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REPUBLIC BANCORP INC
Form 10-Q
August 13, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15 (d)
of the Securities Exchange Act of 1934

For the Quarter Ended June 30, 2002

Commission File Number 0-15734

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

Michigan
(State of other jurisdiction of
incorporation or organization)

38-2604669
(I.R.S. Employer
Identification No.)

1070 East Main Street, Owosso, Michigan 48867
(Address of principal executive offices)

(989) 725-7337
(Registrant's telephone number)

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 X NO _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock Outstanding as of July 31, 2002:

Common Stock, \$5 Par Value 52,952,000 Shares

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PART I - FINANCIAL INFORMATION
ITEM 1 - Financial Statements

REPUBLIC BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands)	June 30, 2002	December 3 2001
<hr style="border-top: 1px dashed black;"/>		
ASSETS		
Cash and cash equivalents	\$ 73,303	\$ 76,73
Mortgage loans held for sale	197,448	748,46
Securities available for sale (amortized cost of \$464,637 and \$369,492, respectively)	466,135	364,64
Loans	3,551,626	3,458,38
Less allowance for loan losses	(29,870)	(29,15
Net loans	<hr style="border-top: 1px dashed black;"/> 3,521,756	<hr style="border-top: 1px dashed black;"/> 3,429,22
Premises and equipment	29,006	30,85
Mortgage servicing rights	2,944	2,48
Other assets	66,558	88,19
Total assets	<hr style="border-top: 1px dashed black;"/> <u>\$ 4,357,150</u> =====	<hr style="border-top: 1px dashed black;"/> <u>\$ 4,740,60</u> =====
LIABILITIES		
Noninterest-bearing deposits	\$ 239,680	\$ 245,39

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Interest-bearing deposits:		
NOW accounts	159,354	153,83
Savings and money market accounts	865,279	819,67
Certificates of deposit	1,410,075	1,534,56
	-----	-----
Total interest-bearing deposits	2,434,708	2,508,07
	-----	-----
Total deposits	2,674,388	2,753,46
Federal funds purchased and other short-term borrowings	183,500	176,50
FHLB advances	1,017,670	1,300,71
Accrued expenses and other liabilities	61,926	112,78
Long-term debt	13,500	13,50
	-----	-----
Total liabilities	3,950,984	4,356,96
Trust preferred securities and preferred stock of subsidiary	78,719	78,71
SHAREHOLDERS' EQUITY		
Preferred stock, \$25 stated value: \$2.25 cumulative and convertible; 5,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$5 par value, 75,000,000 shares authorized; 53,218,000 and 53,166,000 issued and outstanding, respectively	266,092	265,83
Capital surplus	37,204	38,69
Retained earnings	23,177	3,54
Accumulated other comprehensive income (loss)	974	(3,14)
	-----	-----
Total shareholders' equity	327,447	304,91
	-----	-----
Total liabilities and shareholders' equity	\$ 4,357,150	\$ 4,740,60
	=====	=====

See notes to consolidated financial statements.

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REPUBLIC BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(In thousands, except per share data)	Three Months Ended June 30,	
	2002	2001

Interest Income:		
Loans, including fees	\$ 64,288	\$ 84,84
Investment securities	5,563	4,15
	-----	-----
Total interest income	69,851	88,99
	-----	-----
Interest Expense:		
Deposits	19,064	30,79
Short-term borrowings	857	93
FHLB advances	13,653	19,34

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Long-term debt	241	24
	-----	-----
Total interest expense	33,815	51,31
	-----	-----
Net interest income	36,036	37,68
Provision for loan losses	2,400	2,30
	-----	-----
Net interest income after provision for loan losses	33,636	35,38
	-----	-----
Noninterest Income:		
Service charges	2,017	1,89
Mortgage production revenue	8,140	17,85
Net mortgage servicing revenue (expense)	130	(23
Gain on sale of securities	417	16
Other noninterest income	1,293	51
Gain on sale of subsidiary	-	12,00
	-----	-----
Total noninterest income	11,997	32,18
	-----	-----
Noninterest Expense:		
Salaries and employee benefits	12,950	20,28
Occupancy expense of premises	2,485	3,22
Equipment expense	1,665	2,37
Other noninterest expense	5,757	8,72
Restructuring costs to exit mortgage servicing	-	-
	-----	-----
Total noninterest expense	22,857	34,61
	-----	-----
Income before income taxes	22,776	32,95
Provision for income taxes	6,487	10,95
	-----	-----
Income before preferred stock dividends	16,289	21,99
Preferred stock dividends	1,755	68
	-----	-----
Net income	\$ 14,534	\$ 21,31
	=====	=====
Basic earnings per share	\$.27	\$.3
	=====	=====
Diluted earnings per share	\$.27	\$.3
	=====	=====
Average common shares outstanding - diluted	54,147	55,20
	=====	=====
Cash dividends declared per common share	\$.085	\$.07
	=====	=====

See notes to consolidated financial statements.

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Cash Flows From Operating Activities:

Net income	\$ 28,6
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	4,0
Amortization and write-down of mortgage servicing rights	5
Net gain on sale of mortgage servicing rights	(8
Net gain on sale of securities available for sale	(3,2
Net gain on sale of SBA and residential real estate loans	1,437,8
Net gain on sale of subsidiary	(886,8
Proceeds from sales of mortgage loans held for sale	13,9
Origination of mortgage loans held for sale	(50,8
Net decrease in other assets	(5
Net decrease in other liabilities	514,1
Other, net	542,7
Total adjustments	542,7
Net cash provided by (used in) operating activities	542,7

Cash Flows From Investing Activities:

Proceeds from sale of securities available for sale	83,2
Proceeds from maturities/payments of securities available for sale	14,9
Purchases of securities available for sale	(192,5
Proceeds from sale of consumer loans	115,8
Proceeds from sale of SBA and residential real estate loans	(202,0
Net (increase) decrease in loans made to customers	(9
Proceeds from sale of subsidiary and payments received on related borrowings ...	(9
Proceeds from sale of mortgage servicing rights	(9
Additions to mortgage servicing rights	(9
Net cash (used in) provided by investing activities	(181,5

Cash Flows From Financing Activities:

Net (decrease) increase in deposits	(79,0
Net increase in short-term borrowings	7,0
Net decrease in short-term FHLB advances	(360,0
Proceeds from long-term FHLB advances	76,9
Payments on long-term FHLB advances	76,9
Payments on long-term debt	76,9
Net proceeds from issuance of common shares	4,3
Repurchase of common shares	(4,7
Dividends paid	(9,0
Net cash used in financing activities	(364,5

Net (decrease) increase in cash and cash equivalents	(3,4
Cash and cash equivalents at beginning of period	76,7
Cash and cash equivalents at end of period	\$ 73,3

See notes to consolidated financial statements.

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REPUBLIC BANCORP INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements of Republic Bancorp Inc. and Subsidiaries (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes necessary for a comprehensive presentation of financial position, results of operations and cash flow activity required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of results have been included. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

Note 2 - Principles of Consolidation

The consolidated financial statements include the accounts of the parent company, Republic Bancorp Inc., and its wholly-owned banking subsidiary, Republic Bank (including its subsidiaries D&N Capital Corporation, Quincy Investment Services, Inc., CAS Properties, Inc., Republic Bank Real Estate Finance, LLC and Republic Management Company, Inc.) and Republic Capital Trust I. All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 3 - Consolidated Statements of Cash Flows

Supplemental disclosures of cash flow information for the six months ended June 30, include:

(In thousands)	2002 ----	2001 ----
Cash paid during the period for:		
Interest	\$ 69,607	\$ 113,872
Income taxes	\$ 12,984	6,819
Non-cash investing activities:		
Loan charge-offs	\$ 4,737	\$ 4,382

Note 4 - Comprehensive Income

The following table sets forth the computation of comprehensive income:

(In thousands)	Three Months Ended June 30,	
-----	2002	2001
Net income	\$ 14,534	\$ 21,318
Unrealized holding gains (losses) on securities, net of tax	\$ 3,770	\$ (580)
Reclassification adjustment for gains included in net income, net of tax	(271)	(106)
	-----	-----

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Net unrealized gains (losses) on securities, net of tax	3,499	(686)
	-----	-----
Comprehensive income	\$ 18,033	\$ 20,632
	=====	=====

Note 5 - Intangible Assets

The following table summarizes the Company's core deposit intangible asset which is subject to amortization:

(Dollars in thousands)	June 30, 2002	Dec. 31, 2001

Core Deposit Intangible Asset:		
Gross carrying amount	\$ 8,749	\$ 8,749
Accumulated amortization	2,686	2,191
	-----	-----
Net book value	\$ 6,063	\$ 6,558
	=====	=====

Amortization expense on the core deposit intangible asset totaled \$248,000 for each of the quarters ended June 30, 2002 and 2001, and \$990,000 for the year ended December 31, 2001. The Company expects core deposit intangible amortization expense to be \$990,000 for each of the years ending December 31, 2002, 2003 and 2004. The Company expects core deposit intangible amortization expense for the years ended December 31, 2005 and 2006 to be \$945,000 and \$936,000, respectively.

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Note 6 - Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

(Dollars in thousands, except per share data)	Three Months Ended June 30,	
	2002	2001

Numerator for basic and diluted earnings per share:		
Net income	\$ 14,534	\$ 21,311
Denominator for basic earnings per share-- weighted-average shares	53,176,238	54,435,791
Effect of dilutive securities:		
Employee stock options	904,624	716,000
Warrants	65,968	50,680
	-----	-----
Dilutive potential common shares	970,592	766,680
	-----	-----
Denominator for diluted earnings per share--adjusted weighted-average shares for assumed conversions	54,146,830	55,202,471
	=====	=====
Basic earnings per share	\$.27	\$.33

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	=====	=====
Diluted earnings per share	\$.27	\$.3
	=====	=====

Note 7 - Segment Information

The Company's operations are managed as three major business segments: (1) commercial banking (2) retail banking and (3) mortgage banking. The commercial banking segment consists of commercial lending to small- and medium-sized companies, primarily in the form of commercial real estate and Small Business Administration (SBA) loans. The retail banking segment consists of home equity lending, other consumer lending and the deposit-gathering function. Deposits and loan products are offered through 83 retail branch offices of Republic Bank, which are staffed by personal bankers and loan originators. The mortgage banking segment is comprised of mortgage loan production and mortgage loan servicing for others. Mortgage loan production is conducted in 56 offices of Republic Bank. Treasury and Other is comprised of balance sheet management activities that include the securities portfolio, residential real estate mortgage portfolio loans and non-deposit funding. Treasury and Other also includes unallocated corporate expenses such as corporate overhead, including accounting and operation costs.

In conjunction with the merger of Republic Bank and D&N Bank in 2000 and the sale of Market Street Mortgage Corporation in 2001, the Company redefined its business segments. Amounts for 2001 have been reclassified to conform to the current year presentation.

The following tables present the financial results of each business segment for the three and six months ended June 30, 2002 and 2001.

(In thousands)	Commercial	Retail	Mortgage

For the Three Months Ended June 30, 2002			
Net interest income from external customers	\$ 24,157	\$ (12,089)	\$ 6,627
Internal funding	(10,957)	40,122	(3,311)
	-----	-----	-----
Net interest income	13,200	28,033	3,316
Provision for loan losses	941	426	-
Noninterest income	786	2,089	6,948
Noninterest expense	2,196	7,623	6,522
	-----	-----	-----
Income before taxes	10,849	22,073	3,742
Preferred stock dividend	-	-	-
Income taxes	3,970	8,085	1,310
	-----	-----	-----
Net income	\$ 6,879	\$ 13,988	\$ 2,432
	=====	=====	=====
Depreciation and amortization	\$ 37	\$ 792	\$ 588
Capital expenditures	\$ 6	\$ 196	\$ 156
Net identifiable assets (in millions)/(1)/	\$ 1,409	\$ 2,782	\$ 312
Return on equity/(2)/	19.77%	22.02%	49.00
Return on assets	1.98%	2.00%	2.45
Efficiency ratio	15.70%	25.31%	63.54

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Note 7 - Segment Information (Continued)

(In thousands)	Commercial	Retail	Mortgage

For the Three Months Ended June 30, 2001/(3)/			
Net interest income from external customers	\$ 26,053	\$ (22,204)	\$ 16,767
Internal funding	(12,999)	47,542	(9,660)
	-----	-----	-----
Net interest income	13,054	25,338	7,107
Provision for loan losses	1,708	62	-
Noninterest income	259	1,929	16,793
Noninterest expense	2,559	7,517	17,203
	-----	-----	-----
Income before taxes	9,046	19,688	6,697
Preferred stock dividend	-	-	-
Income taxes	3,325	7,129	2,344
	-----	-----	-----
Net operating income	\$ 5,721	\$ 12,559	\$ 4,353
	=====	=====	=====
Depreciation and amortization	\$ 42	\$ 828	\$ 1,551
Capital expenditures	\$ 36	\$ 279	\$ 188
Net identifiable assets (in millions)/(1)/	\$ 1,246	\$ 2,920	\$ 609
Return on equity/(2)/	18.62%	19.20%	50.27
Return on assets	1.86%	1.75%	2.03
Efficiency ratio	19.22%	27.57%	71.98

(In thousands)	Commercial	Retail	Mortgage

For the Six Months Ended June 30, 2002			
Net interest income from external customers	\$ 48,452	\$ (25,928)	\$ 18,407
Internal funding	(21,711)	82,035	(9,202)
	-----	-----	-----
Net interest income	26,741	56,107	9,205
Provision for loan losses	2,223	730	-
Noninterest income	1,076	4,087	14,254
Noninterest expense	4,647	15,811	13,711
	-----	-----	-----
Income before taxes	20,947	43,653	9,748
Preferred stock dividend	-	-	-
Income taxes	7,504	15,638	3,412
	-----	-----	-----
Net income	\$ 13,443	\$ 28,015	\$ 6,336
	=====	=====	=====
Depreciation and amortization	\$ 71	\$ 1,590	\$ 1,147
Capital expenditures	\$ 18	\$ 243	\$ 298
Net identifiable assets (in millions)/(1)/	\$ 1,409	\$ 2,782	\$ 312

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Return on equity/(2)/	19.58%	21.75%	44.61%
Return on assets	1.96%	1.98%	2.23%
Efficiency ratio	16.71%	26.27%	58.45%

(In thousands)	Commercial	Retail	Mortgage
For the Six Months Ended June 30, 2001/(3)/			
Net interest income from external customers	\$ 52,305	\$ (45,453)	\$ 29,202
Internal funding	(26,376)	95,577	(17,811)
Net interest income	25,929	50,124	11,391
Provision for loan losses	2,376	176	-
Noninterest income	528	3,655	31,501
Noninterest expense	4,860	15,339	32,001
Income before taxes	19,221	38,264	10,891
Preferred stock dividend	-	-	-
Income taxes	6,886	13,631	3,812
Net income	\$ 12,335	\$ 24,633	\$ 7,079
Depreciation and amortization	\$ 85	\$ 1,665	\$ 5,927
Capital expenditures	\$ 84	\$ 660	\$ 267
Net identifiable assets (in millions)/(1)/	\$ 1,246	\$ 2,920	\$ 609
Return on equity/(2)/	20.49%	18.95%	40.12%
Return on assets	2.05%	1.72%	1.75%
Efficiency ratio	18.37%	28.52%	74.61%

/(1)/ Treasury and Other net identifiable assets include the securities portfolio and residential real estate mortgage portfolio loans, net of deposits in excess of consumer loans credited to the retail segment.

/(2)/ Capital is allocated as a percentage of assets of 10%, 10% and 5% for the commercial, retail and mortgage banking segments, respectively.

/(3)/ Amounts exclude impact of \$12.0 million pretax gain on sale of subsidiary recorded in the second quarter and the impact of \$19.0 million of pretax restructuring costs to exit the mortgage servicing business

n/m - Not meaningful

Note 8 - Accounting and Financial Reporting Developments

In July 2001, the FASB issued Statement No. 142, Goodwill and Other Intangible Assets, which drastically changed the accounting for goodwill, and intangible assets. Under Statement No. 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives (but with no maximum life) (see Note 5). The Company's goodwill balance was \$1.2 million at June 30, 2002 and December 31, 2001. The Company adopted the provisions of Statement No. 142 on January 1, 2002, which had an insignificant effect on the Company's results of operations for the

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quarter and six months ended June 30, 2002 compared to the quarter and six months ended June 30, 2001.

Note 9 - Subsequent Events

On June 4, 2002, the Board of Directors of D&N Capital Corporation, a wholly-owned subsidiary of Republic Bank, approved the redemption of its 9.0% Noncumulative Preferred Stock, Series A (liquidation preference \$25.00 per share). The Company redeemed all 1,210,000 issued and outstanding shares at a redemption price of \$25.00 per share, plus accrued dividends of \$0.1375 per share, for cash on July 22, 2002.

On July 31, 2002, Republic Bank purchased \$85 million of separate account bank owned life insurance to fund future employee benefit costs. Future increases in the cash surrender value resulting from investment returns will be recorded in other income.

ITEM 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

EARNINGS PERFORMANCE

The Company reported net income for the second quarter of 2002 of \$14.5 million, an increase of 8% over net operating income of \$13.5 million for the second quarter of 2001. Diluted earnings per share were \$0.27 for the quarter, up 8% from \$0.25 earned in 2001. Annualized returns on average assets and average shareholders' equity were 1.34% and 18.12%, respectively, for the quarter ended June 30, 2002. These compare with annualized returns of 1.14% on average assets and 18.23% on average equity for the second quarter of 2001.

Net income for the six months ended June 30, 2002 was \$28.7 million, a 7% increase over net operating income of \$26.7 million earned for the same period in 2001. For the six month period ended June 30, 2002, diluted earnings per share were \$0.53, an increase of 10% over the \$0.48 earned in 2001. Annualized returns on average assets and shareholders' equity for the first six months of 2002 were 1.29% and 18.13%, respectively.

Net operating income in 2001 excludes the \$12.0 million pretax gain on sale of Market Street Mortgage Corporation and \$19.0 million of pretax restructuring costs to exit the mortgage servicing business. Including these items, the Company reported net income of \$21.3 million and \$22.1 million, respectively, for the three and six month periods ended June 30, 2001, or \$0.39 and \$0.40 per share, respectively.

RESULTS OF OPERATIONS

Mortgage Banking

The following discussion provides information that relates specifically to the Company's mortgage banking line of business, which generates revenue from mortgage loan production and mortgage loan servicing activities. Mortgage banking revenue represents the largest component of the Company's total noninterest income.

The Company closed \$668 million in single-family residential mortgage loans in the second quarter of 2002, compared to \$1.04 billion closed in the same period last year. During the first half of 2002, mortgage loan closings were \$1.38 billion, compared to \$1.89 billion for the comparable period in 2001. For comparability, residential mortgage loan closings exclude Market Street Mortgage loan closings of \$684 million for the second quarter of 2001 and \$1.19 billion for the six months ended June 20, 2001. Mortgage loan volumes during 2002 decreased primarily due to the increase in interest rates, which has resulted in

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a lower level of mortgage refinance activity. Refinancings for the second quarter of 2002 represented 38% of total closings compared to 53% in the second quarter of 2001. During the first half of 2002, refinancings represented 48% of total closings compared to 59% for the first half of 2001.

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The following table summarizes the Company's income from mortgage banking activities:

(In thousands)	Three Months Ended June 30,	
	2002	2001
Mortgage loan production revenue/(1)/	\$ 8,140	\$ 17,857
Net mortgage loan servicing (expense) revenue/(2)/	130	(235)
	-----	-----
Total mortgage banking revenue	\$ 8,270	\$ 17,622

/(1)/ Includes fee revenue derived from the loan origination process (i.e., points collected), gains on the sale of mortgage loans and gains on the sale of mortgage servicing rights released concurrently with the underlying loans sold, net of commissions and incentives paid of \$6.5 million and \$11.6 million for the second quarters of 2002 and 2001, respectively, and \$15.1 million and \$18.8 million for the six months ended June 30, 2002 and 2001, respectively. Also includes gains on sales of mortgage portfolio loans totaling \$1.9 million for the second quarter of 2002 and \$2.5 million and \$431,000 for the six months ended June 30, 2002 and 2001, respectively. Mortgage loan portfolio sales totaled \$63.5 million for the second quarter of 2002 and \$102.1 million and \$24.2 million, for the six months ended June 30, 2002 and 2001, respectively.

/(2)/ Includes servicing fees, late fees and other ancillary charges, net of amortization of mortgage servicing rights.

For the three months ended June 30, 2002, mortgage banking revenue decreased \$9.4 million, or 53%, to \$8.3 million from \$17.6 million a year earlier. For comparability, excluding the results of Market Street Mortgage, total mortgage banking revenue for the second quarter of 2001 was \$8.6 million. The decrease is primarily due to a reduction in mortgage production revenue resulting from the decrease in production volume discussed above and a corresponding decrease in mortgage loans held for sale fundings, offset by gains on sale of mortgage portfolio loans.

For the six months ended June 30, 2002, mortgage banking revenue decreased \$18.4 million, or 54%, to \$15.7 million from \$34.1 million for the same period a year ago. For comparability, excluding the results of Market Street Mortgage, total mortgage banking revenue for the six months ended June 30, 2001 was \$17.6 million. The decrease is primarily due to a reduction in mortgage production revenue resulting from the decrease in production volume discussed above and a corresponding decrease in mortgage loans held for sale fundings, offset by gains on sale of mortgage portfolio loans.

For the quarter ended June 30, 2002, net mortgage loan servicing income was \$130,000 compared to net mortgage loan servicing expense of \$235,000 for the

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quarter ended June 30, 2001. For the six months ended June 30, 2002, net mortgage loan servicing revenue was \$276,000 compared to net mortgage loan servicing expense of \$434,000 in 2001. These increases in revenue reflect decreases in amortization of mortgage servicing rights as a result of the decrease in residential mortgage loan refinance activity during 2002 and corresponding decreases in mortgage prepayments of the Company's remaining servicing portfolio. At the end of the first quarter of 2001, the Company elected to exit the residential mortgage servicing business through the sale of Market Street Mortgage's \$1.8 billion mortgage loan servicing portfolio and mortgage servicing rights were reduced by \$16.1 million at March 31, 2001 to reflect the current market value of the servicing portfolio. Loans serviced for others averaged \$229 million for the second quarter of 2002 compared to \$888 million for the second quarter of 2001. For the six months ended June 30, 2002 and 2001, mortgage loans serviced for others averaged \$210 million and \$1.5 billion, respectively.

Commercial and Retail Banking

The remaining disclosures and analyses within Management's Discussion and Analysis regarding the Company's results of operations and financial condition relate principally to the commercial and retail banking line of business.

Net Interest Income

The following discussion should be read in conjunction with Tables I and II on the following pages, which provide detailed analyses of the components impacting net interest income for the three and six months ended June 30, 2002 and 2001.

Net interest income, on a fully taxable equivalent (FTE) basis, was \$37.2 million for the second quarter of 2002, compared to \$38.4 million for the second quarter of 2001. The decrease was primarily the result of a decrease in the Company's average interest-earnings assets of \$447 million. The average mortgage loans held for sale balance decreased \$497 million, or 66% for the second quarter of 2002 compared to 2001, reflecting the decreased mortgage loan closing volume. The average portfolio loan balance decreased \$115 million, or 3% during the second quarter of 2002 compared to 2001. This decrease reflects a \$177 million, or 14% increase in average commercial loans offset by a decrease of \$272 million, or 15% in average residential real estate mortgage loans and a decrease of \$20 million, or 3% in average installment loans. The decrease in average installment loans is the result of an \$81 million decrease in the average indirect installment loan balance offset by an increase of \$61 million in the average direct installment loan balance. In addition, the average balance of investment securities increased \$168 million, or 64% for the second quarter of 2002 compared to 2001.

The net interest margin (FTE) was 3.53% for the quarter ended June 30, 2002, an increase of 23 basis points from 3.30% in 2001. The increase in the margin was due to the Company's cost of funds on interest-bearing liabilities decreasing more than the decline in yield on earning assets and the mix of the Company's interest-bearing liabilities. Average balances of the Company's higher cost interest-bearing liabilities of time deposits and FHLB advances decreased \$637 million compared to the second quarter of 2001. The decrease was partially offset by increases in the average balances of lower cost interest-bearing demand deposits and short-term borrowings of \$237 million.

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Three Months Ended
June 30, 2002

(Dollar amounts in thousands)	Average Balance	Interest	Average Rate
Average Assets:			
Short-term investments	\$ 1,080	\$ 4	1.32%
Mortgage loans held for sale	258,254	4,284	6.64
Investment securities	429,551	6,723	6.28
Portfolio loans/(1)/:			
Commercial loans	1,412,915	24,455	6.85
Real estate mortgage loans	1,517,138	25,222	6.65
Installment loans	587,731	10,327	7.05
Total loans, net of unearned income	3,517,784	60,004	6.80
Total interest-earning assets	4,206,669	71,015	6.73
Allowance for loan losses	(29,641)		
Cash and due from banks	58,175		
Other assets	99,858		
Total assets	\$ 4,335,061		
Average Liabilities and Shareholders' Equity:			
Interest-bearing demand deposits	\$ 161,398	262	.65
Savings deposits	843,004	3,861	1.84
Time deposits	1,418,331	14,941	4.23
Total interest-bearing deposits	2,422,733	19,064	3.16
Short-term borrowings	183,828	857	1.84
FHLB advances	1,041,639	13,653	5.19
Long-term debt	13,500	241	7.15
Total interest-bearing liabilities	3,661,700	33,815	3.68
Noninterest-bearing deposits	230,346		
Other liabilities	43,408		
Total liabilities	3,935,454		
Trust preferred securities and preferred stock of subsidiary	78,719		
Shareholders' equity	320,888		
Total liabilities and shareholders' equity ...	\$ 4,335,061		
Net interest income/rate spread (FTE)		\$ 37,200	3.05%
Net interest margin (FTE)			3.53%
Increase (decrease) due to change in:			
Short-term investments	\$ (19)		\$ (17)
Mortgage loans held for sale	(8,291)		(883)
Investment securities	2,728		(855)

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Portfolio loans/(1)/:		
Commercial loans	3,387	(4,985)
Real estate mortgage loans	(4,586)	(2,186)
Installment loans	(421)	(2,590)
	-----	-----
Total loans, net of unearned income ..	(1,620)	(9,761)
	-----	-----
Total interest income	(7,202)	(11,516)
Interest-bearing demand deposits	257	(116)
Savings deposits	(383)	(2,460)
Time deposits	(2,967)	(6,063)
	-----	-----
Total interest-bearing deposits	(3,093)	(8,639)
Short-term borrowings	715	(793)
FHLB advances	(5,438)	(255)
Long-term debt	-	-
	-----	-----
Total interest expense	(7,816)	(9,687)
	-----	-----
Net interest income	\$ 614	\$ (1,829)
	=====	=====

- /(1)/ Non-accrual loans and overdrafts are included in average balances.
/(2)/ Rate/volume variances are proportionately allocated to rate and volume based on the absolute value of the change in each.

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Table I - Year-to-Date Net Interest Income and Rate/Volume Analysis (FTE)

(Dollar amounts in thousands)	Six Months Ended		
	Average Balance	Interest	Average Rate

Average Assets:			
Short-term investments	\$ 924	\$ 8	1.80%
Mortgage loans held for sale	411,163	13,715	6.67
Investment securities	398,415	12,451	6.30
Portfolio loans/(1)/:			
Commercial loans	1,394,752	49,071	7.00
Real estate mortgage loans	1,505,893	49,820	6.62
Installment loans	586,146	20,709	7.12
	-----	-----	-----
Total loans, net of unearned income	3,486,791	119,600	6.85
	-----	-----	-----
Total interest-earning assets	4,297,293	145,774	6.78
Allowance for loan losses	(29,463)		
Cash and due from banks	59,090		
Other assets	103,181		
	-----	-----	-----
Total assets	\$ 4,430,101		
	=====	=====	=====

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Average Liabilities and Shareholders' Equity:

Interest-bearing demand deposits	\$ 158,834	504	0.64	\$
Savings deposits	838,077	7,556	1.82	
Time deposits	1,463,308	31,644	4.36	1
	-----	-----	-----	-----
Total interest-bearing deposits	2,460,219	39,704	3.25	2
Short-term borrowings	176,597	1,640	1.85	
FHLB advances	1,111,866	27,861	4.98	1
Long-term debt	13,500	483	7.15	
	-----	-----	-----	-----
Total interest-bearing liabilities	3,762,182	69,688	3.71	4
		-----	-----	
Noninterest-bearing deposits	229,156			
Other liabilities	43,922			

Total liabilities	4,035,260			4
Trust preferred securities and preferred stock of subsidiary	78,719			
Shareholders' equity	316,122			
	-----			-----
Total liabilities and shareholders' equity ...	\$ 4,430,101			\$4
	=====			=====
Net interest income/Rate spread (FTE)		\$ 76,086	3.07%	
		=====	=====	
Net interest margin			3.53%	
			=====	

Increase (decrease) due to change in:	Volume/(2)/	Rate/(2)/
-----	-----	-----
Short-term investments	\$ (43)	\$ (36)
Mortgage loans held for sale	(6,446)	(2,570)
Investment securities	5,454	(1,554)
Portfolio loans/(1)/:		
Commercial loans	7,458	(10,692)
Real estate mortgage loans	(10,655)	(5,891)
Installment loans	(1,840)	(5,815)
	-----	-----
Total loans, net of unearned income	(5,037)	(22,398)
	-----	-----
Total interest income	(6,072)	(26,558)
	-----	-----
Interest-bearing demand deposits	565	(403)
Savings deposits	(254)	(5,289)
Time deposits	(5,826)	(12,899)
	-----	-----
Total interest-bearing deposits	(5,515)	(18,591)
Short-term borrowings	1,533	(1,352)
FHLB advances	(8,242)	(3,490)
Long-term debt	(423)	(62)
	-----	-----
Total interest expense	(12,647)	(23,495)
	-----	-----
Net interest income	\$ 6,575	\$ (3,063)
	=====	=====

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- /(1)/ Non-accrual loans and overdrafts are included in average balances.
- /(2)/ Rate/volume variances are proportionately allocated to rate and volume based on the absolute value of the change in each.

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For the six months ended June 30, 2002, net interest income (FTE) was \$76.1 million, an increase of \$3.5 million, or 5%, over the first half of 2001. The increase was primarily the result of an increase in the net interest margin. The net interest margin (FTE) for the six months ended June 30, 2002, rose 30 basis points to 3.53% from 3.23% for the comparable period in 2001. The increase in the margin was due to the Company's cost of funds on interest-bearing liabilities decreasing more than the decline in yield on earning assets and the mix of the Company's interest-bearing liabilities.

Noninterest Expense

For comparability, excluding the noninterest expense of Market Street Mortgage for 2001, total noninterest expense for the quarter ended June 30, 2002 decreased \$2.6 million, or 10%, to \$22.9 million compared to \$25.5 million for the second quarter of 2001. The decrease is primarily the result of a decrease in salaries and employee benefits in the second quarter of 2002 compared to 2001. Excluding the \$19.0 million of charges related to the exit of the mortgage servicing business and the noninterest expense of Market Street Mortgage for 2001, total non-interest expense for the six months ended June 30, 2002, decreased \$1.4 million, or 3%, to \$46.7 million compared to \$48.0 million in 2001. This decrease is primarily the result of a decrease in other noninterest expense in 2002 compared to 2001.

BALANCE SHEET ANALYSIS

ASSETS

At June 30, 2002, the Company had \$4.38 billion in total assets, a decrease of \$383 million, or 8%, from \$4.74 billion at December 31, 2001. The decrease is primarily the result of the \$551 million decrease in the mortgage loans held for sale balance, partially offset by increases in securities available for sale and portfolio loans.

Securities

Investment securities available for sale increased \$101 million, to \$466 million, representing 10.7% of total assets at June 30, 2002. At December 31, 2001, the investment securities portfolio totaled \$365 million, or 7.7% of total assets. During the first half of 2002, the Company sold \$82.4 million of investment securities and realized gross gains and losses on the sales of available for sale securities of \$849,000 and \$31,000, respectively.

The Company's investment securities portfolio serves as a secondary source of earnings and contributes to the management of interest rate risk and liquidity risk. The debt securities portfolio is comprised primarily of municipal securities and collateralized mortgage obligations. Fixed rate debt securities within the portfolio, excluding municipal securities, totaled \$128.8 million and \$12.9 million at June 30, 2002 and December 31, 2001, respectively.

The following table details the composition, amortized cost and fair value of the Company's investment securities portfolio at June 30, 2002:

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(In thousands)	Amortized Cost	Securities A Gross Unrealized Gains
Debt Securities:		
Government agency securities	\$ 51,694	\$ 158
Collateralized mortgage obligations	122,078	895
Mortgage-backed securities	6,857	94
Municipal and other securities	204,903	1,368
	-----	-----
Total debt securities	385,532	2,515
Investment in FHLB	79,105	-
	-----	-----
Total securities available for sale	\$ 464,637	\$ 2,515
	=====	=====

Certain securities having a carrying value of approximately \$4.8 million and \$8.4 million at June 30, 2002 and December 31, 2001, respectively, were pledged to secure FHLB advances and public deposits as required by law.

Mortgage Loans Held for Sale

Mortgage loans held for sale were \$197 million at June 30, 2002, a decrease of \$551 million, or 74%, from \$748 million at December 31, 2001. The decrease was primarily due to a decrease in residential mortgage loan closings during the second quarter of 2002 of \$668 million compared to \$1.4 billion closed during the fourth quarter of 2001 (loans closed generally remain in loans held for sale for 30 to 60 days after closing). In addition, the Company had a higher percentage of adjustable rate loan closings during the first six months of 2002, which were retained as portfolio loans rather than held for sale to the secondary market.

Portfolio Loans

Total portfolio loans were \$3.55 billion at June 30, 2002, an increase of \$93 million, or 3%, from \$3.46 billion at December 31, 2001. The increase was due to increases in the commercial real estate mortgage loan, residential real estate mortgage loan and consumer direct installment loan balances which were offset by a decrease in the consumer indirect loan portfolio. The commercial portfolio loan balance increased \$70 million during the first six months of 2002, for an annualized growth rate of 10%, reflecting continued strong demand for real estate-secured lending in markets served by the Company. During the six months ended June 30, 2002 and 2001, the Company closed \$25.1 million and \$14.5 million in Small Business Administration (SBA) loans, respectively. The Company sold \$10.5 million and \$4.7 million of the guaranteed portion of SBA loans in the first six months of 2002 and 2001, respectively, resulting in corresponding gains of \$750,000 and \$257,000, respectively.

The residential mortgage portfolio loan balance increased \$14 million, or 1%, since year-end 2001 to \$1.53 billion at June 30, 2002. The increase in residential mortgage loans was due to a higher level of loan closings during the first six months of 2002 retained as portfolio loans.

The consumer direct installment loan portfolio increased \$38 million during the

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first half of 2002 due to an increase in home equity loan closings. The consumer indirect installment loan portfolio decreased \$29 million during the first half of 2002 due to the anticipated runoff of the indirect consumer loan portfolio.

The following table provides further information regarding the Company's loan portfolio:

(Dollars in thousands)	June 30, 2002	
	Amount	Percent
Commercial loans:		
Commercial and industrial	\$ 60,365	1.7%
Commercial real estate mortgage	1,373,090	38.7
Total commercial loans	1,433,455	40.4
Residential real estate mortgages	1,526,068	42.9
Installment loans:		
Consumer direct	534,882	15.1
Consumer indirect	57,221	1.6
Total installment loans	592,103	16.7
Total portfolio loans	\$ 3,551,626	100.0%

Credit Quality

The Company attempts to minimize credit risk in the loan portfolio by focusing primarily on real estate-secured lending (i.e., commercial real estate mortgage and construction loans, residential real estate mortgage and construction loans, and home equity loans). As of June 30, 2002, such loans comprised approximately 95% of total portfolio loans. The Company's general policy is to originate conventional residential real estate mortgages with loan-to-value ratios of 80% or less and SBA-secured loans or real estate-secured commercial loans with loan-to-value ratios of 75% or less and secured by personal guarantees.

The Company originates primarily conventional mortgage loans secured by residential properties which conform to the underwriting guidelines for sale to the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), or conversion to mortgage-backed securities issued by the Government National Mortgage Association (GNMA). The majority of the Company's commercial loans is secured by real estate and is generally made to small and medium-size businesses. These loans are made at rates based on the prevailing prime interest rates of Republic Bank, as well as fixed rates for terms generally ranging from three to five years. Management's emphasis on real estate-secured lending and adherence to conservative underwriting standards is reflected in the Company's historically low net charge-offs.

Non-Performing Assets

Non-performing assets consist of non-accrual loans and other real estate owned (OREO). OREO represents real estate properties acquired through foreclosure or by deed in lieu of foreclosure. Commercial loans, residential real estate mortgage loans and installment loans are generally placed on non-accrual status when principal or interest is 90 days or more past due, unless the loans are well-secured and in the process of collection. In all cases, loans may be placed

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on non-accrual status earlier when, in the opinion of management, reasonable doubt exists as to the full, timely collection of interest or principal.

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The following table summarizes the Company's non-performing assets and 90-day past due loans:

(Dollars in thousands)	June 30, 2002	Dece 20
<hr style="border-top: 1px dashed black;"/>		
Non-Performing Assets:		
Non-accrual loans:		
Commercial	\$ 13,923	\$
Residential real estate mortgages	12,486	
Installment	2,468	
	-----	---
Total non-performing loans	28,877	
Other real estate owned	2,485	
	-----	---
Total non-performing assets	\$ 31,362	\$
	=====	==
 Non-performing assets as a percentage of:		
Portfolio loans and OREO88%	
Portfolio loans, mortgage loans held for sale and OREO84%	
Total assets72%	
 Loans past due 90 days or more and still accruing interest:		
Commercial	\$ -	\$
Residential real estate	-	
Installment	-	
	-----	---
Total loans past due 90 days or more	\$ -	\$
	=====	==

At June 30, 2002, approximately \$28.1 million, or 0.79% of total portfolio loans were 30-89 days delinquent, compared to \$40.5 million, or 1.17%, at December 31, 2001.

Provision and Allowance for Loan Losses

The allowance for loan losses represents the Company's estimate of probable credit losses related to specifically identified loans as well as probable credit losses inherent in the remainder of the loan portfolio that have been incurred as of the balance sheet date. The allowance for loan losses is maintained at an adequate level through additions to the provision for loan losses. An appropriate level of the risk allocated allowance is determined based on the application of risk percentages to graded loans by categories. Specific reserves are established for individual loans when deemed necessary by management. In addition, management considers other factors when determining the unallocated allowance, including loan quality, changes in the size and character of the loan portfolio, consultation with regulatory authorities, amount of nonperforming loans, delinquency trends and economic conditions and industry trends.

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SFAS No. 114, Accounting By Creditors for Impairment of a Loan, as amended by SFAS No. 118, considers a loan impaired when it is probable that payment of principal and interest will not be collected in accordance with the contractual terms of the original loan agreement. Consistent with this definition, all non-accrual and restructured loans (with the exception of residential mortgage and consumer installment loans) are impaired. An impaired loan for which it is deemed necessary to record a specific allocated allowance may be written down to the fair value of the underlying collateral via a direct charge-off against the allowance for loan losses at the time it is determined the loan balance exceeds the fair value of the collateral. Consequently, those impaired loans not requiring a specific allocated allowance represent loans for which the fair value of the underlying collateral equaled or exceeded the recorded investment in the loan. All impaired loans were evaluated using the fair value of the underlying collateral as the measurement method.

It must be understood, however, that inherent risks and uncertainties related to the operation of a financial institution require management to rely on estimates, appraisals and evaluations of loans to prepare the Company's financial statements. Changes in economic conditions and the financial prospects of borrowers may result in abrupt changes to the estimates, appraisals or evaluations used. In addition, if actual circumstances and losses differ substantially from management's assumptions and estimates, the allowance for loan losses may not be sufficient to absorb all future losses, and net income could be significantly impacted.

Net loan charge-offs increased \$261,000 to \$4.1 million for the six months ended June 30, 2002 compared to \$3.8 million for the same period of 2001. The increase in 2002 is primarily due to an increase in the installment loan charge-offs, which have been impacted by growth in the direct consumer loan portfolio and the wind-down of the consumer indirect loan portfolio. Based on these factors, the Company may have higher loss experience on such loans in the future. The Company recorded provision for loan losses of \$4.8 million for the six months ended June 30, 2002 compared to \$4.3 million for 2001.

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The following table provides an analysis of the allowance for loan losses:

		Six Months En June 30,
(Dollars in thousands)		2002

Allowance for loan losses:		
Balance at January 1	\$	29,157
Loans charged off		(4,737)
Recoveries of loans previously charged off		650

Net charge-offs		(4,087)
Provision charged to expense		4,800

Balance at June 30	\$	29,870
		=====
		=====
Annualized net charge-offs as a percentage of average loans (including loans held for sale)21%

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Allowance for loan losses as a percentage of total portfolio loans outstanding at period-end84
Allowance for loan losses as a percentage of non-performing loans	103.44

Off-Balance Sheet Instruments

At June 30, 2002, the Company had outstanding \$66 million of commitments to fund residential real estate loan applications with agreed-upon rates (Interest Rate Lock Commitments). Interest Rate Lock Commitments and holding residential mortgage loans for sale to the secondary market exposes the Company to interest rate risk during the period from application to when the loan is sold to the investors. To minimize this exposure to interest rate risk, the Company enters into firm commitments to sell such mortgage loans and Interest Rate Lock Commitments at specified future dates to various third parties.

At June 30, 2002, the Company had outstanding mandatory forward commitments to sell \$164 million of residential mortgage loans and \$11 million of treasury note future contracts, of which \$119 million covered mortgage loans held for sale and \$56 million covered Interest Rate Lock Commitments. These outstanding forward commitments to sell mortgage loans are expected to settle in the third quarter of 2002 without producing any material gains or losses.

The Company implemented FAS 133, as amended effective January 1, 2001. The cumulative effect of the adoption of FAS 133 was not material. For the six months ended June 30, 2002, the Company's hedging policies using mandatory forward commitments and treasury note future contracts, as they relate to Interest Rate Lock Commitments and mortgage loans held for sale, were highly effective. Therefore, the impact of FAS 133 on net income was immaterial.

LIABILITIES

Total liabilities were \$3.95 billion at June 30, 2002, a \$406 million, or 9% decrease from \$4.36 billion at December 31, 2001. This decrease was primarily due to a decrease in FHLB advances, which are used to fund mortgage loans held for sale.

Deposits

Total deposits decreased \$79 million, or 3%, to \$2.67 billion at June 30, 2002 from \$2.75 billion at December 31, 2001. Noninterest bearing deposits decreased \$6 million and certificates of deposit decreased \$124 million during the first six months of 2002, while NOW and savings and money market accounts increased \$51 million from year-end.

Short-Term Borrowings

Short-term borrowings with maturities of less than one year, along with the related average balances and interest rates for the six months ended June 30, 2002 and the year ended December 31, 2001, were as follows:

(Dollars in thousands)	June 30, 2002			
	Ending Balance	Average Balance	Average Rate During Period	Ending Balance
Federal funds purchased	\$ 183,000	\$ 176,067	1.85%	\$ 176,

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Other short-term borrowings	500	530	1.34	
	-----	-----	----	-----
Total short-term borrowings	\$ 183,500	\$ 176,597	1.85%	\$ 176,
	=====	=====	=====	=====

At June 30, 2002 and December 31, 2001, other short-term borrowings consisted of treasury, tax and loan (TT&L) demand notes.

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FHLB Advances

Republic Bank routinely utilizes FHLB advances, both on a short- and long-term basis, to provide funding for mortgage loans held for sale and to minimize the interest rate risk associated with certain fixed rate commercial and residential mortgage portfolio loans. These advances are generally secured under a blanket security agreement by first mortgage loans with an aggregate book value equal to at least 145% of the advances.

FHLB advances outstanding at June 30, 2002 and December 31, 2001, were as follows:

	June 30, 2002		December
(Dollars in thousands)	Ending Balance	Average Rate At Period-End	Ending Balance
Short-term FHLB advances	\$ 125,000	3.85 %	\$ 485,000
Long-term FHLB advances	892,670	5.49	815,718
	-----	----	-----
Total	\$ 1,017,670	5.29 %	\$ 1,300,718
	=====	=====	=====

The long-term FHLB advances have original maturities ranging from July 2002 to October 2017.

Long-Term Debt

Long-term debt at June 30, 2002 and December 31, 2001 consists of \$13.5 million of 6.95% Senior Debentures due January 15, 2003.

CAPITAL

Shareholders' equity was \$327 million at June 30, 2002, a \$22 million, or 7%, increase from \$305 million at December 31, 2001. This increase primarily resulted from the retention of \$19 million in earnings after the payment of dividends and the repurchase of 369,000 shares of common stock during the first six months of 2002.

The Company is subject to regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate actions by regulators that, if undertaken, could have an effect on the Company's financial statements. Capital adequacy guidelines require minimum capital ratios of 8.00% for Total risk-based capital, 4.00% for Tier 1

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risk-based capital and 3.00% for Tier 1 leverage. To be considered well-capitalized under the regulatory framework for prompt corrective action, minimum capital ratios of 10.00% for Total risk-based capital, 6.00% for Tier 1 risk-based capital and 5.00% for Tier 1 leverage must be maintained.

As of June 30, 2002, the Company met all capital adequacy requirements to which it is subject and management does not anticipate any difficulty in meeting these requirements on an ongoing basis. The Company's capital ratios were as follows:

	June 30, 2002
Total capital to risk-weighted assets /(1)/	13.78 %
Tier 1 capital to risk-weighted assets /(1)/	12.82
Tier 1 capital to average assets /(1)/	9.19

(1) As defined by the regulations.

As of June 30, 2002, the Company's total risk-based capital was \$427 million and Tier 1 risk-based capital was \$398 million, an excess of \$117 million and \$212 million, respectively, over the minimum guidelines prescribed by regulatory agencies for a well-capitalized institution. In addition, Republic Bank had regulatory capital ratios in excess of the minimum levels established for well-capitalized institutions.

Forward-Looking Statements

The section that follows entitled "Market Risk Management" contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve certain risks, uncertainties, estimates and assumptions by management, which may cause actual results to differ materially from those contemplated by such statements.

MARKET RISK MANAGEMENT

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, foreign exchange rates and equity prices. The Company's market risk exposure is composed entirely of interest rate risk. Interest rate risk arises in the normal course of business to the extent that there is a difference between the amount of the Company's interest-earning assets and interest-bearing liabilities that are prepaid/withdrawn, repriced or mature in specified periods.

The primary objective of asset and liability management is to maintain stability in the level of net interest income by producing the optimal yield and maturity mix of assets and liabilities within the interest rate risk limits set by the Company's Asset and Liability

Management Committee (ALCO) and consistent with projected liquidity needs and capital adequacy requirements. The Company's ALCO, which meets weekly, is responsible for reviewing the interest rate sensitivity position of the Company and establishing policies to monitor and limit exposure to interest rate risk. Senior management is responsible for ensuring that the Bank asset and liability management procedures adhere to corporate policies and risk limits established

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by its respective board of directors.

The Company utilizes two complementary quantitative tools to measure and monitor interest rate risk: static gap analysis and earnings simulation modeling. Each of these interest rate risk measurements has limitations, but when evaluated together, they provide a reasonably comprehensive view of the exposure the Company has to interest rate risk.

Static Gap Analysis: Static gap analysis is utilized at the end of each month to measure the amount of interest rate risk embedded in the balance sheet as of a point in time. It does this by comparing the differences in the repricing characteristics of interest-earning assets and interest-bearing liabilities. A gap is defined as the difference between the principal amount of interest-earning assets and interest-bearing liabilities that reprice within a specified time period. This gap provides a general indication of the sensitivity of the Company's net interest income to interest rate changes. Consequently, if more assets than liabilities reprice or mature in a given period, resulting in an asset sensitive position or positive gap, increases in market interest rates will generally benefit net interest income because earning asset rates will reflect the changes more quickly. Alternatively, where interest-bearing liabilities reprice more quickly than interest-earning assets, resulting in a liability sensitive position or negative gap, increases in market interest rates will generally have an adverse impact on net interest income. At June 30, 2002, the Company's cumulative one-year gap was a positive 9.52% of total earning assets.

The Company's current policy is to maintain a mix of asset and liabilities with repricing and maturity characteristics that permit a moderate amount of short-term interest rate risk based on current interest rate projections, customer credit demands and deposit preferences. The Company generally operates in a range of plus or minus 10% of total earning assets for the cumulative one-year gap. Management believes that this range reduces the vulnerability of net interest income to large shifts in market interest rates while allowing the Company to take advantage of fluctuations in current short-term rates.

Earnings Simulation Modeling: On a monthly basis, the earnings simulation model is used to quantify the effects of various hypothetical changes in interest rates on the Company's projected net interest income over the ensuing twelve-month period. The model permits management to evaluate the effects of various parallel shifts of the U.S. Treasury yield curve, upward and downward, on net interest income expected in a stable interest rate environment (i.e., base net interest income).

As of June 30, 2002, the earnings simulation model projects net interest income would increase by 5.5% of base net interest income, assuming an immediate parallel shift upward in market interest rates by 200 basis points. If market interest rates fall by 200 basis points, the model projects net interest income would decrease by 8.4%. These projected levels are well within the Company's policy limits. These results portray the Company's interest rate risk position as asset sensitive for the one-year horizon. The earnings simulation model assumes that current balance sheet totals remain constant and all maturities and prepayments of interest-earning assets and interest-bearing liabilities are reinvested at current market rates.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings
 In the ordinary course of business, the Company and its

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subsidiaries are parties to certain routine litigation. In the opinion of management, the aggregate liabilities, if any, arising from such legal proceedings would not have a material adverse effect on the Company's consolidated financial position, results of operations and liquidity.

- Item 2. Changes in Securities
On May 16, 2002, the Board of Directors declared a quarterly cash dividend of \$0.085 per share of common stock, payable on July 1, 2002 to shareholders of record June 7, 2002.
- Item 3. Defaults Upon Senior Securities
None
- Item 4. Submission of Matters to a Vote of Security Holders
None
- Item 5. Other Information
None
- Item 6. Exhibits and Reports on Form 8-K
(a) Exhibits
(12) Computations of ratios of earnings to fixed charges.

(b) Reports on Form 8-K
There were no reports on Form 8-K filed during the second quarter of 2002.

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SIGNATURE

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

REPUBLIC BANCORP INC.

(Registrant)

Date: August 13, 2002

BY: /s/ Thomas F. Menacher

Thomas F. Menacher
Executive Vice President, Treasurer
and Chief Financial Officer
(Principal Financial and
Accounting Officer)

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