

REPUBLIC BANCORP INC /KY/

Form 10-K

March 13, 2015

[Table of Contents](#)

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, 2014

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky
(State or other jurisdiction of

61-0862051
(I.R.S. Employer Identification No.)

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

incorporation or organization)

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

40202
(Zip Code)

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

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

Class A Common Stock
(Title of each class)

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

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

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of June 30, 2014 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$233,616,877 (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 13, 2015 was 18,614,186 and 2,245,492.

DOCUMENTS INCORPORATED BY REFERENCE

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

- Portions of the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held April 23, 2015 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>
<u>Item 1A.</u>	<u>Risk Factors.</u>
<u>Item 1B.</u>	<u>Unresolved Staff Comments.</u>
<u>Item 2.</u>	<u>Properties.</u>
<u>Item 3.</u>	<u>Legal Proceedings.</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures.</u>

PART II

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

PART III

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

PART IV

<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules.</u>
	<u>Signatures</u>
	<u>Index to Exhibits</u>

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; and the term the Bank or RB&T refers to the Company's subsidiary bank: Republic Bank & Trust Company.

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

Broadly speaking, forward-looking statements include:

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

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

- loan delinquencies; non-performing, classified, or impaired loans; and troubled debt restructurings (TDRs);

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

- further developments in the Bank's ongoing review of and efforts to resolve possible problem credit relationships, which could result in, among other things, additional provisions for loan and lease losses (Provision);
- future credit quality, credit losses and the overall adequacy of the Allowance for Loan and Lease Losses (Allowance);
- potential impairment charges or write-downs of other real estate owned (OREO);
- future short-term and long-term interest rates and the respective impact on net interest income, net interest spread, net income, liquidity, capital and economic value of equity (EVE);
- the future impact of Company strategies to mitigate interest rate risk;
- future long-term interest rates and their impact on the demand for Mortgage Banking products, Warehouse lines of credit and Correspondent Lending products;
- the future value of mortgage servicing rights (MSR);
- the future financial performance of Tax Refund Solutions (TRS), a division of the Republic Processing Group (RPG) segment;
- future Refund Transfer (RT) volume for TRS;
- the future net revenue associated with RTs at TRS;
- the future financial performance of Republic Payment Solutions (RPS), a division of RPG;
- the future financial performance of Republic Credit Solutions (RCS), a division of RPG;
- the potential impairment of investment securities;
- the growth in the Bank's loan portfolio, in general;
- the growth in the Bank's Warehouse Lending portfolio;
- the growth in single family residential, first lien real estate loans originated through the Bank's Correspondent Lending delivery channel;
- the volatility of the Bank's Warehouse Lending portfolio outstanding balances;

Table of Contents

- the impact on the Bank's Allowance and Provision, as well as the impact of future legal risks associated with the Bank's expected growth in its single family, residential real estate loan portfolio that are non-Qualified Mortgages (QM);
- the Bank's ability to maintain and/or grow deposits;
- the concentrations and volatility of the Bank's securities sold under agreements to repurchase;
- the future redemption or repricing option available in 2015 for the Company's Trust Preferred Securities (TPS);
- the Company's ability to successfully implement strategic plans, including, but not limited to, those related to future business acquisitions;
- future accretion of discounts on loans acquired in the Bank's 2012 FDIC-assisted acquisitions and the effect of such accretion on the Bank's net interest income and net interest margin;
- future amortization of premiums on loans acquired through the Bank's Correspondent Lending channel and the effect of such amortization on the Bank's net interest income and net interest margin;
- the extent to which regulations written and implemented by the Consumer Financial Protection Bureau (CFPB), and other federal, state and local governmental regulation of consumer lending and related financial products and services, may limit or prohibit the operation of the Company's business;
- financial services reform and other current, pending or future legislation or regulation that could have a negative effect on the Company's revenue and businesses, including but not limited to, Basel III capital reforms; the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act); and legislation and regulation relating to overdraft fees (and changes to the Bank's overdraft practices as a result thereof), interchange fees, credit cards, and other bank services;
- the impact of new accounting pronouncements;
- legal and regulatory matters including results and consequences of regulatory guidance, litigation, administrative proceedings, rule-making, interpretations, actions and examinations;
- future capital expenditures; and
- the strength of the U.S. economy in general and the strength of the local and regional economies in which the Company conducts operations.

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

See additional discussion under the sections titled Part I Item 1 Business, Part I Item 1A Risk Factors and Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

PART I

Item 1. Business.

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

During the second quarter of 2014, Republic Bank, the Company s wholly-owned, federally chartered savings institution, was legally merged into RB&T. The merged institution operates under the name Republic Bank & Trust Company. The merger did not materially impact the Company s consolidated financial statements.

Table of Contents

As of December 31, 2014, in addition to an Internet delivery channel, Republic had 41 full-service banking centers with locations as follows:

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

* - One banking center in Hudson, Florida was closed in the first quarter of 2015, thereby reducing total banking center locations to 40.

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

The principal business of Republic is directing, planning and coordinating the business activities of the Bank. The financial condition and results of operations of Republic are primarily dependent upon the results of operations of the Bank. At December 31, 2014, Republic had total assets of \$3.7 billion, total deposits of \$2.1 billion and total stockholders' equity of \$559 million. Based on total assets as of December 31, 2014, Republic ranked as the largest Kentucky-based financial holding company. The executive offices of Republic are located at 601 West Market Street, Louisville, Kentucky 40202, telephone number (502) 584-3600. The Company's website address is www.republicbank.com.

Website Access to Reports

The Company makes its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, available free of charge through its website, www.republicbank.com, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC.

Table of Contents**General Business Overview**

As of December 31, 2014, the Company was divided into four distinct operating segments: Traditional Banking, Warehouse Lending (Warehouse), Mortgage Banking and Republic Processing Group (RPG). Management considers the first three segments to collectively constitute Core Banking activities. The Warehouse segment was reported as a division of the Traditional Banking segment prior to 2014, but was broken out as a separate segment in 2014. All prior periods have been reclassified to conform to the current presentation.

During 2012, the Company realigned the previously reported Tax Refund Solutions (TRS) segment as a division of the newly formed RPG segment. Along with the TRS division, Republic Payment Solutions (RPS) and Republic Credit Solutions (RCS) also operate as divisions of the RPG segment. The RPS and RCS divisions are considered immaterial for separate and independent segment reporting. All divisions of RPG operate through the Bank. Net income, total assets and net interest margin by business segment for the years ended December 31, 2014, 2013 and 2012 are presented below:

Year Ended December 31, 2014						
Core Banking						
(dollars in thousands)	Traditional Banking	Warehouse Lending	Mortgage Banking	Total Core Banking	Republic Processing Group	Total Company
Net income	\$ 21,315	\$ 3,402	\$ (385)	\$ 24,332	\$ 4,455	\$ 28,787
Total assets	3,404,323	319,153	11,593	3,735,069	11,944	3,747,013
Net interest margin	3.32%	3.77%	NM	3.35%	NM	3.33%

Year Ended December 31, 2013						
Core Banking						
(dollars in thousands)	Traditional Banking	Warehouse Lending	Mortgage Banking	Total Core Banking	Republic Processing Group	Total Company
Net income	\$ 21,265	\$ 2,663	\$ 2,887	\$ 26,815	\$ (1,392)	\$ 25,423
Total assets	3,205,499	149,351	9,307	3,364,157	7,747	3,371,904
Net interest margin	3.47%	4.28%	NM	3.50%	NM	3.48%

Year Ended December 31, 2012						
Core Banking						
(dollars in thousands)	Traditional Banking	Warehouse Lending	Mortgage Banking	Total Core Banking	Republic Processing Group	Total Company
Net income	\$ 53,452	\$ 1,722	\$ 3,279	\$ 58,453	\$ 60,886	\$ 119,339
Total assets	3,155,013	216,921	15,752	3,387,686	6,713	3,394,399
Net interest margin	3.62%	4.19%	NM	3.63%	NM	4.82%

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

NM Not Meaningful

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

For expanded segment financial data see Footnote 22 Segment Information of Part II Item 8 Financial Statements and Supplementary Data.

Table of Contents

(I) Traditional Banking segment

Lending Activities

The Bank's principal lending activities consists 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, first lien residential real estate loans. In addition the Bank originates home equity loans and home equity lines of credit through its retail banking centers. All such loans are generally collateralized by owner occupied property. For those loans originated through the Bank's retail banking centers, the collateral is predominately located in the Bank's primary market area footprint, while loans originated through the correspondent lending channel and internet banking are generally secured by collateral located outside of the Bank's geographic footprint. All mortgage loans retained on balance sheet are included as a component of the Company's Traditional Banking segment and are discussed below and elsewhere in this filing.

The Bank offers single family, first lien residential real estate, adjustable rate mortgages (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, the popularity of which with the Bank's clients being somewhat 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 have historically been more attractive to the Bank's clients in a relatively high rate environment. While there is no requirement for clients to refinance their loans at the end of the fixed rate period, clients have historically done so the majority of the time, as most clients are interest rate risk-averse on their first mortgage loans.

Depending on the term and amount of the ARM, loans collateralized by single family, owner-occupied first lien residential real estate may be originated with a loan-to-value (LTV) up to 90% and a combined LTV up to 100%. During the fourth quarter of 2013, the Bank introduced a 100% LTV product for home purchase transactions within its primary markets. The Bank does not require the borrower to obtain private mortgage insurance for ARM loans. Except for the Bank's Home Equity Amortizing Loan (HEAL) product under \$150,000, the Bank requires mortgagee's title insurance on single family, first lien residential real estate loans to protect the Bank against defects in its liens on the properties that collateralize the loans. The Bank normally requires title, fire, and extended casualty insurance to be obtained by the borrower and when required by applicable regulations, flood insurance. The Bank maintains an errors and omissions insurance policy to protect the Bank against loss in the event a borrower fails to maintain proper fire and other hazard insurance policies.

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

Single family, first lien residential real estate loans with fixed rate periods of 15, 20 and 30 years are primarily sold into the secondary market. MSR's attached to the sold portfolio are either sold along with the loan or retained. All loans sold into the secondary market along with their corresponding MSR's are included as a component of the Company's Mortgage Banking segment as discussed below and elsewhere in this filing.

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

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 and not the Mortgage Banking segment.

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

Table of Contents

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

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

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

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

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

Commercial Lending The Bank's commercial real estate (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 Bank's CRE loans are generally made to small-to-medium sized businesses in amounts up to 80% or 85% LTV, depending on the market, of the lesser of the appraised value or purchase price of the property. CRE loans generally have five-year fixed rate periods, or variable interest rates indexed to Prime, and have maturity terms of ten years. CRE loans generally amortize over 15 to 20 years. Although the contractual loan payment period for these types of loans is generally a 20-year period, such loans often remain outstanding for only their fixed rate periods, which is significantly shorter than the contractual terms. The Bank generally charges a penalty for prepayment of CRE loans if the loans are refinanced prior to the completion of their fixed rate period.

Loans secured by CRE generally are larger and often involve potentially greater risks than single family, first lien residential real estate loans. Because payments on loans secured by CRE properties often are dependent on successful operation or management of the properties or

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

businesses operated from the properties, repayment of such loans may be impacted to a greater extent by adverse conditions in the national, regional and local economies. The Bank seeks to minimize these risks in a variety of ways, including limiting the size of CRE loans and generally restricting such loans to its primary market area. In determining whether to originate CRE loans, the Bank also considers such factors as the financial condition of the borrower and guarantor, the LTV and the debt service coverage of the property, as well as global cash flow, when applicable.

A broad range of short-to-medium-term collateralized commercial and industrial (C&I) loans and leases are made available to businesses for working capital, business expansion (including acquisitions of real estate and improvements), and the purchase of equipment or machinery. These often represent term loans, lines of credit and equipment and receivables financing. Equipment loans are typically originated on a fixed-term basis ranging from one to five years.

Similar to CRE loans, the availability of funds for the repayment of C&I loans may be substantially dependent on the success of the business itself. Further, the collateral underlying the loans, which may depreciate over time, usually cannot be appraised with as much precision as real estate and may fluctuate in value over the term of the loan.

Table of Contents

In 2015, while continuing to increase its total commercial-related loan portfolio, the Bank intends to diversify its commercial loan mix by increasing the ratio of C&I loans to total commercial loans and conversely decreasing the ratio of CRE loans to total commercial loans.

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

The Bank finances the construction of individual owner occupied houses on the basis of written underwriting and construction loan management guidelines. Construction loans are structured either to be converted to permanent loans with the Bank at the end of the construction phase or to be paid off at closing. Construction loans on residential properties are generally made in amounts up to 80% of anticipated cost of construction. Construction loans to developers and builders generally have terms of nine to 12 months. Loan proceeds on builders' projects are disbursed in increments as construction progresses and as property inspections warrant.

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

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

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

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

Table of Contents

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 3 Loans and Allowance for Loan and Lease Losses.*

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 areas. Lockbox processing, remote deposit capture, business on-line banking, account reconciliation and Automated Clearing House (ACH) processing are additional services offered to commercial businesses through the Bank's Treasury Management Department.

Internet Banking The Bank expands its market penetration and service delivery by offering clients Internet banking services and products through its website, www.republicbank.com.

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

Bank Acquisitions The Bank maintains an acquisition strategy to selectively grow its franchise as a complement to its internal growth strategies. The Bank's most recent acquisitions occurred during 2012 with the execution of two FDIC-assisted acquisitions.

(II) Warehouse Lending segment

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

Table of Contents

(III) Mortgage Banking segment

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

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

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

See additional discussion regarding Mortgage Banking under the sections titled:

- *Part I Item 1A Risk Factors*
- *Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations*
- *Part II Item 8 Financial Statements and Supplementary Data*
- *Footnote 5 Mortgage Banking Activities*
- *Footnote 22 Segment Information*

Table of Contents

(IV) Republic Processing Group segment

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

Tax Refund Solutions division:

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

Prior to April 30, 2012, the TRS division's primary tax-related products included RTs and Refund Anticipation Loans (RALs). Effective December 8, 2011, the Bank entered into an agreement with the FDIC resolving its differences regarding the TRS division. The Bank's resolution with the FDIC was in the form of a Stipulation Agreement and a Consent Order (collectively, the Agreement). As part of the Agreement, the Bank and the FDIC settled all matters set out in the FDIC's Amended Notice of Charges dated May 3, 2011 and the lawsuit filed against the FDIC by the Bank. As required by this settlement, the Bank discontinued offering the RAL product effective April 30, 2012. The Company's net RAL revenue was \$45 million in 2012.

Additionally, as a result of the Agreement, TRS is subject to additional oversight requirements through its Electronic Return Originator Oversight (ERO) Plan, (the ERO Plan). The ERO Plan, developed by the Bank and approved by the FDIC, implemented increased training and audits of the Bank's ERO partners, who make the Bank's tax products available to taxpayers across the Nation. In addition, various components of the Agreement required the Bank to meet certain implementation, completion and reporting timelines, including the establishment of a compliance management system to appropriately assess, measure, monitor and control third-party risk and ensure compliance with consumer laws.

For additional discussion regarding the Agreement, see the Company's Form 8-K filed with the SEC on December 9, 2011.

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

RALs were short-term consumer loans offered to taxpayers that were secured by the client's anticipated tax refund, which represented the source of repayment. The fees earned on RALs were reported as interest income under the line item Loans, including fees.

JHI and Liberty Contracts

For the first quarter 2012 tax season, the Bank conducted business with Jackson Hewitt Inc. (JHI), a subsidiary of Jackson Hewitt Tax Service Inc. (JH), and JTH Tax Inc. d/b/a Liberty Tax Service (Liberty) to offer RAL and RT products. JH and Liberty provide preparation services of federal, state and local individual income tax returns in the U.S. through a nationwide network of franchised and company-owned tax-preparer offices.

On August 27, 2012, the Bank received a termination notice to the Amended and Restated Marketing and Servicing Agreement, dated November 29, 2011 (the M&S Agreement), with Liberty related to the Bank s RT products, as well as the Bank s previously offered RAL product. Approximately 19% of the TRS division s gross revenue was derived from Liberty tax offices during 2012. Termination of this contract had a material adverse impact to the Company s results of operations.

The Bank notified Liberty that the Bank disagreed with Liberty s interpretation of the M&S Agreement relative to Liberty s ability to terminate. The Bank and Liberty subsequently entered into mediation under the terms of the M&S Agreement.

Table of Contents

The Bank's contract dispute with Liberty was resolved during January 2014 with a nominal amount of related legal expense. With the matter resolved, the Bank entered into a new two-year agreement with Liberty in which it began processing refunds for Liberty clients in January 2015. Beginning with the first quarter 2015 tax season, the contract is expected to increase RPG's annual net revenues for the two-year term of the contract by an average of approximately 12% over the RPG segment's 2014 net revenue level. Additional overhead expenses with the new contract are expected to be nominal. The new two-year contract with Liberty results in a substantial reduction in revenue when compared to the Bank's former contract with Liberty dating back to 2012.

On September 18, 2012, the Bank received a termination notice to the Amended and Restated Program Agreement, dated August 3, 2011 (the Program Agreement), with JHI and Jackson Hewitt Technology Services LLC related to the Bank's RT products, as well as the Bank's previously offered RAL product. Approximately 40% of the TRS division's gross revenue was derived from JH tax offices during 2012. Termination of this contract had a material adverse impact to the Company's results of operations in 2013.

The Bank subsequently notified JHI that the Bank disagreed with JHI's interpretation of its ability to terminate the Program Agreement and entered into a binding arbitration under the terms of the Program Agreement. The Bank's third party arbitration with JHI was concluded during the fourth quarter of 2013. Legal related expenses associated with the arbitration totaled \$2.2 million for 2013, with \$1.4 million of those expenses being incurred during the fourth quarter of 2013. With the matter resolved, the Bank entered into a new two-year agreement with JHI pursuant to which it began processing refunds for JHI clients in January 2014. The new two-year contract with JHI results in a substantial reduction in revenue when compared to the Bank's former contract with JHI dating back to 2012.

Unlike the Bank's previous contract with JHI, the Bank's 2014 contract stipulated that the tax preparation provider also assumes the program manager role for all product volume generated through JHI. In addition, in January 2015 the Bank amended its two-year contract with Liberty allowing Liberty to assume the program manager role for a portion of the product volume generated through Liberty. The TRS division of RPG has historically earned RT revenue based on its role as program manager for bank products in the tax refund process. Program managers for bank products in the tax refund processing business generally 1) supply marketing materials for bank products, 2) supply RT check stock for the tax offices, 3) supply tier-1 customer service to the taxpayers, which includes answering taxpayer phone calls related to the status of RTs and the verification to third parties regarding the validity of RT checks issued to the taxpayers by the Bank, and 4) provide overall management of the movement of refunds when received from the government, which includes exception processing and the reconciliation of all funds received and disbursed, among other duties.

Industry trends reflect larger tax preparation companies assuming the role of the program manager for the bank products in the tax refund process, which includes the obligation and costs of those responsibilities of the program manager described in the previous paragraph. In those cases where the tax preparation company is also assuming the role of the program manager, the tax preparation company is also earning substantially more of the revenue for the associated bank products sold, as the Bank now only provides ACH services and third party risk management oversight duties. This trend will likely continue to adversely affect the margin the Company earns on its tax-related products and the overall operating results and financial condition of the RPG segment.

Republic Payment Solutions division:

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

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

Table of Contents

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

The Company divides prepaid cards into two general categories: reloadable and non-reloadable cards.

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

Non-Reloadable Cards: These are generally one-time use cards that are only active until the funds initially loaded to the card are expended. These types of cards are considered gift or incentive cards. These cards may be open loop or closed loop, as described below. Normally these types of cards are used for the purchase of goods or services at retail locations and cannot be used to receive cash.

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

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

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

Republic Credit Solutions division:

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

See additional discussion regarding RPG under the sections titled:

- *Part I Item 1A Risk Factors*
- *Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations*
- *Part II Item 8 Financial Statements and Supplementary Data, Footnote 22 Segment Information*

Employees

As of December 31, 2014, Republic had 723 full-time equivalent employees (FTE s). Altogether, Republic had 711 full-time and 24 part-time employees. None of the Company's employees are subject to a collective bargaining agreement, and Republic has never experienced a work stoppage. The Company believes that its employee relations have been and continue to be good.

Executive Officers

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

Table of Contents

Competition

Traditional Banking

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

The primary factors in competing for bank products are convenient office locations and ATMs, flexible hours, deposit interest rates, services, internet 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 areas.

Warehouse Lending

The Bank competes with financial institutions across the Nation 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 Lending client base.

Mortgage Banking

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

Republic Processing Group

Tax Refund Solutions division

With regard to the TRS division, the discontinuance of the RAL product after April 30, 2012 and the previously mentioned termination of TRS contracts have had a material adverse impact on the profitability of the Bank's RT products. The TRS division faces direct competition for RT market share from independently-owned processing groups partnered with banks. Independent processing groups that were unable to offer RAL products have historically been at a competitive disadvantage to banks who could offer RALs. Without the ability to originate RALs after the 2012 tax season, the Bank has faced increased competition in the RT marketplace. In addition to the loss of volume resulting from additional competitors, the Bank has incurred substantial pressure on its profit margin for its RT products, as it competes with existing rebate and pricing incentives in the RT marketplace.

Table of Contents

In addition, as a result of the Bank's Agreement with the FDIC, the TRS division is subject to additional oversight requirements not currently imposed on its competitors. Management believes these additional requirements make attracting new relationships and retaining existing relationships more difficult for the Bank.

Republic Payment Solutions division

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

Republic Credit Solutions division

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

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

Supervision and Regulation

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

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

The Bank is a Kentucky-chartered commercial banking and trust corporation and as such, it is subject to supervision and regulation by the FDIC and the Kentucky Department of Financial Institutions (KDFI).

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

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

Table of Contents

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

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

Prepaid Card Regulation

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

State Wage Payment Laws and Regulations

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

Card Association and Payment Network Operating Rules

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act

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

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

Table of Contents

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

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

- prohibit incentive-based compensation arrangements that encourage inappropriate risks by providing covered persons with excessive compensation;
- prohibit incentive-based compensation arrangements that encourage inappropriate risk taking by providing covered persons with compensation that could lead to a material financial loss to an institution;

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

- require disclosures that will enable the appropriate federal regulator to determine compliance with the rule; and
- require the institution to maintain policies and procedures to ensure compliance with these requirements and prohibitions commensurate with the size and complexity of the organization and the scope of its use of incentive compensation.

Volcker Rule On December 10, 2013, the final Volcker Rule provision of the Dodd-Frank Act was approved and implemented by the FRB, the FDIC, the SEC, and the Commodity Futures Trading Commission (CFTC) (collectively, the Agencies). The Volcker Rule attempts to reduce risk and banking system instability by restricting U.S. banks from investing in or engaging in proprietary trading and speculation and imposing a strict framework to justify exemptions for underwriting, market making and hedging activities. U.S. banks are restricted from investing in funds with collateral comprised of less than 100% loans that are not registered with the SEC and from engaging in hedging activities that do not hedge a specific identified risk.

Table of Contents

I. The Company

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

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

Financial Activities The activities permissible for bank holding companies and their affiliates were substantially expanded by the Gramm-Leach-Bliley Act (GLBA). The GLBA permits bank holding companies that qualify as, and elect to be, Financial Holding Companies (FHCs), to engage in a broad range of financial activities, including but not limited to, underwriting securities, dealing in and making a market in securities, insurance underwriting and agency activities without geographic or other limitation, as well as merchant banking. To maintain its status as a FHC, the Company and all of its affiliated depository institutions must be well-capitalized, well-managed, and have at least a satisfactory CRA rating. The Company currently qualifies as a FHC.

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

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

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

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

Table of Contents

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

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

II. The Bank

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

Branching Kentucky law generally permits a Kentucky chartered bank to establish a branch office in any county in Kentucky. A Kentucky bank may also, subject to regulatory approval and certain restrictions, establish a branch office outside of Kentucky. Well-capitalized Kentucky chartered banks that have been in operation at least three years and that satisfy certain criteria relating to, among other things, their composite and management ratings, may establish a branch in Kentucky without the approval of the Executive Director 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 other banks requires the approval of the Executive Director 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 transaction must also be approved by the FDIC, which considers a number of factors, including financial condition, capital adequacy, earnings prospects, character of management, needs of the community and consistency with corporate powers. As a result of the Dodd Frank Act, the Bank, along with any other national or state chartered bank generally may branch across state lines. Such unlimited branching authority has the potential to increase competition within the markets in which the Company and the Bank operate.

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

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

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

Restrictions on Distribution of Subsidiary Bank Dividends and Assets Banking 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.

Table of Contents

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

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

In addition to assessments for deposit insurance premiums, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize the predecessor to the DIF. These assessments will continue until the Financing Corporation (FICO) bonds mature between 2017 through 2019.

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

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

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

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

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

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

On November 18, 2014, the FDIC revised the risk-based deposit insurance assessment system to reflect changes in the regulatory capital rules in accordance with Basel III that take effect in 2015 and 2018. For deposit insurance assessment purposes, the updated system will revise the ratios and ratio thresholds relating to capital evaluations.

Table of Contents

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

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

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

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

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

- Establishment of enhanced anti-money laundering programs;
- Establishment of a program specifying procedures for obtaining identifying information from customers seeking to open new accounts;
- Establishment of enhanced due diligence policies, procedures and controls designed to detect and report money laundering;

- Prohibitions on correspondent accounts for foreign shell banks; and
- Compliance with record keeping obligations with respect to correspondent accounts of foreign banks.

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

Table of Contents

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

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

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

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

General Lending Regulations

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

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

Table of Contents

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

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

The CRA requires all institutions to make public disclosure of their CRA ratings. In December 2011, the Bank received a Satisfactory CRA Performance Evaluation. A copy of the public section of this CRA Performance Evaluation is available to the public upon request.

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

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

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

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

Table of Contents

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

Real Estate Settlement Procedures Act (RESPA) The RESPA requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. The RESPA also prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts. Violations of the RESPA may result in imposition of penalties, including: (i) civil liability equal to three times the amount of any charge paid for the settlement services or civil liability of up to \$1,000 per claimant, depending on the violation; (ii) awards of court costs and attorneys' fees; and (iii) fines of not more than \$10,000 or imprisonment for not more than one year, or both.

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

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

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

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

Table of Contents

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

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

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

Capital Adequacy Requirements

Capital Guidelines Both the Company and the Bank are required to comply with capital adequacy guidelines. Guidelines are established by the FRB in the case of the Company and the FDIC in the case of the Bank. The FRB and FDIC have substantially similar risk based and leverage ratio guidelines for banking organizations, which are intended to ensure that banking organizations have adequate capital related to the risk levels of assets and off balance sheet instruments. Under the risk based guidelines, specific categories of assets are assigned different risk weights based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a risk weighted asset base. Under these regulations, a bank will be considered:

Through December 31, 2014, the guidelines require a minimum total risk based capital ratio of 8.0%, of which at least 4.0% is required to consist of Tier 1 capital elements (generally, common shareholders' equity, minority interests in the equity accounts of consolidated subsidiaries, non-cumulative perpetual preferred stock, less goodwill and certain other intangible assets). Total capital is the sum of Tier 1 and Tier 2 capital. Tier 2 capital generally may consist of limited amounts of subordinated debt, qualifying hybrid capital instruments, other preferred stock, loan loss reserves and unrealized gains on certain equity investment securities.

In addition to the risk based capital guidelines, the FRB utilizes 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).

As of December 31, 2014 and 2013 the Company's capital ratios were as follows:

2014

2013

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

As of December 31, (dollars in thousands)	Amount	Ratio	Amount	Ratio
Total capital to risk weighted assets				
Republic Bancorp, Inc.	\$ 608,658	22.17%	\$ 592,531	26.71%
Republic Bank & Trust Co.	472,357	17.21	456,884	20.61
Tier 1 (core) capital to risk weighted assets				
Republic Bancorp, Inc.	\$ 584,248	21.28%	\$ 569,505	25.67%
Republic Bank & Trust Co.	447,947	16.32	433,858	19.57
Tier 1 leverage capital to average assets				
Republic Bancorp, Inc.	\$ 584,248	15.92%	\$ 569,505	16.81%
Republic Bank & Trust Co.	447,947	12.21	433,858	12.80

Table of Contents

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.

New Capital Rules Effective January 1, 2015 the Company and the Bank became subject to the new capital regulations in accordance with Basel III. The new regulations establish higher minimum risk-based capital ratio requirements, a new common equity Tier 1 risk-based capital ratio and a new capital conservation buffer. The new regulations also include revisions to the definition of capital and changes in the risk-weighting of certain assets. For prompt corrective action, the new regulations establish definitions of well capitalized as a 6.5% common equity Tier 1 risk-based capital ratio, an 8.0% Tier 1 risk-based capital ratio, a 10.0% total risk-based capital ratio and a 5.0% Tier 1 leverage ratio. Management has completed a preliminary analysis of the impact of these new regulations to the capital ratios of both the Company and the Bank and estimates that the ratios for both the Company and the Bank will continue to exceed the new minimum capital ratio requirements for well-capitalized including the 2.5% capital conservation buffer under Basel III when effective and fully implemented.

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

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 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.

Table of Contents

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

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

Other Legislative Initiatives

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

Statistical Disclosures

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

Table of Contents

Item 1A. Risk Factors.

FACTORS THAT MAY AFFECT FUTURE RESULTS

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

The Bank may experience future goodwill impairment, which could reduce its earnings. The Bank performed its annual goodwill impairment test during the fourth quarter of 2014 as of September 30, 2014. The evaluation of the fair value of goodwill requires management judgment. If management's judgment was incorrect and goodwill impairment was deemed to exist, the Bank would be required to write down its goodwill resulting in a charge to earnings, which would adversely affect its results of operations, perhaps materially.

Changes in accounting standards could materially impact the Company's financial statements. The Financial Accounting Standards Board (FASB) may change the financial accounting and reporting standards that govern the preparation of the Company's financial statements. These changes can be difficult to predict and can materially impact how the Company records and reports its financial condition and results of operations. For example, the FASB has proposed new accounting standards related to accounting for certain asset impairment and accounting for leases that could materially change the Company's financial statements in the future. In addition, those who interpret the accounting standards, such as the Securities and Exchange Commission (SEC), the banking regulators and the Company's independent registered public accounting firm may amend or reverse their previous interpretations or conclusions regarding how various standards should be applied. In some cases, the

Company could be required to apply a new or revised standard retroactively, resulting in the Company recasting, or possibly restating, prior period financial statements.

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

Table of Contents

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

REPUBLIC PROCESSING GROUP

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

As a result of the Bank's Stipulation Agreement and Consent Order (the Agreement) with the FDIC, TRS is subject to additional oversight requirements through its Electronic Return Originator (ERO) Oversight Plan. If the Bank is unable to comply with these requirements, the FDIC could require the Bank to cease offering RT products in the future. As disclosed above, the Bank developed an ERO Plan, which was agreed to by the FDIC. The ERO Plan articulates a framework for the Bank to continue to offer non-RAL tax related products and services with specified oversight of the tax preparers with which the Bank does business. The ERO Plan includes requirements for, among other things:

- positive affirmations by EROs of individual tax preparer training related to regulatory requirements applicable to bank products;
- annual audits covering 10% of active ERO locations and a significant sample of applications for Bank products. The audits will consist of on-site visits, document reviews, mystery shops of tax preparation offices and tax product client surveys;
- on-site audit confirmation of ERO agreements to adhere to laws, processes, procedures, disclosure requirements and physical and electronic security requirements;
- an advertising approval process that requires the Bank to approve all tax preparer advertisements prior to their issuance;
- monitoring of ERO offices for income tax return quality;
- monitoring of ERO offices for adherence to acceptable tax preparation fee parameters;
- monitoring for federal and state tax preparation requirements, including local and state tax preparer registration and posting and disclosure requirements relative to Bank products;
- the Bank to provide advance notification, as practicable, to the FDIC of any significant changes in the TRS division, including:
- a change of more than 25% from the prior tax season in the number of EROs with which the Bank is doing business, or

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

- the addition of tax-related products offered by the Bank that it did not previously offer; and
- the Bank to provide advance notification, as practicable, to the FDIC when the Bank enters into a relationship with a new corporation that has multiple owned or franchised locations, when the relationship alone will represent an increase of more than 10% from the prior tax season in the number of EROs with which the Bank is doing business.

If the FDIC determines that the Bank is not in compliance with its ERO Plan, it has the authority to issue more restrictive enforcement actions. These enforcement actions could include significant additional penalties and/or requirements regarding the tax business which could significantly, negatively impact this segment's profitability and cause the Bank to exit the business altogether.

As a result of the Bank's Agreement with the FDIC, the TRS division is subject to additional oversight requirements not currently imposed on its competitors. Management believes these additional requirements have made and will continue to make attracting new relationships and retaining existing relationships more difficult for the Bank. As disclosed above, the Agreement contains a provision for an ERO Plan which has been implemented by the Bank. The ERO Plan places additional oversight and training requirements on the Bank and its tax preparation partners that are not currently required by the regulators for the Bank's competitors in the tax business. Management believes these additional requirements have and will continue to make attracting new relationships and retaining existing relationships more difficult for the Bank, potentially reducing RT volume. Further reductions in RT volume will have a material adverse impact to the Bank's earnings.

Table of Contents

The Bank's RT products represent a significant business risk and management believes the Bank could be subject to additional regulatory and public pressure to exit the RT business. If the Bank can no longer offer these products it will have a material adverse effect on its profits. The TRS division offers bank products to facilitate the payment of tax refunds for clients that electronically file their tax returns. The Bank is one of only a few financial institutions in the U.S. that provides this service to taxpayers. In return, the Bank charges a fee for the service.

Various governmental, regulatory and consumer groups have, from time to time, questioned the fairness of RT products. Actions of these groups and others could result in regulatory, governmental, or legislative action or material litigation against the Bank.

Discontinuing the RT product by the Bank, either voluntarily or involuntarily, would significantly reduce the Bank's earnings.

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

Industry trends in relation to tax preparation companies assuming the role of program manager for tax-related bank products have and will continue to reduce RPG's profitability. The TRS division of RPG has historically earned RT revenues based on its role as program manager for bank products in the tax refund process. Program managers for bank products in the tax refund processing business generally 1) supply marketing materials for bank products, 2) supply RT check stock for the tax offices, 3) supply tier-1 customer service to the taxpayers, which includes answering taxpayer phone calls related to the status of RTs and the verification to third parties regarding the validity of RT checks issued to the taxpayers by the Bank, and 4) provide overall management of the movement of refunds when received from the government, which includes exception processing and the reconciliation of all funds received and disbursed, among other duties.

Industry trends reflect larger tax preparation companies assuming the role of the program manager for the bank products in the tax refund process, which includes the obligation and costs of those responsibilities of the program manager described in the previous paragraph. In those cases where the tax preparation company is also assuming the role of the program manager, the tax preparation company is also earning more of the revenue for the associated bank products sold, as the Bank only provides Automated Clearing House (ACH) services and third party risk management oversight duties. This trend will likely continue to adversely affect the margin the Company earns on its RT products and the overall operating results and financial condition of the RPG segment.

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

The Allowance could be insufficient to cover the Bank's actual loan losses. The Bank makes various assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of its borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of its loans. In determining the amount of the Allowance, among other things, the Bank reviews its loss and delinquency experience, economic conditions, etc. If its assumptions are incorrect, the Allowance may not be sufficient to cover losses inherent

in its loan portfolio, resulting in additions to its Allowance. In addition, regulatory agencies periodically review the Allowance and may require the Bank to increase its provision for loan and lease losses or recognize further loan charge-offs. A material increase in the Allowance or loan charge-offs would have a material adverse effect on the Bank's financial condition and results of operations.

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

Table of Contents

clients and other parties. In deciding whether to extend credit, or enter into transactions with other parties, the Bank relies on information furnished by, or on behalf of, clients or entities related to those clients or other parties. Additional charge-offs will adversely affect the Bank's operating results and financial condition.

The Bank's use of appraisals as part of the decision process to make a loan on or secured by real property does not ensure the value of the real property collateral. As part of the decision process to make a loan secured by real property, the Bank generally requires an 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 backing a loan may be less than supposed, and if a default occurs, the Bank may not recover the outstanding balance of the loan. Additional charge-offs will adversely affect the Bank's operating results and financial condition.

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

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

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

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

Loans originated through the Bank's Correspondent Lending channel subject the Bank to additional negative earnings sensitivity as the result of prepayments and additional credit risks that the Bank does not have through its historical origination channels. Loans acquired through the Bank's Correspondent Lending channel are typically purchased at a premium and also represent out-of-market loans originated by a non-Republic representative. Loans purchased at a premium inherently subject the Bank's earnings to additional sensitivity related to

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

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 area by non-Republic representatives will inherently carry additional credit risk from potential fraud due to the increased level of third party involvement on such loans. In addition, the Bank will also experience an increase in complexity for customer service and the collection process, given the number of different state laws the Bank could be subject to from loans purchased throughout the U.S. In 2014, the Bank's Correspondent Lending channel originated loans in 20 different states, with the largest concentration of 86% from the state of California.

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

Loans originated through the Bank's Internet Lending channel will subject the Bank to credit and regulatory risks that the Bank does not have through its historical origination channels. The dollar amount of loans originated through the Bank's Internet

Table of Contents

Lending channel is expected to be increasingly out-of-market. Loans originated out of the Bank's market area inherently carry additional credit risk, as the Bank will experience an increase in the complexity of the customer authentication requirements for such loans. Failure to appropriately identify the end-borrower for such loans could lead to fraud losses. Failure to appropriately manage these additional risks could lead to reduced profitability and/or operating losses through this origination channel. In addition, failure to appropriately identify the end-borrower could result in regulatory sanctions resulting from failure to comply with various customer identification regulations.

The Bank's 100% loan-to-value (LTV) product may experience higher rates of charge-offs and may be more sensitive to downturns in the housing market than the Bank's other real estate loans. The Bank grew its 100% LTV residential real estate loan product to \$40 million as of December 31, 2014. Additionally, the Bank does not require private mortgage insurance on this product. Such LTV levels inherently carry a higher level of credit risk, are more sensitive to downturns in the housing market and may lead to higher rates of charge-offs for the Bank.

The Bank's 2015 initiative to increase its non-Qualified Mortgage (QM) loan portfolio may subject the Bank to additional credit risk and legal liability. In January 2014, the Consumer Financial Protection Bureau's (CFPB) final rule implementing the Ability to Repay (ATR) requirements in the Dodd-Frank Act became effective. The rule, among other things, requires lenders to consider a consumer's ability to repay a mortgage loan before extending credit to the consumer and limits prepayment penalties. The rule provides a presumption of compliance with the ATR requirements and certain protections from liability for a mortgage loan meeting the parameters of a QM. While regulatory agencies have explained that there is no legal requirement or supervisory expectation to originate any QMs at all, transactions covered by the ATR requirements that do not meet the parameters of a QM, i.e., non-QMs, do not maintain the presumed protections from liability like their QM counterparts.

Management believes that ARM loans originated through the Bank's retail origination channel during 2013 were predominantly QMs; however, the Bank has made strategic changes to its underwriting guidelines in 2015 that will result in the substantial majority of prospective ARM loans originated through its retail origination channel to be non-QMs. While management expects all of these loans to meet the ATR requirements, non-QMs do not have a presumption of compliance with the ATR requirements, and therefore, may subject the Bank to increased credit risk and an increased risk of legal liability.

WAREHOUSE LENDING (WAREHOUSE)

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

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

Table of Contents

INVESTMENT SECURITIES, FHLB STOCK AND OTHER INVESTMENTS

Concerns regarding a downgrade of the U.S. government's credit rating could have a material adverse effect on the Company's business, financial condition, liquidity, and results of operations. In 2011, Standard & Poor's lowered its long-term sovereign credit rating on the U.S. from AAA to AA+ and also lowered the credit rating of several related government agencies and institutions, including the FHLMC, the Federal National Mortgage Association (Fannie Mae or the FNMA), and the Federal Home Loan Banks (FHLBs), from AAA to AA+. In October 2013, Fitch placed the U.S. AAA long-term foreign and local currency Issuer Default Ratings on Rating Watch Negative. Further downgrades by Standard & Poor's, Moody's or Fitch, or defaults by the U.S. on any of its obligations could have material adverse impacts on financial and banking markets and economic conditions in the U.S. and throughout the World. In turn, the market's anticipation of these impacts could have a material adverse effect on the Company's business, financial condition and liquidity. In particular, these events could increase interest rates and disrupt payment systems, money markets, and long-term or short-term fixed income markets, adversely affecting the cost and availability of funding, which could negatively affect the Company's profitability. It may also negatively affect the value and liquidity of the government securities the Bank holds in its investment portfolio.

At December 31, 2014, the majority of the Bank's investment securities were issued by FHLMC, FNMA, and the FHLB. It is uncertain as to what impact future downgrades or defaults, if any, will have on these securities as sources of liquidity and funding. Also, the adverse consequences as a result of downgrades could extend to the borrowers of the loans the Bank makes and, as a result, could adversely affect its borrowers' ability to repay their loans.

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

The Bank holds a significant amount of bank-owned life insurance. At December 31, 2014, the Bank held bank-owned life insurance (BOLI) on certain employees with a cash surrender value of \$51 million. The eventual repayment of the cash surrender value is subject to the ability of the various insurance companies to pay death benefits or to return the cash surrender value to the Bank if needed for liquidity purposes. The Bank continually monitors the financial strength of the various insurance companies that carry these policies. However, any one of these companies could experience a decline in financial strength, which could impair its ability to pay benefits or return the Bank's cash surrender value. If the Bank needs to liquidate these policies for liquidity purposes, it would be subject to taxation on the increase in cash surrender value and penalties for early termination, both of which would adversely impact earnings.

ASSET LIABILITY MANAGEMENT AND LIQUIDITY

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

A continued stable interest rate environment may reduce profitability. The Bank continues to experience contraction in its net interest margin, as it can no longer lower the rate on many of its interest-bearing liabilities, while the Bank's higher yielding interest-earning assets continue to pay down and reprice lower. An on-going stable interest rate environment will cause the Bank's interest-earning assets to continue to reprice into lower yielding assets without the ability for the Bank to offset the decline in interest income through a reduction in its cost of funds. Continued contraction in the Bank's net interest margin may cause net interest income to decrease if growth in interest-earning assets cannot fully compensate for such contraction in net interest margin. The overall impact of such contraction in net interest margin will depend on the period of time that the current interest rate environment remains and the Bank's interest-earning asset growth and asset mix over such time period.

Table of Contents

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

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

The Bank's funding sources may prove insufficient to replace deposits and support future growth. The Bank relies on client deposits, brokered deposits and advances from the FHLB to fund operations. Although the Bank has historically been able to replace maturing deposits and advances if desired, no assurance can be given that the Bank would be able to replace such funds in the future if the Bank's financial condition or the financial condition of the FHLB or general market conditions were to change. The Bank's financial flexibility will be severely constrained if it is unable to maintain its access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Finally, if the Bank is required to rely more heavily on more expensive funding sources to support future growth, revenues may not increase proportionately to cover costs. In this case, profitability would be adversely affected.

Although the Bank considers such sources of funds adequate for its liquidity needs, the Bank may seek additional debt in the future to achieve long-term business objectives. There can be no assurance additional borrowings, if sought, would be available to the Bank or, if available, would be on favorable terms. The sale of equity or equity-related securities in the future may be dilutive to the Bank's shareholders, and debt financing arrangements may require the Bank to pledge some of its assets and enter into various affirmative and negative covenants, including limitations on operational activities and financing alternatives. Future financing sources, if sought, might be unavailable to the Bank or, if available, could be on terms unfavorable to the Bank and may require regulatory approval. If additional financing sources are unavailable or are not available on reasonable terms, growth and future prospects could be adversely affected.

DEPOSITS, OVERDRAFTS, FDIC INSURANCE PREMIUMS AND SERVICE CHARGES ON DEPOSITS

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. On a longer-term basis, the Bank would likely utilize brokered deposits and/or FHLB advances to replace withdrawn balances. The overall cost of gathering brokered

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

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.

Table of Contents

COMPANY COMMON STOCK

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

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

- Variations in the Company's and its competitors' operating results;
- Actual or anticipated quarterly or annual fluctuations in operating results, cash flows and financial condition;
- Changes in earnings estimates or publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to the Bank or other financial institutions;
- Announcements by the Company or its competitors of mergers, acquisitions and strategic partnerships;
- Additions or departure of key personnel;
- The announced exiting of or significant reductions in material lines of business within the Company;
- Changes or proposed changes in banking laws or regulations or enforcement of these laws and regulations;
- Events affecting other companies that the market deems comparable to the Company;
- Developments relating to regulatory examinations;
- Speculation in the press or investment community generally or relating to the Company's reputation or the financial services industry;
- Future issuances or re-sales of equity or equity-related securities, or the perception that they may occur;
- General conditions in the financial markets and real estate markets in particular, developments related to market conditions for the financial services industry;
- Domestic and international economic factors unrelated to the Company's performance;
- Developments related to litigation or threatened litigation;
- The presence or absence of short selling of the Company's common stock; and,
- Future sales of the Company's common stock or debt securities.

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

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

your investment.

Table of Contents

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

GOVERNMENT REGULATION / ECONOMIC FACTORS

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

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

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

The Dodd-Frank Act may continue to adversely affect the Company's business, financial conditions and results of operations. The Dodd-Frank Act imposed various new restrictions and creates an expanded framework of regulatory oversight for financial institutions.

Government responses to economic conditions may adversely affect the Company's operations, financial condition and earnings. Enacted financial reform legislation will change the bank regulatory framework, create an independent consumer protection bureau that will assume the consumer protection responsibilities of the various federal banking agencies, and establish more stringent capital standards for banks and bank holding companies. The legislation will also result in new regulations affecting the lending, funding, trading and investment activities of banks and bank holding companies. Bank regulatory agencies also have been responding aggressively to concerns and adverse trends identified in

examinations. 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.

Table of Contents

Furthermore, the Board of Governors of the Federal Reserve System, in an attempt to help the overall economy, has, among other things, kept interest rates low through its targeted federal funds rate and the purchase of mortgage-backed securities. If the Federal Reserve Board increases the federal funds rate, overall interest rates will likely rise, which may negatively impact the housing markets and other U.S. economic metrics. In addition, deflationary pressures, while possibly lowering operating costs, could have a significant negative effect on the Company's borrowers, especially business borrowers, and the values of underlying collateral securing loans, which could negatively affect the Company's financial performance.

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

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

MANAGEMENT, INFORMATION SYSTEMS, ACQUISITIONS, ETC.

The Company is dependent upon the services of its management team and qualified personnel. The Company is dependent upon the ability and experience of a number of its key management personnel who have substantial experience with Company operations, the financial services industry and the markets in which the Company offers services. It is possible that the loss of the services of one or more of its senior executives or key managers would have an adverse effect on operations, moreover, the Company depends on its account executives and loan officers to attract bank clients by developing relationships with commercial and consumer clients, mortgage companies, real estate agents, brokers and others. The Company believes that these relationships lead to repeat and referral business. The market for skilled account executives and loan officers is highly competitive and historically has experienced a high rate of turnover. In addition, if a manager leaves the Company, other members of the manager's team may follow. Competition for qualified account executives and loan officers may lead to increased hiring and retention costs. The Company's success also depends on its ability to continue to attract, manage and retain other qualified personnel as the Company grows. The Company cannot assure you that it will continue to attract or retain such personnel.

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

Table of Contents

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

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

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

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

Table of Contents

The Company's ability to successfully complete acquisitions will affect its ability to grow its franchise and compete effectively in its market areas. The Company has announced plans to pursue a policy of growth through acquisitions in the near-future to supplement internal growth. The Company's efforts to acquire other financial institutions and financial service companies or branches may not be successful. Numerous potential acquirers exist for many acquisition candidates, creating intense competition, which affects the purchase price for which the institution can be acquired. In many cases, the Company's competitors have significantly greater resources than the Company has, and greater flexibility to structure the consideration for the transaction. The Company may also not be the successful bidder in acquisition opportunities that it pursues due to the willingness or ability of other potential acquirers to propose a higher purchase price or more attractive terms and conditions than the Company is willing or able to propose. The Company intends to continue to pursue acquisition opportunities in each of its market areas, although the Company currently has no understandings or agreements to acquire other financial institutions. The risks presented by the acquisition of other financial institutions could adversely affect the Bank's financial condition and results of operations.

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

The Company may engage in FDIC-assisted transactions, which could present additional risks to its business. The Company may have additional opportunities to acquire the assets and liabilities of failed banks in FDIC-assisted transactions similar to the Bank's 2012 FDIC-assisted transactions. Although these FDIC-assisted transactions typically provide for FDIC assistance to an acquirer to mitigate certain risks, such as sharing exposure to loan losses and providing indemnification against certain liabilities of the failed institution, the Company is (and would be in future transactions) subject to many of the same risks it would face in acquiring another bank in a negotiated transaction, including risks associated with maintaining client relationships and failure to realize the anticipated acquisition benefits in the amounts and within the timeframes the Company expects. In addition, because these acquisitions are structured in a manner that would not allow the Company the time and access to information normally associated with preparing for and evaluating a negotiated acquisition, the Company may face additional risks in FDIC-assisted transactions, including additional strain on management resources, management of problem loans, problems related to integration of personnel and operating systems and impact to capital resources requiring the Company to raise additional capital. Moreover, if the Company seeks to participate in additional FDIC-assisted transactions, the Company can only participate in the bid process if it receives approval of bank regulators. The Company's inability to overcome these risks could have a material adverse effect on its business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments.

None

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, 2014, Republic had 32 banking centers located in Kentucky, three banking centers located in Florida, three banking centers in Indiana, two in Tennessee and one banking center in Ohio.

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

Bank Offices	Approximate Square Footage	Owned (O)/ Leased (L)
<u>Kentucky Banking Centers:</u>		
<u>Louisville Metropolitan Area</u>		
2801 Bardstown Road, Louisville	5,000	L (1)
601 West Market Street, Louisville	57,000	L (1)
661 South Hurstbourne Parkway, Louisville	42,000	L (1)
9600 Brownsboro Road, Louisville	15,000	L (1)
5250 Dixie Highway, Louisville	5,000	O/L (2)
10100 Brookridge Village Boulevard, Louisville	5,000	O/L (2)
9101 U.S. Highway 42, Prospect	3,000	O/L (2)
11330 Main Street, Middletown	6,000	O/L (2)
3902 Taylorsville Road, Louisville	4,000	O/L (2)
3811 Ruckriegel Parkway, Louisville	4,000	O/L (2)
5125 New Cut Road, Louisville	4,000	O/L (2)
4808 Outer Loop, Louisville	4,000	O/L (2)
438 Highway 44 East, Shepherdsville	4,000	O/L (2)
1420 Poplar Level Road, Louisville	3,000	O
4921 Brownsboro Road, Louisville	3,000	L
3950 Kresge Way, Suite 108, Louisville	1,000	L
3726 Lexington Road, Louisville	4,000	L
2028 West Broadway, Suite 105, Louisville	2,000	L
6401 Claymont Crossing, Crestwood	4,000	L
<u>Lexington</u>		
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
<u>Northern Kentucky</u>		
535 Madison Avenue, Covington	4,000	L
8513 U.S. Highway 42, Florence	4,000	L
2051 Centennial Boulevard, Independence	2,000	L
<u>Owensboro</u>		
3500 Frederica Street	5,000	O
3332 Villa Point Drive, Suite 101	2,000	L

(continued)

Table of Contents

Bank Offices	Approximate Square Footage	Owned (O)/ Leased (L)
<i>(continued)</i>		
Elizabethtown , 1690 Ring Road	6,000	O
Frankfort , 100 Highway 676	3,000	O/L (2)
Georgetown , 430 Connector Road	5,000	O/L (2)
Shelbyville , 1614 Midland Trail	4,000	O/L (2)
Florida Banking Centers:		
9037 U.S. Highway 19, Port Richey	11,000	O
11502 North 56th Street, Temple Terrace	3,000	L
9100 Hudson Avenue, Hudson	4,000	O (3)
Southern Indiana Banking Centers:		
4571 Duffy Road, Floyds Knobs	4,000	O/L (2)
3141 Highway 62, Jeffersonville	4,000	O
3001 Charlestown Crossing Way, New Albany	2,000	L
Tennessee Banking Centers:		
2034 Richard Jones Road, Nashville	3,000	L
113 Seaboard Lane, Franklin	2,000	L
Ohio Banking Center:		
9683 Kenwood Road, Blue Ash	3,000	L
Support and Operations:		
200 South Seventh Street, Louisville, KY	64,000	L (1)
125 South Sixth Street, Louisville, KY	1,000	L

(1) Locations are leased from partnerships in which Steven E. Trager, Chairman and Chief Executive Officer and A. Scott Trager, President, are partners. See additional discussion included under Part III Item 13 Certain Relationships and Related Transactions, and Director Independence. For additional discussion regarding Republic's lease obligations, see Part II Item 8 Financial Statements and Supplementary Data Footnote 18 Transactions with Related Parties and Their Affiliates.

(2) The banking centers at these locations are owned by Republic; however, the banking center is located on land that is leased through long-term agreements with third parties.

(3) Banking center was closed in the first quarter of 2015.

Table of Contents

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

Not applicable.

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**

Republic Bancorp, Inc.'s (Republic or the Company) Class A Common Stock is traded on The NASDAQ Global Select Market® (NASDAQ) under the symbol RBCAA. The following table sets forth the high and low market value of the Class A Common Stock and the respective dividends declared during 2014 and 2013.

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

Quarter Ended	2013 Sales Price (1)		Dividend	
	High	Low	Class A	Class B
March 31st	\$ 23.02	\$ 20.57	0.165	0.150
June 30th	24.44	20.71	0.176	0.160
September 30th	28.14	23.22	0.176	0.160
December 31st	27.65	22.77	0.176	0.160

(1) Sales price based on closing market price.

At February 13, 2015, the Company's Class A Common Stock was held by 541 shareholders of record and the Class B Common Stock was held by 113 shareholders of record. There is no established public trading market for the Company's Class B Common Stock. The Company intends to continue its historical practice of paying quarterly cash dividends; however, there is no assurance by the Board of Directors that such dividends will continue to be paid in the future. The payment of dividends in the future is dependent upon future income, financial position, capital requirements, the discretion and judgment of the Board of Directors and numerous other considerations.

For additional discussion regarding regulatory restrictions on dividends, see Part II Item 8 Financial Statements and Supplementary Data Footnote 15 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, 2014, the trustee held 256,784 shares of Class A Common Stock and 2,648 shares of Class B Common Stock on behalf of the plan.

Table of Contents

Details of Republic's Class A Common Stock purchases during the fourth quarter of 2014 are included in the following table:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs
October 1 - October 31		\$		
November 1 - November 30				
December 1 - December 31				
Total		\$		315,640

During 2014, the Company repurchased 15,000 shares and there were 28,679 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, 2014, the Company had 315,640 shares which could be repurchased under its current share repurchase programs.

During 2014, there were approximately 15,000 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 Standard & Poor's (S&P) 500 Index. The graph covers the period beginning December 31, 2009 and ending December 31, 2014. 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, 2009. The stock price performance shown on the graph below is not necessarily indicative of future stock price performance.

	December 31, 2009	December 31, 2010	December 31, 2011	December 31, 2012	December 31, 2013	December 31, 2014
Republic Class A Common Stock (RBCAA)	\$ 100.00	\$ 118.42	\$ 117.54	\$ 117.19	\$ 130.30	\$ 141.42
NASDAQ Bank Index	100.00	114.15	102.18	119.82	172.34	180.57
S&P 500 Index	100.00	115.06	117.48	134.00	179.67	207.96

Table of Contents**Item 6. Selected Financial Data.**

The following table sets forth Republic Bancorp Inc.'s selected financial data from 2010 through 2014. 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, except per share data, FTEs and # of banking centers)	2014	As of and for the Years Ended December 31,			
		2013	2012	2011	2010
Balance Sheet Data:					
Cash and cash equivalents	\$ 72,878	\$ 170,863	\$ 137,691	\$ 362,971	\$ 786,371
Investment securities	481,348	483,537	484,256	674,022	542,694
Mortgage loans held for sale, at fair value	6,388	3,506	10,614	4,392	15,228
Gross loans	3,040,495	2,589,792	2,650,197	2,285,295	2,175,240
Allowance for loan and lease losses	(24,410)	(23,026)	(23,729)	(24,063)	(23,079)
Goodwill	10,168	10,168	10,168	10,168	10,168
Bank owned life insurance	51,415	25,086			
Total assets	3,747,013	3,371,904	3,394,399	3,419,991	3,622,703
Non interest-bearing deposits	502,569	488,642	479,046	408,483	325,375
Interest-bearing deposits	1,555,613	1,502,215	1,503,882	1,325,495	1,977,317
Total deposits	2,058,182	1,990,857	1,982,928	1,733,978	2,302,692
Securities sold under agreements to repurchase and other short-term borrowings	356,108	165,555	250,884	230,231	319,246
Federal Home Loan Bank advances	707,500	605,000	542,600	934,630	564,877
Subordinated note	41,240	41,240	41,240	41,240	41,240
Total liabilities	3,188,282	2,829,111	2,857,697	2,967,624	3,251,327
Total stockholders' equity	558,731	542,793	536,702	452,367	371,376
Average Balance Sheet Data:					
Federal funds sold and other interest-earning deposits	\$ 118,803	\$ 145,970	\$ 187,790	\$ 315,530	\$ 473,137
Investment securities, including FHLB stock	525,748	527,681	640,830	678,804	561,273
Gross loans, including loans held for sale	2,738,304	2,575,146	2,504,150	2,246,259	2,338,990
Allowance for loan and lease losses	(23,067)	(23,287)	(25,226)	(28,817)	(27,755)
Total assets	3,559,617	3,385,345	3,560,739	3,416,921	3,503,886
Non interest-bearing deposits	553,929	513,891	624,053	509,457	421,162
Interest-bearing deposits	1,510,201	1,514,847	1,512,455	1,540,515	1,725,891
Total interest-bearing liabilities	2,432,153	2,305,106	2,351,768	2,418,865	2,671,466
Total stockholders' equity	557,378	546,880	530,096	439,636	361,357
Income Statement Data - Total Company:					
Total interest income	\$ 132,377	\$ 134,568	\$ 183,459	\$ 195,115	\$ 193,473
Total interest expense	19,604	21,393	22,804	30,255	36,661
Net interest income	112,773	113,175	160,655	164,860	156,812
Provision for loan and lease losses	2,859	2,983	15,043	17,966	19,714
Total non interest income	42,519	46,230	163,465	118,555	86,236
Total non interest expenses	108,118	115,924	125,132	121,252	124,901
Income before income tax expense	44,315	40,498	183,945	144,197	98,433
Income tax expense	15,528	15,075	64,606	50,048	33,680

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

Net income	28,787	25,423	119,339	94,149	64,753
------------	---------------	--------	---------	--------	--------

Income Statement Data - Core Banking(1):

Total interest income	\$ 132,014	\$ 134,419	\$ 137,886	\$ 135,522	\$ 141,252
Total interest expense	19,571	21,392	22,655	29,775	35,099
Net interest income	112,443	113,027	115,231	105,747	106,153
Provision for loan and lease losses	3,392	3,828	8,167	6,406	11,571
Total non interest income	24,607	31,471	85,157	30,230	27,326
Total non interest expenses	96,451				