REPUBLIC BANCORP INC /KY/
Form 10-K
March 10, 2017
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, 2016

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky (State or other jurisdiction of incorporation or organization)	61-0862051 (I.R.S. Employer Identification No.)
601 West Market Street, Louisville, Kentucky (Address of principal executive offices)	40202 (Zip Code)

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

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

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

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

None

(Title of Class)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of June 30, 2016 (the last business day of the registrant’s most recently completed second fiscal quarter) was approximately $270,193,563 (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 10, 2017 was 18,608,917 and 2,245,008.

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 20, 2017 are incorporated by reference into Part III of this Form 10-K.

Table of Contents

TABLE OF CONTENTS

PART I		
Item 1.	Business.	4
Item 1A.	Risk Factors.	30
Item 1B.	Unresolved Staff Comments.	40
Item 2.	Properties.	41
Item 3.	Legal Proceedings.	43
Item 4.	Mine Safety Disclosures.	43
PART II		
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	44
Item 6.	Selected Financial Data.	47
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations.	50
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk.	99
Item 8.	Financial Statements and Supplementary Data.	99
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.	197
Item 9A.	Controls and Procedures.	197
Item 9B.	Other Information.	197
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance.	198
Item 11.	Executive Compensation.	199
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	199
Item 13.	Certain Relationships and Related Transactions, and Director Independence.	199
Item 14.	Principal Accounting Fees and Services.	199
PART IV		
Item 15.	Exhibits, Financial Statement Schedules.	200
	Signatures	201
	Index to Exhibits	202

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

Broadly speaking, forward-looking statements include:

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

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

- changes in political and economic conditions;
- the magnitude and frequency of changes to the Federal Funds Target Rate (“FFTR”) implemented by the Federal Open Market Committee (“FOMC”) of the Federal Reserve Bank (“FRB”);
- long-term and short-term interest rate fluctuations as well as the overall steepness of the yield curve;
- competitive product and pricing pressures in each of the Company’s business segments;
- equity and fixed income market fluctuations;
- client bankruptcies and loan defaults;
- inflation;
- recession;
- future acquisitions;
- integrations of acquired businesses;
- changes in technology;
- changes in applicable laws and regulations or the interpretation and enforcement thereof;
- changes in fiscal, monetary, regulatory and tax policies;
- changes in accounting standards;
- monetary fluctuations;
- changes to the Company’s overall internal control environment;
- success in gaining regulatory approvals when required;
- information security breaches or cyber security attacks involving either the Company or one of the Company’s third-party service providers;

Table of Contents

· as well as other risks and uncertainties reported from time to time in the Company's filings with the Securities and Exchange Commission ("SEC"), including Part 1 Item 1A "Risk Factors."

PART I

Item 1. Business.

Republic Bancorp, Inc. ("Republic" or the "Company") is a financial holding company headquartered in Louisville, Kentucky. Republic is the parent company of Republic Bank & Trust Company ("RB&T" or the "Bank") and Republic Insurance Services, Inc. (the "Captive"). The Bank is a Kentucky-based, state chartered non-member financial institution that provides both traditional and non-traditional banking products through four distinct operating segments using a multitude of delivery channels. While the Bank operates primarily in its market footprint, its non-brick-and-mortar delivery channels allow it to reach clients across the United States. The Captive is a Nevada-based, wholly-owned insurance subsidiary of the Company that provides property and casualty insurance coverage to the Company and the Bank as well as 10 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.

As of December 31, 2016, Republic had 44 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 — 6

Metropolitan Cincinnati, Ohio — 1

Metropolitan Nashville, Tennessee — 2

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

The principal business of Republic is directing, planning and coordinating the business activities of the Bank. The financial condition and results of operations of Republic are primarily dependent upon the results of operations of the Bank. At December 31, 2016, Republic had total assets of $4.8 billion, total deposits of $3.2 billion and total stockholders' equity of $604 million. Based on total assets as of December 31, 2016, 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.

Table of Contents

Website Access to Reports

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

General Business Overview

As of December 31, 2016, 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 Bank" or "Core Banking" activities. Correspondent Lending operations and the Company's national branchless banking platform, MemoryBank®, are considered part of the Traditional Banking segment. The RPG segment includes the following divisions: Tax Refund Solutions ("TRS"), Republic Payment Solutions ("RPS") and Republic Credit Solutions ("RCS"). TRS generates the majority of RPG's income, with the relatively smaller divisions of RPG, RPS and RCS, considered immaterial for separate and independent segment reporting. All divisions of the RPG segment operate through the Bank.

Net income, total assets and net interest margin by business segment for the years ended December 31, 2016, 2015 and 2014 are presented below:

	Year Ended December 31, 2016					
	Core Banking					
(dollars in thousands)	Traditional Banking	Warehouse Lending	Mortgage Banking	Total Core Banking	Republic Processing Group	Total Company
Net income	$ 24,959	$ 8,110	$ 1,790	$ 34,859	$ 11,044	$ 45,903
Total assets	4,169,557	584,916	17,453	4,771,926	44,383	4,816,309
Net interest margin	3.26 %	3.59 %	NM	3.30 %	NM	3.65 %

Year Ended December 31, 2015
Core Banking

(dollars in thousands)	Traditional Banking	Warehouse Lending	Mortgage Banking	Total Core Banking	Republic Processing Group	Total Company
Net income (loss)	$ 23,919	$ 5,964	$ (26)	$ 29,857	$ 5,309	$ 35,166
Total assets	3,809,526	386,414	9,348	4,205,288	25,001	4,230,289
Net interest margin	3.20 %	3.58 %	NM	3.24 %	NM	3.27 %

	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 (loss)	$ 21,315	$ 3,402	$ (385)	$ 24,332	$ 4,455	$ 28,787
Total assets	3,404,323	319,153	11,593	3,735,069	11,944	3,747,013
Net interest margin	3.32 %	3.77 %	NM	3.35 %	NM	3.33 %

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

NM — Not Meaningful

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

(I) Traditional Banking segment

Acquisition of Cornerstone Bancorp, Inc.

On May 17, 2016, the Company completed its acquisition of Cornerstone Bancorp, Inc. (“Cornerstone”), and its wholly-owned bank subsidiary Cornerstone Community Bank (“CCB”), for approximately $32 million in cash. The primary reason for the acquisition of Cornerstone was to expand the Company’s footprint in the Tampa, Florida metropolitan statistical area.

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

MemoryBank

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

Additional MemoryBank features include the following:

- Higher Returns: MemoryBank’s initial product, the EarnMore account, offers a 1.0% Annual Percentage Yield plus an additional 0.50% bonus on all deposits for the first year to qualifying customers, with no minimum balance to begin earning.
- FDIC Insurance: As a division of RB&T, MemoryBank provides its account holders the peace of mind that comes with their accounts being Federal Deposit Insurance Corporation (“FDIC”) insured up to the applicable limit.
- Universal Access: MemoryBank clients have access to over 75,000 surcharge-free automated teller machines (“ATMs”) in the United States. In addition, MemoryBank customers also have access to over 10,000 international surcharge-free ATMs.

- Password-free login: Eyeprint and fingerprint identification offer secure smart device login without the hassle of a password.

- Mobile deposits: MemoryBank customers can take a picture of a check with a mobile device to direct deposit into their MemoryBank account.

Table of Contents

With the launch of MemoryBank in October 2016, the Traditional Banking segment began marketing the EarnMore deposit account to customers outside of its traditional market footprint under its MemoryBank brand. As of December 31, 2016 and through the date of this filing, generally all Traditional Banking products and services, except for the EarnMore deposit account, were offered through the Company's traditional RB&T brand.

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, residential real estate loans. In addition, the Bank originates home equity amortizing loans ("HEALs") and home equity lines of credit ("HELOCs") through its retail banking centers. Such loans are generally collateralized by owner occupied property. During 2016, the Bank continued to market its HELOCs utilizing a promotional rate product. Under the terms of the promotional product during 2016, clients received a fixed interest rate for the first 12 months with no upfront closing costs. When the promotional rate expires after 12 months, rates are adjusted to an index based on the New York Prime Rate ("Prime").

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

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

Depending on the term and amount of the ARM, loans collateralized by single family, owner-occupied first lien residential real estate may be originated with a loan-to-value ("LTV") up to 90% and a combined LTV up to 100%. The

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

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

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

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 regarding the quality and characteristics of the loans.

Commercial Lending — The Bank conducts commercial lending activities primarily through its Commercial and Corporate Banking (the “CCB Department”) and its Business Banking department.

The CCB Department is composed of the following divisions: Corporate Banking; Commercial Finance; Municipal Lending; and Republic Realty. All credit approvals and processing for the CCB Department are prepared and underwritten through the Bank’s existing Credit Administration Department (“CAD”). Clients are generally located within the Bank’s market footprint, including adjacent areas that are within approximately two-hour drive of a specific market.

The Corporate Banking division focuses on locally-based companies, typically with revenues of $15 million to $150 million. Credit opportunities are generally driven by the following: companies expanding their businesses; companies acquiring new businesses; generational transfers from existing owners to children, existing management, or employees (Employee Stock Ownership Plans); and refinancing of existing debt at other banks. Corporate Banking’s primary product focus is Commercial & Industrial (“C&I”) lending, and to a lesser degree, Commercial Real Estate (“CRE”) opportunities. The targeted C&I credit size for client relationships is $2.5 million to $25 million, with limited exceptions for corporate borrowers of the highest credit quality. On an exception basis, for large locally-based or publicly-traded institutions, the Bank may consider participations in larger credit facilities.

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

The Commercial Finance division targets financing for equipment, typically ranging from $100,000 to $500,000 per unit financed with five to seven year terms. Credit exposures to individual relationships are expected to be $500,000 to $5 million. Both leasing and lending are used to accommodate financing needs, with EBITDA, company financial history, and collateral values/useful life primary underwriting considerations.

The Municipal Lending division responds to financing requests from cities and counties, largely in the state of Kentucky and in southern Indiana. The Bank issues general obligation and/or appropriation leases/loans to cities and counties. General obligation leases/loans range between $100,000 to $5 million, with credits above $5 million requiring approval from the Bank's Executive Loan Committee. Appropriation leases generally do not exceed $1 million individually.

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

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

Table of Contents

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

Construction and Land Development Lending — The Bank originates business loans for the construction of both single family residential properties and commercial properties (apartment complexes, shopping centers, office buildings). On a much smaller scale, the Bank may originate loans for the acquisition and development of residential or commercial land into buildable lots.

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

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

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

Internet Lending — The Bank accepts online loan applications for its RB&T brand through its website at www.republicbank.com. Historically, the majority of loans originated through the internet have been within the

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

Correspondent Lending — Primarily from its Warehouse clients, the Core Bank acquires for investment single family, first lien mortgage loans that meet the Core Bank's specifications through its Correspondent Lending channel. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium.

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

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

Table of Contents

Indirect Lending – In the fourth quarter of 2015, the Bank began to grow its presence in the consumer automobile loan market. The program involves establishing relationships with automobile dealers in the Bank's market footprint and obtaining consumer automobile loans in a low-cost delivery method. As a result of its success in Indirect Auto Lending, the Bank entered Dealer Floor Plan lending during the fourth quarter of 2016.

See additional discussion regarding Lending Activities under the sections titled:

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

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

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

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

Internet Banking — The Bank expands its market penetration and service delivery of its RB&T brand by offering clients Internet Banking services and products through its website, www.republicbank.com. The Bank promotes the EarnMore account solely through its MemoryBank brand.

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

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

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

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

Table of Contents

(II) Warehouse Lending segment

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

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

(III) Mortgage Banking segment

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

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

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

Table of Contents

(IV) Republic Processing Group segment

Tax Refund Solutions division:

Through its TRS division, the Bank is one of a limited number of financial institutions that facilitates the receipt and payment of federal and state tax refund products and offers a credit product through third-party tax preparers located throughout the United States, as well as tax-preparation software providers (collectively, the “Tax Providers”). Substantially all of the business generated by the TRS division occurs in the first half 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.

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

“Easy Advance” Product

Since RB&T’s discontinuance of Refund Anticipation Loans (“RALs”) in April 2012, the tax industry, as a whole, has continued to make credit alternatives available to its customer base each year, including the availability of RALs in various states through finance companies. One credit alternative to a RAL the industry has developed is a product that allows a taxpayer to receive an advance of a portion of their refund, with the taxpayer’s Tax Provider paying all fees for the advance to the lender that offers this product.

TRS first offered its Easy Advance (“EA”) tax credit product during the first two months of 2016 with the following features:

- An advance amount of $750 per taxpayer customer;
- No EA fee charged to the taxpayer customer;
- All fees for the product were paid by the Tax Providers with a restriction prohibiting the Tax Providers from passing along the fees to the taxpayer customer;
- No requirement that the taxpayer customer pay for another bank product, such as an RT;
- Multiple funds disbursement methods, including direct deposit, prepaid card, check or Walmart Direct2Cash® product, based on the taxpayer customer’s election;
- Repayment of the EA to the Bank was deducted from the taxpayer customer’s tax refund proceeds; and
- If an insufficient refund to repay the EA occurred:
  - there was no recourse to the taxpayer customer,
  - no negative credit reporting on the taxpayer customer, and
  - no collection efforts against the taxpayer customer.

Fees paid by the Tax Providers to the Company for the EA product are reported as interest income on loans. EAs during 2016 were generally repaid within three weeks after the taxpayer customer’s tax return was submitted to the applicable taxing authority. Provisions for loan losses on EAs were estimated when advances were made, with all loss provisions made in the first quarter of 2016. Unpaid EAs were charged-off within 81 days after the taxpayer customer’s tax return was submitted to the applicable taxing authority, with the majority of charge-offs recorded during the second quarter of 2016.

12

Table of Contents

For the first quarter 2017 tax season the Company modified the EA product offering to have more than one advance amount and a different price structure to the Tax Providers based on the amount borrowed by the taxpayer. All other features of the product remained substantially the same as those from the first quarter 2016 tax season.

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

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

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

Republic Credit Solutions division:

Through its RCS division, the Bank 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.

RCS originates, primarily for sale, both a short-term, line-of-credit product and a credit card product. The Bank sells 90% of the balances maintained through these two products within two days of loan origination and retains a 10% interest. The Company carries such loans at the lower of cost or fair value. The short-term, line-of-credit product represented the substantial majority of RCS activity during the years ended December 31, 2016 and 2015, as RCS expanded in June 2015 beyond its pilot phase. In December 2015, RCS began piloting its credit card product. Any gains or losses on sale of such products are reported as a component of "Program fees."

During the first quarter of 2016, RCS initiated a short-term installment loan product, in which the Company sells 100% of the receivables approximately 21 days after origination. The Company carries these loans at fair value, with the held-for-sale loan portfolio marked to market on a monthly basis, and any changes in their fair value reported as a component of Program fees.

During the first quarter of 2016, RCS initiated a healthcare receivables product. RCS works with healthcare providers to finance the healthcare services for their patients. RCS retains 100% of these loans, which totaled $12 million at December 31, 2016.

The operating results of the RCS division were immaterial to the Company's overall results of operations for the years ended December 31, 2016, 2015 and 2014 and were reported as part of the RPG business-operating segment. The RCS division will not be reported as a separate business-operating segment until such time, if any, that it meets reporting thresholds.

Republic Payment Solutions division:

Through its RPS division, the Bank 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

The Company divides prepaid cards into two general categories:

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

Non-Reloadable: 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 ATMs or purchase goods or services by use of personal identification numbers (“PINs”) or signature at retail locations. These cards can be used virtually anywhere that Visa® or MasterCard® is accepted. Closed loop cards can only be used at a specific merchant. Semi-closed loop cards can be used at several merchants.

The prepaid card market is one of the fastest growing segments of the payments industry throughout the United States. 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 works with various third parties to distribute prepaid cards to consumers throughout the United States. 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.

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.

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 24 “Segment Information”

Employees

As of December 31, 2016, Republic had 938 full-time-equivalent employees (“FTE”s). Altogether, Republic had 922 full-time and 32 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 footprint in originating loans, attracting deposits, and selling other banking related financial services. Through its Correspondent Lending channel, the Bank also competes to acquire newly originated mortgage loans from select mortgage companies on a national basis. Through its national branchless banking platform, MemoryBank, the Bank competes for digital and mobile clients in select pilot markets under the MemoryBank brand. The deregulation of the banking industry, the ability to create financial services holding companies to engage in a wide range of financial services other than banking and the widespread enactment of state laws that permit multi-bank holding companies, as well as the availability of nationwide interstate banking, has created a highly competitive environment for financial institutions. In one or more aspects of the Bank's business, the Bank competes with local and regional retail and commercial banks, other savings banks, credit unions, finance companies, mortgage companies, fintech companies, and other financial intermediaries operating in Kentucky, Indiana, Florida, Tennessee and Ohio. The Bank also competes with insurance companies, consumer finance companies, investment banking firms and mutual fund managers. Some of the Company's competitors are not subject to the same degree of regulatory review and restrictions that apply to the Company and the Bank. Many of the Bank's primary competitors, some of which are affiliated with large bank holding companies or other larger financial based institutions, have substantially greater resources, larger established client bases, higher lending limits, more extensive banking center networks, numerous ATMs, and greater advertising and marketing budgets. They may also offer services that the Bank does not currently provide. These competitors attempt to gain market share through their financial product mix, pricing strategies and banking center locations. Legislative developments related to interstate branching and banking in general, by providing large banking institutions easier access to a broader marketplace, can act to create more pressure on smaller financial institutions to consolidate. It is anticipated that competition from both bank and non-bank entities will continue to remain strong in the foreseeable future.

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

Warehouse Lending

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

Mortgage Banking

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

Table of Contents

Republic Processing Group

Tax Refund Solutions division

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

Republic Credit Solutions division

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

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

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.

Table of Contents

Supervision and Regulation

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

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

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

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

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

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

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

Prepaid Card Regulation

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

Table of Contents

State Wage Payment Laws and Regulations

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

Card Association and Payment Network Operating Rules

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

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

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

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

- Applying Section 23A and Section 22(h) of the Federal Reserve Act (governing transactions with insiders) to derivative transactions, repurchase agreements and securities lending and borrowing transactions that create credit exposure to an affiliate or an insider. Any such transactions with affiliates must be fully secured. The exemption from Section 23A for transactions with financial subsidiaries was effectively eliminated. The Dodd-Frank Act additionally prohibits an insured depository institution from purchasing an asset from or selling an asset to an insider unless the transaction is on market terms and, if representing more than 10% of capital, is approved in advance by the disinterested directors.

- Creating the CFPB, which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB, but continue to be examined and supervised by federal banking regulators for consumer compliance purposes.

Table of Contents

· Permanently increasing the maximum deposit insurance amount for financial institutions from $100,000 to $250,000 per depositor, retroactive to January 1, 2009. The Dodd-Frank Act also broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also required the FDIC to increase the reserve ratio of the DIF from 1.15% to 1.35% of insured deposits by 2020, for which the FDIC issued final rules in March 2016, and eliminated the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. The Dodd-Frank Act eliminated the federal statutory prohibition against the payment of interest on business checking accounts.

· Imposing new requirements for mortgage lending, including prohibitions on certain compensation to mortgage originators and special consumer protections, including limitations on certain mortgage terms. Additionally, requiring lenders to consider a consumer's ability to repay a mortgage loan before extending credit to the consumer and limiting prepayment penalties.

· Limiting permissible debit interchange fees for certain financial institutions.

· Revising certain corporate governance requirements for public companies.

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

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

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

Because some components of the Dodd-Frank Act still have not been finalized, it is difficult to predict the ultimate effect of the Dodd-Frank Act on the Company or the Bank at this time, especially after the recent 2016 election. In addition, the extent to which new legislation, existing and planned governmental initiatives, and a new presidential administration result in a meaningful change in the current regulatory environment and the national economy is uncertain.

I.The Company

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

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

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

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

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

Table of Contents

Federal Reserve Board's existing "source of strength" policy that holding companies act as a source of strength to their insured institution subsidiaries by providing capital, liquidity and other support in times of distress.

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

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

II.The Bank

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In October 2016, the CFPB issued a final rule establishing new consumer compliance requirements for prepaid accounts pursuant to Regulations E and Z. These requirements govern disclosures, limited liability and error resolution protections, credit features, and making account agreement information publicly available for prepaid accounts, among other provisions. The Bank must comply with the rule beginning October 1, 2017, though certain provisions are not effective until October 1, 2018.

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.

Table of Contents

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

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

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

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

Federal Reserve System — Under regulations of the FRB, the Bank is required to maintain noninterest-earning reserves against its transaction accounts (primarily NOW and regular checking accounts). The Bank is in compliance with the foregoing reserve requirements. Required reserves must be maintained in the form of vault cash, a noninterest-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.

Table of Contents

General Lending Regulations

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

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

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

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

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

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

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

Table of Contents

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

Real Estate Settlement Procedures Act ("RESPA") — The RESPA requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. The RESPA also prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts. Violations of the RESPA may result in imposition of penalties, including: (i) civil liability equal to three times the amount of any charge paid for the settlement services or civil liability of up to $1,000 per claimant, depending on the violation; (ii) awards of court costs and attorneys' fees; and (iii) fines of not more than $10,000 or imprisonment for not more than one year, or both. A rule requiring integrated disclosures from the TLA and RESPA became effective in October 2015.

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

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

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-