to risk-weighted assets						
Republic Bancorp, Inc.	612,315	14.15	194,746	4.50	NA	NA
Republic Bank & Trust Company	548,823	12.70	194,394	4.50	280,791	6.50
Tier 1 (core) capital to risk-weighted assets						
Republic Bancorp, Inc.	651,600	15.06	259,662	6.00	NA	NA
Republic Bank & Trust Company	548,823	12.70	259,192	6.00	345,589	8.00
Tier 1 leverage capital to average assets						
Republic Bancorp, Inc.	651,600	13.21	197,309	4.00	NA	NA
Republic Bank & Trust Company	548,823	11.15	196,961	4.00	246,201	5.00

## 14. FAIR VALUE

Fair value represents the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Bank used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Available-for-sale debt securities: Except for the Bank's private label mortgage backed security and its TRUP investment, the fair value of available-for-sale debt securities is typically determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The Bank's private label mortgage backed security remains illiquid, and as such, the Bank classifies this security as a Level 3 security in accordance with ASC Topic 820, Fair Value Measurement. Based on this determination, the Bank utilized an income valuation model (present value model) approach in determining the fair value of this security.

See in this section of the filing under Footnote 2 "Investment Securities" for additional discussion regarding the Bank's private label mortgage backed security.

Table of Contents

The Company acquired its TRUP investment in 2015 and considered the most recent bid price for the same instrument to approximate market value at December 31, 2018. The Company's TRUP investment is considered highly illiquid and also valued using Level 3 inputs, as the most recent bid price for this instrument is not always considered generally observable.

Equity securities with readily determinable fair value: Quoted market prices in an active market are available for the Bank's CRA mutual fund investment and fall within Level 1 of the fair value hierarchy.

The fair value of the Company's Freddie Mac preferred stock is determined by matrix pricing, as described above (Level 2 inputs).

Mortgage loans held for sale, at fair value: The fair value of mortgage loans held for sale is determined using quoted secondary market prices. Mortgage loans held for sale are classified as Level 2 in the fair value hierarchy.

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

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

Through the first quarter of 2018, the fair value for these loans was based on contractual sales terms, which are classified as Level 3 inputs. As of December 31, 2018, the fair value of these loans was based on the discounted cash flows of the underlying loans, which are also classified as Level 3 inputs.

From the fourth quarter of 2015 through the first quarter of 2018, the Bank piloted a credit-card product to generally subprime borrowers across the United States through one third-party marketer/servicer. For outstanding cards, RCS sold 90% of the balances generated within two business days of each transaction occurrence to its third-party marketer/servicer and retained the remaining 10% interest. During the second quarter of 2018, the Bank and its

third-party marketer/servicer discontinued the marketing of the product to potential new clients, as the two parties deliberated the future direction of the program. During the third quarter of 2018, the Bank and its third-party marketer/servicer reached an agreement in concept to sell 100% of the existing portfolio to an unrelated third party. As a result, the Bank reclassified its 10% interest with a book value of \$3.5 million into a held-for-sale category and charged the entire RCS credit-card portfolio down to its estimated net realizable value of \$1.5 million. The sale of this portfolio was settled in January 2019.

**Mortgage Banking derivatives:** Mortgage Banking derivatives used in the ordinary course of business primarily consist of mandatory forward sales contracts (“forward contracts”) and interest rate lock loan commitments. The fair value of the Bank’s derivative instruments is primarily measured by obtaining pricing from broker-dealers recognized to be market participants. The pricing is derived from market observable inputs that can generally be verified and do not typically involve significant judgment by the Bank. Forward contracts and rate-lock loan commitments are classified as Level 2 in the fair value hierarchy.

**Interest rate swap agreements:** Interest rate swaps are recorded at fair value on a recurring basis. The Company values its interest rate swaps using a third-party valuation service and classifies such valuations as Level 2. Valuations of these interest rate swaps are also received from the relevant dealer counterparty and validated against the Company’s calculations. The Company has considered counterparty credit risk in the valuation of its interest rate swap assets and has considered its own credit risk in the valuation of its interest rate swap liabilities.

**Impaired loans:** Collateral-dependent impaired loans generally reflect partial charge-downs to their respective fair value, which is commonly based on recent real estate appraisals or BPOs. These appraisals or BPOs may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the process by the independent experts to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral

## Table of Contents

may be valued using an appraisal, net book value per the borrower's financial statements or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Collateral-dependent loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

**Premises carried at fair value:** Premises and equipment are accounted for at the lower of cost less accumulated depreciation or fair value less estimated costs to sell. The fair value of Bank premises is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches, including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments may be significant and typically result in a Level 3 classification of the inputs for determining fair value.

**Other real estate owned:** Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals or BPOs. These appraisals or BPOs may utilize a single approach or a combination of approaches, including comparable sales and the income approach. Adjustments are routinely made in the process by the independent experts to adjust for differences between the comparable sales and income data available. Such adjustments may be significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for collateral-dependent impaired loans, impaired premises and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Bank. Once the appraisal is received, a member of the Bank's CCAD reviews the assumptions and approaches utilized in the appraisal, as well as the overall resulting fair value in comparison with independent data sources, such as recent market data or industry-wide statistics. On 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, e.g., residential real estate or commercial real estate, and may lead to additional adjustments to the value of unliquidated collateral of similar class.

**Mortgage servicing rights:** On at least a quarterly basis, MSR are evaluated for impairment based upon the fair value of the MSR as compared to carrying amount. If the carrying amount of an individual tranche exceeds fair value, impairment is recorded, and the respective individual tranche is carried at fair value. If the carrying amount of an individual tranche does not exceed fair value, impairment is reversed if previously recognized and the carrying value of the individual tranche is based on the amortization method. The valuation model utilizes assumptions that market participants would use in estimating future net servicing income and can generally be validated against available market data (Level 2). There were no MSR tranches carried at fair value at December 31, 2018 and 2017.





Table of Contents

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Bank has elected the fair value option, are summarized below:

(in thousands)	Fair Value Measurements at December 31, 2018 Using:			Total Fair Value
	Quoted Prices Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Financial assets:				
Available-for-sale debt securities:				
U.S. Treasury securities and U.S. Government agencies	\$ —	\$ 216,873	\$ —	\$ 216,873
Private label mortgage backed security	—	—	3,712	3,712
Mortgage backed securities - residential	—	169,209	—	169,209
Collateralized mortgage obligations	—	72,811	—	72,811
Corporate bonds	—	9,058	—	9,058
Trust preferred security	—	—	4,075	4,075
Total available-for-sale debt securities	\$ —	\$ 467,951	\$ 7,787	\$ 475,738
Equity securities with readily determinable fair value:				
Freddie Mac preferred stock	\$ —	\$ 410	\$ —	\$ 410
Community Reinvestment Act mutual fund	2,396	—	—	2,396
Total equity securities with readily determinable fair value	\$ 2,396	\$ 410	\$ —	\$ 2,806
Mortgage loans held for sale	\$ —	\$ 8,971	\$ —	\$ 8,971
Consumer loans held for investment	—	—	1,922	1,922
Rate lock loan commitments	—	356	—	356
Interest rate swap agreements	—	1,264	—	1,264
Financial liabilities:				
Mandatory forward contracts	\$ —	\$ 262	\$ —	\$ 262
Interest rate swap agreements	—	1,149	—	1,149

Table of Contents

(in thousands)	Fair Value Measurements at December 31, 2017 Using:			
	Quoted Prices Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial assets:				
Available-for-sale debt securities:				
U.S. Treasury securities and U.S. Government agencies	\$ —	\$ 307,592	\$ —	\$ 307,592
Private label mortgage backed security	—	—	4,449	4,449
Mortgage backed securities - residential	—	106,374	—	106,374
Collateralized mortgage obligations	—	87,163	—	87,163
Corporate bonds	—	15,125	—	15,125
Trust preferred security	—	—	3,600	3,600
Total available-for-sale debt securities	\$ —	\$ 516,254	\$ 8,049	\$ 524,303
Equity securities with readily determinable fair value:				
Freddie Mac preferred stock	\$ —	\$ 473	\$ —	\$ 473
Community Reinvestment Act mutual fund	2,455	—	—	2,455
Total equity securities with readily determinable fair value	\$ 2,455	\$ 473	\$ —	\$ 2,928
Mortgage loans held for sale	\$ —	\$ 5,761	\$ —	\$ 5,761
Consumer loans held for sale	—	—	2,677	2,677
Rate lock loan commitments	—	310	—	310
Interest rate swap agreements	—	312	—	312
Financial liabilities:				
Mandatory forward contracts	\$ —	\$ 9	\$ —	\$ 9
Interest rate swap agreements	—	403	—	403

All transfers between levels are generally recognized at the end of each quarter. There were no transfers into or out of Level 1, 2 or 3 assets during the years ended December 31, 2018 and 2017.

The following table presents a reconciliation of the Bank's Private Label Mortgage Backed Security measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods ended December 31, 2018, 2017 and 2016:

## Private Label Mortgage Backed Security

Years Ended December 31, (in thousands)	2018	2017	2016
Balance, beginning of period	\$ 4,449	\$ 4,777	\$ 5,132
Total gains or losses included in earnings:			
Net change in unrealized gain	(20)	298	(9)
Recovery of actual losses previously recorded	152	—	—
Principal paydowns	(869)	(626)	(346)
Balance, end of period	\$ 3,712	\$ 4,449	\$ 4,777

The fair value of the Bank's single private label mortgage backed security is supported by analysis prepared by an independent third party. The third party's approach to determining fair value involved several steps: 1) detailed collateral analysis of the underlying mortgages, including consideration of geographic location, original loan-to-value and the weighted average FICO score of the borrowers; 2) collateral performance projections for each pool of mortgages underlying the security (probability of default, severity of default, and prepayment probabilities) and 3) discounted cash flow modeling.

The significant unobservable inputs in the fair value measurement of the Bank's single private label mortgage backed security are prepayment rates, probability of default and loss severity in the event of default. Significant fluctuations in any of those inputs in isolation would result in a significantly different fair value measurement.

Table of Contents

The following tables present quantitative information about recurring Level 3 fair value measurements at December 31, 2018 and 2017:

December 31, 2018 (dollars in thousands)	Fair	Valuation		
	Value	Technique	Unobservable Inputs	Range
Private label mortgage backed security	\$ 3,712	Discounted cash flow	(1) Constant prepayment rate	6.5% - 8.9%
			(2) Probability of default	1.8% - 4.7%
			(3) Loss severity	50% - 75%
December 31, 2017 (dollars in thousands)	Fair	Valuation		
	Value	Technique	Unobservable Inputs	Range
Private label mortgage backed security	\$ 4,449	Discounted cash flow	(1) Constant prepayment rate	3.5% - 6.5%
			(2) Probability of default	1.8% - 8.0%
			(3) Loss severity	60% - 85%

## Trust Preferred Security

The Company invested in its TRUP in November 2015. The following table presents a reconciliation of the Company's TRUP measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ending December 31, 2018, 2017 and 2016:

Years Ended December 31, (in thousands)	2018	2017	2016
Balance, beginning of period	\$ 3,600	\$ 3,200	\$ 3,405
Total gains or losses included in earnings:			
Discount accretion	40	44	44

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Net change in unrealized gain	435	356	(249)
Balance, end of period	\$ 4,075	\$ 3,600	\$ 3,200

The fair value of the Company's TRUP investment is based on the most recent bid price for this instrument, as provided by a third-party broker.

Mortgage Loans Held for Sale

The Bank has elected the fair value option for mortgage loans held for sale. These loans are intended for sale and the Bank believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loan and in accordance with Bank policy for such instruments. None of these loans were past due 90-days-or-more nor on nonaccrual as of December 31, 2018 and 2017.

As of December 31, 2018 and 2017, the aggregate fair value, contractual balance (including accrued interest), and unrealized gain was as follows:

December 31, (in thousands)	2018	2017
Aggregate fair value	\$ 8,971	\$ 5,761
Contractual balance	8,676	5,668
Unrealized gain	295	93

Table of Contents

The total amount of gains and losses from changes in fair value of mortgage loans held for sale included in earnings for 2018, 2017 and 2016 are presented in the following table:

Years Ended December 31, (in thousands)	2018	2017	2016
Interest income	\$ 402	\$ 346	\$ 200
Change in fair value	203	(1)	4
Total included in earnings	\$ 605	\$ 345	\$ 204

## Consumer Loans Held for Investment/Sale

Prior to the second quarter of 2018, all consumer installment loans originated through RCS were originated with the intent to sale and carried at fair value. During the second quarter of 2018, approximately \$2 million of these loans were transferred from the held for sale category into the held for investment category and recorded at their fair market value as of the date of transfer. Interest income for these loans is recorded based on the contractual terms of the loan and in accordance with Bank policy for such instruments. None of these loans were past due 90-days-or-more or on nonaccrual as of December 31, 2018 and 2017.

A reconciliation of the Company's consumer loans measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 30, 2018 and 2017 is included in Footnote 3 of this section of the filing.

Prior to the second quarter of 2018, the significant unobservable inputs in the fair value measurement of the Bank's consumer loans were the net contractual premiums and level of loans sold at a discount price. As of December 31, 2018, the significant unobservable inputs in the fair value measurement of the Bank's consumer loans were the constant prepayment rate, probability of default, and loss severity for these loans under a discounted-cash-flow model. Significant fluctuations in any of these inputs in isolation would result in a significantly lower/higher fair value measurement.

The following table presents quantitative information about recurring Level 3 fair value measurement inputs for short-term installment loans as of December 31, 2018 and 2017:

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

December 31, 2018 (dollars in thousands)	Fair	Valuation	Unobservable Inputs	Rate
	Value	Technique		
Consumer loans held for investment	\$ 1,922	Discounted Cash Flows	(1) Constant prepayment rate	15.0%
			(2) Probability of default	45.0%
			(3) Loss severity	20.0%

December 31, 2017 (dollars in thousands)	Fair	Valuation	Unobservable Inputs	Rate
	Value	Technique		
Consumer loans held for sale	\$ 2,677	Contractual Sales Terms	(1) Net Premium	0.9%
			(2) Discounted Sales	5.0%

As of December 31, 2018 and 2017, the aggregate fair value, contractual balance, and unrealized gain (loss) on consumer loans held for sale, at fair value, was as follows:

December 31, (in thousands)	2018	2017
Aggregate fair value	\$ 1,922	\$ 2,677
Contractual balance	2,170	2,535
Unrealized (loss) gain	(248)	142

Table of Contents

The total amount of net gains from changes in fair value included in earnings for the years ended December 31, 2018, 2017, and 2016 for consumer loans held for sale, at fair value, are presented in the following table:

Years Ended December 31, (in thousands)	2018	2017	2016
Interest income	\$ 602	\$ 962	\$ 700
Change in fair value	(390)	29	114
Total included in earnings	\$ 212	\$ 991	\$ 814

Assets measured at fair value on a non-recurring basis are summarized below:

(in thousands)	Fair Value Measurements at December 31, 2018 Using:			Total Fair Value
	Quoted Prices for Identifiable Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Consumer loans held for sale	\$ —	\$ —	\$ 1,249	\$ 1,249
Impaired loans:				
Residential real estate:				
Owner occupied	\$ —	\$ —	\$ 4,708	\$ 4,708
Nonowner occupied	—	—	1,007	1,007
Commercial real estate	—	—	1,255	1,255
Commercial & industrial	—	—	609	609
Home equity	—	—	356	356
Total impaired loans*	\$ —	\$ —	\$ 7,935	\$ 7,935
Premises	\$ —	\$ —	\$ 1,694	\$ 1,694

(in thousands)	Fair Value Measurements at December 31, 2017 Using:			Total Fair Value
	Quoted Prices for Identifiable Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	



Impaired loans:				
Residential real estate:				
Owner occupied	\$ —	\$ —	\$ 4,107	\$ 4,107
Nonowner occupied	—	—	237	237
Commercial real estate	—	—	1,366	1,366
Home equity	—	—	393	393
Total impaired loans*	\$ —	\$ —	\$ 6,103	\$ 6,103
Other real estate owned:				
Residential real estate	\$ —	\$ —	\$ 83	\$ 83
Total other real estate owned	\$ —	\$ —	\$ 83	\$ 83
Premises	\$ —	\$ —	\$ 3,017	\$ 3,017

---

\* The difference between the carrying value and the fair value of impaired loans measured at fair value is reconciled in a subsequent table of this Footnote.

Table of Contents

The following tables present quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2018 and 2017:

December 31, 2018 (dollars in thousands)	Fair	Valuation	Unobservable	Range
	Value	Technique	Inputs	(Weighted Average)
Consumer loans held for sale	\$ 1,249	Sales comparison approach	Adjustments determined for differences between comparable sales	6% (6%)
Impaired loans - residential real estate owner occupied	\$ 4,708	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 67% (9%)
Impaired loans - residential real estate nonowner occupied	\$ 1,007	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 27% (15%)
Impaired loans - commercial real estate	\$ 123	Sales comparison approach	Adjustments determined for differences between comparable sales	21% (21%)
Impaired loans - commercial real estate	\$ 1,132	Income approach	Adjustments for differences between net operating income expectations	17% (17%)
Impaired loans - commercial & industrial	\$ 609	Sales comparison approach	Adjustments determined for differences between comparable sales	3% (3%)
Impaired loans - home equity	\$ 356	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 22% (8%)
Premises	\$ 1,694	Sales comparison approach	Adjustments determined for differences between comparable sales	27% - 72% (40%)
December 31, 2017 (dollars in thousands)	Fair	Valuation	Unobservable	Range
	Value	Technique	Inputs	(Weighted Average)

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Impaired loans - residential real estate owner occupied	\$ 4,107	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 54% (10%)
Impaired loans - residential real estate nonowner occupied	\$ 237	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 8% (5%)
Impaired loans - commercial real estate	\$ 79	Sales comparison approach	Adjustments determined for differences between comparable sales	21% (21%)
Impaired loans - commercial real estate	\$ 1,287	Income approach	Adjustments for differences between net operating income expectations	17% (17%)
Impaired loans - home equity	\$ 393	Sales comparison approach	Adjustments determined for differences between comparable sales	0% - 23% (15%)
Other real estate owned - residential real estate	\$ 83	Sales comparison approach	Adjustments determined for differences between comparable sales	86% (86%)
Premises	\$ 3,017	Sales comparison approach	Adjustments determined for differences between comparable sales	4% - 67% (21%)

Table of Contents

## Consumer Loans Held for Sale

Details of consumer loans held for sale follow:

December 31, (in thousands)	December 31, 2018
Carrying amount of loans measured at fair value	\$ 2,867
Estimated discount for loan losses	(1,618)
Total fair value	\$ 1,249

## Impaired Loans

Collateral-dependent impaired loans are generally measured for impairment using the fair value for reasonable disposition of the underlying collateral. The Bank's practice is to obtain new or updated appraisals or BPOs on the loans subject to the initial impairment review and then to evaluate the need for an update to this value on an as-necessary or possibly annual basis thereafter (depending on the market conditions impacting the value of the collateral). The Bank may discount the valuation amount as necessary for selling costs and past due real estate taxes. If a new or updated appraisal or BPO is not available at the time of a loan's impairment review, the Bank may apply a discount to the existing value of an old valuation to reflect the property's current estimated value if it is believed to have deteriorated in either: (i) the physical or economic aspects of the subject property or (ii) material changes in market conditions. The impairment review generally results in a partial charge-off of the loan if fair value less selling costs are below the loan's carrying value. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Impaired collateral-dependent loans are as follows:

December 31, (in thousands)	2018	2017
Carrying amount of loans measured at fair value	\$ 7,380	\$ 5,358
Estimated selling costs considered in carrying amount	913	752
Valuation allowance	(358)	(7)
Total fair value	\$ 7,935	\$ 6,103

Years Ended December 31, (in thousands)	2018	2017	2016
---	------	------	------

Provisions on collateral-dependent, impaired loans    \$ 1,629       \$ 169       \$ 552

#### Other Real Estate Owned

Other real estate owned, which is carried at the lower of cost or fair value, is periodically assessed for impairment based on fair value at the reporting date. Fair value is determined from external appraisals or BPOs using judgments and estimates of external professionals. Many of these inputs are not observable and, accordingly, these measurements are classified as Level 3.

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

December 31, (in thousands)	2018	2017	2016
Other real estate owned carried at fair value	\$ —	\$ 83	\$ 400
Other real estate owned carried at cost	160	32	991
Total carrying value of other real estate owned	\$ 160	\$ 115	\$ 1,391
Other real estate owned write-downs during the years ended	\$ —	\$ 155	\$ 270

Table of Contents

## Premises

The Company's Traditional Banking segment classified three of its former banking centers as held for sale as of December 31, 2018, with one additional banking center classified as held for sale as of December 31, 2017 and sold during 2018. Impairment charges are recorded when the value of a piece of property is reappraised or reassessed below the property's then-carrying value. Impairment charges related to these properties were as follows:

Years Ended December 31, (in thousands)	2018	2017	2016
Impairment charges on premises	\$ 482	\$ 1,175	\$ 191

The carrying amounts and estimated fair values of financial instruments, at December 31, 2018 and 2017 are as follows:

(in thousands)	Carrying Value	Fair Value Measurements at December 31, 2018:			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash and cash equivalents	\$ 351,474	\$ 351,474	\$ —	\$ —	\$ 351,474
Available-for-sale debt securities	475,738	—	467,951	7,787	475,738
Held-to-maturity debt securities	65,227	—	64,858	—	64,858
Equity securities with readily determinable fair values	2,806	2,396	410	—	2,806
Mortgage loans held for sale, at fair value	8,971	—	8,971	—	8,971
Consumer loans held for sale, at the lower of cost or fair value	12,838	—	12,838	—	12,838
Loans, net	4,103,552	—	—	4,062,457	4,062,457
Federal Home Loan Bank stock	32,067	—	—	—	NA
Accrued interest receivable	13,942	—	13,942	—	13,942
Rate lock loan commitments	356	—	356	—	356
Interest rate swap agreements	1,264	—	1,264	—	1,264

## Liabilities:

Noninterest-bearing deposits	\$ 1,003,969	—	\$ 1,003,969	—	\$ 1,003,969
Transaction deposits	2,035,701	—	2,035,701	—	2,035,701
Time deposits	416,475	—	412,477	—	412,477
Securities sold under agreements to repurchase and other short-term borrowings	182,990	—	182,990	—	182,990
Federal Home Loan Bank advances	810,000	—	804,251	—	804,251
Subordinated note	41,240	—	33,724	—	33,724
Accrued interest payable	1,084	—	1,084	—	1,084
Mandatory forward contracts	262	—	262	—	262
Interest rate swap agreements	1,149	—	1,149	—	1,149

---

NA - Not applicable

157

---

Table of Contents

(in thousands)	Carrying Value	Fair Value Measurements at December 31, 2017:			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash and cash equivalents	\$ 299,351	\$ 299,351	\$ —	\$ —	\$ 299,351
Available-for-sale debt securities	524,303	—	516,254	8,049	524,303
Held-to-maturity debt securities	64,227	—	65,133	—	65,133
Equity securities with readily determinable fair values	2,928	2,455	473	—	2,928
Mortgage loans held for sale, at fair value	5,761	—	5,761	—	5,761
Consumer loans held for sale, at fair value	2,677	—	—	2,677	2,677
Consumer loans held for sale, at the lower of cost or fair value	8,551	—	8,551	—	8,551
Loans, net	3,971,265	—	—	3,938,998	3,938,998
Federal Home Loan Bank stock	32,067	—	—	—	NA
Accrued interest receivable	12,082	—	12,082	—	12,082
Rate lock loan commitments	310	—	310	—	310
Interest rate swap agreements	312	—	312	—	312
Liabilities:					
Noninterest-bearing deposits	\$ 1,022,042	—	\$ 1,022,042	—	\$ 1,022,042
Transaction deposits	2,049,493	—	2,049,493	—	2,049,493
Time deposits	361,623	—	358,627	—	358,627
Securities sold under agreements to repurchase and other short-term borrowings	204,021	—	204,021	—	204,021
Federal Home Loan Bank advances	737,500	—	730,712	—	730,712
Subordinated note	41,240	—	31,763	—	31,763
Accrued interest payable	1,100	—	1,100	—	1,100
Mandatory forward contracts	9	—	9	—	9
Interest rate swap agreements	403	—	403	—	403

NA - Not applicable



## 15.MORTGAGE BANKING ACTIVITIES

Mortgage Banking activities primarily include residential mortgage originations and servicing.

Activity for mortgage loans held for sale was as follows:

Years Ended December 31, (in thousands)	2018	2017	2016
Balance, beginning of period	\$ 5,761	\$ 11,662	\$ 4,083
Origination of mortgage loans held for sale	176,916	160,091	216,812
Transferred from held for investment to held for sale	—	—	71,201
Proceeds from the sale of mortgage loans held for sale	(177,545)	(169,969)	(287,090)
Net gain on sale of mortgage loans held for sale	3,839	3,977	6,656
Balance, end of period	\$ 8,971	\$ 5,761	\$ 11,662

Mortgage loans serviced for others are not reported as assets. The Bank serviced loans for others, primarily FHLMC, totaling \$972 million and \$969 million at December 31, 2018 and 2017. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and processing foreclosures. Custodial escrow account balances maintained in connection with serviced loans were approximately \$10 million and \$9 million at December 31, 2018 and 2017.

Table of Contents

The following table presents the components of Mortgage Banking income:

Years Ended December 31, (in thousands)	2018	2017	2016
Net gain realized on sale of mortgage loans held for sale	\$ 3,843	\$ 4,180	\$ 5,478
Net gain realized on sale of mortgage loans transferred from held for investment to held for sale	—	—	1,129
Net change in fair value recognized on loans held for sale	203	(1)	4
Net change in fair value recognized on rate lock loan commitments	46	11	(8)
Net change in fair value recognized on forward contracts	(253)	(213)	53
Net gain recognized	3,839	3,977	6,656
Loan servicing income	2,418	2,169	1,983
Amortization of mortgage servicing rights	(1,432)	(1,504)	(1,757)
Net servicing income recognized	986	665	226
Total Mortgage Banking income	\$ 4,825	\$ 4,642	\$ 6,882

Activity for capitalized mortgage servicing rights was as follows:

Years Ended December 31, (in thousands)	2018	2017	2016
Balance, beginning of period	\$ 5,044	\$ 5,180	\$ 4,912
Additions	1,307	1,368	2,025
Amortized to expense	(1,432)	(1,504)	(1,757)
Balance, end of period	\$ 4,919	\$ 5,044	\$ 5,180

There was no balance or activity in the valuation allowance for capitalized mortgage servicing rights for the years ended December 31, 2018, 2017 and 2016.

Other information relating to mortgage servicing rights follows:

December 31, (in thousands)	2018	2017
Fair value of mortgage servicing rights portfolio	\$ 9,357	\$ 7,984
Monthly weighted average prepayment rate of unpaid principal balance*	160 %	200 %
Discount rate	10.00 %	10.00 %

Weighted average default rate	4.25	%	3.75	%
Weighted average life in years	6.32		5.49	

---

\* Rates are applied to individual tranches with similar characteristics.

Table of Contents

Estimated future amortization expense of the MSR portfolio (net of any applicable impairment charge) follows; however, actual amortization expense will be impacted by loan payoffs and changes in estimated lives that occur during each respective year:

Year	(in thousands)
2019	\$ 796
2020	778
2021	756
2022	721
2023	638
2024	523
2025	707
Total	\$ 4,919

Mortgage Banking derivatives used in the ordinary course of business primarily consist of mandatory forward sales contracts and interest rate lock loan commitments. Mandatory forward contracts represent future commitments to deliver loans at a specified price and date and are used to manage interest rate risk on loan commitments and mortgage loans held for sale. Interest rate lock loan commitments represent commitments to fund loans at a specific rate. These derivatives involve underlying items, such as interest rates, and are designed to transfer risk. Substantially all of these instruments expire within 90 days from the date of issuance. Notional amounts are amounts on which calculations and payments are based, but which do not represent credit exposure, as credit exposure is limited to the amounts required to be received or paid.

Mandatory forward contracts also contain an element of risk in that the counterparties may be unable to meet the terms of such agreements. In the event the counterparties fail to deliver commitments or are unable to fulfill their obligations, the Bank could potentially incur significant additional costs by replacing the positions at then current market rates. The Bank manages its risk of exposure by limiting counterparties to those banks and institutions deemed appropriate by management and the Board of Directors. The Bank does not expect any counterparty to default on their obligations and therefore, the Bank does not expect to incur any cost related to counterparty default.

The Bank is exposed to interest rate risk on loans held for sale and rate lock loan commitments. As market interest rates fluctuate, the fair value of mortgage loans held for sale and rate lock commitments will decline or increase. To offset this interest rate risk the Bank enters into derivatives, such as mandatory forward contracts to sell loans. The fair value of these mandatory forward contracts will fluctuate as market interest rates fluctuate, and the change in the value of these instruments is expected to largely, though not entirely, offset the change in fair value of loans held for sale and rate lock commitments. The objective of this activity is to minimize the exposure to losses on rate loan lock commitments and loans held for sale due to market interest rate fluctuations. The net effect of derivatives on earnings will depend on risk management activities and a variety of other factors, including: market interest rate volatility; the amount of rate lock commitments that close; the ability to fill the forward contracts before expiration; and the time period required to close and sell loans.

The following table includes the notional amounts and fair values of mortgage loans held for sale and mortgage banking derivatives as of the period ends presented:

December 31, (in thousands)	2018 Notional Amount	Fair Value	2017 Notional Amount	Fair Value
Included in Mortgage loans held for sale:				
Mortgage loans held for sale, at fair value	\$ 8,676	\$ 8,971	\$ 5,668	\$ 5,761
Included in other assets:				
Rate lock loan commitments	\$ 14,788	\$ 356	\$ 14,696	\$ 310
Included in other liabilities:				
Mandatory forward contracts	\$ 20,063	\$ 262	\$ 17,159	\$ 9

Table of Contents

16.STOCK PLANS AND STOCK BASED COMPENSATION

In January 2015, the Company's Board of Directors adopted the Republic Bancorp, Inc. 2015 Stock Incentive Plan (the "2015 Plan"), which became effective April 23, 2015 when the Company's shareholders approved the 2015 Plan. The 2015 Plan replaced the Company's 2005 Stock Incentive Plan, which expired on March 15, 2015.

The number of authorized shares under the 2015 Plan is fixed at 3,000,000, with such number subject to adjustment in the event of certain events, such as stock dividends, stock splits, or the like. There is a minimum three-year vesting period for awards granted to employees under the 2015 Plan that vest based solely on the completion of a specified period of service, with options generally exercisable five to six years after the issue date. Stock options generally must be exercised within one year from the date the options become exercisable and have an exercise price that is at least equal to the fair market value of the Company's stock on their grant date.

All shares issued under the above-mentioned plans were from authorized and reserved unissued shares. The Company has a sufficient number of authorized and reserved unissued shares to satisfy all anticipated option exercises. There are no Class B stock options outstanding or available for exercise under the Company's plans.

Stock Options

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes based stock option valuation model. This model requires the input of subjective assumptions that will usually have a significant impact on the fair value estimate. Expected volatilities are based on historical volatility of Republic's stock and other factors. Expected dividends are based on dividend trends and the market price of Republic's stock price at grant. Republic uses historical data to estimate option exercises and employee terminations within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve at the time of grant.

All share-based payments to employees, including grants of employee stock options, are recognized as compensation expense over the service period (generally the vesting period) in the consolidated financial statements based on their fair values.

The fair value of stock options granted was determined using the following weighted average assumptions as of grant date:

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Years Ended December 31,	2018	2017	2016
Risk-free interest rate	3.00 %	2.07 %	1.43 %
Expected dividend yield	2.01 %	2.41 %	3.16 %
Expected stock price volatility	18.59 %	20.36 %	20.17 %
Expected life of options (in years)	5	5	5
Estimated fair value per share	\$ 8.09	\$ 5.46	\$ 3.27

Table of Contents

The following table summarizes stock option activity from January 1, 2017 through December 31, 2018:

	Options Class A Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, January 1, 2017	312,600	\$ 24.49		
Granted	4,500	35.54		
Exercised	(3,500)	19.63		
Forfeited or expired	(18,600)	24.99		
Outstanding, December 31, 2017	295,000	\$ 24.68	2.86	\$ 3,935,010
Outstanding, January 1, 2018	295,000	\$ 24.68		
Granted	165,000	48.08		
Exercised	(3,500)	24.10		
Forfeited or expired	(23,300)	26.51		
Outstanding, December 31, 2018	433,200	\$ 33.50	3.15	\$ 3,786,820
Unvested	433,200	\$ 33.50	3.15	\$ 3,786,820
Exercisable (vested) at December 31, 2018	—	\$ —	—	\$ —

Information related to the stock options during each year follows:

Years Ended December 31, (in thousands, except per share data)	2018	2017	2016
Intrinsic value of options exercised	\$ 79	\$ 71	\$ 18
Cash received from options exercised, net of shares redeemed	83	68	80

Loan balances of non-executive officer employees that were originated solely to fund stock option exercises were as follows:

December 31, (in thousands)	2018	2017
Outstanding loans	\$ 134	\$ 139



Restricted Stock Awards

Restricted stock awards generally vest within six years after issue, with accelerated vesting due to “change in control” or “death or disability of a participant” as defined and outlined in the 2015 Plan.

Table of Contents

The following table summarizes restricted stock activity from January 1, 2017 through December 31, 2018:

	Restricted Stock Awards	Weighted-Average Grant Date Fair Value
	Class A Shares	
Outstanding, January 1, 2017	77,000	\$ 20.02
Granted	7,413	35.77
Forfeited	(750)	19.85
Earned and issued	(42,053)	21.66
Outstanding, December 31, 2017	41,610	\$ 21.18
Outstanding, January 1, 2018	41,610	\$ 21.18
Granted	48,323	40.16
Forfeited	(1,500)	19.85
Earned and issued	(37,323)	21.33
Outstanding, December 31, 2018	51,110	\$ 39.06
Unvested	51,110	\$ 39.06

The fair value of the restricted stock awards is based on the closing stock price on the date of grant with the associated expense amortized to compensation expense over the vesting period, generally five to six years.

## Performance Stock Units

The Company first granted PSUs under the 2015 Plan in January 2016. Shares of stock underlying the PSUs may be earned over a four-year performance period commencing on January 1, 2017 and ending on December 31, 2020 as follows:

- If the Company achieves a ROA, as defined in the award agreement, of 1.25% for a calendar year in the performance period, then between March 1st and March 15th of the following year, provided that the recipient is still employed in good standing on the payment date, the Company will issue shares of fully vested stock to the participant equal to 50% of the number of the PSUs initially granted to the participant; and
- If the ROA of 1.25% is met again at the end of another calendar year during the remaining term of the performance period, the Company will similarly issue fully vested stock in an amount equal to the remaining 50% of the initial PSUs granted to the participant.

- The Compensation Committee (the “Committee”) makes all determinations regarding the achievement of ROA based on the Company’s audited financial statements and average assets as reported in the Company's Annual Report on Form 10- K with the Securities and Exchange Commission, and the determination of the Committee is final and binding on all parties. The Committee reserves the right, in its sole discretion, to adjust the calculation of ROA downward for income or expense items that it considers to be infrequent or nonrecurring in nature.

Table of Contents

The following table summarizes PSU activity from January 1, 2017 through December 31, 2018:

	Performance Stock Units	Weighted-Average Grant Date Fair Value
	Class A Shares	
Outstanding, January 1, 2017	55,000	\$ 23.13
Granted	—	—
Forfeited	(6,500)	23.48
Earned and issued	—	—
Outstanding, December 31, 2017	48,500	\$ 23.08
Outstanding, January 1, 2018	48,500	\$ 23.08
Granted	—	—
Forfeited	(2,500)	23.08
Earned and issued	—	—
Outstanding, December 31, 2018	46,000	\$ 23.08
Expected to vest	46,000	\$ 23.08

## Expense Related to Stock Incentive Plans

The Company recorded expense related to stock incentive plans for the years ended December 31, 2018, 2017 and 2016 as follows:

Years Ended December 31, (in thousands)	2018	2017	2016
Stock option expense	\$ 265	\$ 227	\$ 248
Restricted stock award expense	630	424	258
Performance stock unit expense	106	491	524
Total expense	\$ 1,001	\$ 1,142	\$ 1,030

Unrecognized expenses related to unvested awards under stock incentive plans are estimated as follows:

Stock	Restricted
-------	------------

Year Ended (in thousands)	Options	Stock Awards	Total
2019	\$ 415	\$ 606	\$ 1,021
2020	320	261	581
2021	291	261	552
2022	249	237	486
2023	106	119	225
2024 and beyond	3	16	19
Total	\$ 1,384	\$ 1,500	\$ 2,884

#### Deferred Compensation

On April 19, 2018, the shareholders of Republic approved an amendment and restatement of the Non-Employee Director and Key Employee Deferred Compensation Plan (the “Plan”). Prior to the Plan’s 2018 amendment and restatement, only directors participated in the plan, with the 2018 amendment and restatement initiating key-employee participation. The Plan provides non-employee directors and designated key employees the ability to defer compensation and have those deferred amounts paid later in the form of Company Class A Common shares based on the shares that could have been acquired as the deferrals were made. The Company maintains a bookkeeping account for each director or key-employee participant, and at the end of each fiscal quarter, deferred

Table of Contents

compensation is converted to “stock units” equal to the amount of compensation deferred during the quarter divided by the quarter-end fair market value of the Company’s Class A Common stock. Stock units for each participant’s account are also credited with an amount equal to the cash dividends that would have been paid on the number of stock units in the account if the stock units were deemed to be outstanding shares of stock. Any dividends credited are converted into additional stock units at the end of the fiscal quarter in which the dividends were paid.

## DIRECTORS

Members of the Board of Directors may defer board and committee fees from two to five years, with each director participant retaining a nonforfeitable interest in his or her deferred compensation account.

The following table presents information on director deferred compensation under the Plan for the periods presented:

	Outstanding Stock Units	Weighted-Average Market Price at Date of Deferral
Outstanding, January 1, 2017	64,155	\$ 22.94
Deferred fees and dividend equivalents converted to stock units	5,199	36.81
Stock units converted to Class A Common Shares	(5,456)	22.84
Outstanding, December 31, 2017	63,898	\$ 24.08
Outstanding, January 1, 2018	63,898	\$ 24.08
Deferred fees and dividend equivalents converted to stock units	5,081	41.82
Stock units converted to Class A Common Shares	(2,835)	23.94
Outstanding, December 31, 2018	66,144	\$ 25.45
Vested	66,144	\$ 25.45

Director deferred compensation has been expensed as follows:

Years Ended December 31, (in thousands)	2018	2017	2016
Director deferred compensation expense	\$ 214	\$ 191	\$ 170

KEY EMPLOYEES

Designated key employees may defer a portion of their base salaries on a pre-tax basis under the Plan, with the Company matching employee deferrals up to a prescribed limit. With limited exception, the Company match amount remains unvested until December 31st of the year that is five years from the beginning of the year that the Company match is made.

Table of Contents

The following table presents information on key-employee deferred compensation under the Plan for the periods presented:

	Outstanding Stock Units	Weighted-Average Market Price at Date of Deferral
Outstanding, January 1, 2018	—	\$ —
Deferred base salaries and dividend equivalents converted to stock units	4,992	43.09
Matching stock units credited	4,992	43.09
Matching stock units forfeited	(362)	42.99
Stock units converted to Class A Common Shares	—	—
Outstanding, December 31, 2018	9,622	\$ 43.10
Vested	4,992	\$ 43.10
Unvested	4,630	\$ 43.10

The following presents key-employee deferred compensation expense for the period presented:

Year Ended December 31, (in thousands)	2018
Key-employee deferred compensation expense - base salary	\$ 215
Key-employee deferred compensation expense - employer match	215
Total	\$ 430

## Employee Stock Purchase Plan

On April 19, 2018, the shareholders of Republic approved the ESPP. Under the ESPP, participating employees may purchase shares of the Company Class A Common Stock through payroll withholdings at a purchase price that cannot be less than 85% of the lower of the fair market value of the Company's Class A Common Stock on the first trading day of each offering period or on the last trading day of each offering period. For 2018, participating employees were able purchase the Company's Class A Common Stock through the ESPP at 90% of its fair market value on the last day of each three-month offering period ended September 30, 2018 and December 31, 2018.

The following presents expense under the ESPP for the period presented:



Year Ended December 31, (in thousands)	2018
ESPP expense	\$ 23

## 17.BENEFIT PLANS

### 401 (k) Plan

Republic maintains a 401(k) plan for eligible employees. All eligible employees are automatically enrolled at 6% of their eligible compensation within 30-days of their date of hire, unless the eligible employee elects to enroll sooner. Participants in the plan have the option to contribute from 1% to 75% of their annual eligible compensation, up to the maximum allowed by the IRS. The Company matches 100% of participant contributions up to 1% and an additional 75% for participant contributions between 2% and 5% of each participant's annual eligible compensation. Participants are fully vested after two years of employment.

Table of Contents

Republic may also contribute discretionary matching contributions in addition to the matching contributions if the Company achieves certain operating goals. Normal and discretionary contributions for each of the periods ended were as follows:

Years Ended December 31, (in thousands)	2018	2017	2016
Employer matching contributions	\$ 2,890	\$ 2,190	\$ 1,789
Discretionary employer bonus matching contributions	392	335	583

## Supplemental Executive Retirement Plan

In association with its May 17, 2016 Cornerstone acquisition, the Company inherited a SERP. The SERP requires the Company to pay monthly benefits following retirement of the SERP's four participants. The Company accrues the present value of such benefits monthly. The SERP liability was approximately \$2 million and \$2 million at December 31, 2018 and 2017. Expense under the SERP was \$102,000, \$93,000 and \$81,000 for the years ended December 31, 2018, 2017 and 2016.

## 18.INCOME TAXES

Allocation of federal income tax between current and deferred portion is as follows:

Years Ended December 31, (in thousands)	2018	2017	2016
Current expense:			
Federal	\$ 10,638	\$ 26,983	\$ 24,295
State	1,532	486	465
Deferred expense:			
SAB 118 related discrete items	(2,762)	—	—
Deferred tax asset devaluation upon enactment of TCJA	—	6,326	—
Federal	6,815	(965)	(1,753)
State	188	(76)	53
Total	\$ 16,411	\$ 32,754	\$ 23,060

Effective tax rates differ from federal statutory rate applied to income before income taxes due to the following:

Years Ended December 31,	2018	2017	2016
Federal rate times financial statement income	21.00 %	35.00 %	35.00 %
Effect of:			
SAB 118 related discrete items	(2.93)	—	—
Deferred tax asset devaluation upon enactment of TCJA	—	8.07	—
State taxes, net of federal benefit	1.44	0.34	0.49
General business tax credits	(1.44)	—	(0.33)
Nontaxable income	(0.99)	(1.90)	(2.12)
Other, net	0.33	0.28	0.39
Effective tax rate	17.41	41.79	33.43

\*Discrete items include the impact of a cost-segregation study, a research and development tax-credit study, and a tax-accounting-method change related to the immediate recognition of loan origination costs.

Table of Contents

The TCJA was enacted on December 22, 2017 and reduced the federal corporate tax rate from 35% to 21%, effective January 1, 2018. The Company incurred a charge of \$6.3 million to income tax expense during 2017 representing the decrease in value of its net DTA upon enactment of the TCJA. At December 31, 2017, except for a planned cost-segregation study, based on facts and circumstances known at that time, the Company believed it had substantially completed its accounting for the tax effects of the TCJA.

In addition to the income tax benefit received during 2018 from the TCJA, Republic also recognized additional federal income tax benefits of approximately \$3.4 million as part of preparing its fiscal-year 2017 federal tax return due October 15, 2018. Approximately \$3.2 million of the \$3.4 million in federal income tax benefits represented cumulative benefits for years prior to 2018. The \$3.4 million of additional tax benefits recognized during 2018 was primarily driven by three distinct items, which were comprised of (1) a cost-segregation study, (2) an automatic change in tax-accounting method, and (3) R&D federal tax credits.

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

In addition to the completed cost-segregation study and the change in the tax-accounting method related to loan origination costs, the Company also completed an R&D tax-credit study during 2018, which resulted in the recognition of R&D credits dating back to 2014.

Table of Contents

Year-end DTAs and DTLs were due to the following:

December 31, (in thousands)	2018	2017
Deferred tax assets:		
Allowance for loan and lease losses	\$ 9,746	\$ 9,057
Accrued expenses	3,802	3,009
Net operating loss carryforward(1)	3,514	3,934
Other-than-temporary impairment	478	462
Partnership losses	—	156
OREO writedowns	—	17
Fair value of cash flow hedges	—	19
Acquisition fair value adjustments	580	748
Unrealized investment security losses	289	—
Other	1,644	1,620
Total deferred tax assets	20,053	19,022
Deferred tax liabilities:		
Depreciation and amortization	(3,970)	(783)
Federal Home Loan Bank dividends	(2,676)	(2,659)
Deferred loan fees	(1,921)	(7)
Leases	(1,839)	(1,633)
Mortgage servicing rights	(1,106)	(1,127)
Bargain purchase gain	(553)	(599)
Unrealized investment securities gains	—	(130)
Fair value of cash flow hedges	(24)	—
Partnership losses	(11)	—
Other	—	(23)
Total deferred tax liabilities	(12,100)	(6,961)
Less: Valuation allowance	(1,475)	(1,718)
Net deferred tax asset	\$ 6,478	\$ 10,343

(1) The Company has federal and state net operating loss carryforwards (acquired in its 2016 Cornerstone acquisition) of \$8.7 million (federal) and \$5.7 million (state). These carryforwards begin to expire in 2030 for both federal and state purposes. The use of these federal and state carryforwards is each limited under IRC Section 382 to \$722,000 annually for federal and \$709,000 annually for state. The Company also has a Kentucky net operating loss carryforward of \$28.6 million which began expiring in 2013. The company maintains a valuation allowance as it does not anticipate generating taxable income in Kentucky to utilize this carryforward prior to expiration. Finally, the Company has AMT credit carryforwards of \$87,000 with no expiration date.

## Unrecognized Tax Benefits

The following table shows a reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Years Ended December 31, (in thousands)	2018	2017	2016
Balance, beginning of period	\$ 912	\$ 1,495	\$ 1,800
Additions based on tax related to the current period	306	259	268
Additions for tax positions of prior periods	339	—	—
Reductions for tax positions of prior periods	(34)	(42)	(90)
Reductions due to the statute of limitations	(196)	(800)	(340)
Settlements	—	—	(143)
Balance, end of period	\$ 1,327	\$ 912	\$ 1,495

Table of Contents

Of the 2018 total, \$1.1 million represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods.

It is the Company's policy to recognize interest and penalties as a component of income tax expense related to its unrecognized tax benefits. Amounts related to interest and penalties recorded in the income statements for the years ended December 31, 2018, 2017 and 2016 and accrued on the balance sheets as of December 31, 2018, 2017 and 2016 are presented below:

Years Ended December 31, (in thousands)	2018	2017	2016
Interest and penalties recorded in the income statement as a component of income tax expense	\$ 42	\$ (258)	\$ (290)
Interest and penalties accrued on balance sheet	341	299	557

The Company files income tax returns in the U.S. federal jurisdiction. The Company is no longer subject to U.S. federal income tax examinations by taxing authorities for all years prior to and including 2013.

## Low Income Housing Tax Credits

The Company is a limited partner in several low-income housing partnerships whose purpose is to invest in qualified affordable housing. The Company expects to recover its remaining investments in these partnerships through the use of tax credits that are generated by the investments.

The following table summarizes information related to the Company's qualified low-income housing investments and commitments:

December 31, (in thousands)		2018		2017	
	Accounting Method	Investment	Unfunded Commitment	Investment	Unfunded Commitment
Low income housing tax credit investments	Proportional amortization	\$ 3,971	\$ 14,029	\$ 1,264	\$ 9,736





Table of Contents

## 19.EARNINGS PER SHARE

The Company calculates earnings per share under the two-class method. Under the two-class method, earnings available to common shareholders for the period are allocated between Class A Common Stock and Class B Common Stock according to dividends declared (or accumulated) and participation rights in undistributed earnings. The difference in earnings per share between the two classes of common stock results from the 10% per share cash dividend premium paid on Class A Common Stock over that paid on Class B Common Stock. See Footnote 13, “Stockholders’ Equity and Regulatory Capital Matters” of this section of the filing.

A reconciliation of the combined Class A and Class B Common Stock numerators and denominators of the earnings per share and diluted earnings per share computations is presented below:

Years Ended December 31, (in thousands, except per share data)	2018	2017	2016
Net income	\$ 77,852	\$ 45,632	\$ 45,903
Dividends declared on Common Stock:			
Class A Shares	(18,076)	(16,158)	(15,359)
Class B Shares	(1,955)	(1,773)	(1,685)
Undistributed net income for basic earnings per share	57,821	27,701	28,859
Weighted average potential dividends on Class A shares upon exercise of dilutive options	(102)	(75)	(10)
Undistributed net income for diluted earnings per share	\$ 57,719	\$ 27,626	\$ 28,849
Weighted average shares outstanding:			
Class A Shares	18,736	18,678	18,697
Class B Shares	2,224	2,243	2,245
Effect of dilutive securities on Class A Shares outstanding	105	86	12
Weighted average shares outstanding including dilutive securities	21,065	21,007	20,954
Basic earnings per share:			
Class A Common Stock:			
Per share dividends distributed	\$ 0.97	\$ 0.87	\$ 0.83
Undistributed earnings per share*	2.79	1.34	1.39
Total basic earnings per share - Class A Common Stock	\$ 3.76	\$ 2.21	\$ 2.22
Class B Common Stock			
Per share dividends distributed	\$ 0.88	\$ 0.79	\$ 0.75
Undistributed earnings per share*	2.53	1.22	1.27
Total basic earnings per share - Class B Common Stock	\$ 3.41	\$ 2.01	\$ 2.02
Diluted earnings per share:			
Class A Common Stock:			

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Per share dividends distributed	\$ 0.97	\$ 0.87	\$ 0.83
Undistributed earnings per share*	2.77	1.33	1.39
Total diluted earnings per share - Class A Common Stock	\$ 3.74	\$ 2.20	\$ 2.22
Class B Common Stock:			
Per share dividends distributed	\$ 0.88	\$ 0.79	\$ 0.75
Undistributed earnings per share*	2.52	1.21	1.26
Total diluted earnings per share - Class B Common Stock	\$ 3.40	\$ 2.00	\$ 2.01

\*To arrive at undistributed earnings per share, undistributed net income is first pro rated between Class A and Class B Common Shares, with Class A Common Shares receiving a 10% premium. The resulting pro-rated, undistributed net income for each class is then divided by the weighted average shares for each class.

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

Years Ended December 31, (in thousands)	2018	2017	2016
Antidilutive stock options	165,000	4,500	5,000
Average antidilutive stock options	47,712	2,375	3,125

Table of Contents

## 20. TRANSACTIONS WITH RELATED PARTIES AND THEIR AFFILIATES

Republic leases office facilities under operating leases from limited liability companies in which Republic's Chairman/Chief Executive Officer and Vice Chair are partners. Rent expense under these leases was as follows:

Years Ended December 31, (in thousands)	2018	2017	2016
Rent expense under leases from related parties	\$ 4,487	\$ 4,008	\$ 3,791

Total minimum lease commitments under non-cancelable operating leases are as follows:

Year (in thousands)	Affiliate	Other	Total
2019	\$ 4,632	2,661	7,293
2020	4,590	2,541	7,131
2021	4,175	2,311	6,486
2022	3,312	1,908	5,220
2023	3,312	1,377	4,689
Thereafter	15,914	2,572	18,486
Total	\$ 35,935	\$ 13,370	\$ 49,305

Loans made to executive officers and directors of Republic and their related interests during 2018 were as follows:

	(in thousands)
Beginning balance	\$ 37,152
Effect of changes in composition of related parties	703
New loans	8,177
Repayments	(7,662)
Ending balance	\$ 38,370

Deposits from executive officers, directors, and their affiliates totaled \$102 million and \$86 million at December 31, 2018 and 2017.

By an agreement dated December 14, 1989, as amended August 8, 1994, the Company entered into a split-dollar insurance agreement with a trust established by the Company's deceased former Chairman, Bernard M. Trager. Pursuant to the agreement, from 1989 through 2002 the Company paid \$690,000 in total annual premiums on the insurance policies held in the trust. The policies are joint-life policies payable upon the death of Mrs. Jean Trager, as the survivor of her husband Bernard M. Trager. The cash surrender value of the policies was approximately \$2 million and \$2 million as of December 31, 2018 and 2017.

Pursuant to the terms of the trust, the beneficiaries of the trust will each receive the proceeds of the policies after the repayment of any unreimbursed portion of the \$690,000 annual premiums paid by the Company. The unreimbursed portion constitutes indebtedness from the trust to the Company and is secured by a collateral assignment of the policies. As of December 31, 2018 and 17, the unreimbursed portion was \$640,000 and \$690,000, and the net death benefit under the policies was approximately \$3 million. Upon the termination of the agreement, whether by the death of Mrs. Trager or earlier cancellation, the Company is entitled to be repaid by the trust the amount of indebtedness outstanding at that time.

Table of Contents

## 21. OTHER COMPREHENSIVE INCOME

OCI components and related tax effects were as follows:

Years Ended December 31, (in thousands)	2018	2017	2016
<b>Available-for-Sale Debt Securities:</b>			
Change in unrealized (loss) gain on AFS debt securities (2018), debt and equity securities (2017 and 2016)	\$ (1,548)	\$ (1,265)	\$ (2,294)
Adjustment for adoption of ASU 2016-01	(428)	—	—
Reclassification adjustment for net (gain) loss on AFS debt securities recognized in earnings	—	136	—
Change in unrealized gain on AFS debt security for which a portion of OTTI has been recognized in earnings	(20)	298	(9)
Net unrealized (losses) gains	(1,996)	(831)	(2,303)
Tax effect	419	377	807
Net of tax	(1,577)	(454)	(1,496)
<b>Cash Flow Hedges:</b>			
Change in fair value of derivatives used for cash flow hedges	178	83	(125)
Reclassification amount for net derivative losses realized in income	28	219	332
Net unrealized gains	206	302	207
Tax effect	(42)	(119)	(73)
Net of tax	164	183	134
Total other comprehensive (loss) income components, net of tax	\$ (1,413)	\$ (271)	\$ (1,362)

Amounts reclassified out of each component of accumulated OCI for the years ended December 31, 2018, 2017 and 2016:

Years Ended December 31, (in thousands)	Affected Line Items in the Consolidated Statements of Income	Amounts Reclassified From Accumulated Other Comprehensive Income		
		2018	2017	2016

## Available for Sale Debt Securities:

Net losses on debt securities	Noninterest income	\$ —	\$ (136)	\$ —
Tax effect	Income tax expense (benefit)	—	48	—
Net of tax	Net income	—	(88)	—

## Cash Flow Hedges:

Interest rate swap on money market deposits	Interest expense on deposits	(18)	(109)	(168)
Interest rate swap on FHLB advance	Interest expense on FHLB advances	(10)	(110)	(164)
Total derivative losses on cash flow hedges	Total interest expense	(28)	(219)	(332)
Tax effect	Income tax expense	6	77	116
Net of tax	Net income	(22)	(142)	(216)
Net of tax, total all reclassification amounts	Net income	\$ (22)	\$ (230)	\$ (216)

The following is a summary of the accumulated OCI balances, net of tax:

(in thousands)	December 31, 2017	2018 Change	December 31, 2018
Unrealized loss on AFS debt securities and reclassification of equity securities	\$ (604)	\$ (1,561)	\$ (2,165)
Unrealized gain (loss) on AFS debt security for which a portion of OTTI has been recognized in earnings	1,093	(15)	1,078
Unrealized gain (loss) on cash flow hedges	(73)	163	90
Total unrealized gain (loss)	\$ 416	\$ (1,413)	\$ (997)

Table of Contents

(in thousands)	December 31, 2016	2017 Change	December 31, 2017
Unrealized gain on AFS debt and equity securities	\$ 237	\$ (841)	\$ (604)
Unrealized gain on AFS debt security for which a portion of OTTI has been recognized in earnings	706	387	1,093
Unrealized gain (loss) on cash flow hedges	(256)	183	(73)
Total unrealized gain	\$ 687	\$ (271)	\$ 416

## 22.PARENT COMPANY CONDENSED FINANCIAL INFORMATION

## BALANCE SHEETS

December 31, (in thousands)	2018	2017
Assets:		
Cash and cash equivalents	\$ 99,440	\$ 98,943
Available-for-sale debt security	4,075	3,600
Investment in bank subsidiary	625,814	569,162
Investment in non-bank subsidiaries	3,343	3,211
Other assets	4,854	5,512
Total assets	\$ 737,526	\$ 680,428
Liabilities and Stockholders' Equity:		
Subordinated note	\$ 41,240	\$ 41,240
Other liabilities	6,352	6,764
Stockholders' equity	689,934	632,424
Total liabilities and stockholders' equity	\$ 737,526	\$ 680,428

## STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Years Ended December 31, (in thousands)	2018	2017	2016
Income and expenses:			
Dividends from subsidiary	\$ 22,385	\$ 20,063	\$ 19,114
Interest income	231	186	162
Other income	45	45	45
Less: Interest expense	1,508	1,094	915
Less: Other expenses	469	394	446
Income before income tax benefit	20,684	18,806	17,960
Income tax benefit	348	116	394
Income before equity in undistributed net income of subsidiaries	21,032	18,922	18,354
Equity in undistributed net income of subsidiaries	56,820	26,710	27,549
Net income	\$ 77,852	\$ 45,632	\$ 45,903
Comprehensive income	\$ 76,439	\$ 45,361	\$ 44,541



Table of Contents

## STATEMENTS OF CASH FLOWS

Years Ended December 31, (in thousands)	2018	2017	2016
Operating activities:			
Net income	\$ 77,852	\$ 45,632	\$ 45,903
Adjustments to reconcile net income to net cash provided by operating activities:			
Accretion of investment security	(40)	(44)	(44)
Equity in undistributed net income of subsidiaries	(56,820)	(26,710)	(27,549)
Director deferred compensation - Parent Company	117	108	103
Change in other assets	605	1,215	(1,366)
Change in other liabilities	(976)	1,623	(313)
Net cash provided by operating activities	20,738	21,824	16,734
Investing activities:			
Acquisition of Cornerstone Bancorp, Inc.	—	—	(31,795)
Investment in subsidiary bank	(230)	—	—
Net cash used in investing activities	(230)	—	(31,795)
Financing activities:			
Payoff of subordinated note, net of common security interest	—	—	(4,000)
Common Stock repurchases	(827)	(1,048)	(1,207)
Net proceeds from Class A Common Stock purchased through employee stock purchase plan	230	—	—
Net proceeds from Common Stock options exercised	83	68	80
Cash dividends paid	(19,497)	(17,656)	(16,768)
Net cash used in financing activities	(20,011)	(18,636)	(21,895)
Net change in cash and cash equivalents	497	3,188	(36,956)
Cash and cash equivalents at beginning of period	98,943	95,755	132,711
Cash and cash equivalents at end of period	\$ 99,440	\$ 98,943	\$ 95,755

Table of Contents

## 23. REVENUE FROM CONTRACTS WITH CUSTOMERS

The following tables present the Company's net revenue by reportable segment for the year ended December 31, 2018:

(dollars in thousands)	Year Ended December 31, 2018			Total Core Banking	Republic Processing Group		Total RPG						
	Core Banking Traditional Banking	Warehouse Lending	Mortgage Banking		Tax Refund Solutions	Republic Credit Solutions							
Net interest income(1)	\$ 160,398	\$ 15,726	\$ 402	\$ 176,526	\$ 19,203	\$ 30,329	\$ 49,530						
Noninterest income:													
Service charges on deposit accounts	14,233	40	—	14,273	—	—	—						
Net refund transfer fees	—	—	—	—	20,029	—	20,029						
Mortgage banking income(1)	—	—	4,825	4,825	—	—	—						
Interchange fee income	10,868	—	—	10,868	226	65	291						
Program fees(1)	—	—	—	—	295	5,930	6,225						
Increase in cash surrender value of BOLI(1)	1,527	—	—	1,527	—	—	—						
Net gains (losses) on OREO	729	—	—	729	—	—	—						
Other	2,608	—	550	3,158	1,003	497	1,500						
Total noninterest income	29,965	40	5,375	35,380	21,553	6,492	28,045						
Total net revenue	\$ 190,363	\$ 15,766	\$ 5,777	\$ 211,906	\$ 40,756	\$ 36,821	\$ 77,577						
Net-revenue concentration(2)	66	%	5	%	2	%	73	%	14	%	13	%	27

(1) This revenue is not subject to ASU 2014-09, Revenue from Contracts with Customers.

(2) Net revenue represents net interest income plus total noninterest income. Net-revenue concentration equals segment-level net revenue divided by total Company net revenue.

The following represents information for significant revenue streams subject to ASC 606:

Service charges on deposits – The Company earns revenue for account-based and event-driven services on its retail and commercial deposit accounts. Contracts for these services are generally in the form of deposit agreements, which disclose fees for deposit services. Revenue for event-driven services is recognized in close proximity or simultaneously with service performance. Revenue for certain account-based services may be recognized at a point in time or over the period the service is rendered, typically no longer than a month. Examples of account-based and event-driven service charges on deposits include per item fees, paper-statement fees, check-cashing fees, and analysis fees.

Net refund transfer fees – An RT is a fee-based product offered by the Bank through third-party tax preparers located throughout the United States, as well as tax-preparation software providers (collectively, the “Tax Providers”), with the Bank acting as an independent contractor of the Tax Providers. An RT allows a taxpayer to pay any applicable tax preparation and filing related fees directly from his federal or state government tax refund, with the remainder of the tax refund disbursed directly to the taxpayer. RT fees and all applicable tax preparation, transmitter, audit, and any other taxpayer authorized amounts are deducted from the tax refund by either the Bank or the Bank’s service provider and automatically forwarded to the appropriate party as authorized by the taxpayer. RT fees generally receive first priority when applying fees against the taxpayer’s refund, with the Bank’s share of RT fees generally superior to the claims of other third-party service providers, including the Tax Providers. The remainder of the refund is disbursed to the taxpayer by a Bank check printed at a tax office, direct deposit to the taxpayer’s personal bank account, loaded to a Net Spend Visa® Prepaid Card or Walmart Direct2Cash.

The Company executes contracts with individual Tax Providers to offer RTs to their taxpayer customers. RT revenue is recognized by the Bank immediately after the taxpayer’s refund is disbursed in accordance with the RT contract with the taxpayer customer. The fee paid by the taxpayer for the RT is shared between the Bank and the Tax Providers based on contracts executed between the parties.

The Company presents RT revenue net of any amounts shared with the Tax Providers. The Bank’s share of RT revenue is generally based on the obligations undertaken by the Tax Provider for each individual RT program, with more obligations generally corresponding to higher RT revenue share. The significant majority of net RT revenue is recognized and obligations under RT contracts fulfilled by the Bank during the first half of each year. Incremental expenses associated with the fulfilment of RT contracts are generally expensed during the first half of the year.

Table of Contents

Interchange fee income – As an “issuing bank” for card transactions, the Company earns interchange fee income on transactions executed by its cardholders with various third-party merchants. Through third-party intermediaries, merchants compensate the Company for each transaction for the ability to efficiently settle the transaction and for the Company’s willingness to accept certain risks inherent in the transaction. There is no written contract between the merchant and the Company, but a contract is implied between the two parties by customary business practices. Interchange fee income is recognized almost simultaneously by the Company upon the completion of a related card transaction.

The Company compensates its cardholders by way of cash or other “rewards” for generating card transactions. These rewards are disclosed in cardholder agreements between the Company and its cardholders. Reward costs are accrued over time based on card transactions generated by the cardholder. Interchange fee income is presented net of reward costs within noninterest income.

Net gains/(losses) on other real estate – The Company routinely sells OREO it has acquired through loan foreclosure. Net gains/(losses) on OREO reflect both 1) the gain or loss recognized upon an executed deed and 2) mark-to-market write-downs the Company takes on its OREO inventory.

The Company generally recognizes gains or losses on OREO at the time of an executed deed, although gains may be recognized over a financing period if the Company finances the sale. For financed OREO sales, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on sale, the Company adjusts the transaction price and related gain/(loss) on sale if a significant financing component is present.

Mark-to-market write-downs taken by the Company during the property’s holding period are generally at least 10% per year but may be higher based on updated real estate appraisals or BPOs. Incremental expenditures to bring OREO to salable condition are generally expensed as-incurred.

Capital commitment fee (within other income) – The Company received and recorded a \$1.0 million nonrefundable capital commitment fee during the first quarter of 2018. The fee was paid by a third party upon the Company’s completion of its contractual obligations to build the infrastructure and disburse funds for a new collaborative credit product offered to the third party’s customers through the Bank. The completion of the infrastructure and the first disbursement of funds were made for this new credit product during the first quarter of 2018. Incremental expenses incurred by the Company to fulfil its obligation under this contract were expensed as-incurred.

## 24.SEGMENT INFORMATION

Reportable segments are determined by the type of products and services offered and the level of information provided to the chief operating decision maker, who uses such information to review performance of various components of the business (such as banking centers and business units), which are then aggregated if operating performance, products/services, and clients are similar.

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

Table of Contents

The nature of segment operations and the primary drivers of net revenues by reportable segment are provided below:

Reportable Segment:	Nature of Operations:	Primary Drivers of Net Revenue:
Core Banking:		
Traditional Banking	Provides traditional banking products to clients in its market footprint primarily via its network of banking centers and to clients outside of its market footprint primarily via its Digital and Correspondent Lending delivery channels.	Loans, investments, and deposits.
Warehouse Lending	Provides short-term, revolving credit facilities to mortgage bankers across the United States.	Mortgage warehouse lines of credit.
Mortgage Banking	Primarily originates, sells and services long-term, single family, first lien residential real estate loans primarily to clients in the Bank's market footprint.	Loan sales and servicing.
Republic Processing Group:		
Tax Refund Solutions	TRS offers tax-related credit products and facilitates the receipt and payment of federal and state tax refund products. The RPS division of TRS offers general-purpose reloadable cards. TRS and RPS products are primarily provided to clients outside of the Bank's market footprint.	Loans, refund transfers, and prepaid cards.
Republic Credit Solutions	Offers consumer credit products. RCS products are primarily provided to clients outside of the Bank's market footprint, with a substantial portion of RCS clients considered subprime or near-prime borrowers.	Unsecured, consumer loans.

The accounting policies used for Republic's reportable segments are the same as those described in the summary of significant accounting policies. Segment performance is evaluated using operating income. Goodwill is allocated to the Traditional Banking segment. Income taxes are generally allocated based on income before income tax expense unless specific segment allocations can be reasonably made. Transactions among reportable segments are made at carrying value.

Segment information for the years ended December 31, 2018, 2017 and 2016 is as follows:

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Year Ended December 31, 2018

Core Banking

(dollars in thousands)	Core Banking					Republic Processing Group						
	Traditional Banking	Warehouse Lending	Mortgage Banking	Total Core Banking	Tax Refund Solutions	Republic Credit Solutions						
Net interest income	\$ 160,398	\$ 15,726	\$ 402	\$ 176,526	\$ 19,203	\$ 30,329						
Provision for loan and lease losses	3,710	(142)	—	3,568	10,919	16,881						
Net refund transfer fees	—	—	—	—	20,029	—						
Mortgage banking income	—	—	4,825	4,825	—	—						
Program fees	—	—	—	—	295	5,930						
Other noninterest income	29,965	40	550	30,555	1,229	562						
Total noninterest income	29,965	40	5,375	35,380	21,553	6,492						
Total noninterest expense	136,439	3,367	4,356	144,162	14,686	5,004						
Income before income tax expense	50,214	12,541	1,421	64,176	15,151	14,936						
Income tax expense	6,819	2,869	298	9,986	3,033	3,392						
Net income	\$ 43,395	\$ 9,672	\$ 1,123	\$ 54,190	\$ 12,118	\$ 11,544						
Period-end assets	\$ 4,647,037	\$ 470,126	\$ 14,246	\$ 5,131,409	\$ 20,288	\$ 88,707						
Net interest margin	3.76	%	3.17	%	NM	3.70	%	NM	NM			
Net-revenue concentration*	66	%	5	%	2	%	73	%	14	%	13	%

Table of Contents

Year Ended December 31, 2017														
Core Banking														
Republic Processing Group														
Tax Refund Solutions														
Republic Credit Solutions														
Total RPG														
Total Core Banking														
Total														
Total														
Income	\$ 142,823	\$ 17,533	\$ 346	\$ 160,702	\$ 15,197	\$ 22,621	\$ 37,818	\$	\$	\$	\$	\$	\$	
Expenses	3,923	(150)	—	3,773	6,535	17,396	23,931							
Provision for doubtful assets	—	—	—	—	18,500	—	18,500							
Provision for doubtful assets	—	—	4,642	4,642	—	—	—							
Provision for doubtful assets	—	—	—	—	176	5,648	5,824							
Provision for doubtful assets	27,452	37	279	27,768	164	1,516	1,680							
Provision for doubtful assets	27,452	37	4,921	32,410	18,840	7,164	26,004							
Provision for doubtful assets	124,637	3,392	4,765	132,794	14,491	3,559	18,050							
Income	41,715	14,328	502	56,545	13,011	8,830	21,841							
Expense	18,202	5,421	(526)	23,097	4,721	4,936	9,657							
Income	\$ 23,513	\$ 8,907	\$ 1,028	\$ 33,448	\$ 8,290	\$ 3,894	\$ 12,184	\$	\$	\$	\$	\$	\$	
Assets	\$ 4,470,932	\$ 525,246	\$ 11,115	\$ 5,007,293	\$ 12,450	\$ 65,619	\$ 78,069	\$	\$	\$	\$	\$	\$	
Margin	3.55	%	3.53	%	NM	3.55	%	NM	NM	NM	NM	NM	NM	
	66	%	7	%	2	%	75	%	13	%	12	%	25	%

Year Ended December 31, 2016  
Core Banking

Total

Republic Processing Group  
Tax Republic



Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

(dollars in thousands)	Traditional Banking	Warehouse Lending	Mortgage Banking	Core Banking	Refund Solutions	Credit Solutions						
Net interest income	\$ 121,692	\$ 16,529	\$ 200	\$ 138,421	\$ 6,607	\$ 11,026						
Provision for loan and lease losses	3,448	497	—	3,945	2,772	7,776						
Net refund transfer fees	—	—	—	—	19,240	—						
Mortgage banking income	—	—	6,882	6,882	—	—						
Program fees	—	—	—	—	210	2,834						
Other noninterest income	26,090	18	360	26,468	189	1,686						
Total noninterest income	26,090	18	7,242	33,350	19,639	4,520						
Total noninterest expense	108,360	3,142	4,688	116,190	11,701	2,216						
Income (loss) before income tax expense	35,974	12,908	2,754	51,636	11,773	5,554						
Income tax expense (benefit)	11,015	4,798	964	16,777	4,270	2,013						
Net income (loss)	\$ 24,959	\$ 8,110	\$ 1,790	\$ 34,859	\$ 7,503	\$ 3,541						
Period-end assets	\$ 4,169,557	\$ 584,916	\$ 17,453	\$ 4,771,926	\$ 13,575	\$ 30,808						
Net interest margin	3.26	%	3.59	%	NM	3.30	%	NM	NM			
Net-revenue concentration*	70	%	8	%	3	%	81	%	12	%	7	%

\*Net revenue represents net interest income plus total noninterest income. Net-revenue concentration equals segment-level net revenue divided by total Company net revenue.

NM - Not Meaningful

Table of Contents

## 25.SUMMARY OF QUARTERLY FINANCIAL DATA (UNAUDITED)

Presented below is a summary of the consolidated quarterly financial data for the years ended December 31, 2018 and 2017.

	2018			
(dollars in thousands, except per share data)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter(1)
Interest income	\$ 62,902	\$ 61,090	\$ 58,356	\$ 73,833
Interest expense	8,626	8,057	7,272	6,168
Net interest income	54,276	53,033	51,084	67,665
Provision for loan and lease losses(2)	5,104	4,077	4,932	17,255
Net interest income after provision	49,172	48,956	46,152	50,410
Noninterest income	10,119	11,465	14,296	27,545
Noninterest expense(3)	38,963	41,212	40,632	43,045
Income before income taxes	20,328	19,209	19,816	34,910
Income tax expense(4)	3,022	1,798	4,150	7,441
Net income	\$ 17,306	\$ 17,411	\$ 15,666	\$ 27,469
Basic earnings per share:				
Class A Common Stock	\$ 0.83	\$ 0.84	\$ 0.75	\$ 1.32
Class B Common Stock	0.76	0.76	0.68	1.21
Diluted earnings per share:				
Class A Common Stock	\$ 0.83	\$ 0.83	\$ 0.74	\$ 1.32
Class B Common Stock	0.75	0.76	0.68	1.20
Dividends declared per common share:				
Class A Common Stock	\$ 0.242	\$ 0.242	\$ 0.242	\$ 0.242
Class B Common Stock	0.220	0.220	0.220	0.220

	2017			
(dollars in thousands, except per share data)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter(1)
Interest income	\$ 56,349	\$ 53,725	\$ 47,821	\$ 60,883
Interest expense	5,711	5,418	4,684	4,445
Net interest income	50,638	48,307	43,137	56,438
Provision for loan and lease losses(2)	6,071	4,221	5,061	12,351

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-K

Net interest income after provision	44,567	44,086	38,076	44,087
Noninterest income	10,190	10,374	12,927	24,923
Noninterest expense(43	38,145	38,026	35,734	38,939
Income before income taxes	16,612	16,434	15,269	30,071
Income tax expense(4)	11,774	5,728	5,198	10,054
Net income	\$ 4,838	\$ 10,706	\$ 10,071	\$ 20,017
Basic earnings per share:				
Class A Common Stock	\$ 0.23	\$ 0.51	\$ 0.48	\$ 0.97
Class B Common Stock	0.21	0.47	0.44	0.88
Diluted earnings per share:				
Class A Common Stock	\$ 0.23	\$ 0.51	\$ 0.48	\$ 0.96
Class B Common Stock	0.21	0.47	0.44	0.88
Dividends declared per common share:				
Class A Common Stock	\$ 0.220	\$ 0.220	\$ 0.220	\$ 0.209
Class B Common Stock	0.200	0.200	0.200	0.190

(1) The first quarters of 2018 and 2017 were significantly impacted by the TRS segment of RPG.

(2) Provision expense:

The relatively higher levels of provision expense during the first quarters of 2018 and 2017 were driven by the TRS segment's EA product. Provision expense for EAs during the first quarters of 2018 and 2017 was \$13.2 million and \$8.6 million.

(3) Noninterest expense:

During the fourth quarters of 2018 and 2017, the Company reversed \$2.8 million and \$1.1 million of incentive compensation accruals based on revised payout estimates.

Table of Contents

(4) Income tax expense:

The TCJA was enacted on December 22, 2017 and reduced the federal corporate tax rate from 35% to 21%, effective January 1, 2018. The Company's quarters for the year ended December 31, 2018 reflect this reduction in the federal corporate tax rate.

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

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

Upon enactment of the TCJA on December 22, 2017, the Company recorded a charge to income tax expense of \$6.3 million due to the remeasurement of its deferred tax assets and liabilities at a 21% corporate tax rate.

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None

Item 9A. Controls and Procedures.

As of the end of the period covered by this report, an evaluation was carried out by Republic Bancorp, Inc.'s management, with the participation of the Company's Chairman/Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fourth quarter of the Company's fiscal year ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting and on the Financial Statements, thereon are set forth under Part II Item 8 "Financial Statements and Supplementary Data."

Item 9B. Other Information.

None

182

---

Table of Contents

## PART III

## Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item appears under the headings “PROPOSAL ONE: ELECTION OF DIRECTORS,” “SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE” and “THE BOARD OF DIRECTORS AND ITS COMMITTEES” of the Proxy Statement of Republic for the 2019 Annual Meeting of Shareholders (“Proxy Statement”) to be held April 24, 2019, all of which is incorporated herein by reference.

Set forth below is certain information with respect to the Company’s executive officers:

Name	Age	Position with the Company
Steven E. Trager	58	Chairman and CEO
A. Scott Trager	66	Vice Chairman and President
Kevin Sipes	47	EVP, CFO and Chief Accounting Officer
William R. Nelson	55	President, Republic Processing Group
Anthony T. Powell	51	EVP, Republic Bank & Trust Company
Steven E. DeWeese	50	EVP, Republic Bank & Trust Company
Robert J. Arnold	60	SVP, Republic Bank & Trust Company
John Rippy	58	EVP, Republic Bank & Trust Company
Juan Montano	49	EVP, Republic Bank & Trust Company

Executive officers of the Company are elected by the Board of Directors and serve at the pleasure of the Board of Directors. Steven E. Trager and A. Scott Trager are cousins.

Steven E. Trager began serving as Chairman and CEO of Republic in 2012 and has served as Chairman and CEO of the Bank since 1998. From 1994 to 1997 he served as Vice Chairman of the Company. From 1994 to 1998 he served as Secretary, and from 1998 to 2012 he served as President and CEO of Republic.

A. Scott Trager has served as Vice Chairman of Republic and the Bank since April 2017. He has also served as Director and President of Republic since 2012. He served as President of the Bank from 1984 to 2017 and Vice Chairman of the Bank from 1994 to 2012.

Kevin Sipes joined the Company in 1995 and has served as EVP and Treasurer of Republic and the Company since 2002 and CFO of Republic and the Company since 2000. He began serving as Chief Accounting Officer of the Company in 2000.

William R. Nelson has served as President of Republic Processing Group since 2007. He previously served as Director of Relationship Management of HSBC, Taxpayer Financial Services, in 2004 and was promoted to Group Director — Independent Program in 2006 through 2007. He previously served as Director of Sales, Marketing and Customer Service with the Bank from 1999 through 2004.

Anthony T. Powell joined the Company in 1999 as VP. In 2001, he was promoted to SVP and Senior Commercial Lending Officer. In 2005, he was promoted to SVP and Managing Director of Business Banking. In 2015, he assumed responsibility for the Retail Banking division of the Company and was named SVP and Chief Credit and Retail Officer. In January 2017, he was named EVP and Chief Lending Officer.

Steven E. DeWeese joined the Company in 1990 and has held various positions within the Company since then. In 2000, he was promoted to SVP. In 2003, he was promoted to Managing Director of Business Development. In 2006, he was promoted to Managing Director of Retail Banking, and in January 2010 he was promoted to EVP of the Company. In 2015, he was named the Company's Managing Director of Private and Business Banking.

Robert J. Arnold joined the Company in 2006 as SVP and Chief Operating Officer of Commercial Banking. In 2015 he was named the Company's Managing Director of Commercial and Corporate Banking.

Table of Contents

John Rippy joined the Company in 2005 as SVP and Risk Management Officer. In 2009, he was named SVP and Chief Legal and Compliance Officer. In 2013, he was named SVP and Chief Risk Management Officer. In 2018, he was named EVP and Chief Risk Officer.

Juan Montano joined the Company in 2009 as SVP and Managing Director of Finance. In 2015, he was named SVP and Managing Director of Mortgage Lending. In 2018, he was named EVP and Chief Mortgage Banking Officer.

Item 11. Executive Compensation.

The information required by this Item appears under the sub-heading “Director Compensation” and under the headings “CERTAIN INFORMATION AS TO MANAGEMENT” and “COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION” of the Proxy Statement all of which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Equity Compensation Plan Information

The following table sets forth information regarding Republic’s Common Stock that may be issued upon exercise of options, warrants and rights under all equity compensation plans as of December 31, 2018. Republic’s security holders approved each of the three equity compensation plans listed in the table below. There were no equity compensation plans not approved by security holders at December 31, 2018.

Plan Category	(a) (1) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Including Securities Reflected in Column (a))
2005 Stock Incentive Plan	3,000	\$ 24.13	—
2015 Stock Incentive Plan	603,076 (2)	\$ 33.74	2,390,924
2018 Employee Stock Purchase Plan (3)	—	\$ —	244,590



- (1) Column (a) above includes options issued for Class A Common Stock only. Options for Class B Common Stock have been authorized but are not issued.
  
- (2) Includes 75,766 shares of Class A Common Stock subject to issuance in accordance with the Republic Bancorp, Inc. Non-Employee Director and Key Employee Deferred Compensation Plan for service previously rendered. Republic's security holders previously approved this plan. These shares are to be issued from shares available for issuance under the 2015 Stock Incentive Plan; the weighted-average exercise price in Column (b) does not take these awards into account. Also includes 46,000 shares of Class A Common Stock for performance stock units; the weighted-average exercise price in Column (b) does not take these awards into account. For further information, see Footnote 16 "Stock Plans and Stock Based Compensation" of Part II Item 8 "Financial Statements and Supplementary Data."
  
- (3) The 2018 Employee Stock Purchase Plan is a qualified Employee Stock Purchase Plan under Section 423 of the Code, pursuant to which up to 250,000 shares of Class A Common Stock were authorized for issuance. Under the ESPP, employees may purchase shares at a purchase price that cannot be less than 85% of the lower of the fair market value of the Company's Class A Common Stock on the first trading day of each offering period or on the last trading day of each offering period. No offering period may exceed 27 months in length. As of the close of business on December 31, 2018, there were no shares of Class A Common Stock subject to purchase during open offering periods.

Additional information required by this Item appears under the heading "SHARE OWNERSHIP" of the Proxy Statement, which is incorporated herein by reference.

Table of Contents

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required by this Item is under the headings “COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION” and “CERTAIN OTHER RELATIONSHIPS AND RELATED TRANSACTIONS” of the Proxy Statement, all of which is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

Information required by this Item appears under the heading “INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM” of the Proxy Statement which is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) Financial Statements:

The following are included under Item 8 “Financial Statements and Supplementary Data:”

Management’s Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

Consolidated balance sheets — December 31, 2018 and 2017

Consolidated statements of income and comprehensive income — years ended December 31, 2018, 2017 and 2016

Consolidated statements of stockholders’ equity — years ended December 31, 2018, 2017 and 2016

Consolidated statements of cash flows — years ended December 31, 2018, 2017 and 2016

Notes to consolidated financial statements

(a)(2) Financial Statements Schedules:

Financial statement schedules are omitted because the information is not applicable.

(a)(3) Exhibits:

The Exhibit Index of this report is incorporated herein by reference. The management contracts and compensatory plans or arrangements required to be filed as exhibits to this Form 10-K pursuant to Item 15(b) are noted in the Exhibit Index.

Item 16. Form 10K Summary.

Not applicable.

185

---

Table of Contents

INDEX TO EXHIBITS

No.	Description
3(i)	<u>Articles of Incorporation of Registrant, as amended (Incorporated by reference to Exhibit 3(i) to the Registrant's Form 8-K filed October 13, 2016 (Commission File Number: 0-24649))</u>
3(ii)	<u>Restated Bylaws (Incorporated by reference to Exhibit 3(ii) of Registrant's Form 8-K filed March 15, 2017 (Commission File Number: 0-24649))</u>
4.1	<u>Provisions of Articles of Incorporation of Registrant defining rights of security holders (see Articles of Incorporation, as amended, of Registrant incorporated as Exhibit 3(i) herein)</u>
4.2	<u>Agreement Pursuant to Item 601 (b)(4)(iii) of Regulation S-K (Incorporated by reference to Exhibit 4.2 of the Registrant's Form 10-K for the year ended December 31, 1997 (Commission File Number: 33-77324))</u>
10.01*	<u>Officer Compensation Continuation Agreement with Steven E. Trager, dated January 12, 1995 (Incorporated by reference to Exhibit 10.1 to Registrant's Form 10-K for the year ended December 31, 1995 (Commission File Number: 33-77324))</u>
10.02*	<u>Officer Compensation Continuation Agreement, as amended and restated, with Steven E. Trager effective January 1, 2005 (Incorporated by reference to Exhibit 10.34 of Registrant's Form 10-K for the year ended December 31, 2005 (Commission File Number: 0-24649))</u>
10.03*	<u>Officer Compensation Continuation Agreement, as amended, with Steven E. Trager effective January 1, 2005 (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed February 21, 2006 (Commission File Number: 0-24649))</u>
10.04*	<u>Officer Compensation Continuation Agreement, as amended and restated, with Steven E. Trager effective April 30, 2008 (Incorporated by reference to Exhibit 10.2 of Registrant's Form 10-Q for the quarter ended March 31, 2008 (Commission File Number: 0-24649))</u>
10.05*	<u>Officer Compensation Continuation Agreement with A. Scott Trager, dated January 12, 1995 (Incorporated by reference to Exhibit 10.5 to Registrant's Form 10-K for the year ended December 31, 1995 (Commission File Number: 33-77324))</u>
10.06*	<u>Officer Compensation Continuation Agreement, as amended and restated, with A. Scott Trager effective January 1, 2005 (Incorporated by reference to Exhibit 10.35 of Registrant's Form 10-K for the year ended December 31, 2005 (Commission File Number: 0-24649))</u>
10.07*	<u>Officer Compensation Continuation Agreement, as amended, with A. Scott Trager effective January 1, 2005 (Incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K filed February 21, 2006 (Commission File Number: 0-24649))</u>
10.08*	<u>Officer Compensation Continuation Agreement, as amended and restated, with A. Scott Trager effective April 30, 2008 (Incorporated by reference to Exhibit 10.3 of Registrant's Form 10-Q for the quarter ended</u>

March 31, 2008 (Commission File Number: 0-24649))

- 10.09\* Officer Compensation Agreement with A. Scott Trager, effective March 21, 2012 (Incorporated by reference to Exhibit 10.3 of Registrant's Form 10-Q for the quarter ended March 31, 2012 (Commission File Number: 0-24649))
- 10.10\* Officer Compensation Continuation Agreement with Kevin Sipes, dated June 15, 2001 (Incorporated by reference to Exhibit 10.23 of Registrant's Form 10-Q for the quarter ended June 30, 2001 (Commission File Number: 0-24649))

186

---

Table of Contents

No.	Description
10.11*	<u>Officer Compensation Continuation Agreement, as amended and restated, with Kevin Sipes effective January 1, 2005 (Incorporated by reference to Exhibit 10.38 of Registrant's Form 10-K for the year ended December 31, 2005 (Commission File Number: 0-24649))</u>
10.12*	<u>Officer Compensation Continuation Agreement, as amended, with Kevin Sipes effective January 1, 2006 (Incorporated by reference to Exhibit 10.5 of Registrant's Form 8-K filed February 21, 2006 (Commission File Number: 0-24649))</u>
10.13*	<u>Officer Compensation Continuation Agreement, as amended and restated, with Kevin Sipes effective April 30, 2008 (Incorporated by reference to Exhibit 10.4 of Registrant's Form 10-Q for the quarter ended March 31, 2008 (Commission File Number: 0-24649))</u>
10.14*	<u>Officer Compensation Agreement with Kevin Sipes, effective March 21, 2012 (Incorporated by reference to Exhibit 10.1 of Registrant's Form 10-Q for the quarter ended March 31, 2012 (Commission File Number: 0-24649))</u>
10.15*	<u>Officer Compensation Agreement with Kevin Sipes, effective March 21, 2012 (Incorporated by reference to Exhibit 10.2 of Registrant's Form 10-Q for the quarter ended March 31, 2012 (Commission File Number: 0-24649))</u>
10.16*	<u>Officer Compensation Agreement with Kevin Sipes, effective November 7, 2012 (Incorporated by reference to Exhibit 10.1 of Registrant's Form 10-Q for the quarter ended September 30, 2012 (Commission File Number: 0- 24649))</u>
10.17*	<u>Officer Compensation Agreement with Kevin Sipes, effective November 7, 2012 (Incorporated by reference to Exhibit 10.2 of Registrant's Form 10-Q for the quarter ended September 30, 2012 (Commission File Number: 0-24649))</u>
10.18*	<u>Death Benefit Agreement with Bernard M. Trager dated September 10, 1996 (Incorporated by reference to Exhibit 10.9 to Registrant's Form 10-K for the year ended December 31, 1996 (Commission File Number: 33-77324))</u>
10.19	<u>Split Dollar Insurance Policy with Citizens Fidelity Bank and Trust Company as the Trustee of the Bernard Trager Irrevocable Trust, dated December 14, 1989, as amended August 8, 1994 (Incorporated by reference to Exhibit 10.70 to Registrant's Form 10-K for the year ended December 31, 2012 (Commission File Number: 33-77324))</u>
10.20	<u>Right of First Offer Agreement by and among Republic Bancorp, Inc., Teebank Family Limited Partnership, Bernard M. Trager and Jean S. Trager. (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed September 19, 2007 (Commission File Number: 0-24649))</u>
10.21	<u>Lease between Republic Bank &amp; Trust Company and Jaytee Properties, dated August 1, 1982, relating to 2801 Bardstown Road, Louisville (Incorporated by reference to Exhibit 10.11 of Registrant's Form 10-Q for the quarter ended March 31, 1998 (Commission File Number: 0-24649))</u>
10.22	

Lease between Republic Bank & Trust Company and Jaytee Properties, dated August 1, 2008, relating to 2801 Bardstown Road, Louisville (Incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K filed June 9, 2008 (Commission File Number: 0-24649))

- 10.23 Lease between Republic Bank & Trust Company and Jaytee Properties, dated August 1, 2008, as amended, relating to 2801 Bardstown Road, Louisville (Incorporated by reference to Exhibit 10.23 of Registrant's Form 10-K filed March 9, 2018 (Commission File Number: 0-24649))
- 10.24 Lease between Republic Bank & Trust Company and Teeco Properties, dated April 1, 1995, relating to property at 601 West Market Street (Incorporated by reference to exhibit 10.10 of Registrant's Form 10-Q for the quarter ended March 31, 1998 (Commission File Number: 0-24649))

Table of Contents

No.	Description
10.25	<u>Lease between Republic Bank &amp; Trust Company and Teeco Properties, dated October 1, 1996, relating to property at 601 West Market Street (Incorporated by reference to exhibit 10.10 of Registrant's Form S-1 (Commission File Number: 333-56583))</u>
10.26	<u>Lease extension between Republic Bank &amp; Trust Company and Teeco Properties, dated September 25, 2001, relating to property at 601 West Market Street (Incorporated by reference to exhibit 10.25 of Registrant's Form 10-Q for the quarter ended September 30, 2001 (Commission File Number: 0-24649))</u>
10.27	<u>Lease between Republic Bank &amp; Trust Company and Teeco Properties, dated May 1, 2002, relating to property at 601 West Market Street (Incorporated by reference to exhibit 10.1 of Registrant's Form 10-Q for the quarter ended March 31, 2002 (Commission File Number: 0-24649))</u>
10.28	<u>Lease between Republic Bank &amp; Trust Company and Teeco Properties, dated October 1, 2005, relating to property at 601 West Market Street, Louisville, KY (Floor 4), amending and modifying previously filed exhibit 10.1 of Registrant's Form 10-Q for the quarter ended March 31, 2002 (Incorporated by reference to exhibit 10.1 of Registrant's Form 10-Q for the quarter ended September 30, 2005 (Commission File Number: 0-24649))</u>
10.29	<u>Lease between Republic Bank &amp; Trust Company and Teeco Properties, as of October 1, 2006, relating to property at 601 West Market Street, Louisville, KY. (Incorporated by reference to exhibit 10.1 of Registrant's Form 8-K filed September 25, 2006 (Commission File Number: 0-24649))</u>
10.30	<u>Lease between Republic Bank &amp; Trust Company and Teeco Properties, as of July 8, 2008, as amended, relating to property at 601 West Market Street (Floors 1,2,3,5 and 6), Louisville, KY. (Incorporated by reference to exhibit 10.1 of Registrant's Form 10-Q for the quarter ended June 30, 2008 (Commission File Number: 0-24649))</u>
10.31	<u>Lease between Republic Bank &amp; Trust Company and Teeco Properties, as of July 8, 2008, as amended, relating to property at 601 West Market Street (Floor 4), Louisville, KY. (Incorporated by reference to exhibit 10.2 of Registrant's Form 10-Q for the quarter ended June 30, 2008 (Commission File Number: 0-24649))</u>
10.32	<u>Assignment of Lease relating to property at 601 West Market Street (Floors 1,2,3,5 and 6), Louisville, KY. (Incorporated by reference to exhibit 10.31 of Registrant's Form 10-K for the year ended December 31, 2016 (Commission File Number: 0-24649))</u>
10.33	<u>Assignment of Lease relating to property at 601 West Market Street (Floor 4), Louisville, KY. (Incorporated by reference to exhibit 10.32 of Registrant's Form 10-K for the year ended December 31, 2016 (Commission File Number: 0-24649))</u>
10.34	<u>Lease between Republic Bank &amp; Trust Company and Jaytee Properties, dated February 3, 1993, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.12 of Registrant's Form 10-Q for the quarter ended March 31, 1998 (Commission File Number: 0-24649))</u>
10.35	<u>Lease between Republic Bank &amp; Trust Company and Jaytee Properties, dated February 1, 1999, as amended, relating to 661 South Hurstbourne Parkway (Incorporated by reference to Exhibit 10.17 of Registrant's Form 10-Q for the quarter ended June 30, 1999 (Commission File Number: 0-24649))</u>



- 10.36 Lease between Republic Bank & Trust Company and Jaytee Properties, dated February 1, 2000, as amended, relating to 661 South Hurstbourne Parkway (Incorporated by reference to Exhibit 10.21 of Registrant's Form 10-K for the year ended December 31, 1999 (Commission File Number: 0-24649))
- 10.37 Lease between Republic Bank & Trust Company and Jaytee Properties, dated July 1, 2003, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.1 of Registrant's Form 10-Q for the quarter ended June 30, 2003 (Commission File Number: 0-24649))

Table of Contents

No. Description

- 10.38 Lease between Republic Bank & Trust Company and Jaytee Properties, dated August 2, 1993, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.16 of Registrant's Form 10-K for the year ended December 31, 2003 (Commission File Number: 0-24649))
- 10.39 Lease between Republic Bank & Trust Company and Jaytee Properties, dated September 1, 1995, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.18 of Registrant's Form 10-K for the year ended December 31, 2003 (Commission File Number: 0-24649))
- 10.40 Lease between Republic Bank & Trust Company and Jaytee Properties, dated February 16, 1996, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.19 of Registrant's Form 10-K for the year ended December 31, 2003 (Commission File Number: 0-24649))
- 10.41 Lease between Republic Bank & Trust Company and Jaytee Properties, dated January 21, 1998, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.20 of Registrant's Form 10-K for the year ended December 31, 2003 (Commission File Number: 0-24649))
- 10.42 Lease between Republic Bank & Trust Company and Jaytee Properties, dated September 11, 1998, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.21 of Registrant's Form 10-K for the year ended December 31, 2003 (Commission File Number: 0-24649))
- 10.43 Lease between Republic Bank & Trust Company and Jaytee Properties, dated February 1, 2004, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.1 of Registrant's Form 10-Q for the quarter ended March 31, 2004 (Commission File Number: 0-24649))
- 10.44 Lease between Republic Bank & Trust Company and Jaytee Properties, dated September 1, 2005, as amended, relating to 661 South Hurstbourne Parkway, Louisville, KY, amending and modifying previously filed exhibit 10.12 of Registrant's Form 10-Q for the quarter ended March 31, 1998 (Incorporated by reference to Exhibit 10.2 of Registrant's Form 10-Q for the quarter ended September 30, 2005 (Commission File Number: 0-24649))
- 10.45 Lease between Republic Bank & Trust Company and Jaytee Properties, dated July 1, 2008, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed June 9, 2008 (Commission File Number: 0-24649))
- 10.46 Lease between Republic Bank & Trust Company and Jaytee Properties, dated August 14, 2015, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.1 of Registrant's Form 10Q for the quarter ended September 30, 2015 (Commission File Number: 0-24649))
- 10.47 Lease between Republic Bank & Trust Company and Jaytee Properties, dated August 14, 2015, as amended, relating to 661 South Hurstbourne Parkway, Louisville (Incorporated by reference to Exhibit 10.47 of Registrant's Form 10-K filed March 9, 2018 (Commission File Number: 0-24649))
- 10.48 Lease between Republic Bank & Trust Company and Jaytee Properties, dated November 17, 1997, as amended, relating to 9600 Brownsboro Road (Incorporated by reference to Exhibit 10.18 of Registrant's Form 10-Q for the quarter ended March 31, 1998 (Commission File Number: 0-24649))

- 10.49 Lease between Republic Bank & Trust Company and Jaytee Properties, dated August 1, 1999, as amended, relating to 9600 Brownsboro Road (Incorporated by reference to Exhibit 10.18 of Registrant's Form 10-Q for the quarter ended June 30, 1999 (Commission File Number: 0-24649))
- 10.50 Lease between Republic Bank & Trust Company and Jaytee Properties, dated October 30, 1999, as amended, relating to 9600 Brownsboro Road (Incorporated by reference to Exhibit 10.20 of Registrant's Form 10-K for the year ended December 31, 1999 (Commission File Number: 0-24649))

Table of Contents

No. Description

- 10.51 Lease between Republic Bank & Trust Company and Jaytee Properties, dated May 1, 2003, as amended, relating to 9600 Brownsboro Road (Incorporated by reference to Exhibit 10.2 of Registrant's Form 10-Q for the quarter ended June 30, 2003 (Commission File Number: 0-24649))
- 10.52 Lease between Republic Bank & Trust Company and Jaytee Properties, dated November 1, 2005, as amended, relating to 9600 Brownsboro Road (Incorporated by reference to Exhibit 10.33 of Registrant's Form 10-K for the year ended December 31, 2005 (Commission File Number: 0-24649))
- 10.53 Assignment and Assumption of Lease by Republic Bank & Trust Company with the consent of Jaytee Properties, dated May 1, 2006, relating to 9600 Brownsboro Road, Louisville, KY. (Incorporated by reference to Exhibit 10.2 of Registrant's Form 10-Q for the quarter ended June 30, 2006 (Commission File Number: 0-24649))
- 10.54 Lease between Republic Bank & Trust Company and Jaytee Properties, dated January 17, 2008, as amended, relating to 9600 Brownsboro Road, Louisville, KY (Incorporated by reference to Exhibit 10.40 of Registrant's Form 10-K for the year ended December 31, 2007 (Commission File Number: 0-24649))
- 10.55 Lease between Republic Bank & Trust Company and Jaytee Properties, dated January 15, 2014, as amended, relating to 9600 Brownsboro Road (Incorporated by reference to Exhibit 10.47 of Registrant's Form 10-K for the year ended December 31, 2013 (Commission File Number: 0-24649))
- 10.56 Lease between Republic Bank & Trust Company and Jaytee Properties, dated March 15, 2017, as amended, relating to 9600 Brownsboro Road (Incorporated by reference to Exhibit 10.1 of Registrant's Form 10-Q for the quarter ended March 31, 2017 (Commission File Number: 0-24649))
- 10.57 Ground lease between Republic Bank & Trust Company and Jaytee Properties, relating to 9600 Brownsboro Road, dated January 17, 2008, as amended, relating to 9600 Brownsboro Road, Louisville, KY (Incorporated by reference to Exhibit 10.41 of Registrant's Form 10-K for the year ended December 31, 2007 (Commission File Number: 0-24649))
- 10.58 Lease between Republic Bank & Trust Company and Jaytee Properties II SPE, LLC, dated June 27, 2008, relating to 200 South Seventh Street, Louisville, KY. (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed July 1, 2008 (Commission File Number: 0-24649))
- 10.59 Lease between Republic Bank & Trust Company and Jaytee Properties II SPE, LLC, dated March 1, 2011, relating to 200 South Seventh Street, Louisville, KY (Incorporated by reference to Exhibit 10.66 of the Registrant's Form 10-K for the year ended December 31, 2010 (Commission File Number: 0-24649))
- 10.60 Lease between Republic Bank & Trust Company and Jaytee Properties II SPE, LLC, dated May 1, 2013, relating to 200 South Seventh Street, Louisville, KY (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q for the quarter ended June 30, 2013 (Commission File Number: 0-24649))
- 10.61 Lease between Republic Bank & Trust Company and Jaytee Properties II SPE, LLC, dated January 15, 2014, as amended, relating to 200 South Seventh Street, Louisville, KY (Incorporated by reference to Exhibit 10.54 of Registrant's Form 10-K for the year ended December 31, 2013 (Commission File Number: 0-24649))

- 10.62 Lease between Republic Bank & Trust Company and Jaytee Properties II SPE, LLC, dated March 18, 2015, as amended, relating to 200 South Seventh Street, Louisville, KY. (Incorporated by reference to Exhibit 10.1 of Registrant's Form 10-Q for the quarter ended March 31, 2015 (Commission File Number: 0-24649))
- 10.63 Lease between Republic Bank & Trust Company and Jaytee Properties II SPE, LLC, dated September 30, 2015, as amended, relating to 200 South Seventh Street, Louisville, KY. (Incorporated by reference to Exhibit 10.2 of Registrant's Form 10-Q for the quarter ended September 30, 2015 (Commission File Number: 0-24649))

Table of Contents

No.	Description
10.64	<u>Lease between Republic Bank &amp; Trust Company and Jaytee Properties II SPE, LLC, dated March 15 2017 relating to 200 South Seventh Street, Louisville, KY. (Incorporated by reference to Exhibit 10.2 of Registrant's Form 10-Q for the quarter ended March 31, 2017 (Commission File Number: 0-24649))</u>
10.65	<u>Lease between Republic Bank &amp; Trust Company and Jaytee Properties II SPE, LLC, dated September 20 2017, as amended, relating to 200 South Seventh Street, Louisville, KY. (Incorporated by reference to Exhibit 10.1 of Registrant's Form 10-Q for the quarter ended September 30, 2017 (Commission File Number: 0-24649))</u>
10.66*	<u>Form of Stock Option Agreement for Directors and Executive Officers (Incorporated by reference to Exhibit 10.2 of Registrant's Form 10-Q for the quarter ended September 30, 2004 (Commission File Number: 0-24649))</u>
10.67*	<u>2005 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed March 18, 2005 (Commission File Number: 0-24649))</u>
10.68*	<u>2005 Stock Incentive Plan Amendment Number 1 (Incorporated by reference to Exhibit 10.61 of Registrant's Form 10-K for the year ended December 31, 2008 (Commission File Number: 0-24649))</u>
10.69*	<u>2005 Stock Incentive Plan Amendment, as amended November 14, 2012 (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed November 19, 2012 (Commission File Number: 0-24649))</u>
10.70*	<u>2015 Stock Incentive Plan (Incorporated by reference to Annex A of Registrant's 2015 Proxy Statement (Commission File Number: 0-24649))</u>
10.71*	<u>Option Award Agreement for 2015 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 of Registrant's Form 10-Q for the quarter ended June 30, 2015 (Commission File Number: 0-24649))</u>
10.72*	<u>Restricted Stock Award Agreement for 2015 Stock Incentive Plan (Incorporated by reference to Exhibit 10.2 of Registrant's Form 10-Q for the quarter ended June 30, 2015 (Commission File Number: 0-24649))</u>
10.73*	<u>Performance Stock Unit Award Agreement for 2015 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed January 27, 2016 (Commission File Number: 0-24649))</u>
10.74*	<u>Restricted Stock Award Agreement for 2005 Stock Incentive Plan, (Incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K filed November 19, 2012 (Commission File Number: 0-24649))</u>
10.75*	<u>Republic Bancorp, Inc. 401(k)/Profit Sharing Plan and Trust (Incorporated by reference to Form S-8 filed December 28, 2005 (Commission File Number: 0-24649))</u>
10.76*	<u>Republic Bancorp, Inc. 401(k) Retirement Plan, as Amended and Restated, effective April 1, 2011 (Incorporated by reference to Exhibit 23.2 to Form 11-K for the year ended December 31, 2011 (Commission File Number: 0-24649))</u>
10.77*	<u>Republic Bancorp, Inc. 401(k) Retirement Plan, as Amended and Restated, effective January 1, 2015 (Incorporated by reference to Exhibit 23.2 of Form 11-K for the year ended December 31, 2014</u>

(Commission File Number: 0-24649)

- 10.78\* Republic Bancorp, Inc. and subsidiaries Non-Employee Director and Key Employee Deferred Compensation and the Republic Bank & Trust Company Non-Employee Director and Key Employee Deferred Compensation Plan (as adopted November 18, 2004) (Incorporated by reference to Form S-8 filed November 30, 2004 (Commission File Number: 333- 120857))
- 10.79\* Republic Bancorp, Inc. and Subsidiaries Non-Employee Director and Key Employee Deferred Compensation Plan Post-Effective Amendment No. 1 (Incorporated by reference to Form S-8 filed April 13, 2005 (Commission File Number: 333-120857))

Table of Contents

No.	Description
10.80*	<u>Republic Bancorp, Inc. and subsidiaries Non-Employee Director and Key Employee Deferred Compensation, as amended and restated as of March 16, 2005 (Incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K filed March 18, 2005 (Commission File Number: 333-120857))</u>
10.81*	<u>Republic Bancorp, Inc. and subsidiaries Non-Employee Director and Key Employee Deferred Compensation as amended and restated as of March 19, 2008 (Incorporated by reference to Exhibit 10.1 of Registrant's Form 10-Q for the quarter ended March 31, 2008 (Commission File Number: 0-24649))</u>
10.82*	<u>Republic Bancorp, Inc. and subsidiaries Non-Employee Director and Key Employee Deferred Compensation, as adopted November 18 2004 and then amended and restated as on March 16, 2005, March 19, 2008, and again on January 24, 2018 (Incorporated by reference to Annex A of Registrant's 2018 Proxy Statement (Commission File Number: 0-24649))</u>
10.83*	<u>Republic Bancorp, Inc. Employee Stock Purchase Plan (Incorporated by reference to Annex B of Registrant's 2018 Proxy Statement (Commission File Number: 0-24649))</u>
10.84	<u>Junior Subordinated Indenture, Amended and Restated Trust Agreement, and Guarantee Agreement (Incorporated by reference to Exhibit 4.1 of Registrant's Form 8-K filed August 19, 2005 (Commission File Number: 0-24649))</u>
10.85*	<u>Cash Bonus Plan for Acquisitions, effective November 7, 2012 (Incorporated by reference to Exhibit 10.3 of Registrant's Form 10-Q for the quarter ended September 30, 2012 (Commission File Number: 0-24649))</u>
10.86	<u>Purchase and Assumption Agreement — Whole Bank; All Deposits, among the Federal Deposit Insurance Corporation, receiver of Tennessee Commerce Bank, Franklin, Tennessee, the Federal Deposit Insurance Corporation and Republic Bank &amp; Trust Company, dated as of January 27, 2012 (Incorporated by reference to Exhibit 2.1 of Registrant's Form 8- K filed February 1, 2012 (Commission File Number: 0-24649))</u>
10.87**	<u>Amended and Restated Joint Marketing Agreement, dated July 1, 2015, by and between Republic Bank &amp; Trust Company and Elevate@Work, LLC</u>
10.88**	<u>Written Consent to the Amended and Restated Joint Marketing Agreement, dated September 1, 2016, by and between Republic Bank &amp; Trust Company and Elevate@Work, LLC</u>
10.89**	<u>Amended and Restated License and Support Agreement, dated July 1, 2015, by and between Republic Bank &amp; Trust Company and Elevate Decision Sciences, LLC</u>
10.90**	<u>Participation Agreement, dated July 1, 2015, by and between Elastic SPV, Ltd. and Republic Bank &amp; Trust Company</u>
21	<u>Subsidiaries of Republic Bancorp, Inc.</u>
23	<u>Consent of Independent Registered Public Accounting Firm</u>
31.1	<u>Certification of Principal Executive Officer, pursuant to the Sarbanes-Oxley Act of 2002</u>



31.2 Certification of Principal Financial Officer, pursuant to the Sarbanes-Oxley Act of 2002

32\*\*\* Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2003

192

---

Table of Contents

No. Description

101	Interactive data files: (i) Consolidated Balance Sheets at December 31, 2018 and 2017, (ii) Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2018, 2017 and 2016, (iii) Consolidated Statement of Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016 and (v) Notes to Consolidated Financial Statements.
-----	---

---

\*Denotes management contracts and compensatory plans or arrangements required to be filed as exhibits to this Form 10-K pursuant to Item 15(b).

\*\*Confidential treatment has been requested for the redacted portions of this agreement. A complete copy of the agreement, including the redacted portions, has been filed separately with the Securities and Exchange Commission.

\*\*\*This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

REPUBLIC BANCORP, INC.

March 15, 2019 By: Steven E. Trager  
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated.

/s/ Steven E. Trager Steven E. Trager	Chairman, Chief Executive Officer and Director	March 15, 2019
/s/ A. Scott Trager A. Scott Trager	Vice Chairman, President and Director	March 15, 2019
/s/ Kevin Sipes Kevin Sipes	Chief Financial Officer and Chief Accounting Officer	March 15, 2019
/s/ Craig A. Greenberg Craig Greenberg	Director	March 15, 2019
/s/ Michael T. Rust Michael T. Rust	Director	March 15, 2019
/s/ Mark A. Vogt Mark A. Vogt	Director	March 15, 2019
/s/ R. Wayne Stratton R. Wayne Stratton	Director	March 15, 2019
/s/ Susan Stout Tamme Susan Stout Tamme	Director	March 15, 2019

