# Section 1: 10-Q (10-Q)

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

**☒Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the quarterly period ended September 30, 2019**

**or**

**☐Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**Commission File Number: 0-24649**

# REPUBLIC BANCORP, INC.
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: (502) 584-3600
Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|---|---|---|
| **Class A Common** | **RBCAA** | **The Nasdaq Stock Market** |

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

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

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

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

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

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

The number of shares outstanding of the registrant's Class A Common Stock and Class B Common Stock, as of October 31, 2019, was 18,742,999 and 2,207,626.

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## GLOSSARY OF ABBREVIATIONS AND ACRONYMS

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

| Acronym or Term | Definition | Acronym or Term | Definition | Acronym or Term | Definition |
|---|---|---|---|---|---|
| ACH | Automated Clearing House | FDIA | Federal Deposit Insurance Act | PCI-1 | PCI - Group 1 |
| AFS | Available for Sale | FDIC | Federal Deposit Insurance Corporation | PCI-Sub | PCI - Substandard |
| Allowance | Allowance for Loan and Lease Losses | FFTR | Federal Funds Target Rate | Prime | *The Wall Street Journal* Prime Interest Rate |
| AOCI | Accumulated Other Comprehensive Income | FHLB | Federal Home Loan Bank | Provision | Provision for Loan and Lease Losses |
| APR | Annual Percentage Rate | FHLMC | Federal Home Loan Mortgage Corporation | PSU | Performance Stock Unit |
| ASC | Accounting Standards Codification | FICO | Fair Isaac Corporation | R&D | Research and Development |
| ASU | Accounting Standards Update | FNMA | Federal National Mortgage Association | RB&T / the Bank | Republic Bank & Trust Company |
| Basic EPS | Basic earnings per Class A Common Share | FRB | Federal Reserve Bank | RBCT | Republic Bancorp Capital Trust |
| BOLI | Bank Owned Life Insurance | FTE | Full Time Equivalent | RCS | Republic Credit Solutions |
| BPO | Brokered Price Opinion | FTP | Funds Transfer Pricing | Republic / the Company | Republic Bancorp, Inc. |
| C&D | Construction and Development | GAAP | Generally Accepted Accounting Principles in the United States | ROA | Return on Average Assets |
| C&I | Commercial and Industrial | HELOC | Home Equity Line of Credit | ROE | Return on Average Equity |
| CECL | Current Expected Credit Loss | HTM | Held to Maturity | RPG | Republic Processing Group |
| CMO | Collateralized Mortgage Obligation | IRS | Internal Revenue Service | RPS | Republic Payment Solutions |
| Core Bank | The Traditional Banking, Warehouse Lending, and Mortgage Banking reportable segments | LIBOR | London Interbank Offered Rate | RT | Refund Transfer |
| CRA | Community Reinvestment Act | Limestone | Limestone Bank | SEC | Securities and Exchange Commission |
| CRE | Commercial Real Estate | LPO | Loan Production Office | SSUAR | Securities Sold Under Agreements to Repurchase |
| Diluted EPS | Diluted earnings per Class A Common Share | LTV | Loan to Value | SVP | Senior Vice President |
| DTA | Deferred Tax Assets | MBS | Mortgage Backed Securities | TCJA | 2017 Tax Cuts and Jobs Act |
| DTL | Deferred Tax Liabilities | MSRs | Mortgage Servicing Rights | TDR | Troubled Debt Restructuring |
| EA | Easy Advance | NA | Not Applicable | The Captive | Republic Insurance Services, Inc. |
| EBITDA | Earnings Before Interest, Taxes, Depreciation and Amortization | NM | Not Meaningful | TPS | Trust Preferred Securities |
| EFTA | Electronic Fund Transfers Act | OCI | Other Comprehensive Income | TRS | Tax Refund Solutions |
| ESPP | Employee Stock Purchase Plan | OREO | Other Real Estate Owned | TRUP | TPS Investment |
| EVP | Executive Vice President | OTTI | Other than Temporary Impairment | Warehouse | Warehouse Lending |
| FASB | Financial Accounting Standards Board | PCI | Purchased Credit Impaired | | |

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## PART I — FINANCIAL INFORMATION

### Item 1. Financial Statements.

**CONSOLIDATED BALANCE SHEETS** (*UNAUDITED*) (*in thousands)*

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 397,072 | $ 351,474 |
| Available-for-sale debt securities | 572,015 | 475,738 |
| Held-to-maturity debt securities (fair value of $63,872 in 2019 and $64,858 in 2018) | 63,315 | 65,227 |
| Equity securities with readily determinable fair value | 3,367 | 2,806 |
| Mortgage loans held for sale, at fair value | 32,739 | 8,971 |
| Consumer loans held for sale, at the lower of cost or fair value | 18,504 | 12,838 |
| Loans held for sale in connection with sale of banking centers, at the lower of cost or fair value | 130,770 | — |
| Loans (loans carried at fair value of $1,187 in 2019 and $1,922 in 2018) | 4,664,054 | 4,148,227 |
| Allowance for loan and lease losses | (46,932) | (44,675) |
| Loans, net | 4,617,122 | 4,103,552 |
| Federal Home Loan Bank stock, at cost | 32,242 | 32,067 |
| Premises and equipment, net | 45,264 | 43,126 |
| Premises, held for sale | 1,471 | 1,694 |
| Right-of-use assets | 36,051 | — |
| Goodwill | 16,300 | 16,300 |
| Other real estate owned | 119 | 160 |
| Bank owned life insurance | 66,037 | 64,883 |
| Other assets and accrued interest receivable | 71,259 | 61,568 |
| **TOTAL ASSETS** | $ 6,103,647 | $ 5,240,404 |
| **LIABILITIES** | | |
| Deposits: | | |
| Noninterest-bearing | $ 1,031,553 | $ 1,003,969 |
| Interest-bearing | 2,703,199 | 2,452,176 |
| Deposits held for assumption in connection with sale of banking centers | 142,384 | — |
| Total deposits | 3,877,136 | 3,456,145 |
| Securities sold under agreements to repurchase and other short-term borrowings | 167,949 | 182,990 |
| Operating lease liabilities | 37,391 | — |
| Federal Home Loan Bank advances | 1,170,000 | 810,000 |
| Subordinated note | 41,240 | 41,240 |
| Other liabilities and accrued interest payable | 65,484 | 60,095 |
| **Total liabilities** | 5,359,200 | 4,550,470 |
| Commitments and contingent liabilities (Footnote 9) | — | — |
| **STOCKHOLDERS' EQUITY** | | |
| Preferred stock, no par value | — | — |
| Class A Common Stock and Class B Common Stock, no par value | 4,908 | 4,900 |
| Additional paid in capital | 141,904 | 141,018 |
| Retained earnings | 594,479 | 545,013 |
| Accumulated other comprehensive income (loss) | 3,156 | (997) |
| **Total stockholders' equity** | 744,447 | 689,934 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ 6,103,647 | $ 5,240,404 |

*See accompanying footnotes to consolidated financial statements.*

[redacted]

**CONSOLIDATED STATEMENTS OF INCOME** (*UNAUDITED*)
(*in thousands, except per share data*)

| | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| **INTEREST INCOME:** | | | | |
| Loans, including fees | $ 62,896 | $ 56,296 | $ 199,935 | $ 179,867 |
| Taxable investment securities | 3,221 | 2,964 | 10,096 | 8,306 |
| Federal Home Loan Bank stock and other | 1,942 | 1,830 | 6,325 | 5,106 |
| Total interest income | 68,059 | 61,090 | 216,356 | 193,279 |
| **INTEREST EXPENSE:** | | | | |
| Deposits | 8,042 | 4,562 | 21,693 | 11,856 |
| Securities sold under agreements to repurchase and other short-term borrowings | 298 | 317 | 1,049 | 752 |
| Federal Home Loan Bank advances | 3,839 | 2,782 | 10,631 | 7,779 |
| Subordinated note | 394 | 396 | 1,252 | 1,110 |
| Total interest expense | 12,573 | 8,057 | 34,625 | 21,497 |
| **NET INTEREST INCOME** | 55,486 | 53,033 | 181,731 | 171,782 |
| Provision for loan and lease losses | 3,153 | 4,077 | 24,844 | 26,264 |
| **NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES** | 52,333 | 48,956 | 156,887 | 145,518 |
| **NONINTEREST INCOME:** | | | | |
| Service charges on deposit accounts | 3,749 | 3,579 | 10,650 | 10,708 |
| Net refund transfer fees | 317 | 149 | 21,046 | 19,974 |
| Mortgage banking income | 3,064 | 1,360 | 7,019 | 3,696 |
| Interchange fee income | 3,031 | 2,757 | 9,045 | 8,315 |
| Program fees | 1,317 | 1,686 | 3,428 | 4,705 |
| Increase in cash surrender value of bank owned life insurance | 394 | 385 | 1,154 | 1,135 |
| Net gains on other real estate owned | 267 | 248 | 487 | 700 |
| Other | 672 | 1,301 | 2,524 | 4,073 |
| Total noninterest income | 12,811 | 11,465 | 55,353 | 53,306 |
| **NONINTEREST EXPENSE:** | | | | |
| Salaries and employee benefits | 24,822 | 22,846 | 75,184 | 69,446 |
| Occupancy and equipment, net | 6,571 | 6,279 | 19,627 | 18,891 |
| Communication and transportation | 1,017 | 1,047 | 3,249 | 3,670 |
| Marketing and development | 1,420 | 1,449 | 3,800 | 3,648 |
| FDIC insurance expense | — | 360 | 743 | 1,230 |
| Bank franchise tax expense | 935 | 710 | 4,366 | 4,088 |
| Data processing | 2,344 | 2,350 | 6,657 | 7,179 |
| Interchange related expense | 1,138 | 1,138 | 3,755 | 3,243 |
| Supplies | 292 | 314 | 1,358 | 998 |
| Other real estate owned and other repossession expense | 130 | 2 | 324 | 63 |
| Legal and professional fees | 1,026 | 935 | 2,756 | 2,706 |
| Other | 2,716 | 3,782 | 9,529 | 9,727 |
| Total noninterest expense | 42,411 | 41,212 | 131,348 | 124,889 |
| **INCOME BEFORE INCOME TAX EXPENSE** | 22,733 | 19,209 | 80,892 | 73,935 |
| **INCOME TAX EXPENSE** | 4,325 | 1,798 | 14,961 | 13,389 |
| **NET INCOME** | $ 18,408 | $ 17,411 | $ 65,931 | $ 60,546 |
| **BASIC EARNINGS PER SHARE:** | | | | |
| Class A Common Stock | $ 0.88 | $ 0.84 | $ 3.17 | $ 2.92 |
| Class B Common Stock | 0.80 | 0.76 | 2.88 | 2.65 |
| **DILUTED EARNINGS PER SHARE:** | | | | |
| Class A Common Stock | $ 0.88 | $ 0.83 | $ 3.15 | $ 2.90 |
| Class B Common Stock | 0.80 | 0.76 | 2.87 | 2.64 |

*See accompanying footnotes to consolidated financial statements.*

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME** (*UNAUDITED)*
(*in thousands*)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Net income | $ 18,408 | $ 17,411 | $ 65,931 | $ 60,546 |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| Change in fair value of derivatives used for cash flow hedges | (3) | 54 | (218) | 330 |
| Reclassification amount for net derivative losses realized in income | (2) | 1 | (34) | 36 |
| Change in unrealized (loss) gain on AFS debt securities | 86 | (467) | 5,759 | (3,130) |
| Adjustment for adoption of ASU 2016-01 | — | — | — | (428) |
| Change in unrealized gain on AFS debt security for which a portion of OTTI has been recognized in earnings | (24) | (2) | (58) | (19) |
| Total other comprehensive income (loss) before income tax | 57 | (414) | 5,449 | (3,211) |
| Tax effect | (163) | 88 | (1,296) | 676 |
| Total other comprehensive income (loss), net of tax | (106) | (326) | 4,153 | (2,535) |
| **COMPREHENSIVE INCOME** | $ 18,302 | $ 17,085 | $ 70,084 | $ 58,011 |

*See accompanying footnotes to consolidated financial statements.*



[redacted]

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY** *(UNAUDITED)*

| | Three Months Ended September 30, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock | | | | | | |
| (in thousands) | Class A Shares Outstanding | Class B Shares Outstanding | Amount | Additional Paid In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
| **Balance, July 1, 2019** | 18,740 | 2,208 | $ 4,907 | $ 141,525 | $ 581,734 | $ 3,262 | $ 731,428 |
| Net income | — | — | — | — | 18,408 | — | 18,408 |
| Net change in accumulated other comprehensive income | — | — | — | — | — | (106) | (106) |
| Dividends declared on Common Stock: | | | | | | | |
| Class A Shares ($0.264 per share) | — | — | — | — | (4,961) | — | (4,961) |
| Class B Shares ($0.240 per share) | — | — | — | — | (530) | — | (530) |
| Stock options exercised, net of shares withheld | 3 | — | 1 | (73) | — | — | (72) |
| Conversion of Class B to Class A Common Shares | — | — | — | — | — | — | — |
| Repurchase of Class A Common Stock | (4) | — | (1) | (28) | (172) | — | (201) |
| Net change in notes receivable on Class A Common Stock | — | — | — | (46) | — | — | (46) |
| Deferred compensation - Class A Common Stock: | | | | | | | |
| Directors | — | — | — | 49 | — | — | 49 |
| Designated key employees | — | — | — | 76 | — | — | 76 |
| Employee stock purchase plan - Class A Common Stock | 3 | — | — | 137 | — | — | 137 |
| Stock-based awards - Class A Common Stock: | | | | | | | |
| Performance stock units | — | — | — | — | — | — | — |
| Restricted stock | 2 | — | 1 | 184 | — | — | 185 |
| Stock options | — | — | — | 80 | — | — | 80 |
| **Balance, September 30, 2019** | 18,744 | 2,208 | $ 4,908 | $ 141,904 | $ 594,479 | $ 3,156 | $ 744,447 |

| | Three Months Ended September 30, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock | | | | | | |
| (in thousands) | Class A Shares Outstanding | Class B Shares Outstanding | Amount | Additional Paid In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total Stockholders' Equity |
| **Balance, July 1, 2018** | 18,677 | 2,215 | $ 4,903 | $ 140,114 | $ 520,784 | $ (1,793) | $ 664,008 |
| Net income | — | — | — | — | 17,411 | — | 17,411 |
| Net change in accumulated other comprehensive income | — | — | — | — | — | (326) | (326) |
| Dividends declared on Common Stock: | | | | | | | |
| Class A Shares ($0.242 per share) | — | — | — | — | (4,517) | — | (4,517) |
| Class B Shares ($0.220 per share) | — | — | — | — | (487) | — | (487) |
| Stock options exercised, net of shares withheld | 1 | — | — | 35 | — | — | 35 |
| Conversion of Class B to Class A Common Shares | 2 | (2) | — | — | — | — | — |
| Net change in notes receivable on Class A Common Stock | — | — | — | (25) | — | — | (25) |
| Deferred compensation - Class A Common Stock: | | | | | | | |
| Directors | — | — | — | 62 | — | — | 62 |
| Designated key employees | — | — | — | 284 | — | — | 284 |
| Employee stock purchase plan - Class A Common Stock | 3 | — | 1 | 123 | — | — | 124 |
| Stock-based awards - Class A Common Stock: | | | | | | | |
| Performance stock units | — | — | — | 53 | — | — | 53 |
| Restricted stock | (1) | — | — | 132 | — | — | 132 |
| Stock options | — | — | — | 56 | — | — | 56 |
| **Balance, September 30, 2018** | 18,682 | 2,213 | $ 4,904 | $ 140,834 | $ 533,191 | $ (2,119) | $ 676,810 |

*See accompanying footnotes to consolidated financial statements.*

[redacted]

| | Nine Months Ended September 30, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock | | | | | | |
| (in thousands) | Class A Shares Outstanding | Class B Shares Outstanding | Amount | Additional Paid In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
| **Balance, January 1, 2019** | 18,675 | 2,213 | $ 4,900 | $ 141,018 | $ 545,013 | $ (997) | $ 689,934 |
| Adjustment for adoption of ASU 2016-02 | — | — | — | — | 126 | — | 126 |
| Net income | — | — | — | — | 65,931 | — | 65,931 |
| Net change in accumulated other comprehensive income | — | — | — | — | — | 4,153 | 4,153 |
| Dividends declared on Common Stock: | | | | | | | |
| Class A Shares ($0.792 per share) | — | — | — | — | (14,826) | — | (14,826) |
| Class B Shares ($0.720 per share) | — | — | — | — | (1,591) | — | (1,591) |
| Stock options exercised, net of shares withheld | 37 | — | 9 | (183) | — | — | (174) |
| Conversion of Class B to Class A Common Shares | 5 | (5) | — | — | — | — | — |
| Repurchase of Class A Common Stock | (12) | — | (2) | (404) | (174) | — | (580) |
| Net change in notes receivable on Class A Common Stock | — | — | — | (238) | — | — | (238) |
| Deferred compensation - Class A Common Stock: | | | | | | | |
| Directors | 5 | — | — | 155 | — | — | 155 |
| Designated key employees | — | — | — | 302 | — | — | 302 |
| Employee stock purchase plan - Class A Common Stock | 8 | — | — | 372 | — | — | 372 |
| Stock-based awards - Class A Common Stock: | | | | | | | |
| Performance stock units | 23 | — | — | (57) | — | — | (57) |
| Restricted stock | 3 | — | 1 | 659 | — | — | 660 |
| Stock options | — | — | — | 280 | — | — | 280 |
| **Balance, September 30, 2019** | 18,744 | 2,208 | $ 4,908 | $ 141,904 | $ 594,479 | $ 3,156 | $ 744,447 |

| | Nine Months Ended September 30, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock | | | | | | |
| (in thousands) | Class A Shares Outstanding | Class B Shares Outstanding | Amount | Additional Paid In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total Stockholders' Equity |
| **Balance, January 1, 2018** | 18,607 | 2,243 | $ 4,902 | $ 139,406 | $ 487,700 | $ 416 | $ 632,424 |
| Adjustment for adoption of ASU 2016-01 | — | — | — | — | (35) | (338) | (373) |
| Net income | — | — | — | — | 60,546 | — | 60,546 |
| Net change in accumulated other comprehensive income | — | — | — | — | — | (2,197) | (2,197) |
| Dividends declared on Common Stock: | | | | | | | |
| Class A Shares ($0.726 per share) | — | — | — | — | (13,552) | — | (13,552) |
| Class B Shares ($0.660 per share) | — | — | — | — | (1,468) | — | (1,468) |
| Stock options exercised, net of shares withheld | 3 | — | — | 83 | — | — | 83 |
| Conversion of Class B to Class A Common Shares | 30 | (30) | — | — | — | — | — |
| Net change in notes receivable on Class A Common Stock | — | — | — | 44 | — | — | 44 |
| Deferred compensation - Class A Common Stock: | | | | | | | |
| Directors | 5 | — | 1 | 164 | — | — | 165 |
| Designated key employees | — | — | — | 284 | — | — | 284 |
| Employee stock purchase plan - Class A Common Stock | 3 | — | 1 | 123 | — | — | 124 |
| Stock-based awards - Class A Common Stock: | | | | | | | |
| Performance stock units | — | — | — | 106 | — | — | 106 |
| Restricted stock | 34 | — | — | 450 | — | — | 450 |
| Stock options | — | — | — | 174 | — | — | 174 |
| **Balance, September 30, 2018** | 18,682 | 2,213 | $ 4,904 | $ 140,834 | $ 533,191 | $ (2,119) | $ 676,810 |

*See accompanying footnotes to consolidated financial statements.*

**CONSOLIDATED STATEMENTS OF CASH FLOWS** *(UNAUDITED)*
*(in thousands)*

| | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|
| **OPERATING ACTIVITIES:** | | |
| Net income | $ 65,931 | $ 60,546 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net amortization on investment securities | (95) | (204) |
| Net accretion on loans and amortization of core deposit intangible and operating lease components | (2,622) | (2,744) |
| Unrealized (gains) losses on equity securities with readily determinable fair value | (561) | 211 |
| Depreciation of premises and equipment | 6,989 | 7,020 |
| Amortization of mortgage servicing rights | 1,275 | 1,092 |
| Provision for loan and lease losses | 24,844 | 26,264 |
| Net gain on sale of mortgage loans held for sale | (6,452) | (2,985) |
| Origination of mortgage loans held for sale | (247,071) | (133,273) |
| Proceeds from sale of mortgage loans held for sale | 229,755 | 134,157 |
| Net gain on sale of consumer loans held for sale | (3,869) | (4,429) |
| Origination of consumer loans held for sale | (534,268) | (582,871) |
| Proceeds from sale of consumer loans held for sale | 532,471 | 576,646 |
| Net gain realized on sale of other real estate owned | (487) | (700) |
| Impairment of premises held for sale | 198 | 356 |
| Deferred compensation expense - Class A Common Stock | 457 | 449 |
| Stock-based awards expense - Class A Common Stock | 883 | 730 |
| Increase in cash surrender value of bank owned life insurance | (1,154) | (1,135) |
| Net change in other assets and liabilities: | | |
| Accrued interest receivable | 269 | (1,614) |
| Accrued interest payable | 1,278 | 6 |
| Other assets | (6,011) | 2,314 |
| Other liabilities | (1,836) | 5,870 |
| Net cash provided by operating activities | 59,924 | 85,706 |
| | | |
| **INVESTING ACTIVITIES:** | | |
| Purchases of available-for-sale debt securities | (350,036) | (159,880) |
| Purchases of held-to-maturity debt securities | — | (4,934) |
| Proceeds from calls, maturities and paydowns of available-for-sale debt securities | 259,569 | 236,138 |
| Proceeds from calls, maturities and paydowns of held-to-maturity debt securities | 1,897 | 3,213 |
| Net change in outstanding warehouse lines of credit | (504,893) | (35,242) |
| Net change in other loans | (163,133) | (108,750) |
| Proceeds from redemption of Federal Home Loan Bank stock | 2,102 | — |
| Purchase of Federal Home Loan Bank stock | (2,277) | — |
| Proceeds from sales of other real estate owned | 1,892 | 1,153 |
| Net purchases of premises and equipment | (9,102) | (7,716) |
| Net cash used in investing activities | (763,981) | (76,018) |
| | | |
| **FINANCING ACTIVITIES:** | | |
| Net change in deposits | 420,991 | 133,527 |
| Net change in securities sold under agreements to repurchase and other short-term borrowings | (15,041) | (40,253) |
| Payments of Federal Home Loan Bank advances | (590,000) | (417,500) |
| Proceeds from Federal Home Loan Bank advances | 950,000 | 395,000 |
| Repurchase of Class A Common Stock | (580) | — |
| Net proceeds from Class A Common Stock purchased through employee stock purchase plan | 372 | 124 |
| Net proceeds from Class A Common Stock options exercised | (174) | 83 |
| Cash dividends paid | (15,913) | (14,508) |
| Net cash provided by financing activities | 749,655 | 56,473 |
| | | |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | 45,598 | 66,161 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | 351,474 | 299,351 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | $ 397,072 | $ 365,512 |
| | | |
| **SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION:** | | |
| Cash paid during the period for: | | |
| Interest | $ 33,348 | $ 21,491 |
| Income taxes | 11,506 | 10,196 |
| | | |
| **SUPPLEMENTAL NONCASH DISCLOSURES:** | | |
| Transfers from loans to real estate acquired in settlement of loans | $ 1,414 | $ 408 |
| Transfers from loans held for sale to held for investment | — | 2,237 |
| Transfers from loans held for investment to held for sale | 130,770 | 1,392 |
| Unfunded commitments in low-income-housing investments | — | 12,574 |
| Right-of-use assets recorded upon adoption of ASU 2016-02 | 41,726 | — |

*See accompanying footnotes to consolidated financial statements.*

[redacted]

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – SEPTEMBER 30, 2019 AND 2018 AND DECEMBER 31, 2018** *(UNAUDITED)*

**1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three and nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019. For further information, refer to the consolidated financial statements and footnotes thereto included in Republic's Form 10-K for the year ended December 31, 2018.

As of September 30, 2019, the Company was divided into five reportable segments: Traditional Banking, Warehouse, Mortgage Banking, TRS, and RCS. Management considers the first three segments to collectively constitute "Core Bank" or "Core Banking" operations, while the last two segments collectively constitute RPG operations. The Bank's Correspondent Lending channel and the Company's national branchless banking platform, MemoryBank®, are considered part of the Traditional Banking segment.

**Core Bank**

**Traditional Banking segment —** The Traditional Banking segment provides traditional banking products primarily to customers in the Company’s market footprint. As of September 30, 2019, Republic had 45 full-service banking centers and two LPOs with locations as follows:

- Kentucky — 32
  - Metropolitan Louisville — 18
  - Central Kentucky — 9
    - Elizabethtown — 1*
    - Frankfort — 1*
    - Georgetown — 1
    - Lexington — 5
    - Shelbyville — 1
  - Western Kentucky — 2
    - Owensboro — 2*
  - Northern Kentucky — 3
    - Covington — 1
    - Crestview Hills — 1
    - Florence — 1
- Southern Indiana — 3
  - Floyds Knobs — 1
  - Jeffersonville — 1
  - New Albany — 1
- Metropolitan Tampa, Florida — 8**
- Metropolitan Cincinnati, Ohio — 1
- Metropolitan Nashville, Tennessee — 3**

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** The Company agreed to sell banking center(s) in July 2019. See Note 18 in this section of the filing for additional information.*
*** Includes an LPO*

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

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

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

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

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

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

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

**Republic Processing Group**

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

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

The EA tax credit product is a loan that allows a taxpayer to borrow funds as an advance of a portion of their tax refund. In response to changes in the legal, regulatory and competitive environment, management annually reviews and revises the EA’s product parameters. Further changes in EA product parameters do not ensure positive results and could have an overall material negative impact on the performance of the EA and therefore on the Company’s financial condition and results of operations. For the 2018 and 2019 fiscal years, the EA product had the following features:

EA features consistent during 2018 and 2019:

- Offered only during the first two months of each year;
- No requirement that the taxpayer pays for another bank product, such as an RT;
- Multiple funds disbursement methods, including direct deposit, prepaid card, check, or Walmart Direct2Cash®, based on the taxpayer-customer’s election;
- Repayment of the EA to the Bank is deducted from the taxpayer’s tax refund proceeds; and
- If an insufficient refund to repay the EA occurs:
    - there is no recourse to the taxpayer,
    - no negative credit reporting on the taxpayer, and
    - no collection efforts against the taxpayer.

EA features modified from 2018 to 2019:

- During 2019, the taxpayer was given the option to choose from multiple loan-amount tiers, subject to underwriting, up to a maximum advance amount of $6,250. This compares to a maximum loan amount of $3,500 during 2018; and
- During 2018, EA fees were charged only to the Tax Providers. In 2019, the fee charged to the Tax Providers was lowered; and a direct fee to the taxpayer was charged. The APR to the taxpayer for his or her portion of the total fee equated to less than 36% for all offering tiers.

[redacted]

The Company reports fees paid for the EA product as interest income on loans. EAs are generally repaid within three weeks after the taxpayer's tax return is submitted to the applicable taxing authority. EAs do not have a contractual due date but the Company considers an EA delinquent if it remains unpaid three weeks after the taxpayer's tax return is submitted to the applicable taxing authority. Provisions for loan losses on EAs are estimated when advances are made, with provisions for all probable EA losses made in the first quarter of each year. Unpaid EAs are charged off by June 30th of each year, with EAs collected during the second half of each year recorded as recoveries of previously charged off loans.

Related to the overall credit losses on EAs, the Bank's ability to control losses is highly dependent upon its ability to predict the taxpayer's likelihood to receive the tax refund as claimed on the taxpayer's tax return. Each year, the Bank's EA approval model is based primarily on the prior-year's tax refund payment patterns. Because the substantial majority of the EA volume occurs each year before that year's tax refund payment 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 payment patterns change materially between years.

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

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

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

- RCS line-of-credit product – The Bank originates a line-of-credit product to generally subprime borrowers across the United States with certain services provided by Elevate Credit, Inc., its third-party servicer provider. RCS sells participation interests equal to 90% of the balances generated within three business days to a third-party special purpose entity and retains the remaining 10% interest. The line-of-credit product represents the substantial majority of RCS activity. Loan balances held for sale are carried at the lower of cost or fair value.

- RCS healthcare receivables product – The Bank originates healthcare-receivables products across the United States through two different third-party service providers. In one program, the Bank retains 100% of the receivables originated. In the other program, the Bank retains 100% of the receivables originated in some instances, and in other instances, sells 100% of the receivables within one month of origination. Loan balances held for sale are carried at the lower of cost or fair value.

From the fourth quarter of 2015 through the first quarter of 2018, the Bank piloted through RCS a credit-card product to generally subprime borrowers across the United States through one third-party marketer/servicer. For outstanding cards, RCS sold 90% of the balances generated within two business days of each transaction occurrence to a special purpose entity related to its third-party marketer/servicer and retained the remaining 10% interest. During the fourth quarter of 2018, the Bank and its third-party marketer/servicer finalized an agreement to sell 100% of the existing portfolio to an unrelated third party. The sale of the RCS credit-card portfolio receivables was settled in January 2019 and all accounts and related assets were transferred in March 2019.

The Company reports interest income and loan origination fees earned on RCS loans under "Loans, including fees," while any gains or losses on sale of RCS loans are reported as noninterest income under "Program fees."

### Accounting Standards Updates Issued

The following ASUs were issued prior to September 30, 2019 and are considered relevant to the Company's financial statements. Generally, if an issued-but-not-yet-effective ASU with an expected immaterial impact to the Company has been disclosed in prior Company financial statements, it will not be re-disclosed below.

| ASU. No. | Topic | Nature of Update | Date Adoption Required | Permitted Adoption Methods | Expected Financial Statement Impact |
|---|---|---|---|---|---|
| 2016-13 | Financial Instruments – Credit Losses (Topic 326) | This ASU amends guidance on reporting credit losses for assets held at amortized-cost basis and available-for-sale debt securities. | January 1, 2020 | Modified-retrospective approach. | As a result of this ASU, the Company expects an as yet undetermined increase in its allowance for credit losses. A committee formed by the Company to oversee its transition to a current expected credit losses (" CECL") methodology has analyzed the Company's loan-level data and preliminarily concluded that no additional loan level segmentation beyond its current methodology segmentation would be warranted under CECL. The Company is also currently performing iterations of its allowance calculation under a " beta" CECL model provided by the same third-party software solution currently-employed to calculate the Company's allowance for loan and lease losses. |
| 2019-05 | Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief | This ASU provides the fair value option for certain instruments within the scope of Subtopic 326-20, Financial Instruments—Credit Losses. | January 1, 2020 | Modified-retrospective approach. | Immaterial |
| 2019-07 | Codification Updates to SEC Sections | This ASU amends certain SEC sections within the FASB Codification to update and simplify disclosure. | Upon addition to the FASB Codification | NA | Immaterial |

### Accounting Standards Updates Adopted

The following ASUs were adopted by the Company during the nine months ended September 30, 2019:

| ASU. No. | Topic | Nature of Update | Date Adopted | Method of Adoption | Financial Statement Impact |
|---|---|---|---|---|---|
| 2016-02 | Leases (Topic 842) | Most leases are considered operating leases, which are not accounted for on the lessees' balance sheets. The significant change under this ASU is that those operating leases will be recorded on the balance sheet. | January 1, 2019 | Modified-retrospective approach, which includes a number of optional practical expedients. | The Company adopted this ASU on January 1, 2019 and upon adoption recorded $40 million of right-of-use lease assets and $42 million of operating lease liabilities on its balance sheet. The adoption of this ASU did not have a meaningful impact on the Company's performance metrics, including regulatory capital ratios and return on average assets. Additionally, the Company does not believe that the adoption of this ASU by its clients will have a significant impact on the Company's ability to underwrite credit when client financial statements are presented inclusive of the requirements of this ASU. See Note 7 in this section of the filing regarding disclosures by the Company to comply with this ASU. |
| 2018-10 | Codification Improvements to Topic 842, Leases | This ASU affects narrow aspects of the guidance issued in the amendments in ASU 2016-02. | January 1, 2019 | Adoption should conform to the adoption of ASU 2016-02 above. | See Note 7 in this section of the filing regarding disclosures by the Company to comply with this ASU. |
| 2018-11 | Leases (Topic 842): Targeted Improvements | This ASU provides the Company with an additional (and optional) transition method to adopt ASU 2016-02. This ASU also provides the Company with a practical expedient to not separate non-lease components from the associated lease component under certain circumstances. | January 1, 2019 | Adoption should conform to the adoption of ASU 2016-02 above. | The Company elected the optional transition method permitted by this ASU, allowing the Company to adopt ASU 2016-02, effective January 1, 2019 with a cumulative-effect adjustment to the opening balance of retained earnings on January 1, 2019. |
| 2017-12 | Derivatives and Hedging (Topic 815) | The amendments in this ASU make certain targeted improvements to simplify the application of hedge accounting. | January 1, 2019 | Prospectively. | Immaterial |

## 2. INVESTMENT SECURITIES

### Available-for-Sale Debt Securities

The gross amortized cost and fair value of AFS debt securities and the related gross unrealized gains and losses recognized in AOCI were as follows:

| September 30, 2019 (in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| U.S. Treasury securities and U.S. Government agencies | $ 257,468 | $ 78 | $ (244) | $ 257,302 |
| Private label mortgage backed security | 2,289 | 1,306 | — | 3,595 |
| Mortgage backed securities - residential | 227,929 | 2,935 | (170) | 230,694 |
| Collateralized mortgage obligations | 66,441 | 281 | (142) | 66,580 |
| Corporate bonds | 10,000 | — | (156) | 9,844 |
| Trust preferred security | 3,564 | 436 | — | 4,000 |
| **Total available-for-sale debt securities** | $ 567,691 | $ 5,036 | $ (712) | $ 572,015 |

| December 31, 2018 (in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| U.S. Treasury securities and U.S. Government agencies | $ 218,502 | $ 25 | $ (1,654) | $ 216,873 |
| Private label mortgage backed security | 2,348 | 1,364 | — | 3,712 |
| Mortgage backed securities - residential | 168,992 | 1,470 | (1,253) | 169,209 |
| Collateralized mortgage obligations | 73,740 | 222 | (1,151) | 72,811 |
| Corporate bonds | 10,000 | — | (942) | 9,058 |
| Trust preferred security | 3,533 | 542 | — | 4,075 |
| **Total available-for-sale debt securities** | $ 477,115 | $ 3,623 | $ (5,000) | $ 475,738 |

### Held-to-Maturity Debt Securities

The carrying value, gross unrecognized gains and losses, and fair value of HTM debt securities were as follows:

| September 30, 2019 (in thousands) | Carrying Value | Gross Unrecognized Gains | Gross Unrecognized Losses | Fair Value |
|---|---|---|---|---|
| Mortgage backed securities - residential | $ 105 | $ 7 | $ — | $ 112 |
| Collateralized mortgage obligations | 17,724 | 132 | (30) | 17,826 |
| Corporate bonds | 45,024 | 447 | — | 45,471 |
| Obligations of state and political subdivisions | 462 | 1 | — | 463 |
| **Total held-to-maturity debt securities** | $ 63,315 | $ 587 | $ (30) | $ 63,872 |

| December 31, 2018 (in thousands) | Carrying Value | Gross Unrecognized Gains | Gross Unrecognized Losses | Fair Value |
|---|---|---|---|---|
| Mortgage backed securities - residential | $ 132 | $ 8 | $ — | $ 140 |
| Collateralized mortgage obligations | 19,544 | 178 | (46) | 19,676 |
| Corporate bonds | 45,088 | 16 | (514) | 44,590 |
| Obligations of state and political subdivisions | 463 | — | (11) | 452 |
| **Total held-to-maturity debt securities** | $ 65,227 | $ 202 | $ (571) | $ 64,858 |

### Sales of Available-for-Sale Debt Securities

During the three and nine months ended September 30, 2019 and 2018, there were no gains or losses on sales or calls of AFS debt securities.

[redacted]

**Debt Securities by Contractual Maturity**

The amortized cost and fair value of debt securities by contractual maturity at September 30, 2019 follow. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are detailed separately.

| | Available-for-Sale Debt Securities | | Held-to-Maturity Debt Securities | |
|---|---|---|---|---|
| **September 30, 2019 (in thousands)** | **Amortized Cost** | **Fair Value** | **Carrying Value** | **Fair Value** |
| Due in one year or less | $ 172,143 | $ 172,120 | $ 5,130 | $ 5,127 |
| Due from one year to five years | 95,325 | 95,026 | 35,410 | 35,819 |
| Due from five years to ten years | — | — | 4,946 | 4,988 |
| Due beyond ten years | 3,564 | 4,000 | — | — |
| Private label mortgage backed security | 2,289 | 3,595 | — | — |
| Mortgage backed securities - residential | 227,929 | 230,694 | 105 | 112 |
| Collateralized mortgage obligations | 66,441 | 66,580 | 17,724 | 17,826 |
| **Total debt securities** | $ 567,691 | $ 572,015 | $ 63,315 | $ 63,872 |

**Unrealized-Loss Analysis on Debt Securities**

Debt securities with unrealized losses at September 30, 2019 and December 31, 2018, aggregated by investment category and length of time that individual debt securities have been in a continuous unrealized loss position, were as follows:

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| **September 30, 2019 (in thousands)** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| **Available-for-sale debt securities:** | | | | | | |
| U.S. Treasury securities and U.S. Government agencies | $ 40,191 | $ (162) | $ 74,906 | $ (82) | $ 115,097 | $ (244) |
| Mortgage backed securities - residential | 38,001 | (40) | 20,167 | (130) | 58,168 | (170) |
| Collateralized mortgage obligations | 8,079 | (16) | 10,738 | (126) | 18,817 | (142) |
| Corporate bonds | — | — | 9,844 | (156) | 9,844 | (156) |
| **Total available-for-sale debt securities** | $ 86,271 | $ (218) | $ 115,655 | $ (494) | $ 201,926 | $ (712) |

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| **December 31, 2018 (in thousands)** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| **Available-for-sale debt securities:** | | | | | | |
| U.S. Treasury securities and U.S. Government agencies | $ 71,627 | $ (598) | $ 106,136 | $ (1,056) | $ 177,763 | $ (1,654) |
| Mortgage backed securities - residential | 43,691 | (484) | 32,003 | (769) | 75,694 | (1,253) |
| Collateralized mortgage obligations | 16,487 | (473) | 31,071 | (678) | 47,558 | (1,151) |
| Corporate bonds | 9,058 | (942) | — | — | 9,058 | (942) |
| **Total available-for-sale debt securities** | $ 140,863 | $ (2,497) | $ 169,210 | $ (2,503) | $ 310,073 | $ (5,000) |

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| **September 30, 2019 (in thousands)** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| **Held-to-maturity debt securities:** | | | | | | |
| Collateralized mortgage obligations | $ 4,132 | $ (4) | $ 4,965 | $ (26) | $ 9,097 | $ (30) |
| **Total held-to-maturity debt securities:** | $ 4,132 | $ (4) | $ 4,965 | $ (26) | $ 9,097 | $ (30) |

| December 31, 2018 (in thousands) | Less than 12 months Fair Value | Less than 12 months Unrealized Losses | 12 months or more Fair Value | 12 months or more Unrealized Losses | Total Fair Value | Total Unrealized Losses |
|---|---|---|---|---|---|---|
| **Held-to-maturity debt securities:** | | | | | | |
| Collateralized mortgage obligations | $ — | $ — | $ 5,539 | $ (46) | $ 5,539 | $ (46) |
| Corporate bonds | 39,499 | (514) | — | — | 39,499 | (514) |
| Obligations of state and political subdivisions | 105 | (1) | 347 | (10) | 452 | (11) |
| **Total held-to-maturity debt securities:** | $ 39,604 | $ (515) | $ 5,886 | $ (56) | $ 45,490 | $ (571) |

At September 30, 2019, the Bank's security portfolio consisted of 172 securities, 32 of which were in an unrealized loss position.

At December 31, 2018, the Bank's security portfolio consisted of 182 securities, 65 of which were in an unrealized loss position.

At September 30, 2019 and December 31, 2018, there were no holdings of debt securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of stockholders' equity.

**Corporate Bonds**

From 2013 to 2018, the Bank purchased various floating-rate corporate bonds. These bonds were rated "investment grade" by accredited rating agencies as of their respective purchase dates. The total fair value of the Bank's corporate bonds represented 9% and 10% of the Bank's investment portfolio as of September 30, 2019 and December 31, 2018. During 2018, one of these bonds was downgraded to BBB+ (S&P/Fitch), driving a significant decrease in the bond's market value. As of September 30, 2019, this bond reflected an unrealized loss of $156,000. The Bank does not intend to sell this bond, and it is likely that it will not be required to sell this bond before the bond's anticipated recovery, therefore, management does not consider this bond to have OTTI.

**Mortgage Backed Securities and Collateralized Mortgage Obligations**

At September 2019, with the exception of the $3.6 million private label mortgage backed security, all other mortgage backed securities and CMOs held by the Bank were issued by U.S. government-sponsored entities and agencies, primarily the FHLMC and FNMA. At September 30, 2019 and December 31, 2018, there were gross unrealized losses of $312,000 and $2.4 million related to AFS mortgage backed securities and CMOs. Because these unrealized losses are attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to have OTTI.

**Trust Preferred Security**

During 2015, the Parent Company purchased a $3 million floating rate TRUP at a price of 68% of par. The coupon on this security is based on the 3-month LIBOR rate plus 159 basis points. The Company performed an initial analysis prior to acquisition and performs ongoing analysis of the credit risk of the underlying borrower in relation to its TRUP.

**Other-Than-Temporary Impairment**

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

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

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

The Bank owns one private label mortgage backed security with a total carrying value of $3.6 million at September 30, 2019. This security is mostly backed by “Alternative A” first lien mortgage loans, but also has an insurance “wrap” or guarantee as an added layer of protection to the security holder. This asset is illiquid, and as such, the Bank determined it to be a Level 3 security in accordance with ASC Topic 820, *Fair Value Measurement*. Based on this determination, the Bank utilized an income valuation model (“present value model”) approach, in determining the fair value of the security. This approach is beneficial for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management’s best estimate is used. Management’s best estimate consists of both internal and external support for this investment.

*See additional discussion regarding the Bank’s private label mortgage backed security under Footnote 10 “Fair Value” in this section of the filing.*

**Pledged Debt Securities**

Debt securities pledged to secure public deposits, securities sold under agreements to repurchase and debt securities held for other purposes, as required or permitted by law are as follows:

| (in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Carrying amount | $ 444,309 | $ 240,590 |
| Fair value | 444,316 | 240,700 |

**Equity Securities**

The carrying value, gross unrealized gains and losses, and fair value of equity securities with readily determinable fair values were as follows:

| September 30, 2019 (in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Freddie Mac preferred stock | $ — | $ 882 | $ — | $ 882 |
| Community Reinvestment Act mutual fund | 2,500 | — | (15) | 2,485 |
| **Total equity securities with readily determinable fair values** | $ 2,500 | $ 882 | $ (15) | $ 3,367 |

| December 31, 2018 (in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Freddie Mac preferred stock | $ — | $ 410 | $ — | $ 410 |
| Community Reinvestment Act mutual fund | 2,500 | — | (104) | 2,396 |
| **Total equity securities with readily determinable fair values** | $ 2,500 | $ 410 | $ (104) | $ 2,806 |

For equity securities with readily determinable fair values, the gross realized and unrealized gains and losses recognized in the Company's consolidated statements of income were as follows:

| | Gains (Losses) Recognized on Equity Securities | | | | | |
|---|---|---|---|---|---|---|
| | Three Months Ended September 30, 2019 | | | Three Months Ended September 30, 2018 | | |
| **(in thousands)** | **Realized** | **Unrealized** | **Total** | **Realized** | **Unrealized** | **Total** |
| Freddie Mac preferred stock | $ — | $ 95 | $ 95 | $ — | $ (57) | $ (57) |
| Community Reinvestment Act mutual fund | — | 19 | 19 | — | (19) | (19) |
| **Total equity securities with readily determinable fair value** | $ — | $ 114 | $ 114 | $ — | $ (76) | $ (76) |

| | Gains (Losses) Recognized on Equity Securities | | | | | |
|---|---|---|---|---|---|---|
| | Nine Months Ended September 30, 2019 | | | Nine Months Ended September 30, 2018 | | |
| **(in thousands)** | **Realized** | **Unrealized** | **Total** | **Realized** | **Unrealized** | **Total** |
| Freddie Mac preferred stock | $ — | $ 472 | $ 472 | $ — | $ (141) | $ (141) |
| Community Reinvestment Act mutual fund | — | 89 | 89 | — | (70) | (70) |
| **Total equity securities with readily determinable fair value** | $ — | $ 561 | $ 561 | $ — | $ (211) | $ (211) |

### 3. LOANS HELD FOR SALE

In the ordinary course of business, the Bank originates for sale mortgage loans and consumer loans. Mortgage loans originated for sale are primarily originated and sold into the secondary market through the Bank's Mortgage Banking segment, while consumer loans originated for sale are originated and sold through the RCS segment.

**Mortgage Loans Held for Sale, at Fair Value**

*See additional detail regarding mortgage loans originated for sale, at fair value under Footnote 11 "Mortgage Banking Activities" of this section of the filing.*

**Consumer Loans Held for Sale, at the Lower of Cost or Fair Value**

RCS originates for sale 90% of its line-of-credit product and a portion of its hospital receivables product. Prior to the third quarter of 2018, RCS also originated for sale 90% of its credit-card product. During the third quarter of 2018, the Bank and its third-party marketer/servicer agreed to sell 100% of the existing RCS credit-card portfolio to an unrelated third party. As a result, the Bank reclassified 100% of its RCS credit-card portfolio into a held-for-sale category and charged this portfolio down to its estimated net realizable value. The Bank and its third-party marketer/servicer settled the sale of the RCS credit-card portfolio in January 2019. Ordinary gains or losses on the sale of RCS products are reported as a component of "Program fees."

Activity for consumer loans held for sale and carried at the lower of cost or market value was as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2019 | 2018 | 2019 | 2018 |
| Balance, beginning of period | $ 37,609 | $ 13,684 | $ 12,838 | $ 8,551 |
| Origination of consumer loans held for sale | 187,856 | 209,462 | 534,268 | 565,886 |
| Loans transferred to held for investment | — | 1,392 | — | 1,392 |
| Proceeds from the sale of consumer loans held for sale | (208,211) | (205,078) | (532,471) | (559,607) |
| Net gain on sale of consumer loans held for sale | 1,250 | 1,577 | 3,869 | 4,815 |
| Balance, end of period | $ 18,504 | $ 21,037 | $ 18,504 | $ 21,037 |

**Loans Held for Sale in Connection with Sale of Banking Centers, at the Lower of Cost or Fair Value**

*See additional detail regarding loans held for sale in connection with Sale of Banking Centers under Footnote 18 "Agreement to Sell Four Banking Centers" in this section of the filing.*

## 4. LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The composition of the loan portfolio follows:

| (in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| **Traditional Banking:** | | |
| Residential real estate: | | |
| Owner occupied | $ 889,554 | $ 907,005 |
| Owner occupied - correspondent* | 71,654 | 94,827 |
| Nonowner occupied | 255,808 | 242,846 |
| Commercial real estate | 1,266,290 | 1,248,940 |
| Construction & land development | 192,535 | 175,178 |
| Commercial & industrial | 464,614 | 430,355 |
| Lease financing receivables | 14,820 | 15,031 |
| Home equity | 296,339 | 332,548 |
| Consumer: | | |
| Credit cards | 17,722 | 19,095 |
| Overdrafts | 1,075 | 1,102 |
| Automobile loans | 59,403 | 63,475 |
| Other consumer | 60,655 | 46,642 |
| **Total Traditional Banking** | 3,590,469 | 3,577,044 |
| Warehouse lines of credit* | 973,588 | 468,695 |
| **Total Core Banking** | 4,564,057 | 4,045,739 |
| | | |
| **Republic Processing Group*:** | | |
| Tax Refund Solutions: | | |
| Easy Advances | — | — |
| Other TRS loans | 846 | 13,744 |
| Republic Credit Solutions | 99,151 | 88,744 |
| **Total Republic Processing Group** | 99,997 | 102,488 |
| | | |
| **Total loans**** | 4,664,054 | 4,148,227 |
| Allowance for loan and lease losses | (46,932) | (44,675) |
| | | |
| **Total loans, net** | $ 4,617,122 | $ 4,103,552 |

**Identifies loans to borrowers located primarily outside of the Bank's market footprint.*
***Total loans are presented inclusive of premiums, discounts and net loan origination fees and costs. See table directly below for expanded detail.*

The following table reconciles the contractually receivable and carrying amounts of loans:

| (in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Contractually receivable | $ 4,663,081 | $ 4,147,249 |
| Unearned income(1) | (1,226) | (1,038) |
| Unamortized premiums(2) | 425 | 588 |
| Unaccreted discounts(3) | (2,673) | (3,400) |
| Net unamortized deferred origination fees and costs(4) | 4,447 | 4,828 |
| Carrying value of loans | $ 4,664,054 | $ 4,148,227 |

(1) *Unearned income relates to lease financing receivables.*
(2) *Unamortized premiums predominately relate to loans acquired through the Bank's Correspondent Lending channel.*
(3) *Unaccreted discounts include accretable and non-accretable discounts and relate to loans acquired in the Bank's 2016 Cornerstone acquisition and its 2012 FDIC-assisted transactions.*
(4) *Primarily attributable to the Traditional Banking segment.*

**Purchased Credit-Impaired Loans**

The following table reconciles the contractually required and carrying amounts of all PCI loans:

| (in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Contractually required principal | $ 3,759 | $ 4,251 |
| Non-accretable amount | (1,356) | (1,521) |
| Accretable amount | (50) | (50) |
| Carrying value of loans | $ 2,353 | $ 2,680 |

The following table presents a rollforward of the accretable amount on all PCI loans:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2019 | 2018 | 2019 | 2018 |
| Balance, beginning of period | $ (50) | $ (100) | $ (50) | $ (140) |
| Transfers between non-accretable and accretable* | (88) | (168) | (230) | (409) |
| Net accretion into interest income on loans, including loan fees | 88 | 168 | 230 | 449 |
| Balance, end of period | $ (50) | $ (100) | $ (50) | $ (100) |

**Transfers are primarily attributable to changes in estimated cash flows of the underlying loans.*

## Credit Quality Indicators

The following tables include loans by risk category based on the Bank's internal analyses. Risk categories are defined in the Company's Annual Report on Form 10-K for the year ended December 31, 2018:

| September 30, 2019 (in thousands) | Pass | Special Mention | Substandard | Doubtful / Loss | PCI Loans - Group 1 | PCI Loans - Substandard | Total Rated Loans* |
|---|---|---|---|---|---|---|---|
| **Traditional Banking:** | | | | | | | |
| Residential real estate: | | | | | | | |
| Owner occupied | $ — | $ 12,733 | $ 12,334 | $ — | $ 141 | $ 1,326 | $ 26,534 |
| Owner occupied - correspondent | — | — | 1,328 | — | — | — | 1,328 |
| Nonowner occupied | — | 489 | 1,241 | — | — | — | 1,730 |
| Commercial real estate | 1,252,223 | 3,555 | 9,662 | — | 850 | — | 1,266,290 |
| Construction & land development | 190,156 | 2,321 | 58 | — | — | — | 192,535 |
| Commercial & industrial | 460,391 | 906 | 3,294 | — | 23 | — | 464,614 |
| Lease financing receivables | 14,820 | — | — | — | — | — | 14,820 |
| Home equity | — | — | 2,783 | — | 4 | 6 | 2,793 |
| Consumer: | | | | | | | |
| Credit cards | — | — | — | — | — | — | — |
| Overdrafts | — | — | — | — | — | — | — |
| Automobile loans | — | — | 188 | — | — | — | 188 |
| Other consumer | — | — | 372 | — | — | 3 | 375 |
| **Total Traditional Banking** | 1,917,590 | 20,004 | 31,260 | — | 1,018 | 1,335 | 1,971,207 |
| Warehouse lines of credit | 973,588 | — | — | — | — | — | 973,588 |
| **Total Core Banking** | 2,891,178 | 20,004 | 31,260 | — | 1,018 | 1,335 | 2,944,795 |
| **Republic Processing Group:** | | | | | | | |
| Tax Refund Solutions: | | | | | | | |
| Easy Advances | — | — | — | — | — | — | — |
| Other TRS loans | — | — | 118 | — | — | — | 118 |
| Republic Credit Solutions | — | — | 109 | — | — | — | 109 |
| **Total Republic Processing Group** | — | — | 227 | — | — | — | 227 |
| **Total rated loans** | $ 2,891,178 | $ 20,004 | $ 31,487 | $ — | $ 1,018 | $ 1,335 | $ 2,945,022 |

| December 31, 2018 (in thousands) | Pass | Special Mention | Substandard | Doubtful / Loss | PCI Loans - Group 1 | PCI Loans - Substandard | Total Rated Loans* |
|---|---|---|---|---|---|---|---|
| **Traditional Banking:** | | | | | | | |
| Residential real estate: | | | | | | | |
| Owner occupied | $ — | $ 14,536 | $ 11,690 | $ — | $ 170 | $ 1,476 | $ 27,872 |
| Owner occupied - correspondent | — | — | 382 | — | — | — | 382 |
| Nonowner occupied | — | 575 | 1,889 | — | — | — | 2,464 |
| Commercial real estate | 1,239,576 | 5,281 | 3,162 | — | 921 | — | 1,248,940 |
| Construction & land development | 175,113 | — | 65 | — | — | — | 175,178 |
| Commercial & industrial | 428,897 | 813 | 620 | — | 25 | — | 430,355 |
| Lease financing receivables | 15,031 | — | — | — | — | — | 15,031 |
| Home equity | — | — | 1,361 | — | 5 | 81 | 1,447 |
| Consumer: | | | | | | | |
| Credit cards | — | — | — | — | — | — | — |
| Overdrafts | — | — | — | — | — | — | — |
| Automobile loans | — | — | 91 | — | — | — | 91 |
| Other consumer | — | — | 462 | — | — | 2 | 464 |
| **Total Traditional Banking** | 1,858,617 | 21,205 | 19,722 | — | 1,121 | 1,559 | 1,902,224 |
| Warehouse lines of credit | 468,695 | — | — | — | — | — | 468,695 |
| **Total Core Banking** | 2,327,312 | 21,205 | 19,722 | — | 1,121 | 1,559 | 2,370,919 |
| **Republic Processing Group:** | | | | | | | |
| Tax Refund Solutions: | | | | | | | |
| Easy Advances | — | — | — | — | — | — | — |
| Other TRS loans | — | — | — | — | — | — | — |
| Republic Credit Solutions | — | — | 138 | — | — | — | 138 |
| **Total Republic Processing Group** | — | — | 138 | — | — | — | 138 |
| **Total rated loans** | $ 2,327,312 | $ 21,205 | $ 19,860 | $ — | $ 1,121 | $ 1,559 | $ 2,371,057 |

**The above tables exclude all non-classified residential real estate, home equity and consumer loans at the respective period ends.*

[redacted]

## Allowance for Loan and Lease Losses

The following table presents the activity in the Allowance by portfolio class:

| | Allowance Rollforward Three Months Ended September 30, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | | | | 2018 | | | | |
| (in thousands) | Beginning Balance | Provision | Charge-offs | Recoveries | Ending Balance | Beginning Balance | Provision | Charge-offs | Recoveries | Ending Balance |
| **Traditional Banking:** | | | | | | | | | | |
| Residential real estate: | | | | | | | | | | |
| Owner occupied | $ 5,016 | $ (296) | $ (17) | $ 121 | $ 4,824 | $ 6,035 | $ (136) | $ (46) | $ 18 | $ 5,871 |
| Owner occupied - correspondent | 197 | (18) | — | — | 179 | 263 | (15) | — | — | 248 |
| Nonowner occupied | 1,775 | 40 | — | 5 | 1,820 | 1,552 | 42 | (1) | — | 1,593 |
| Commercial real estate | 10,566 | 1,390 | (1,407) | — | 10,549 | 9,815 | 187 | — | 1 | 10,003 |
| Construction & land development | 2,910 | (93) | — | — | 2,817 | 2,825 | (160) | — | 3 | 2,668 |
| Commercial & industrial | 4,221 | 155 | — | 1 | 4,377 | 2,318 | 281 | (75) | 4 | 2,528 |
| Lease financing receivables | 181 | (25) | — | — | 156 | 160 | — | — | — | 160 |
| Home equity | 3,124 | (102) | — | 23 | 3,045 | 3,658 | (81) | (14) | 59 | 3,622 |
| Consumer: | | | | | | | | | | |
| Credit cards | 1,028 | 54 | (77) | 18 | 1,023 | 805 | 148 | (94) | 9 | 868 |
| Overdrafts | 894 | 491 | (363) | 53 | 1,075 | 878 | 372 | (332) | 65 | 983 |
| Automobile loans | 708 | (32) | (23) | — | 653 | 664 | 110 | (7) | 2 | 769 |
| Other consumer | 549 | (9) | (84) | 79 | 535 | 776 | (52) | (102) | 70 | 692 |
| **Total Traditional Banking** | 31,169 | 1,555 | (1,971) | 300 | 31,053 | 29,749 | 696 | (671) | 231 | 30,005 |
| Warehouse lines of credit | 1,814 | 620 | — | — | 2,434 | 1,585 | (183) | — | — | 1,402 |
| **Total Core Banking** | 32,983 | 2,175 | (1,971) | 300 | 33,487 | 31,334 | 513 | (671) | 231 | 31,407 |
| **Republic Processing Group:** | | | | | | | | | | |
| Tax Refund Solutions: | | | | | | | | | | |
| Easy Advances | — | (2,098) | — | 2,098 | — | — | (1,036) | — | 1,036 | — |
| Other TRS loans | 232 | 90 | (90) | 2 | 234 | 67 | 8 | — | — | 75 |
| Republic Credit Solutions | 12,768 | 2,986 | (2,799) | 256 | 13,211 | 13,646 | 4,592 | (6,204) | 308 | 12,342 |
| **Total Republic Processing Group** | 13,000 | 978 | (2,889) | 2,356 | 13,445 | 13,713 | 3,564 | (6,204) | 1,344 | 12,417 |
| **Total** | $45,983 | $ 3,153 | $(4,860) | $ 2,656 | $46,932 | $45,047 | $ 4,077 | $(6,875) | $ 1,575 | $43,824 |

| (in thousands) | 2019 Beginning Balance | 2019 Provision | 2019 Charge-offs | 2019 Recoveries | 2019 Ending Balance | 2018 Beginning Balance | 2018 Provision | 2018 Charge-offs | 2018 Recoveries | 2018 Ending Balance |
|---|---|---|---|---|---|---|---|---|---|---|
| **Traditional Banking:** | | | | | | | | | | |
| Residential real estate: | | | | | | | | | | |
| Owner occupied | $ 5,798 | $ (953) | $ (401) | $ 380 | $ 4,824 | $ 6,182 | $ (443) | $ (85) | $ 217 | $ 5,871 |
| Owner occupied - correspondent | 237 | (58) | — | — | 179 | 292 | (44) | — | — | 248 |
| Nonowner occupied | 1,662 | 218 | (73) | 13 | 1,820 | 1,396 | 491 | (320) | 26 | 1,593 |
| Commercial real estate | 10,030 | 1,922 | (1,407) | 4 | 10,549 | 9,043 | 831 | — | 129 | 10,003 |
| Construction & land development | 2,555 | 262 | — | — | 2,817 | 2,364 | 274 | — | 30 | 2,668 |
| Commercial & industrial | 2,873 | 1,498 | — | 6 | 4,377 | 2,198 | 491 | (200) | 39 | 2,528 |
| Lease financing receivables | 158 | (2) | — | — | 156 | 174 | (14) | — | — | 160 |
| Home equity | 3,477 | (480) | (13) | 61 | 3,045 | 3,754 | (372) | (48) | 288 | 3,622 |
| Consumer: | | | | | | | | | | |
| Credit cards | 1,140 | 133 | (303) | 53 | 1,023 | 607 | 507 | (282) | 36 | 868 |
| Overdrafts | 1,102 | 760 | (956) | 169 | 1,075 | 974 | 685 | (891) | 215 | 983 |
| Automobile loans | 724 | (55) | (23) | 7 | 653 | 687 | 90 | (11) | 3 | 769 |
| Other consumer | 591 | (74) | (198) | 216 | 535 | 1,162 | (338) | (358) | 226 | 692 |
| **Total Traditional Banking** | 30,347 | 3,171 | (3,374) | 909 | 31,053 | 28,833 | 2,158 | (2,195) | 1,209 | 30,005 |
| Warehouse lines of credit | 1,172 | 1,262 | — | — | 2,434 | 1,314 | 88 | — | — | 1,402 |
| **Total Core Banking** | 31,519 | 4,433 | (3,374) | 909 | 33,487 | 30,147 | 2,246 | (2,195) | 1,209 | 31,407 |
| **Republic Processing Group:** | | | | | | | | | | |
| Tax Refund Solutions: | | | | | | | | | | |
| Easy Advances | — | 11,322 | (13,425) | 2,103 | — | — | 11,360 | (12,478) | 1,118 | — |
| Other TRS loans | 107 | 496 | (371) | 2 | 234 | 12 | 113 | (55) | 5 | 75 |
| Republic Credit Solutions | 13,049 | 8,593 | (9,306) | 875 | 13,211 | 12,610 | 12,545 | (13,669) | 856 | 12,342 |
| **Total Republic Processing Group** | 13,156 | 20,411 | (23,102) | 2,980 | 13,445 | 12,622 | 24,018 | (26,202) | 1,979 | 12,417 |
| **Total** | $44,675 | $24,844 | $(26,476) | $ 3,889 | $46,932 | $42,769 | $26,264 | $(28,397) | $ 3,188 | $43,824 |

Allowance Rollforward — Nine Months Ended September 30,

## Nonperforming Loans and Nonperforming Assets

Detail of nonperforming loans, nonperforming assets and select credit quality ratios follows:

| (dollars in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Loans on nonaccrual status* | $ 20,574 | $ 15,993 |
| Loans past due 90-days-or-more and still on accrual** | 175 | 145 |
| Total nonperforming loans | 20,749 | 16,138 |
| Other real estate owned | 119 | 160 |
| **Total nonperforming assets** | $ 20,868 | $ 16,298 |
| **Credit Quality Ratios - Total Company:** | | |
| Nonperforming loans to total loans | 0.44 % | 0.39 % |
| Nonperforming assets to total loans (including OREO) | 0.45 | 0.39 |
| Nonperforming assets to total assets | 0.34 | 0.31 |
| **Credit Quality Ratios - Core Bank:** | | |
| Nonperforming loans to total loans | 0.45 % | 0.40 % |
| Nonperforming assets to total loans (including OREO) | 0.45 | 0.40 |
| Nonperforming assets to total assets | 0.35 | 0.32 |

**Loans on nonaccrual status include impaired loans.*

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

[redacted]

The following table presents the recorded investment in nonaccrual loans and loans past due 90-days-or-more and still on accrual by class of loans:

| (in thousands) | Nonaccrual | | Past Due 90-Days-or-More and Still Accruing Interest* | |
|---|---|---|---|---|
| | September 30, 2019 | December 31, 2018 | September 30, 2019 | December 31, 2018 |
| **Traditional Banking:** | | | | |
| Residential real estate: | | | | |
| Owner occupied | $ 9,728 | $ 10,800 | $ — | $ — |
| Owner occupied - correspondent | 1,328 | 382 | — | — |
| Nonowner occupied | 26 | 669 | — | — |
| Commercial real estate | 4,690 | 2,318 | — | — |
| Construction & land development | — | — | — | — |
| Commercial & industrial | 3,014 | 630 | — | — |
| Lease financing receivables | — | — | — | — |
| Home equity | 1,659 | 1,095 | — | — |
| Consumer: | | | | |
| Credit cards | — | — | — | — |
| Overdrafts | — | — | — | — |
| Automobile loans | 116 | 75 | — | — |
| Other consumer | 13 | 24 | — | 13 |
| **Total Traditional Banking** | 20,574 | 15,993 | — | 13 |
| Warehouse lines of credit | — | — | — | — |
| **Total Core Banking** | 20,574 | 15,993 | — | 13 |
| **Republic Processing Group:** | | | | |
| Tax Refund Solutions: | | | | |
| Easy Advances | — | — | — | — |
| Other TRS loans | — | — | 109 | 4 |
| Republic Credit Solutions | — | — | 66 | 128 |
| **Total Republic Processing Group** | — | — | 175 | 132 |
| **Total** | $ 20,574 | $ 15,993 | $ 175 | $ 145 |

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

Nonaccrual loans and loans past due 90-days-or-more and still on accrual include both smaller balance, primarily retail, homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Nonaccrual loans are typically returned to accrual status when all the principal and interest amounts contractually due are brought current and held current for six consecutive months and future contractual payments are reasonably assured. TDRs on nonaccrual status are reviewed for return to accrual status on an individual basis, with additional consideration given to performance under the modified terms.

**Delinquent Loans**

The following tables present the aging of the recorded investment in loans by class of loans:

| September 30, 2019 (dollars in thousands) | 30 - 59 Days Delinquent | 60 - 89 Days Delinquent | 90 or More Days Delinquent* | Total Delinquent** | Total Current | Total |
|---|---|---|---|---|---|---|
| **Traditional Banking:** | | | | | | |
| Residential real estate: | | | | | | |
| Owner occupied | $ 1,293 | $ 376 | $ 2,462 | $ 4,131 | $ 885,423 | $ 889,554 |
| Owner occupied - correspondent | — | — | 958 | 958 | 70,696 | 71,654 |
| Nonowner occupied | — | — | — | — | 255,808 | 255,808 |
| Commercial real estate | 597 | 2,335 | 979 | 3,911 | 1,262,379 | 1,266,290 |
| Construction & land development | 150 | — | — | 150 | 192,385 | 192,535 |
| Commercial & industrial | 143 | — | 2,572 | 2,715 | 461,899 | 464,614 |
| Lease financing receivables | — | — | — | — | 14,820 | 14,820 |
| Home equity | 132 | 350 | 702 | 1,184 | 295,155 | 296,339 |
| Consumer: | | | | | | |
| Credit cards | 58 | 26 | — | 84 | 17,638 | 17,722 |
| Overdrafts | 248 | 4 | 1 | 253 | 822 | 1,075 |
| Automobile loans | 46 | 51 | — | 97 | 59,306 | 59,403 |
| Other consumer | 6 | 7 | — | 13 | 60,642 | 60,655 |
| **Total Traditional Banking** | 2,673 | 3,149 | 7,674 | 13,496 | 3,576,973 | 3,590,469 |
| Warehouse lines of credit | — | — | — | — | 973,588 | 973,588 |
| **Total Core Banking** | 2,673 | 3,149 | 7,674 | 13,496 | 4,550,561 | 4,564,057 |
| | | | | | | |
| **Republic Processing Group:** | | | | | | |
| Tax Refund Solutions: | | | | | | |
| Easy Advances | — | — | — | — | — | — |
| Other TRS loans | 55 | 72 | 109 | 236 | 610 | 846 |
| Republic Credit Solutions | 5,497 | 1,077 | 66 | 6,640 | 92,511 | 99,151 |
| **Total Republic Processing Group** | 5,552 | 1,149 | 175 | 6,876 | 93,121 | 99,997 |
| | | | | | | |
| **Total** | $ 8,225 | $ 4,298 | $ 7,849 | $ 20,372 | $ 4,643,682 | $ 4,664,054 |
| Delinquency ratio*** | 0.18 % | 0.09 % | 0.17 % | 0.44 % | | |

**All loans past due 90-days-or-more, excluding small balance consumer loans, were on nonaccrual status.*
***Delinquent status may be determined by either the number of days past due or number of payments past due.*
****Represents total loans 30-days-or-more past due by aging category divided by total loans.*

| December 31, 2018 (dollars in thousands) | 30 - 59 Days Delinquent | 60 - 89 Days Delinquent | 90 or More Days Delinquent* | Total Delinquent** | Total Current | Total |
|---|---|---|---|---|---|---|
| **Traditional Banking:** | | | | | | |
| Residential real estate: | | | | | | |
| Owner occupied | $ 1,137 | $ 748 | $ 3,640 | $ 5,525 | $ 901,480 | $ 907,005 |
| Owner occupied - correspondent | — | — | — | — | 94,827 | 94,827 |
| Nonowner occupied | 349 | — | 659 | 1,008 | 241,838 | 242,846 |
| Commercial real estate | 511 | — | 588 | 1,099 | 1,247,841 | 1,248,940 |
| Construction & land development | — | — | — | — | 175,178 | 175,178 |
| Commercial & industrial | — | — | 25 | 25 | 430,330 | 430,355 |
| Lease financing receivables | — | — | — | — | 15,031 | 15,031 |
| Home equity | 558 | — | 226 | 784 | 331,764 | 332,548 |
| Consumer: | | | | | | |
| Credit cards | 82 | 46 | 1 | 129 | 18,966 | 19,095 |
| Overdrafts | 223 | 5 | 2 | 230 | 872 | 1,102 |
| Automobile loans | — | 28 | — | 28 | 63,447 | 63,475 |
| Other consumer | 27 | 7 | 13 | 47 | 46,595 | 46,642 |
| **Total Traditional Banking** | 2,887 | 834 | 5,154 | 8,875 | 3,568,169 | 3,577,044 |
| Warehouse lines of credit | — | — | — | — | 468,695 | 468,695 |
| **Total Core Banking** | 2,887 | 834 | 5,154 | 8,875 | 4,036,864 | 4,045,739 |
| | | | | | | |
| **Republic Processing Group:** | | | | | | |
| Tax Refund Solutions: | | | | | | |
| Easy Advances | — | — | — | — | — | — |
| Other TRS loans | 2 | 4 | 4 | 10 | 13,734 | 13,744 |
| Republic Credit Solutions | 5,734 | 1,215 | 128 | 7,077 | 81,667 | 88,744 |
| **Total Republic Processing Group** | 5,736 | 1,219 | 132 | 7,087 | 95,401 | 102,488 |
| | | | | | | |
| **Total** | $ 8,623 | $ 2,053 | $ 5,286 | $ 15,962 | $ 4,132,265 | $ 4,148,227 |
| Delinquency ratio*** | 0.21 % | 0.05 % | 0.13 % | 0.38 % | | |

**All loans past due 90-days-or-more, excluding smaller balance consumer loans, were on nonaccrual status.*
***Delinquent status may be determined by either the number of days past due or number of payments past due.*
****Represents total loans 30-days-or-more past due by aging category divided by total loans.*

**Impaired Loans**

Information regarding the Bank's impaired loans follows:

| (in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Loans with no allocated Allowance | $ 28,021 | $ 19,555 |
| Loans with allocated Allowance | 20,536 | 21,880 |
| Total recorded investment in impaired loans | $ 48,557 | $ 41,435 |
| | | |
| Amount of the allocated Allowance | $ 3,856 | $ 3,764 |

Approximately $2 million and $3 million of impaired loans at September 30, 2019 and December 31, 2018 were PCI loans. Approximately $2 million and $2 million of impaired loans at September 30, 2019 and December 31, 2018 were formerly PCI loans that became classified as "impaired" through a post-acquisition troubled debt restructuring.

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The following tables present the balance in the Allowance and the recorded investment in loans by portfolio class based on impairment method:

| September 30, 2019 (dollars in thousands) | Allowance for Loan and Lease Losses: Individually Evaluated Excluding PCI | Allowance for Loan and Lease Losses: Collectively Evaluated | Allowance for Loan and Lease Losses: PCI with Post-Acquisition Impairment | Total Allowance | Loans: Individually Evaluated Excluding PCI | Loans: Collectively Evaluated | Loans: PCI with Post-Acquisition Impairment | Loans: PCI without Post-Acquisition Impairment | Total Loans | Allowance to Total Loans |
|---|---|---|---|---|---|---|---|---|---|---|
| **Traditional Banking:** | | | | | | | | | | |
| Residential real estate: | | | | | | | | | | |
| Owner occupied | $ 1,266 | $ 3,325 | $ 233 | $ 4,824 | $ 23,848 | $ 864,239 | $ 1,467 | $ — | $ 889,554 | 0.54 % |
| Owner occupied - correspondent | — | 179 | — | 179 | 1,329 | 70,325 | — | — | 71,654 | 0.25 |
| Nonowner occupied | — | 1,820 | — | 1,820 | 1,405 | 254,403 | — | — | 255,808 | 0.71 |
| Commercial real estate | 148 | 10,393 | 8 | 10,549 | 12,879 | 1,252,561 | 850 | — | 1,266,290 | 0.83 |
| Construction & land development | 1 | 2,816 | — | 2,817 | 58 | 192,477 | — | — | 192,535 | 1.46 |
| Commercial & industrial | 1,532 | 2,845 | — | 4,377 | 3,309 | 461,282 | — | 23 | 464,614 | 0.94 |
| Lease financing receivables | — | 156 | — | 156 | — | 14,820 | — | — | 14,820 | 1.05 |
| Home equity | 231 | 2,814 | — | 3,045 | 2,787 | 293,541 | 11 | — | 296,339 | 1.03 |
| Consumer: | | | | | | | | | | |
| Credit cards | — | 1,023 | — | 1,023 | — | 17,722 | — | — | 17,722 | 5.77 |
| Overdrafts | — | 1,075 | — | 1,075 | — | 1,075 | — | — | 1,075 | 100.00 |
| Automobile loans | 60 | 593 | — | 653 | 188 | 59,215 | — | — | 59,403 | 1.10 |
| Other consumer | 353 | 182 | — | 535 | 372 | 60,281 | 2 | — | 60,655 | 0.88 |
| **Total Traditional Banking** | 3,591 | 27,221 | 241 | 31,053 | 46,175 | 3,541,941 | 2,330 | 23 | 3,590,469 | 0.86 |
| Warehouse lines of credit | — | 2,434 | — | 2,434 | — | 973,588 | — | — | 973,588 | 0.25 |
| **Total Core Banking** | 3,591 | 29,655 | 241 | 33,487 | 46,175 | 4,515,529 | 2,330 | 23 | 4,564,057 | 0.73 |
| **Republic Processing Group:** | | | | | | | | | | |
| Tax Refund Solutions: | | | | | | | | | | |
| Easy Advances | — | — | — | — | — | — | — | — | — | — |
| Other TRS loans | — | 234 | — | 234 | — | 846 | — | — | 846 | 27.66 |
| Republic Credit Solutions | 24 | 13,187 | — | 13,211 | 52 | 99,099 | — | — | 99,151 | 13.32 |
| **Total Republic Processing Group** | 24 | 13,421 | — | 13,445 | 52 | 99,945 | — | — | 99,997 | 13.45 |
| **Total** | $ 3,615 | $ 43,076 | $ 241 | $ 46,932 | $ 46,227 | $4,615,474 | $ 2,330 | $ 23 | $ 4,664,054 | 1.01 % |

| December 31, 2018 (dollars in thousands) | Allowance for Loan and Lease Losses: Individually Evaluated Excluding PCI | Allowance for Loan and Lease Losses: Collectively Evaluated | Allowance for Loan and Lease Losses: PCI with Post-Acquisition Impairment | Total Allowance | Loans: Individually Evaluated Excluding PCI | Loans: Collectively Evaluated | Loans: PCI with Post-Acquisition Impairment | Loans: PCI without Post-Acquisition Impairment | Total Loans | Allowance to Total Loans |
|---|---|---|---|---|---|---|---|---|---|---|
| **Traditional Banking:** | | | | | | | | | | |
| Residential real estate: | | | | | | | | | | |
| Owner occupied | $ 2,052 | $ 3,365 | $ 381 | $ 5,798 | $ 24,860 | $ 880,500 | $ 1,645 | $ — | $ 907,005 | 0.64 % |
| Owner occupied - correspondent | — | 237 | — | 237 | 382 | 94,445 | — | — | 94,827 | 0.25 |
| Nonowner occupied | 4 | 1,658 | — | 1,662 | 2,406 | 240,440 | — | — | 242,846 | 0.68 |
| Commercial real estate | 294 | 9,727 | 9 | 10,030 | 8,104 | 1,239,915 | 919 | 2 | 1,248,940 | 0.80 |
| Construction & land development | 4 | 2,551 | — | 2,555 | 65 | 175,113 | — | — | 175,178 | 1.46 |
| Commercial & industrial | 130 | 2,743 | — | 2,873 | 1,020 | 429,310 | — | 25 | 430,355 | 0.67 |
| Lease financing receivables | — | 158 | — | 158 | — | 15,031 | — | — | 15,031 | 1.05 |
| Home equity | 286 | 3,117 | 74 | 3,477 | 1,361 | 331,101 | 86 | — | 332,548 | 1.05 |
| Consumer: | | | | | | | | | | |
| Credit cards | — | 1,140 | — | 1,140 | — | 19,095 | — | — | 19,095 | 5.97 |
| Overdrafts | — | 1,102 | — | 1,102 | — | 1,102 | — | — | 1,102 | 100.00 |
| Automobile loans | 91 | 633 | — | 724 | 91 | 63,384 | — | — | 63,475 | 1.14 |
| Other consumer | 421 | 170 | — | 591 | 449 | 46,190 | 3 | — | 46,642 | 1.27 |
| **Total Traditional Banking** | 3,282 | 26,601 | 464 | 30,347 | 38,738 | 3,535,626 | 2,653 | 27 | 3,577,044 | 0.85 |
| Warehouse lines of credit | — | 1,172 | — | 1,172 | — | 468,695 | — | — | 468,695 | 0.25 |
| **Total Core Banking** | 3,282 | 27,773 | 464 | 31,519 | 38,738 | 4,004,321 | 2,653 | 27 | 4,045,739 | 0.78 |
| **Republic Processing Group:** | | | | | | | | | | |
| Tax Refund Solutions: | | | | | | | | | | |
| Easy Advances | — | — | — | — | — | — | — | — | — | — |
| Other TRS loans | — | 107 | — | 107 | — | 13,744 | — | — | 13,744 | 0.78 |
| Republic Credit Solutions | 18 | 13,031 | — | 13,049 | 44 | 88,700 | — | — | 88,744 | 14.70 |
| **Total Republic Processing Group** | 18 | 13,138 | — | 13,156 | 44 | 102,444 | — | — | 102,488 | 12.84 |
| **Total** | $ 3,300 | $ 40,911 | $ 464 | $ 44,675 | $ 38,782 | $4,106,765 | $ 2,653 | $ 27 | $ 4,148,227 | 1.08 % |

[redacted]

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The following tables present loans individually evaluated for impairment by class of loans as of September 30, 2019 and December 31, 2018 and for the three and nine months ended September 30, 2019 and 2018. The difference between the “Unpaid Principal Balance” and “Recorded Investment” columns represents life-to-date partial write downs/charge offs taken on individual impaired credits.

| | As of September 30, 2019 | | | Three Months Ended September 30, 2019 | | | Nine Months Ended September 30, 2019 | | |
|---|---|---|---|---|---|---|---|---|---|
| (in thousands) | Unpaid Principal Balance | Recorded Investment | Allocated Allowance | Average Recorded Investment | Interest Income Recognized | Cash Basis Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Cash Basis Interest Income Recognized |
| **Impaired loans with no allocated Allowance:** | | | | | | | | | |
| Residential real estate: | | | | | | | | | |
| Owner occupied | $12,573 | $11,860 | $ — | $12,156 | $ 60 | $ — | $11,097 | $ 169 | $ — |
| Owner occupied - correspondent | 1,329 | 1,329 | — | 1,088 | — | — | 855 | — | — |
| Nonowner occupied | 1,472 | 1,405 | — | 1,226 | 28 | — | 1,651 | 72 | — |
| Commercial real estate | 12,846 | 10,364 | — | 7,078 | 98 | — | 5,529 | 221 | — |
| Construction & land development | — | — | — | 30 | — | — | 15 | — | — |
| Commercial & industrial | 723 | 615 | — | 614 | 2 | — | 616 | 3 | — |
| Lease financing receivables | — | — | — | — | — | — | — | — | — |
| Home equity | 2,398 | 2,355 | — | 2,127 | 17 | — | 1,603 | 46 | — |
| Consumer | 93 | 93 | — | 59 | 1 | — | 45 | 3 | — |
| **Impaired loans with allocated Allowance:** | | | | | | | | | |
| Residential real estate: | | | | | | | | | |
| Owner occupied | 13,493 | 13,456 | 1,499 | 12,795 | 136 | — | 14,547 | 401 | — |
| Owner occupied - correspondent | — | — | — | — | — | — | — | — | — |
| Nonowner occupied | — | — | — | 216 | — | — | 122 | — | — |
| Commercial real estate | 3,364 | 3,364 | 156 | 3,484 | 38 | — | 3,921 | 116 | — |
| Construction & land development | 58 | 58 | 1 | 29 | 1 | — | 47 | 2 | — |
| Commercial & industrial | 2,694 | 2,694 | 1,532 | 3,773 | 3 | — | 2,108 | 7 | — |
| Lease financing receivables | — | — | — | — | — | — | — | — | — |
| Home equity | 443 | 443 | 231 | 448 | 2 | — | 494 | 6 | — |
| Consumer | 533 | 521 | 437 | 472 | 4 | — | 508 | 13 | — |
| **Total impaired loans** | $52,019 | $48,557 | $ 3,856 | $45,595 | $ 390 | $ — | $43,158 | $ 1,059 | $ — |

| | As of December 31, 2018 | | | Three Months Ended September 30, 2018 | | | Nine Months Ended September 30, 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| (in thousands) | Unpaid Principal Balance | Recorded Investment | Allocated Allowance | Average Recorded Investment | Interest Income Recognized | Cash Basis Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Cash Basis Interest Income Recognized |
| **Impaired loans with no allocated Allowance:** | | | | | | | | | |
| Residential real estate: | | | | | | | | | |
| Owner occupied | $11,676 | $10,703 | $ — | $11,098 | $ 55 | $ — | $10,839 | $ 165 | $ — |
| Owner occupied - correspondent | 382 | 382 | — | 388 | — | — | 290 | — | — |
| Nonowner occupied | 2,729 | 2,350 | — | 2,572 | 22 | — | 2,399 | 65 | — |
| Commercial real estate | 5,688 | 4,607 | — | 5,489 | 31 | — | 4,996 | 88 | — |
| Construction & land development | — | — | — | — | — | — | 267 | — | — |
| Commercial & industrial | 712 | 604 | — | 852 | 7 | — | 609 | 23 | — |
| Lease financing receivables | — | — | — | — | — | — | — | — | — |
| Home equity | 919 | 876 | — | 589 | 2 | — | 708 | 6 | — |
| Consumer | 33 | 33 | — | 55 | 1 | — | 47 | 2 | — |
| **Impaired loans with allocated Allowance:** | | | | | | | | | |
| Residential real estate: | | | | | | | | | |
| Owner occupied | 16,215 | 15,802 | 2,433 | 18,094 | 152 | — | 18,467 | 448 | — |
| Owner occupied - correspondent | — | — | — | — | — | — | — | — | — |
| Nonowner occupied | 78 | 56 | 4 | 83 | 1 | — | 211 | 3 | — |
| Commercial real estate | 4,416 | 4,416 | 303 | 5,368 | 53 | — | 5,922 | 160 | — |
| Construction & land development | 65 | 65 | 4 | 126 | 1 | — | 132 | 2 | — |
| Commercial & industrial | 416 | 416 | 130 | 64 | — | — | 126 | 1 | — |
| Lease financing receivables | — | — | — | — | — | — | — | — | — |
| Home equity | 572 | 571 | 360 | 1,134 | 10 | — | 968 | 29 | — |
| Consumer | 554 | 554 | 530 | 648 | 6 | — | 684 | 18 | — |
| **Total impaired loans** | $44,455 | $41,435 | $ 3,764 | $46,560 | $ 341 | $ — | $46,665 | $ 1,010 | $ — |

[redacted]

## Troubled Debt Restructurings

A TDR is a situation where, due to a borrower's financial difficulties, the Bank grants a concession to the borrower that the Bank would not otherwise have considered. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of their debt in the foreseeable future without the modification. This evaluation is performed in accordance with the Bank's internal underwriting policy.

All TDRs are considered "Impaired," including PCI loans subsequently restructured. The majority of the Bank's commercial related and construction TDRs involve a restructuring of financing terms such as a reduction in the payment amount to require only interest and escrow (if required) and/or extending the maturity date of the debt. The substantial majority of the Bank's residential real estate TDR concessions involve reducing the client's loan payment through a rate reduction for a set period based on the borrower's ability to service the modified loan payment. Retail loans may also be classified as TDRs due to legal modifications, such as bankruptcies.

Nonaccrual loans modified as TDRs typically remain on nonaccrual status and continue to be reported as nonperforming loans for a minimum of six consecutive months. Accruing loans modified as TDRs are evaluated for nonaccrual status based on a current evaluation of the borrower's financial condition and ability and willingness to service the modified debt. At September 30, 2019 and December 31, 2018, $9 million and $8 million of TDRs were on nonaccrual status.

Detail of TDRs differentiated by loan type and accrual status follows:

| | Troubled Debt Restructurings on Nonaccrual Status | | Troubled Debt Restructurings on Accrual Status | | Total Troubled Debt Restructurings | |
|---|---|---|---|---|---|---|
| **September 30, 2019 (dollars in thousands)** | **Number of Loans** | **Recorded Investment** | **Number of Loans** | **Recorded Investment** | **Number of Loans** | **Recorded Investment** |
| Residential real estate | 52 | $ 4,399 | 151 | $ 16,424 | 203 | $ 20,823 |
| Commercial real estate | 3 | 1,684 | 8 | 4,162 | 11 | 5,846 |
| Construction & land development | — | — | 1 | 58 | 1 | 58 |
| Commercial & industrial | 5 | 3,014 | 2 | 17 | 7 | 3,031 |
| Consumer | — | — | 375 | 403 | 375 | 403 |
| **Total troubled debt restructurings** | 60 | $ 9,097 | 537 | $ 21,064 | 597 | $ 30,161 |

| | Troubled Debt Restructurings on Nonaccrual Status | | Troubled Debt Restructurings on Accrual Status | | Total Troubled Debt Restructurings | |
|---|---|---|---|---|---|---|
| **December 31, 2018 (dollars in thousands)** | **Number of Loans** | **Recorded Investment** | **Number of Loans** | **Recorded Investment** | **Number of Loans** | **Recorded Investment** |
| Residential real estate | 60 | $ 6,378 | 156 | $ 17,232 | 216 | $ 23,610 |
| Commercial real estate | 3 | 1,203 | 14 | 6,571 | 17 | 7,774 |
| Construction & land development | — | — | 1 | 65 | 1 | 65 |
| Commercial & industrial | 2 | 571 | 3 | 408 | 5 | 979 |
| Consumer | — | — | 256 | 435 | 256 | 435 |
| **Total troubled debt restructurings** | 65 | $ 8,152 | 430 | $ 24,711 | 495 | $ 32,863 |

The Bank considers a TDR to be performing to its modified terms if the loan is in accrual status and not past due 30-days-or-more as of the reporting date. A summary of the categories of TDR loan modifications outstanding and respective performance under modified terms at September 30, 2019 and December 31, 2018 follows:

| September 30, 2019 (dollars in thousands) | Troubled Debt Restructurings Performing to Modified Terms | | Troubled Debt Restructurings Not Performing to Modified Terms | | Total Troubled Debt Restructurings | |
|---|---|---|---|---|---|---|
| | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |
| **Residential real estate loans (including home equity loans):** | | | | | | |
| Interest only payments | — | $ — | 1 | $ 925 | 1 | $ 925 |
| Rate reduction | 113 | 13,833 | 14 | 941 | 127 | 14,774 |
| Principal deferral | 9 | 860 | 2 | 179 | 11 | 1,039 |
| Legal modification | 47 | 3,150 | 17 | 935 | 64 | 4,085 |
| **Total residential TDRs** | 169 | 17,843 | 34 | 2,980 | 203 | 20,823 |
| **Commercial related and construction/land development loans:** | | | | | | |
| Interest only payments | 2 | 702 | — | — | 2 | 702 |
| Rate reduction | 2 | 1,197 | 2 | 103 | 4 | 1,300 |
| Principal deferral | 9 | 3,631 | 2 | 730 | 11 | 4,361 |
| Legal modification | — | — | 2 | 2,572 | 2 | 2,572 |
| **Total commercial TDRs** | 13 | 5,530 | 6 | 3,405 | 19 | 8,935 |
| **Consumer loans:** | | | | | | |
| Rate reduction | — | — | — | — | — | — |
| Principal deferral | 373 | 390 | — | — | 373 | 390 |
| Legal modification | 1 | 10 | 1 | 3 | 2 | 13 |
| **Total consumer TDRs** | 374 | 400 | 1 | 3 | 375 | 403 |
| **Total troubled debt restructurings** | 556 | $ 23,773 | 41 | $ 6,388 | 597 | $ 30,161 |

| December 31, 2018 (dollars in thousands) | Troubled Debt Restructurings Performing to Modified Terms | | Troubled Debt Restructurings Not Performing to Modified Terms | | Total Troubled Debt Restructurings | |
|---|---|---|---|---|---|---|
| | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |
| **Residential real estate loans (including home equity loans):** | | | | | | |
| Interest only payments | — | $ — | 1 | $ 970 | 1 | $ 970 |
| Rate reduction | 145 | 16,892 | 12 | 978 | 157 | 17,870 |
| Principal deferral | 11 | 1,171 | 4 | 1,871 | 15 | 3,042 |
| Legal modification | 35 | 1,500 | 8 | 228 | 43 | 1,728 |
| **Total residential TDRs** | 191 | 19,563 | 25 | 4,047 | 216 | 23,610 |
| **Commercial related and construction/land development loans:** | | | | | | |
| Interest only payments | 2 | 752 | — | — | 2 | 752 |
| Rate reduction | 8 | 2,962 | — | — | 8 | 2,962 |
| Principal deferral | 12 | 5,076 | — | — | 12 | 5,076 |
| Legal modification | — | — | 1 | 28 | 1 | 28 |
| **Total commercial TDRs** | 22 | 8,790 | 1 | 28 | 23 | 8,818 |
| **Consumer loans:** | | | | | | |
| Rate reduction | 1 | 16 | — | — | 1 | 16 |
| Principal deferral | 255 | 419 | — | — | 255 | 419 |
| Legal modification | — | — | — | — | — | — |
| **Total consumer TDRs** | 256 | 435 | — | — | 256 | 435 |
| **Total troubled debt restructurings** | 469 | $ 28,788 | 26 | $ 4,075 | 495 | $ 32,863 |

As of September 30, 2019 and December 31, 2018, 79% and 88% of the Bank's TDRs were performing according to their modified terms. The Bank had provided $3 million and $3 million of specific reserve allocations to clients whose loan terms have been modified in TDRs as of September 30, 2019 and December 31, 2018. The Bank had no commitments to lend any additional material amounts to its existing TDR relationships at September 30, 2019 or December 31, 2018.

A summary of the categories of TDR loan modifications by respective performance as of September 30, 2019 and 2018 that were modified during the three months ended September 30, 2019 and 2018 follows:

| September 30, 2019 (dollars in thousands) | Troubled Debt Restructurings Performing to Modified Terms | | Troubled Debt Restructurings Not Performing to Modified Terms | | Total Troubled Debt Restructurings | |
|---|---|---|---|---|---|---|
| | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |
| **Residential real estate loans (including home equity loans):** | | | | | | |
| Legal modification | 5 | $ 677 | 4 | $ 315 | 9 | $ 992 |
| **Total residential TDRs** | 5 | 677 | 4 | 315 | 9 | 992 |
| **Consumer loans:** | | | | | | |
| Legal modification | 1 | 10 | 1 | 2 | 2 | 12 |
| **Total consumer TDRs** | 1 | 10 | 1 | 2 | 2 | 12 |
| **Total troubled debt restructurings** | 6 | $ 687 | 5 | $ 317 | 11 | $ 1,004 |

| September 30, 2018 (dollars in thousands) | Troubled Debt Restructurings Performing to Modified Terms | | Troubled Debt Restructurings Not Performing to Modified Terms | | Total Troubled Debt Restructurings | |
|---|---|---|---|---|---|---|
| | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |
| **Residential real estate loans (including home equity loans):** | | | | | | |
| Legal modification | — | $ — | 1 | $ 18 | 1 | $ 18 |
| **Total residential TDRs** | — | — | 1 | 18 | 1 | 18 |
| **Commercial related and construction/land development loans:** | | | | | | |
| Principal deferral | 2 | 433 | — | 1 | 2 | 434 |
| **Total commercial TDRs** | 2 | 433 | — | 1 | 2 | 434 |
| **Consumer loans:** | | | | | | |
| Legal modification | — | — | 2 | 60 | 2 | 60 |
| **Total consumer TDRs** | — | — | 2 | 60 | 2 | 60 |
| **Total troubled debt restructurings** | 2 | $ 433 | 3 | $ 79 | 5 | $ 512 |

*The tables above are inclusive of loans that were TDRs at the end of previous periods and were re-modified, e.g., a maturity date extension during the current period.*

As of September 30, 2019 and 2018, 68% and 85% of the Bank's TDRs that occurred during the third quarters of 2019 and 2018 were performing according to their modified terms. The Bank provided approximately $980,000 and $422,000 in specific reserve allocations to clients whose loan terms were modified in TDRs during the third quarters of 2019 and 2018.

There was no significant change between the pre and post modification loan balances for the three months ending September 30, 2019 and 2018.

A summary of the categories of TDR loan modifications by respective performance as of September 30, 2019 and 2018 that were modified during the nine months ended September 30, 2019 and 2018 follows:

| September 30, 2019 (dollars in thousands) | Troubled Debt Restructurings Performing to Modified Terms | | Troubled Debt Restructurings Not Performing to Modified Terms | | Total Troubled Debt Restructurings | |
|---|---|---|---|---|---|---|
| | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |
| **Residential real estate loans (including home equity loans):** | | | | | | |
| Rate reduction | 1 | $ 371 | — | $ — | 1 | $ 371 |
| Principal deferral | 1 | 4 | — | — | 1 | 4 |
| Legal modification | 24 | 2,055 | 9 | 701 | 33 | 2,756 |
| **Total residential TDRs** | 26 | 2,430 | 9 | 701 | 35 | 3,131 |
| **Commercial related and construction/land development loans:** | | | | | | |
| Interest only payments | 1 | 553 | — | — | 1 | 553 |
| Principal deferral | 2 | 25 | — | — | 2 | 25 |
| Legal modification | — | — | 2 | 2,572 | 2 | 2,572 |
| **Total commercial TDRs** | 3 | 578 | 2 | 2,572 | 5 | 3,150 |
| **Consumer loans:** | | | | | | |
| Legal modification | 1 | 10 | 1 | 2 | 2 | 12 |
| **Total consumer TDRs** | 1 | 10 | 1 | 2 | 2 | 12 |
| **Total troubled debt restructurings** | 30 | $ 3,018 | 12 | $ 3,275 | 42 | $ 6,293 |

[redacted]

| September 30, 2018 (dollars in thousands) | Troubled Debt Restructurings Performing to Modified Terms | | Troubled Debt Restructurings Not Performing to Modified Terms | | Total Troubled Debt Restructurings | |
|---|---|---|---|---|---|---|
| | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |
| **Residential real estate loans (including home equity loans):** | | | | | | |
| Interest only payments | — | $ — | 1 | $ 1,200 | 1 | $ 1,200 |
| Rate reduction | 1 | 386 | 1 | 85 | 2 | 471 |
| Principal deferral | 1 | 15 | 3 | 2,151 | 4 | 2,166 |
| Legal modification | 6 | 90 | 3 | 190 | 9 | 280 |
| **Total residential TDRs** | 8 | 491 | 8 | 3,626 | 16 | 4,117 |
| **Commercial related and construction/land development loans:** | | | | | | |
| Principal deferral | 5 | 1,071 | — | — | 5 | 1,071 |
| Total commercial TDRs | 5 | 1,071 | — | — | 5 | 1,071 |
| **Consumer loans:** | | | | | | |
| Principal deferral | 1 | 54 | — | — | 1 | 54 |
| Legal modification | — | — | 2 | 60 | 2 | 60 |
| **Total consumer TDRs** | 1 | 54 | 2 | 60 | 3 | 114 |
| **Total troubled debt restructurings** | 14 | $ 1,616 | 10 | $ 3,686 | 24 | $ 5,302 |

*The tables above are inclusive of loans that were TDRs at the end of previous periods and were re-modified, e.g., a maturity date extension during the current period.*

As of September 30, 2019 and 2018, 24% and 30% of the Bank's TDRs that occurred during the first nine months of 2019 and 2018 were performing according to their modified terms. The Bank provided approximately $1.5 million and $577,000 in specific reserve allocations to clients whose loan terms were modified in TDRs during the first nine months of 2019 and 2018.

There was no significant change between the pre and post modification loan balances for the nine months ending September 30, 2019 and 2018.

The following table presents loans by class modified as troubled debt restructurings within the previous 12 months of September 30, 2019 and 2018 and for which there was a payment default during the three and/or nine months ended September 30, 2019 and 2018.

| (dollars in thousands) | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2019 | | 2018 | |
| | Loans | Recorded Investment | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |
| Residential real estate: | | | | | | | | |
| Owner occupied | 1 | $ 46 | 6 | $ 3,386 | 4 | $ 249 | 7 | $ 3,552 |
| Commercial real estate | — | — | — | — | 1 | 553 | — | — |
| Commercial & industrial | — | — | — | — | 2 | 2,572 | — | — |
| Home equity | 2 | 143 | 1 | 74 | 3 | 147 | 1 | 74 |
| Consumer | — | — | 2 | 60 | — | — | 2 | 60 |
| **Total** | 3 | $ 189 | 9 | $ 3,520 | 10 | $ 3,521 | 10 | $ 3,686 |

**Foreclosures**

The following table presents the carrying amount of foreclosed properties held as a result of the Bank obtaining physical possession of such properties:

| (in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Residential real estate | $ 119 | $ 160 |
| **Total other real estate owned** | $ 119 | $ 160 |

The following table presents the recorded investment in consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction:

| (in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Recorded investment in consumer residential real estate mortgage loans in the process of foreclosure | $ 1,796 | $ 3,293 |

**Easy Advances**

The Company's TRS segment offered its EA product during the first two months of 2019 and 2018. The Company based its estimated provision for loan losses of EAs on the current year's EA delinquency information and the prior year's tax refund payment patterns subsequent to the first quarter. Each year, all unpaid EAs are charged off by June 30th.

Information regarding EAs follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2019 | 2018 | 2019 | 2018 |
| Easy Advances originated | $ — | $ — | $ 388,970 | $ 430,210 |
| Net charge (credit) to the Provision for Easy Advances | (2,098) | (1,036) | 11,322 | 11,360 |
| Provision to total Easy Advances originated | NA | NA | 2.91 % | 2.64 % |
| Easy Advances net charge-offs (recoveries) | $ (2,098) | $ (1,036) | $ 11,322 | $ 11,360 |
| Easy Advances net charge-offs to total Easy Advances originated | NA | NA | 2.91 % | 2.64 % |

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**5. DEPOSITS**

The composition of the deposit portfolio follows:

| (in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| **Core Bank:** | | |
| Demand | $ 941,661 | $ 937,402 |
| Money market accounts | 785,563 | 717,954 |
| Savings | 173,396 | 187,868 |
| Individual retirement accounts (1) | 53,101 | 53,524 |
| Time deposits, $250 and over (1) | 85,789 | 84,104 |
| Other certificates of deposit (1) | 259,686 | 239,324 |
| Reciprocal money market and time deposits (1) | 234,043 | 217,153 |
| Brokered deposits (1) | 166,355 | 9,394 |
| Total Core Bank interest-bearing deposits | 2,699,594 | 2,446,723 |
| Total Core Bank noninterest-bearing deposits | 985,380 | 971,422 |
| **Total Core Bank deposits** | 3,684,974 | 3,418,145 |
| | | |
| **Republic Processing Group:** | | |
| Money market accounts | 3,605 | 5,453 |
| Total RPG interest-bearing deposits | 3,605 | 5,453 |
| | | |
| Brokered prepaid card deposits | 8,931 | 4,350 |
| Other noninterest-bearing deposits | 37,242 | 28,197 |
| Total RPG noninterest-bearing deposits | 46,173 | 32,547 |
| **Total RPG deposits** | 49,778 | 38,000 |
| | | |
| **Deposits held for assumption in connection with sale of banking centers (2)** | 142,384 | — |
| | | |
| **Total deposits** | $ 3,877,136 | $ 3,456,145 |

(1) *Includes time deposits.*
(2) *See Note 18 "Agreement to Sell Four Banking Centers" in this section of the filing.*

## 6. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND OTHER SHORT-TERM BORROWINGS

Securities sold under agreements to repurchase consist of short-term excess funds from correspondent banks, repurchase agreements and overnight liabilities to deposit clients arising from the Bank's treasury management program. While comparable to deposits in their transactional nature, these overnight liabilities to clients are in the form of repurchase agreements. Repurchase agreements collateralized by securities are treated as financings; accordingly, the securities involved with the agreements are recorded as assets and are held by a safekeeping agent and the obligations to repurchase the securities are reflected as liabilities. Should the fair value of currently pledged securities fall below the associated repurchase agreements, the Bank would be required to pledge additional securities. To mitigate the risk of under collateralization, the Bank typically pledges at least two percent more in securities than the associated repurchase agreements. All such securities are under the Bank's control.

At September 30, 2019 and December 31, 2018, all securities sold under agreements to repurchase had overnight maturities. Additional information regarding securities sold under agreements to repurchase follows:

| (dollars in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Outstanding balance at end of period | $ 167,949 | $ 182,990 |
| Weighted average interest rate at end of period | 0.48 % | 0.83 % |
| | | |
| Fair value of securities pledged: | | |
| U.S. Treasury securities and U.S. Government agencies | $ 85,033 | $ 110,854 |
| Mortgage backed securities - residential | 113,671 | 84,657 |
| Collateralized mortgage obligations | 13,116 | 10,136 |
| **Total securities pledged** | $ 211,820 | $ 205,647 |

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (dollars in thousands) | 2019 | 2018 | 2019 | 2018 |
| Average outstanding balance during the period | $ 246,889 | $ 213,195 | $ 232,949 | $ 216,070 |
| Average interest rate during the period | 0.48 % | 0.59 % | 0.60 % | 0.46 % |
| Maximum outstanding at any month end during the period | $ 219,812 | $ 163,768 | $ 226,002 | $ 215,281 |

**7. RIGHT-OF-USE ASSETS AND OPERATING LEASE LIABILITIES**

The Company adopted ASU 2016-02 Leases (Topic 842), effective January 1, 2019. The adoption of this ASU did not have a meaningful impact on the Company's net income, earnings per share, return on average assets, or return on average equity for the three and nine months ended September 30, 2019.

ASU 2016-02 requires the Company to record on its balance sheet the assets and liabilities that arise from leases. The Company is therefore required to record as operating lease liabilities the present value of its required minimum lease payments plus any amounts probable of being owed under a residual value guarantee. Offsetting these operating lease liabilities, the Company records right-of-use assets for the underlying leased property. Prior to January 1, 2019, operating leases were not recorded on a lessee's balance sheet in this manner.

As permitted by ASU 2018-11, the Company adopted ASU 2016-02 with a cumulative-effect adjustment as of January 1, 2019. Additionally, the Company elected the following list of practical expedients upon adoption of and as permitted by ASU 2016-02:

- Concerning lease classification, the Company elected not to reassess the lease classification for any expired or existing leases accounted for in accordance with ASC Topic 840.
- Concerning lease identification, the Company elected not to reassess whether any expired or existing contracts, not previously classified as a lease, are, or contain, leases.
- Concerning initial direct costs, the Company elected not to reassess initial direct costs for any existing leases.
- The Company elected to use hindsight in determining the lease term, whether or not to purchase the underlying leased asset, and in assessing impairment in right-of-use assets.
- The Company elected that all short-term leases will not be placed on the balance sheet. Short-term leases include leases that have a lease term of 12 months or less at their commencement date and do not include a purchase option that the Company is reasonably certain to exercise.

Upon adoption of ASU 2016-02 on January 1, 2019, the Company was under 50 separate and distinct operating lease contracts to lease the land and/or buildings for 38 of its offices, with 15 such operating leases contracted with a related party of the Company.  As of January 1, 2019, the Company recorded total operating lease liabilities of $42 million and total right-of-use assets of $40 million, primarily reflecting the present value of its expected remaining lease payments plus any residual guarantees under its operating lease contracts. In order to discount these remaining lease payments and guarantees, the Company made assumptions concerning the expected remaining lease term and the discount rate.

The Company's assumption regarding the expected remaining lease term included the fixed noncancelable term, plus all periods for which failure to renew the lease imposed a penalty on the Company, plus all periods for which the Company was reasonably certain to exercise a lease renewal option, plus all periods for which the Company was reasonably certain not to exercise a lease termination option.  In determining whether it was reasonably certain to exercise a lease renewal or termination option, the Company considered its overall strategic plan and all economic and environmental circumstances connected to the leased property. Expected remaining lease terms upon adoption of ASU 2016-02 ranged from 0.75 to 18.51 years, with a weighted average remaining term of 8.60 years.

The Company employed the interest rate curve published by the FHLB of Cincinnati for the FHLB's collateralized term borrowings as of January 1, 2019 to discount its operating lease payments and guarantees, matching expected lease term to borrowing term. Discount rates employed upon adoption of ASU 2016-02 ranged from 2.94% to 3.70%, with a weighted average rate of 3.48%.

As of September 30, 2019, payments on 25 of the Company's operating leases were considered variable because such payments were adjustable based on periodic changes in the Consumer Price Index.

Prior to the release of these financial statements, the Company had executed three lease contracts that had not commenced for three of its banking centers. The estimated operating lease liabilities and offsetting right-of-use assets to be recorded for these leases totaled approximately $1.1 million.

The following table presents information concerning the Company's operating lease expense recorded as a noninterest expense within the category "Occupancy and equipment, net" for the three and nine months ended September 30, 2019:

| (dollars in thousands) | Three Months Ended September 30, 2019 | Nine Months Ended September 30, 2019 |
|---|---|---|
| **Operating lease expense:** | | |
| **Related Party:** | | |
| Variable lease expense | $ 1,164 | $ 3,478 |
| Fixed lease expense | 10 | 28 |
| **Third Party:** | | |
| Variable lease expense | 210 | 644 |
| Fixed lease expense | 392 | 1,137 |
| Short-term lease expense | 14 | 40 |
| **Total operating lease expense** | $ 1,790 | $ 5,327 |
| | | |
| **Other information concerning operating leases:** | | |
| Cash paid for amounts included in the measurement of operating lease liabilities | $ 1,795 | $ 5,372 |
| Short-term lease payments not included in the measurement of lease liabilities | 14 | 40 |

The following table presents the weighted average remaining term and weighted average discount rate for the Company's non-short-term operating leases as of September 30, 2019:

| | September 30, 2019 |
|---|---|
| Weighted average remaining term in years | 8.15 |
| Weighted average discount rate | 3.48 % |

The following table presents a maturity schedule of the Company's operating lease liabilities based on undiscounted cash flows, and a reconciliation of those undiscounted cash flows to the operating lease liabilities recognized on the Company's balance sheet as of September 30, 2019:

| Year (in thousands) | Related Party | Third Party | Total |
|---|---|---|---|
| Remainder of 2019 | $ 1,157 | $ 633 | $ 1,790 |
| 2020 | 4,585 | 2,452 | 7,037 |
| 2021 | 4,171 | 2,233 | 6,404 |
| 2022 | 3,310 | 1,826 | 5,136 |
| 2023 | 3,310 | 1,301 | 4,611 |
| Thereafter | 15,910 | 2,263 | 18,173 |
| **Total undiscounted cash flows** | $ 32,443 | $ 10,708 | $ 43,151 |
| Discount applied to cash flows | (4,784) | (976) | (5,760) |
| **Total discounted cash flows reported as operating lease liabilities** | $ 27,659 | $ 9,732 | $ 37,391 |

**8. FEDERAL HOME LOAN BANK ADVANCES**

FHLB advances were as follows:

| (dollars in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Overnight advances | $ 750,000 | $ 510,000 |
| Variable interest rate advance indexed to 3-Month LIBOR plus 0.14% | 10,000 | 10,000 |
| Fixed interest rate advances | 410,000 | 290,000 |
| **Total FHLB advances** | $ 1,170,000 | $ 810,000 |

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At September 30, 2019 and December 31, 2018, Republic had available borrowing capacity of $16 million and $254 million, respectively, from the FHLB. In addition to its borrowing capacity with the FHLB, Republic also had unsecured lines of credit totaling $125 million and $125 million available through various other financial institutions as of September 30, 2019 and December 31, 2018.

Aggregate future principal payments on FHLB advances based on contractual maturity and the weighted average cost of such advances are detailed below:

| Year (dollars in thousands) | Principal | Weighted Average Rate |
|---|---|---|
| Remainder of 2019 (Overnight) | $ 750,000 | 2.11 % |
| Remainder of 2019 (Term) | 230,000 | 2.11 |
| 2020 | 120,000 | 1.81 |
| 2021 | 30,000 | 1.93 |
| 2022 | 20,000 | 2.12 |
| 2023 | 20,000 | 2.56 |
| Thereafter | — | — |
| **Total** | $ 1,170,000 | 2.08 % |

Due to their nature, the Bank considers average balance information more meaningful than period-end balances for its overnight borrowings from the FHLB. Information regarding overnight FHLB advances follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (dollars in thousands) | 2019 | 2018 | 2019 | 2018 |
| Average outstanding balance during the period | $ 357,685 | $ 229,185 | $ 340,502 | $ 200,421 |
| Average interest rate during the period | 2.34 % | 2.02 % | 2.45 % | 1.84 % |
| Maximum outstanding at any month end during the period | $ 785,000 | $ 395,000 | $ 785,000 | $ 560,000 |

The following table illustrates real estate loans pledged to collateralize advances and letters of credit with the FHLB:

| (in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| First lien, single family residential real estate | $ 1,108,273 | $ 1,129,588 |
| Home equity lines of credit | 278,564 | 311,419 |

## 9. OFF BALANCE SHEET RISKS, COMMITMENTS AND CONTINGENT LIABILITIES

The Company, in the normal course of business, is party to financial instruments with off balance sheet risk. These financial instruments primarily include commitments to extend credit and standby letters of credit. The contract or notional amounts of these instruments reflect the potential future obligations of the Company pursuant to those financial instruments. Creditworthiness for all instruments is evaluated on a case-by-case basis in accordance with the Company's credit policies. Collateral from the client may be required based on the Company's credit evaluation of the client and may include business assets of commercial clients, as well as personal property and real estate of individual clients or guarantors.

The Company also extends binding commitments to clients and prospective clients. Such commitments assure a borrower of financing for a specified period of time at a specified rate. Additionally, the Company makes binding purchase commitments to third-party loan correspondent originators. These commitments assure that the Company will purchase a loan from such correspondent originators at a specific price for a specific period of time. The risk to the Company under such loan commitments is limited by the terms of the contracts. For example, the Company may not be obligated to advance funds if the client's financial condition deteriorates or if the client fails to meet specific covenants.

An approved but unfunded loan commitment represents a potential credit risk and a liquidity risk, since the Company's client(s) may demand immediate cash that would require funding. In addition, unfunded loan commitments represent interest rate risk as market interest rates may rise above the rate committed to the Company's client. Since a portion of these loan commitments normally expire unused, the total amount of outstanding commitments at any point in time may not require future funding.

The following table presents the Company's commitments, exclusive of Mortgage Banking loan commitments, for each period ended:

| (in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Unused warehouse lines of credit | $ 177,912 | $ 591,305 |
| Unused home equity lines of credit | 379,836 | 377,277 |
| Unused loan commitments - other | 805,284 | 720,645 |
| Standby letters of credit | 12,050 | 10,642 |
| FHLB letter of credit | 2,485 | 10,000 |
| **Total commitments** | $ 1,377,567 | $ 1,709,869 |

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a client to a third party. The terms and risk of loss involved in issuing standby letters of credit are similar to those involved in issuing loan commitments and extending credit. In addition to credit risk, the Company also has liquidity risk associated with standby letters of credit because funding for these obligations could be required immediately. The Company does not deem this risk to be material.

## 10. FAIR VALUE

Fair value represents the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

**Level 1:** Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

**Level 2:** Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

**Level 3:** Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Bank used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

**Available-for-sale debt securities:** Except for the Bank's private label mortgage backed security and its TRUP investment, the fair value of available-for-sale debt securities is typically determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The Bank's private label mortgage backed security remains illiquid, and as such, the Bank classifies this security as a Level 3 security in accordance with ASC Topic 820, *Fair Value Measurement*. Based on this determination, the Bank utilized an income valuation model (present value model) approach in determining the fair value of this security.

*See in this section of the filing under Footnote 2 "Investment Securities" for additional discussion regarding the Bank's private label mortgage backed security.*

The Company acquired its TRUP investment in 2015 and considered the most recent bid price for the same instrument to approximate market value at September 30, 2019. The Company's TRUP investment is considered highly illiquid and also valued using Level 3 inputs, as the most recent bid price for this instrument is not always considered generally observable.

**Equity securities with readily determinable fair value:** Quoted market prices in an active market are available for the Bank's CRA mutual fund investment and fall within Level 1 of the fair value hierarchy.

The fair value of the Company's Freddie Mac preferred stock is determined by matrix pricing, as described above (Level 2 inputs).

**Mortgage loans held for sale, at fair value:** The fair value of mortgage loans held for sale is determined using quoted secondary market prices. Mortgage loans held for sale are classified as Level 2 in the fair value hierarchy.

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

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

The fair value for these loans is based on the discounted cash flows of the underlying loans, which are also classified as Level 3 inputs.

[redacted]

**Mortgage Banking derivatives**: Mortgage Banking derivatives used in the ordinary course of business primarily consist of mandatory forward sales contracts ("forward contracts") and interest rate lock loan commitments. The fair value of the Bank's derivative instruments is primarily measured by obtaining pricing from broker-dealers recognized to be market participants. The pricing is derived from market observable inputs that can generally be verified and do not typically involve significant judgment by the Bank. Forward contracts and rate-lock loan commitments are classified as Level 2 in the fair value hierarchy.

**Interest rate swap agreements:** Interest rate swaps are recorded at fair value on a recurring basis. The Company values its interest rate swaps using a third-party valuation service and classifies such valuations as Level 2. Valuations of these interest rate swaps are also received from the relevant dealer counterparty and validated against the Company's calculations. The Company has considered counterparty credit risk in the valuation of its interest rate swap assets and has considered its own credit risk in the valuation of its interest rate swap liabilities.

**Impaired loans:** Collateral-dependent impaired loans generally reflect partial charge-downs to their respective fair value, which is commonly based on recent real estate appraisals or BPOs. These appraisals or BPOs may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the process by the independent experts to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Collateral-dependent loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

**Premises carried at fair value:** Premises and equipment are accounted for at the lower of cost less accumulated depreciation or fair value less estimated costs to sell. The fair value of Bank premises is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches, including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments may be significant and typically result in a Level 3 classification of the inputs for determining fair value.

**Mortgage servicing rights:** On at least a quarterly basis, MSRs are evaluated for impairment based upon the fair value of the MSRs as compared to carrying amount. If the carrying amount of an individual tranche exceeds fair value, impairment is recorded, and the respective individual tranche is carried at fair value. If the carrying amount of an individual tranche does not exceed fair value, impairment is reversed if previously recognized and the carrying value of the individual tranche is based on the amortization method. The valuation model utilizes assumptions that market participants would use in estimating future net servicing income and can generally be validated against available market data (Level 2). There were no MSR tranches carried at fair value at September 30, 2019 and December 31, 2018.

Assets and liabilities measured at fair value on a **recurring basis**, including financial assets and liabilities for which the Bank has elected the fair value option, are summarized below:

| | Fair Value Measurements at September 30, 2019 Using: | | | |
|---|---|---|---|---|
| (in thousands) | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
| **Financial assets:** | | | | |
| **Available-for-sale debt securities:** | | | | |
| U.S. Treasury securities and U.S. Government agencies | $ — | $ 257,302 | $ — | $ 257,302 |
| Private label mortgage backed security | — | — | 3,595 | 3,595 |
| Mortgage backed securities - residential | — | 230,694 | — | 230,694 |
| Collateralized mortgage obligations | — | 66,580 | — | 66,580 |
| Corporate bonds | — | 9,844 | — | 9,844 |
| Trust preferred security | — | — | 4,000 | 4,000 |
| **Total available-for-sale debt securities** | $ — | $ 564,420 | $ 7,595 | $ 572,015 |
| | | | | |
| **Equity securities with readily determinable fair value:** | | | | |
| Freddie Mac preferred stock | $ — | $ 882 | $ — | $ 882 |
| Community Reinvestment Act mutual fund | 2,485 | — | — | 2,485 |
| **Total equity securities with readily determinable fair value** | $ 2,485 | $ 882 | $ — | $ 3,367 |
| | | | | |
| Mortgage loans held for sale | $ — | $ 32,739 | $ — | $ 32,739 |
| Consumer loans held for investment | — | — | 1,187 | 1,187 |
| Rate lock loan commitments | — | 1,193 | — | 1,193 |
| Mandatory forward contracts | — | 211 | — | 211 |
| Interest rate swap agreements | — | 6,483 | — | 6,483 |
| | | | | |
| **Financial liabilities:** | | | | |
| Interest rate swap agreements | $ — | $ 6,620 | $ — | $ 6,620 |

| (in thousands) | Fair Value Measurements at December 31, 2018 Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Available-for-sale debt securities: | | | | |
| U.S. Treasury securities and U.S. Government agencies | $ — | $ 216,873 | $ — | $ 216,873 |
| Private label mortgage backed security | — | — | 3,712 | 3,712 |
| Mortgage backed securities - residential | — | 169,209 | — | 169,209 |
| Collateralized mortgage obligations | — | 72,811 | — | 72,811 |
| Corporate bonds | — | 9,058 | — | 9,058 |
| Trust preferred security | — | — | 4,075 | 4,075 |
| **Total available-for-sale debt securities** | $ — | $ 467,951 | $ 7,787 | $ 475,738 |
| | | | | |
| Equity securities with readily determinable fair value: | | | | |
| Freddie Mac preferred stock | $ — | $ 410 | $ — | $ 410 |
| Community Reinvestment Act mutual fund | 2,396 | — | — | 2,396 |
| **Total equity securities with readily determinable fair value** | $ 2,396 | $ 410 | $ — | $ 2,806 |
| | | | | |
| Mortgage loans held for sale | $ — | $ 8,971 | $ — | $ 8,971 |
| Consumer loans held for investment | — | — | 1,922 | 1,922 |
| Rate lock loan commitments | — | 356 | — | 356 |
| Interest rate swap agreements | — | 1,264 | — | 1,264 |
| | | | | |
| **Financial liabilities:** | | | | |
| Mandatory forward contracts | $ — | $ 262 | $ — | $ 262 |
| Interest rate swap agreements | — | 1,149 | — | 1,149 |

All transfers between levels are generally recognized at the end of each quarter. There were no transfers into or out of Level 1, 2 or 3 assets during the three and nine months ended September 30, 2019 and 2018.

**Private Label Mortgage Backed Security**

The following table presents a reconciliation of the Bank’s private label mortgage backed security measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2019 | 2018 | 2019 | 2018 |
| Balance, beginning of period | $ 3,615 | $ 3,926 | $ 3,712 | $ 4,449 |
| Total gains or losses included in earnings: | | | | |
| Net change in unrealized gain | (24) | (2) | (58) | (19) |
| Recovery of actual losses previously recorded | 38 | 39 | 113 | 114 |
| Principal paydowns | (34) | (114) | (172) | (695) |
| Balance, end of period | $ 3,595 | $ 3,849 | $ 3,595 | $ 3,849 |

The fair value of the Bank’s single private label mortgage backed security is supported by analysis prepared by an independent third party. The third party’s approach to determining fair value involved several steps: 1) detailed collateral analysis of the underlying mortgages, including consideration of geographic location, original loan-to-value and the weighted average FICO score of the borrowers; 2) collateral performance projections for each pool of mortgages underlying the security (probability of default, severity of default, and prepayment probabilities) and 3) discounted cash flow modeling.

The significant unobservable inputs in the fair value measurement of the Bank’s single private label mortgage backed security are prepayment rates, probability of default and loss severity in the event of default. Significant fluctuations in any of those inputs in isolation would result in a significantly different fair value measurement.

[redacted]

Quantitative information about recurring Level 3 fair value measurement inputs for the Bank's single private label mortgage backed security follows:

| September 30, 2019 (dollars in thousands) | Fair Value | Valuation Technique | Unobservable Inputs | Range |
|---|---|---|---|---|
| Private label mortgage backed security | $3,595 | Discounted cash flow | (1) Constant prepayment rate | 3.0% - 4.5% |
| | | | (2) Probability of default | 1.8% - 7.1% |
| | | | (3) Loss severity | 50% - 75% |

| December 31, 2018 (dollars in thousands) | Fair Value | Valuation Technique | Unobservable Inputs | Range |
|---|---|---|---|---|
| Private label mortgage backed security | $3,712 | Discounted cash flow | (1) Constant prepayment rate | 6.5% - 8.9% |
| | | | (2) Probability of default | 1.8% - 4.7% |
| | | | (3) Loss severity | 50% - 75% |

**Trust Preferred Security**

The following table presents a reconciliation of the Company's TRUP measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2019 | 2018 | 2019 | 2018 |
| Balance, beginning of period | $ 4,000 | $ 4,150 | $ 4,075 | $ 3,600 |
| Total gains or losses included in earnings: | | | | |
| Discount accretion | 10 | 10 | 31 | 30 |
| Net change in unrealized gain | (10) | 90 | (106) | 620 |
| Balance, end of period | $ 4,000 | $ 4,250 | $ 4,000 | $ 4,250 |

The fair value of the Company's TRUP investment is based on the most recent bid price for this instrument, as provided by a third-party broker.

**Mortgage Loans Held for Sale**

The Bank has elected the fair value option for mortgage loans held for sale. These loans are intended for sale and the Bank believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loans and in accordance with Bank policy for such instruments. None of these loans were past due 90-days-or-more or on nonaccrual as of September 30, 2019 and December 31, 2018.

The aggregate fair value, contractual balance, and unrealized gain were as follows:

| (in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Aggregate fair value | $ 32,739 | $ 8,971 |
| Contractual balance | 32,243 | 8,676 |
| Unrealized gain | 496 | 295 |

The total amount of gains and losses from changes in fair value included in earnings for the three and nine months ended September 30, 2019 and 2018 for mortgage loans held for sale are presented in the following table:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2019 | 2018 | 2019 | 2018 |
| Interest income | $ 212 | $ 133 | $ 484 | $ 308 |
| Change in fair value | 155 | (110) | 201 | 33 |
| **Total included in earnings** | $ 367 | $ 23 | $ 685 | $ 341 |

**Consumer Loans Held for Investment**

RCS carries loans originated through its installment loan program at fair value. Interest income is recorded based on the contractual terms of the loan and in accordance with Bank policy for such instruments. None of these loans were past due 90-days-or-more or on nonaccrual as of September 30, 2019 and December 31, 2018.

The significant unobservable inputs in the fair value measurement of the Bank's consumer loans were the constant prepayment rate, probability of default, and loss severity for these loans under a discounted-cash-flow model. Significant fluctuations in any of these inputs in isolation would result in a significantly lower/higher fair value measurement.

The following table presents quantitative information about recurring Level 3 fair value measurement inputs for installment loans:

| September 30, 2019 (dollars in thousands) | Fair Value | Valuation Technique | Unobservable Inputs | Rate |
|---|---|---|---|---|
| Consumer loans held for investment | $ 1,187 | Discounted Cash Flows | (1) Constant prepayment rate | 25.0% |
| | | | (2) Probability of default | 21.0% |
| | | | (3) Loss severity | 21.0% |

| December 31, 2018 (dollars in thousands) | Fair Value | Valuation Technique | Unobservable Inputs | Rate |
|---|---|---|---|---|
| Consumer loans held for investment | $ 1,922 | Discounted Cash Flows | (1) Constant prepayment rate | 15.0% |
| | | | (2) Probability of default | 45.0% |
| | | | (3) Loss severity | 20.0% |

The aggregate fair value, contractual balance, and unrealized gain on consumer loans held for investment, at fair value, were as follows:

| (in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Aggregate fair value | $ 1,187 | $ 1,922 |
| Contractual balance | 1,384 | 2,170 |
| Unrealized (loss) gain | (197) | (248) |

The total amount of net gains from changes in fair value included in earnings for consumer loans held for investment, at fair value, are presented in the following table:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2019 | 2018 | 2019 | 2018 |
| Interest income | $ 94 | $ 130 | $ 295 | $ 457 |
| Change in fair value | 14 | 21 | 51 | (406) |
| **Total included in earnings** | $ 108 | $ 151 | $ 346 | $ 51 |

Assets measured at fair value on a **non-recurring basis** are summarized below:

| (in thousands) | Fair Value Measurements at September 30, 2019 Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|---|---|---|
| **Impaired loans:** | | | | |
| Residential real estate: | | | | |
| Owner occupied | $ — | $ — | $ 3,716 | $ 3,716 |
| Nonowner occupied | — | — | 16 | 16 |
| Commercial real estate | — | — | 3,750 | 3,750 |
| Commercial & industrial | — | — | 339 | 339 |
| Home equity | — | — | 470 | 470 |
| **Total impaired loans*** | $ — | $ — | $ 8,291 | $ 8,291 |
| | | | | |
| **Premises** | **$** — | **$** — | **$** 1,471 | $ 1,471 |

| (in thousands) | Fair Value Measurements at December 31, 2018 Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|---|---|---|
| Consumer loans held for sale | $ — | $ — | $ 1,249 | $ 1,249 |
| | | | | |
| **Impaired loans:** | | | | |
| Residential real estate: | | | | |
| Owner occupied | $ — | $ — | $ 4,708 | $ 4,708 |
| Nonowner occupied | — | — | 1,007 | 1,007 |
| Commercial real estate | — | — | 1,255 | 1,255 |
| Commercial & industrial | — | — | 609 | 609 |
| Home equity | — | — | 356 | 356 |
| **Total impaired loans*** | $ — | $ — | $ 7,935 | $ 7,935 |
| | | | | |
| **Premises** | $ — | $ — | $ 1,694 | $ 1,694 |

** The difference between the carrying value and the fair value of impaired loans measured at fair value is reconciled in a subsequent table of this Footnote.*

The following tables present quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a **non-recurring basis**:

| September 30, 2019 (dollars in thousands) | | Fair Value | Valuation Technique | Unobservable Inputs | Range (Weighted Average) |
|---|---|---|---|---|---|
| Impaired loans - residential real estate owner occupied | $ | 3,716 | Sales comparison approach | Adjustments determined for differences between comparable sales | 0% - 62% (12%) |
| Impaired loans - residential real estate nonowner occupied | $ | 16 | Sales comparison approach | Adjustments determined for differences between comparable sales | 5% (5%) |
| Impaired loans - commercial real estate | $ | 3,750 | Sales comparison approach | Adjustments determined for differences between comparable sales | 1% - 10% (4%) |
| Impaired loans - commercial & industrial | $ | 339 | Sales comparison approach | Adjustments determined for differences between comparable sales | 3% - 4% (3%) |
| Impaired loans - home equity | $ | 470 | Sales comparison approach | Adjustments determined for differences between comparable sales | 2% (2%) |
| Premises | $ | 1,471 | Sales comparison approach | Adjustments determined for differences between comparable sales | 36% - 76% (48%) |

| December 31, 2018 (dollars in thousands) | | Fair Value | Valuation Technique | Unobservable Inputs | Range (Weighted Average) |
|---|---|---|---|---|---|
| Consumer loans held for sale | $ | 1,249 | Sales comparison approach | Adjustments determined for differences between comparable sales | 6% (6%) |
| Impaired loans - residential real estate owner occupied | $ | 4,708 | Sales comparison approach | Adjustments determined for differences between comparable sales | 0% - 67% (9%) |
| Impaired loans - residential real estate nonowner occupied | $ | 1,007 | Sales comparison approach | Adjustments determined for differences between comparable sales | 0% - 27% (15%) |
| Impaired loans - commercial real estate | $ | 123 | Sales comparison approach | Adjustments determined for differences between comparable sales | 21% (21%) |
| Impaired loans - commercial real estate | $ | 1,132 | Income approach | Adjustments for differences between net operating income expectations | 17% (17%) |
| Impaired loans - commercial & industrial | $ | 609 | Sales comparison approach | Adjustments determined for differences between comparable sales | 3% (3%) |
| Impaired loans - home equity | $ | 356 | Sales comparison approach | Adjustments determined for differences between comparable sales | 0% - 22% (8%) |
| Premises | $ | 1,694 | Sales comparison approach | Adjustments determined for differences between comparable sales | 27% - 72% (40%) |

### Impaired Loans

Collateral-dependent impaired loans are generally measured for impairment using the fair value for reasonable disposition of the underlying collateral. The Bank's practice is to obtain new or updated appraisals or BPOs on the loans subject to the initial impairment review and then to evaluate the need for an update to this value on an as-necessary or possibly annual basis thereafter (depending on the market conditions impacting the value of the collateral). The Bank may discount the valuation amount as necessary for selling costs and past due real estate taxes. If a new or updated appraisal or BPO is not available at the time of a loan's impairment review, the Bank may apply a discount to the existing value of an old valuation to reflect the property's current estimated value if it is believed to have deteriorated in either: (i) the physical or economic aspects of the subject property or (ii) material changes in market conditions. The impairment review generally results in a partial charge-off of the loan if fair value less selling costs are below the loan's carrying value. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Impaired collateral-dependent loans are as follows:

| (in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Carrying amount of loans measured at fair value | $ 7,293 | $ 7,380 |
| Estimated selling costs considered in carrying amount | 1,013 | 913 |
| Valuation allowance | (15) | (358) |
| **Total fair value** | $ 8,291 | $ 7,935 |

| (in thousands) | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Provisions on collateral-dependent, impaired loans | $ 1,419 | $ 117 | $ 1,442 | $ 901 |

### Premises

The Company's Traditional Banking segment classified three of its former banking centers as held for sale as of September 30, 2019 and December 31, 2018. Impairment charges are recorded when the value of a piece of property is reappraised or reassessed below the property's then-carrying value. Impairment charges related to properties held for sale were as follows:

| (in thousands) | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Impairment charges on premises | $ 66 | $ 126 | $ 198 | $ 356 |

The carrying amounts and estimated exit price fair values of all financial instruments follow:

| | | Fair Value Measurements at September 30, 2019: | | | |
|---|---|---|---|---|---|
| **(in thousands)** | **Carrying Value** | **Level 1** | **Level 2** | **Level 3** | **Total Fair Value** |
| **Assets:** | | | | | |
| Cash and cash equivalents | $ 397,072 | $ 397,072 | $ — | $ — | $ 397,072 |
| Available-for-sale debt securities | 572,015 | — | 564,420 | 7,595 | 572,015 |
| Held-to-maturity debt securities | 63,315 | — | 63,872 | — | 63,872 |
| Equity securities with readily determinable fair values | 3,367 | 2,485 | 882 | — | 3,367 |
| Mortgage loans held for sale, at fair value | 32,739 | — | 32,739 | — | 32,739 |
| Consumer loans held for sale, at the lower of cost or fair value | 18,504 | — | 18,504 | — | 18,504 |
| Loans held for sale in connection with sale of banking centers, at the lower of cost or fair value | 130,770 | — | 130,770 | — | 130,770 |
| Loans, net | 4,617,122 | — | — | 4,695,637 | 4,695,637 |
| Federal Home Loan Bank stock | 32,242 | — | — | — | NA |
| Accrued interest receivable | 13,699 | — | 13,699 | — | 13,699 |
| Rate lock loan commitments | 1,193 | — | 1,193 | — | 1,193 |
| Mandatory forward contracts | 211 | — | 211 | — | 211 |
| Interest rate swap agreements | 6,483 | — | 6,483 | — | 6,483 |
| | | | | | |
| **Liabilities:** | | | | | |
| Noninterest-bearing deposits | $ 1,031,553 | — | $ 1,031,553 | — | $ 1,031,553 |
| Transaction deposits | 2,109,821 | — | 2,109,821 | — | 2,109,821 |
| Time deposits | 593,378 | — | 597,044 | — | 597,044 |
| Deposits held for assumption in connection with sale of banking centers | 142,384 | — | 142,563 | — | 142,563 |
| Securities sold under agreements to repurchase and other short-term borrowings | 167,949 | — | 167,949 | — | 167,949 |
| Federal Home Loan Bank advances | 1,170,000 | — | 1,169,392 | — | 1,169,392 |
| Subordinated note | 41,240 | — | 31,421 | — | 31,421 |
| Accrued interest payable | 2,362 | — | 2,362 | — | 2,362 |
| Interest rate swap agreements | 6,620 | — | 6,620 | — | 6,620 |

| (in thousands) | Carrying Value | Fair Value Measurements at December 31, 2018: Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Cash and cash equivalents | $ 351,474 | $ 351,474 | $ — | $ — | $ 351,474 |
| Available-for-sale debt securities | 475,738 | — | 467,951 | 7,787 | 475,738 |
| Held-to-maturity debt securities | 65,227 | — | 64,858 | — | 64,858 |
| Equity securities with readily determinable fair values | 2,806 | 2,396 | 410 | — | 2,806 |
| Mortgage loans held for sale, at fair value | 8,971 | — | 8,971 | — | 8,971 |
| Consumer loans held for sale, at the lower of cost or fair value | 12,838 | — | 12,838 | — | 12,838 |
| Loans, net | 4,103,552 | — | — | 4,062,457 | 4,062,457 |
| Federal Home Loan Bank stock | 32,067 | — | — | — | NA |
| Accrued interest receivable | 13,942 | — | 13,942 | — | 13,942 |
| Rate lock loan commitments | 356 | — | 356 | — | 356 |
| Interest rate swap agreements | 1,264 | — | 1,264 | — | 1,264 |
| | | | | | |
| **Liabilities:** | | | | | |
| Noninterest-bearing deposits | $ 1,003,969 | — | $ 1,003,969 | — | $ 1,003,969 |
| Transaction deposits | 2,035,701 | — | 2,035,701 | — | 2,035,701 |
| Time deposits | 416,475 | — | 412,477 | — | 412,477 |
| Securities sold under agreements to repurchase and other short-term borrowings | 182,990 | — | 182,990 | — | 182,990 |
| Federal Home Loan Bank advances | 810,000 | — | 804,251 | — | 804,251 |
| Subordinated note | 41,240 | — | 33,724 | — | 33,724 |
| Accrued interest payable | 1,084 | — | 1,084 | — | 1,084 |
| Mandatory forward contracts | 262 | — | 262 | — | 262 |
| Interest rate swap agreements | 1,149 | — | 1,149 | — | 1,149 |

**11. MORTGAGE BANKING ACTIVITIES**

Mortgage Banking activities primarily include residential mortgage originations and servicing.

Activity for mortgage loans held for sale, at fair value, was as follows:

| (in thousands) | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Balance, beginning of period | $ 13,883 | $ 12,653 | $ 8,971 | $ 5,761 |
| Origination of mortgage loans held for sale | 124,375 | 49,152 | 247,071 | 133,273 |
| Proceeds from the sale of mortgage loans held for sale | (108,493) | (55,063) | (229,755) | (134,157) |
| Net gain on sale of mortgage loans held for sale | 2,974 | 1,120 | 6,452 | 2,985 |
| Balance, end of period | $ 32,739 | $ 7,862 | $ 32,739 | $ 7,862 |

The following table presents the components of Mortgage Banking income:

| (in thousands) | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Net gain realized on sale of mortgage loans held for sale | $ 2,170 | $ 1,093 | $ 4,941 | $ 2,791 |
| Net change in fair value recognized on loans held for sale | 155 | (110) | 201 | 33 |
| Net change in fair value recognized on rate lock loan commitments | (29) | (84) | 837 | 38 |
| Net change in fair value recognized on forward contracts | 678 | 224 | 473 | 123 |
| **Net gain recognized** | 2,974 | 1,123 | 6,452 | 2,985 |
| | | | | |
| Loan servicing income | 632 | 598 | 1,842 | 1,803 |
| Amortization of mortgage servicing rights | (542) | (361) | (1,275) | (1,092) |
| **Net servicing income recognized** | 90 | 237 | 567 | 711 |
| **Total Mortgage Banking income** | $ 3,064 | $ 1,360 | $ 7,019 | $ 3,696 |

Activity for capitalized mortgage servicing rights was as follows:

| (in thousands) | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Balance, beginning of period | $ 5,158 | $ 4,915 | $ 4,919 | $ 5,044 |
| Additions | 867 | 372 | 1,839 | 974 |
| Amortized to expense | (542) | (361) | (1,275) | (1,092) |
| Balance, end of period | $ 5,483 | $ 4,926 | $ 5,483 | $ 4,926 |

There was no balance or activity in the valuation allowance for capitalized mortgage servicing rights for the three and nine months ended September 30, 2019 and 2018.

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Other information relating to mortgage servicing rights follows:

| (in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Fair value of mortgage servicing rights portfolio | $ 7,539 | $ 9,357 |
| Monthly weighted average prepayment rate of unpaid principal balance* | 253 % | 160 % |
| Discount rate | 10.00 % | 10.00 % |
| Weighted average foreclosure rate | 0.10 % | 0.14 % |
| Weighted average life in years | 4.90 | 6.32 |

** Rates are applied to individual tranches with similar characteristics.*

Mortgage Banking derivatives used in the ordinary course of business primarily consist of mandatory forward sales contracts and interest rate lock loan commitments. Mandatory forward contracts represent future commitments to deliver loans at a specified price and date and are used to manage interest rate risk on loan commitments and mortgage loans held for sale. Interest rate lock loan commitments represent commitments to fund loans at a specific rate. These derivatives involve underlying items, such as interest rates, and are designed to transfer risk. Substantially all of these instruments expire within 90 days from the date of issuance. Notional amounts are amounts on which calculations and payments are based, but which do not represent credit exposure, as credit exposure is limited to the amounts required to be received or paid.

Mandatory forward contracts also contain an element of risk in that the counterparties may be unable to meet the terms of such agreements. In the event the counterparties fail to deliver commitments or are unable to fulfill their obligations, the Bank could potentially incur significant additional costs by replacing the positions at then current market rates. The Bank manages its risk of exposure by limiting counterparties to those banks and institutions deemed appropriate by management and the Board of Directors. The Bank does not expect any counterparty to default on their obligations and therefore, the Bank does not expect to incur any cost related to counterparty default.

The Bank is exposed to interest rate risk on loans held for sale and rate lock loan commitments. As market interest rates fluctuate, the fair value of mortgage loans held for sale and rate lock commitments will decline or increase. To offset this interest rate risk the Bank enters into derivatives, such as mandatory forward contracts to sell loans. The fair value of these mandatory forward contracts will fluctuate as market interest rates fluctuate, and the change in the value of these instruments is expected to largely, though not entirely, offset the change in fair value of loans held for sale and rate lock commitments. The objective of this activity is to minimize the exposure to losses on rate lock loan commitments and loans held for sale due to market interest rate fluctuations. The net effect of derivatives on earnings will depend on risk management activities and a variety of other factors, including: market interest rate volatility; the amount of rate lock commitments that close; the ability to fill the forward contracts before expiration; and the time period required to close and sell loans.

The following table includes the notional amounts and fair values of mortgage loans held for sale and mortgage banking derivatives as of the period ends presented:

| | September 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| (in thousands) | Notional Amount | Fair Value | Notional Amount | Fair Value |
| **Included in Mortgage loans held for sale:** | | | | |
| Mortgage loans held for sale, at fair value | $ 32,243 | $ 32,739 | $ 8,676 | $ 8,971 |
| **Included in other assets:** | | | | |
| Rate lock loan commitments | $ 61,657 | $ 1,193 | $ 14,788 | $ 356 |
| Mandatory forward contracts | 81,868 | 211 | — | — |
| **Included in other liabilities:** | | | | |
| Mandatory forward contracts | $ — | $ — | $ 20,063 | $ 262 |

## 12. INTEREST RATE SWAPS

Interest rate swap derivatives are reported at fair value in other assets or other liabilities. The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as part of a cash flow hedging relationship. For a derivative designated as a cash flow hedge, the effective portion of the derivative's unrealized gain or loss is recorded as a component of OCI. For derivatives not designated as hedges, the gain or loss is recognized in current period earnings.

*Interest Rate Swaps Used as Cash Flow Hedges*

The Bank entered into two interest rate swap agreements ("swaps") during 2013 as part of its interest rate risk management strategy. The Bank designated the swaps as cash flow hedges intended to reduce the variability in cash flows attributable to either FHLB advances tied to the 3-month LIBOR or the overall changes in cash flows on certain money market deposit accounts tied to 1-month LIBOR. The counterparty for both swaps met the Bank's credit standards and the Bank believes that the credit risk inherent in the swap contracts is not significant.

The swaps were determined to be fully effective during all periods presented; therefore, no amount of ineffectiveness was included in net income. The aggregate fair value of the swaps is recorded in other liabilities with changes in fair value recorded in OCI. The amount included in AOCI would be reclassified to current earnings should the hedge no longer be considered effective. The Bank expects the hedges to remain fully effective during the remaining term of the swaps.

The following table reflects information about swaps designated as cash flow hedges:

| | | | | | September 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|---|---|---|---|
| (dollars in thousands) | Notional Amount | Pay Rate | Receive Rate | Term | Assets / (Liabilities) | Unrealized Gain (Loss) in AOCI | Assets / (Liabilities) | Unrealized Gain (Loss) in AOCI |
| Interest rate swap on money market deposits | $ 10,000 | 2.17 % | 1M LIBOR | 12/2013 - 12/2020 | $ (65) | $ (49) | $ 58 | $ 45 |
| Interest rate swap on FHLB advance | 10,000 | 2.33 % | 3M LIBOR | 12/2013 - 12/2020 | (72) | (53) | 57 | 45 |
| Total | $ 20,000 | | | | $ (137) | $ (102) | $ 115 | $ 90 |

The following table reflects the total interest expense recorded on these swap transactions in the consolidated statements of income:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2019 | 2018 | 2019 | 2018 |
| Interest rate swap on money market deposits | $ (2) | $ (1) | $ (18) | $ 22 |
| Interest rate swap on FHLB advance | — | 2 | (16) | 14 |
| **Total interest (benefit) expense on swap transactions** | $ (2) | $ 1 | $ (34) | $ 36 |

The following table presents the net gains (losses) recorded in OCI and the consolidated statements of income relating to the swaps designated as cash flow hedges:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2019 | 2018 | 2019 | 2018 |
| (Gains) losses recognized in OCI on derivative (effective portion) | $ (3) | $ 54 | $ (218) | $ 330 |
| Gains (losses) reclassified from OCI on derivative (effective portion) | 2 | (1) | 34 | (36) |
| Gains (losses) recognized in income on derivative (ineffective portion) | — | — | — | — |

The estimated net amount of the existing losses reported in AOCI at September 30, 2019 expected to be reclassified into earnings within the next 12 months is considered immaterial.

[redacted]

*Non-hedge Interest Rate Swaps*

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

Interest rate swap contracts involve the risk of dealing with counterparties and their ability to meet contractual terms. When the fair value of a derivative instrument contract is positive, this generally indicates that the counterparty or client owes the Bank, and results in credit risk to the Bank. When the fair value of a derivative instrument contract is negative, the Bank owes the client or counterparty, and therefore, has no credit risk.

A summary of the Bank's interest rate swaps related to clients is included in the following table:

| | | September 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|---|
| **(in thousands)** | **Bank Position** | **Notional Amount** | **Fair Value** | **Notional Amount** | **Fair Value** |
| Interest rate swaps with Bank clients - Assets | Pay variable/receive fixed | $ 91,546 | $ 6,483 | $ 26,398 | $ 1,264 |
| Interest rate swaps with Bank clients - Liabilities | Pay variable/receive fixed | 4,119 | (3) | 54,718 | (908) |
| Interest rate swaps with Bank clients - Total | Pay variable/receive fixed | $ 95,665 | $ 6,480 | $ 81,116 | $ 356 |
| Offsetting interest rate swaps with institutional swap dealer | Pay fixed/receive variable | 95,665 | (6,480) | 81,116 | (356) |
| **Total** | | $ 191,330 | $ — | $ 162,232 | $ — |

The Bank is required to pledge securities as collateral when the Bank is in a net loss position for all swaps with dealer counterparties when such net loss positions exceed $250,000. The fair value of cash or investment securities pledged as collateral by the Bank to cover such net loss positions totaled $6.6 million and $0.0 million at September 30, 2019 and December 31, 2018.

**13. EARNINGS PER SHARE**

The Company calculates earnings per share under the two-class method. Under the two-class method, earnings available to common shareholders for the period are allocated between Class A Common Stock and Class B Common Stock according to dividends declared (or accumulated) and participation rights in undistributed earnings. The difference in earnings per share between the two classes of common stock results from the 10% per share cash dividend premium paid on Class A Common Stock over that paid on Class B Common Stock.

A reconciliation of the combined Class A and Class B Common Stock numerators and denominators of the earnings per share and diluted earnings per share computations is presented below:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in thousands, except per share data)** | **2019** | **2018** | **2019** | **2018** |
| **Net income** | $ 18,408 | $ 17,411 | $ 65,931 | $ 60,546 |
| Dividends declared on Common Stock: | | | | |
| Class A Shares | (4,961) | (4,517) | (14,826) | (13,552) |
| Class B Shares | (530) | (487) | (1,591) | (1,468) |
| Undistributed net income for basic earnings per share | 12,917 | 12,407 | 49,514 | 45,526 |
| Weighted average potential dividends on Class A shares upon exercise of dilutive options | (27) | (38) | (93) | (103) |
| **Undistributed net income for diluted earnings per share** | $ 12,890 | $ 12,369 | $ 49,421 | $ 45,423 |
| **Weighted average shares outstanding:** | | | | |
| Class A Shares | 18,828 | 18,748 | 18,803 | 18,722 |
| Class B Shares | 2,208 | 2,214 | 2,211 | 2,228 |
| Effect of dilutive securities on Class A Shares outstanding | 101 | 158 | 118 | 143 |
| **Weighted average shares outstanding including dilutive securities** | 21,137 | 21,120 | 21,132 | 21,093 |
| **Basic earnings per share:** | | | | |
| **Class A Common Stock:** | | | | |
| Per share dividends distributed | $ 0.26 | $ 0.24 | $ 0.79 | $ 0.73 |
| Undistributed earnings per share* | 0.62 | 0.60 | 2.38 | 2.19 |
| **Total basic earnings per share - Class A Common Stock** | $ 0.88 | $ 0.84 | $ 3.17 | $ 2.92 |
| **Class B Common Stock:** | | | | |
| Per share dividends distributed | $ 0.24 | $ 0.22 | $ 0.72 | $ 0.66 |
| Undistributed earnings per share* | 0.56 | 0.54 | 2.16 | 1.99 |
| **Total basic earnings per share - Class B Common Stock** | $ 0.80 | $ 0.76 | $ 2.88 | $ 2.65 |
| **Diluted earnings per share:** | | | | |
| **Class A Common Stock:** | | | | |
| Per share dividends distributed | $ 0.26 | $ 0.24 | $ 0.79 | $ 0.73 |
| Undistributed earnings per share* | 0.62 | 0.59 | 2.36 | 2.17 |
| **Total diluted earnings per share - Class A Common Stock** | $ 0.88 | $ 0.83 | $ 3.15 | $ 2.90 |
| **Class B Common Stock:** | | | | |
| Per share dividends distributed | $ 0.24 | $ 0.22 | $ 0.72 | $ 0.66 |
| Undistributed earnings per share* | 0.56 | 0.54 | 2.15 | 1.98 |
| **Total diluted earnings per share - Class B Common Stock** | $ 0.80 | $ 0.76 | $ 2.87 | $ 2.64 |

**To arrive at undistributed earnings per share, undistributed net income is first prorated between Class A and Class B Common Shares, with Class A Common Shares receiving a 10% premium. The resulting pro-rated, undistributed net income for each class is then divided by the weighted average shares for each class.*

Stock options excluded from the detailed earnings per share calculation because their impact was antidilutive are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Antidilutive stock options | 158,000 | 161,000 | 160,000 | 161,000 |
| Average antidilutive stock options | 157,000 | 29,000 | 156,000 | 10,000 |

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## 14. OTHER COMPREHENSIVE INCOME

OCI components and related tax effects were as follows:

| (in thousands) | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| **Available-for-Sale Debt Securities:** | | | | |
| Change in unrealized (loss) gain on AFS debt securities | $ 86 | $ (467) | $ 5,759 | $ (3,130) |
| Adjustment for adoption of ASU 2016-01 | — | — | — | (428) |
| Change in unrealized gain on AFS debt security for which a portion of OTTI has been recognized in earnings | (24) | (2) | (58) | (19) |
| Net unrealized (losses) gains | 62 | (469) | 5,701 | (3,577) |
| Tax effect | (172) | 100 | (1,358) | 752 |
| **Net of tax** | (110) | (369) | 4,343 | (2,825) |
| **Cash Flow Hedges:** | | | | |
| Change in fair value of derivatives used for cash flow hedges | (3) | 54 | (218) | 330 |
| Reclassification amount for net derivative losses realized in income | (2) | 1 | (34) | 36 |
| Net unrealized gains | (5) | 55 | (252) | 366 |
| Tax effect | 9 | (12) | 62 | (76) |
| **Net of tax** | 4 | 43 | (190) | 290 |
| **Total other comprehensive (loss) income components, net of tax** | $ (106) | $ (326) | $ 4,153 | $ (2,535) |

The table below presents the significant amounts reclassified out of each component of AOCI:

| (in thousands) | Affected Line Items in the Consolidated Statements of Income | Amounts Reclassified from AOCI: Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|---|
| **Cash Flow Hedges:** | | | | | |
| Interest rate swap on money market deposits | Interest benefit (expense) on deposits | $ 2 | $ 1 | $ 18 | $ (22) |
| Interest rate swap on FHLB advance | Interest benefit (expense) on FHLB advances | — | (2) | 16 | (14) |
| Total derivative losses on cash flow hedges | Total interest benefit (expense) | 2 | (1) | 34 | (36) |
| Tax effect | Income tax (benefit) expense | (1) | — | (9) | 8 |
| Net of tax | Net income | $ 1 | $ (1) | $ 25 | $ (28) |

The following is a summary of the AOCI balances, net of tax:

| (in thousands) | December 31, 2018 | 2019 Change | September 30, 2019 |
|---|---|---|---|
| Unrealized gain (loss) on AFS debt securities | $ (2,165) | $ 4,390 | $ 2,225 |
| Unrealized gain (loss) on AFS debt security for which a portion of OTTI has been recognized in earnings | 1,078 | (45) | 1,033 |
| Unrealized gain (loss) on cash flow hedges | 90 | (192) | (102) |
| **Total unrealized (loss) gain** | $ (997) | $ 4,153 | $ 3,156 |

| (in thousands) | December 31, 2017 | 2018 Change | September 30, 2018 |
|---|---|---|---|
| Unrealized loss on AFS debt securities | $ (604) | $(2,810) | $ (3,414) |
| Unrealized gain (loss) on AFS debt security for which a portion of OTTI has been recognized in earnings | 1,093 | (15) | 1,078 |
| Unrealized gain (loss) on cash flow hedges | (73) | 290 | 217 |
| **Total unrealized gain (loss)** | $ 416 | $(2,535) | $ (2,119) |

## 15. REVENUE FROM CONTRACTS WITH CUSTOMERS

On January 1, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "ASC 606"). While this update modified guidance for recognizing revenue, it did not have a material impact on the timing or presentation of the Company's revenue. The majority of the Company's revenue comes from interest income and other sources, including loans, leases, securities, and derivatives, which are not subject to ASC 606. The Company's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to its client. The Company did elect a practical expedient permitted under this guidance which allows it to expense as-incurred incremental costs of obtaining a contract when the amortization period of those costs would be less than one year.

The following tables present the Company's net revenue by reportable segment:

| | Three Months Ended September 30, 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Core Banking | | | | Republic Processing Group | | | |
| (dollars in thousands) | Traditional Banking | Warehouse Lending | Mortgage Banking | Total Core Banking | Tax Refund Solutions | Republic Credit Solutions | Total RPG | Total Company |
| **Net interest income(1)** | $ 42,879 | $ 4,329 | $ 212 | $47,420 | $ 295 | $ 7,771 | $ 8,066 | $ 55,486 |
| **Noninterest income:** | | | | | | | | |
| Service charges on deposit accounts | 3,738 | 11 | — | 3,749 | — | — | — | 3,749 |
| Net refund transfer fees | — | — | — | — | 317 | — | 317 | 317 |
| Mortgage banking income(1) | — | — | 3,064 | 3,064 | — | — | — | 3,064 |
| Interchange fee income | 3,008 | — | — | 3,008 | 23 | — | 23 | 3,031 |
| Program fees(1) | — | — | — | — | 122 | 1,195 | 1,317 | 1,317 |
| Increase in cash surrender value of BOLI(1) | 394 | — | — | 394 | — | — | — | 394 |
| Net gains (losses) on OREO | 267 | — | — | 267 | — | — | — | 267 |
| Other | 695 | (90) | 66 | 671 | 1 | — | 1 | 672 |
| **Total noninterest income** | 8,102 | (79) | 3,130 | 11,153 | 463 | 1,195 | 1,658 | 12,811 |
| **Total net revenue** | $ 50,981 | $ 4,250 | $ 3,342 | $58,573 | $ 758 | $ 8,966 | $ 9,724 | $ 68,297 |
| **Net-revenue concentration(2)** | 75 % | 6 % | 5 % | 86 % | 1 % | 13 % | 14 % | 100 % |

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| | Three Months Ended September 30, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Core Banking | | | | Republic Processing Group | | | |
| (dollars in thousands) | Traditional Banking | Warehouse Lending | Mortgage Banking | Total Core Banking | Tax Refund Solutions | Republic Credit Solutions | Total RPG | Total Company |