REPUBLIC BANCORP INC /KY/
Form 10-Q
November 09, 2018
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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, 2018

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

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, 2018, was 18,691,894 and 2,212,929.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	September 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$ 365,512	$ 299,351
Available-for-sale debt securities	445,124	524,303
Held-to-maturity debt securities (fair value of $66,667 in 2018 and $65,133 in 2017)	65,925	64,227
Equity securities with readily determinable fair value	2,717	2,928
Mortgage loans held for sale, at fair value	7,862	5,761
Consumer loans held for sale, at fair value	—	2,677
Consumer loans held for sale, at the lower of cost or fair value	21,037	8,551
Loans (includes $2,097 of loans carried at fair value at September 30, 2018)	4,136,195	4,014,034
Allowance for loan and lease losses	(43,824)	(42,769)
Loans, net	4,092,371	3,971,265
Federal Home Loan Bank stock, at cost	32,067	32,067
Premises and equipment, net	43,338	42,588
Premises, held for sale	2,607	3,017
Goodwill	16,300	16,300
Other real estate owned	70	115
Bank owned life insurance	64,491	63,356
Other assets and accrued interest receivable	62,933	48,856
TOTAL ASSETS	$ 5,222,354	$ 5,085,362
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 1,103,461	$ 1,022,042
Interest-bearing	2,463,224	2,411,116
Total deposits	3,566,685	3,433,158
Securities sold under agreements to repurchase and other short-term borrowings	163,768	204,021
Federal Home Loan Bank advances	715,000	737,500

Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	58,851	37,019
Total liabilities	4,545,544	4,452,938
Commitments and contingent liabilities (Footnote 8)	—	—
STOCKHOLDERS' EQUITY		
Preferred stock, no par value	—	—
Class A Common Stock and Class B Common Stock, no par value	4,904	4,902
Additional paid in capital	140,834	139,406
Retained earnings	533,191	487,700
Accumulated other comprehensive (loss) income	(2,119)	416
Total stockholders' equity	676,810	632,424
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 5,222,354	$ 5,085,362

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
INTEREST INCOME:				
Loans, including fees	$ 56,296	$ 50,271	$ 179,867	$ 153,010
Taxable investment securities	2,964	2,364	8,306	6,910
Federal Home Loan Bank stock and other	1,830	1,090	5,106	2,509
Total interest income	61,090	53,725	193,279	162,429
INTEREST EXPENSE:				
Deposits	4,562	2,587	11,856	6,790
Securities sold under agreements to repurchase and other short-term borrowings	317	161	752	332
Federal Home Loan Bank advances	2,782	2,383	7,779	6,618
Subordinated note	396	287	1,110	807
Total interest expense	8,057	5,418	21,497	14,547
NET INTEREST INCOME	53,033	48,307	171,782	147,882
Provision for loan and lease losses	4,077	4,221	26,264	21,633
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	48,956	44,086	145,518	126,249
NONINTEREST INCOME:				
Service charges on deposit accounts	3,579	3,395	10,708	10,032
Net refund transfer fees	149	177	19,974	18,329
Mortgage banking income	1,360	1,102	3,696	3,707
Interchange fee income	2,757	2,475	8,315	7,348
Program fees	1,686	1,597	4,705	3,972
Increase in cash surrender value of bank owned life insurance	385	394	1,135	1,178
Net gains on other real estate owned	248	31	700	422
Other	1,301	1,203	4,073	3,236
Total noninterest income	11,465	10,374	53,306	48,224
NONINTEREST EXPENSE:				
Salaries and employee benefits	22,846	20,505	69,446	61,731
Occupancy and equipment, net	6,153	5,841	18,535	17,594

Communication and transportation	1,047	1,239	3,670	3,450
Marketing and development	1,449	1,677	3,648	4,090
FDIC insurance expense	360	300	1,230	1,050
Bank franchise tax expense	710	749	4,088	3,974
Data processing	2,350	1,795	7,179	5,142
Interchange related expense	1,138	928	3,243	3,057
Supplies	314	241	998	1,029
Other real estate owned expense	2	55	63	284
Legal and professional fees	935	446	2,706	1,794
Impairment of premises held for sale	126	965	356	1,082
Other	3,782	3,285	9,727	8,422
Total noninterest expense	41,212	38,026	124,889	112,699
INCOME BEFORE INCOME TAX EXPENSE	19,209	16,434	73,935	61,774
INCOME TAX EXPENSE	1,798	5,728	13,389	20,980
NET INCOME	$ 17,411	$ 10,706	$ 60,546	$ 40,794
BASIC EARNINGS PER SHARE:				
Class A Common Stock	$ 0.84	$ 0.51	$ 2.92	$ 1.97
Class B Common Stock	0.76	0.47	2.65	1.79
DILUTED EARNINGS PER SHARE:				
Class A Common Stock	$ 0.83	$ 0.51	$ 2.90	$ 1.96
Class B Common Stock	0.76	0.47	2.64	1.78
DIVIDENDS DECLARED PER COMMON SHARE:				
Class A Common Stock	$ 0.242	$ 0.220	$ 0.726	$ 0.649
Class B Common Stock	0.220	0.200	0.660	0.590

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net income	$ 17,411	$ 10,706	$ 60,546	$ 40,794
OTHER COMPREHENSIVE INCOME				
Change in fair value of derivatives used for cash flow hedges	54	9	330	(67)
Reclassification amount for net derivative losses realized in income	1	51	36	175
Change in unrealized (loss) gain on available-for-sale debt securities (2018), debt and equity securities (2017)	(467)	(237)	(3,130)	892
Adjustment for adoption of ASU 2016-01	—	—	(428)	—
Change in unrealized gain on available-for-sale debt security for which a portion of an other-than-temporary impairment has been recognized in earnings	(2)	90	(19)	244
Total other comprehensive (loss) income before income tax	(414)	(87)	(3,211)	1,244
Tax effect	88	30	676	(436)
Total other comprehensive (loss) income, net of tax	(326)	(57)	(2,535)	808
COMPREHENSIVE INCOME	$ 17,085	$ 10,649	$ 58,011	$ 41,602

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017 WITH QUARTERLY SUBTOTALS

(in thousands)	Common Stock 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, 2018	18,607	2,243	$ 4,902	$ 139,406	$ 487,700	$ 416	$ 632,424
Activity for the three months ended March 31, 2018:							
Adjustment for adoption of ASU 2016-01	—	—	—	—	(35)	(338)	(373)
Net income	—	—	—	—	27,469	—	27,469
Net change in accumulated other comprehensive income	—	—	—	—	—	(1,495)	(1,495)
Dividends declared on Common Stock:							
Class A Shares	—	—	—	—	(4,517)	—	(4,517)
Class B Shares	—	—	—	—	(494)	—	(494)
Net change in notes receivable on Class A Common Stock	—	—	—	33	—	—	33
Deferred compensation - Class A Common Stock:							
Directors	2	—	—	55	—	—	55
Stock-based awards - Class A Common Stock:							
Performance stock units	—	—	—	26	—	—	26
Restricted stock	36	—	—	64	—	—	64
Stock options	—	—	—	62	—	—	62

Balance, March 31, 2018	18,645	2,243	4,902	139,646	510,123	(1,417)	653,254
Activity for the three months ended June 30, 2018:							
Net income	—	—	—	—	15,666	—	15,666
Net change in accumulated other comprehensive income	—	—	—	—	—	(376)	(376)
Dividends declared on Common Stock:							
Class A Shares	—	—	—	—	(4,518)	—	(4,518)
Class B Shares	—	—	—	—	(487)	—	(487)
Stock options exercised, net of shares redeemed	2	—	—	48	—	—	48
Conversion of Class B to Class A Common Shares	28	(28)	—	—	—	—	—
Net change in notes receivable on Class A Common Stock	—	—	—	36	—	—	36
Deferred compensation - Class A Common Stock:							
Directors	3	—	1	47	—	—	48
Stock-based awards - Class A Common Stock:							
Performance stock units	—	—	—	27	—	—	27
Restricted stock	(1)	—	—	254	—	—	254
Stock options	—	—	—	56	—	—	56
Balance, June 30, 2018	18,677	2,215	4,903	140,114	520,784	(1,793)	664,008
Activity for the three months ended September 30, 2018:							
Net income	—	—	—	—	17,411	—	17,411
Net change in accumulated other comprehensive income	—	—	—	—	—	(326)	(326)

Dividends declared on Common Stock:							
Class A Shares	—	—	—	—	(4,517)	—	(4,517)
Class B Shares	—	—	—	—	(487)	—	(487)
Stock options exercised, net of shares redeemed	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.

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(in thousands)	Common Stock 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, 2017	18,615	2,245	$ 4,906	$ 138,192	$ 460,621	$ 687	$ 604,406
Activity for the three months ended March 31, 2017:							
Net income	—	—	—	—	20,017	—	20,017
Net change in accumulated other comprehensive income	—	—	—	—	—	554	554
Dividends declared Common Stock:							
Class A Shares	—	—	—	—	(3,891)	—	(3,891)
Class B Shares	—	—	—	—	(427)	—	(427)
Stock options exercised, net of shares redeemed	2	—	—	33	—	—	33
Repurchase of Class A Common Stock	(13)	—	(2)	(107)	(435)	—	(544)
Conversion of Class B Common Stock to Class A Common Stock	2	(2)	—	—	—	—	—
Net change in notes receivable on Class A Common Stock	—	—	—	51	—	—	51
Deferred director compensation expense - Class A Common Stock	5	—	—	55	—	—	55
Stock-based awards - Class A Common Stock:							
Performance stock units	—	—	—	132	—	—	132
Restricted stock	4	—	—	215	—	—	215
Stock options	—	—	—	63	—	—	63

Balance, March 31, 2017	18,615	2,243	$ 4,904	$ 138,634	$ 475,885	$ 1,241	$ 620,664
Activity for the three months ended June 30, 2017:							
Net income	—	—	—	—	10,071	—	10,071
Net change in accumulated other comprehensive income	—	—	—	—	—	311	311
Dividends declared Common Stock:							
Class A Shares	—	—	—	—	(4,095)	—	(4,095)
Class B Shares	—	—	—	—	(449)	—	(449)
Net change in notes receivable on Class A Common Stock	—	—	—	103	—	—	103
Deferred director compensation expense - Class A Common Stock	3	—	—	41	—	—	41
Stock-based awards - Class A Common Stock:							
Performance stock units	—	—	—	105	—	—	105
Restricted stock	—	—	—	77	—	—	77
Stock options	—	—	—	63	—	—	63
Balance, June 30, 2017	18,618	2,243	$ 4,904	$ 139,023	$ 481,412	$ 1,552	$ 626,891
Activity for the three months ended September 30, 2017:							
Net income	—	—	—	—	10,706	—	10,706
Net change in accumulated other comprehensive income	—	—	—	—	—	(57)	(57)
Dividends declared Common Stock:							
Class A Shares	—	—	—	—	(4,096)	—	(4,096)
Class B Shares	—	—	—	—	(448)	—	(448)
Repurchase of Class A Common Stock	—	—	—	(14)	—	—	(14)
Net change in notes receivable on	—	—	—	(19)	—	—	(19)

Class A Common Stock							
Deferred director compensation expense - Class A Common Stock	(3)	—	—	51	—	—	51
Stock-based awards - Class A Common Stock:							
Performance stock units	—	—	—	127	—	—	127
Restricted stock	3	—	—	81	—	—	81
Stock options	—	—	—	65	—	—	65
Balance, September 30, 2017	18,618	2,243	$ 4,904	$ 139,314	$ 487,574	$ 1,495	$ 633,287

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine Months Ended September 30, 2018	2017
OPERATING ACTIVITIES:		
Net income	$ 60,546	$ 40,794
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization (accretion) on investment securities, net	(204)	231
Accretion on loans and amortization of core deposit intangible, net	(2,744)	(3,981)
Unrealized losses on equity securities with readily determinable fair value	211	—
Depreciation of premises and equipment	7,020	6,178
Amortization of mortgage servicing rights	1,092	1,104
Provision for loan and lease losses	26,264	21,633
Net gain on sale of mortgage loans held for sale	(2,985)	(3,221)
Origination of mortgage loans held for sale	(133,273)	(119,265)
Proceeds from sale of mortgage loans held for sale	134,157	130,065
Net gain on sale of consumer loans held for sale	(4,429)	(3,869)
Origination of consumer loans held for sale	(582,871)	(454,844)
Proceeds from sale of consumer loans held for sale	576,646	453,169
Net gain realized on sale of other real estate owned	(700)	(577)
Writedowns of other real estate owned	—	155
Impairment of premises held for sale	356	1,082
Deferred compensation expense - Class A Common Stock	449	147
Stock-based awards expense - Class A Common Stock	730	928
Increase in cash surrender value of bank owned life insurance	(1,135)	(1,178)
Net change in other assets and liabilities:		
Accrued interest receivable	(1,614)	(1,001)
Accrued interest payable	6	(12)
Other assets	2,314	(3,367)
Other liabilities	5,870	3,283
Net cash provided by operating activities	85,706	67,454
INVESTING ACTIVITIES:		
Purchases of available-for-sale debt securities	(159,880)	(91,451)
Purchases of held-to-maturity debt securities	(4,934)	(15,460)
Proceeds from calls, maturities and paydowns of available-for-sale debt securities	236,138	114,930
Proceeds from calls, maturities and paydowns of held-to-maturity debt securities	3,213	3,129
Net change in outstanding warehouse lines of credit	(35,242)	14,279
Purchase of non-business-acquisition loans, including premiums paid	—	(4,811)

Net change in other loans	(108,750)	(166,845)
Purchase of Federal Home Loan Bank stock	—	(3,859)
Proceeds from sales of other real estate owned	1,153	2,202
Net purchases of premises and equipment	(7,716)	(9,236)
Net cash used in investing activities	(76,018)	(157,122)
FINANCING ACTIVITIES:		
Net change in deposits	133,527	189,037
Net change in securities sold under agreements to repurchase and other short-term borrowings	(40,253)	(162)
Payments of Federal Home Loan Bank advances	(417,500)	(460,000)
Proceeds from Federal Home Loan Bank advances	395,000	415,000
Repurchase of Class A Common Stock	—	(558)
Net proceeds from Class A Common Stock purchased through employee stock purchase plan	124	—
Net proceeds from Class A Common Stock options exercised	83	33
Cash dividends paid	(14,508)	(13,129)
Net cash used in financing activities	56,473	130,221
NET CHANGE IN CASH AND CASH EQUIVALENTS	66,161	40,553
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	299,351	289,309
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 365,512	$ 329,862
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 21,491	$ 14,559
Income taxes	10,196	20,570
SUPPLEMENTAL NONCASH DISCLOSURES:		
Transfers from loans to real estate acquired in settlement of loans	$ 408	$ 556
Transfers from loans held for sale to held for investment	2,237	—
Transfers from loans held for investment to held for sale	1,392	—
Unfunded commitments in low-income-housing investments	12,574	—

See accompanying footnotes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – SEPTEMBER 30, 2018 and 2017 AND DECEMBER 31, 2017 (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 (“RB&T” or the “Bank”) and Republic Insurance Services, Inc. (the “Captive”). All significant intercompany balances and transactions are eliminated in consolidation. All companies are collectively referred to as (“Republic” or the “Company”).

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 (“RBCT”) 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. generally accepted accounting principles (“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 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, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. 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, 2017.

As of September 30, 2018, the Company was divided into five reportable segments: Traditional Banking, Warehouse Lending (“Warehouse”), Mortgage Banking, Tax Refund Solutions (“TRS”), and Republic Credit Solutions (“RCS”). Management considers the first three segments to collectively constitute “Core Bank” or “Core Banking” operations, while the last two segments collectively constitute Republic Processing Group (“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.

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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, 2018, Republic had 45 full-service banking centers and one loan production office ("LPO") with locations as follows:

Kentucky — 32

Metropolitan Louisville — 18

Central Kentucky — 9

Elizabethtown — 1

Frankfort — 1

Georgetown — 1

Lexington — 5

Shelbyville — 1

Western Kentucky — 2

Owensboro — 2

Northern Kentucky — 3

Covington — 1

Crestview Hills — 1

Florence — 1

Southern Indiana — 3

Floyds Knobs — 1

Jeffersonville — 1

New Albany — 1

Metropolitan Tampa, Florida — 7

Metropolitan Cincinnati, Ohio — 1

Metropolitan Nashville, Tennessee — 3*

*Includes one LPO

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

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. Federal Home Loan Bank ("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, and increases in the cash surrender value of Bank Owned Life Insurance ("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, Federal Deposit Insurance Corporation ("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.

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

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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 or purchased by the Bank through its Correspondent Lending channel. Individual loans are expected to remain on the warehouse line for an average of 15 to 30 days. Reverse mortgage loans typically remain on the line longer than conventional mortgage loans. Interest income and loan fees are accrued for each individual loan during the time the loan remains on the warehouse line and collected when the loan is sold. The 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 Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac") and the Federal National Mortgage Association ("FNMA" or "Fannie Mae"). The Bank typically retains servicing on loans sold into the secondary market. Administration of loans with servicing retained by the Bank includes collecting principal and interest payments, escrowing funds for property taxes and property insurance, and remitting payments to secondary market investors. 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.

Refund Transfers ("RTs") are fee-based products whereby a tax refund is issued to the taxpayer after the Bank has received the refund from the federal or state government. There is no credit risk or borrowing cost associated with these products because they are only delivered to the taxpayer upon receipt of the 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 Easy Advance ("EA") tax credit product is a loan that allows a taxpayer to receive an advance of a portion of their refund, with the taxpayer's Tax Provider paying all fees to RB&T for the advance. First offered by TRS in 2016, the EA had the following features during its 2018 and 2017 offering periods:

· Offered only during the first two months of each year;
· No EA fee was charged to the taxpayer customer;
· All fees for the EA were paid by the Tax Providers with a restriction prohibiting the Tax Providers from passing along the fees to the taxpayer customer;
· No requirement that the taxpayer customer pays for another bank product, such as an RT;
·

Multiple funds disbursement methods, including direct deposit, prepaid card, check, or Walmart Direct2Cash®, based on the taxpayer-customer's election;

- Repayment of the EA to the Bank was deducted from the taxpayer customer's tax refund proceeds; and
- If an insufficient refund to repay the EA occurred:
  - there was no recourse to the taxpayer customer,
  - no negative credit reporting on the taxpayer customer, and
  - no collection efforts against the taxpayer customer.

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

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

Republic Payment Solutions ("RPS") division — 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 with maturities of 30-days-or-more and are dependent on various factors including the consumer's ability to repay. RCS loans typically earn a higher yield but also have higher credit risk compared to loans originated through the Traditional Banking segment, with a significant portion of RCS clients considered subprime or near-prime borrowers. Additional information regarding consumer loan products offered through RCS follows:

· RCS line-of-credit product – The Bank originates a line-of-credit product to generally subprime borrowers across the United States through one third-party service provider. RCS sells 90% of the balances generated within two business days of loan origination to its third-party service provider and retains the remaining 10% interest. The line-of-credit product represents the substantial majority of RCS activity. Loan balances held for sale are carried at the lower of cost or fair value.

· RCS credit-card product – From the fourth quarter of 2015 through the first quarter of 2018, the Bank continued to pilot a credit-card product to generally subprime borrowers across the United States through one third-party marketer/servicer. For outstanding cards, RCS sold 90% of the balances generated within two business days of each transaction occurrence to its third-party marketer/servicer and retained the remaining 10% interest. During the second quarter of 2018, the Bank and its third-party marketer/servicer discontinued the marketing of the product to potential new clients, as the two parties deliberated the future direction of the program. During the third quarter of 2018, the Bank and its third-party marketer/servicer reached an agreement in concept to sell 100% of the existing portfolio to an unrelated third party. As a result, the Bank reclassified its 10% interest with a book value of $3.5 million into a held-for-sale category and charged the entire RCS credit-card portfolio down to its estimated net realizable value of $1.5 million.

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

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

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

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

Accounting Standards Updates (“ASUs”)

The following ASUs were issued prior to September 30, 2018 and are considered relevant to the Company’s financial statements. Generally, if an issued-but-not-yet-effective ASU with an expected immaterial impact to the Company has been disclosed in prior Company financial statements, it will not be re-disclosed below.

ASU. No.	Topic	Nature of Update	Date Adoption Required	Permitted Adoption Methods	Expected Financial Statement Impact
2016-02	Leases (Topic 842)	Most leases are considered operating leases, which are not accounted for on the lessees’ balance sheets. The significant change under this ASU is that those operating leases will be recorded on the balance sheet.	January 1, 2019	Modified-retrospective approach, which includes a number of optional practical expedients.	During 2018, the Company completed another iteration of a pro forma impact analysis on the Company's financial statements of implementing this standard. Based on this analysis, the Company believes approximately $28 million of leases will be placed on its balance sheet, with this amount increasing both total assets and total liabilities. Additionally, the Company's analysis reflected that this ASU would have minimal impact on the Company's performance metrics, including regulatory capital ratios and return on average assets. From a client perspective, the Company is currently reviewing the impact of this ASU on any debt

					covenants.
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.
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.	The Company is evaluating the adoption of this ASU with its ongoing analysis of adopting ASU 2016-02.
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	January 1, 2019	Adoption should conform to the adoption of ASU 2016-02 above.	The Company is evaluating the adoption of this ASU with its ongoing analysis of adopting ASU 2016-02.

		Company with a practical expedient to not separate non-lease components from the associated lease component under certain circumstances.			
2018-13	Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement	This ASU modifies the disclosure requirements in Topic 820 by removing and adding certain elements.	January 1, 2020	Certain elements should be applied prospectively and others retrospectively.	Immaterial
2018-15	Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)	This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by these	January 1, 2020	Retrospectively or prospectively to all implementation costs incurred after the date of adoption.	Immaterial

amendments.

The following ASUs were adopted by the Company during the nine months ended September 30, 2018:

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ASU. No.	Topic	Nature of Update	Date Adopted	Method of Adoption	Financial Statement Impact
2014-09	Revenue from Contracts with Customers (Topic 606)	Requires that revenue from contracts with clients be recognized upon transfer of control of a good or service in the amount of consideration expected to be received. Changes the accounting for certain contract costs, including whether they may be offset against revenue in the statements of income, and requires additional disclosures about revenue and contract costs.	January 1, 2018	Modified-retrospective approach.	Because most financial instruments are not subject to this ASU, a substantial portion of the Company's revenue was not impacted by this standard. Furthermore, this new standard did not have a material impact on the timing of revenue recognition for any of the Company's revenue for 2018 nor is it expected to going forward. Additionally, the Company took the following actions in association with the adoption of this ASU: 1) amended its accounting policies and procedures to assure proper revenue recognition in conformity with this ASU; and 2) updated its revenue-recognition financial statement disclosures (see footnote 16 in this section of the filing).
2016-01	Financial Instruments – Overall (Topic 825-10)	Among other things: Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the	January 1, 2018	Modified-retrospective approach.	The Company has updated its policies, procedures, and financial statement presentation and disclosures for this ASU. As provided by this ASU, the Company now reports its financial

		investee) to be measured at fair value with changes in fair value recognized in net income. Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost.			instruments at exit price (see footnote 9 in this section of the filing) and recognizes changes in the fair value of applicable equity investments in net income (see footnote 2 in this section of the filing).
2016-15	Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments	This ASU provides cash flow statement classification guidance on eight reportable topics.	January 1, 2018	Retrospective transition.	Immaterial.
2016-18	Statement of Cash Flows	Requires that a statement of cash	January 1, 2018	Retrospective transition.	Immaterial.

	(Topic 230)	flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents.			
2017-09	Compensation - Stock Compensation (Topic 718)	The amendments provide guidance on determining which changes to the terms and conditions of share-based payment awards require the Company to apply modification accounting under Topic 718.	January 1, 2018	Prospectively.	Immaterial.
2018-05	Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting	This ASU updates the Financial Accounting Standards Board ("FASB") Accounting Standards Codification	Upon addition to the ASC	Not Applicable.	For the Company's financial statement disclosures in accordance with SAB 118, see footnote 19 of the Company's Annual Report on Form 10-K for the year ended

Bulletin No. 118 ("SAB 118")	("ASC") for guidance issued by the SEC in SAB 118. Among other things, SAB 118 allows companies a one-year measurement period to complete their accounting for the impact of the 2017 Tax Cuts and Jobs Act.		December 31, 2017 and footnote 14 in this section of the filing.

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2. INVESTMENT SECURITIES

Available-for-Sale Debt Securities

The following tables present the gross amortized cost and fair value of available-for-sale debt securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income ("AOCI"):

September 30, 2018 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 238,418	$ —	$ (2,780)	$ 235,638
Private label mortgage backed security	2,484	1,365	—	3,849
Mortgage backed securities - residential	117,129	970	(2,157)	115,942
Collateralized mortgage obligations	76,528	441	(1,604)	75,365
Corporate bonds	10,000	80	—	10,080
Trust preferred security	3,523	727	—	4,250
Total available-for-sale debt securities	$ 448,082	$ 3,583	$ (6,541)	$ 445,124

December 31, 2017 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 309,042	$ 1	$ (1,451)	$ 307,592
Private label mortgage backed security	3,065	1,384	—	4,449
Mortgage backed securities - residential	105,644	1,603	(873)	106,374
Collateralized mortgage obligations	87,867	371	(1,075)	87,163
Corporate bonds	15,001	124	—	15,125
Trust preferred security	3,493	107	—	3,600
Total available-for-sale debt securities	$ 524,112	$ 3,590	$ (3,399)	$ 524,303

Held-to-Maturity Debt Securities

The following tables present the carrying value, gross unrecognized gains and losses, and fair value of held-to-maturity debt securities:

September 30, 2018 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities - residential	$ 146	$ 9	$ —	$ 155
Collateralized mortgage obligations	20,224	221	(29)	20,416
Corporate bonds	45,092	578	(23)	45,647
Obligations of state and political subdivisions	463	—	(14)	449
Total held-to-maturity debt securities	$ 65,925	$ 808	$ (66)	$ 66,667

December 31, 2017 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities - residential	$ 151	$ 10	$ —	$ 161
Collateralized mortgage obligations	23,437	236	(17)	23,656
Corporate bonds	40,175	686	(3)	40,858
Obligations of state and political subdivisions	464	—	(6)	458
Total held-to-maturity debt securities	$ 64,227	$ 932	$ (26)	$ 65,133

At September 30, 2018 and December 31, 2017, there were no holdings of debt securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of stockholders' equity.

Sales of Available-for-Sale Debt Securities

During the three and nine months ended September 30, 2018 and 2017, there were no gains or losses on sales or calls of available-for-sale debt securities.

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Debt Securities by Contractual Maturity

The amortized cost and fair value of debt securities by contractual maturity at September 30, 2018 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, 2018 (in thousands)	Amortized Cost	Fair Value	Carrying Value	Fair Value
Due in one year or less	$ 45,033	$ 44,825	$ 50	$ 50
Due from one year to five years	203,385	200,893	10,386	10,441
Due from five years to ten years	—	—	35,119	35,605
Due beyond ten years	3,523	4,250	—	—
Private label mortgage backed security	2,484	3,849	—	—
Mortgage backed securities - residential	117,129	115,942	146	155
Collateralized mortgage obligations	76,528	75,365	20,224	20,416
Total debt securities	$ 448,082	$ 445,124	$ 65,925	$ 66,667

Corporate Bonds

The Bank’s floating rate corporate 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 11% and 9% of the Bank’s investment portfolio as of September 30, 2018 and December 31, 2017.

Mortgage Backed Securities and Collateralized Mortgage Obligations

At September 30, 2018, with the exception of the $3.8 million private label mortgage backed security, all other mortgage backed securities and collateralized mortgage obligations (“CMOs”) held by the Bank were issued by U.S. government-sponsored entities and agencies, primarily Freddie Mac and the Fannie Mae. At September 30, 2018 and December 31, 2017, there were gross unrealized losses of $3.8 million and $1.9 million related to available for sale mortgage backed securities and CMOs. Because these unrealized losses are attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to have other-than-temporary impairment (“OTTI”).

Trust Preferred Security

During 2015, the Parent Company purchased a $3 million floating rate trust preferred security ("TRUP") at a price of 68% of par. The coupon on this security is based on the 3-month London Interbank Borrowing Rate ("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.

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Unrealized-Loss Analysis on Debt Securities

Debt securities with unrealized losses at September 30, 2018 and December 31, 2017, 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, 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	$ 129,894	$ (1,414)	$ 105,744	$ (1,366)	$ 235,638	$ (2,780)
Mortgage backed securities - residential	56,862	(953)	33,654	(1,204)	90,516	(2,157)
Collateralized mortgage obligations	17,141	(779)	16,563	(825)	33,704	(1,604)
Total available-for-sale debt securities	$ 203,897	$ (3,146)	$ 155,961	$ (3,395)	$ 359,858	$ (6,541)

	Less than 12 months		12 months or more		Total	
December 31, 2017 (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	$ 209,165	$ (499)	$ 88,415	$ (952)	$ 297,580	$ (1,451)
Mortgage backed securities - residential	61,348	(617)	10,192	(256)	71,540	(873)
Collateralized mortgage obligations	30,963	(642)	18,603	(433)	49,566	(1,075)
	$ 301,476	$ (1,758)	$ 117,210	$ (1,641)	$ 418,686	$ (3,399)

Total available-for-sale debt securities

September 30, 2018 (in thousands)	Less than 12 months Fair Value	Unrealized Losses	12 months or more Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Held-to-maturity debt securities:						
Collateralized mortgage obligations	$ —	$ —	$ 5,765	$ (29)	$ 5,765	$ (29)
Corporate bonds	4,915	(23)	—	—	4,915	(23)
Obligations of state and political subdivisions	105	(1)	345	(13)	450	(14)
Total held-to-maturity debt securities:	$ 5,020	$ (24)	$ 6,110	$ (42)	$ 11,130	$ (66)

December 31, 2017 (in thousands)	Less than 12 months Fair Value	Unrealized Losses	12 months or more Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Held-to-maturity debt securities:						
Collateralized mortgage obligations	$ —	$ —	$ 6,390	$ (17)	$ 6,390	$ (17)
Corporate bonds	4,997	(3)	—	—	4,997	(3)
Obligations of state and political subdivisions	458	(6)	—	—	458	(6)
Total held-to-maturity debt securities:	$ 5,455	$ (9)	$ 6,390	$ (17)	$ 11,845	$ (26)

At September 30, 2018, the Bank’s security portfolio consisted of 186 securities, 68 of which were in an unrealized loss position.

At December 31, 2017, the Bank's security portfolio consisted of 185 securities, 58 of which were in an unrealized loss position.

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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 $3.8 million at September 30, 2018. This security is mostly backed by "Alternative A" first lien mortgage loans, but also has an insurance "wrap" or guarantee as an added layer of protection to the security holder. This asset is illiquid, and as such, the Bank determined it to be a Level 3 security in accordance with Accounting Standards Codification ("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 9 "Fair Value" in this section of the filing.

Pledged Debt Securities

The following table presents 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:

(in thousands)	September 30, 2018	December 31, 2017
Carrying amount	$ 258,670	$ 262,679
Fair value	258,777	262,902

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Equity Securities

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

The following tables present the carrying value, gross unrealized gains and losses, and fair value of equity securities with readily determinable fair values:

September 30, 2018 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Freddie Mac preferred stock	$ —	$ 332	$ —	$ 332
Community Reinvestment Act mutual fund	2,500	—	(115)	2,385
Total equity securities with readily determinable fair values	$ 2,500	$ 332	$ (115)	$ 2,717

December 31, 2017 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Freddie Mac preferred stock	$ —	$ 473	$ —	$ 473
Community Reinvestment Act mutual fund	2,500	—	(45)	2,455
Total equity securities with readily determinable fair values	$ 2,500	$ 473	$ (45)	$ 2,928

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

	Three Months Ended September 30, 2018 Gains (Losses) Recognized on Equity Securities			Nine Months Ended September 30, 2018 Gains (Losses) Recognized on Equity Securities		
(in thousands)	Realized	Unrealized	Total	Realized	Unrealized	Total

Freddie Mac preferred stock	$ —	$ (57)	$ (57)	$ —	$ (141)	$ (141)
Community Reinvestment Act mutual fund	—	(19)	(19)	—	(70)	(70)
Total equity securities with readily determinable fair value	$ —	$ (76)	$ (76)	$ —	$ (211)	$ (211)

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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 10 "Mortgage Banking Activities" of this section of the filing.

Consumer Loans Held for Sale, at Fair Value

From the first quarter of 2016 through the first quarter of 2018, the Bank continued to pilot 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 the its balance sheet. At the initiation of this program in 2016, the Bank elected to carry these loans at fair value under a fair-value option, with the portfolio thereafter marked to market monthly.

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

The following is a rollforward of consumer loans held for sale and carried at fair value:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2018	2017	2018	2017

Balance, beginning of period	$ —	$ 3,235	$ 2,677	$ 2,198
Origination of consumer loans held for sale	—	15,066	16,985	46,847
Loans transferred to held for investment	—	—	(2,237)	—
Proceeds from the sale of consumer loans held for sale	—	(15,115)	(17,039)	(45,988)
Net gain (loss) recognized on consumer loans held for sale	—	182	(386)	311
Balance, end of period	$ —	$ 3,368	$ —	$ 3,368

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

RCS originates balances for both a line-of-credit and a credit-card product. The Bank sells 90% of the balances maintained through these products within two days of transactional activity and retains a 10% interest. The line-of-credit product represents the substantial majority of balances retained as consumer loans held for sale that are carried at the lower of cost or fair value. During the third quarter of 2018, the Bank and its third-party marketer/servicer reached an agreement in concept to sell 100% of the existing credit-card portfolio to an unrelated third party. As a result, the Bank reclassified its 10% interest into a held-for-sale category and charged the entire RCS credit-card portfolio down to its estimated net realizable value. Gains or losses on the sale of RCS products are reported as a component of "Program fees."

The following is a rollforward of consumer loans held for sale and carried at the lower of cost or market value:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2018	2017	2018	2017
Balance, beginning of period	$ 13,684	$ 2,464	$ 8,551	$ 1,310
Origination of consumer loans held for sale	209,462	164,815	565,886	407,997
Loans transferred from held for investment	1,392	—	1,392	—
Proceeds from the sale of consumer loans held for sale	(205,078)	(162,947)	(559,607)	(407,181)
Net gain on sale of consumer loans held for sale	1,577	1,352	4,815	3,558
Balance, end of period	$ 21,037	$ 5,684	$ 21,037	$ 5,684

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4. LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The following table presents ending loan balances at September 30, 2018 and December 31, 2017:

(in thousands)	September 30, 2018	December 31, 2017
Traditional Banking:		
Residential real estate:		
Owner occupied	$ 913,228	$ 921,565
Owner occupied - correspondent*	99,096	116,792
Nonowner occupied	232,306	205,081
Commercial real estate	1,214,804	1,207,293
Construction & land development	174,043	150,065
Commercial & industrial	387,766	341,692
Lease financing receivables	15,229	16,580
Home equity	332,690	347,655
Consumer:		
Credit cards	19,151	16,078
Overdrafts	983	974
Automobile loans	62,179	65,650
Other consumer	38,940	20,501
Total Traditional Banking	3,490,415	3,409,926
Warehouse lines of credit*	560,814	525,572
Total Core Banking	4,051,229	3,935,498
Republic Processing Group*:		
Tax Refund Solutions:		
Easy Advances	—	—
Other TRS loans	292	11,648
Republic Credit Solutions	84,674	66,888
Total Republic Processing Group	84,966	78,536
Total loans**	4,136,195	4,014,034
Allowance for loan and lease losses	(43,824)	(42,769)
Total loans, net	$ 4,092,371	$ 3,971,265

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

**Total loans are presented inclusive of premiums, discounts and net loan origination fees and costs. See table directly below for expanded detail.

The following table reconciles the contractually receivable and carrying amounts of loans at September 30, 2018 and December 31, 2017:

(in thousands)	September 30, 2018	December 31, 2017
Contractually receivable	$ 4,135,623	$ 4,014,673
Unearned income(1)	(1,164)	(1,157)
Unamortized premiums(2)	674	1,069
Unaccreted discounts(3)	(3,469)	(4,643)
Net unamortized deferred origination fees and costs(4)	4,531	4,092
Carrying value of loans	$ 4,136,195	$ 4,014,034

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

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Purchased-Credit-Impaired ("PCI") Loans

The following table reconciles the contractually required and carrying amounts of all PCI loans at September 30, 2018 and December 31, 2017:

(in thousands)	September 30, 2018	December 31, 2017
Contractually required principal	$ 4,653	$ 5,435
Non-accretable amount	(1,593)	(1,691)
Accretable amount	(100)	(140)
Carrying value of loans	$ 2,960	$ 3,604

The following table presents a rollforward of the accretable amount on all PCI loans for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2018	2017	2018	2017
Balance, beginning of period	$ (100)	$ (3,333)	$ (140)	$ (3,600)
Transfers between non-accretable and accretable*	(168)	(44)	(409)	31
Net accretion into interest income on loans, including loan fees	168	1,684	449	1,876
Balance, end of period	$ (100)	$ (1,693)	$ (100)	$ (1,693)

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

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Credit Quality Indicators

The following tables present loans by risk category based on the Bank's internal analyses performed as of September 30, 2018 and December 31, 2017. Risk categories are defined in the Company's Annual Report on Form 10-K for the year ended December 31, 2017:

September 30, 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	$ —	$ 15,067	$ 13,307	$ —	$ 173	$ 1,518	$ 30,065
Owner occupied - correspondent	—	—	386	—	—	—	386
Nonowner occupied	—	582	2,068	—	—	—	2,650
Commercial real estate	1,203,903	5,911	3,851	—	1,139	—	1,214,804
Construction & land development	173,920	—	123	—	—	—	174,043
Commercial & industrial	386,010	1,088	648	—	20	—	387,766
Lease financing receivables	15,229	—	—	—	—	—	15,229
Home equity	—	—	1,482	—	5	103	1,590
Consumer:							
Credit cards	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—
Automobile loans	—	—	156	—	—	—	156
Other consumer	—	—	490	—	—	2	492
Total Traditional Banking	1,779,062	22,648	22,511	—	1,337	1,623	1,827,181
Warehouse lines of credit	560,814	—	—	—	—	—	560,814
Total Core Banking	2,339,876	22,648	22,511	—	1,337	1,623	2,387,995
Republic Processing Group:							
Tax Refund Solutions:							
Easy Advances	—	—	—	—	—	—	—
Other TRS loans	—	—	—	—	—	—	—
Republic Credit Solutions	—	—	298	—	—	—	298
Total Republic Processing Group	—	—	298	—	—	—	298
Total rated loans	$ 2,339,876	$ 22,648	$ 22,809	$ —	$ 1,337	$ 1,623	$ 2,388,293

December 31, 2017 (in thousands)	Pass	Special Mention	Substandard	Doubtful Loss	PCI /Loans - Group 1	PCI Loans - Substandard	Total Rated Loans*
Traditional Banking:							
Residential real estate:							
Owner occupied	$ —	$ 18,054	$ 12,056	$ —	$ 180	$ 1,658	$ 31,948
Owner occupied - correspondent	—	—	—	—	—	—	—
Nonowner occupied	—	635	1,240	—	248	—	2,123
Commercial real estate	1,197,299	4,824	3,798	—	1,372	—	1,207,293
Construction & land development	149,332	—	733	—	—	—	150,065
Commercial & industrial	341,377	267	21	—	27	—	341,692
Lease financing receivables	16,580	—	—	—	—	—	16,580
Home equity	—	33	1,609	—	6	110	1,758
Consumer:							
Credit cards	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—
Automobile loans	—	—	108	—	—	—	108
Other consumer	—	—	571	—	—	3	574
Total Traditional Banking	1,704,588	23,813	20,136	—	1,833	1,771	1,752,141
Warehouse lines of credit	525,572	—	—	—	—	—	525,572
Total Core Banking	2,230,160	23,813	20,136	—	1,833	1,771	2,277,713
Republic Processing Group:							
Tax Refund Solutions:							
Easy Advances	—	—	—	—	—	—	—
Other TRS loans	11,648	—	—	—	—	—	11,648
Republic Credit Solutions	—	—	1,066	—	—	—	1,066
Total Republic Processing Group	11,648	—	1,066	—	—	—	12,714
Total rated loans	$ 2,241,808	$ 23,813	$ 21,202	$ —	$ 1,833	$ 1,771	$ 2,290,427

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

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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,									
	2018					2017				
(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	$ 6,035	$ (136)	$ (46)	$ 18	$ 5,871	$ 6,740	$ (222)	$ (52)	$ 107	$ 6,573
Owner occupied - correspondent	263	(15)	—	—	248	324	(10)	—	—	314
Nonowner occupied	1,552	42	(1)	—	1,593	1,237	100	—	—	1,337
Commercial real estate	9,815	187	—	1	10,003	8,368	325	—	77	8,770
Construction & land development	2,825	(160)	—	3	2,668	2,508	(435)	—	3	2,076
Commercial & industrial	2,318	281	(75)	4	2,528	1,682	388	(152)	12	1,930
Lease financing receivables	160	—	—	—	160	151	11	—	—	162
Home equity	3,658	(81)	(14)	59	3,622	3,787	14	(4)	51	3,848
Consumer:										
Credit cards	805	148	(94)	9	868	588	50	(38)	6	606
Overdrafts	878	372	(332)	65	983	806	311	(276)	51	892
Automobile loans	664	110	(7)	2	769	640	40	(12)	1	669
Other consumer	776	(52)	(102)	70	692	918	111	(155)	67	941
Total Traditional Banking	29,749									