

FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429

FORM 10-Q

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

For the quarterly period ended June 30, 2019

OR

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

For the transition period from to

FIRST REPUBLIC BANK

(Exact name of registrant as specified in its charter)

California

(State or other jurisdiction of
incorporation or organization)

111 Pine Street, 2nd Floor, San Francisco, CA

(Address of principal executive offices)

80-0513856

(I.R.S. Employer
Identification No.)

94111

(Zip Code)

Registrant's telephone number, including area code: **(415) 392-1400**

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 ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

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 ☒

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value	FRC	New York Stock Exchange
Depository Shares, Each Representing a 1/40th Interest in a Share of 5.50% Noncumulative Perpetual Series D Preferred Stock	FRC-PrD	New York Stock Exchange
Depository Shares, Each Representing a 1/40th Interest in a Share of 5.70% Noncumulative Perpetual Series F Preferred Stock	FRC-PrF	New York Stock Exchange
Depository Shares, Each Representing a 1/40th Interest in a Share of 5.50% Noncumulative Perpetual Series G Preferred Stock	FRC-PrG	New York Stock Exchange
Depository Shares, Each Representing a 1/40th Interest in a Share of 5.125% Noncumulative Perpetual Series H Preferred Stock	FRC-PrH	New York Stock Exchange
Depository Shares, Each Representing a 1/40th Interest in a Share of 5.50% Noncumulative Perpetual Series I Preferred Stock	FRC-PrI	New York Stock Exchange

The number of shares outstanding of the Bank's common stock, par value \$0.01 per share, as of July 31, 2019 was 168,221,525.

**FIRST REPUBLIC BANK
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SIGNATURES

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

FIRST REPUBLIC BANK CONSOLIDATED BALANCE SHEETS (Unaudited)

(in thousands, except share amounts)	June 30, 2019	December 31, 2018
<u>ASSETS</u>		
Cash and cash equivalents	\$ 2,220,073	\$ 2,811,159
Debt securities available-for-sale	1,438,061	1,779,116
Debt securities held-to-maturity (fair value of \$15,208,170 and \$14,287,524 at June 30, 2019 and December 31, 2018, respectively)	14,721,568	14,436,973
Equity securities (fair value)	19,529	18,719
Loans	82,237,621	75,865,282
Less: Allowance for loan losses	(473,095)	(439,048)
Loans, net	<u>81,764,526</u>	<u>75,426,234</u>
Loans held for sale	12,502	98,985
Investments in life insurance	1,412,883	1,376,579
Tax credit investments	1,054,192	1,057,541
Prepaid expenses and other assets	2,390,649	1,538,971
Premises, equipment and leasehold improvements, net	348,609	332,483
Goodwill and other intangible assets	267,490	273,974
Mortgage servicing rights	49,554	54,470
Total Assets	<u>\$ 105,699,636</u>	<u>\$ 99,205,204</u>
<u>LIABILITIES AND EQUITY</u>		
Liabilities:		
Deposits:		
Noninterest-bearing checking	\$ 32,023,125	\$ 30,033,658
Interest-bearing checking	16,649,251	17,089,520
Money market checking	10,874,671	10,317,436
Money market savings and passbooks	9,921,688	10,245,107
Certificates of deposit	13,962,348	11,377,515
Total Deposits	<u>83,431,083</u>	<u>79,063,236</u>
Short-term borrowings	—	100,000
Long-term FHLB advances	9,800,000	8,700,000
Senior notes	497,269	896,432
Subordinated notes	777,678	777,475
Other liabilities	1,973,963	990,284
Total Liabilities	<u>96,479,993</u>	<u>90,527,427</u>
Shareholders' Equity:		
Preferred stock, \$0.01 par value per share; 25,000,000 shares authorized; 940,000 shares issued and outstanding at both June 30, 2019 and December 31, 2018	940,000	940,000
Common stock, \$0.01 par value per share; 400,000,000 shares authorized; 168,176,437 and 164,901,950 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	1,682	1,649
Additional paid-in capital	4,186,304	4,024,306
Retained earnings	4,091,636	3,731,205
Accumulated other comprehensive income (loss)	21	(19,383)
Total Shareholders' Equity	<u>9,219,643</u>	<u>8,677,777</u>
Total Liabilities and Shareholders' Equity	<u>\$ 105,699,636</u>	<u>\$ 99,205,204</u>

See accompanying notes to financial statements.

FIRST REPUBLIC BANK
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

(\$ in thousands, except per share amounts)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Interest income:				
Loans	\$ 741,328	\$ 589,912	\$ 1,441,416	\$ 1,131,225
Investments	134,044	133,992	267,809	272,262
Other	4,813	4,850	9,988	9,828
Cash and cash equivalents	5,547	5,685	13,536	9,598
Total interest income	885,732	734,439	1,732,749	1,422,913
Interest expense:				
Deposits	129,188	62,027	236,935	112,414
Borrowings	82,518	60,719	146,750	111,048
Total interest expense	211,706	122,746	383,685	223,462
Net interest income	674,026	611,693	1,349,064	1,199,451
Provision for loan losses	21,200	19,370	35,400	32,370
Net interest income after provision for loan losses	652,826	592,323	1,313,664	1,167,081
Noninterest income:				
Investment management fees	93,720	82,925	178,644	161,042
Brokerage and investment fees	8,287	7,705	15,946	16,563
Insurance fees	3,696	1,121	5,810	2,795
Trust fees	4,227	3,606	8,116	7,095
Foreign exchange fee income	10,345	9,547	18,976	16,944
Deposit fees	6,579	6,280	12,899	12,265
Loan and related fees	4,296	4,134	8,303	7,751
Loan servicing fees, net	3,425	3,186	7,213	6,705
Gain (loss) on sale of loans	(15)	4,045	344	4,734
Gain (loss) on investment securities	(1,063)	(1,027)	(1,212)	8,170
Income from investments in life insurance	10,049	9,612	19,384	19,089
Other income	1,804	1,287	3,245	2,370
Total noninterest income	145,350	132,421	277,668	265,523
Noninterest expense:				
Salaries and employee benefits	297,524	271,935	610,777	548,959
Information systems	70,277	59,530	137,447	118,494
Occupancy	47,587	37,216	91,482	73,388
Professional fees	16,435	15,588	28,116	29,002
Advertising and marketing	16,700	15,120	32,434	27,048
FDIC assessments	9,196	16,064	18,099	31,596
Other expenses	71,135	57,104	135,311	105,651
Total noninterest expense	528,854	472,557	1,053,666	934,138
Income before provision for income taxes	269,322	252,187	537,666	498,466
Provision for income taxes	46,758	42,406	88,511	89,602
Net income	222,564	209,781	449,155	408,864
Dividends on preferred stock	12,788	12,163	25,575	24,385
Net income available to common shareholders	\$ 209,776	\$ 197,618	\$ 423,580	\$ 384,479
Net income	\$ 222,564	\$ 209,781	\$ 449,155	\$ 408,864
Other comprehensive income (loss), net of tax:				
Net unrealized gain on securities transferred from held-to-maturity to available-for-sale	—	—	—	12,305
Net unrealized gain (loss) on securities available-for-sale	12,798	(4,084)	18,371	(6,081)
Reclassification of (gain) loss on securities available-for-sale to net income	847	907	1,419	(18,264)
Amortization of unrealized gain on securities transferred from available-for-sale to held-to-maturity	(167)	(220)	(386)	(639)
Other comprehensive income (loss)	13,478	(3,397)	19,404	(12,679)
Comprehensive income	\$ 236,042	\$ 206,384	\$ 468,559	\$ 396,185
Basic earnings per common share	\$ 1.25	\$ 1.22	\$ 2.53	\$ 2.37
Diluted earnings per common share	\$ 1.24	\$ 1.20	\$ 2.50	\$ 2.33

See accompanying notes to financial statements.

FIRST REPUBLIC BANK
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(in thousands, except share amounts)	Common Stock Shares	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
At or for the Quarters Ended June 30, 2019 and 2018							
Balance at March 31, 2019	167,393,235	\$ 940,000	\$ 1,674	\$ 4,203,473	\$ 3,914,294	\$ (13,457)	\$ 9,045,984
Net income	—	—	—	—	222,564	—	222,564
Other comprehensive income	—	—	—	—	—	13,478	13,478
Stock compensation expense	—	—	—	25,042	—	—	25,042
Net issuance of common stock under stock plans	783,202	—	8	(42,211)	—	—	(42,203)
Dividends on preferred stock (see Note 11)	—	—	—	—	(12,788)	—	(12,788)
Dividends on common stock (\$0.19/share)	—	—	—	—	(32,434)	—	(32,434)
Balance at June 30, 2019	168,176,437	\$ 940,000	\$ 1,682	\$ 4,186,304	\$ 4,091,636	\$ 21	\$ 9,219,643
Balance at March 31, 2018	161,862,752	\$ 840,000	\$ 1,619	\$ 3,797,419	\$ 3,211,804	\$ (14,304)	\$ 7,836,538
Net income	—	—	—	—	209,781	—	209,781
Other comprehensive loss	—	—	—	—	—	(3,397)	(3,397)
Issuance of preferred stock, net	—	300,000	—	(9,789)	—	—	290,211
Stock compensation expense	—	—	—	20,389	—	—	20,389
Net issuance of common stock under stock plans	775,457	—	7	(35,696)	—	—	(35,689)
Dividends on preferred stock (see Note 11)	—	—	—	—	(12,163)	—	(12,163)
Dividends on common stock (\$0.18/share)	—	—	—	—	(29,697)	—	(29,697)
Balance at June 30, 2018	162,638,209	\$ 1,140,000	\$ 1,626	\$ 3,772,323	\$ 3,379,725	\$ (17,701)	\$ 8,275,973
At or for the Six Months Ended June 30, 2019 and 2018							
Balance at December 31, 2018	164,901,950	\$ 940,000	\$ 1,649	\$ 4,024,306	\$ 3,731,205	\$ (19,383)	\$ 8,677,777
Net income	—	—	—	—	449,155	—	449,155
Other comprehensive income	—	—	—	—	—	19,404	19,404
Issuance of common stock, net	2,000,000	—	20	170,565	—	—	170,585
Stock compensation expense	—	—	—	51,354	—	—	51,354
Net issuance of common stock under stock plans	1,274,487	—	13	(59,921)	—	—	(59,908)
Dividends on preferred stock (see Note 11)	—	—	—	—	(25,575)	—	(25,575)
Dividends on common stock (\$0.37/share)	—	—	—	—	(63,149)	—	(63,149)
Balance at June 30, 2019	168,176,437	\$ 940,000	\$ 1,682	\$ 4,186,304	\$ 4,091,636	\$ 21	\$ 9,219,643
Balance at December 31, 2017	161,695,803	\$ 990,000	\$ 1,617	\$ 3,778,913	\$ 3,051,611	\$ (3,840)	\$ 7,818,301
Cumulative adjustments from adoption of new accounting guidance	—	—	—	—	1,334	(1,182)	152
Balance at January 1, 2018	161,695,803	990,000	1,617	3,778,913	3,052,945	(5,022)	7,818,453
Net income	—	—	—	—	408,864	—	408,864
Other comprehensive loss	—	—	—	—	—	(12,679)	(12,679)
Issuance of preferred stock, net	—	300,000	—	(9,789)	—	—	290,211
Redemption of preferred stock	—	(150,000)	—	—	—	—	(150,000)
Stock compensation expense	—	—	—	41,050	—	—	41,050
Net issuance of common stock under stock plans	942,406	—	9	(37,851)	—	—	(37,842)
Dividends on preferred stock (see Note 11)	—	—	—	—	(24,385)	—	(24,385)
Dividends on common stock (\$0.35/share)	—	—	—	—	(57,699)	—	(57,699)
Balance at June 30, 2018	162,638,209	\$ 1,140,000	\$ 1,626	\$ 3,772,323	\$ 3,379,725	\$ (17,701)	\$ 8,275,973

See accompanying notes to financial statements.

FIRST REPUBLIC BANK
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(\$ in thousands)	Six Months Ended June 30,	
	2019	2018
Operating Activities:		
Net income	\$ 449,155	\$ 408,864
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	35,400	32,370
Depreciation, amortization and accretion, net	54,926	45,511
Amortization of mortgage servicing rights	6,728	8,579
Deferred income taxes	6,174	(44,372)
Gain on sale of loans	(344)	(4,734)
(Gain) loss on investment securities	1,212	(8,170)
Noncash cost of stock plans	51,354	41,050
Loans originated or purchased for sale	(258,077)	(143,980)
Proceeds from sales and principal repayments of loans held for sale	57,957	166,181
Decrease in other assets	(22,472)	(102,668)
Increase (decrease) in other liabilities	246,273	(52,649)
Net Cash Provided by Operating Activities	628,286	345,982
Investing Activities:		
Loan originations, net of principal collections	(6,429,629)	(7,006,969)
Loans purchased	(3,424)	(180,560)
Loans sold	151,256	748,119
Proceeds from sales of securities available-for-sale	193,629	2,333,380
Proceeds from paydowns of securities available-for-sale	369,395	150,157
Purchases of securities held-to-maturity	(795,631)	(477,812)
Proceeds from calls and paydowns of securities held-to-maturity	511,867	254,870
Purchases of FHLB stock and other investments	(178,436)	(107,615)
Proceeds from redemptions of FHLB stock	147,386	73,237
Purchases of investments in life insurance	(18,147)	—
Net change in tax credit and other investments	(89,182)	(96,395)
Additions to premises, equipment and leasehold improvements, net	(70,282)	(62,802)
Net Cash Used for Investing Activities	(6,211,198)	(4,372,390)
Financing Activities:		
Net increase in deposits	4,369,835	3,852,536
Net increase (decrease) in short-term borrowings	(100,000)	500,000
Proceeds from long-term debt	2,600,000	2,600,000
Repayment of long-term debt	(1,900,000)	(1,250,000)
Net proceeds from issuance of preferred stock	—	290,211
Redemption of preferred stock	—	(150,000)
Net proceeds from issuance of common stock	170,585	—
Proceeds from issuance of common stock under employee stock purchase plan	8,944	5,825
Proceeds from stock options exercised	76	6
Payments of employee taxes withheld from share-based awards	(68,890)	(43,881)
Dividends on preferred stock	(25,575)	(24,385)
Dividends on common stock	(63,149)	(57,699)
Net Cash Provided by Financing Activities	4,991,826	5,722,613
Increase (Decrease) in Cash and Cash Equivalents	(591,086)	1,696,205
Cash and Cash Equivalents at the Beginning of Period	2,811,159	2,297,021
Cash and Cash Equivalents at the End of Period	\$ 2,220,073	\$ 3,993,226
Supplemental Disclosure of Cash Flow Items:		
Cash paid:		
Interest	\$ 355,075	\$ 211,894
Income taxes	\$ 99,835	\$ 63,925
Non-cash activities:		
Transfer of loans to held for sale	\$ 61,801	\$ 729,104
Transfer of loans to securities available-for-sale	\$ 189,710	\$ 161,105
Transfer of securities from held-to-maturity to available-for-sale	\$ —	\$ 2,096,497

See accompanying notes to financial statements.

FIRST REPUBLIC BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of Presentation and Organization

First Republic Bank (“First Republic” or the “Bank”) is a California-chartered commercial bank and trust company headquartered in San Francisco with deposits insured by the Federal Deposit Insurance Corporation (“FDIC”). First Republic has operated for 34 years and the current legal entity has been operating since July 1, 2010. Our consolidated financial statements include the accounts of First Republic and its wholly-owned subsidiaries: First Republic Investment Management, Inc. (“FRIM”), First Republic Securities Company, LLC (“FRSC”), First Republic Trust Company of Delaware LLC (“FRTC Delaware”), First Republic Lending Corporation (“FRLC”) and Gradifi, Inc. (“Gradifi”). All significant intercompany balances and transactions have been eliminated.

The accompanying consolidated financial statements are unaudited, but in the opinion of management, reflect all adjustments necessary for a fair presentation of the Bank’s financial position and results of operations. All such adjustments were of a normal and recurring nature. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to the Quarterly Report on Form 10-Q adopted by the FDIC. These consolidated financial statements are intended to be read in conjunction with the Bank’s consolidated financial statements, and notes thereto, for the year ended December 31, 2018, included in the Bank’s Annual Report on Form 10-K filed with the FDIC (the “2018 Form 10-K”). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Nature of Operations

First Republic and its subsidiaries offer private banking, private business banking and private wealth management, including investment, trust and brokerage services. First Republic specializes in delivering exceptional, relationship-based service and offers a complete line of products, including residential, commercial and personal loans, deposit services, and wealth management. Services are offered through preferred banking or wealth management offices primarily in San Francisco, Palo Alto, Los Angeles, Santa Barbara, Newport Beach and San Diego, California; Portland, Oregon; Boston, Massachusetts; Palm Beach, Florida; Greenwich, Connecticut; New York, New York; and Jackson, Wyoming.

First Republic originates real estate secured loans and other loans. Real estate secured loans are secured by single family residences, multifamily buildings and commercial real estate properties and include loans to construct such properties. Most of the real estate loans that First Republic originates are secured by properties located close to one of its offices in the San Francisco Bay Area, the Los Angeles area, San Diego, Boston or the New York City area. First Republic originates business loans, loans secured by securities and other types of collateral and personal unsecured loans primarily to meet the non-mortgage needs of First Republic’s clients. Most of these loans are also made to borrowers in the geographic areas served by the Bank’s offices.

First Republic offers its clients various wealth management services. First Republic provides investment management services through FRIM, which earns fee income from the management of equity securities, fixed income securities, balanced portfolios and alternative investments for its clients. First Republic Trust Company, a division of First Republic, and FRTC Delaware, provide trust and custody services. FRSC is a registered broker-dealer that performs brokerage and investment activities for clients. The Bank offers insurance solutions through FRSC and FRIM. The Bank also offers money market mutual funds to clients through third-party providers and conducts foreign exchange activities on behalf of clients.

Gradifi is a corporate provider of education-related benefit plans. Through Gradifi, employers can make direct contributions to education debt repayment or savings plans for their employees and provide employees with the ability to refinance their existing student loans with options from multiple lenders.

FIRST REPUBLIC BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Actual results could differ from these estimates. Material estimates subject to change include those related to allowance for loan losses, goodwill, identifiable intangible assets, fair value measurements, and income taxes.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

Accounting Standards Adopted in 2019

During the six months ended June 30, 2019, the Bank adopted the following Accounting Standards Updates (“ASUs”) issued by the Financial Accounting Standards Board (“FASB”):

ASU 2016-02—Leases (Accounting Standards Codification (“ASC”) 842) and subsequent related ASUs

The Bank adopted this guidance effective January 1, 2019. This guidance was adopted using a modified retrospective approach. The Bank elected to record a cumulative effect adjustment without adjusting prior period comparative financial statements. In addition, the Bank elected the package of transition practical expedients, which among other things, allowed the Bank to carry forward the classification of its leases.

Under ASC 842, lessees are required to recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset representing the right to use the underlying asset for the lease term on the balance sheet. The liability is recognized at the present value of lease payments discounted using the rate implicit in the lease or the incremental borrowing rate. The asset is measured at the amount of the liability adjusted for any direct incremental costs, prepaid lease payments and lease incentives received. The Bank recorded lease assets and liabilities of \$578.5 million and \$619.2 million, respectively, on its consolidated balance sheet effective January 1, 2019. There was no impact to the Bank’s consolidated statement of cash flows upon adoption, since the net impact of all adjustments recorded upon transition, which totaled \$535.6 million, represented non-cash activity. In addition, there was no cumulative effect adjustment recorded to retained earnings upon adoption.

For operating leases, ASC 842 did not significantly change the recognition or measurement of lease expense on the income statement, which is recognized on a straight-line basis over the lease term. Variable lease payments not included in the straight-line lease expense are expensed as incurred.

ASC 842 also requires disclosure of both quantitative and qualitative information about the Bank’s leases. See Note 6, “Leases,” for these disclosures.

FIRST REPUBLIC BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Recent Accounting Standards

The following ASUs have been issued by the FASB, but were not yet effective as of June 30, 2019:

ASU 2016-13—Financial Instruments—Credit Losses (ASC 326): Measurement of Credit Losses on Financial Instruments

ASC 326, which was issued in June 2016, revises the methodology for estimating credit losses on loans receivable, held-to-maturity debt securities, and unfunded loan commitments. Under ASC 326, the current expected credit losses (“CECL”) model is based on lifetime expected losses, rather than incurred losses, and requires the recognition of credit loss expense in the statement of income and a related allowance for credit losses on the balance sheet at the time of origination or purchase of a loan receivable or held-to-maturity debt security. Subsequent changes in this estimate are recorded through credit loss expense and related allowance. The CECL model requires the use of not only relevant historical experience and current conditions, but also reasonable and supportable forecasts of future events and circumstances, thus incorporating a broad range of information in developing credit loss estimates, which could result in significant changes to both the timing and amount of credit loss expense and allowance.

Under ASC 326, available-for-sale debt securities are evaluated for impairment if fair value is less than amortized cost. Estimated credit losses are recorded if the present value of expected future cash flows is less than amortized cost, and are recorded through a credit loss expense and an allowance, rather than a write-down of the investment. Changes in fair value that are not credit-related will continue to be recorded in other comprehensive income. Certain additional disclosures are required.

The Bank will adopt this guidance effective January 1, 2020 using a modified retrospective approach. The Bank is in the process of implementing and validating the credit loss models under the new guidance and performing parallel run processes. These models reflect lifetime expected credit losses, which incorporate the Bank’s historical losses, economic forecasts over the reasonable and supportable period, and various qualitative factors. The Bank is currently evaluating the impact of this guidance on its consolidated financial statements, which will depend on factors such as loan and investment portfolio characteristics, historical losses, and current economic outlook at the time of adoption. Throughout the remainder of the year, the Bank will continue to make refinements to its models and assumptions, and address other key implementation matters such as accounting policy decisions, aggregation of data for new required disclosures, and development and implementation of internal controls framework.

ASU 2017-04—Intangibles—Goodwill and Other (ASC 350): Simplifying the Test for Goodwill Impairment

The amendments, which were issued in January 2017, simplify the accounting for goodwill impairment by removing Step 2 of the impairment test, which compared the implied fair value of goodwill to its carrying amount. Measuring the implied fair value of goodwill followed the same process as determining the fair value of individual assets and liabilities assumed in a business combination, which was complex. The amended guidance simplifies the impairment test to only require a comparison of the fair value of a reporting unit with its carrying amount, including the effect of tax deductible goodwill on the carrying amount of the reporting unit. Entities still have the option to perform a qualitative assessment to determine if the quantitative impairment test is needed.

The amendments are effective for interim and annual periods beginning after December 15, 2019 and are applied on a prospective basis. Early adoption is permitted. The Bank does not expect this guidance to have a material impact on its consolidated financial statements.

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ASU 2018-13—Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement

The amendments, which were issued in August 2018, revise certain disclosure requirements for fair value measurements. The amendments remove the requirement to disclose the amounts and reasons for transfers between Levels 1 and 2 of the fair value hierarchy, the Bank's policy for the timing of transfers between levels, and the valuation processes for Level 3 fair value measurements. In addition, the amendments require disclosures of the changes in unrealized gains and losses included in other comprehensive income for recurring Level 3 fair value measurements and the range and weighted average of significant unobservable inputs to develop Level 3 fair value measurements.

The amendments are effective for interim and annual periods beginning after December 15, 2019. Additional disclosure requirements are applied prospectively, while the amendments to remove disclosures are applied retrospectively to all periods presented. Early adoption is permitted. The Bank does not expect the revised disclosure requirements to have a material impact on its consolidated financial statements.

ASU 2018-15—Intangibles—Goodwill and Other—Internal-Use Software (ASC 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract

The amendments, which were issued in August 2018, require certain implementation costs for cloud computing arrangements that are service contracts to be capitalized under the internal-use software guidance. Capitalized costs should generally be amortized over the term of the arrangement on a straight-line basis. The amortization term includes fixed non-cancellable periods plus renewal periods the customer is reasonably certain to exercise, termination periods the customer is reasonably certain not to exercise, and periods covered by an option to extend that is controlled by the vendor.

The amendments are effective for interim and annual periods beginning after December 15, 2019 and are applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Early adoption is permitted. The Bank is currently assessing the impact to its financial statements.

When an arrangement includes multiple elements (e.g., hosting service, software license, professional service), the amendments require the purchase price be allocated based on the relative standalone price of each element. This requirement will also be applicable to internal-use software.

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Note 2. Investment Securities

The following tables present information related to available-for-sale debt securities, held-to-maturity debt securities, and equity securities measured at fair value:

(\$ in thousands)	June 30, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities available-for-sale:				
Agency residential mortgage-backed securities ("MBS")	\$ 24,216	\$ 218	\$ (256)	\$ 24,178
Other residential MBS	4,446	89	(2)	4,533
Agency commercial MBS	1,364,571	1,799	(4,468)	1,361,902
Securities of U.S. states and political subdivisions—taxable	47,277	171	—	47,448
Total	<u>\$ 1,440,510</u>	<u>\$ 2,277</u>	<u>\$ (4,726)</u>	<u>\$ 1,438,061</u>
Debt securities held-to-maturity:				
U.S. Government-sponsored agency securities	\$ 936,438	\$ 413	\$ (1,367)	\$ 935,484
Agency residential MBS	1,782,206	3,832	(16,009)	1,770,029
Agency commercial MBS	3,416,070	27,054	(20,527)	3,422,597
Securities of U.S. states and political subdivisions:				
Tax-exempt municipal securities	8,369,215	479,768	(2,108)	8,846,875
Tax-exempt nonprofit debentures	140,982	3,736	(119)	144,599
Taxable municipal securities	76,657	11,929	—	88,586
Total	<u>\$ 14,721,568</u>	<u>\$ 526,732</u>	<u>\$ (40,130)</u>	<u>\$ 15,208,170</u>

(\$ in thousands)	June 30, 2019
Equity securities (fair value):	
Mutual funds and marketable equity securities	<u>\$ 19,529</u>

(\$ in thousands)	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities available-for-sale:				
Agency residential MBS	\$ 26,608	\$ 65	\$ (578)	\$ 26,095
Other residential MBS	4,581	—	(29)	4,552
Agency commercial MBS	1,731,293	847	(31,119)	1,701,021
Securities of U.S. states and political subdivisions—taxable	47,275	173	—	47,448
Total	<u>\$ 1,809,757</u>	<u>\$ 1,085</u>	<u>\$ (31,726)</u>	<u>\$ 1,779,116</u>
Debt securities held-to-maturity:				
U.S. Government-sponsored agency securities	\$ 1,044,912	\$ —	\$ (33,588)	\$ 1,011,324
Agency residential MBS	1,868,587	—	(69,487)	1,799,100
Agency commercial MBS	3,375,409	2,040	(136,597)	3,240,852
Securities of U.S. states and political subdivisions:				
Tax-exempt municipal securities	7,952,605	208,263	(125,725)	8,035,143
Tax-exempt nonprofit debentures	142,508	228	(2,910)	139,826
Taxable municipal securities	52,952	8,327	—	61,279
Total	<u>\$ 14,436,973</u>	<u>\$ 218,858</u>	<u>\$ (368,307)</u>	<u>\$ 14,287,524</u>

(\$ in thousands)	December 31, 2018
Equity securities (fair value):	
Mutual funds and marketable equity securities	<u>\$ 18,719</u>

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The Bank pledges investment securities at the Federal Reserve Bank to maintain the ability to borrow at the discount window, or at a correspondent bank as collateral to secure trust funds and public deposits. At June 30, 2019, the carrying value of investment securities pledged was \$2.8 billion, of which \$2.5 billion was unencumbered and available to support additional borrowings.

The following tables present gross unrealized losses and fair value of available-for-sale and held-to-maturity debt securities by length of time that individual securities in each category had been in a continuous loss position:

	June 30, 2019						
	Less than 12 months		12 months or more		Total		
(\$ in thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Number of Securities
Debt securities available-for-sale:							
Agency residential MBS	\$ —	\$ —	\$ (256)	\$ 10,512	\$ (256)	\$ 10,512	16
Other residential MBS	—	—	(2)	505	(2)	505	2
Agency commercial MBS	(1,546)	533,353	(2,922)	493,999	(4,468)	1,027,352	25
Total	<u>\$ (1,546)</u>	<u>\$ 533,353</u>	<u>\$ (3,180)</u>	<u>\$ 505,016</u>	<u>\$ (4,726)</u>	<u>\$ 1,038,369</u>	<u>43</u>
Debt securities held-to-maturity:							
U.S. Government-sponsored agency securities	\$ —	\$ —	\$ (1,367)	\$ 153,633	\$ (1,367)	\$ 153,633	6
Agency residential MBS	—	—	(16,009)	1,252,594	(16,009)	1,252,594	30
Agency commercial MBS	—	—	(20,527)	1,795,714	(20,527)	1,795,714	46
Securities of U.S. states and political subdivisions:							
Tax-exempt municipal securities	(312)	54,780	(1,796)	172,286	(2,108)	227,066	23
Tax-exempt nonprofit debentures	—	—	(119)	20,531	(119)	20,531	1
Total	<u>\$ (312)</u>	<u>\$ 54,780</u>	<u>\$ (39,818)</u>	<u>\$ 3,394,758</u>	<u>\$ (40,130)</u>	<u>\$ 3,449,538</u>	<u>106</u>
	December 31, 2018						
	Less than 12 months		12 months or more		Total		
(\$ in thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Number of Securities
Debt securities available-for-sale:							
Agency residential MBS	\$ (8)	\$ 1,266	\$ (570)	\$ 16,941	\$ (578)	\$ 18,207	23
Other residential MBS	(17)	4,021	(12)	531	(29)	4,552	3
Agency commercial MBS	(3,789)	784,939	(27,330)	689,386	(31,119)	1,474,325	35
Total	<u>\$ (3,814)</u>	<u>\$ 790,226</u>	<u>\$ (27,912)</u>	<u>\$ 706,858</u>	<u>\$ (31,726)</u>	<u>\$ 1,497,084</u>	<u>61</u>
Debt securities held-to-maturity:							
U.S. Government-sponsored agency securities	\$ (592)	\$ 57,908	\$ (32,996)	\$ 953,416	\$ (33,588)	\$ 1,011,324	39
Agency residential MBS	—	—	(69,487)	1,799,100	(69,487)	1,799,100	49
Agency commercial MBS	(5,084)	233,573	(131,513)	2,716,170	(136,597)	2,949,743	82
Securities of U.S. states and political subdivisions:							
Tax-exempt municipal securities	(9,429)	644,391	(116,296)	2,206,671	(125,725)	2,851,062	309
Tax-exempt nonprofit debentures	(1,167)	57,918	(1,743)	19,240	(2,910)	77,158	4
Total	<u>\$ (16,272)</u>	<u>\$ 993,790</u>	<u>\$ (352,035)</u>	<u>\$ 7,694,597</u>	<u>\$ (368,307)</u>	<u>\$ 8,688,387</u>	<u>483</u>

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The Bank conducts a regular assessment of its investment securities portfolio to determine whether securities are other-than-temporarily impaired considering, among other factors, the nature of the securities, credit ratings or financial condition of the issuer, the extent and duration of the unrealized loss, expected cash flows, market conditions and the Bank's ability to hold the securities through the anticipated recovery period.

The Bank does not intend to sell the available-for-sale or held-to-maturity debt securities included in the tables above and has concluded that it is more likely than not that it will not be required to sell any of the investments prior to recovery of the amortized cost basis.

U.S. Government-Sponsored Agency Securities. At June 30, 2019, the unrealized losses on the Bank's investments in U.S. Government-sponsored agency securities are primarily due to increases in market interest rates since the securities were purchased and are not due to credit losses, given the explicit or implicit guarantees provided by agencies of the U.S. Government. The Bank expects to continue to receive all contractual principal and interest payments. Therefore, the Bank does not consider these investments to be other-than-temporarily impaired.

Agency Residential MBS and Agency Commercial MBS. At June 30, 2019, the unrealized losses on the Bank's investments in agency residential MBS and agency commercial MBS are primarily due to increases in market interest rates since the securities were purchased and are not due to credit losses, given the explicit or implicit guarantees provided by the U.S. Government or agencies of the U.S. Government. The Bank expects to continue to receive all contractual principal and interest payments. Therefore, the Bank does not consider these investments to be other-than-temporarily impaired.

Tax-Exempt Municipal Securities. At June 30, 2019, the unrealized losses on the Bank's investments in tax-exempt municipal securities are primarily due to increases in market interest rates since the securities were purchased and are not due to the credit quality of the securities. The Bank monitors these securities regularly to determine if any changes in ratings have occurred and conducts its internal credit analysis to determine if the issuer has experienced any change in financial condition that may result in a potential loss of the contractual principal and interest payments. The Bank expects to continue to receive all contractual principal and interest payments.

There were no other-than-temporary impairment charges on securities during the quarters and six months ended June 30, 2019 and 2018.

During the six months ended June 30, 2018, the Bank performed a repositioning of its investment portfolio and sold certain available-for-sale U.S. Treasury securities, U.S. Government-sponsored agency securities, agency residential MBS, agency commercial MBS, and tax-exempt municipal securities with proceeds of \$2.2 billion, and recognized a gain on sale of \$10.7 million.

The following table presents proceeds received from sales of investment securities:

(\$ in thousands)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Debt securities available-for-sale:				
Sales proceeds.....	\$ 117,218	\$ 77,176	\$ 193,629	\$ 2,333,380

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The following table presents gains and losses on investment securities:

(\$ in thousands)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Debt securities available-for-sale:				
Gross realized gains on sales	\$ —	\$ —	\$ —	\$ 72,574
Gross realized losses on sales	(1,206)	(1,290)	(2,022)	(64,084)
Equity securities (fair value):				
Net change in fair value	143	263	810	(320)
Total gain (loss) on investment securities	<u>\$ (1,063)</u>	<u>\$ (1,027)</u>	<u>\$ (1,212)</u>	<u>\$ 8,170</u>

The following table presents interest income on investment securities:

(\$ in thousands)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Interest income on tax-exempt securities	\$ 77,004	\$ 73,973	\$ 151,860	\$ 152,154
Interest income on taxable securities	57,040	60,019	115,949	120,108
Total	<u>\$ 134,044</u>	<u>\$ 133,992</u>	<u>\$ 267,809</u>	<u>\$ 272,262</u>

The following table presents contractual maturities of debt securities available-for-sale and held-to-maturity. Actual maturities for certain U.S. Government agency securities, U.S. Government-sponsored agency securities and municipal securities may occur earlier than their stated contractual maturities because the note issuers may have the right to call outstanding amounts ahead of their contractual maturities. In addition, the remaining contractual principal maturities for MBS do not consider prepayments. Expected remaining maturities for MBS can differ from contractual maturities because borrowers have the right to prepay their mortgage obligations, with or without penalties, prior to contractual maturity.

(\$ in thousands)	June 30, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale:				
Due in one year or less	\$ 99	\$ 98	\$ 12	\$ 12
Due after one year through five years	278,091	277,893	352,542	352,845
Due after five years through ten years	383,154	381,967	659,459	655,810
Due after ten years	779,166	778,103	797,744	770,449
Total	<u>\$ 1,440,510</u>	<u>\$ 1,438,061</u>	<u>\$ 1,809,757</u>	<u>\$ 1,779,116</u>
Held-to-maturity:				
Due in one year or less	\$ 287,107	\$ 290,833	\$ 386,762	\$ 390,440
Due after one year through five years	377,972	411,633	499,827	536,214
Due after five years through ten years	835,183	850,644	736,569	729,623
Due after ten years	13,221,306	13,655,060	12,813,815	12,631,247
Total	<u>\$ 14,721,568</u>	<u>\$ 15,208,170</u>	<u>\$ 14,436,973</u>	<u>\$ 14,287,524</u>

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Note 3. Loans and Allowance for Loan Losses

Loan Profile

The following table presents the recorded investment in the Bank's loan portfolio and allowance for loan losses:

(\$ in thousands)	June 30, 2019	December 31, 2018
Single family (1-4 units)	\$ 41,758,981	\$ 37,955,252
Home equity lines of credit	2,587,554	2,542,713
Multifamily (5+ units)	11,216,640	10,357,839
Commercial real estate	7,251,509	6,677,440
Single family construction	702,928	645,924
Multifamily/commercial construction	1,470,699	1,576,582
Total real estate mortgages	<u>64,988,311</u>	<u>59,755,750</u>
Business	11,686,510	10,998,503
Stock secured	1,514,855	1,432,911
Other secured	1,235,588	1,105,751
Unsecured	<u>2,812,357</u>	<u>2,572,367</u>
Total other loans	<u>17,249,310</u>	<u>16,109,532</u>
Total loans	<u>82,237,621</u>	<u>75,865,282</u>
Less:		
Allowance for loan losses	(473,095)	(439,048)
Loans, net	<u>\$ 81,764,526</u>	<u>\$ 75,426,234</u>
Loans held for sale	<u>\$ 12,502</u>	<u>\$ 98,985</u>

Real estate loans are secured by single family, multifamily and commercial real estate properties and generally mature over periods of up to thirty years. At both June 30, 2019 and December 31, 2018, approximately 50% of the total loan portfolio was secured by California real estate. At June 30, 2019, approximately 67% of single family mortgages fully and evenly amortize until maturity following an initial interest-only period of generally ten years, compared to 68% at December 31, 2018.

As of June 30, 2019, the Bank had pledged \$39.2 billion of loans to secure borrowings of \$9.8 billion from the Federal Home Loan Bank (the "FHLB"), although only approximately \$11.2 billion of collateral was required in connection with the outstanding FHLB advances.

Credit Quality

The Bank has two classes of loans: (1) non-impaired loans, which include both purchased and originated non-impaired loans and (2) impaired loans, which include both purchased and originated non-impaired loans that subsequently became impaired under ASC 310-10-35, "Receivables—Subsequent Measurement," and purchased credit-impaired loans subject to ASC 310-30, "Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality."

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A loan is considered past due if the required principal and interest payment has not been received as of the day after such payment was due. The tables below present an aging analysis of loans and loans on nonaccrual status by class. Of the loans on nonaccrual status, at June 30, 2019, \$120.2 million were current, compared to \$21.1 million at December 31, 2018. The increase in nonaccrual loans at June 30, 2019 was from one lending relationship totaling \$92.7 million, consisting of single family, home equity lines of credit and non-owner occupied single family construction loans.

(\$ in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days or More Past Due and Accruing	Nonaccrual
At June 30, 2019								
Single Family (1-4 units):								
Non-impaired	\$ 13,498	\$ 7,597	\$ 1,274	\$ 22,369	\$41,674,040	\$41,696,409	\$ —	\$ 4,565
Impaired	3,635	—	10,997	14,632	47,940	62,572	—	51,712
	17,133	7,597	12,271	37,001	41,721,980	41,758,981	—	56,277
Home Equity Lines of Credit:								
Non-impaired	524	2,510	1,010	4,044	2,570,215	2,574,259	—	1,205
Impaired	2,848	—	1,522	4,370	8,925	13,295	—	12,130
	3,372	2,510	2,532	8,414	2,579,140	2,587,554	—	13,335
Multifamily (5+ units):								
Non-impaired	—	—	—	—	11,206,297	11,206,297	—	—
Impaired	—	—	—	—	10,343	10,343	—	—
	—	—	—	—	11,216,640	11,216,640	—	—
Commercial Real Estate:								
Non-impaired	—	—	—	—	7,245,048	7,245,048	—	—
Impaired	—	—	—	—	6,461	6,461	—	—
	—	—	—	—	7,251,509	7,251,509	—	—
Single Family Construction:								
Non-impaired	—	—	—	—	702,928	702,928	—	—
Multifamily/Commercial Construction:								
Non-impaired	—	—	—	—	1,399,759	1,399,759	—	—
Impaired	—	—	—	—	70,940	70,940	—	70,940
	—	—	—	—	1,470,699	1,470,699	—	70,940
Business:								
Non-impaired	528	48	—	576	11,677,839	11,678,415	—	324
Impaired	—	—	1,498	1,498	6,597	8,095	—	2,889
	528	48	1,498	2,074	11,684,436	11,686,510	—	3,213
Stock Secured:								
Non-impaired	—	—	—	—	1,514,855	1,514,855	—	—
Other Secured:								
Non-impaired	—	—	—	—	1,235,588	1,235,588	—	—
Unsecured:								
Non-impaired	500	233	—	733	2,811,622	2,812,355	—	1,228
Impaired	—	—	—	—	2	2	—	—
	500	233	—	733	2,811,624	2,812,357	—	1,228
Total	<u>\$ 21,533</u>	<u>\$ 10,388</u>	<u>\$ 16,301</u>	<u>\$ 48,222</u>	<u>\$82,189,399</u>	<u>\$82,237,621</u>	<u>\$ —</u>	<u>\$ 144,993</u>

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(\$ in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days or More Past Due and Accruing	Nonaccrual
At December 31, 2018								
Single Family (1-4 units):								
Non-impaired	\$ 5,905	\$ 1,370	\$ 3,479	\$ 10,754	\$ 37,915,612	\$ 37,926,366	\$ —	\$ 4,982
Impaired	—	288	8,927	9,215	19,671	28,886	—	18,848
	5,905	1,658	12,406	19,969	37,935,283	37,955,252	—	23,830
Home Equity Lines of Credit:								
Non-impaired	2,130	—	607	2,737	2,527,547	2,530,284	—	1,518
Impaired	2,892	1,512	2,843	7,247	5,182	12,429	—	8,008
	5,022	1,512	3,450	9,984	2,532,729	2,542,713	—	9,526
Multifamily (5+ units):								
Non-impaired	—	—	—	—	10,345,471	10,345,471	—	—
Impaired	—	—	—	—	12,368	12,368	—	2,056
	—	—	—	—	10,357,839	10,357,839	—	2,056
Commercial Real Estate:								
Non-impaired	—	—	—	—	6,670,954	6,670,954	—	266
Impaired	—	—	—	—	6,486	6,486	—	—
	—	—	—	—	6,677,440	6,677,440	—	266
Single Family Construction:								
Non-impaired	—	—	—	—	645,924	645,924	—	—
Multifamily/Commercial Construction:								
Non-impaired	—	—	—	—	1,576,582	1,576,582	—	—
Business:								
Non-impaired	—	—	—	—	10,988,098	10,988,098	—	331
Impaired	—	—	3,252	3,252	7,153	10,405	—	6,209
	—	—	3,252	3,252	10,995,251	10,998,503	—	6,540
Stock Secured:								
Non-impaired	—	—	—	—	1,432,911	1,432,911	—	—
Other Secured:								
Non-impaired	—	—	—	—	1,105,751	1,105,751	—	—
Unsecured:								
Non-impaired	200	286	—	486	2,569,386	2,569,872	—	1,754
Impaired	—	2,493	—	2,493	2	2,495	—	2,493
	200	2,779	—	2,979	2,569,388	2,572,367	—	4,247
Total	<u>\$ 11,127</u>	<u>\$ 5,949</u>	<u>\$ 19,108</u>	<u>\$ 36,184</u>	<u>\$ 75,829,098</u>	<u>\$ 75,865,282</u>	<u>\$ —</u>	<u>\$ 46,465</u>

The interest income related to nonaccrual loans at each respective period end is presented in the following table:

(\$ in thousands)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Actual interest income recognized	\$ —	\$ —	\$ —	\$ —
Interest income under original terms	\$ 1,020	\$ 596	\$ 1,578	\$ 1,027

We perform annual reviews of our larger multifamily, commercial real estate and commercial business loans. For loans that are criticized or classified, the Bank's Special Assets Committee reviews loan grades, reserves and accrual status on a quarterly or more frequent basis. The Bank's internal loan grades apply to all loans and are as follows:

Pass—These loans are performing substantially as agreed, with no current identified material weakness in repayment ability. Any credit or collateral exceptions existing with respect to the loan should be minimal and

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immaterial, in the process of correction, and not such that they could subsequently impair credit quality and introduce risk of collection.

Special Mention—These loans have potential weaknesses and deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Bank’s credit position at some future date. However, these loans do not expose the Bank to sufficient risk to warrant adverse classification.

Substandard—These loans are inadequately protected by the current worth and paying capacity of the obligor or of the collateral pledged, if any. These loans have a well-defined weakness that jeopardizes the liquidation of the debt.

Doubtful—These loans have weaknesses that make collection or liquidation in full highly improbable. The possibility of some loss is extremely high, but because of certain important and reasonable specific pending factors that may work to the advantage and strengthening of the loan, its classification as a loss is deferred until a more exact status may be determined.

The following tables present the recorded investment in loans, by credit quality indicator and by class:

(\$ in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
At June 30, 2019					
Single Family (1-4 units):					
Non-impaired.	\$ 41,591,360	\$ 36,758	\$ 68,291	\$ —	\$ 41,696,409
Impaired.	10,406	454	51,712	—	62,572
	41,601,766	37,212	120,003	—	41,758,981
Home Equity Lines of Credit:					
Non-impaired.	2,548,665	18,017	7,577	—	2,574,259
Impaired.	347	819	12,129	—	13,295
	2,549,012	18,836	19,706	—	2,587,554
Multifamily (5+ units):					
Non-impaired.	11,206,297	—	—	—	11,206,297
Impaired.	10,343	—	—	—	10,343
	11,216,640	—	—	—	11,216,640
Commercial Real Estate:					
Non-impaired.	7,232,397	8,684	3,967	—	7,245,048
Impaired.	1,961	—	4,500	—	6,461
	7,234,358	8,684	8,467	—	7,251,509
Single Family Construction:					
Non-impaired.	690,445	883	11,600	—	702,928
Multifamily/Commercial Construction:					
Non-impaired.	1,398,691	—	1,068	—	1,399,759
Impaired.	—	—	70,940	—	70,940
	1,398,691	—	72,008	—	1,470,699
Business:					
Non-impaired.	11,576,735	79,079	22,277	324	11,678,415
Impaired.	4,120	1,086	2,889	—	8,095
	11,580,855	80,165	25,166	324	11,686,510
Stock Secured:					
Non-impaired.	1,507,306	7,549	—	—	1,514,855
Other Secured:					
Non-impaired.	1,235,338	250	—	—	1,235,588
Unsecured:					
Non-impaired.	2,801,804	1,231	8,092	1,228	2,812,355
Impaired.	2	—	—	—	2
	2,801,806	1,231	8,092	1,228	2,812,357
Total	\$ 81,816,217	\$ 154,810	\$ 265,042	\$ 1,552	\$ 82,237,621

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(\$ in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
At December 31, 2018					
Single Family (1-4 units):					
Non-impaired.	\$ 37,842,048	\$ 44,322	\$ 39,996	\$ —	\$ 37,926,366
Impaired.	9,578	—	19,308	—	28,886
	<u>37,851,626</u>	<u>44,322</u>	<u>59,304</u>	<u>—</u>	<u>37,955,252</u>
Home Equity Lines of Credit:					
Non-impaired.	2,515,039	12,727	2,518	—	2,530,284
Impaired.	1,107	—	11,322	—	12,429
	<u>2,516,146</u>	<u>12,727</u>	<u>13,840</u>	<u>—</u>	<u>2,542,713</u>
Multifamily (5+ units):					
Non-impaired.	10,345,471	—	—	—	10,345,471
Impaired.	10,312	—	2,056	—	12,368
	<u>10,355,783</u>	<u>—</u>	<u>2,056</u>	<u>—</u>	<u>10,357,839</u>
Commercial Real Estate:					
Non-impaired.	6,657,627	9,039	4,288	—	6,670,954
Impaired.	1,986	—	4,500	—	6,486
	<u>6,659,613</u>	<u>9,039</u>	<u>8,788</u>	<u>—</u>	<u>6,677,440</u>
Single Family Construction:					
Non-impaired.	643,017	—	2,907	—	645,924
Multifamily/Commercial Construction:					
Non-impaired.	1,575,419	—	1,163	—	1,576,582
Business:					
Non-impaired.	10,927,492	46,096	14,179	331	10,988,098
Impaired.	4,197	—	6,208	—	10,405
	<u>10,931,689</u>	<u>46,096</u>	<u>20,387</u>	<u>331</u>	<u>10,998,503</u>
Stock Secured:					
Non-impaired.	1,432,911	—	—	—	1,432,911
Other Secured:					
Non-impaired.	1,105,501	250	—	—	1,105,751
Unsecured:					
Non-impaired.	2,562,258	1,231	4,629	1,754	2,569,872
Impaired.	—	—	2,495	—	2,495
	<u>2,562,258</u>	<u>1,231</u>	<u>7,124</u>	<u>1,754</u>	<u>2,572,367</u>
Total	<u>\$ 75,633,963</u>	<u>\$ 113,665</u>	<u>\$ 115,569</u>	<u>\$ 2,085</u>	<u>\$ 75,865,282</u>

Other Real Estate Owned and Residential Mortgage Loans in the Process of Foreclosure

As of June 30, 2019 and December 31, 2018, the Bank did not have any residential real estate owned (acquired through foreclosure).

The carrying amount of residential mortgage loans in the process of foreclosure was \$9.3 million and \$6.2 million at June 30, 2019 and December 31, 2018, respectively.

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Allowance for Loan Losses

The Bank's allowance for loan losses is evaluated based on its two classes of loans: (1) non-impaired loans, which include both purchased and originated non-impaired loans and (2) impaired loans, which include both purchased and originated non-impaired loans that subsequently became impaired under ASC 310-10-35, and purchased credit-impaired loans subject to ASC 310-30.

Purchased non-impaired loans are monitored to determine if these loans have experienced a deterioration in credit quality based upon their payment status and loan grade. If a deterioration in credit quality has occurred, the Bank evaluates the estimated loss content in the individual loan as compared to the loan's current carrying value, which includes any related purchase accounting discount.

Originated non-impaired loans are collectively evaluated for estimated losses in accordance with ASC 450, "Contingencies," based on groups of loans with similar risk characteristics that align with the loan portfolio segments. The Bank has maintained an allowance for loan loss model that computes loss factors for each segment based upon our historical losses and current portfolio trends.

Any purchased non-impaired and originated non-impaired loans that subsequently became impaired are evaluated under ASC 310-10-35. If determined necessary, a specific reserve will be recorded for these loans. In addition, purchased credit-impaired loans are subject to a quarterly review of expected cash flows. These loans are generally evaluated quarterly by the Bank's Special Assets Committee, unless they have been upgraded to a pass loan. If there is further credit deterioration, an additional specific reserve will be recorded.

The Bank also maintains a qualitative reserve, which represents the qualitative portion of the allowance for loan losses. This qualitative reserve is determined based on management's assessments of the risks that may lead to a loan loss experience different than our historical loss experience and therefore not reflected in the quantitative model. The Bank uses qualitative factors that are intended to address developing external and internal environmental trends and include considerations such as changes in current economic and business conditions, the nature and volume of the Bank's loan portfolio, the existence and effects of credit concentrations, and problem loan trends, along with other external factors, such as competition and the legal and regulatory environment. The allocation to the individual loan portfolios considers the qualitative factors relevant to each portfolio, the degree to which the relevant qualitative factors impacted each loan portfolio, and relative portfolio balances.

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The following tables present an analysis of the allowance for loan losses:

(\$ in thousands)	Single Family (1-4 units)	Home Equity Lines of Credit	Multifamily (5+ units)	Commercial Real Estate	Single Family Construction	Multifamily/ Commercial Construction	Business	Stock Secured	Other Secured	Unsecured	Total
<u>At or for the Quarter Ended June 30, 2019</u>											
Rollforward of allowance for loan losses:											
Balance at beginning of period	\$ 67,970	\$ 12,878	\$ 84,861	\$ 55,801	\$ 3,940	\$ 17,181	\$ 168,614	\$ 8,924	\$ 8,439	\$ 24,513	\$ 453,121
Provision (reversal of provision)	5,594	1,005	4,566	476	510	(4,152)	16,716	(8,546)	(1,953)	6,984	21,200
Charge-offs	(28)	—	—	—	—	—	(1,229)	—	—	(276)	(1,533)
Recoveries	124	52	—	—	—	—	8	—	—	123	307
Balance at end of period	<u>\$ 73,660</u>	<u>\$ 13,935</u>	<u>\$ 89,427</u>	<u>\$ 56,277</u>	<u>\$ 4,450</u>	<u>\$ 13,029</u>	<u>\$ 184,109</u>	<u>\$ 378</u>	<u>\$ 6,486</u>	<u>\$ 31,344</u>	<u>\$ 473,095</u>
<u>At or for the Six Months Ended June 30, 2019</u>											
Rollforward of allowance for loan losses:											
Balance at beginning of period	\$ 65,402	\$ 12,887	\$ 80,134	\$ 54,907	\$ 3,073	\$ 14,687	\$ 167,591	\$ 8,724	\$ 8,301	\$ 23,342	\$ 439,048
Provision (reversal of provision)	8,107	973	9,293	1,370	1,377	(1,658)	17,718	(8,346)	(1,815)	8,381	35,400
Charge-offs	(31)	—	—	—	—	—	(1,229)	—	—	(530)	(1,790)
Recoveries	182	75	—	—	—	—	29	—	—	151	437
Balance at end of period	<u>\$ 73,660</u>	<u>\$ 13,935</u>	<u>\$ 89,427</u>	<u>\$ 56,277</u>	<u>\$ 4,450</u>	<u>\$ 13,029</u>	<u>\$ 184,109</u>	<u>\$ 378</u>	<u>\$ 6,486</u>	<u>\$ 31,344</u>	<u>\$ 473,095</u>
Allowance for loan losses by impairment methodology:											
Non-impaired	\$ 73,466	\$ 13,933	\$ 89,427	\$ 56,007	\$ 4,450	\$ 13,029	\$ 184,088	\$ 378	\$ 6,486	\$ 31,344	\$ 472,608
Impaired	194	2	—	270	—	—	21	—	—	—	487
Total	<u>\$ 73,660</u>	<u>\$ 13,935</u>	<u>\$ 89,427</u>	<u>\$ 56,277</u>	<u>\$ 4,450</u>	<u>\$ 13,029</u>	<u>\$ 184,109</u>	<u>\$ 378</u>	<u>\$ 6,486</u>	<u>\$ 31,344</u>	<u>\$ 473,095</u>
Recorded investment in loans:											
Non-impaired	\$41,696,409	\$ 2,574,259	\$11,206,297	\$ 7,245,048	\$ 702,928	\$ 1,399,759	\$11,678,415	\$ 1,514,855	\$ 1,235,588	\$ 2,812,355	\$82,065,913
Impaired	62,572	13,295	10,343	6,461	—	70,940	8,095	—	—	2	171,708
Total	<u>\$41,758,981</u>	<u>\$ 2,587,554</u>	<u>\$11,216,640</u>	<u>\$ 7,251,509</u>	<u>\$ 702,928</u>	<u>\$ 1,470,699</u>	<u>\$11,686,510</u>	<u>\$ 1,514,855</u>	<u>\$ 1,235,588</u>	<u>\$ 2,812,357</u>	<u>\$82,237,621</u>

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(\$ in thousands)	Single Family (1-4 units)	Home Equity Lines of Credit	Multifamily (5+ units)	Commercial Real Estate	Single Family Construction	Multifamily/ Commercial Construction	Business	Stock Secured	Other Secured	Unsecured	Total
<u>At or for the Quarter Ended June 30, 2018</u>											
Rollforward of allowance for loan losses:											
Balance at beginning of period	\$ 53,510	\$ 12,031	\$ 70,871	\$ 49,967	\$ 3,106	\$ 11,747	\$ 145,979	\$ 7,368	\$ 7,140	\$ 17,059	\$ 378,778
Provision	3,258	834	3,656	933	94	167	6,832	971	596	2,029	19,370
Charge-offs	—	(351)	—	—	—	—	(557)	—	—	—	(908)
Recoveries	2	24	—	—	—	—	24	—	—	87	137
Balance at end of period	<u>\$ 56,770</u>	<u>\$ 12,538</u>	<u>\$ 74,527</u>	<u>\$ 50,900</u>	<u>\$ 3,200</u>	<u>\$ 11,914</u>	<u>\$ 152,278</u>	<u>\$ 8,339</u>	<u>\$ 7,736</u>	<u>\$ 19,175</u>	<u>\$ 397,377</u>
<u>At or for the Six Months Ended June 30, 2018</u>											
Rollforward of allowance for loan losses:											
Balance at beginning of period	\$ 52,011	\$ 13,046	\$ 67,605	\$ 52,268	\$ 2,758	\$ 10,513	\$ 137,956	\$ 6,596	\$ 7,850	\$ 15,329	\$ 365,932
Provision (reversal of provision)	4,754	(218)	6,922	(1,368)	442	1,401	14,758	1,743	(114)	4,050	32,370
Charge-offs	—	(351)	—	—	—	—	(561)	—	—	(303)	(1,215)
Recoveries	5	61	—	—	—	—	125	—	—	99	290
Balance at end of period	<u>\$ 56,770</u>	<u>\$ 12,538</u>	<u>\$ 74,527</u>	<u>\$ 50,900</u>	<u>\$ 3,200</u>	<u>\$ 11,914</u>	<u>\$ 152,278</u>	<u>\$ 8,339</u>	<u>\$ 7,736</u>	<u>\$ 19,175</u>	<u>\$ 397,377</u>
Allowance for loan losses by impairment methodology:											
Non-impaired	\$ 56,770	\$ 12,538	\$ 74,527	\$ 50,693	\$ 3,200	\$ 11,914	\$ 152,071	\$ 8,339	\$ 7,736	\$ 19,175	\$ 396,963
Impaired	—	—	—	207	—	—	207	—	—	—	414
Total	<u>\$ 56,770</u>	<u>\$ 12,538</u>	<u>\$ 74,527</u>	<u>\$ 50,900</u>	<u>\$ 3,200</u>	<u>\$ 11,914</u>	<u>\$ 152,278</u>	<u>\$ 8,339</u>	<u>\$ 7,736</u>	<u>\$ 19,175</u>	<u>\$ 397,377</u>
Recorded investment in loans:											
Non-impaired	\$34,252,726	\$ 2,601,159	\$ 9,692,408	\$ 6,312,422	\$ 650,181	\$ 1,285,072	\$ 9,580,701	\$ 1,380,255	\$ 1,039,448	\$ 2,269,528	\$ 69,063,900
Impaired	23,814	12,480	14,676	8,773	—	—	22,925	—	—	326	82,994
Total	<u>\$34,276,540</u>	<u>\$ 2,613,639</u>	<u>\$ 9,707,084</u>	<u>\$ 6,321,195</u>	<u>\$ 650,181</u>	<u>\$ 1,285,072</u>	<u>\$ 9,603,626</u>	<u>\$ 1,380,255</u>	<u>\$ 1,039,448</u>	<u>\$ 2,269,854</u>	<u>\$ 69,146,894</u>

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Reserve for Unfunded Commitments

The Bank evaluates reserves for unfunded commitments for home equity lines of credit, single family construction, commercial real estate and multifamily lines of credit, multifamily/commercial construction, business lines of credit and secured/unsecured lines of credit. In determining the level of reserves, the Bank determines the probability of funding for each portfolio segment based on historical utilization statistics specific to that portfolio segment. Construction commitments are assumed to be fully funded, since the construction projects are expected to be completed. Additionally, for unfunded commitments, the Bank applies a loss factor that is consistent with that applied against the funded balance for each portfolio segment. The reserve for unfunded commitments was \$13.0 million and \$13.2 million at June 30, 2019 and December 31, 2018, respectively.

Impaired Loans

The following tables present information related to impaired loans:

(\$ in thousands)	Total		With no related allowance recorded		With an allowance recorded		
	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance	Related Allowance
At June 30, 2019							
Single family (1-4 units)	\$ 62,572	\$ 62,912	\$ 56,752	\$ 57,102	\$ 5,820	\$ 5,810	\$ 194
Home equity lines of credit	13,295	13,363	12,259	12,319	1,036	1,044	2
Multifamily (5+ units)	10,343	10,394	10,343	10,394	—	—	—
Commercial real estate	6,461	6,487	1,961	1,987	4,500	4,500	270
Multifamily/commercial construction	70,940	70,940	70,940	70,940	—	—	—
Business	8,095	8,121	7,009	7,035	1,086	1,086	21
Unsecured	2	129	2	129	—	—	—
Total	<u>\$ 171,708</u>	<u>\$ 172,346</u>	<u>\$ 159,266</u>	<u>\$ 159,906</u>	<u>\$ 12,442</u>	<u>\$ 12,440</u>	<u>\$ 487</u>

At December 31, 2018							
Single family (1-4 units)	\$ 28,886	\$ 29,219	\$ 28,886	\$ 29,219	\$ —	\$ —	\$ —
Home equity lines of credit	12,429	12,527	12,429	12,527	—	—	—
Multifamily (5+ units)	12,368	12,546	12,368	12,546	—	—	—
Commercial real estate	6,486	6,516	1,986	2,016	4,500	4,500	265
Business	10,405	10,436	9,163	9,194	1,242	1,242	48
Unsecured	2,495	2,630	2,495	2,630	—	—	—
Total	<u>\$ 73,069</u>	<u>\$ 73,874</u>	<u>\$ 67,327</u>	<u>\$ 68,132</u>	<u>\$ 5,742</u>	<u>\$ 5,742</u>	<u>\$ 313</u>

(\$ in thousands)	Quarter Ended June 30,				Six Months Ended June 30,			
	2019		2018		2019		2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Single family (1-4 units)	\$ 44,447	\$ 211	\$ 26,693	\$ 120	\$ 39,710	\$ 337	\$ 26,557	\$ 225
Home equity lines of credit	11,449	26	13,234	82	11,484	95	13,049	151
Multifamily (5+ units)	11,335	224	14,733	132	11,777	350	14,808	265
Commercial real estate	6,467	69	8,785	106	6,474	138	9,721	227
Multifamily/commercial construction	17,735	—	—	—	10,134	—	—	—
Business	8,641	38	20,103	114	9,354	69	16,237	971
Unsecured	2	6	494	6	358	13	675	12
Total	<u>\$ 100,076</u>	<u>\$ 574</u>	<u>\$ 84,042</u>	<u>\$ 560</u>	<u>\$ 89,291</u>	<u>\$ 1,002</u>	<u>\$ 81,047</u>	<u>\$ 1,851</u>

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Troubled Debt Restructurings

The Bank restructures loans generally because of the borrower's financial difficulties by granting concessions to reduce the interest rate or to defer payments. Loans that have been modified in troubled debt restructurings are generally reported as nonaccrual loans until at least six consecutive payments are received and the loan meets the Bank's other criteria for returning to accrual status. The following table presents the recorded investment in loans modified in troubled debt restructurings:

(\$ in thousands)	At June 30, 2019			At December 31, 2018		
	Restructured - Nonaccrual	Restructured - Accruing	Total	Restructured - Nonaccrual	Restructured - Accruing	Total
Single Family (1-4 units):						
Non-impaired	\$ —	\$ 450	\$ 450	\$ —	\$ 459	\$ 459
Impaired	14,722	4,939	19,661	5,694	4,019	9,713
	<u>14,722</u>	<u>5,389</u>	<u>20,111</u>	<u>5,694</u>	<u>4,478</u>	<u>10,172</u>
Home Equity Lines of Credit:						
Non-impaired	—	18	18	79	—	79
Impaired	4,968	819	5,787	4,559	2,057	6,616
	<u>4,968</u>	<u>837</u>	<u>5,805</u>	<u>4,638</u>	<u>2,057</u>	<u>6,695</u>
Commercial Real Estate:						
Non-impaired	—	214	214	—	215	215
Impaired	—	4,500	4,500	—	4,500	4,500
	<u>—</u>	<u>4,714</u>	<u>4,714</u>	<u>—</u>	<u>4,715</u>	<u>4,715</u>
Business:						
Non-impaired	—	150	150	—	165	165
Impaired	1,391	1,086	2,477	2,957	—	2,957
	<u>1,391</u>	<u>1,236</u>	<u>2,627</u>	<u>2,957</u>	<u>165</u>	<u>3,122</u>
Unsecured:						
Non-impaired	—	—	—	—	99	99
Total	<u>\$ 21,081</u>	<u>\$ 12,176</u>	<u>\$33,257</u>	<u>\$ 13,289</u>	<u>\$ 11,514</u>	<u>\$24,803</u>

During the quarters and six months ended June 30, 2019 and 2018, troubled debt restructurings were primarily modified through payment deferrals, extensions of the maturity date or reductions in interest rate, both temporary and permanent. The following table presents the recorded investment in loans modified in troubled debt restructurings during the periods indicated:

(\$ in thousands)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Single Family (1-4 units):				
Non-impaired	\$ 6,017	\$ 2,636	\$ 10,927	\$ 2,636
Home Equity Lines of Credit:				
Non-impaired	180	2,168	180	2,168
Impaired	—	—	—	3,331
	<u>180</u>	<u>2,168</u>	<u>180</u>	<u>5,499</u>
Business:				
Impaired	—	4,799	—	4,799
Total	<u>\$ 6,197</u>	<u>\$ 9,603</u>	<u>\$ 11,107</u>	<u>\$ 12,934</u>

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The majority of the Bank's restructured loans are considered impaired and are evaluated individually for impairment under ASC 310-10-35. The resulting impairment, if any, would have an impact on the allowance for loan losses as a specific reserve and be measured under the same criteria as all other impaired loans. For those restructured loans that are purchased credit-impaired, any required allowance is evaluated based upon ASC 310-30. Certain restructured accruing loans may be deemed non-impaired and would therefore be evaluated for estimated losses under ASC 450. No loans defaulted during the quarters and six months ended June 30, 2019 and 2018 that were modified in the previous twelve months.

Note 4. Mortgage Banking Activities

The recorded value of mortgage servicing rights ("MSRs") is amortized in proportion to, and over the period of, estimated net servicing income. The Bank values MSRs by stratifying loans by the year they are sold, by product type (fixed, hybrid or adjustable) and interest rate coupon range. Hybrid loans are further stratified by their initial fixed-rate period.

The following table presents information on the level of loans originated, loans sold and gain (loss) on sale of loans:

(\$ in thousands)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Total loans originated	\$ 9,437,104	\$ 9,352,813	\$ 16,152,972	\$ 16,680,273
Single family loans originated.	\$ 4,067,326	\$ 3,125,316	\$ 6,257,221	\$ 5,452,028
Loans sold:				
Flow sales:				
Agency	\$ 14,533	\$ 7,724	\$ 26,212	\$ 21,771
Non-agency	14,503	32,865	31,334	88,520
Total flow sales	29,036	40,589	57,546	110,291
Bulk sales:				
Non-agency	—	681,332	152,119	773,041
Total loans sold	\$ 29,036	\$ 721,921	\$ 209,665	\$ 883,332
Gain (loss) on sale of loans:				
Amount.	\$ (15)	\$ 4,045	\$ 344	\$ 4,734
Gain (loss) as a percentage of loans sold	(0.05)%	0.56%	0.16%	0.54%

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The following table presents changes in the portfolio of loans serviced for others and changes in the carrying value of the Bank's MSR's and valuation statistics:

(\$ in thousands)	At or for the Quarter Ended June 30,		At or for the Six Months Ended June 30,	
	2019	2018	2019	2018
Loans serviced for others:				
Beginning balance	\$ 11,325,895	\$ 12,191,611	\$ 11,573,326	\$ 12,495,321
Loans sold	29,036	721,921	209,665	883,332
Repayments	(608,580)	(539,257)	(1,036,640)	(985,038)
Loans purchased	—	—	—	(19,340)
Ending balance	<u>\$ 10,746,351</u>	<u>\$ 12,374,275</u>	<u>\$ 10,746,351</u>	<u>\$ 12,374,275</u>
MSR's:				
Beginning balance	\$ 52,725	\$ 63,093	\$ 54,470	\$ 66,139
Additions due to new loans sold	287	3,456	1,812	4,547
Amortization expense	(3,458)	(4,453)	(6,728)	(8,579)
Reductions due to purchases	—	—	—	(11)
Ending balance	<u>\$ 49,554</u>	<u>\$ 62,096</u>	<u>\$ 49,554</u>	<u>\$ 62,096</u>
Estimated fair value of MSR's	<u>\$ 74,463</u>	<u>\$ 91,785</u>	<u>\$ 74,463</u>	<u>\$ 91,785</u>
MSR's as a percent of loans serviced	0.46%	0.50%	0.46%	0.50%
Weighted average servicing fee collected for the period (annualized)	0.25%	0.25%	0.25%	0.25%
MSR's as a multiple of weighted average servicing fee	1.86x	1.98x	1.87x	2.01x

There was no valuation allowance related to MSR's as of or during the quarters and six months ended June 30, 2019 and 2018.

The following table presents loan servicing fees:

(\$ in thousands)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Contractually specified servicing fees	\$ 6,883	\$ 7,639	\$ 13,941	\$ 15,284
Late charges and ancillary fees, net of costs	\$ (354)	\$ (114)	\$ (613)	\$ (230)

The following table presents the Bank's key assumptions used in measuring the fair value of MSR's and the pre-tax sensitivity of the fair values to an immediate 10% and 20% adverse change in these assumptions:

(\$ in thousands)	June 30, 2019	December 31, 2018
Fair value of MSR's	\$ 74,463	\$ 95,205
Weighted average prepayment speed (CPR)	16.9%	13.2%
Impact on fair value of 10% adverse change	\$ (3,796)	\$ (3,589)
Impact on fair value of 20% adverse change	\$ (7,215)	\$ (6,927)
Weighted average discount rate	12.9%	13.1%
Impact on fair value of 10% adverse change	\$ (2,632)	\$ (3,996)
Impact on fair value of 20% adverse change	\$ (5,086)	\$ (7,680)

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The sensitivity analysis above is hypothetical and should be used with caution. In particular, the effect of a variation in a particular assumption on the fair value of MSRs is calculated independent of changes in any other assumption; in practice, changes in one factor may result in changes in another factor, which may magnify or counteract the sensitivities. Further changes in fair value based on a single variation in assumptions generally cannot be extrapolated because the relationship of the change in a single assumption to the change in fair value may not be linear.

Refer to Note 7, “Goodwill and Intangible Assets,” for disclosures of the gross carrying value, accumulated amortization and estimated future amortization expense of MSRs.

Note 5. Variable Interest Entities

The Bank’s involvement with variable interest entities (“VIEs”) includes its interests from tax credit investments, other investments and securitizations.

The Bank has variable interests in low-income housing tax credit funds that are designed to generate a return primarily through the realization of federal tax credits. These investments are typically limited partnerships in which the general partner, other than the Bank, holds the power over significant activities of the VIE. Since the Bank is not the primary beneficiary of these investments, it does not consolidate these interests.

In addition, the Bank has variable interests in other investments, which are accounted for under the equity method. Since the Bank is not the primary beneficiary of these investments, it does not consolidate these investments.

The Bank has a variable interest related to its reimbursement obligation to the Federal Home Loan Mortgage Corporation (“Freddie Mac”) for certain losses from the securitization of multifamily loans. Since the Bank is not the primary beneficiary of the VIE, it does not consolidate this interest.

The following tables summarize the assets and liabilities recorded on the Bank’s balance sheet associated with transactions with VIEs:

(\$ in thousands)	VIEs		
	Not consolidated	Consolidated	Total
June 30, 2019			
Assets:			
Tax credit investments	\$ 1,054,192	\$ —	\$ 1,054,192
Other investments	46,104	—	46,104
Total Assets	1,100,296	—	1,100,296
Liabilities:			
Reimbursement obligation	371	—	371
Unfunded commitments—tax credit investments	334,379	—	334,379
Unfunded commitments—other investments	8,469	—	8,469
Total Liabilities	343,219	—	343,219
Net Assets.	\$ 757,077	\$ —	\$ 757,077

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(\$ in thousands)	VIEs		
	Not consolidated	Consolidated	Total
December 31, 2018			
Assets:			
Tax credit investments	\$ 1,057,541	\$ —	\$ 1,057,541
Other investments	31,917	—	31,917
Total Assets	1,089,458	—	1,089,458
Liabilities:			
Reimbursement obligation	488	—	488
Unfunded commitments—tax credit investments	352,438	—	352,438
Unfunded commitments—other investments	5,256	—	5,256
Total Liabilities	358,182	—	358,182
Net Assets.	\$ 731,276	\$ —	\$ 731,276

The Bank's exposure to loss with respect to VIEs that are not consolidated includes the Bank's investment in these assets of \$1.1 billion at both June 30, 2019 and December 31, 2018. The Bank's exposure to loss related to the reimbursement obligation is 12% of the loans securitized, or \$30.2 million at both June 30, 2019 and December 31, 2018.

Note 6. Leases

The Bank adopted ASC 842 effective January 1, 2019 and recognized lease assets and lease liabilities of \$578.5 million and \$619.2 million, respectively, on its consolidated balance sheet. Refer to Note 1, "Summary of Significant Accounting Policies," for additional information.

The Bank leases corporate, preferred banking and wealth management offices, as well as equipment. The resulting lease assets and lease liabilities recognized on the Bank's consolidated balance sheet are operating leases.

The Bank determines if an arrangement contains a lease at inception, and recognizes lease liabilities upon commencement based on the present value of lease payments over the lease term. Corresponding lease assets are recognized at the liability amount adjusted for any direct incremental costs, prepaid lease payments and lease incentives received. The Bank's lease terms range from 1 year to 19 years. The majority of these leases include one or more options to extend the lease term, primarily up to 5 years at a time. The Bank includes renewal options it is reasonably certain to exercise in the lease term. As the leases do not provide an implicit discount rate, the Bank uses its incremental borrowing rate at the commencement date in determining the present value of lease payments. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term. Some of the Bank's lease arrangements include rental payments that adjust periodically for inflation. These and other variable lease payments are expensed as incurred.

Additionally, the Bank combines non-lease components (such as common area maintenance costs) with lease components (such as fixed rental payments) in the measurement of its lease assets and liabilities.

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The following tables present information related to leases:

(\$ in thousands)	June 30, 2019
Supplemental balance sheet information:	
Lease assets ⁽¹⁾	\$ 744,862
Lease liabilities ⁽²⁾	\$ 792,331
Weighted average remaining lease term.	10.5 years
Weighted average discount rate	3.2%

⁽¹⁾ Included in prepaid expenses and other assets on the consolidated balance sheets.

⁽²⁾ Included in other liabilities on the consolidated balance sheets.

(\$ in thousands)	Quarter Ended June 30, 2019	Six Months Ended June 30, 2019
Components of lease cost:		
Operating lease cost ⁽¹⁾	\$ 28,347	\$ 54,006
Variable lease cost ⁽¹⁾	40	378
Total lease cost	<u>\$ 28,387</u>	<u>\$ 54,384</u>

⁽¹⁾ Included in occupancy expense on the consolidated statements of income and comprehensive income.

(\$ in thousands)	Six Months Ended June 30, 2019
Supplemental cash flow information:	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash outflows from operating leases.	\$ 47,111
Non-cash activity related to lease assets:	
Lease assets obtained from new operating lease liabilities	\$ 210,107

The following table presents the future maturities of lease liabilities:

(\$ in thousands)	June 30, 2019 ⁽¹⁾
Lease liabilities maturing in:	
July 1 - December 31, 2019	\$ 54,631
2020	114,951
2021	103,797
2022	96,943
2023	91,905
2024 and thereafter	545,479
Total	<u>1,007,706</u>
Less: imputed interest.	(170,895)
Less: tenant improvement receivable	(44,480)
Total lease liabilities	<u>\$ 792,331</u>

⁽¹⁾ Excludes \$646.8 million of undiscounted minimum lease payments for leases signed but not yet commenced. These leases will commence at various dates from 2019 through 2027 with lease terms ranging from 4 to 16 years.

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Prior to the adoption of ASC 842, the Bank's operating leases were not recognized on the balance sheet. The following table presents the undiscounted future minimum lease payments under the Bank's operating leases as of December 31, 2018:

(\$ in thousands)	December 31, 2018
Operating leases:	
2019.....	\$ 99,576
2020.....	102,498
2021.....	91,680
2022.....	89,326
2023.....	83,629
2024 and thereafter.....	537,810
Total.....	<u>\$ 1,004,519</u>

Note 7. Goodwill and Intangible Assets

The following table presents the Bank's intangible assets (excluding MSRs) and goodwill:

(\$ in thousands)	June 30, 2019			December 31, 2018		
	Gross Carrying Value	Accumulated Amortization	Carrying Value	Gross Carrying Value	Accumulated Amortization	Carrying Value
Intangible assets:						
Customer relationship intangibles.....	\$ 133,100	\$ (107,898)	\$ 25,202	\$ 133,100	\$ (102,535)	\$ 30,565
Core deposit intangibles.....	87,550	(86,609)	941	87,550	(85,488)	2,062
Trade name.....	42,900	—	42,900	42,900	—	42,900
Intangible assets.....	<u>\$ 263,550</u>	<u>\$ (194,507)</u>	69,043	<u>\$ 263,550</u>	<u>\$ (188,023)</u>	75,527
Goodwill.....			198,447			198,447
Total.....			<u>\$ 267,490</u>			<u>\$ 273,974</u>

Amortization of intangible assets (excluding MSRs) was \$3.1 million and \$6.5 million for the quarter and six months ended June 30, 2019, respectively, and \$4.2 million and \$8.7 million for the quarter and six months ended June 30, 2018, respectively.

The following table presents the Bank's MSRs:

(\$ in thousands)	June 30, 2019			December 31, 2018		
	Gross Carrying Value	Accumulated Amortization	Carrying Value	Gross Carrying Value	Accumulated Amortization	Carrying Value
MSRs ⁽¹⁾	\$ 142,439	\$ (92,885)	\$ 49,554	\$ 140,746	\$ (86,276)	\$ 54,470

⁽¹⁾ Amortization of MSRs is included in loan servicing fees, net on the consolidated statements of income and comprehensive income.

Refer to Note 4, "Mortgage Banking Activities," for further discussion on MSRs.

The following table presents goodwill by business segment:

(\$ in thousands)	Commercial Banking	Wealth Management	Total
Balance as of December 31, 2017, December 31, 2018 and June 30, 2019....	<u>\$ 51,435</u>	<u>\$ 147,012</u>	<u>\$ 198,447</u>

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The following table presents the estimated future amortization for amortizable intangible assets as of June 30, 2019. The projections of amortization expense are based on existing asset balances as of June 30, 2019. Future amortization expense may vary from these projections.

(\$ in thousands)	Customer relationship intangibles	Core deposit intangibles	MSRs
July 1 - December 31, 2019	\$ 4,702	\$ 688	\$ 6,639
2020	7,504	253	10,729
2021	5,527	—	7,403
2022	3,671	—	5,700
2023	2,235	—	4,389
2024	1,259	—	3,380

Note 8. Borrowings

The Bank uses FHLB advances primarily as a funding source for long-term debt, and, in certain cases, for short-term borrowings. Other sources of funding include federal funds purchased, senior notes and subordinated notes. Short-term borrowings have an original maturity of one year or less. Long-term debt has an original maturity in excess of one year. The following table presents the carrying values, interest expense and components of short-term borrowings and long-term debt:

(\$ in thousands)	Carrying Values		Interest Expense			
			Quarter Ended June 30,		Six Months Ended June 30,	
	June 30, 2019	December 31, 2018	2019	2018	2019	2018
Short-term borrowings:						
FHLB advances	\$ —	\$ 100,000	\$ 14,176	\$ 6,651	\$ 20,146	\$ 9,160
Other ⁽¹⁾	—	—	4,106	1	4,166	1
Total	—	100,000	18,282	6,652	24,312	9,161
Long-term debt:						
FHLB advances	9,800,000	8,700,000	49,601	39,045	92,768	71,845
Senior notes ⁽²⁾	497,269	896,432	5,534	5,925	11,468	11,849
Subordinated notes ⁽²⁾	777,678	777,475	9,101	9,097	18,202	18,193
Total	11,074,947	10,373,907	64,236	54,067	122,438	101,887
Total borrowings	<u>\$ 11,074,947</u>	<u>\$ 10,473,907</u>	<u>\$ 82,518</u>	<u>\$ 60,719</u>	<u>\$ 146,750</u>	<u>\$ 111,048</u>

⁽¹⁾ Includes amounts related to federal funds purchased as of or for the periods indicated.

⁽²⁾ Carrying value represents the principal balance, net of unamortized issuance discounts and deferred issuance costs. Interest expense includes amortization of issuance discounts and deferred issuance costs, which are amortized over the contractual life using a level yield methodology.

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FHLB Advances

FHLB advances may be either adjustable-rate in nature or fixed for a specific term. At June 30, 2019, the Bank had no short-term FHLB advances. At June 30, 2019, all of the long-term FHLB advances were fixed-rate for a specific term. At June 30, 2019, the contractual maturities and weighted average contractual rates of long-term FHLB advances were as follows:

(\$ in thousands)	June 30, 2019	
	Amount	Rate
FHLB advances maturing in:		
July 1 - December 31, 2019	\$ 2,050,000	1.71%
2020	3,950,000	2.25%
2021	3,800,000	2.45%
Total	<u>\$ 9,800,000</u>	<u>2.21%</u>

In connection with outstanding FHLB advances, the Bank owned FHLB stock of \$304.3 million and \$273.2 million at June 30, 2019 and December 31, 2018, respectively. At June 30, 2019 and December 31, 2018, the Bank was required to own FHLB stock at least equal to 2.7%, respectively, of outstanding FHLB advances.

Senior Notes and Subordinated Notes

The following table presents the carrying values, coupon rates and maturity dates of the Bank's unsecured, term, fixed-rate senior notes and subordinated notes as of June 30, 2019. The 2.375% fixed-rate senior notes issued in June 2014 of \$400.0 million matured in June 2019, and, therefore, were no longer outstanding as of June 30, 2019.

(\$ in thousands)	June 30, 2019		
	Carrying Value ⁽¹⁾	Rate	Maturity Date
Senior notes:			
Fixed rate, issued June 2017	\$ 497,269	2.500%	June 2022
Subordinated notes:			
Fixed rate, issued August 2016	\$ 387,923	4.375%	August 2046
Fixed rate, issued February 2017	\$ 389,755	4.625%	February 2047

⁽¹⁾ Principal balance, net of unamortized issuance discounts and deferred issuance costs.

Note 9. Derivative Financial Instruments

In accordance with ASC 815, "Derivatives and Hedging," the Bank recognizes all derivatives on the balance sheet at fair value. The Bank has elected to present its derivative assets and derivative liabilities on a gross basis on its balance sheet. The Bank accounts for changes in the fair value of a derivative depending on the intended use of the derivative and its resulting designation under specified criteria. The Bank currently does not have any derivatives designated as hedging instruments.

The Bank has derivative assets and liabilities consisting of foreign exchange contracts executed with clients. In these transactions, the Bank offsets the client exposure with another financial institution counterparty, such as a major investment bank or a large commercial bank. The Bank does not retain significant foreign exchange risk. The Bank does retain credit risk, both to the client and the financial institution counterparty, which is evaluated and managed by the Bank in the normal course of its operations. In addition, the Bank has foreign exchange contracts associated with client deposits denominated in various foreign currencies. Management does not currently anticipate non-performance by any of the counterparties. The amounts presented in the table below include the foreign exchange contracts with both the client and the financial institution counterparties.

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The Bank also creates derivative instruments when it enters into interest rate lock commitments for single family mortgage loans that will be sold to investors. The Bank's interest rate risk exposure to these commitments is not significant as these derivatives are economically hedged with forward commitments to sell the loans to investors.

The following table presents the total notional or contractual amounts and fair values of derivatives:

(\$ in thousands)	June 30, 2019			December 31, 2018		
	Notional or Contractual Amount	Fair Value		Notional or Contractual Amount	Fair Value	
		Derivative Assets ⁽¹⁾	Derivative Liabilities ⁽²⁾		Derivative Assets ⁽¹⁾	Derivative Liabilities ⁽²⁾
Foreign exchange contracts	\$ 3,199,138	\$ 30,233	\$ 12,350	\$ 4,696,285	\$ 41,646	\$ 27,466
Interest rate contracts with borrowers . . .	\$ 14,388	55	—	\$ 8,207	9	—
Forward loan sale commitments	\$ 26,898	15	70	\$ 106,922	—	9
Total		<u>\$ 30,303</u>	<u>\$ 12,420</u>		<u>\$ 41,655</u>	<u>\$ 27,475</u>

⁽¹⁾ Included in prepaid expenses and other assets on the consolidated balance sheets.

⁽²⁾ Included in other liabilities on the consolidated balance sheets.

The credit risk associated with these derivative instruments is the risk of non-performance by the counterparties to the contracts. The Bank's counterparty credit exposure is equal to the amount reported as a derivative asset on the Bank's balance sheet. To mitigate this risk, the Bank enters into master netting and bilateral collateral agreements with certain counterparties. These agreements allow the Bank to settle its derivative contracts with such counterparties on a net basis and to offset the net derivative exposure against the related collateral in the event of default.

The following table presents additional information related to the Bank's foreign exchange derivative contracts:

		Contracts Not Subject to Master Netting Arrangements	Contracts Subject to Master Netting Arrangements							
	Total									

⁽¹⁾ Collateral presented in the table above is limited to the amount required to settle the net derivative position and does not include any excess collateral.

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Note 10. Fair Value Measurements

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Under ASC 820, "Fair Value Measurement," the Bank bases its fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Debt securities available-for-sale and derivative instruments are recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record other assets at fair value on a nonrecurring basis, which typically involve write-downs of individual assets or application of the lower-of-cost-or-market accounting. Nonrecurring fair value adjustments of loans represent a write-down based on the fair value of the underlying collateral of the loan, adjusted for certain factors such as estimated costs to sell and current market conditions. Nonrecurring fair value adjustments of loans held for sale, MSRs and other real estate owned result from the application of lower-of-cost-or-market accounting.

Although management uses its best judgment in estimating fair value, there are inherent weaknesses in any estimates that are made at a discrete point in time based on relevant market data, information about the financial instruments and other factors. Estimates of fair value of instruments without quoted market prices are subjective in nature and involve various assumptions that are matters of judgment. Changes in the assumptions used could significantly affect these estimates.

The estimated fair values presented neither include nor give effect to the values associated with the Bank's existing client relationships, lending and deposit office networks, or certain tax implications related to the realization of unrealized gains or losses.

Fair Value Hierarchy

Under ASC 820, the Bank groups its assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1—Valuation is based on quoted prices for identical instruments traded in active markets.
- Level 2—Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3—Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

It is the Bank's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy of ASC 820.

Recurring Fair Value Measurements

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis.

Available-for-sale debt securities: The Bank's U.S. Treasury securities are valued using quoted market prices from the active exchange on which the securities are traded. For most other debt securities, the Bank uses quoted prices obtained through third-party valuation sources. Management reviews the valuation techniques and assumptions used by the providers to ensure that such valuation techniques are based on observable market inputs appropriate for the type of security being measured. In some instances, prices are obtained from dealer quotes. The fair value of tax-exempt nonprofit debentures and certain municipal securities is determined using estimated future cash flows or other model-based valuation methods using inputs similar to market pricing, adjusted for liquidity risk.

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Equity securities measured at fair value: The Bank's mutual funds and marketable equity securities are valued using quoted market prices from the active exchange on which the securities are traded. Mutual funds are valued using the net asset value ("NAV") per share using quoted market prices.

Derivatives: Derivative assets and liabilities consist of foreign exchange contracts, interest rate lock commitments and forward loan sale commitments. The Bank uses current market prices to determine the fair value of foreign exchange contracts. The fair values of interest rate lock commitments and forward loan sale commitments are estimated using analysis based on current market prices.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis:

(\$ in thousands)	Level 1	Level 2	Level 3	Total
June 30, 2019				
Assets:				
Debt securities available-for-sale:				
Agency residential MBS	\$ —	\$ 24,178	\$ —	\$ 24,178
Other residential MBS	—	4,533	—	4,533
Agency commercial MBS	—	1,361,902	—	1,361,902
Securities of U.S. states and political subdivisions—taxable	—	—	47,448	47,448
Equity securities (fair value):				
Mutual funds and marketable equity securities	19,529	—	—	19,529
Derivative assets	—	30,303	—	30,303
Total	<u>\$ 19,529</u>	<u>\$ 1,420,916</u>	<u>\$ 47,448</u>	<u>\$ 1,487,893</u>
Liabilities:				
Derivative liabilities	\$ —	\$ 12,420	\$ —	\$ 12,420
December 31, 2018				
Assets:				
Debt securities available-for-sale:				
Agency residential MBS	\$ —	\$ 26,095	\$ —	\$ 26,095
Other residential MBS	—	4,552	—	4,552
Agency commercial MBS	—	1,701,021	—	1,701,021
Securities of U.S. states and political subdivisions—taxable	—	—	47,448	47,448
Equity securities (fair value):				
Mutual funds and marketable equity securities	18,719	—	—	18,719
Derivative assets	—	41,655	—	41,655
Total	<u>\$ 18,719</u>	<u>\$ 1,773,323</u>	<u>\$ 47,448</u>	<u>\$ 1,839,490</u>
Liabilities:				
Derivative liabilities	\$ —	\$ 27,475	\$ —	\$ 27,475

There were no transfers in or out of Levels 1, 2 or 3 assets measured at fair value on a recurring basis in the quarters and six months ended June 30, 2019 and 2018.

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The following table presents changes in Level 3 assets measured at fair value on a recurring basis:

(\$ in thousands)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Available-for-sale debt securities of U.S. states and political subdivisions—taxable:				
Balance at beginning of period	\$ 47,448	\$ 47,448	\$ 47,448	\$ 47,449
Unrealized losses included in other comprehensive income (loss).	(1)	(2)	(2)	(9)
Accretion included in interest income	1	2	2	8
Balance at end of period	<u>\$ 47,448</u>	<u>\$ 47,448</u>	<u>\$ 47,448</u>	<u>\$ 47,448</u>

The table and discussion below provide information about the significant unobservable inputs in our recurring Level 3 fair value measurements:

(\$ in thousands)	Fair Value	Valuation Technique	Unobservable Input
<u>June 30, 2019</u>			
Available-for-sale debt securities of U.S. states and political subdivisions—taxable	\$ 47,448	Discounted cash flow	Weighted average liquidity risk yield premium of 50 bps
<u>December 31, 2018</u>			
Available-for-sale debt securities of U.S. states and political subdivisions—taxable	\$ 47,448	Discounted cash flow	Weighted average liquidity risk yield premium of 50 bps

For taxable municipal securities, the Bank calculates the fair value using estimated future cash flows on a quarterly basis. In addition to the inputs listed above, the Bank's management considers interest rate reset frequency, spread to index, market yield curves and the underlying bond rating at the time of valuation. The liquidity risk yield premium is applied to account for liquidity considerations since the bond is not publicly traded. An unfavorable change in the general business and credit environments could cause an increase in the liquidity risk yield premium, resulting in a decrease in the fair value of the investment.

Nonrecurring Fair Value Measurements

The following is a description of valuation methodologies used in estimating the fair value of assets measured at fair value on a nonrecurring basis.

Loans: The fair value of loans with nonrecurring fair value adjustments is based on the fair value of the underlying collateral, primarily real estate, adjusted for certain factors such as estimated costs to sell.

Loans held for sale: The fair value of loans held for sale is derived from actual prices at which loans were committed for sale adjusted for loan servicing value.

MSRs: The fair value of MSRs is based on a present value calculation of expected future cash flows, with assumptions regarding prepayments, discount rates, cost to service, escrow account earnings, contractual servicing fees and ancillary income.

Other real estate owned: Other real estate owned includes foreclosed properties securing mortgage loans. Fair value is generally based upon independent market prices or appraised values of the collateral, adjusted for estimated costs to sell.

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The following table presents the assets measured at fair value on a nonrecurring basis that were held on the balance sheet at June 30, 2019 and December 31, 2018:

(\$ in thousands)	Level 1	Level 2	Level 3	Total
June 30, 2019				
Assets:				
Loans	\$ —	\$ —	\$ 1,642	\$ 1,642
Loans held for sale	—	12,502	—	12,502
Total	<u>\$ —</u>	<u>\$ 12,502</u>	<u>\$ 1,642</u>	<u>\$ 14,144</u>
December 31, 2018				
Assets:				
Loans	\$ —	\$ —	\$ 5,417	\$ 5,417

The following table presents losses related to nonrecurring fair value measurements. The losses relate to assets held on the balance sheet at each respective period end.

(\$ in thousands)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Loans	\$ (28)	\$ (349)	\$ (31)	\$ (349)
Loans held for sale	(74)	—	(74)	—
Total	<u>\$ (102)</u>	<u>\$ (349)</u>	<u>\$ (105)</u>	<u>\$ (349)</u>

Fair Value of Financial Instruments

The following tables present the carrying values, estimated fair values and the levels in the fair value hierarchy of financial instruments, excluding those measured at fair value on a recurring basis:

(\$ in thousands)	June 30, 2019				
	Carrying Amount	Fair Value			
		Total	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 2,220,073	\$ 2,220,073	\$ 2,220,073	\$ —	\$ —
Debt securities held-to-maturity:					
U.S. Government-sponsored agency securities	936,438	935,484	—	935,484	—
Agency residential MBS	1,782,206	1,770,029	—	1,770,029	—
Agency commercial MBS	3,416,070	3,422,597	—	3,422,597	—
Securities of U.S. states and political subdivisions:					
Tax-exempt municipal securities	8,369,215	8,846,875	—	8,747,573	99,302
Tax-exempt nonprofit debentures	140,982	144,599	—	—	144,599
Taxable municipal securities	76,657	88,586	—	88,586	—
Loans, net:					
Real estate secured mortgages	64,737,533	63,112,657	—	41,056,866	22,055,791
Other loans	17,026,993	15,745,035	—	—	15,745,035
Loans held for sale	12,502	12,502	—	12,502	—
Investments in life insurance	1,412,883	1,412,883	—	—	1,412,883
MSRs	49,554	74,463	—	—	74,463
FHLB stock	304,290	304,290	—	—	304,290
Liabilities:					
Deposits:					
Certificates of deposit	\$ 13,962,348	\$ 14,008,701	\$ —	\$ —	\$ 14,008,701
Borrowings:					
Long-term FHLB advances	9,800,000	9,848,473	—	9,848,473	—
Senior notes	497,269	499,205	—	499,205	—
Subordinated notes	777,678	824,844	—	824,844	—

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(\$ in thousands)	December 31, 2018				
	Carrying Amount	Fair Value			
		Total	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 2,811,159	\$ 2,811,159	\$ 2,811,159	\$ —	\$ —
Debt securities held-to-maturity:					
U.S. Government-sponsored agency securities	1,044,912	1,011,324	—	1,011,324	—
Agency residential MBS	1,868,587	1,799,100	—	1,799,100	—
Agency commercial MBS	3,375,409	3,240,852	—	3,240,852	—
Securities of U.S. states and political subdivisions:					
Tax-exempt municipal securities	7,952,605	8,035,143	—	7,935,574	99,569
Tax-exempt nonprofit debentures	142,508	139,826	—	—	139,826
Taxable municipal securities	52,952	61,279	—	61,279	—
Loans, net:					
Real estate secured mortgages	59,524,660	57,183,416	—	36,659,706	20,523,710
Other loans	15,901,574	14,677,426	—	—	14,677,426
Loans held for sale	98,985	99,226	—	99,226	—
Investments in life insurance	1,376,579	1,376,579	—	—	1,376,579
MSRs	54,470	95,205	—	—	95,205
FHLB stock	273,240	273,240	—	—	273,240
Liabilities:					
Deposits:					
Certificates of deposit	\$ 11,377,515	\$ 11,442,054	\$ —	\$ —	\$ 11,442,054
Borrowings:					
Short-term borrowings	100,000	100,000	—	100,000	—
Long-term FHLB advances	8,700,000	8,735,714	—	8,735,714	—
Senior notes	896,432	881,618	—	881,618	—
Subordinated notes	777,475	744,293	—	744,293	—

Note 11. Preferred Stock

At June 30, 2019, the Bank was authorized to issue 25,000,000 shares of preferred stock, par value \$0.01 per share, of which 940,000 shares were issued and outstanding. Each share of preferred stock has a liquidation preference of \$1,000. The following table presents the authorized, issued and outstanding shares for each series of the Bank's preferred stock:

(in thousands, except share amounts)	June 30, 2019	December 31, 2018
5.50% Noncumulative Perpetual Series D—200,000 shares authorized; 190,000 shares issued and outstanding	\$ 190,000	\$ 190,000
5.70% Noncumulative Perpetual Series F—115,000 shares authorized; 100,000 shares issued and outstanding	100,000	100,000
5.50% Noncumulative Perpetual Series G—172,500 shares authorized; 150,000 shares issued and outstanding	150,000	150,000
5.125% Noncumulative Perpetual Series H—200,000 shares authorized, issued and outstanding	200,000	200,000
5.50% Noncumulative Perpetual Series I—300,000 shares authorized, issued and outstanding	300,000	300,000
Total	<u>\$ 940,000</u>	<u>\$ 940,000</u>

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Dividends on each series of the Bank's outstanding shares of preferred stock are paid each March 30, June 30, September 30 and December 30. The following table presents dividends paid on preferred stock:

(in thousands, except per share amounts)	Quarter Ended June 30,				Six Months Ended June 30,			
	2019		2018		2019		2018	
	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share
5.625% Noncumulative Perpetual Series C . . .	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 60	\$ 0.40
5.50% Noncumulative Perpetual Series D . . .	2,613	\$ 13.75	2,613	\$ 13.75	5,225	\$ 27.50	5,226	\$ 27.50
7.00% Noncumulative Perpetual Series E . . .	—	\$ —	3,500	\$ 17.50	—	\$ —	7,000	\$ 35.00
5.70% Noncumulative Perpetual Series F . . .	1,425	\$ 14.25	1,425	\$ 14.25	2,850	\$ 28.50	2,850	\$ 28.50
5.50% Noncumulative Perpetual Series G . . .	2,062	\$ 13.75	2,062	\$ 13.75	4,125	\$ 27.50	4,125	\$ 27.50
5.125% Noncumulative Perpetual Series H . . .	2,563	\$ 12.82	2,563	\$ 12.82	5,125	\$ 25.63	5,124	\$ 25.63
5.50% Noncumulative Perpetual Series I . . .	4,125	\$ 13.75	—	\$ —	8,250	\$ 27.50	—	\$ —
Total	<u>\$ 12,788</u>		<u>\$ 12,163</u>		<u>\$ 25,575</u>		<u>\$ 24,385</u>	

Note 12. Common Stock and Stock Plans

Common Stock

At June 30, 2019, the Bank was authorized to issue 400,000,000 shares of common stock, par value \$0.01 per share. At June 30, 2019, the Bank had 168,176,437 shares issued and outstanding. During the six months ended June 30, 2019, the Bank issued 2,000,000 shares of common stock in an “at-the-market” offering, which added \$170.6 million to common equity.

First Republic Bank Employee Stock Purchase Plan

Under the Bank's Employee Stock Purchase Plan (the “Purchase Plan”), the Bank is authorized to sell 2,000,000 shares of common stock to its full-time and part-time employees who are regularly employed for 20 hours or more per week. For 2019, employees may purchase shares of the Bank's common stock at 85% of the closing price of the common stock on the New York Stock Exchange on the date of purchase or the nearest prior trading day, subject to an annual limitation of common stock valued at \$25,000. For the six months ended June 30, 2019, a total of 106,905 shares were sold to employees, and the compensation expense for the Purchase Plan was approximately \$1.6 million.

First Republic Bank 2017 Omnibus Award Plan

In May 2017, the Bank adopted the 2017 Omnibus Award Plan, which replaced the 2010 Omnibus Award Plan. Stock awards outstanding that were previously granted under the 2010 Omnibus Award Plan were not affected by the replacement and the terms of the 2010 Omnibus Award Plan will remain effective for such awards.

The Bank is authorized to grant shares of common stock in the form of stock options, stock appreciation rights, shares of restricted stock, restricted stock units or performance share units to its employees, officers and directors. Upon termination of service, unvested awards are generally forfeited. At June 30, 2019, the Bank had 2,314,082 shares reserved for future stock award grants.

Stock Options

At June 30, 2019, the Bank had stock options outstanding of 892,854. Generally, stock options vest over a period of up to four years from the grant date and have a maximum contractual life of ten years. Under the Bank's stock option agreements, the exercise price of each option equals the market price of the Bank's common stock at the grant date. Stock option exercises are satisfied by issuing shares from the Bank's authorized shares. The number of shares of common stock issued from stock option exercises is generally net of shares withheld to pay the exercise price or taxes due upon the exercise. As of June 30, 2019, all options are fully vested.

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The following table presents information related to outstanding stock options:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (\$ in thousands)
Options outstanding as of December 31, 2018 .	1,764,407	\$15.43		
Granted	—	—		
Canceled or forfeited	—	—		
Exercised	(871,553)	\$15.20		
Options outstanding as of June 30, 2019	<u>892,854</u>	\$15.66	1.1 years	\$73,206

The intrinsic value of all options exercised was \$73.4 million for the six months ended June 30, 2019.

Restricted Stock Units

The Bank has granted restricted stock units (“RSUs”) to certain of its employees, officers and directors. Upon vesting, one share of common stock is issued from the Bank’s authorized shares for each RSU. The number of shares of common stock issued at the time of vesting is generally net of shares withheld to pay taxes due upon vesting. Participants are entitled to dividends and voting rights only upon vesting.

RSUs have time-based vesting requirements (“Time RSUs”) or both time-based and performance-based vesting requirements (“Performance RSUs”). RSUs vest evenly over periods ranging from one year to five years from the date of grant. Performance RSUs vest over these periods, provided that certain performance criteria, such as return on average tangible common equity, are met, based on performance periods that are specified for each grant. The following table presents information related to Performance RSUs and Time RSUs:

	Performance RSUs			Time RSUs		
	Number of Awards	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Number of Awards	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term
Nonvested awards as of December 31, 2018	2,236,683	\$90.70		320,903	\$76.49	
Granted	187,998	\$101.63		190,152	\$97.79	
Vested	(674,746)	\$84.59		(183,878)	\$70.28	
Canceled or forfeited	<u>(61,689)</u>	\$92.26		<u>(1,066)</u>	\$77.57	
Nonvested awards as of June 30, 2019	<u>1,688,246</u>	\$94.30	2.7 years	<u>326,111</u>	\$92.41	2.4 years

The total fair value of Performance RSUs that vested in the six months ended June 30, 2019 was \$65.4 million. The total fair value of Time RSUs that vested in the six months ended June 30, 2019 was \$18.9 million. No cash consideration was received in connection with the vesting of these awards.

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Performance Share Units

The Bank has granted performance share units (“PSUs”) to certain of its employees and officers. Upon vesting, one share of common stock is issued from the Bank’s authorized shares for each PSU. The number of shares of common stock issued at the time of vesting is generally net of shares withheld to pay taxes due upon vesting. Participants are entitled to dividends and voting rights only upon vesting. Certain PSUs vest in full after three years, subject to achieving certain performance criteria, while other PSUs vest evenly over periods ranging from three years to five years from the date of grant, provided that certain performance criteria are met. Performance criteria include metrics such as return on equity and return on average tangible common equity, and are based on performance periods that are specified for each grant. The following table presents information related to PSUs:

	Number of Awards	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term
Nonvested awards as of December 31, 2018	952,084	\$89.82	
Granted	—	—	
Vested	(270,717)	\$83.27	
Canceled or forfeited.	—	—	
Nonvested awards as of June 30, 2019	<u>681,367</u>	\$92.43	2.7 years

The total fair value of PSUs that vested in the six months ended June 30, 2019 was \$26.5 million. No cash consideration was received in connection with the vesting of these awards.

Restricted Stock Awards

The Bank previously granted restricted stock awards (“RSAs”) to certain of its employees and officers. Upon grant, one share of common stock is issued from the Bank’s authorized shares for each RSA. Upon vesting, common stock shares are transferred to the employee or officer. At the time of vesting, shares are generally withheld to pay the taxes due upon vesting. Participants are entitled to dividends and voting rights for all RSAs, regardless of whether the award has vested.

RSAs have performance-based vesting requirements (“Performance RSAs”) and vest on a quarterly basis through the end of 2019, provided that certain performance criteria are achieved for a specified performance period, such as return on average tangible common equity, return on average tangible assets and nonperforming asset ratios. The following table presents information related to Performance RSAs:

	Number of Awards	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term
Nonvested awards as of December 31, 2018	17,500	\$31.80	
Granted	—	—	
Vested	(8,750)	\$31.80	
Canceled or forfeited.	—	—	
Nonvested awards as of June 30, 2019	<u>8,750</u>	\$31.80	0.5 years

The total fair value of Performance RSAs that vested in the six months ended June 30, 2019 was \$867,000. No cash consideration was received in connection with the vesting of these awards.

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Compensation Expense

RSUs, PSUs and RSAs are valued at the closing market price of the Bank's common stock at the grant date, and compensation expense is recognized over the requisite service period, which is generally the vesting period. The Bank accounts for forfeitures of stock awards in the period they occur. All compensation costs related to stock options have been fully recognized.

The following tables present information regarding share-based compensation expense:

(\$ in thousands)	Quarter Ended June 30,				Six Months Ended June 30,			
	2019		2018		2019		2018	
	Expense Recognized	Related Tax Benefit	Expense Recognized	Related Tax Benefit	Expense Recognized	Related Tax Benefit	Expense Recognized	Related Tax Benefit
RSUs.....	\$ 18,000	\$ 5,182	\$ 15,002	\$ 4,471	\$ 37,340	\$ 10,808	\$ 30,645	\$ 9,132
PSUs.....	6,063	1,269	4,938	1,471	12,161	2,555	9,480	2,825
RSAs.....	139	42	139	42	278	83	278	83
Total.....	<u>\$ 24,202</u>	<u>\$ 6,493</u>	<u>\$ 20,079</u>	<u>\$ 5,984</u>	<u>\$ 49,779</u>	<u>\$ 13,446</u>	<u>\$ 40,403</u>	<u>\$ 12,040</u>

(\$ in thousands)	June 30, 2019	
	Unrecognized Expense	Weighted Average Expected Recognition Period
RSUs.....	\$ 171,371	2.8 years
PSUs.....	52,761	2.8 years
RSAs.....	277	0.5 years
Total.....	<u>\$ 224,409</u>	

Excess Tax Benefits

Excess tax benefits from exercise or vesting of share-based awards are included as a reduction in provision for income taxes in the period in which the exercise or vesting occurs. The following table presents excess tax benefits recognized, by award type:

(\$ in thousands)	Quarter Ended June 30,				Six Months Ended June 30,			
	2019		2018		2019		2018	
	Number of Awards Exercised or Vested	Related Excess Tax Benefit	Number of Awards Exercised or Vested	Related Excess Tax Benefit	Number of Awards Exercised or Vested	Related Excess Tax Benefit	Number of Awards Exercised or Vested	Related Excess Tax Benefit
Stock options	147,955	\$ 3,671	146,395	\$ 3,383	871,553	\$ 20,437	351,224	\$ 7,807
RSUs.....	849,522	4,613	786,878	6,458	858,624	4,664	802,203	6,644
PSUs.....	228,800	1,183	219,650	1,958	270,717	1,290	219,650	1,958
RSAs.....	4,375	86	4,375	86	8,750	176	8,750	167
Total.....	<u>1,230,652</u>	<u>\$ 9,553</u>	<u>1,157,298</u>	<u>\$ 11,885</u>	<u>2,009,644</u>	<u>\$ 26,567</u>	<u>1,381,827</u>	<u>\$ 16,576</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in the components of accumulated other comprehensive income (loss):

(\$ in thousands)	Securities Available- For-Sale	Securities Transferred from Available- For-Sale to Held-to- Maturity	Total	Securities Available- For-Sale	Securities Transferred from Available- For-Sale to Held-to- Maturity	Total
	Quarter Ended June 30, 2019			Six Months Ended June 30, 2019		
Beginning balance	\$ (14,800)	\$ 1,343	\$ (13,457)	\$ (20,945)	\$ 1,562	\$ (19,383)
Net unrealized gain on securities available-for-sale	18,231	—	18,231	26,169	—	26,169
Related tax effect	(5,433)	—	(5,433)	(7,798)	—	(7,798)
Reclassification of loss on securities available-for-sale to net income ⁽¹⁾	1,207	—	1,207	2,022	—	2,022
Related tax effect ⁽²⁾	(360)	—	(360)	(603)	—	(603)
Amortization of unrealized gain on securities transferred from available-for-sale to held-to-maturity ⁽³⁾	—	(238)	(238)	—	(550)	(550)
Related tax effect ⁽²⁾	—	71	71	—	164	164
Other comprehensive income (loss)	13,645	(167)	13,478	19,790	(386)	19,404
Ending balance	\$ (1,155)	\$ 1,176	\$ 21	\$ (1,155)	\$ 1,176	\$ 21
	Quarter Ended June 30, 2018			Six Months Ended June 30, 2018		
Beginning balance	\$ (16,517)	\$ 2,213	\$ (14,304)	\$ (6,472)	\$ 2,632	\$ (3,840)
Cumulative adjustments from adoption of new accounting guidance	—	—	—	(1,182)	—	(1,182)
Beginning balance after cumulative adjustments	(16,517)	2,213	(14,304)	(7,654)	2,632	(5,022)
Net unrealized gain on securities transferred from held-to-maturity to available-for-sale	—	—	—	17,528	—	17,528
Related tax effect	—	—	—	(5,223)	—	(5,223)
Net unrealized loss on securities available-for-sale	(5,818)	—	(5,818)	(8,663)	—	(8,663)
Related tax effect	1,734	—	1,734	2,582	—	2,582
Reclassification of loss (gain) on securities available-for-sale to net income ⁽¹⁾	1,291	—	1,291	(26,017)	—	(26,017)
Related tax effect ⁽²⁾	(384)	—	(384)	7,753	—	7,753
Amortization of unrealized gain on securities transferred from available-for-sale to held-to-maturity ⁽³⁾	—	(313)	(313)	—	(910)	(910)
Related tax effect ⁽²⁾	—	93	93	—	271	271
Other comprehensive loss	(3,177)	(220)	(3,397)	(12,040)	(639)	(12,679)
Ending balance	\$ (19,694)	\$ 1,993	\$ (17,701)	\$ (19,694)	\$ 1,993	\$ (17,701)

⁽¹⁾ Included in gain (loss) on investment securities on the consolidated statements of income and comprehensive income.

⁽²⁾ Included in provision for income taxes on the consolidated statements of income and comprehensive income.

⁽³⁾ Included in interest income on investments on the consolidated statements of income and comprehensive income.

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Note 14. Income Taxes

The Bank's effective tax rates for the quarter and six months ended June 30, 2019 were 17.4% and 16.5%, respectively. The Bank's effective tax rates for the quarter and six months ended June 30, 2018 were 16.8% and 18.0%, respectively. The following table presents the reconciliation between the effective tax rate and the federal statutory rate:

Effective Tax Rate	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Statutory rate.	21.0 %	21.0 %	21.0 %	21.0 %
State taxes, net of federal benefits	7.9 %	8.3 %	8.0 %	8.4 %
Tax-exempt income.	(6.5)%	(7.2)%	(6.6)%	(7.5)%
Investments in life insurance	(0.8)%	(0.8)%	(0.8)%	(0.8)%
Tax credits.	(14.9)%	(15.2)%	(15.0)%	(15.5)%
Tax credit investment amortization.	13.2 %	13.5 %	13.3 %	13.7 %
Excess tax benefits—stock options.	(1.3)%	(1.3)%	(3.8)%	(1.5)%
Excess tax benefits—other stock awards	(2.2)%	(3.4)%	(1.1)%	(1.8)%
FDIC assessments.	0.7 %	1.3 %	0.7 %	1.3 %
Other, net.	0.3 %	0.6 %	0.8 %	0.7 %
Effective tax rate	<u>17.4 %</u>	<u>16.8 %</u>	<u>16.5 %</u>	<u>18.0 %</u>

Note 15. Earnings Per Common Share (“EPS”)

The following table presents a reconciliation of the income and share amounts used in the basic and diluted earnings per common share computations:

(in thousands, except per share amounts)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Basic EPS:				
Net income.	\$ 222,564	\$ 209,781	\$ 449,155	\$ 408,864
Less: Dividends on preferred stock	12,788	12,163	25,575	24,385
Net income available to common shareholders.	<u>\$ 209,776</u>	<u>\$ 197,618</u>	<u>\$ 423,580</u>	<u>\$ 384,479</u>
Weighted average common shares outstanding.	<u>167,685</u>	<u>162,152</u>	<u>167,400</u>	<u>161,953</u>
Net income per common share—basic	<u>\$ 1.25</u>	<u>\$ 1.22</u>	<u>\$ 2.53</u>	<u>\$ 2.37</u>
Diluted EPS:				
Net income available to common shareholders.	<u>\$ 209,776</u>	<u>\$ 197,618</u>	<u>\$ 423,580</u>	<u>\$ 384,479</u>
Weighted average shares:				
Common shares outstanding	167,685	162,152	167,400	161,953
Dilutive effect of stock options	813	1,771	970	1,834
Dilutive effect of restricted stock awards, restricted stock units and performance share units . .	<u>1,074</u>	<u>1,090</u>	<u>1,133</u>	<u>1,142</u>
Weighted average diluted common shares outstanding	<u>169,572</u>	<u>165,013</u>	<u>169,503</u>	<u>164,929</u>
Net income per common share—diluted.	<u>\$ 1.24</u>	<u>\$ 1.20</u>	<u>\$ 2.50</u>	<u>\$ 2.33</u>

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Stock options, restricted stock awards, restricted stock units and performance share units that are anti-dilutive are not included in the calculation of diluted earnings per common share. The following table presents the weighted average shares of outstanding stock awards that were anti-dilutive for the periods indicated:

(in thousands)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Restricted stock units and performance share units	4	207	68	105

Note 16. Revenue from Contracts with Customers

Revenue Recognition

The following table presents revenue from contracts with customers, disaggregated by revenue stream, as well as other noninterest income:

(\$ in thousands)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<u>Noninterest income:</u>				
Revenue from contracts with customers:				
Investment management fees	\$ 93,720	\$ 82,925	\$ 178,644	\$ 161,042
Brokerage and investment fees	7,558	7,023	14,547	15,267
Insurance fees	3,696	1,121	5,810	2,795
Trust fees	4,227	3,606	8,116	7,095
Deposit fees	6,579	6,280	12,899	12,265
Other income	1,523	889	2,217	1,344
Total revenue from contracts with customers	117,303	101,844	222,233	199,808
Other sources of noninterest income	28,047	30,577	55,435	65,715
Total noninterest income	<u>\$ 145,350</u>	<u>\$ 132,421</u>	<u>\$ 277,668</u>	<u>\$ 265,523</u>

The Bank earns revenues from contracts with customers primarily for performing investment management, brokerage, sales of insurance and annuity policies, trust and deposit services. Most of the Bank's contracts with customers are open-ended, and the Bank provides services on an ongoing basis for an unspecified contract term. For these ongoing services, the fees are variable, since they are dependent on factors such as the value of underlying assets under management, assets under administration or volume of transactions. The Bank recognizes revenue over the period services are provided to customers and when the uncertainties that determine the amount of revenue are resolved, and the actual fees are known or can be estimated. For certain services that are provided at a specific point in time, the Bank recognizes revenue in full at the time such services are provided.

Contract Balances and Receivables

The Bank records contract liabilities, or deferred revenue, when payments from customers are received or due in advance of providing services to customers. The Bank generally receives payments for its services during the period or at the time services are provided and, therefore, does not have deferred revenue balances at period-end.

Receivables from contracts with customers were \$19.8 million and \$17.3 million at June 30, 2019 and December 31, 2018, respectively, and consist primarily of investment management and brokerage receivables, which are included in prepaid expenses and other assets on the consolidated balance sheets.

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Note 17. Segment Reporting

ASC 280-10, “Segment Reporting,” requires that a public business enterprise report certain financial and descriptive information about its reportable operating segments on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments. The Bank’s two reportable segments are Commercial Banking and Wealth Management.

The Commercial Banking segment represents most of the operations of the Bank, including real estate secured lending, retail deposit gathering, private banking activities, mortgage sales and servicing, and managing capital, liquidity and interest rate risk.

The Wealth Management segment consists of (i) the investment management activities of FRIM, which manages assets for individuals and institutions in equity securities, fixed income securities, balanced portfolios and alternative investments; (ii) First Republic Trust Company, a division of the Bank that offers personal trust and custody services; (iii) FRTC Delaware, a wholly-owned subsidiary of the Bank that provides personal trust and custody services; (iv) the Bank’s mutual fund activities through third-party providers; (v) the brokerage activities of FRSC; and (vi) the Bank’s foreign exchange activities conducted on behalf of clients. In addition, the Wealth Management segment earns fee income for offering sales of life insurance and annuity products to clients. Further, the Wealth Management segment earns fees for the Bank’s investment portfolio and earns a deposit earnings credit for client deposit accounts that are maintained at the Bank, including sweep deposit accounts.

Income tax expense for the segments is presented based on the segment’s contribution to total consolidated tax expense. Tax preference items are allocated to the segment responsible for the related investments resulting in the tax preference item.

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The following tables present the operating results, goodwill and total assets of the Bank's two reportable segments, as well as any reconciling items:

(\$ in thousands)	Commercial Banking	Wealth Management	Reconciling Items	Consolidated Total
<u>At or for the Quarter Ended June 30, 2019</u>				
Net interest income	\$ 652,471	\$ 21,555	\$ —	\$ 674,026
Provision for loan losses	21,200	—	—	21,200
Noninterest income from contracts with customers ⁽¹⁾	7,240	118,338	(8,275)	117,303
Other noninterest income	17,300	10,747	—	28,047
Noninterest income	24,540	129,085	(8,275)	145,350
Amortization of intangibles	506	2,598	—	3,104
Other noninterest expense	421,262	112,763	(8,275)	525,750
Noninterest expense	421,768	115,361	(8,275)	528,854
Income before provision for income taxes	234,043	35,279	—	269,322
Provision for income taxes	37,167	9,591	—	46,758
Net income	<u>\$ 196,876</u>	<u>\$ 25,688</u>	<u>\$ —</u>	<u>\$ 222,564</u>
Goodwill	<u>\$ 51,435</u>	<u>\$ 147,012</u>	<u>\$ —</u>	<u>\$ 198,447</u>
Total Assets	<u><u>\$ 105,200,861</u></u>	<u><u>\$ 705,302</u></u>	<u><u>\$ (206,527)</u></u>	<u><u>\$ 105,699,636</u></u>
<u>At or for the Quarter Ended June 30, 2018</u>				
Net interest income	\$ 592,508	\$ 19,185	\$ —	\$ 611,693
Provision for loan losses	19,370	—	—	19,370
Noninterest income from contracts with customers ⁽¹⁾	6,362	103,866	(8,384)	101,844
Other noninterest income	20,560	10,017	—	30,577
Noninterest income	26,922	113,883	(8,384)	132,421
Amortization of intangibles	940	3,259	—	4,199
Other noninterest expense	377,086	99,656	(8,384)	468,358
Noninterest expense	378,026	102,915	(8,384)	472,557
Income before provision for income taxes	222,034	30,153	—	252,187
Provision for income taxes	34,252	8,154	—	42,406
Net income	<u>\$ 187,782</u>	<u>\$ 21,999</u>	<u>\$ —</u>	<u>\$ 209,781</u>
Goodwill	<u>\$ 51,435</u>	<u>\$ 147,012</u>	<u>\$ —</u>	<u>\$ 198,447</u>
Total Assets	<u><u>\$ 93,416,924</u></u>	<u><u>\$ 636,367</u></u>	<u><u>\$ (201,831)</u></u>	<u><u>\$ 93,851,460</u></u>

⁽¹⁾ The Commercial Banking segment consists of noninterest income from contracts with customers related to deposit fees and the Wealth Management segment consists of investment management, brokerage and investment, insurance and trust fees.

FIRST REPUBLIC BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in thousands)	Commercial Banking	Wealth Management	Reconciling Items	Consolidated Total
<u>At or for the Six Months Ended June 30, 2019</u>				
Net interest income	\$ 1,303,375	\$ 45,689	\$ —	\$ 1,349,064
Provision for loan losses	35,400	—	—	35,400
Noninterest income from contracts with customers ⁽¹⁾	13,562	225,140	(16,469)	222,233
Other noninterest income	35,631	19,804	—	55,435
Noninterest income	49,193	244,944	(16,469)	277,668
Amortization of intangibles	1,121	5,363	—	6,484
Other noninterest expense	839,203	224,448	(16,469)	1,047,182
Noninterest expense	840,324	229,811	(16,469)	1,053,666
Income before provision for income taxes	476,844	60,822	—	537,666
Provision for income taxes	72,001	16,510	—	88,511
Net income	<u>\$ 404,843</u>	<u>\$ 44,312</u>	<u>\$ —</u>	<u>\$ 449,155</u>
Goodwill	<u>\$ 51,435</u>	<u>\$ 147,012</u>	<u>\$ —</u>	<u>\$ 198,447</u>
Total Assets	<u>\$ 105,200,861</u>	<u>\$ 705,302</u>	<u>\$ (206,527)</u>	<u>\$ 105,699,636</u>
<u>At or for the Six Months Ended June 30, 2018</u>				
Net interest income	\$ 1,161,846	\$ 37,605	\$ —	\$ 1,199,451
Provision for loan losses	32,370	—	—	32,370
Noninterest income from contracts with customers ⁽¹⁾	12,099	205,708	(17,999)	199,808
Other noninterest income	47,921	17,794	—	65,715
Noninterest income	60,020	223,502	(17,999)	265,523
Amortization of intangibles	1,990	6,681	—	8,671
Other noninterest expense	744,447	199,019	(17,999)	925,467
Noninterest expense	746,437	205,700	(17,999)	934,138
Income before provision for income taxes	443,059	55,407	—	498,466
Provision for income taxes	74,277	15,325	—	89,602
Net income	<u>\$ 368,782</u>	<u>\$ 40,082</u>	<u>\$ —</u>	<u>\$ 408,864</u>
Goodwill	<u>\$ 51,435</u>	<u>\$ 147,012</u>	<u>\$ —</u>	<u>\$ 198,447</u>
Total Assets	<u>\$ 93,416,924</u>	<u>\$ 636,367</u>	<u>\$ (201,831)</u>	<u>\$ 93,851,460</u>

⁽¹⁾ The Commercial Banking segment consists of noninterest income from contracts with customers related to deposit fees and the Wealth Management segment consists of investment management, brokerage and investment, insurance and trust fees.

The reconciling items for revenues include fees for managing the Bank's investment portfolio by FRIM and intercompany management fees related to the training and licensing of the Bank's licensed representatives by FRSC. The reconciling items for assets include subsidiary funds on deposit with the Bank and any intercompany receivable that is reimbursed at least on a quarterly basis.

Note 18. Subsequent Events

The Bank evaluated the effects of events that have occurred subsequent to the quarter ended June 30, 2019. There have been no material subsequent events that would require recognition in our consolidated financial statements as of or for the quarter and six months ended June 30, 2019 or disclosure in the notes to the financial statements.

FIRST REPUBLIC BANK
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Information Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in this Quarterly Report that are not historical facts are hereby identified as "forward-looking statements" for the purpose of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Any statements about our expectations, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "anticipates," "believes," "can," "could," "may," "predicts," "potential," "should," "will," "estimates," "plans," "projects," "continuing," "ongoing," "expects," "intends" and similar words or phrases. Accordingly, these statements are only predictions and involve estimates, known and unknown risks, assumptions and uncertainties. Our actual results could differ materially from those expressed or anticipated in such forward-looking statements as a result of risks and uncertainties more fully described under "Item 1A. Risk Factors" in this Quarterly Report or under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Form 10-K").

Forward-looking statements involving such risks and uncertainties include, but are not limited to, statements regarding:

- Projections of loans, assets, deposits, liabilities, revenues, expenses, tax liabilities, net income, capital expenditures, liquidity, dividends, capital structure, investments or other financial items;
- Expectations regarding the banking and wealth management industries;
- Descriptions of plans or objectives of management for future operations, products or services;
- Forecasts of future economic conditions generally and in our market areas in particular, which may affect the ability of borrowers to repay their loans and the value of real property or other property held as collateral for such loans;
- Our opportunities for growth and our plans for expansion (including opening new offices);
- Expectations about the performance of any new offices;
- Projections about the amount and the value of intangible assets, as well as amortization of recorded amounts;
- Future provisions for loan losses, changes in nonperforming assets, impairment of investments and our allowance for loan losses;
- Projections about future levels of loan originations or loan repayments;
- Projections regarding costs, including the impact on our efficiency ratio; and
- Descriptions of assumptions underlying or relating to any of the foregoing.

Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- Significant competition to attract and retain banking and wealth management customers, from both traditional and non-traditional financial services and technology companies;
- Our ability to recruit and retain key managers, employees and board members;

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- The possibility of earthquakes, fires and other natural disasters affecting the markets in which we operate;
- Interest rate risk and credit risk;
- Our ability to maintain and follow high underwriting standards;
- Economic and market conditions, including those affecting the valuation of our investment securities portfolio, which could result in other-than-temporary impairment if the general economy deteriorates, credit ratings decline, the financial condition of issuers deteriorates, interest rates increase or the liquidity for securities is limited;
- Real estate prices generally and in our markets;
- Our geographic and product concentrations;
- Demand for our products and services;
- Developments and uncertainty related to the future use and availability of reference rates, such as the London Interbank Offered Rate ("LIBOR") and the 11th District Monthly Weighted Average Cost of Funds Index ("COFI");
- The regulatory environment in which we operate, our regulatory compliance and future regulatory requirements;
- The impact of tax reform legislation;
- Any future changes to regulatory capital requirements;
- Legislative and regulatory actions affecting us and the financial services industry, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), including increased compliance costs, limitations on activities and requirements to hold additional capital, as well as changes to the Dodd-Frank Act pursuant to the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "EGRRCPA");
- Our ability to avoid litigation and its associated costs and liabilities;
- The impact of new accounting standards;
- Future Federal Deposit Insurance Corporation ("FDIC") special assessments or changes to regular assessments;
- Fraud, cybersecurity and privacy risks; and
- Custom technology preferences of our customers and our ability to successfully execute on initiatives relating to enhancements of our technology infrastructure, including client-facing systems and applications.

All forward-looking statements are necessarily only estimates of future results, and there can be no assurance that actual results will not differ materially from expectations, and, therefore, you are cautioned not to place undue reliance on such statements. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Quarterly Report, the 2018 Form 10-K and our other public filings under the Exchange Act. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

FIRST REPUBLIC BANK
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Selected Financial Data

The following table presents our selected financial data and ratios at the dates or for the periods indicated:

(\$ in thousands, except per share amounts)	At or for the Quarter Ended June 30,		At or for the Six Months Ended June 30,	
	2019	2018	2019	2018
Selected Financial Data:				
Interest income	\$ 885,732	\$ 734,439	\$ 1,732,749	\$ 1,422,913
Interest expense	211,706	122,746	383,685	223,462
Net interest income	674,026	611,693	1,349,064	1,199,451
Provision for loan losses	21,200	19,370	35,400	32,370
Net interest income after provision for loan losses	652,826	592,323	1,313,664	1,167,081
Noninterest income	145,350	132,421	277,668	265,523
Noninterest expense	528,854	472,557	1,053,666	934,138
Net income	222,564	209,781	449,155	408,864
Dividends on preferred stock	12,788	12,163	25,575	24,385
Net income available to common shareholders	\$ 209,776	\$ 197,618	\$ 423,580	\$ 384,479
Selected Ratios:				
Basic earnings per common share ("EPS")	\$ 1.25	\$ 1.22	\$ 2.53	\$ 2.37
Diluted EPS	\$ 1.24	\$ 1.20	\$ 2.50	\$ 2.33
Net income to average assets ⁽¹⁾	0.87%	0.94%	0.90%	0.93%
Net income available to common shareholders to average common equity ⁽¹⁾	10.22%	11.08%	10.47%	10.96%
Net income available to common shareholders to average tangible common equity ⁽¹⁾	10.56%	11.54%	10.82%	11.42%
Average total equity to average total assets	8.96%	8.95%	9.04%	9.00%
Dividends per common share	\$ 0.19	\$ 0.18	\$ 0.37	\$ 0.35
Dividend payout ratio	15.4%	15.0%	14.8%	15.0%
Book value per common share	\$ 49.23	\$ 43.88	\$ 49.23	\$ 43.88
Tangible book value per common share	\$ 47.64	\$ 42.15	\$ 47.64	\$ 42.15
Net interest margin ⁽¹⁾	2.85%	2.95%	2.91%	2.96%
Efficiency ratio ⁽²⁾	64.5%	63.5%	64.8%	63.8%
Selected Asset Quality Ratios:				
Nonperforming assets to total assets	0.14%	0.05%	0.14%	0.05%
Allowance for loan losses to total loans	0.58%	0.57%	0.58%	0.57%
Allowance for loan losses to nonperforming loans	326.3%	780.4%	326.3%	780.4%
Net loan charge-offs to average total loans ⁽¹⁾	0.01%	0.00%	0.00%	0.00%
Capital Ratios:				
Tier 1 leverage ratio	8.69%	8.83%	8.69%	8.83%
Common Equity Tier 1 ratio	10.19%	10.18%	10.19%	10.18%
Tier 1 risk-based capital ratio	11.39%	11.90%	11.39%	11.90%
Total risk-based capital ratio	13.02%	13.68%	13.02%	13.68%

⁽¹⁾ Ratios are annualized.

⁽²⁾ Efficiency ratio is the ratio of noninterest expense to the sum of net interest income and noninterest income.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

We derive our income from the following principal areas: (1) net interest income, which is our largest source of income, and constitutes the difference between the interest income that we receive from interest-earning assets, such as loans and investment securities, and the interest expense that we pay on interest-bearing liabilities, such as deposits and borrowings; (2) fee income from wealth management activities, including investment management, trust, brokerage, insurance, foreign exchange and other banking services; (3) fees for deposit services; (4) loan and related fees, including late charge income, loan-related processing fees, prepayment penalties on sold loans, and payoff fees; and (5) earnings from the sale and servicing of real estate secured loans. We currently operate our business through two business segments: Commercial Banking and Wealth Management.

Critical Accounting Policies and the Impact of Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to allowance for loan losses and income taxes. We base these estimates on our historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We consider these to be critical accounting policies because of the significance to our financial condition and results of operations and the complex and subjective judgments, assumptions and estimates involved. Actual results may differ from these estimates under different assumptions or conditions. For discussion of our critical accounting policies and estimates, refer to "—Critical Accounting Policies and the Impact of Accounting Estimates" in Item 7 of our 2018 Form 10-K.

Current Accounting Developments

For a discussion of accounting standards that became effective during the six months ended June 30, 2019, and accounting standards recently issued but that are not yet effective, refer to Note 1, "Summary of Significant Accounting Policies—Accounting Standards Adopted in 2019 and—Recent Accounting Standards," in "Item 1. Financial Statements."

Key Factors Affecting Our Business and Financial Statements

Regulatory and Supervisory Matters

Our results of operations are affected by the regulatory environment and requirements imposed on us by regulators. The extensive regulation and supervision that govern our business continues to evolve as the legal and regulatory framework changes and as our business grows. As described in our 2018 Form 10-K under "Item 1. Business—Supervision and Regulation," the Dodd-Frank Act significantly restructured the financial regulatory regime in the United States. The enactment of the EGRRCPA in May 2018 altered several provisions of the Dodd-Frank Act. Overall, the changes under the EGRRCPA mainly apply to smaller U.S. banks and to U.S. bank holding companies and, subject to rulemaking and implementation by our regulators, we expect them to have a limited effect on the Bank, including in the following areas, among others: a) company-run stress testing, b) treatment of municipal obligations as high quality liquid assets ("HQLA") and c) resolution planning. Specifically, the EGRRCPA and corresponding FDIC rule expanded the definition of HQLA to include certain municipal obligations, and HQLA now include such qualifying securities.

The EGRRCPA amended the Dodd-Frank Act to eliminate company-run stress testing requirements for financial institutions with less than \$250 billion in total consolidated assets, effective as of November 2019. We have been informed by the FDIC that they have extended our stress test filing and reporting deadlines until November 2019, at which point, under EGRRCPA, we would no longer be subject to the Dodd-Frank Act's requirement to conduct annual company-run stress tests.

In April 2019, the FDIC released an advance notice of proposed rulemaking about potential changes to its resolution planning requirements for certain insured depository institutions ("IDIs"). The FDIC has also indicated

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that it will extend the submission deadline for the next IDI resolution plans to a later date or dates that the FDIC will specify in connection with final amendments to its IDI resolution planning requirements.

We continue to evaluate the impact of these changes, and the nature, extent, timing and impact of any future changes to the Dodd-Frank Act and related regulatory requirements cannot be predicted.

Financial Highlights

At June 30, 2019, total assets were \$105.7 billion, a 7% increase compared to \$99.2 billion at December 31, 2018 and a 13% increase compared to \$93.9 billion at June 30, 2018.

Total investment securities were \$16.2 billion at both June 30, 2019 and December 31, 2018, a slight decrease from \$16.5 billion at June 30, 2018. Total investment securities represented 15% of total assets at June 30, 2019, compared to 16% at December 31, 2018 and 18% at June 30, 2018. Our holdings of assets that are considered HQLA, including eligible cash, totaled \$13.7 billion at June 30, 2019, compared to \$14.8 billion at December 31, 2018 and \$11.0 billion at June 30, 2018. At June 30, 2019 and December 31, 2018, HQLA included \$5.4 billion and \$5.2 billion, respectively, of municipal securities. At June 30, 2019, HQLA represented 13.3% of average total assets for the second quarter of 2019. For additional discussion regarding our investment portfolio, see “—Balance Sheet Analysis—Investments.”

At June 30, 2019, loans, excluding loans held for sale, were \$82.2 billion, an 8% increase compared to \$75.9 billion at December 31, 2018 and a 19% increase compared to \$69.1 billion at June 30, 2018. Our single family mortgage loans, including loans held for sale and home equity lines of credit (“HELOCs”), were \$44.4 billion and represented 54% of total loans at June 30, 2019, compared to \$40.6 billion, or 53% of total loans at December 31, 2018 and \$36.9 billion, or 53% of total loans at June 30, 2018.

Loan origination volume was \$9.4 billion for both the second quarter of 2019 and 2018, and was \$16.2 billion for the six months ended June 30, 2019, a slight decrease compared to \$16.7 billion for the six months ended June 30, 2018. The decrease for the six months was primarily due to decreases in business and multifamily loans, partially offset by an increase in single family loans.

Total deposits were \$83.4 billion at June 30, 2019, an increase of 6% compared to \$79.1 billion at December 31, 2018, and an increase of 15% compared to \$72.8 billion at June 30, 2018. Deposits increased as a result of expanding existing client relationships, referrals from existing clients, and new deposit clients. We continue to emphasize building banking relationships through checking and other transaction deposit accounts. At June 30, 2019, balances in business and personal checking accounts were \$48.7 billion, or 58% of total deposits, compared to \$47.1 billion, or 60% of total deposits at December 31, 2018 and \$43.9 billion, or 60% of total deposits at June 30, 2018. At June 30, 2019, business deposits were \$48.5 billion and represented 58% of total deposits, compared to \$44.3 billion, or 56% of total deposits at December 31, 2018, and \$40.7 billion, or 56% of total deposits at June 30, 2018.

Our Common Equity Tier 1 (“CET1”) and total risk-based capital ratios at June 30, 2019 were 10.19% and 13.02%, respectively. We continue to exceed regulatory guidelines for well-capitalized institutions. Refer to “—Capital Resources” for further discussion of capital ratios and our capital requirements.

Book value per common share was \$49.23 at June 30, 2019, a 5% increase from December 31, 2018 and a 12% increase during the last twelve months. Tangible book value per common share was \$47.64 at June 30, 2019, a 5% increase from December 31, 2018 and a 13% increase during the last twelve months.

During the first six months of 2019, we issued 2,000,000 shares of common stock in an “at-the-market” offering, which added \$170.6 million to common equity.

Cash dividends paid in the second quarter of 2019 were \$0.19 per share of common stock to shareholders of record as of April 25, 2019, compared to \$0.18 in the second quarter of 2018. On July 16, 2019, we declared a cash dividend for the second quarter of \$0.19 per share, which is payable on August 8, 2019 to shareholders of record as of July 25, 2019. Any future payment of dividends will be subject to ongoing regulatory oversight and board approval.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Wealth management assets under management ("AUM") and assets under administration ("AUA") were \$137.6 billion at June 30, 2019, an increase of \$11.4 billion, or 9%, from \$126.2 billion at December 31, 2018 and an increase of \$16.5 billion, or 14%, from \$121.1 billion at June 30, 2018. The increases in AUM and AUA were driven by net new assets from existing and new clients, and market appreciation, partially offset by outflows due to the departure of wealth managers announced in June 2019. The Bank currently expects an outflow of approximately \$4 billion of wealth management assets in the third quarter of 2019 from this departure.

The Bank's effective tax rate for the quarter and six months ended June 30, 2019 was 17.4% and 16.5%, respectively, compared to 16.8% and 18.0%, respectively, for the quarter and six months ended June 30, 2018. See "—Provision for Income Taxes" for additional information.

Results of Operations— Quarter and Six Months Ended June 30, 2019, Compared to Quarter and Six Months Ended June 30, 2018

Overview

Net income for the quarter and six months ended June 30, 2019 was \$222.6 million and \$449.2 million, compared to \$209.8 million and \$408.9 million for the quarter and six months ended June 30, 2018, respectively, an increase of \$12.8 million, or 6%, for the quarter, and an increase of \$40.3 million, or 10%, for the six months. Diluted EPS for the quarter and six months ended June 30, 2019 were \$1.24 and \$2.50, compared to \$1.20 and \$2.33 for the quarter and six months ended June 30, 2018, respectively, an increase of 3% for the quarter and an increase of 7% for the six months.

Net income for the Commercial Banking segment for the quarter and six months ended June 30, 2019 was \$196.9 million and \$404.8 million, compared to \$187.8 million and \$368.8 million for the quarter and six months ended June 30, 2018, respectively, an increase of 5% for the quarter and an increase of 10% for the six months. The Wealth Management segment's net income for the quarter and six months ended June 30, 2019 was \$25.7 million and \$44.3 million, compared to \$22.0 million and \$40.1 million for the quarter and six months ended June 30, 2018, respectively, an increase of 17% for the quarter and an increase of 11% for the six months. For a discussion of segment results, see "—Business Segments."

Net Interest Income

Net interest income for the quarter and six months ended June 30, 2019 was \$674.0 million and \$1.3 billion, compared to \$611.7 million and \$1.2 billion for the quarter and six months ended June 30, 2018, respectively, an increase of \$62.3 million, or 10%, for the quarter and an increase of \$149.6 million, or 12%, for the six months.

Fully taxable-equivalent net interest income for the quarter and six months ended June 30, 2019 was \$699.1 million and \$1.4 billion, compared to \$637.5 million and \$1.3 billion for the quarter and six months ended June 30, 2018, respectively, an increase of 10% for the quarter and an increase of 12% for the six months.

On an average basis, interest-earning assets and interest-bearing liabilities for the second quarter of 2019 increased 14% and 13%, respectively, from the second quarter of 2018. For the six months ended June 30, 2019, average interest-earning assets and interest-bearing liabilities increased 14% and 13%, respectively, from the six months ended June 30, 2018.

Yields/Rates (Fully Taxable-Equivalent Basis)

The following tables present the distribution of average assets, liabilities and equity, interest income and resulting yields on average interest-earning assets, and interest expense and rates on average interest-bearing liabilities on a fully taxable-equivalent basis.

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(\$ in thousands)	Quarter Ended June 30,					
	2019			2018		
	Average Balance	Interest Income/Expense ⁽¹⁾	Yields/Rates ⁽²⁾	Average Balance	Interest Income/Expense ⁽¹⁾	Yields/Rates ⁽²⁾
Assets:						
Cash and cash equivalents	\$ 1,091,353	\$ 5,547	2.04%	\$ 1,404,683	\$ 5,685	1.62%
Investment securities:						
U.S. Government-sponsored agency securities	1,031,797	7,675	2.98%	1,044,897	7,772	2.98%
Mortgage-backed securities ("MBS"):						
Agency residential and commercial MBS	6,669,868	47,724	2.86%	7,423,001	50,842	2.74%
Other residential and commercial MBS	4,523	43	3.78%	4,753	38	3.21%
Municipal securities	8,497,645	96,980	4.57%	8,044,313	94,478	4.69%
Other investment securities ⁽³⁾	19,332	127	2.63%	19,863	127	2.55%
Total investment securities	16,223,165	152,549	3.76%	16,536,827	153,257	3.70%
Loans:						
Residential real estate	42,851,879	357,475	3.34%	36,424,028	287,872	3.16%
Multifamily	11,064,723	110,508	3.95%	9,389,300	87,044	3.67%
Commercial real estate	7,013,324	75,180	4.24%	6,276,975	65,473	4.13%
Construction	2,161,475	26,534	4.86%	1,893,614	22,238	4.65%
Business	11,410,239	131,658	4.57%	9,181,127	98,061	4.22%
Other	5,346,380	46,581	3.45%	4,414,474	35,746	3.20%
Total loans	79,848,020	747,936	3.73%	67,579,518	596,434	3.51%
Federal Home Loan Bank ("FHLB") stock	331,218	4,813	5.83%	300,068	4,850	6.48%
Total interest-earning assets	97,493,756	910,845	3.72%	85,821,096	760,226	3.53%
Noninterest-earning assets:						
Noninterest-earning cash	345,174			344,451		
Goodwill and other intangibles	269,404			283,575		
Other assets	4,319,976			3,472,410		
Total noninterest-earning assets	4,934,554			4,100,436		
Total Assets	\$ 102,428,310			\$ 89,921,532		
Liabilities and Equity:						
Deposits:						
Checking	\$ 45,813,205	6,946	0.06%	\$ 43,377,084	5,478	0.05%
Money market checking and savings	19,323,615	51,536	1.07%	16,885,281	21,787	0.52%
Certificates of deposit ("CDs")	12,799,189	70,706	2.22%	8,710,862	34,762	1.60%
Total deposits	77,936,009	129,188	0.66%	68,973,227	62,027	0.36%
Borrowings:						
Short-term borrowings	2,875,590	18,282	2.55%	1,419,945	6,652	1.88%
Long-term FHLB advances	9,132,967	49,601	2.18%	8,904,396	39,045	1.76%
Senior notes ⁽⁴⁾	835,544	5,534	2.65%	895,364	5,925	2.65%
Subordinated notes ⁽⁴⁾	777,628	9,101	4.68%	777,230	9,097	4.68%
Total borrowings	13,621,729	82,518	2.43%	11,996,935	60,719	2.03%
Total interest-bearing liabilities	91,557,738	211,706	0.93%	80,970,162	122,746	0.61%
Noninterest-bearing liabilities	1,695,606			899,451		
Preferred equity	940,000			900,989		
Common equity	8,234,966			7,150,930		
Total Liabilities and Equity	\$ 102,428,310			\$ 89,921,532		
Net interest spread ⁽⁵⁾			2.79%			2.92%
Net interest income (fully taxable-equivalent basis) and net interest margin ⁽⁶⁾		\$ 699,139	2.85%		\$ 637,480	2.95%
Reconciliation of tax-equivalent net interest income to reported net interest income:						
Municipal securities tax-equivalent adjustment		(18,505)			(19,264)	
Business loans tax-equivalent adjustment		(6,608)			(6,523)	
Net interest income, as reported		\$ 674,026			\$ 611,693	

⁽¹⁾ Interest income is presented on a fully taxable-equivalent basis.

⁽²⁾ Yields/rates are annualized.

⁽³⁾ Includes mutual funds and marketable equity securities.

⁽⁴⁾ Average balances include unamortized issuance discounts and costs. Interest expense includes amortization of issuance discounts and costs.

⁽⁵⁾ Net interest spread represents the average yield on interest-earning assets less the average rate on interest-bearing liabilities.

⁽⁶⁾ Net interest margin represents net interest income on a fully taxable-equivalent basis divided by total average interest-earning assets.

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(\$ in thousands)	Six Months Ended June 30,					
	2019			2018		
	Average Balance	Interest Income/Expense ⁽¹⁾	Yields/Rates ⁽²⁾	Average Balance	Interest Income/Expense ⁽¹⁾	Yields/Rates ⁽²⁾
Assets:						
Cash and cash equivalents	\$ 1,267,228	\$ 13,536	2.15%	\$ 1,266,512	\$ 9,598	1.53%
Investment securities:						
U.S. Treasury and other U.S. Government agency securities	—	—	—%	9,467	87	1.84%
U.S. Government-sponsored agency securities	1,038,310	15,452	2.98%	1,100,333	16,213	2.95%
MBS:						
Agency residential and commercial MBS	6,761,842	97,343	2.88%	7,516,223	100,951	2.69%
Other residential and commercial MBS	4,525	88	3.91%	5,410	185	6.83%
Municipal securities	8,340,025	191,481	4.59%	8,215,189	194,023	4.72%
Other investment securities ⁽³⁾	19,161	247	2.58%	19,923	244	2.45%
Total investment securities	<u>16,163,863</u>	<u>304,611</u>	<u>3.77%</u>	<u>16,866,545</u>	<u>311,703</u>	<u>3.70%</u>
Loans:						
Residential real estate	41,917,755	699,259	3.34%	35,584,566	553,401	3.11%
Multifamily	10,831,925	211,164	3.88%	9,121,973	165,732	3.61%
Commercial real estate	6,877,314	147,661	4.27%	6,211,132	127,985	4.10%
Construction	2,170,260	53,289	4.88%	1,835,197	42,863	4.65%
Business	11,046,209	252,702	4.55%	8,886,468	187,575	4.20%
Other	5,218,077	90,528	3.45%	4,191,601	66,488	3.15%
Total loans	<u>78,061,540</u>	<u>1,454,603</u>	<u>3.72%</u>	<u>65,830,937</u>	<u>1,144,044</u>	<u>3.47%</u>
FHLB stock	<u>305,157</u>	<u>9,988</u>	<u>6.60%</u>	<u>290,568</u>	<u>9,828</u>	<u>6.82%</u>
Total interest-earning assets	<u>95,797,788</u>	<u>1,782,738</u>	<u>3.71%</u>	<u>84,254,562</u>	<u>1,475,173</u>	<u>3.50%</u>
Noninterest-earning assets:						
Noninterest-earning cash	345,205			346,000		
Goodwill and other intangibles	270,879			285,750		
Other assets	<u>4,258,367</u>			<u>3,456,666</u>		
Total noninterest-earning assets	<u>4,874,451</u>			<u>4,088,416</u>		
Total Assets	<u>\$ 100,672,239</u>			<u>\$ 88,342,978</u>		
Liabilities and Equity:						
Deposits:						
Checking	\$ 46,162,715	13,040	0.06%	\$ 42,911,318	10,987	0.05%
Money market checking and savings	19,296,363	93,854	0.98%	17,008,048	39,925	0.47%
CDs	<u>12,095,546</u>	<u>130,041</u>	<u>2.17%</u>	<u>8,179,175</u>	<u>61,502</u>	<u>1.52%</u>
Total deposits	<u>77,554,624</u>	<u>236,935</u>	<u>0.62%</u>	<u>68,098,541</u>	<u>112,414</u>	<u>0.33%</u>
Borrowings:						
Short-term borrowings	1,921,431	24,312	2.55%	1,054,503	9,161	1.75%
Long-term FHLB advances	8,820,165	92,768	2.12%	8,630,939	71,845	1.68%
Senior notes ⁽⁴⁾	865,930	11,468	2.65%	895,153	11,849	2.65%
Subordinated notes ⁽⁴⁾	<u>777,578</u>	<u>18,202</u>	<u>4.68%</u>	<u>777,182</u>	<u>18,193</u>	<u>4.68%</u>
Total borrowings	<u>12,385,104</u>	<u>146,750</u>	<u>2.39%</u>	<u>11,357,777</u>	<u>111,048</u>	<u>1.97%</u>
Total interest-bearing liabilities	<u>89,939,728</u>	<u>383,685</u>	<u>0.86%</u>	<u>79,456,318</u>	<u>223,462</u>	<u>0.57%</u>
Noninterest-bearing liabilities	1,630,305			939,648		
Preferred equity	940,000			871,492		
Common equity	<u>8,162,206</u>			<u>7,075,520</u>		
Total Liabilities and Equity	<u>\$ 100,672,239</u>			<u>\$ 88,342,978</u>		
Net interest spread ⁽⁵⁾			2.85%			2.93%
Net interest income (fully taxable-equivalent basis) and net interest margin ⁽⁶⁾		<u>\$ 1,399,053</u>	2.91%		<u>\$ 1,251,711</u>	2.96%
Reconciliation of tax-equivalent net interest income to reported net interest income:						
Municipal securities tax-equivalent adjustment		(36,803)			(39,440)	
Business loans tax-equivalent adjustment		<u>(13,186)</u>			<u>(12,820)</u>	
Net interest income, as reported		<u>\$ 1,349,064</u>			<u>\$ 1,199,451</u>	

⁽¹⁾ Interest income is presented on a fully taxable-equivalent basis.

⁽²⁾ Yields/rates are annualized.

⁽³⁾ Includes mutual funds and marketable equity securities.

⁽⁴⁾ Average balances include unamortized issuance discounts and costs. Interest expense includes amortization of issuance discounts and costs.

⁽⁵⁾ Net interest spread represents the average yield on interest-earning assets less the average rate on interest-bearing liabilities.

⁽⁶⁾ Net interest margin represents net interest income on a fully taxable-equivalent basis divided by total average interest-earning assets.

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Interest Income

Total interest income consists of interest income on loans and investments, FHLB stock dividends, and interest income on cash and cash equivalents. Total interest income was \$885.7 million and \$1.7 billion for the quarter and six months ended June 30, 2019, compared to \$734.4 million and \$1.4 billion for the quarter and six months ended June 30, 2018, respectively, an increase of \$151.3 million, or 21%, for the quarter and an increase of \$309.8 million, or 22%, for the six months. The increase for the second quarter of 2019 was the result of an increase of 14% in average interest-earning assets, which were \$97.5 billion, compared to \$85.8 billion for the second quarter of 2018, and an increase in the average yield on interest-earning assets to 3.72% from 3.53% for the second quarter of 2018. The increase for the six months ended June 30, 2019 was the result of an increase of 14% in average interest-earning assets, which were \$95.8 billion, compared to \$84.3 billion for the six months ended June 30, 2018, and an increase in the average yield on interest-earning assets to 3.71% from 3.50% for the six months ended June 30, 2018.

Loans

Interest income on loans for the quarter and six months ended June 30, 2019 was \$741.3 million and \$1.4 billion, compared to \$589.9 million and \$1.1 billion for the quarter and six months ended June 30, 2018, respectively, an increase of \$151.4 million, or 26%, for the quarter, and an increase of \$310.2 million, or 27%, for the six months due to continued loan growth and increases in the average yield. Fully taxable-equivalent interest income on loans was \$747.9 million for the second quarter of 2019, compared to \$596.4 million for the second quarter of 2018, an increase of 25%, and was \$1.5 billion for the six months ended June 30, 2019, compared to \$1.1 billion for the six months ended June 30, 2018, an increase of 27%.

Average loan balances were \$79.8 billion for the second quarter of 2019, compared to \$67.6 billion for the second quarter of 2018, an increase of 18%, and were \$78.1 billion for the six months ended June 30, 2019, compared to \$65.8 billion for the six months ended June 30, 2018, an increase of 19%. The average yield on loans was 3.73% for the second quarter of 2019, compared to 3.51% for the second quarter of 2018, and was 3.72% for the six months ended June 30, 2019, compared to 3.47% for the six months ended June 30, 2018.

Interest income on loans included prepayment penalty fees of \$4.3 million and \$6.4 million for the quarter and six months ended June 30, 2019, compared to \$2.1 million and \$3.5 million for the quarter and six months ended June 30, 2018, respectively. The increases in these fees compared to the same periods a year ago were primarily due to higher prepayments on multifamily loans.

Our yield on loans is affected by a number of factors: market interest rates, the level of adjustable-rate loan indices, interest rate floors and caps, the repayment rate of loans, portfolio mix and the level of nonaccrual loans. Our weighted average contractual loan rate (on a fully taxable-equivalent basis) was 3.69% at June 30, 2019, compared to 3.68% at December 31, 2018 and 3.52% at June 30, 2018. For adjustable-rate mortgages ("ARMs"), the yield is also affected by the timing of changes in the loan rates, which generally lag market rate changes. At June 30, 2019, approximately 31% of our total loans were adjustable-rate or mature within one year, compared to 33% and 34% at December 31, 2018 and June 30, 2018, respectively.

Investments

Interest income on investments for the quarter and six months ended June 30, 2019 was \$134.0 million and \$267.8 million, compared to \$134.0 million and \$272.3 million for the quarter and six months ended June 30, 2018, respectively, a slight decrease for the six months primarily due to lower average investment balances, partially offset by higher yield. Fully taxable-equivalent interest income on investments was \$152.5 million and \$304.6 million for the quarter and six months ended June 30, 2019, compared to \$153.3 million and \$311.7 million for the quarter and six months ended June 30, 2018, a slight decrease for both the quarter and the six months.

Average investment balances were \$16.2 billion for both the quarter and six months ended June 30, 2019, compared to \$16.5 billion for the second quarter of 2018 and \$16.9 billion for the six months ended June 30, 2018, a

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decrease of 2% for the quarter and a decrease of 4% for the six months. The average yield on investment securities for the second quarter of 2019 was 3.76%, compared to 3.70% for the second quarter of 2018, an increase of 6 basis points, and was 3.77% for the six months ended June 30, 2019, compared to 3.70% for the six months ended June 30, 2018, an increase of 7 basis points. The yield increases were the result of higher yield on agency residential and commercial MBS, and also due to a change in the mix of the investment portfolio.

FHLB Stock

Dividends on FHLB stock for the quarter and six months ended June 30, 2019 were \$4.8 million and \$10.0 million, compared to \$4.9 million and \$9.8 million for the quarter and six months ended June 30, 2018, respectively, a slight decrease for the quarter and a slight increase for the six months. The fluctuations in dividend income for these periods were driven by changes in average FHLB stock balances. The average yield on FHLB stock was 5.83% for the second quarter of 2019, compared to 6.48% for the second quarter of 2018, and was 6.60% for the six months ended June 30, 2019, compared to 6.82% for the six months ended June 30, 2018. Average FHLB stock balances were \$331.2 million for the second quarter of 2019, compared to \$300.1 million for the second quarter of 2018, an increase of 10%, and were \$305.2 million for the six months ended June 30, 2019, compared to \$290.6 million for the six months ended June 30, 2018, an increase of 5%.

Interest Expense

Total interest expense consists of interest expense on deposits, federal funds purchased, FHLB advances, senior notes, subordinated notes and other borrowings. Total interest expense was \$211.7 million and \$383.7 million for the quarter and six months ended June 30, 2019, compared to \$122.7 million and \$223.5 million for the quarter and six months ended June 30, 2018, respectively, an increase of \$89.0 million, or 72%, for the quarter, and an increase of \$160.2 million, or 72%, for the six months. The increase for the second quarter of 2019 was the result of an increase of 13% in average interest-bearing liabilities, which were \$91.6 billion, compared to \$81.0 billion for the second quarter of 2018, and an increase in the average cost of interest-bearing liabilities to 0.93% from 0.61% for the second quarter of 2018. The increase for the six months ended June 30, 2019 was the result of an increase of 13% in average interest-bearing liabilities, which were \$89.9 billion, compared to \$79.5 billion for the six months ended June 30, 2018, and an increase in the average cost of interest-bearing liabilities to 0.86% from 0.57% for the six months ended June 30, 2018.

Deposits

Interest expense on deposits was \$129.2 million and \$236.9 million for the quarter and six months ended June 30, 2019, compared to \$62.0 million and \$112.4 million for the quarter and six months ended June 30, 2018, respectively, an increase of \$67.2 million for the quarter, and an increase of \$124.5 million for the six months. The increases in interest expense were driven by an increase in rates paid on deposits due to an increase in market rates of interest, along with growth in deposit balances. The average interest rate paid on deposits was 0.66% and 0.36% for the second quarter of 2019 and 2018, and was 0.62% and 0.33% for the six months ended June 30, 2019 and 2018, respectively.

Average deposit balances were \$77.9 billion for the second quarter of 2019, an increase of 13% from \$69.0 billion for the second quarter of 2018, and were \$77.6 billion for the six months ended June 30, 2019, an increase of 14% from \$68.1 billion for the six months ended June 30, 2018. The following table presents average deposit balances by deposit type as a percentage of average total deposits:

Average Deposits by Type as a % of Average Total Deposits	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Checking	59%	63%	59%	63%
Money market checking and savings	25%	24%	25%	25%
CDs	16%	13%	16%	12%

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At June 30, 2019, our total deposits were \$83.4 billion, compared to \$72.8 billion at June 30, 2018, an increase of 15%, and the weighted average contractual rate paid on total deposits was 0.71% and 0.45%, respectively. We will continue to focus on growth in our core deposit base to fund a significant percentage of our future asset growth, although there can be no assurance we will be successful. If we are not successful, we may need to use other sources of funding, such as federal funds purchased, FHLB advances, unsecured term senior notes or unsecured term subordinated notes, which are generally higher in cost.

Borrowings

Interest expense on borrowings was \$82.5 million and \$146.8 million for the quarter and six months ended June 30, 2019, compared to \$60.7 million and \$111.0 million for the quarter and six months ended June 30, 2018, respectively, an increase of \$21.8 million, or 36%, for the quarter, and an increase of \$35.7 million, or 32%, for the six months. Such increases were primarily due to increases in average short-term borrowings and long-term FHLB advances, as well as higher market interest rates on new borrowings.

Short-term borrowings, which include federal funds purchased and short-term FHLB advances, have an original maturity of one year or less. There were no short-term borrowings at June 30, 2019, compared to \$600.0 million at June 30, 2018. Interest expense on short-term borrowings was \$18.3 million and \$24.3 million for the quarter and six months ended June 30, 2019, compared to \$6.7 million and \$9.2 million for the quarter and six months ended June 30, 2018, respectively, an increase of \$11.6 million for the quarter and an increase of \$15.2 million for the six months. The increases were due to increases in both average short-term borrowings and their average cost. Average short-term borrowings for the quarters ended June 30, 2019 and 2018 were \$2.9 billion and \$1.4 billion, and were \$1.9 billion and \$1.1 billion for the six months ended June 30, 2019 and 2018, respectively. The average cost of short-term borrowings was 2.55% and 1.88% for the quarters ended June 30, 2019 and 2018, and was 2.55% and 1.75% for the six months ended June 30, 2019 and 2018, respectively.

At June 30, 2019, long-term FHLB advances outstanding were \$9.8 billion, compared to \$9.7 billion at June 30, 2018. Interest expense on long-term FHLB advances was \$49.6 million and \$92.8 million for the quarter and six months ended June 30, 2019, compared to \$39.0 million and \$71.8 million for the quarter and six months ended June 30, 2018, respectively, an increase of \$10.6 million, or 27%, for the quarter, and an increase of \$20.9 million, or 29%, for the six months. The increases were primarily due to increases in the average cost of long-term FHLB advances as a result of the increase in interest rates over the past year, which impacted new FHLB advances, as well as due to higher average balances. The average cost of long-term FHLB advances was 2.18% and 1.76% for the second quarter of 2019 and 2018, respectively, and was 2.12% and 1.68% for the six months ended June 30, 2019 and 2018, respectively. Average long-term FHLB advances for the second quarter of 2019 were \$9.1 billion, compared to \$8.9 billion for the second quarter of 2018, an increase of 3%, and were \$8.8 billion for the six months ended June 30, 2019, compared to \$8.6 billion for the six months ended June 30, 2018, an increase of 2%. Average long-term FHLB advances as a proportion of total average interest-bearing liabilities were 10% for both the quarter and six months ended June 30, 2019, compared to 11% for both the quarter and six months ended June 30, 2018, respectively.

At June 30, 2019, the carrying value of unsecured senior notes was \$497.3 million, compared to \$895.6 million at June 30, 2018. Interest expense on our fixed-rate senior notes was \$5.5 million and \$11.5 million for the quarter and six months ended June 30, 2019, compared to \$5.9 million and \$11.8 million for the quarter and six months ended June 30, 2018, respectively, and includes contractual interest, increased by amortization of issuance discounts and offering costs. The 2.375% fixed-rate senior notes issued in June 2014 of \$400.0 million were repaid at their maturity date in June 2019.

At June 30, 2019, the carrying value of unsecured subordinated notes totaled \$777.7 million, compared to \$777.3 million at June 30, 2018. Interest expense on our fixed-rate subordinated notes was \$9.1 million for the quarters ended June 30, 2019 and 2018, and \$18.2 million for the six months ended June 30, 2019 and 2018, respectively, and includes contractual interest, increased by amortization of issuance discounts and offering costs.

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Provision for Loan Losses

The provision for loan losses was \$21.2 million and \$35.4 million for the quarter and six months ended June 30, 2019, compared to \$19.4 million and \$32.4 million for the quarter and six months ended June 30, 2018, respectively. The provision for loan losses is related primarily to growth in loans outstanding and reflects management's continuing assessment of the credit quality of the Bank's loan portfolio and our overall allowance methodology, which considers, among other things, the Bank's loan growth, level and type of loans originated and current trends in the Bank's markets.

Noninterest Income

The following table presents noninterest income:

(\$ in thousands)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Investment management fees	\$ 93,720	\$ 82,925	\$ 178,644	\$ 161,042
Brokerage and investment fees	8,287	7,705	15,946	16,563
Insurance fees	3,696	1,121	5,810	2,795
Trust fees	4,227	3,606	8,116	7,095
Foreign exchange fee income	10,345	9,547	18,976	16,944
Deposit fees	6,579	6,280	12,899	12,265
Loan and related fees	4,296	4,134	8,303	7,751
Loan servicing fees, net	3,425	3,186	7,213	6,705
Gain (loss) on sale of loans	(15)	4,045	344	4,734
Gain (loss) on investment securities	(1,063)	(1,027)	(1,212)	8,170
Income from investments in life insurance	10,049	9,612	19,384	19,089
Other income	1,804	1,287	3,245	2,370
Total noninterest income	<u>\$ 145,350</u>	<u>\$ 132,421</u>	<u>\$ 277,668</u>	<u>\$ 265,523</u>

Noninterest income for the quarter and six months ended June 30, 2019 was \$145.4 million and \$277.7 million, compared to \$132.4 million and \$265.5 million for the quarter and six months ended June 30, 2018, respectively, an increase of \$12.9 million, or 10%, for the quarter and an increase of \$12.1 million, or 5%, for the six months. The increases for the quarter and six months were primarily due to an increase in wealth management fees. The increase for the six months was partially offset by a decrease in gain on investment securities from the repositioning of the Bank's investment portfolio in the first quarter of 2018.

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Wealth Management Fees

Wealth management fees consist of fees earned for the management or administration of clients' assets, as well as commissions and trading revenues generated from the execution of client-related brokerage and investment activities and fees earned for assisting clients with foreign exchange transactions. For additional information on the AUM and AUA for the entities comprising the Wealth Management segment, see "—Business Segments."

Investment management fees. We provide traditional portfolio management and customized client portfolios through First Republic Investment Management, Inc. ("FRIM"). We earn fee income from the management of equity securities, fixed income securities, balanced portfolios and alternative investments for our clients. In addition, we employ experienced wealth managers to work with our relationship managers to generate new AUM using an open architecture platform. Investment management fees for the quarter and six months ended June 30, 2019 were \$93.7 million and \$178.6 million, compared to \$82.9 million and \$161.0 million for the quarter and six months ended June 30, 2018, respectively, a 13% increase for the quarter and an 11% increase for the six months. The increases in investment management fees were primarily due to increases in AUM. Investment management fees vary with the amount of assets managed and the type of services and investments chosen by the client, which are impacted by market conditions. Generally, higher fees are earned for managing equity securities than for managing a fixed income portfolio. FRIM's AUM were \$61.2 billion at June 30, 2019, compared to \$59.3 billion at June 30, 2018, an increase of 3% primarily from the addition of assets from existing and new clients and market appreciation, partially offset by a decrease in assets driven by the departure of wealth managers announced in June 2019. The addition of client assets was the result of growth in investment management services to Bank clients, acquiring new clients, the successful marketing efforts of existing wealth managers and the hiring of experienced wealth managers who brought their clients with them. The departure of wealth managers in the second quarter of 2019 is expected to impact investment management fees starting in the third quarter of 2019. The future level of these fees depends on the level and mix of AUM, conditions in the equity markets and our ability to attract new clients.

Brokerage and investment fees. We perform brokerage and investment activities for clients through First Republic Securities Company, LLC ("FRSC"). We employ wealth managers to acquire treasury securities, municipal bonds, money market mutual funds and other shorter-term liquid investments at the request of clients or their financial advisors, and to offer sales of insurance and annuity products to clients. These wealth managers can also execute transactions for a full array of longer-term equity and fixed income securities. Brokerage and investment fees for the quarter and six months ended June 30, 2019 were \$8.3 million and \$15.9 million, compared to \$7.7 million and \$16.6 million for the quarter and six months ended June 30, 2018, respectively, an 8% increase for the quarter and a 4% decrease for the six months. Such fees vary based on the volume and type of transaction activity, conditions in the securities markets and our ability to attract new clients. At June 30, 2019, we held \$64.9 billion of client assets in brokerage accounts through FRSC and in third-party money market mutual funds, compared to \$51.9 billion at June 30, 2018, an increase of 25%.

Insurance fees. We earn revenue from selling life insurance and annuity policies to our clients through FRSC and FRIM. Insurance fees consist of initial commissions when a policy is sold and subsequent commissions each year that a policy is renewed. Insurance fees for the quarter and six months ended June 30, 2019 were \$3.7 million and \$5.8 million, compared to \$1.1 million and \$2.8 million for the quarter and six months ended June 30, 2018, respectively, an increase of \$2.6 million for the quarter and an increase of \$3.0 million for the six months. Such fees vary based on the level of sales of insurance and annuity products and our ability to attract new clients. There is no underwriting risk for the Bank from the sale of insurance products.

Trust fees. First Republic Trust Company, a division of the Bank, and First Republic Trust Company of Delaware LLC ("FRTC Delaware") (collectively, the "Trust Company") specializes in personal trusts and custody services and operates in California, Oregon, Washington, New York, Massachusetts, Delaware, Florida and Connecticut. The Trust Company draws new trust clients from our Preferred Banking and wealth management client base, as well as from outside of our organization. Trust fees were \$4.2 million and \$8.1 million for the quarter and six months ended June 30, 2019, compared to \$3.6 million and \$7.1 million for the quarter and six months ended June 30, 2018, respectively, a 17% increase for the quarter and a 14% increase for the six months. The

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increases were primarily due to increases in assets under custody or administration from existing and new clients and market appreciation. At June 30, 2019, assets under custody or administration were \$11.5 billion, compared to \$9.9 billion at June 30, 2018, an increase of 17%. Trust fees are primarily based on the level and mix of assets under custody or administration and will vary in the future based on these factors.

Foreign exchange fee income. Foreign exchange fee income represents fees we earn from transacting foreign exchange business on behalf of our clients. We earned foreign exchange fee income of \$10.3 million and \$19.0 million for the quarter and six months ended June 30, 2019, compared to \$9.5 million and \$16.9 million for the quarter and six months ended June 30, 2018, respectively, an increase of 8% for the quarter and an increase of 12% for the six months. The amount of foreign exchange fees is primarily driven by volume of activity from both existing and new clients.

We execute foreign exchange trades with clients and then offset those trades with other financial institution counterparties, such as major investment banks or large commercial banks. We do not retain significant foreign exchange risk associated with these transactions, as the trades with the client and the financial institution counterparty are matched on our books. We do retain credit risk, both to the client and the counterparty institution, which is evaluated and managed by us in the normal course of our operations. In addition, we have foreign exchange contracts associated with client deposits denominated in various foreign currencies.

Other Noninterest Income

Deposit fees. We earn fees from our clients for deposit services. Deposit fees were \$6.6 million and \$12.9 million for the quarter and six months ended June 30, 2019, compared to \$6.3 million and \$12.3 million for the quarter and six months ended June 30, 2018, respectively, an increase of 5% for both the quarter and six months. The increases in deposit fees were primarily driven by volume of activity from both existing and new clients and growth in overall deposits.

Loan and related fees. Loan and related fee income was \$4.3 million and \$8.3 million for the quarter and six months ended June 30, 2019, compared to \$4.1 million and \$7.8 million for the quarter and six months ended June 30, 2018, respectively. Loan and related fee income includes: late charge income, which generally increases with growth in the average loan and servicing portfolios; loan-related processing fees that vary with market conditions and loan origination volumes; prepayment penalties on sold loans; and payoff fees that vary with loan repayment activity and market conditions such as the general level of longer-term interest rates.

Loan servicing fees, net. Net loan servicing fees are derived from the amount of loans serviced, the fees earned from servicing such loans (expressed as a percent of loans serviced that are retained), the amortization rate of mortgage servicing rights ("MSRs") and the amount of provisions for, or reversal of, the MSR valuation allowance. The following table presents net loan servicing fees:

(\$ in thousands)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Contractually specified servicing fees	\$ 6,883	\$ 7,639	\$ 13,941	\$ 15,284
MSR amortization expense	(3,458)	(4,453)	(6,728)	(8,579)
Loan servicing fees, net	<u>\$ 3,425</u>	<u>\$ 3,186</u>	<u>\$ 7,213</u>	<u>\$ 6,705</u>

Contractual servicing fees were \$6.9 million and \$13.9 million for the quarter and six months ended June 30, 2019, compared to \$7.6 million and \$15.3 million for the quarter and six months ended June 30, 2018, respectively, a decrease of 10% for the quarter and a decrease of 9% for the six months. The decreases were primarily due to the decline in the servicing portfolio. The average servicing portfolio was \$11.1 billion and \$11.3 billion for the quarter and six months ended June 30, 2019, compared to \$12.0 billion and \$12.2 billion for the quarter and six months ended June 30, 2018, respectively, a decrease of 8% for the quarter and a decrease of 7% for the six months. The amount of contractual servicing fees depends upon the size of the servicing portfolio, the terms of the loans at origination, the interest rate environment and conditions in the secondary market when the loans are

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sold, as well as the rate of loan payoffs. Annualized weighted average servicing fees collected as a percentage of loans serviced were 0.25% for both the second quarter of 2019 and 2018, and for both the six months ended June 30, 2019 and 2018.

The amount of net loan servicing fees that we record is affected by the rate of repayment of loans in the servicing portfolio. The overall annualized repayment speed experienced on loans serviced was 20% and 17% for the quarter and six months ended June 30, 2019, compared to 16% and 15% for the quarter and six months ended June 30, 2018, respectively. If actual repayments of loans serviced are lower than our estimate of future repayments, we could reduce the amortization of MSRs and release a valuation allowance, if any, which would increase our expected level of future earnings. If actual repayments on loans serviced are higher than our estimates of future repayments, we may be required to increase the amortization of MSRs and reduce the carrying value of MSRs through the establishment of a valuation allowance, thereby decreasing our expected level of current and future earnings.

Gain (loss) on sale of loans. The net gain (loss) on sales of loans fluctuates with the amount and type of loans sold. The amount of loans that we sell depends upon conditions in the mortgage origination, loan securitization and secondary loan sales markets, the interest rate environment, as well as our as well as our pricing and asset/liability management strategy. Gain (loss) on sale of loans also includes adjustments made to loans held for sale from any adjustments to the cost of loans based on current market prices. The following table presents loan sales activity and gain (loss) on sale of loans:

(\$ in thousands)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Gain (loss) on sale of loans	\$ (15)	\$ 4,045	\$ 344	\$ 4,734
Loans sold	\$ 29,036	\$ 721,921	\$ 209,665	\$ 883,332
Gain (loss) as a percentage of loans sold	(0.05)%	0.56%	0.16%	0.54%

The lower level of gain on sale of loans for both the quarter and six months ended June 30, 2019 compared to the same periods a year ago was primarily the result of the lower volume of loans sold, as well as lower margins.

Gain (loss) on investment securities. The gain (loss) on investment securities consists of activity from sales of investment securities and, beginning in 2018, also includes changes in fair value of the Bank's marketable equity securities. The gain (loss) varies based on the amount and type of investments sold and market conditions. The following table presents net gain (loss) on investment securities:

(\$ in thousands)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net gain (loss) on sales of investment securities	\$ (1,206)	\$ (1,290)	\$ (2,022)	\$ 8,490
Net change in fair value of equity securities	143	263	810	(320)
Gain (loss) on investment securities	<u>\$ (1,063)</u>	<u>\$ (1,027)</u>	<u>\$ (1,212)</u>	<u>\$ 8,170</u>

The gain on sales of investment securities for the six months ended June 30, 2018 was primarily due to the repositioning of the Bank's investment portfolio.

Income from investments in life insurance. Income from investments in bank-owned life insurance was \$10.0 million and \$19.4 million for the quarter and six months ended June 30, 2019, compared to \$9.6 million and \$19.1 million for the quarter and six months ended June 30, 2018, respectively. The book value of this portfolio of tax-exempt investments was \$1.4 billion and \$1.3 billion at June 30, 2019 and 2018, respectively.

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Noninterest Expense

The following table presents noninterest expense:

(\$ in thousands)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Salaries and employee benefits	\$ 297,524	\$ 271,935	\$ 610,777	\$ 548,959
Information systems	70,277	59,530	137,447	118,494
Occupancy	47,587	37,216	91,482	73,388
Professional fees	16,435	15,588	28,116	29,002
Advertising and marketing	16,700	15,120	32,434	27,048
FDIC assessments	9,196	16,064	18,099	31,596
Other expenses	71,135	57,104	135,311	105,651
Total noninterest expense	<u>\$ 528,854</u>	<u>\$ 472,557</u>	<u>\$ 1,053,666</u>	<u>\$ 934,138</u>

Noninterest expense for the quarter and six months ended June 30, 2019 was \$528.9 million and \$1.1 billion, compared to \$472.6 million and \$934.1 million for the quarter and six months ended June 30, 2018, respectively, an increase of \$56.3 million, or 12%, for the quarter and an increase of \$119.5 million, or 13%, for the six months. The increases in noninterest expense were primarily due to higher salaries and employee benefits, investments in information systems, and other expenses from the continued investments in the expansion of the franchise.

Noninterest expense was reduced by certain general and administrative costs, primarily compensation costs directly related to loan originations, which have been capitalized in accordance with Accounting Standards Codification ("ASC") 310-20, "Nonrefundable Fees and Other Costs." We capitalized loan origination costs of \$48.5 million and \$75.1 million for the quarter and six months ended June 30, 2019, compared to \$35.6 million and \$64.6 million for the quarter and six months ended June 30, 2018, respectively, an increase of 36% for the quarter and an increase of 16% for the six months. The amount of capitalized costs varies directly with the volume of loan originations and the costs incurred to make new loans. The capitalized costs are reported as net deferred loan fees and costs on our balance sheet and are amortized to interest income over the contractual life of the loans.

Our efficiency ratio, the ratio of noninterest expense to the sum of net interest income and noninterest income, was 64.5% for the second quarter of 2019, compared to 63.5% for the second quarter of 2018, and was 64.8% for the six months ended June 30, 2019, compared to 63.8% for the six months ended June 30, 2018. The increases in the efficiency ratio were primarily attributable to increased salaries and employee benefits and information systems costs from the continued investments in the expansion of the franchise. The increase in the efficiency ratio was further attributable to the reduction of the net interest margin in the second quarter of 2019, which reduced total revenues.

Salaries and employee benefits. Salaries and employee benefits is the largest component of noninterest expense and includes the cost of salaries, incentive compensation, benefit plans, health insurance and payroll taxes, which have collectively increased in each of the past several years as we hired additional personnel to support our growth and our enhanced regulatory infrastructure. Salaries and employee benefit expenses were \$297.5 million and \$610.8 million for the quarter and six months ended June 30, 2019, compared to \$271.9 million and \$549.0 million for the quarter and six months ended June 30, 2018, respectively, a 9% increase for the quarter and an 11% increase for the six months. The increases were primarily the result of the addition of new personnel to support higher levels of lending, deposit growth, expansion of wealth management and higher incentive compensation related to the continued expansion of our franchise. At June 30, 2019, we had 4,800 full-time equivalent employees, including temporary employees and independent contractors, a 13% increase from 4,242 at June 30, 2018.

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Information systems. These expenses include payments to vendors that provide software and services on an outsourced basis, costs related to supporting and developing internet-based activities and the costs associated with telecommunications for ATMs, office activities and internal networks. These expenses also include equipment depreciation and amortization costs of software and licenses. Expenses for information systems were \$70.3 million and \$137.4 million for the quarter and six months ended June 30, 2019, compared to \$59.5 million and \$118.5 million for the quarter and six months ended June 30, 2018, respectively, an 18% increase for the quarter, and a 16% increase for the six months. The increases in information systems costs were primarily due to continued technology initiatives to upgrade our systems, including our mobile and online banking platform, enhance the client experience and support our growth.

Occupancy. Occupancy costs were \$47.6 million and \$91.5 million for the quarter and six months ended June 30, 2019, compared to \$37.2 million and \$73.4 million for the quarter and six months ended June 30, 2018, respectively, a 28% increase for the quarter and a 25% increase for the six months. The increases were primarily due to expanding our office space in existing markets for new employees, increased rental costs in certain locations and rental costs for future banking office locations. We expect the level of occupancy costs to vary with the number of offices and our staffing levels.

Professional fees. Professional fees include legal services required to complete certain transactions, resolve legal matters or delinquent loans, and the cost of loan review professionals, co-sourced internal audit, external auditors and other consultants, including consulting services dedicated to technology initiatives. Such expenses were \$16.4 million and \$28.1 million for the quarter and six months ended June 30, 2019, compared to \$15.6 million and \$29.0 million for the quarter and six months ended June 30, 2018, respectively, an increase of 5% for the quarter and a decrease of 3% for the six months. The increase in professional fees for the quarter was primarily due to higher consulting fees, partially offset by lower legal fees. The decrease in professional fees for the six months was primarily due to lower consulting fees.

Advertising and marketing. We advertise in various forms of media, including digital media, newspapers, radio, and television, primarily to support growth in our Preferred Banking offices and for advertising and marketing initiatives related to Gradifi and the Bank's next generation of clients. Advertising and marketing expenses were \$16.7 million and \$32.4 million for the quarter and six months ended June 30, 2019, compared to \$15.1 million and \$27.0 million for the quarter and six months ended June 30, 2018, respectively, an increase of 10% for the quarter and an increase of 20% for the six months. These expenses vary based on the number of marketing initiatives, level of advertising costs and costs associated with holding client events to support our growth. The increases for the quarter and six months ended June 30, 2019 were primarily due to marketing initiatives associated with the Bank's next generation of clients and costs associated with holding client events to support our growth. The increase for the six months ended June 30, 2019 was also due to increases in deposit-related promotions.

FDIC assessments. FDIC assessments were \$9.2 million and \$18.1 million for the quarter and six months ended June 30, 2019, compared to \$16.1 million and \$31.6 million for the quarter and six months ended June 30, 2018, respectively, a 43% decrease for both the quarter and six months. The decreases were primarily due to the elimination of the FDIC assessment surcharge in the fourth quarter of 2018, partially offset by growth in the assessment base as a result of the growth in average total assets.

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Other expenses. Other expenses were \$71.1 million and \$135.3 million for the quarter and six months ended June 30, 2019, compared to \$57.1 million and \$105.7 million for the quarter and six months ended June 30, 2018, respectively, an increase of 25% for the quarter and an increase of 28% for the six months. These expenses include costs related to lending and deposit activities, client service, amortization of intangibles, insurance, hiring, training and other costs related to expanding operations. Other operating expenses include postage, charitable contributions, cash management, custody and clearing, and other miscellaneous expenses. Expenses in this category have increased primarily due to higher transaction volumes of loans, deposits and AUM and AUA, as well as an increase in the number of office locations and employees. The following table presents the main components of other expenses:

(\$ in thousands)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Deposit client related costs	\$ 20,480	\$ 12,896	\$ 40,524	\$ 23,267
Travel and entertainment	7,135	5,921	13,089	10,187
Loan related costs	4,593	5,913	8,125	10,862
Subscriptions	4,128	3,490	8,094	6,760
Training	3,975	3,640	8,005	6,279
Recruiting fees	4,704	1,884	6,890	3,302
Amortization of intangibles	3,104	4,199	6,484	8,671
Insurance	2,821	2,757	5,726	5,630
Other operating expenses	20,195	16,404	38,374	30,693
Total other expenses	<u>\$ 71,135</u>	<u>\$ 57,104</u>	<u>\$ 135,311</u>	<u>\$ 105,651</u>

Provision for Income Taxes

The provision for income taxes varies from statutory rates due to the amount of income for financial statement and tax purposes and the rates charged by federal and state authorities.

The Bank's effective tax rate for the second quarter of 2019 was 17.4%, compared to 16.8% for the second quarter of 2018. The Bank's effective tax rate for the six months ended June 30, 2019 was 16.5%, compared to 18.0% for the six months ended June 30, 2018. The effective tax rate varies based on the level of tax credit investments, tax-exempt securities, tax-advantaged loans, investments in life insurance and the amount of excess tax benefits from exercise or vesting of share-based awards. The increase for the quarter was primarily due to lower tax benefits from the vesting of stock awards. The decrease for the six months was primarily due to higher tax benefits from an increase in stock option exercises by employees.

The following table presents additional information about the effective tax rate:

Effective Tax Rate	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Effective tax rate, prior to excess tax benefits	20.9%	21.5%	21.4%	21.3%
Excess tax benefits—stock options	(1.3)%	(1.3)%	(3.8)%	(1.5)%
Excess tax benefits—other stock awards	(2.2)%	(3.4)%	(1.1)%	(1.8)%
Total excess tax benefits	<u>(3.5)%</u>	<u>(4.7)%</u>	<u>(4.9)%</u>	<u>(3.3)%</u>
Effective tax rate	<u>17.4%</u>	<u>16.8%</u>	<u>16.5%</u>	<u>18.0%</u>

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The number of options exercised or stock awards that vest, as well as the fair value at grant date and vesting date impact the amount of excess tax benefits recorded as a reduction in provision for income taxes. The following table presents excess tax benefits recognized for stock options exercised and other stock awards that vested during the periods indicated:

	Quarter Ended June 30,				Six Months Ended June 30,			
	2019		2018		2019		2018	
	Number of Awards Exercised or Vested	Related Excess Tax Benefit	Number of Awards Exercised or Vested	Related Excess Tax Benefit	Number of Awards Exercised or Vested	Related Excess Tax Benefit	Number of Awards Exercised or Vested	Related Excess Tax Benefit
(\$ in thousands)								
Stock options	147,955	\$ 3,671	146,395	\$ 3,383	871,553	\$ 20,437	351,224	\$ 7,807
Other stock awards . .	1,082,697	5,882	1,010,903	8,502	1,138,091	6,130	1,030,603	8,769
Total	<u>1,230,652</u>	<u>\$ 9,553</u>	<u>1,157,298</u>	<u>\$ 11,885</u>	<u>2,009,644</u>	<u>\$ 26,567</u>	<u>1,381,827</u>	<u>\$ 16,576</u>

Business Segments

We currently conduct our business through two reportable business segments: Commercial Banking and Wealth Management.

The principal business activities of the Commercial Banking segment are attracting funds from the general public, originating loans (primarily real estate secured mortgage loans) and investing in investment securities. The primary sources of revenue for this segment are: (1) interest earned on loans and investment securities, (2) gains on sales of loans, (3) fees earned in connection with loan and deposit services and (4) income earned on loans serviced for investors. Principal expenses for this segment are interest incurred on interest-bearing liabilities, including deposits and borrowings, general and administrative costs and provision for loan losses.

Our Wealth Management segment consists of (i) FRIM; (ii) our money market mutual fund activities through third-party providers and the brokerage activities of FRSC (these two activities collectively, "Brokerage and Investment"); (iii) our insurance services through FRSC and FRIM; (iv) the Trust Company; and (v) our foreign exchange activities. The Wealth Management segment's primary sources of revenue are fees earned for the management or administration of clients' assets, as well as commissions and trading revenues generated from the execution of client-related brokerage and investment activities and fees earned for assisting clients with foreign exchange transactions. In addition, Wealth Management earns fee income from sales of insurance and annuity products to clients and managing the Bank's investment portfolio and earns a deposit earnings credit for client deposit accounts that are maintained at the Bank, including sweep deposit accounts. The Wealth Management segment's principal expenses are personnel-related costs and other general and administrative expenses. For complete segment information, see Note 17 to "Item 1. Financial Statements."

Commercial Banking

Net interest income for Commercial Banking for the quarter and six months ended June 30, 2019 was \$652.5 million and \$1.3 billion, compared to \$592.5 million and \$1.2 billion for the quarter and six months ended June 30, 2018, respectively, an increase of 10% for the quarter and an increase of 12% for the six months primarily due to increases in interest-earning assets.

The provision for loan losses for Commercial Banking for the quarter and six months ended June 30, 2019 was \$21.2 million and \$35.4 million, compared to \$19.4 million and \$32.4 million for the quarter and six months ended June 30, 2018, respectively. The provision for loan losses is related primarily to growth in loans outstanding and reflects management's continuing assessment of the credit quality of the Bank's loan portfolio and our overall allowance methodology, which considers, among other things, the Bank's loan growth, level and type of loans originated and current trends in the Bank's markets.

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Noninterest income for Commercial Banking was \$24.5 million and \$49.2 million for the quarter and six months ended June 30, 2019, compared to \$26.9 million and \$60.0 million for the quarter and six months ended June 30, 2018, respectively, a decrease of 9% for the quarter and a decrease of 18% for the six months. The decreases for the quarter and six months were primarily due to a decrease in the gain on sale of loans. Noninterest income for the six months ended June 30, 2018 also includes a gain on investment securities from the repositioning of the Bank's investment portfolio.

Noninterest expense for Commercial Banking was \$421.8 million and \$840.3 million for the quarter and six months ended June 30, 2019, compared to \$378.0 million and \$746.4 million for the quarter and six months ended June 30, 2018, respectively, an increase of 12% for the quarter and an increase of 13% for the six months. The increases were primarily due to higher salaries and employee benefits, investments in information systems, and other expenses from the continued investments in the expansion of the franchise. The increases were primarily attributable to the addition of new personnel, higher incentive compensation and other activities that support lending and deposit growth.

Provision for income taxes for Commercial Banking for the quarter and six months ended June 30, 2019 was \$37.2 million and \$72.0 million, compared to \$34.3 million and \$74.3 million for the quarter and six months ended June 30, 2018, respectively, an increase of 9% for the quarter and a decrease of 3% for the six months. The increase for the quarter was the result of higher pre-tax income and lower tax benefits from the vesting of stock awards. The decrease for the six months was the result of higher tax benefits from an increase in stock option exercises by employees, partially offset by higher pre-tax income. In addition, the provision for income taxes varies based on the level of tax-advantaged investments.

Wealth Management

Net interest income for Wealth Management was \$21.6 million and \$45.7 million for the quarter and six months ended June 30, 2019, compared to \$19.2 million and \$37.6 million for the quarter and six months ended June 30, 2018, respectively, an increase of 12% for the quarter and an increase of 21% for the six months. Net interest income is earned from Wealth Management client deposits with the Bank, for which Wealth Management earns a deposit earnings credit and fees earned for Wealth Management sweep deposit accounts. Net interest income increased primarily as a result of growth in Wealth Management client deposits, including sweep deposit accounts.

Wealth Management client deposits totaled \$9.7 billion and \$7.3 billion at June 30, 2019 and 2018, respectively, including sweep deposits. Wealth Management client deposits, including sweep accounts, averaged \$9.7 billion and \$7.0 billion for the second quarter of 2019 and 2018, respectively, and averaged \$9.6 billion and \$7.1 billion for the six months ended June 30, 2019 and 2018, respectively. As noted above, Wealth Management is allocated a deposit earnings credit and fees as net interest income, which is included in the Wealth Management results. Annualized net interest income as a percentage of the average deposits generated by Wealth Management represented 0.89% for the second quarter of 2019, compared to 1.09% for the second quarter of 2018, and 0.96% for the six months ended June 30, 2019, compared to 1.06% for the six months ended June 30, 2018.

The allocated earnings credit represents only a portion of the total net interest income generated by these deposits for the Bank. The Bank's holistic approach to generating a full relationship with our clients is reflected in the total impact that these Wealth Management deposits have to the Bank's overall net interest income. The Bank's consolidated net interest margin was 2.85% and 2.95% for the second quarter of 2019 and 2018, respectively, and was 2.91% and 2.96% for the six months ended June 30, 2019 and 2018, respectively. Using this overall net interest margin and the average Wealth Management deposits for each respective period, the Wealth Management deposits, on a consolidated basis, contributed net interest income of \$69.0 million and \$51.8 million for the second quarter of 2019 and 2018, respectively, and \$138.7 million and \$104.8 million for the six months ended June 30, 2019 and 2018, respectively.

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Noninterest income for Wealth Management was \$129.1 million and \$244.9 million for the quarter and six months ended June 30, 2019, compared to \$113.9 million and \$223.5 million for the quarter and six months ended June 30, 2018, respectively, an increase of 13% for the quarter and an increase of 10% for the six months. The increases were primarily due to higher investment management fees and insurance fees. Fees and other revenues increased as a result of an increase in AUM and AUA from the addition of assets from existing and new clients, and the hiring of new wealth managers, who brought in additional clients. The departure of wealth managers in the second quarter of 2019 is expected to impact noninterest income for Wealth Management starting in the third quarter of 2019.

Noninterest expense for Wealth Management was \$115.4 million and \$229.8 million for the quarter and six months ended June 30, 2019, compared to \$102.9 million and \$205.7 million for the quarter and six months ended June 30, 2018, respectively, an increase of 12% for both the quarter and six months. The increases were primarily due to higher salaries and benefits, including incentive compensation, as a result of overall growth in our business and the addition of new wealth managers. We continue to expand our client base and capabilities in all markets to grow this segment.

Provision for income taxes for Wealth Management for the quarter and six months ended June 30, 2019 was \$9.6 million and \$16.5 million, compared to \$8.2 million and \$15.3 million for the quarter and six months ended June 30, 2018, respectively, an increase of 18% for the quarter and an increase of 8% for the six months. The increases were primarily the result of higher pre-tax income.

AUM and AUA in the Wealth Management segment, in aggregate, were \$137.6 billion at June 30, 2019, compared to \$121.1 billion a year ago, an increase of 14% primarily driven by net new assets from new and existing clients, and market appreciation, partially offset by a decrease in assets driven by the departure of wealth managers announced in June 2019. Our Wealth Management strategy is focused on both managing investment portfolios for our clients and keeping custody of such assets in brokerage accounts at FRSC. By providing multiple services, we are able to better develop a full Wealth Management and banking relationship, as well as the ability to gather deposits, including sweep accounts. As described above, client deposits from Wealth Management generate net interest income for the Bank. Certain Wealth Management client assets that are held or managed by different areas within our Wealth Management business generate multiple revenue streams for the Bank. As a result of having these multiple revenue streams from certain client assets, such assets are included in more than one type of Wealth Management asset category in the table below. The following table presents the AUM and AUA by the entities comprising our Wealth Management segment:

(\$ in millions)	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
First Republic Investment Management . .	\$ 61,192	\$ 66,675	\$ 60,591	\$ 62,506	\$ 59,329
Brokerage and investment:					
Brokerage	61,583	59,391	53,046	54,823	50,356
Money market mutual funds	3,312	2,818	2,358	3,149	1,575
Total brokerage and investment	<u>64,895</u>	<u>62,209</u>	<u>55,404</u>	<u>57,972</u>	<u>51,931</u>
Trust Company:					
Trust	6,319	5,955	5,350	5,406	5,125
Custody	5,225	5,060	4,868	5,105	4,739
Total Trust Company	<u>11,544</u>	<u>11,015</u>	<u>10,218</u>	<u>10,511</u>	<u>9,864</u>
Total AUM and AUA	<u>\$ 137,631</u>	<u>\$ 139,899</u>	<u>\$ 126,213</u>	<u>\$ 130,989</u>	<u>\$ 121,124</u>

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The following table presents changes in AUM and AUA for our Wealth Management segment. Net client flow includes adding to the balance in existing accounts by the depositing of additional funds and the opening of new accounts, offset by the closing of accounts or the withdrawing of funds. The portion of the net change that cannot be attributed to the deposit or withdrawal of funds is reported in market appreciation. We currently expect an outflow of approximately \$4 billion of wealth management assets in the third quarter of 2019 from the departure of wealth managers announced in June 2019.

(\$ in millions)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Beginning balance	\$ 139,899	\$ 112,990	\$ 126,213	\$ 106,961
Net client flow	(5,773)	5,385	(2,914)	12,332
Market appreciation	3,505	2,749	14,332	1,831
Ending balance	<u>\$ 137,631</u>	<u>\$ 121,124</u>	<u>\$ 137,631</u>	<u>\$ 121,124</u>

The following table presents a distribution of FRIM's AUM by type of investment:

Investment Type	% of AUM				
	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Equities	49%	48%	46%	51%	51%
Fixed income	29%	33%	33%	31%	32%
Alternative investments	14%	12%	12%	11%	12%
Cash and cash equivalents	8%	7%	9%	7%	5%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The following table presents fee income as an annualized percentage of average AUM and AUA for Wealth Management:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018 ⁽¹⁾	2019	2018 ⁽¹⁾
First Republic Investment Management	0.59%	0.58%	0.57%	0.58%
Brokerage and investment:				
Brokerage	0.04%	0.05%	0.04%	0.05%
Money market mutual funds	0.38%	0.45%	0.37%	0.46%
Total brokerage and investment	0.05%	0.06%	0.05%	0.07%
Trust Company:				
Trust	0.21%	0.22%	0.20%	0.22%
Custody	0.08%	0.08%	0.09%	0.08%
Total Trust Company	0.15%	0.15%	0.15%	0.15%
Total	0.31%	0.32%	0.30%	0.32%

⁽¹⁾ The quarter and six months ended June 30, 2018 have been revised to exclude insurance fees, to conform to the current period presentation.

FIRST REPUBLIC BANK
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Balance Sheet Analysis

Investments

The following table presents the investment portfolio:

(\$ in thousands)	June 30, 2019	December 31, 2018
Available-for-sale:		
Agency residential MBS	\$ 24,178	\$ 26,095
Other residential MBS	4,533	4,552
Agency commercial MBS	1,361,902	1,701,021
Securities of U.S. states and political subdivisions—taxable	47,448	47,448
Total	<u>\$ 1,438,061</u>	<u>\$ 1,779,116</u>
Held-to-maturity:		
U.S. Government-sponsored agency securities	\$ 936,438	\$ 1,044,912
Agency residential MBS	1,782,206	1,868,587
Agency commercial MBS	3,416,070	3,375,409
Securities of U.S. states and political subdivisions:		
Tax-exempt municipal securities	8,369,215	7,952,605
Tax-exempt nonprofit debentures	140,982	142,508
Taxable municipal securities	76,657	52,952
Total	<u>\$ 14,721,568</u>	<u>\$ 14,436,973</u>
Equity (fair value):		
Mutual funds and marketable equity securities	<u>\$ 19,529</u>	<u>\$ 18,719</u>

The total combined investment securities portfolio represented 15% of total assets at June 30, 2019, compared to 16% at December 31, 2018.

The average duration of the available-for-sale portfolio was 1.9 and 1.5 years at June 30, 2019 and December 31, 2018, respectively. The average duration of the held-to-maturity portfolio was 7.1 years at June 30, 2019, compared to 7.7 years at December 31, 2018.

At June 30, 2019, the tax-exempt and taxable municipal securities had an average credit rating of AA and the portfolio was well-diversified with an average issuer position of approximately \$17.4 million. The tax-exempt nonprofit debentures are securities issued through state and local agencies where we have a banking relationship with nonprofit entities. The debentures are reviewed, approved and monitored by our business banking group, similar to business loans.

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Loan Portfolio

The following table presents the recorded investment in the Bank's loan portfolio and allowance for loan losses:

(\$ in millions)	June 30, 2019	December 31, 2018
Single family (1-4 units)	\$ 41,758	\$ 37,955
Home equity lines of credit	2,588	2,543
Multifamily (5+ units)	11,217	10,358
Commercial real estate	7,252	6,677
Single family construction	703	645
Multifamily/commercial construction	1,470	1,577
Total real estate mortgages	<u>64,988</u>	<u>59,755</u>
Business	11,687	10,999
Stock secured	1,515	1,433
Other secured	1,235	1,106
Unsecured	2,812	2,572
Total other loans	<u>17,249</u>	<u>16,110</u>
Total loans	<u>82,237</u>	<u>75,865</u>
Less:		
Allowance for loan losses	(473)	(439)
Loans, net	<u>81,764</u>	<u>75,426</u>
Loans held for sale	13	99
Total	<u>\$ 81,777</u>	<u>\$ 75,525</u>

The following table presents an analysis of the recorded investment in our loan portfolio at June 30, 2019, by category and major geographic location:

(\$ in millions)	San Francisco Bay Area	New York Metro Area	Los Angeles Area	Boston Area	San Diego Area	Other California Areas	Other	Total	%
Single family (1-4 units) ⁽¹⁾	\$ 16,684	\$ 9,147	\$ 7,062	\$ 4,329	\$ 1,223	\$ 371	\$ 2,955	\$ 41,771	51%
Home equity lines of credit	1,070	509	472	279	66	12	180	2,588	3%
Multifamily (5+ units)	4,634	2,390	1,832	329	1,085	353	594	11,217	14%
Commercial real estate	3,102	1,479	1,266	329	176	161	739	7,252	9%
Business	4,922	2,101	1,875	770	316	16	1,687	11,687	14%
Construction	551	384	762	70	131	31	244	2,173	3%
Stock and other secured	625	669	367	289	67	17	716	2,750	3%
Unsecured	700	780	620	283	125	43	261	2,812	3%
Total	<u>\$ 32,288</u>	<u>\$ 17,459</u>	<u>\$ 14,256</u>	<u>\$ 6,678</u>	<u>\$ 3,189</u>	<u>\$ 1,004</u>	<u>\$ 7,376</u>	<u>\$ 82,250</u>	<u>100%</u>
% by location at June 30, 2019	39%	21%	18%	8%	4%	1%	9%	100%	
% by location at December 31, 2018	39%	21%	17%	8%	4%	2%	9%	100%	

⁽¹⁾ Includes loans held for sale.

At both June 30, 2019 and December 31, 2018, approximately 50% of total loans (based on recorded investment) were secured by real estate properties located in California. Future economic or political conditions, natural disasters or other developments in California could adversely affect the value of real estate secured mortgage loans.

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The Bank's loan portfolio includes: (1) adjustable-rate loans tied to Prime, LIBOR, COFI, and other reference rates such as 1-year Constant Maturity Treasury ("CMT"), which are currently adjustable; (2) hybrid-rate loans, for which the initial rate is fixed for a period from one year to as much as ten years; and (3) fixed-rate loans, for which the interest rate does not change through the life of the loan. The following table presents the recorded investment in our loan portfolio at June 30, 2019, by rate type:

(\$ in millions)	Adjustable Rate					Hybrid Rate	Fixed Rate	Total
	Prime	LIBOR	COFI	Other	Total			
Single family (1-4 units) ⁽¹⁾ . . .	\$ 158	\$ 2,270	\$ 2,892	\$ 197	\$ 5,517	\$ 31,357	\$ 4,897	\$ 41,771
Home equity lines of credit	2,580	5	—	—	2,585	—	3	2,588
Multifamily (5+ units)	306	345	2,167	132	2,950	5,515	2,752	11,217
Commercial real estate	273	312	457	15	1,057	2,561	3,634	7,252
Business	4,982	1,867	11	2	6,862	366	4,459	11,687
Construction	685	135	—	3	823	10	1,340	2,173
Stock and other secured	600	1,614	—	355	2,569	1	180	2,750
Unsecured	281	58	—	2	341	—	2,471	2,812
Total	<u>\$ 9,865</u>	<u>\$ 6,606</u>	<u>\$ 5,527</u>	<u>\$ 706</u>	<u>\$ 22,704</u>	<u>\$ 39,810</u>	<u>\$ 19,736</u>	<u>\$ 82,250</u>
% by rate type at June 30, 2019	12%	8%	7%	1%	28%	48%	24%	100%
% by rate type at December 31, 2018	12%	9%	8%	0%	29%	47%	24%	100%

⁽¹⁾ Includes loans held for sale.

At June 30, 2019, included in the hybrid-rate and fixed-rate loan portfolios are \$3.1 billion, or 4% of the total loan portfolio, that either (1) mature within one year; (2) are within one year of adjusting from the initial fixed-rate period; or (3) are committed for sale. In July 2019, the Federal Home Loan Bank of San Francisco announced it will no longer calculate and publish COFI after January 29, 2021, at which time any remaining loans with the Bank will transition to another reference rate. The Bank has a transition plan in place with respect to these loans.

Single Family

Our single family loans include loans that have an initial interest-only period. Subsequent to the initial interest-only period, these loans fully and evenly amortize until maturity. Underwriting standards for all such loans require substantial borrower net worth, substantial post-loan liquidity, excellent credit scores and significant down payments. As part of our underwriting standards, we verify the ability of the borrowers to repay our loans. At June 30, 2019, approximately \$28.0 billion, or 67%, of the unpaid principal balance of our single family loan portfolio, including loans held for sale, fully and evenly amortize until maturity following an initial interest-only period of generally ten years. Such loans were \$25.6 billion, or 68%, of the unpaid principal balance of our single family loan portfolio, at December 31, 2018. At June 30, 2019, loans of this type had a weighted average loan-to-value ratio ("LTV") of approximately 56%, based on appraised value at the time of origination, and had credit scores averaging 762 at origination. At June 30, 2019, interest-only home loans with an LTV at origination of more than 80% comprised less than 1% of the unpaid principal balance of our single family loan portfolio, including loans held for sale.

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The following table presents additional LTV information at origination for all single family loans, including loans held for sale:

(\$ in thousands)	June 30, 2019	
	Unpaid Principal Balance	% of Total
<u>LTV at Origination</u>		
Less than or equal to 60%	\$ 21,470,439	51.6%
Greater than 60% to 70%	13,311,011	32.0%
Greater than 70% to 80%	6,493,551	15.6%
Greater than 80%	343,434	0.8%
Total	<u>\$ 41,618,435</u>	<u>100.0%</u>

We do not originate single family loans with the characteristics generally described as “subprime” or “high cost.” Subprime loans are typically made to borrowers with little or no cash reserves and poor or limited credit. Often, subprime loans are underwritten using limited documentation. Over the past two years, the single family loans originated by us had a weighted average credit score of 760, and all of our home loans were underwritten using full documentation.

HELOCs

Our single family HELOC product requires the payment of interest each month on the outstanding balance. During the first ten years of the loan term, principal amounts may be repaid or drawn at the borrower's option; thereafter, the unpaid principal balance fully and evenly amortizes over a period of fifteen years. We underwrite HELOCs based on the same standards as single family home loans. As a result, our delinquency and loss experience on HELOCs has been similar to the experience for single family loans.

For HELOCs that are in second lien position, the LTVs in the table below are presented on a combined LTV (“CLTV”) basis, including the total HELOC commitment and any balance on a first residential mortgage. As of June 30, 2019, approximately 35% of HELOCs are in first lien position, and approximately 50% of HELOCs are in second lien position behind a first residential mortgage originated by us, including loans subsequently sold to investors. The following table presents CLTV information at origination for HELOCs, including both the unpaid principal balance and total commitment:

(\$ in thousands)	June 30, 2019		
	Unpaid Principal Balance	Total Commitment	% of Unpaid Principal Balance
<u>CLTV at Origination</u>			
Less than or equal to 60%	\$ 1,595,858	\$ 5,393,563	62.1%
Greater than 60% to 70%	709,182	1,917,011	27.6%
Greater than 70% to 80%	258,073	624,843	10.1%
Greater than 80%	5,250	10,256	0.2%
Total	<u>\$ 2,568,363</u>	<u>\$ 7,945,673</u>	<u>100.0%</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Multifamily

At June 30, 2019 and December 31, 2018, the unpaid principal balance of multifamily loans was \$11.2 billion and \$10.4 billion, respectively. At June 30, 2019 and December 31, 2018, included in this portfolio were \$4.8 billion and \$4.7 billion, respectively, of loans for which interest-only payments may be made for a period of up to ten years, depending upon the borrower, specific underwriting criteria and terms of the loans. At June 30, 2019, for multifamily loans that allow for interest-only payments, the weighted average LTV was 51% based on the appraised value at the time of origination. Additionally, at June 30, 2019 and December 31, 2018, we had committed to lend \$370.3 million and \$351.3 million, respectively, under lines of credit secured by the equity in multifamily real estate. The unpaid principal balance related to these commitments at June 30, 2019 and December 31, 2018 was \$137.7 million and \$134.4 million, respectively, representing 1.2% and 1.3% of the portfolio at June 30, 2019 and December 31, 2018, respectively; these lines of credit also allow for interest-only payments for an initial period.

Commercial Real Estate

At June 30, 2019 and December 31, 2018, the unpaid principal balance of commercial real estate loans was \$7.3 billion and \$6.7 billion, respectively. At June 30, 2019 and December 31, 2018, included in this portfolio were \$2.2 billion and \$1.9 billion, respectively, of loans for which interest-only payments may be made for a period of up to ten years, depending upon the borrower, specific underwriting criteria and terms of the loans. At June 30, 2019, for commercial real estate loans that allow for interest-only payments, the weighted average LTV was 45% based on the appraised value at the time of origination. Additionally, at June 30, 2019 and December 31, 2018, we had committed to lend \$355.7 million and \$336.2 million, respectively, under lines of credit secured by the equity in commercial real estate. The unpaid principal balance related to these commitments at June 30, 2019 and December 31, 2018 was \$129.9 million and \$120.2 million, respectively, both representing 1.8% of the portfolio at June 30, 2019 and December 31, 2018; these lines of credit also allow for interest-only payments for an initial period.

Business

Business loans provide funding for investment opportunities, bridge capital calls from investors, and meet the working capital cash flow requirements and various other financing needs of our business and non-profit clients. The business loan portfolio is comprised primarily of capital call lines to private equity and venture capital funds, and loans to independent schools and other non-profit organizations, which include social service organizations, the performing arts, museums, historical societies and community foundations. In addition, we provide operating lines of credit and term loans to other business clients to meet their working capital needs. The following table presents the recorded investment and total commitment for business loans by type:

(\$ in thousands)	June 30, 2019		December 31, 2018	
	Recorded Investment	Total Commitment	Recorded Investment	Total Commitment
Private Equity/Venture Capital Funds	\$ 5,820,319	\$ 15,222,786	\$ 5,116,390	\$ 13,425,814
Schools/Non-profit Organizations	3,388,944	4,184,787	3,356,479	4,107,191
Investment Firms	380,495	755,917	400,609	894,772
Real Estate Related Entities	421,462	866,374	339,278	737,221
Entertainment Industry	215,165	351,223	333,334	534,223
Aviation/Marine	376,262	381,099	360,926	367,591
Professional Service Firms	188,262	439,919	204,718	417,625
Vineyards/Wine	186,683	245,143	192,402	254,085
Clubs and Membership Organizations	158,872	239,920	155,921	207,960
Other	550,046	940,162	538,446	840,704
Total	<u>\$ 11,686,510</u>	<u>\$ 23,627,330</u>	<u>\$ 10,998,503</u>	<u>\$ 21,787,186</u>

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The following table presents the unpaid principal balance, total commitment and utilization percentages for business lines of credit by type:

(\$ in thousands)	Lines of Credit					
	June 30, 2019			December 31, 2018		
	Unpaid Principal Balance	Total Commitment	Utilization Percentage	Unpaid Principal Balance	Total Commitment	Utilization Percentage
Private Equity/Venture Capital Funds	\$ 5,762,410	\$ 15,160,095	38.0%	\$ 5,050,905	\$ 13,357,100	37.8%
Schools/Non-profit Organizations	285,650	1,079,056	26.5%	359,624	1,107,614	32.5%
Investment Firms	217,627	592,776	36.7%	221,658	715,583	31.0%
Real Estate Related Entities	196,303	639,709	30.7%	146,650	543,066	27.0%
Entertainment Industry	208,103	342,346	60.8%	326,338	524,610	62.2%
Aviation/Marine	14,105	18,260	77.2%	5,767	11,760	49.0%
Professional Service Firms	62,204	313,728	19.8%	86,088	298,832	28.8%
Vineyards/Wine	57,377	115,484	49.7%	63,088	124,467	50.7%
Clubs and Membership Organizations	28,632	109,450	26.2%	25,244	77,025	32.8%
Other	218,631	605,508	36.1%	208,768	508,084	41.1%
Total	<u>\$ 7,051,042</u>	<u>\$ 18,976,412</u>	37.2%	<u>\$ 6,494,130</u>	<u>\$ 17,268,141</u>	37.6%

Included within business lines of credit are capital call lines of credit, which are credit facilities that enable private equity and venture capital funds to bridge the timing between funding investments and receiving funds from limited partner capital calls. As of June 30, 2019, the unpaid principal balance and total commitment for capital call lines of credit was \$5.6 billion and \$14.8 billion, respectively, resulting in a utilization rate for these lines of credit of 37.9% at June 30, 2019.

The following table presents the unpaid principal balance of business term loans by type:

(\$ in thousands)	Term Loans	
	Unpaid Principal Balance	
	June 30, 2019	December 31, 2018
Private Equity/Venture Capital Funds	\$ 62,691	\$ 68,714
Schools/Non-profit Organizations	3,105,731	2,999,577
Investment Firms	163,141	179,189
Real Estate Related Entities	226,665	194,155
Entertainment Industry	8,877	9,613
Aviation/Marine	362,839	355,831
Professional Service Firms	126,191	118,793
Vineyards/Wine	129,659	129,618
Clubs and Membership Organizations	130,470	130,935
Other	334,654	332,620
Total	<u>\$ 4,650,918</u>	<u>\$ 4,519,045</u>

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Loan Originations

Our strategy is to originate relationship-based loans. While we emphasize loans secured by single family residences, we also selectively originate multifamily mortgages, commercial real estate mortgages and other loans, including business loans. At June 30, 2019, approximately 31% of our total loans, including loans held for sale, were currently adjustable-rate and reprice with indices or mature within one year. Some single family loans are originated for sale in the secondary market. From the inception of our predecessor institution in mid-1985 through June 30, 2019, we have originated approximately \$246 billion of loans, of which approximately \$35 billion have been sold to investors.

Loan origination volume was \$9.4 billion for both the second quarter of 2019 and 2018, and was \$16.2 billion for the six months ended June 30, 2019, a slight decrease compared to \$16.7 billion for the six months ended June 30, 2018. The decrease for the six months was primarily due to decreases in business and multifamily loans, partially offset by an increase in single family loans. The volume and type of loan originations depend on the level of interest rates, the demand for loans in our markets and other economic conditions.

We focus on originating specific loan types in our primary markets. The majority of our mortgage loans are secured by properties located in close proximity to one of our offices. The following table presents loan originations, by product type:

(\$ in thousands)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Single family (1-4 units)	\$ 4,067,326	\$ 3,125,316	\$ 6,257,221	\$ 5,452,028
Home equity lines of credit	356,589	416,098	708,727	762,431
Multifamily (5+ units)	817,428	921,723	1,402,881	1,683,307
Commercial real estate	571,454	341,707	820,282	617,390
Construction	416,446	384,236	666,018	849,042
Business	2,087,326	3,097,056	4,369,538	5,154,510
Stock and other secured	824,162	748,450	1,297,624	1,414,996
Unsecured	296,373	318,227	630,681	746,569
Total loans originated	<u>\$ 9,437,104</u>	<u>\$ 9,352,813</u>	<u>\$16,152,972</u>	<u>\$16,680,273</u>

The following table presents the weighted average LTVs for new loans secured by real estate originated during each of the periods indicated based on the appraised value at the time of origination. The single family loan category also includes loans originated and subsequently sold to investors.

LTVs for New Originations	Quarter Ended				
	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Single family (1-4 units)	60%	59%	59%	59%	59%
Home equity lines of credit ⁽¹⁾	52%	52%	53%	52%	53%
Multifamily (5+ units)	55%	51%	55%	51%	50%
Commercial real estate	48%	38%	51%	51%	47%
Construction	56%	53%	56%	56%	56%

⁽¹⁾ Presented on a CLTV basis, including the first residential mortgage and a second lien, where applicable.

The weighted average LTVs in all categories have remained consistent and conservative over the periods and are indicative of the high quality of the Bank's underwriting standards.

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The following table presents the weighted average credit scores for home loans originated during each of the periods indicated. The single family loan category also includes loans originated and subsequently sold to investors.

Weighted Average Credit Scores	Quarter Ended				
	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Single family (1-4 units)	767	765	764	766	766
Home equity lines of credit	766	764	763	768	768

The following table presents purchase loans and refinance loans as a percentage of total single family mortgage originations (excluding HELOCs) for each of the periods indicated:

Purchase and Refinance Composition	Quarter Ended				
	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Purchase loans	52%	50%	52%	55%	56%
Refinance loans	48%	50%	48%	45%	44%
Total	100%	100%	100%	100%	100%

We have approved a limited group of third-party appraisers to appraise all of the properties on which we make loans. Certain larger single family loans require two appraisals (with the lower value used for underwriting purposes). Our practice is to seldom exceed an 80% LTV on single family loans and an 80% CLTV on HELOCs. LTV ratios generally decline as the size of the loan increases. At origination, we generally do not exceed a 75% LTV on multifamily loans and a 70% LTV on commercial real estate loans.

The following table presents the weighted average LTVs based on the appraised value at the time of origination for our entire portfolio of loans secured by real estate at the dates indicated:

Portfolio LTVs	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Single family (1-4 units) ⁽¹⁾	58%	58%	58%	58%	57%
Home equity lines of credit ⁽²⁾	52%	52%	52%	52%	52%
Multifamily (5+ units)	51%	51%	51%	51%	51%
Commercial real estate	48%	48%	48%	48%	48%
Construction	55%	55%	55%	55%	55%

⁽¹⁾ Including loans held for sale.

⁽²⁾ Presented on a CLTV basis, including the first residential mortgage and a second lien, where applicable.

We either retain originated home loans in our loan portfolio or sell the loans in whole loan or loan participation arrangements, either in the secondary market or in loan securitizations. Loan sales are highly dependent upon market conditions. We have retained in our loan portfolio both ARMs and intermediate-fixed rate loans. As interest rates rise, payments on ARMs increase, which may be financially burdensome to some borrowers and could increase the risk of default. Subject to market conditions, our ARMs generally provide for a life cap that is 5% to 9% above the initial interest rate, thereby protecting borrowers from unlimited interest rate increases. As part of our standard underwriting guidelines, borrowers undergo a qualification process for an ARM loan assuming an interest rate that is higher than the initial rate.

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Asset Quality

We place an asset on nonaccrual status when any installment of principal or interest is 90 days or more past due (except for single family loans that are well secured and in the process of collection) or when management determines the ultimate collection of all contractually due principal or interest to be unlikely. Restructured loans for which we grant payment or significant interest rate concessions ("troubled debt restructurings") are placed on nonaccrual status until collectibility improves and a satisfactory payment history is established, generally by the receipt of at least six consecutive timely payments.

Our collection policies are highly focused with respect to both our portfolio loans and loans serviced for others. We have policies requiring rapid notification of delinquency and the prompt initiation of collection actions. Our practice is to attempt to resolve problem assets quickly, including the aggressive pursuit of foreclosure, other workout procedures or the sale of such problem assets as rapidly as possible at prices available in the prevailing market. For certain properties, we may make repairs and engage management companies in order to reach stabilized levels of occupancy prior to asset disposition. We believe our collection and foreclosure procedures comply with all applicable laws and regulations. We currently have a low level of loans in foreclosure and have not needed to suspend any of our foreclosure activities.

The following table presents nonaccrual loans, other real estate owned, restructured accruing loans and accruing loans 90 days or more past due, as well as the ratio of nonperforming assets to total assets:

(\$ in thousands)	June 30, 2019	December 31, 2018
Nonaccrual loans:		
Single family (1-4 units)	\$ 56,277	\$ 23,830
Home equity lines of credit	13,335	9,526
Multifamily (5+ units)	—	2,056
Commercial real estate	—	266
Single family construction	—	—
Multifamily/commercial construction	70,940	—
Business	3,213	6,540
Stock secured	—	—
Other secured	—	—
Unsecured	1,228	4,247
Total nonaccrual loans	144,993	46,465
Other real estate owned	—	—
Total nonperforming assets	<u>\$ 144,993</u>	<u>\$ 46,465</u>
Nonperforming assets to total assets	<u>0.14%</u>	<u>0.05%</u>
Restructured accruing loans	<u>\$ 12,176</u>	<u>\$ 11,514</u>
Accruing loans 90 days or more past due	<u>\$ —</u>	<u>\$ —</u>

See Note 3 in "Item 1. Financial Statements" for information related to interest income on nonaccrual loans for the quarters ended June 30, 2019 and 2018.

Of the loans on nonaccrual status, \$120.2 million were current at June 30, 2019, compared to \$21.1 million at December 31, 2018. The increase in nonaccrual loans at June 30, 2019 was from one lending relationship totaling \$92.7 million, consisting of single family, home equity lines of credit and non-owner occupied single family construction loans.

The future level of nonperforming assets depends upon a number of factors, including the performance of borrowers under loan terms, the timing of the sale of future other real estate owned properties and economic conditions nationally and in our primary markets.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Allowance for Loan Losses

We establish an allowance for loan losses for the inherent risk of probable losses, based upon established criteria, including the type of loan, loan characteristics, our and the industry's historical loss experience, and economic trends. Our allowance for loan losses is adjusted quarterly to maintain a level estimated by management to be appropriate to provide for losses that can be reasonably anticipated based upon specific conditions at the time. Our allowance for loan losses methodology, including allocation to specific loans and between the loan portfolio categories, requires management's consideration of a number of factors.

We evaluate any allowance for loan losses that would be required on acquired loans, which were recorded at fair value on the acquisition date, by evaluating whether the loans had experienced a deterioration in credit such as a decline in the fair value of the underlying collateral, the worsening of a borrower's financial condition, or a delinquency in payment. If the loan has experienced a credit deterioration, we provide an allowance by comparing any reserve required to the basis in the loans. In addition, we provide for any loan losses associated with new loan originations based upon our assessment of credit losses inherent in the portfolio.

We also maintain a qualitative reserve, which represents the qualitative portion of the allowance for loan losses. This qualitative reserve is determined based on management's assessments of the risks that may lead to a loan loss experience different than our historical loss experience and therefore not reflected in the quantitative model. We use qualitative factors that are intended to address developing external and internal environmental trends and include considerations such as changes in current economic and business conditions, the nature and volume of the Bank's loan portfolio, the existence and effects of credit concentrations, and problem loan trends, along with other external factors, such as competition and the legal and regulatory environment.

The provision for loan losses is related primarily to growth in loans outstanding and reflects management's continuing assessment of the credit quality of the Bank's loan portfolio and our overall allowance methodology, which considers, among other things, the Bank's loan growth, level and type of loans originated and current trends in the Bank's markets.

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The following table presents an analysis of our allowance for loan losses, including provisions for loan losses, charge-offs and recoveries:

(\$ in thousands)	At or for the Quarter Ended June 30,		At or for the Six Months Ended June 30,	
	2019	2018	2019	2018
Allowance for loan losses:				
Balance at beginning of period	\$ 453,121	\$ 378,778	\$ 439,048	\$ 365,932
Provision	21,200	19,370	35,400	32,370
Charge-offs:				
Single family (1-4 units)	(28)	—	(31)	—
Home equity lines of credit	—	(351)	—	(351)
Multifamily (5+ units)	—	—	—	—
Commercial real estate	—	—	—	—
Single family construction	—	—	—	—
Multifamily/commercial construction	—	—	—	—
Business	(1,229)	(557)	(1,229)	(561)
Stock secured	—	—	—	—
Other secured	—	—	—	—
Unsecured	(276)	—	(530)	(303)
Total charge-offs	<u>(1,533)</u>	<u>(908)</u>	<u>(1,790)</u>	<u>(1,215)</u>
Recoveries:				
Single family (1-4 units)	124	2	182	5
Home equity lines of credit	52	24	75	61
Multifamily (5+ units)	—	—	—	—
Commercial real estate	—	—	—	—
Single family construction	—	—	—	—
Multifamily/commercial construction	—	—	—	—
Business	8	24	29	125
Stock secured	—	—	—	—
Other secured	—	—	—	—
Unsecured	123	87	151	99
Total recoveries	<u>307</u>	<u>137</u>	<u>437</u>	<u>290</u>
Net loan charge-offs	<u>(1,226)</u>	<u>(771)</u>	<u>(1,353)</u>	<u>(925)</u>
Balance at end of period	<u>\$ 473,095</u>	<u>\$ 397,377</u>	<u>\$ 473,095</u>	<u>\$ 397,377</u>
Average total loans for the period	\$ 79,840,240	\$ 66,882,706	\$ 78,026,328	\$ 65,440,522
Total loans at period end	\$ 82,237,621	\$ 69,146,894	\$ 82,237,621	\$ 69,146,894
Total nonaccrual loans	\$ 144,993	\$ 50,920	\$ 144,993	\$ 50,920
Ratios:				
Net charge-offs to:				
Average total loans (annualized)	0.01%	0.00%	0.00%	0.00%
Allowance for loan losses to:				
Total loans	0.58%	0.57%	0.58%	0.57%
Nonaccrual loans	326.3%	780.4%	326.3%	780.4%

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Mortgage Banking Activities

In addition to originating loans for our own portfolio, we conduct mortgage banking activities. We have sold whole loans and participations in loans in the secondary market and in loan securitizations. We originate, on a direct flow basis, single family mortgages that are priced and underwritten to conform to previously agreed-upon criteria prior to loan funding and are delivered to the investor shortly after funding. We have also identified secondary market sources that seek to acquire loans of the type we originate for our loan portfolio.

The following table presents information on single family loans originated, loans sold and gain (loss) on sale of loans:

(\$ in thousands)	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Single family loans originated.	\$ 4,067,326	\$ 3,125,316	\$ 6,257,221	\$ 5,452,028
Loans sold:				
Flow sales:				
Agency	\$ 14,533	\$ 7,724	\$ 26,212	\$ 21,771
Non-agency	14,503	32,865	31,334	88,520
Total flow sales	29,036	40,589	57,546	110,291
Bulk sales:				
Non-agency	—	681,332	152,119	773,041
Total loans sold.	\$ 29,036	\$ 721,921	\$ 209,665	\$ 883,332
Gain (loss) on sale of loans:				
Amount	\$ (15)	\$ 4,045	\$ 344	\$ 4,734
Gain (loss) as a percentage of loans sold.	(0.05)%	0.56%	0.16%	0.54%

The level of loan originations, loan sales and gain (loss) on loan sales depend upon market conditions and the interest rate environment, as well as our pricing and asset/liability management strategies. The lower level of gain on sale of loans for both the quarter and six months ended June 30, 2019 compared to the same periods a year ago was primarily the result of the lower volume of loans sold, as well as lower margins. The level of future loan originations, loan sales and gain (loss) on loan sales will depend on overall credit availability, the interest rate environment, the strength of the general economy, local real estate markets and the housing industry, and conditions in the secondary loan sale market.

In connection with loan sales, we retain all the loan servicing in order to maintain the primary contact with our clients and to generate recurring fee income. We retain MSRs on loans that we sell to institutional investors and governmental agencies. We generally do not provide any financial or performance guarantees to the investors who purchase our loans and the purchasers do not have any recourse to the Bank on the loans that we have sold. In accordance with secondary market standards, we make customary representations and warranties related to the origination and documentation of sold loans. We have not been required to make any significant loan repurchases or incur any other significant costs subsequent to the sale of loans for any breach of these customary representations and warranties.

As of June 30, 2019, the Bank has an obligation to reimburse the Federal Home Loan Mortgage Corporation ("Freddie Mac") for losses up to \$30.2 million, or 12% of the multifamily loans securitized in 2018. As of June 30, 2019, the weighted average LTV of those loans was 57% based on the appraised value at the time of origination. Based upon the conservative underwriting characteristics of the underlying multifamily loans, the liability for estimated losses related to this reimbursement obligation based upon our credit loss analysis was only \$371,000 at June 30, 2019.

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The following table presents information on loans serviced for others and net loan servicing fees:

(\$ in thousands)	At or for the Quarter Ended June 30,		At or for the Six Months Ended June 30,	
	2019	2018	2019	2018
Loans serviced for others.	\$ 10,746,351	\$ 12,374,275	\$ 10,746,351	\$ 12,374,275
Loan servicing fees, net.	\$ 3,425	\$ 3,186	\$ 7,213	\$ 6,705

Mortgage loans serviced for investors decreased to \$10.7 billion at June 30, 2019, from \$12.4 billion at June 30, 2018, due to repayments in the servicing portfolio exceeding loan sales over the past twelve months. MSR's are recognized as separate assets on our balance sheet and are reported at the lower of amortized cost or fair value. At June 30, 2019, MSR's were \$49.6 million (46 basis points of loans serviced), compared to \$62.1 million (50 basis points of loans serviced) at June 30, 2018.

Our loan origination policies and consistent underwriting standards have resulted in a low historical loan loss experience on single family loans sold in the secondary market. Since our inception in 1985, we have experienced cumulative net loan losses of only \$9.6 million on single family loans sold. At June 30, 2019, single family loans serviced for investors that are 90 days or more past due were \$5.6 million, or 5 basis points of such loans serviced.

Deposit Gathering

We obtain funds from depositors by offering consumer and business checking, money market and passbook accounts, and term CDs. Our accounts are federally insured by the FDIC up to the maximum limit. At June 30, 2019, our total deposits were \$83.4 billion, a 6% increase from \$79.1 billion at December 31, 2018, as we continued to expand relationships with existing clients and acquire new deposit clients, both business and consumer.

Core deposits, which include checking accounts, money market accounts, savings accounts and CDs (excluding CDs greater than \$250,000 and all brokered deposits), provide a stable source of low cost funding. Core deposits totaled \$74.8 billion and \$72.6 billion at June 30, 2019 and December 31, 2018, respectively, and represented 90% of total deposits at June 30, 2019, compared to 92% at December 31, 2018. At June 30, 2019, total deposits included \$2.7 billion of brokered deposits, an increase from \$1.7 billion at December 31, 2018. At June 30, 2019, brokered deposits primarily consist of brokered CDs.

Our deposit base consists of: (1) deposits from Preferred Banking Offices, which are retail locations that gather deposits and service all of our clients; (2) Preferred Banking deposits, which are placed by clients who enter into deposit relationships directly with a relationship manager, business banker, preferred banker or wealth management professional; (3) wealth management sweep deposits, which primarily consist of deposits swept from clients' brokerage or other investment accounts; and (4) other deposits, which primarily consist of brokered deposits, municipal deposits, and other deposits that are not attributable to any specific deposit location.

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The following table presents deposits by channel, and by region in which the accounts are domiciled:

(\$ in thousands)	June 30, 2019	December 31, 2018
Preferred Banking Offices:		
Northern California	\$ 15,529,633	\$ 15,485,330
Metropolitan New York	4,785,301	5,088,101
Southern California	3,883,691	3,666,699
Boston	1,587,277	1,575,127
Subtotal	<u>25,785,902</u>	<u>25,815,257</u>
Preferred Banking:		
Northern California	22,733,110	18,761,256
Metropolitan New York	11,702,694	12,144,755
Southern California	6,472,687	6,171,983
Boston	7,471,968	8,300,381
Subtotal	<u>48,380,459</u>	<u>45,378,375</u>
Wealth management sweep	4,704,209	4,503,092
Other	4,560,513	3,366,512
Total deposits	<u>\$ 83,431,083</u>	<u>\$ 79,063,236</u>

The following table presents consumer and business deposits:

(\$ in thousands)	June 30, 2019	December 31, 2018
Consumer deposits:		
Checking	\$ 13,845,214	\$ 15,342,539
Money market checking	4,131,615	3,776,018
Money market savings and passbooks	5,392,855	6,048,923
CDs	11,558,772	9,636,575
	<u>34,928,456</u>	<u>34,804,055</u>
Business deposits:		
Checking	34,827,162	31,780,639
Money market checking	6,743,057	6,541,418
Money market savings	4,528,833	4,196,184
CDs	2,403,575	1,740,940
	<u>48,502,627</u>	<u>44,259,181</u>
Total	<u>\$ 83,431,083</u>	<u>\$ 79,063,236</u>

We fund a portion of our assets with CDs that have balances greater than \$250,000. At June 30, 2019 and December 31, 2018, our CDs having balances greater than \$250,000 totaled \$6.0 billion and \$4.8 billion, respectively. The following table presents the maturities of our CDs greater than \$250,000:

(\$ in thousands)	June 30, 2019
Remaining maturity:	
Three months or less	\$ 1,678,392
Over three through six months	2,436,926
Over six through twelve months	1,498,572
Over twelve months	391,469
Total	<u>\$ 6,005,359</u>
Percent of total deposits	7%

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At June 30, 2019 and December 31, 2018, the weighted average contractual rate paid on CDs was 2.26% and 2.05%, respectively, and the weighted average remaining maturity of CDs was 6.4 months and 9.1 months at the same respective period ends. The contractual maturities and weighted average contractual rate of our CDs were as follows:

(\$ in thousands)	June 30, 2019	
	Amount	Rate
Certificates of deposit maturing in:		
July 1 - December 31, 2019	\$ 8,878,091	2.23%
2020	4,473,281	2.31%
2021	279,489	2.21%
2022	128,474	2.22%
2023	86,339	2.41%
2024 and thereafter	116,674	2.85%
Total	<u>\$ 13,962,348</u>	2.26%

Other Funding

Other sources of funding include federal funds purchased, short-term and long-term FHLB advances and unsecured, term, fixed-rate senior notes and subordinated notes. Short-term borrowings, which include federal funds purchased and short-term FHLB advances, have an original maturity of one year or less. Long-term FHLB advances, senior notes and subordinated notes have an original maturity in excess of one year. As of June 30, 2019, we had no short-term borrowings outstanding.

FHLB Advances

FHLB advances may be either adjustable-rate in nature or fixed for a specific term. As of June 30, 2019, we had no short-term FHLB advances. Our long-term, laddered maturity, fixed-rate FHLB advances as of June 30, 2019 were \$9.8 billion. The weighted average remaining maturity of long-term FHLB advances was 1.2 years at June 30, 2019. The following table presents the contractual maturities and weighted average contractual rate of our long-term FHLB advances:

(\$ in thousands)	June 30, 2019	
	Amount	Rate
FHLB advances maturing in:		
July 1 - December 31, 2019	\$ 2,050,000	1.71%
2020	3,950,000	2.25%
2021	3,800,000	2.45%
Total	<u>\$ 9,800,000</u>	2.21%

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Senior Notes and Subordinated Notes

The following table presents the carrying values, coupon rates and maturity dates of the Bank's unsecured, term, fixed-rate senior notes and subordinated notes outstanding as of June 30, 2019. The 2.375% fixed-rate senior notes issued in June 2014 of \$400.0 million matured in June 2019, and, therefore, were no longer outstanding as of June 30, 2019.

(\$ in thousands)	June 30, 2019		
	Carrying Value ⁽¹⁾	Rate	Maturity Date
Senior notes:			
Fixed rate, issued June 2017	\$ 497,269	2.500%	June 2022
Subordinated notes:			
Fixed rate, issued August 2016	\$ 387,923	4.375%	August 2046
Fixed rate, issued February 2017	\$ 389,755	4.625%	February 2047

⁽¹⁾ Principal balance, net of unamortized issuance discounts and deferred issuance costs.

Available Borrowing Capacity

Our unused, available borrowing capacity at the FHLB and the Federal Reserve Bank discount window at June 30, 2019 was \$23.3 billion and \$2.4 billion, respectively. This available borrowing capacity is supported by pledged loans at the FHLB and investment securities at the Federal Reserve Bank. See "Item 3. Quantitative and Qualitative Disclosures About Market Risk—Interest Rate Risk Management" for additional information regarding our funding practices.

Liquidity

Liquidity refers to our capacity to meet our cash and collateral obligations and to manage both expected and unexpected cash flows without adversely impacting the operations or financial health of the Bank. Sources of liquidity include both unencumbered assets, such as marketable loans and securities, and traditional forms of funding, such as deposits, borrowings and equity. At June 30, 2019, our investment securities portfolio of \$16.2 billion and cash and cash equivalents of \$2.2 billion collectively comprised 17% of total assets. At June 30, 2019, assets that are considered HQLA, including eligible cash, were \$13.7 billion. HQLA include \$5.4 billion of municipal securities.

At June 30, 2019, we had \$23.3 billion of unused, available borrowing capacity at the FHLB supported by pledged loans. In addition, we had \$2.4 billion of unused, available borrowing capacity at the Federal Reserve Bank discount window collateralized by pledged investment securities. This unused, available borrowing capacity at the FHLB and the Federal Reserve Bank discount window equaled 24% of total assets.

We may also, from time to time, issue additional common stock, preferred stock, senior or subordinated notes or other forms of capital or debt instruments, depending on our capital, funding, asset-liability management or other needs as market conditions warrant and subject to any required regulatory approvals. Management believes that the sources of available liquidity are adequate to meet all reasonably foreseeable short-term and intermediate-term demands.

During the six months ended June 30, 2019, our loan originations and purchases, net of repayments, were \$6.7 billion. This activity was primarily funded by a net increase in deposits of \$4.4 billion and a net increase in FHLB advances of \$1.0 billion. In addition, during the six months ended June 30, 2019, we issued 2,000,000 shares of common stock in an "at-the-market" offering, which added \$170.6 million to equity. During the six months ended June 30, 2019, our 2.375% fixed-rate senior notes issued in June 2014 of \$400.0 million were repaid at maturity.

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At June 30, 2019, we had no outstanding short-term FHLB advances or federal funds purchased. We primarily use these short-term borrowings to fund short-term assets, such as loans that have been committed for sale and floating rate investments, or to bridge temporary funding needs, such as those resulting from client investment activity or seasonal deposit fluctuations. At June 30, 2019, the Bank had loans held for sale of \$12.5 million, which were committed to be delivered to investors in the third quarter of 2019.

We sell single family mortgage loans in the secondary market directly to a variety of investors. We originate single family mortgages in part to attract new clients for other banking and wealth management services. Selling mortgages allows us to originate more loans without growing our balance sheet loan portfolio and creating the need for additional funding and capital. All loans sold are performing loans and meet all underwriting standards required by us and the secondary market.

Capital Resources

The Bank maintains capital levels to satisfy regulatory capital requirements and support asset growth. As described in our 2018 Form 10-K under "Item 1. Business—Supervision and Regulation—Capital Requirements," the Basel III Capital Rules determine the components of regulatory capital and the approach for risk weighting assets.

The following table represents the components of our regulatory capital:

(\$ in thousands)	June 30, 2019	December 31, 2018
Shareholders' equity	\$ 9,219,643	\$ 8,677,777
CET1 capital adjustments and deductions:		
Preferred stock	(940,000)	(940,000)
Goodwill and other intangible assets, net of deferred taxes.	(251,268)	(260,077)
Deferred tax assets that arise from net operating loss and tax credit carryforwards, net of deferred tax liabilities	(93,752)	(117,086)
Accumulated other comprehensive loss (income)	(21)	19,383
CET1 capital	<u>7,934,602</u>	<u>7,379,997</u>
Preferred stock	940,000	940,000
Additional Tier 1 capital	<u>940,000</u>	<u>940,000</u>
Tier 1 capital	<u>8,874,602</u>	<u>8,319,997</u>
Tier 2 capital instruments—subordinated notes ⁽¹⁾	777,678	777,475
Qualifying allowance for loan losses ⁽²⁾	486,095	452,266
Tier 2 capital	<u>1,263,773</u>	<u>1,229,741</u>
Total risk-based capital	<u>\$ 10,138,375</u>	<u>\$ 9,549,738</u>

⁽¹⁾ Subordinated notes mature in 2046 and 2047.

⁽²⁾ Includes the reserve for unfunded commitments.

At both June 30, 2019 and December 31, 2018, the Bank's noncumulative perpetual preferred stock was 11% of Tier 1 capital.

During the six months ended June 30, 2019, we issued 2,000,000 shares of common stock in an "at-the-market" offering, which added \$170.6 million to common equity.

A "capital conservation buffer" is also required under the Basel III Capital Rules. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum requirement but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

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Our capital ratios exceeded all applicable regulatory requirements at June 30, 2019 for well-capitalized institutions, and our capital conservation buffer exceeded the minimum requirement of 2.5%. The following table presents our capital ratios and regulatory requirements:

(\$ in thousands)	Actual		Regulatory Requirements		
	June 30, 2019	December 31, 2018	Well-Capitalized Ratio	Minimum Capital Ratio	Minimum Capital Conservation Buffer ⁽¹⁾
Capital Ratios					
Tier 1 leverage ratio (Tier 1 capital to average assets)	8.69%	8.68%	5.00%	4.00%	—%
CET1 capital to risk-weighted assets	10.19%	10.38%	6.50%	4.50%	2.50%
Tier 1 capital to risk-weighted assets	11.39%	11.70%	8.00%	6.00%	2.50%
Total capital to risk-weighted assets	13.02%	13.43%	10.00%	8.00%	2.50%
Regulatory Capital ⁽²⁾					
CET1 capital	\$ 7,934,602	\$ 7,379,997			
Tier 1 capital	\$ 8,874,602	\$ 8,319,997			
Total capital	\$ 10,138,375	\$ 9,549,738			
Assets ⁽²⁾					
Average assets	\$ 102,100,574	\$ 95,905,266			
Risk-weighted assets	\$ 77,889,111	\$ 71,116,459			

⁽¹⁾ As of June 30, 2019, our capital conservation buffer was 5.02%, which exceeded the minimum requirement of 2.5% required to be held by banking institutions.

⁽²⁾ As defined by regulatory capital rules.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk Management

We seek to measure and manage the potential impact of changes in interest rates on our net interest income and net interest margin, known as interest rate risk. Interest rate risk primarily occurs when interest-earning assets and interest-bearing liabilities mature or reprice at different times, on a different basis or in unequal amounts. The Bank's Board of Directors approves policies and limits governing the management of interest rate risk at least annually. Our Asset Liability Management ("ALM") and Investment Committees further establish risk management guidelines and procedures within the broader policies and limits established by the Bank's Board of Directors. Compliance with these policies and limits is reported to the Bank's Board of Directors on an ongoing basis and decisions on the management of interest rate risk are made as needed. We utilize a variety of interest rate risk management tools to evaluate our interest rate risk.

We manage interest rate risk primarily by originating and retaining adjustable-rate loans and hybrid ARM loans with initial short- or intermediate-term fixed rates and funding these assets with checking and savings accounts, short- and intermediate-term CDs, long-term ladder maturity fixed-rate FHLB advances and unsecured, term, fixed-rate senior notes and subordinated notes. We may also utilize overnight and short-term borrowings to fund certain short-term assets, such as loans that have been committed for sale and floating rate investments, or to bridge temporary funding needs, such as those resulting from client investment activity or seasonal deposit fluctuations. As an active and ongoing part of our ALM strategy, we sell long-term fixed-rate single family mortgage loans into the secondary market through ongoing, or "flow," transactions. We also sell portions of our single family hybrid ARM and fixed-rate loans in bulk loan transactions or securitizations. We sold \$209.7 million of loans during the six months ended June 30, 2019.

FIRST REPUBLIC BANK
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In addition to the mix and pricing of interest-earning assets and interest-bearing liabilities, our net interest income and net interest margin may also be affected by factors such as competition, conditions in loan markets, levels of loan sales and repayment rates, levels of cash held on the balance sheet, overall growth of assets and liabilities, general interest rate trends, including movements in interest rates and the shape of the yield curve, level and cost of FHLB advances, market rates of new capital or debt offerings and any nonaccrual loans. Our net interest margin may also be affected by our overall business model or strategy.

There is also interest rate risk inherent in the estimated fair value of our MSRs. Movements in interest rates affect the servicing fees from MSRs, which are recorded in noninterest income as opposed to net interest income. In a decreasing interest rate environment, loans in the servicing portfolio may repay more rapidly, which reduces current and future servicing income. Inversely, in an increasing interest rate environment, repayments may decrease, which increases expected future servicing income.

Balance Sheet Overview

Our net interest income and net interest margin may be affected by the mix of interest-earning assets and interest-bearing liabilities. The Bank has earning assets with reset periods or maturity of less than one year totaling \$29.8 billion, or 30% of total earning assets at June 30, 2019. Of these earning assets, the Bank has loans, including loans held for sale, which are currently adjustable and reprice with indices or mature within one year totaling \$25.8 billion, or 31% of the total loan portfolio at June 30, 2019. The loan portfolio that reprices at least quarterly to market rate indices, such as Prime or LIBOR, totaled \$16.4 billion, or 20% of the total loan portfolio at June 30, 2019. The loan portfolio with lagging indices, such as COFI and the CMT, totaled \$6.3 billion, or 8% of the total loan portfolio at June 30, 2019. Additionally, the loan portfolio that either (1) matures within one year; (2) is within one year of adjusting from the initial fixed-rate period; or (3) is committed for sale totaled \$3.1 billion, or 4% of the total loan portfolio at June 30, 2019. In addition, at June 30, 2019, the Bank held \$1.8 billion in cash and \$2.2 billion in investment securities (collectively, 22% of total cash and investment securities), that reprice to market rates at least quarterly or are callable in less than one year.

Total checking deposits were \$48.7 billion, or 58% of total deposits at June 30, 2019. Total checking deposits include both noninterest-bearing checking accounts and interest-bearing checking accounts, which currently pay a nominal rate of 7 basis points, but exclude money market checking accounts. We do not expect the rate paid on interest-bearing checking deposits to fluctuate much with changes in overall interest rates, consistent with our history. The rates paid on money market savings, money market checking and passbook deposit accounts generally move directionally with changes in short-term prevailing interest rates and may be subject to competitive pricing pressure. Money market savings, money market checking and passbook deposit accounts together totaled \$20.8 billion, or 25% of total deposits at June 30, 2019. CDs were \$14.0 billion, or 17% of total deposits and had a weighted average remaining maturity of 6.4 months at June 30, 2019.

We utilize long-term FHLB advances as a source of fixed-rate, term funding to help manage our overall interest rate risk. Such advances totaled \$9.8 billion at June 30, 2019 and had a weighted average remaining maturity of 1.2 years. In addition, the Bank has also issued unsecured, term, fixed-rate senior notes and unsecured, term, fixed-rate subordinated notes. At June 30, 2019, the senior notes had a carrying value of \$497.3 million and mature in June 2022. Also, at June 30, 2019, the subordinated notes had a carrying value of \$777.7 million and mature in August 2046 and February 2047.

Net Interest Income Simulation

In addition to evaluating our current balance sheet, we also perform net interest income simulations to measure and evaluate our potential exposure to changes in interest rates. Based on the results of such analysis, we may decide to make changes in our asset/liability mix, to draw down longer-term advances with the FHLB, to issue long-term senior notes or long-term subordinated notes, to sell loans, to enter into interest rate exchange agreements or to otherwise seek to better protect ourselves against potential adverse effects from changes in interest rates.

FIRST REPUBLIC BANK
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We use a simulation model to measure and evaluate potential changes in our net interest income. We run various hypothetical interest rate scenarios at least quarterly and compare these results against a scenario with no changes in interest rates. Our net interest income simulation model incorporates various assumptions, which management believes to be reasonable but which may have a significant impact on results, such as: (1) the timing and magnitude of changes in interest rates, (2) the yield curve evolution and shape, (3) repricing characteristics, other than contractual, for market rate sensitive instruments, (4) non-interest bearing checking deposit balance behavior and the possibility of shifts in preference towards interest-bearing products, (5) varying sensitivities of financial instruments due to differing underlying rate indices, (6) loan prepayment speeds for different interest rate scenarios, (7) the effect of interest rate floors, periodic loan caps and lifetime loan caps, (8) the levels of cash held on our balance sheet and (9) overall growth, product mix and repayment rates of assets and liabilities. Because of limitations inherent in any approach used to measure interest rate risk, simulation results are not intended as a precise forecast of the actual effect of a change in market interest rates on our results, but rather as a means to better understand interest rate risk exposure and plan and execute the appropriate ALM strategies.

Potential changes to our net interest income in hypothetical rising and declining rate scenarios, measured over a two-year period beginning June 30, 2019, are presented in the following table. The projections assume both (a) instantaneous parallel shifts upward of 100 and 200 basis points and instantaneous parallel shifts downward of the yield curve of 100 and 200 basis points occurring immediately (“Shock”) and (b) gradual parallel shifts upward and downward of the yield curve in even increments over the first twelve months, followed by rates held constant thereafter (“Ramp”). In downward shifts of the yield curve, interest rates are not modeled to decline lower than 0%.

Change in Market Interest Rates	Estimated Increase (Decrease) in Net Interest Income	
	Twelve Months Ending June 30, 2020	Twelve Months Ending June 30, 2021
<u>Shock:</u>		
+200 basis points immediately	(0.1)%	5.0 %
+100 basis points immediately	(0.1)%	2.6 %
-100 basis points immediately	(3.1)%	(6.6)%
-200 basis points immediately	(9.6)%	(19.4)%
<u>Ramp:</u>		
+200 basis points over next 12 months	(0.3)%	2.4 %
+100 basis points over next 12 months	(0.3)%	1.3 %
-100 basis points over next 12 months	(1.6)%	(4.6)%
-200 basis points over next 12 months	(3.9)%	(14.2)%

As of June 30, 2019, the Bank’s short-term net interest income position is relatively neutral, indicating that parallel shifts in interest rates are estimated to be neither materially beneficial, nor materially detrimental to net interest income over the short term. Longer-term net interest income exposure remains mildly asset-sensitive.

With respect to deposit balances, we expect non-interest bearing and interest-bearing checking balances, which exclude money market checking, to migrate from the current level of 58% of total deposits to approximately 55% of total deposits over the two-year horizon, depicting a shift in preference by some account holders towards higher yielding deposit products.

Excluding certificates of deposit, the remaining deposits include money market checking, money market savings and passbook accounts and are assumed to reprice with a modest lag by approximately 72% of short-term interest rate increases or 66% of short-term rate decreases over the two-year period, which is also consistent with our historical experience.

FIRST REPUBLIC BANK
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The results of this earnings simulation analysis are hypothetical, and a variety of factors might cause actual results to differ substantially from what is depicted. For example, if the timing and magnitude of interest rate changes differ from our projections or theoretical scenarios, our net interest income might vary significantly. Non-parallel yield curve shifts, such as a steepening, flattening, or inversion of the yield curve or changes in interest rate spreads, would also cause our net interest income to be different from that depicted. Actual results could also differ from those projected if we grow assets and liabilities faster or slower than estimated, if we experience a net outflow of deposit liabilities, or if our mix of assets and liabilities otherwise changes materially. Actual results could also differ from those projected if we experience repayment speeds in our loan portfolio substantially different from those assumed in the simulation model.

Finally, these simulation results do not contemplate all the actions that we may undertake in response to potential or actual changes in interest rates, such as changes to our loan, investment, deposit, funding, or hedging strategies.

Although we believe we are effectively managing our current exposure to changes in interest rates, we may decide to take further action depending on subsequent interest rate and economic developments, the growth rates and mix of loans and deposits, the future level of loan repayments, purchases of investment securities, and changes in other assets.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As required by Securities and Exchange Commission rules, we carried out an evaluation of the effectiveness of the design and operation of our “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Exchange Act as of the end of the period covered by this report. Our management, including our chief executive officer and chief financial officer, supervised and participated in the evaluation. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures, as of June 30, 2019, were effective for providing reasonable assurance that information required to be disclosed by us in reports filed or submitted under the Exchange Act was accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There was no significant change in our internal control over financial reporting during the quarter ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

There are no material pending legal proceedings to which we or any of our subsidiaries is a party or to which any of our property is subject. We are subject to ordinary routine litigation incidental to our business but we believe the results of such matters will not have a material effect on our business or financial condition.

Item 1A. Risk Factors.

There are risks, many beyond our control, which could cause our results to differ significantly from management’s expectations. For a description of these risks, please see the risk factors previously described in Part I, “Item 1A. Risk Factors” in our 2018 Form 10-K. Any of the risks described in our 2018 Form 10-K or in this Quarterly Report on Form 10-Q could, by itself or together with one or more other factors, materially and adversely affect our business, results of operations or financial condition. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, results of operations or financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Recent Sales of Unregistered Securities

During the second quarter of 2019, we sold 55,730 shares of common stock to eligible employees under our Employee Stock Purchase Plan for aggregate cash consideration of \$4.8 million. These sales were exempt from registration under the Securities Act of 1933, as amended (the “Securities Act”), pursuant to Section (3)(a)(2) thereof because the sales involved securities issued by a bank.

During the second quarter of 2019, we granted 34,101 restricted stock units, net of forfeitures, that are time vesting. In addition, we granted 163,640 restricted stock units, net of forfeitures, that vest over time, provided certain performance criteria are achieved. These awards were granted to certain employees and directors and had an aggregate grant date fair value of \$20.0 million. We did not receive any cash consideration in connection with these grants. These grants were exempt from registration under the Securities Act, pursuant to Section (3)(a)(2) thereof because the grants involved securities issued by a bank.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

An Index to Exhibits listing the exhibits filed or furnished with this report is presented prior to the signature page to this Quarterly Report on Form 10-Q and is incorporated herein by reference.

INDEX TO EXHIBITS

<u>Exhibit</u> <u>No.</u>	<u>Description</u>
10.1	Form of Restricted Stock Unit Agreement—Time Vesting under the 2017 Omnibus Award Plan. ^{(1), (2)}
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. ⁽²⁾
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. ⁽²⁾
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ⁽²⁾
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ⁽²⁾

⁽¹⁾ This exhibit is a management contract or a compensatory plan or arrangement.

⁽²⁾ Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST REPUBLIC BANK

August 8, 2019

/s/ Michael J. Roffler

Michael J. Roffler

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

NON-EMPLOYEE DIRECTOR**FIRST REPUBLIC BANK****2017 OMNIBUS AWARD PLAN****RESTRICTED STOCK UNIT AGREEMENT**

THIS RESTRICTED STOCK UNIT AGREEMENT (this “Agreement”), dated as of _____ (the “Date of Grant”), is made by and between **First Republic Bank**, a California state-chartered bank (“Bank”) and _____ (“Participant”).

WHEREAS, Bank adopted the **First Republic Bank** 2017 Omnibus Award Plan (the “Plan”), pursuant to which restricted stock unit awards may be granted with respect to Common Stock of Bank; and

WHEREAS, Bank desires to grant Participant a restricted stock unit award with respect to the number of shares of Common Stock provided for herein.

NOW, THEREFORE, in consideration of the recitals and the mutual agreements herein contained, the parties hereto agree as follows:

1. Grant of Restricted Stock Units. Subject to the terms and conditions of this Agreement and the Plan, Bank hereby grants to Participant _____ restricted stock units (“RSUs”). Upon the expiration of the applicable Restricted Period with respect to each outstanding RSU, the Bank shall deliver to the Participant, or his or her beneficiary, without charge, one share of Common Stock of the Bank (each, a “Share”) in accordance with the terms and conditions hereof.

(a) Incorporation by Reference, Etc. The provisions of the Plan are hereby incorporated herein by reference. Except as otherwise expressly set forth herein, this Agreement shall be construed in accordance with the provisions of the Plan and any capitalized terms not otherwise defined in this Agreement shall have the meaning set forth in the Plan. In the event of conflict between the terms herein and the terms of the Plan, the terms of the Plan will govern the RSUs.

2. Terms and Conditions.

(a) Restricted Period. The period of time between the Date of Grant and the vesting of RSUs (and the termination of restrictions thereon) will be referred to herein as the “Restricted Period.” Except as may otherwise be provided herein, 100% of the RSUs shall become vested on the twelve-month anniversary of the Date of Grant, subject to Participant’s continuous service with Bank and the Affiliates through such vesting date.

(b) Impact of a Change In Control on RSUs.

(i) Substitution or Assumption by Successor. Upon a Change in Control, as defined in the Plan, in which this Award is assumed or substituted with an equivalent value award, the Award (including any substitute or replacement award) will continue to vest on the vesting date described in Section 2(a) in accordance with this Section 2 subject to continuous service through each such date or, if following the Change in

Control by the Bank the Participant's continuous service ceases prior to the vesting date described in Section 2(a) (other than as a result of removal for Cause), the Award shall vest in full upon such termination.

(ii) No Substitution or Assumption by Successor. Subject to Participant's continuous service through the date thereof, the vesting of the RSUs shall be accelerated upon any Change in Control, as defined in the Plan in which the RSUs are not substituted, assumed, replaced or continued by a successor pursuant to the terms of the Plan.

(c) Treatment of RSUs Upon Termination of Service. Subject to Participant's continued service with Bank and the Affiliates, and notwithstanding Section 2(a) hereof, 100% of the RSUs shall become vested immediately on Participant's termination of service due to death or Disability. If, other than as provided in Section 2(b), Participant's service with Bank and the Affiliates is terminated prior to the expiration of the Restricted Period applicable to any outstanding RSUs for any reason other than death or Disability, then Participant shall forfeit all outstanding, unvested RSUs, which shall terminate and expire on the date of such termination of service without consideration to Participant and without any action by Bank or any Affiliate. Neither the Participant nor any successors, heirs, assigns, or legal representatives of the Participant shall thereafter have any rights or interest in such RSUs or consideration therefor.

(d) Settlement of RSUs. As soon as applicable following vesting, each outstanding RSU will be settled through the delivery by Bank of one share of Bank Common Stock and any dividend equivalents credited with respect to such RSU. Notwithstanding any contrary provision of this Agreement, pursuant to Section 8(d)(ii) of the Plan, the Committee may, in its sole discretion, elect to pay cash or part cash and part Shares in lieu of delivering only Shares in respect of any vested RSUs.

(e) Dividend Equivalents. If a cash dividend is paid with respect to the Common Stock of Bank, a cash dividend equivalent equal to the total cash dividend Participant would have received had his or her outstanding RSUs been actual shares of Bank Common Stock will be accumulated and paid in cash to Participant if and when such RSUs become vested and settled. Neither the Participant nor any successors, heirs, assigns, or legal representatives of the Participant shall have any rights or interest in dividend equivalent amounts in respect of any RSUs which are forfeited.

(f) Transferability. Unless otherwise permitted by the Committee pursuant to Section 13(c) of the Plan, the RSUs may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by Participant other than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against Bank; provided, that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance.

(g) Rights as Shareholder. Participant shall not be deemed for any purpose to be the owner of any of the Shares underlying the RSUs unless, until and to the extent that (A) the RSU shall have become vested pursuant to its terms and (B) Bank shall have issued and delivered to Participant the Shares underlying such RSUs.

(h) Withholding Taxes. If, and to the extent, required by applicable law, the provisions of this Section 2(h) will apply. To the extent that the vesting of the RSUs or the receipt of Shares (including any cash or other securities or property payable in lieu thereof), or the vesting or receipt of dividend equivalents, results in income to the Participant for federal or state tax purposes, the Participant shall make adequate arrangements satisfactory to Bank, at its discretion, to meet Bank's obligations under applicable tax withholding laws or regulations. Unless Bank shall otherwise provide, Bank shall withhold Shares that would otherwise be issued upon vesting of the RSUs to cover applicable withholding taxes, equal to the greatest number of whole shares having a Fair Market Value on the date immediately preceding the date on which the applicable tax liability is determined not in excess of the minimum amount required to satisfy the statutory withholding tax obligations with respect to the RSUs. Alternatively, Bank, in its sole discretion, may provide for the withholding of applicable taxes from the proceeds of the sale of Shares acquired upon vesting of the RSUs, either through a voluntary sale or through a mandatory sale arranged by Bank (on Participant's behalf pursuant to this authorization). Bank may also require Participant to deliver to Bank at the time of vesting of the RSUs or receipt of Shares, or the vesting or receipt of other amounts, as the case may be, such amount of money as Bank may require to satisfy all tax withholding obligations of Bank, and Participant also authorizes Bank to satisfy all such tax withholding obligations from his or her wages or other cash compensation payable to Participant by Bank. Bank may refuse to issue or deliver the Shares or other amounts unless all withholding taxes that may be due as a result of this award have been paid.

3. Miscellaneous.

(a) Notices. All notices, demands or other communications provided for or permitted hereunder shall be made in writing and shall be by registered or certified first class mail, return receipt requested, telecopier, courier service, overnight mail or personal delivery:

(i) if to Bank:

First Republic Bank

111 Pine Street

San Francisco, CA 94111

Attention: Michael Roffler

Facsimile No.: (415) 262-4131

(ii) if to the Participant, at the Participant's last known address on file with Bank.

(b) No Right to Continued Service. Nothing in the Plan or in this Agreement shall confer upon Participant any right to continue in the service of Bank or the Affiliates or shall interfere with or restrict in any way the right of Bank or the Affiliates, which are hereby expressly reserved, to remove, terminate or discharge the Participant at any time for any reason whatsoever.

(c) Bound by Plan. By signing this Agreement, the Participant acknowledges that he has received a copy of the Plan and has had an opportunity to review the Plan and agrees to be bound by all the terms and provisions of the Plan (other than those terms expressly excluded from application in this Agreement).

(d) Successors. The terms of this Agreement shall be binding upon and inure to the benefit of Bank, its successors and assigns, and of the Participant and the beneficiaries, executors, administrators, heirs and successors of the Participant.

(e) Invalid Provision. The invalidity or unenforceability of any particular provision hereof shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision had been omitted.

(f) Modifications. No change, modification or waiver of any provision of this Agreement shall be valid unless the same is in writing and signed by the parties hereto.

(g) Code Section 409A. To the fullest extent applicable, this Agreement and the benefits payable hereunder are intended to be exempt from the definition of “nonqualified deferred compensation” under Section 409A of the Code in accordance with the “short-term deferral” exception available under the regulations promulgated under Section 409A. In that regard, Shares (including any cash or securities or other property payable in lieu thereof) and any dividend equivalents shall be issued to Participant no later than March 15 following the calendar year in which Participant’s right to receive such Shares or other amounts pursuant to this Agreement is no longer subject to a substantial risk of forfeiture within the meaning of Section 409A and the regulations thereunder. To the extent that any such benefit is or becomes subject to Section 409A due to a failure to qualify for an exemption from the definition of nonqualified deferred compensation in accordance with such regulations, this Agreement is intended to comply with the applicable requirements of Section 409A with respect to such benefits. This Agreement shall be interpreted and administered to the extent possible in a manner consistent with the foregoing statement of intent, and any ambiguity as to its compliance with Section 409A will be read in such a manner so that all payments hereunder comply with Section 409A of the Code. If the Committee determines that any Shares issued or amounts payable hereunder will be taxable to Participant under Section 409A of the Code and related Department of Treasury guidance, prior to delivery to such Participant of such Shares or payment to such Participant of such amount, Bank may (a) adopt such amendments to this Agreement and the Plan, and appropriate policies and procedures, including amendments and policies with retroactive effect, that the Committee determines necessary or appropriate to preserve the intended tax treatment of the RSUs granted hereunder and/or (b) take such other actions as the Committee determines necessary or appropriate to avoid or limit the imposition of an additional tax under Section 409A of the Code. Finally, solely to the extent required by Section 409A of the Code, and notwithstanding any other provision of the Plan or this Agreement, any payments made hereunder on account of the “separation from service” (within the meaning of Section 409A(a)(2)(A)(i) of the Code) of a Participant who is determined to be a “specified employee” (within the meaning of Section 409A(a)(2)(B)(i) of the Code) shall not actually be paid before the date which is six months after Participant’s separation from service (or, if earlier, the date of death of Participant or a “change in control event” within the meaning of Section 409A of the Code).

(h) Severability. If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provisions or applications and to this

end the provisions of this Agreement are declared to be severable. If any term or provision of this Agreement is invalid, illegal or incapable of being enforced by any applicable law or public policy, all other conditions and provisions of this Agreement shall nonetheless remain in full force and effect so long as the economic and legal substance of the transactions contemplated by this Agreement is not affected in any manner materially adverse to any party.

(i) Entire Agreement. This Agreement and the Plan, including all exhibits thereto, contain the entire agreement and understanding of the parties hereto with respect to the subject matter contained herein and therein and supersede all prior communications, representations and negotiations in respect thereto.

(j) Governing Law. This Agreement and the rights and obligations of Participant hereunder shall be construed and determined in accordance with the laws of the State of California.

(k) Headings. The headings of the Sections hereof are provided for convenience only and are not to serve as a basis for interpretation or construction, and shall not constitute a part, of this Agreement.

(l) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto on the first date set forth above.

First Republic Bank

By: /s/ Michael J. Roffler

Participant Name: _____

Accepted On: _____

CERTIFICATION

I, James H. Herbert, II, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Republic Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant, and we have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2019

/s/ James H. Herbert, II

Name: James H. Herbert, II

Title: Chairman and Chief Executive Officer

CERTIFICATION

I, Michael J. Roffler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Republic Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant, and we have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2019

/s/ Michael J. Roffler

Name: Michael J. Roffler

Title: Executive Vice President and
Chief Financial Officer

**Certification of Chief Executive Officer
Pursuant to §906 of The Sarbanes-Oxley Act of 2002**

The undersigned, the Chairman and Chief Executive Officer of First Republic Bank (the “Company”), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 (the “Form 10-Q”), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2019

/s/ James H. Herbert, II

Name: James H. Herbert, II

Title: Chairman and Chief Executive Officer

**Certification of Chief Financial Officer
Pursuant to §906 of The Sarbanes-Oxley Act of 2002**

The undersigned, the Executive Vice President and Chief Financial Officer of First Republic Bank (the “Company”), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 (the “Form 10-Q”), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2019

/s/ Michael J. Roffler

Name: Michael J. Roffler
Title: Executive Vice President and
Chief Financial Officer