REPUBLIC BANCORP INC
Form 10-Q
November 14, 2001

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 September 30, 2001 Commission File Number 0-15734

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

Michigan	38-2604669
(State of other jurisdiction of incorporation or organization)	(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 October 31, 2001:

Common Stock, $5 Par Value .... 48,918,000 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)	September 30, 2001	December 31, 2000
ASSETS		
Cash and cash equivalents	$ 67,784	$ 82,377
Mortgage loans held for sale	350,738	385,207
Securities available for sale (amortized cost of $382,042 and $212,183, respectively)	379,867	211,860
Loans	3,565,312	3,771,676
Less allowance for loan losses	(28,990)	(28,450)
Net loans	3,536,322	3,743,226
Premises and equipment	31,458	36,094
Mortgage servicing rights	2,216	51,796
Other assets	76,376	100,081
Total assets	$ 4,444,761	$ 4,610,641
LIABILITIES		
Noninterest-bearing deposits	$ 248,053	$ 267,509
Interest-bearing deposits:		
NOW accounts	143,711	150,476
Savings and money market accounts	800,312	590,056
Certificates of deposit	1,505,906	1,720,485

Total interest-bearing deposits	2,449,929	2,461,017
Total deposits	2,697,982	2,728,526
Federal funds purchased and other short-term borrowings	142,000	1,729
FHLB advances	1,182,218	1,383,513
Accrued expenses and other liabilities	68,229	125,790
Long-term debt	13,500	47,500
Total liabilities	4,103,929	4,287,058
Preferred stock of subsidiary	28,719	28,719
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; 49,261,000 and 49,424,000 shares issued and outstanding, respectively	246,304	247,119
Capital surplus	41,236	44,961
Retained earnings	25,987	2,994
Accumulated other comprehensive loss	(1,414)	(210)
Total shareholders' equity	312,113	294,864
Total liabilities and shareholders' equity	$ 4,444,761	$ 4,610,641

See notes to consolidated financial statements.

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

(In thousands, except per share data)	Three Months Ended September 30, 2001	2000	Nine Months Ende September 30, 2001	200
Interest Income:				
Loans, including fees	$ 74,971	$ 87,218	$ 244,737	$ 247,
Investment securities	4,584	3,633	12,282	10,
Total interest income	79,555	90,851	257,019	258,
Interest Expense:				
Deposits	27,453	33,098	91,263	90,
Short-term borrowings	1,076	447	2,535	2,
FHLB advances	15,727	22,867	55,320	61,
Long-term debt	241	859	1,209	2,
Total interest expense	44,497	57,271	150,327	157,
Net interest income	35,058	33,580	106,692	100,
Provision for loan losses	2,000	1,600	6,300	4,

Net interest income after provision for loan losses	33,058	31,980	100,392	96,
Noninterest Income:				
Service charges	2,232	2,073	5,775	5,
Mortgage production revenue	6,013	13,441	40,520	42,
Net mortgage servicing (expense) revenue	153	1,372	(281)	8,
Gain on sale of securities	404	--	934	
Other noninterest income	1,176	1,083	2,540	3,
Gain on sale of subsidiary	--	--	12,000	
Total noninterest income	9,978	17,969	61,488	59,
Noninterest Expense:				
Salaries and employee benefits	12,198	17,485	49,152	55,
Occupancy expense of premises	2,391	3,320	9,017	10,
Equipment expense	1,464	2,192	6,217	6,
Other noninterest expense	6,355	9,333	23,045	28,
Restructuring costs to exit mortgage servicing	--	--	19,000	
Total noninterest expense	22,408	32,330	106,431	100,
Income before income taxes	20,628	17,619	55,449	54,
Provision for income taxes	6,454	5,611	17,797	17,
Income before preferred stock dividends	14,174	12,008	37,652	36,
Preferred stock dividends	681	681	2,042	2,
Net income	$ 13,493	$ 11,327	$ 35,610	$ 34,
Basic earnings per share	$ .27	$ .23	$ .72	$
Diluted earnings per share	$ .27	$ .23	$ .71	$
Average common shares outstanding - diluted	50,241	49,821	50,181	49,
Cash dividends declared per common share	$ .085	$ .077	$ .255	$.

See notes to consolidated financial statements.

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

Nine Months Ended September 30 (In thousands)	2001	
Cash Flows From Operating Activities:		
Net income	$ 35,610	$
Adjustments to reconcile net income to net cash provided by		

operating activities:		
Depreciation and amortization	6,020	
Amortization and write-down of mortgage servicing rights	20,253	
Net gain on sale of mortgage servicing rights	(21,521)	
Net gain on sale of securities available for sale	(934)	
Net gain on sale of loans	(1,314)	
Net gain on sale of subsidiary	(12,000)	
Proceeds from sales of mortgage loans held for sale	3,322,772	2
Origination of mortgage loans held for sale	(3,505,987)	(2
Net decrease in other assets	28,345	
Net (decrease) increase in other liabilities	(21,473)	
Other, net	(2,094)	
Total adjustments	(187,933)	
Net cash (used in) provided by operating activities	(152,323)	
Cash Flows From Investing Activities:		
Proceeds from sale of securities available for sale	117,297	
Proceeds from maturities/payments of securities available for sale	6,484	
Purchases of securities available for sale	(274,977)	
Proceeds from sale of consumer loans	39,485	
Proceeds from sale of commercial and residential real estate loans	61,533	
Net decrease (increase) in loans made to customers	107,368	
Proceeds from sale of subsidiary and payments received on related borrowings	176,184	
Proceeds from sale of mortgage servicing rights	94,250	
Additions to mortgage servicing rights	(46,754)	
Net cash provided by (used in) investing activities	280,870	
Cash Flows From Financing Activities:		
Net (decrease) increase in deposits	(30,544)	
Net increase (decrease) in short-term borrowings	140,271	
Net decrease in short-term FHLB advances	(140,000)	
Proceeds from long-term FHLB advances	110,000	
Payments on long-term FHLB advances	(171,295)	
Payments on long-term debt	(34,000)	
Net proceeds from issuance of common shares	4,384	
Repurchase of common shares	(9,328)	
Dividends paid	(12,628)	
Net cash provided by (used in) financing activities	(143,140)	
Net decrease in cash and cash equivalents	(14,593)	
Cash and cash equivalents at beginning of period	82,377	
Cash and cash equivalents at end of period	$ 67,784	$

See notes to consolidated financial statements.

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, 2000.

Certain amounts in prior periods have been reclassified to conform to the current year's presentation.

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 Market Street Mortgage Corporation, D&N Capital Corporation and Quincy Investment Services, Inc.). D&N Capital Corporation and Quincy Investment Services, Inc. are wholly-owned subsidiaries and Market Street Mortgage Corporation was an 80% majority-owned mortgage company subsidiary that was sold on June 29, 2001. 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 nine months ended September 30, include:

(In thousands)	2001	2000
Cash paid during the period for:		
Interest	$157,548	$156,477
Income taxes	$ 6,819	14,959
Non-cash investing activities:		
Loan charge-offs	$ 6,498	$ 4,565

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Note 4 - Earnings Per Share

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

	Three Months Ended September 30,		Nine M Sept
(Dollars in thousands, except per share data)	2001	2000	2001
Numerator for basic and diluted earnings per share:			
Net income	$ 13,493	$ 11,327	$ 35,610
Denominator for basic earnings per share--			
weighted-average shares	49,462,296	49,559,129	49,482,219

Effect of dilutive securities:			
Employee stock options	727,374	244,779	652,945
Warrants	51,327	17,456	46,062
Dilutive potential common shares	778,701	262,235	699,007
Denominator for diluted earnings per share--adjusted weighted-average shares for assumed conversions..	50,240,997	49,821,364	50,181,226
Basic earnings per share	$ .27	$ .23	$ .72
Diluted earnings per share	$ .27	$ .23	$ .71

Note 5 - Comprehensive Income

The following table sets forth the computation of comprehensive income:

(In thousands)	Three Months Ended September 30, 2001	2000	Nine Months Ende September 30, 2001	2000
Net income	$ 13,493	$ 11,327	$ 35,610	$ 34,7
Unrealized holding losses on securities, net of tax..	$ (342)	$ 967	$ (597)	$ 6
Reclassification adjustment for gains included in net income, net of tax	(263)	--	(607)	(
Net unrealized losses on securities, net of tax	(605)	967	(1,204)	6
Comprehensive income	$ 12,888	$ 12,294	$ 34,406	$ 35,3

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Note 6 - Segment Information

The Company's operations are managed as two major business segments: (1) commercial and retail banking and (2) mortgage banking. The commercial and retail 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; mortgage portfolio lending; home equity lending; and the deposit-gathering function. The mortgage banking segment is comprised of mortgage loan production and mortgage loan servicing.

The following table presents the financial results of each business segment for the three months ended September 30, 2001 and 2000.

Commercial and

	Retail Banking		Mortgage Banking		Consolidated	
	Three Months Ended,		Three Months Ended,		Three Months Ended	
(In thousands)	Sept. 30, 2001	Sept. 30, 2000	Sept. 30, 2001	Sept. 30, 2000	Sept. 30, 2001	Sept. 3 2000
Interest income	$70,221	$79,339	$ 9,334	$11,512	$79,555	$90,85
Interest expense	39,015	47,736	5,482	9,535	44,497	57,27
Net interest income(1)	31,206	31,603	3,852	1,977	35,058	33,58
Provision for loan losses	2,000	1,600	--	--	2,000	1,60
Noninterest income	3,815	3,156	6,163	14,813	9,978	17,96
Noninterest expense	16,909	17,117	5,499	15,213	22,408	32,33
Income before taxes	$16,112	$16,042	$ 4,516	$ 1,577	$20,628	$17,61
Preferred stock dividend	$ 681	$ 681	$ --	$ --	$ 681	$ 68
Income taxes	$ 4,873	$ 5,059	$ 1,581	$ 552	$ 6,454	$ 5,61
Depreciation and amortization ...	$ 1,190	$ 1,185	$ 406	$ 3,093	$ 1,596	$ 4,27
Capital expenditures	$ 741	$ 2,012	$ 145	$ 256	$ 886	$ 2,26
Identifiable assets (in millions)	$ 3,930	$ 4,026	$ 515	$ 526	$ 4,445	$ 4,55
Efficiency ratio	48.85%	49.24%	54.91%	90.61%	50.21%	62.7

The following table presents the financial results of each business segment for the nine months ended September 30, 2001 and 2000.

	Commercial and Retail Banking		Mortgage Banking		Consolidate	
	Nine Months Ended,		Nine Months Ended,		Nine Months E	
(In thousands)	Sept. 30, 2001	Sept. 30, 2000	Sept. 30, 2001(2)	Sept. 30, 2000	Sept. 30, 2001(2)	Se
Interest income	$218,483	$223,801	$ 38,536	$ 34,464	$257,019	$2
Interest expense	125,164	129,945	25,163	27,451	150,327	1
Net interest income(1)	93,319	93,856	13,373	7,013	106,692	1
Provision for loan losses	6,300	4,800	--	--	6,300	
Noninterest income	9,249	8,965	40,239	50,313	49,488	
Noninterest expense	46,011	49,536	41,420	51,150	87,431	1
Income before taxes	$ 50,257	$ 48,485	$ 12,192	$ 6,176	$ 62,449	$
Preferred stock dividend	$ 2,042	$ 2,042	$ --	$ --	$ 2,042	$
Income taxes	$ 15,980	$ 17,595	$ 4,267	$ 2,162	$ 20,247	$
Depreciation and amortization ...	$ 3,983	$ 3,757	$ 6,333	$ 8,824	$ 10,316	$
Capital expenditures	$ 2,223	$ 2,702	$ 412	$ 3,453	$ 2,635	$
Identifiable assets (in millions)	$ 3,930	$ 4,026	$ 515	$ 526	$ 4,445	$
Efficiency ratio	45.27%	48.22	77.26%	90.61%	56.32%	

(1) Net interest income for the mortgage banking segment is generated from the interest earned on mortgage loans held for sale, less the interest expense incurred on short-term borrowings used to fund loan production and servicing acquisitions. The Company's internal funds transfer pricing charges the mortgage banking segment an interest rate based on its overall cost of funds for the loans held for sale balances and an interest rate based on the prime rate to fund its servicing portfolio and operations.

(2) Excludes impact of $12.0 million gain on sale of subsidiary recorded in the second quarter and the impact of $19.0 million charge related to the exit of the residential mortgage servicing business recorded in the first quarter.

Note 8 - Accounting and Financial Reporting Developments

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which was amended in June 1999 by Statement No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133, and in June 2000 by Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities and is required to be adopted by the Company in years beginning after June 15, 2000. The Statement requires companies to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

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

In July 2001, the FASB issued Statement No. 141, Business Combinations and Statement No. 142, Goodwill and Other Intangible Assets. These Statements drastically change the accounting for business combinations, goodwill, and intangible assets. Statement 141 eliminates the pooling-of-interests method of accounting for business combinations except for qualifying business combinations that were initiated prior to July 1, 2001. Statement 141 further clarifies the criteria to recognize intangible assets separately from goodwill. The requirements of Statement 141 are effective for any business combination accounted for by the purchase method that is completed after June 30, 2001 (i.e., the acquisition date is July 1, 2001 or after).

Under Statement 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). The amortization provisions of Statement 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, companies are required to adopt Statement 142 in their fiscal year beginning after December 15, 2001.

At September 30, 2001, the Company's goodwill balance was $1.3 million. As a result, the Company does not expect the adoption of these Statements to have a material impact on the financial position or results of operations.

Note 9 - Subsequent Event

In October 2001, Republic Capital Trust I, a Delaware business trust and newly-formed subsidiary of the Company, issued $50 million of 8.60% Cumulative Trust Preferred Securities (liquidation preference of $25 per preferred security). The trust preferred securities must be redeemed on December 31, 2031, however, the Company has the option to redeem the securities at par any time after December 31, 2006, subject to regulatory approval. The securities trade on the Nasdaq Stock Market under the symbol RBNCP. The Company used the net proceeds to repay short-term indebtedness outstanding with an unaffiliated bank and will use the remaining proceeds for general corporate purposes, for working capital and for repurchases of its common stock.

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

EARNINGS PERFORMANCE

The Company reported record net income for the third quarter of 2001 of $13.5 million, an increase of 19% over the $11.3 million earned in 2000. Diluted earnings per share were $0.27 for the quarter, up 17% from $0.23 earned in 2000. Net income for the quarter generated annualized returns of 1.22% on average assets and 17.31% on average equity. These compare with annualized returns of 0.99% on average assets and 15.93% on average equity for the third quarter of 2000.

Net operating income for the nine months ended September 30, 2001 was $40.2 million, a 16% increase over the $34.7 million earned for the same period in 2000. Net operating income for the nine months ended September 30, 2001 excludes the $7.8 million after-tax gain on the sale of Market Street Mortgage Corporation recorded in the second quarter and the $12.35 million after-tax restructuring costs to exit the mortgage servicing business recorded in the first quarter. For the nine month period ended September 30, 2001, diluted net operating earnings per share were $0.80, an increase of 14% over the $0.70 earned in 2000. Annualized returns on average assets and shareholders' equity for the first nine months of 2001 were 1.16% and 17.72%, 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 $858 million in single-family residential mortgage loans in the third quarter of 2001, compared to $547 million closed in the same period last year. During the first nine months of 2001, mortgage loan closings were $2.75 billion, compared to $1.75 billion for the comparable period in 2000. For comparability, residential mortgage loan closings exclude Market Street Mortgage loan closings of $394 million for the third quarter of 2000, and $1,194 million and $1,192 million for the nine months ended September 30, 2001 and 2000, respectively. Mortgage loan closing volumes during the first nine months of 2001 increased primarily due to the declining interest rate environment which has resulted in a higher level of mortgage refinance activity. Refinancings for the third quarter of 2001 represented approximately 45% of total closings compared to 18% in the third quarter of 2000. During the first nine months of 2001, refinancings represented approximately 55% of total closings compared to 15% for the same period of 2000.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2001	2000	2001	2000
Mortgage loan production revenue (1)	$ 6,013	$ 13,441	$ 40,520	$ 42,179
Net mortgage loan servicing revenue (expense) (2)..	153	1,372	(281)	5,916
Gain on sale of bulk servicing	--	--	--	2,218
Total mortgage banking revenue	$ 6,166	$ 14,813	$ 40,239	$ 50,313

(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 paid to loan originators.

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

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For the three months ended September 30, 2001, mortgage banking revenue decreased $8.6 million, or 58%, to $6.2 million from $14.8 million a year earlier. For comparability, when excluding the impact of Market Street Mortgage Corporation, mortgage banking revenue for the third quarter of 2000 was $6.8 million. The slight decrease is primarily due to a reduction in the Company's gross income on loans sold. The ratio of mortgage production revenue (before commissions) to mortgage loans sold decreased from 2.40% for the third quarter of 2000 to 2.18% for the third quarter of 2001.

For the nine months ended September 30, 2001, mortgage banking revenue decreased $10.1 million, or 20%, compared to the same period a year ago. For comparability, when excluding the effects of Market Street Mortgage Corporation for the nine months ended September 30, 2000, mortgage banking revenue increased $540,000, which is the result of a $3.9 million increase in mortgage loan production revenue, offset by a $3.4 million decrease in mortgage loan servicing revenue and gains on sale of bulk servicing. The increase in mortgage loan production revenue reflects the increase in mortgage loan closing volumes discussed earlier.

At the end of the first quarter of 2001 the Company elected to exit the residential mortgage servicing business and reduced mortgage servicing rights by $16.1 million to reflect the current market value of the servicing portfolio. A sale agreement regarding Market Street's mortgage servicing portfolio was subsequently signed in April 2001 with an unaffiliated company. The Company completed the sale of Market Street's mortgage servicing portfolio during the second quarter.

For the quarter ended September 30, 2001, net mortgage loan servicing revenue was $153,000 compared to $1.4 million for the quarter ended September 30, 2000. For the nine months ended September 30, 2001, net mortgage loan servicing expense was $281,000 compared to net mortgage loan servicing revenue of $5.9 million in 2000. These decreases in revenue primarily reflect a reduction in the average mortgage loan servicing portfolio as loans serviced for others averaged $133 million for the third quarter of 2001 compared to $2.6 billion in 2000. The Company expects to sell all mortgage servicing rights concurrently with the sale of the underlying loans.

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 nine months ended September 30, 2001 and 2000.

Net interest income, on a fully taxable equivalent (FTE) basis, was $36.0 million for the third quarter of 2001, an increase of $2.5 million, or 7%, over the third quarter of 2000. This increase was primarily the result of an increase in the net interest margin and the mix of the Company's interest-bearing liabilities. The net interest margin (FTE) was 3.36% for the quarter ended September 30, 2001, an increase of 29 basis points from 3.07% in 2000. 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.

Net interest income for the quarter also increased due to interest expense declining more than interest income. Total interest expense for the quarter declined primarily due to the reduction in the average balances of the

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Company's higher cost interest-bearing liabilities of time deposits and FHLB advances of $355 million compared to the third quarter of 2000. The decrease was partially offset by increases in the average balances of lower cost interest-bearing demand deposits, savings deposits and short-term borrowings of $175 million. The decrease in average interest-bearing liabilities was primarily due to the net decrease in average interest-earning assets compared to the third quarter of 2000 of $112 million.

For the nine months ended September 30, 2001, net interest income (FTE) was $108.6 million, an increase of $7.7 million, or 8%, over the first nine months of 2000. The net interest margin (FTE) for the nine months ended September 30, 2001, rose 12 basis points to 3.27% from 3.15% for the comparable period in 2000. The increase in the net interest margin was primarily due to the Company's cost of funds on interest bearing liabilities decreasing more than the decline in yield on earning assets during the first nine months of 2001.

Noninterest Expense

For the quarter ended September 30, 2001, total noninterest expense decreased $9.9 million, or 31%, to $22.4 million compared to $32.3 million for the third quarter of 2000. For comparability, when excluding the expenses of Market Street Mortgage from the third quarter of 2000, total noninterest expense decreased $1.7 million or 7%. The decrease reflects a $649,000, or 5%, decrease in salaries and employee benefits expense and a decrease of $845,000, or 12%, in other noninterest expense. Excluding the expenses of Market Street Mortgage from the nine month periods ending September 30, 2001 and 2000, total noninterest expense decreased $1.9 million, or 3%, to $70.4 million from $72.3 million in 2000. This decrease is primarily the result of decreases in salaries and employee benefits expense and other noninterest expense. The decreases for the quarter and nine months ended September 30, 2001 reflect cost savings associated with the integration of D&N Bank and Republic Banc Mortgage into Republic Bank which took place in December 2000.

Table I - Quarterly Net Interest Income and Rate/Volume Analysis (FTE)

	Three Months Ended September 30, 2001			
(Dollar amounts in thousands)	Average Balance	Interest	Average Rate	Ave Bal
Average Assets:				
Short-term investments	$ 783	$ 7	3.53%	$
Mortgage loans held for sale	371,944	6,656	7.16	4
Investment securities	328,514	5,568	6.72	1
Portfolio loans(1):				
Commercial loans	1,294,169	26,406	7.98	1,0
Real estate mortgage loans	1,678,019	29,460	7.02	1,9
Installment loans	597,519	12,449	8.27	7
Total loans, net of unearned income	3,569,707	68,315	7.58	3,7
Total interest-earning assets	4,270,948	80,546	7.48	4,3
Allowance for loan losses	(28,846)			(
Cash and due from banks	61,085			
Other assets	104,533			1
Total assets	$ 4,407,720			$ 4,5
Average Liabilities and Shareholders' Equity:				
Interest-bearing demand deposits	$ 147,490	456	1.23	$ 1
Savings deposits	773,706	5,845	3.00	7
Time deposits	1,551,950	21,152	5.41	1,7
Total interest-bearing deposits	2,473,146	27,453	4.40	2,5
Short-term borrowings	115,021	1,076	3.66	
FHLB advances	1,185,631	15,727	5.19	1,4
Long-term debt	13,500	241	7.14	
Total interest-bearing liabilities	3,787,298	44,497	4.64	4,0
Noninterest-bearing deposits	232,274			1
Other liabilities	47,702			

Total liabilities	4,067,274			4,2
Preferred stock of subsidiary	28,719			
Shareholders' equity	311,727			2
Total liabilities and shareholders' equity...	$ 4,407,720			$ 4,5
Net interest income/rate spread (FTE)		$ 36,049	2.84%	
Net interest margin (FTE)			3.36%	

Increase (decrease) due to change in:	Volume(2)	Rate(2)	Net Cha
Short-term investments	$ (34)	$ (18)	$ (
Mortgage loans held for sale	(707)	(1,188)	(1,8
Investment securities	2,381	(400)	1,9
Portfolio loans(1):			
Commercial loans	5,142	(3,535)	1,6
Real estate mortgage loans	(5,313)	(2,167)	(7,4
Installment loans	(3,106)	(1,373)	(4,4
Total loans, net of unearned income.	(3,277)	(7,073)	(10,3
Total interest income	(1,637)	(8,681)	(10,3
Interest-bearing demand deposits	164	(146)	
Savings deposits	305	(287)	
Time deposits	(2,231)	(3,450)	(5,6
Total interest-bearing deposits	(1,762)	(3,883)	(5,6
Short-term borrowings	908	(279)	6
FHLB advances	(3,361)	(3,779)	(7,1
Long-term debt	(607)	(11)	(6
Total interest expense	(4,822)	(7,952)	(12,7
Net interest income	$ 3,185	$ (729)	$ 2,4

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

Nine Months Ended
September 30, 2001

(Dollar amounts in thousands)	Average Balance	Interest	Average Rate	A
Average Assets:				
Short-term investments	$ 2,720	$ 94	4.63%	$
Mortgage loans held for sale	524,455	29,383	7.47	
Investment securities	262,917	14,119	7.18	
Portfolio loans(1):				
Commercial loans	1,234,777	78,711	8.41	
Real estate mortgage loans	1,776,498	95,828	7.19	1,
Installment loans	618,701	40,815	8.82	
Total loans, net of unearned income	3,629,976	215,354	7.88	3,
Total interest-earning assets	4,420,068	258,950	7.79	4,
Allowance for loan losses	(28,961)			
Cash and due from banks	66,639			
Other assets	141,889			
Total assets	$ 4,599,635			$ 4,
Average Liabilities and Shareholders' Equity:				
Interest-bearing demand deposits	$ 146,938	1,	1.52	$
Savings deposits	696,523	18,076	3.47	
Time deposits	1,634,397	71,521	5.85	1,
Total interest-bearing deposits	2,477,858	91,263	4.03	2,
Short-term borrowings	77,092	2,535	4.34	
FHLB advances	1,349,438	55,320	5.41	1,
Long-term debt	22,333	1,209	7.22	
Total interest-bearing liabilities	3,926,721	150,327	5.09	3,
Noninterest-bearing deposits	269,676			
Other liabilities	72,362			
Total liabilities	4,268,759			4,
Preferred stock of subsidiary	28,719			
Shareholders' equity	302,157			
Total liabilities and shareholders' equity	$ 4,599,635			$ 4,
Net interest income/Rate spread (FTE)		$ 108,623	2.70%	
Net interest margin			3.27%	

Increase (decrease) due to change in:	Volume(2)	Rate(2)	Net
Short-term investments	$ 7	$ (26)	$
Mortgage loans held for sale	4,992	(2,335)	
Investment securities	3,415	(199)	
Portfolio loans(1):			
Commercial loans	16,445	(4,673)	

Real estate mortgage loans	(6,715)	(1,833)	
Installment loans	(8,330)	(113)	
Total loans, net of unearned income	1,400	(6,619)	
Total interest income	9,814	(9,179)	
Interest-bearing demand deposits	451	(95)	
Savings deposits	(621)	2,051	
Time deposits	459	(1,038)	
Total interest-bearing deposits	289	918	
Short-term borrowings	648	(961)	
FHLB advances	827	(7,423)	
Long-term debt	(1,627)	260	
Total interest expense	137	(7,206)	
Net interest income	$ 9,677	$ (1,973)	$

(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.

BALANCE SHEET ANALYSIS

ASSETS

At September 30, 2001, the Company had $4.44 billion in total assets, a decrease of $165.9 million, or 4%, from $4.61 billion at December 31, 2000. The decrease is primarily the result of the sale of Market Street Mortgage Corporation and its related assets and a decrease in the Company's portfolio of residential real estate mortgage and installment loans.

Securities

Investment securities available for sale increased $168.0 million, to $379.9 million, representing 8.5% of total assets at September 30, 2001. At December 31, 2000, the investment securities portfolio totaled $211.9 million, or 4.6% of total assets. During the first nine months of 2001, the Company sold $116.4 million of investment securities and realized gross gains and losses on the sales of available for sale securities of $963,000 and $29,000, respectively.

The Company's investment securities portfolio, while serving as a secondary source of earnings, carries relatively minimal principal risk 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. The Company's equity securities portfolio consists primarily of NetBank, Inc. common stock.

The following table details the composition, amortized cost and fair value of the Company's investment securities portfolio at September 30, 2001:

(In thousands)	Securities Available for Sale Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimate Fair Value
Debt Securities:				
U.S. Treasury and Government agency securities ...	$ 9,603	$ 70	$ 123	$ 9,550
Collateralized mortgage obligations	75,277	154	452	74,979
Interest-only certificates	64	--	--	64
Mortgage-backed securities	2,055	49	--	2,104
Municipal and other securities	198,369	2,269	696	199,942
Total debt securities	285,368	2,542	1,271	286,639
Equity securities	17,619	--	3,446	14,173
Investment in FHLB	79,055	--	--	79,055
Total securities available for sale	$382,042	$ 2,542	$ 4,717	$379,867

Certain securities having a carrying value of approximately $10.0 million and $58.7 million at September 30, 2001 and December 31, 2000, 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 $350.7 million at September 30, 2001 compared to $385.2 million at December 31, 2000. Excluding Market Street Mortgage's mortgage loans held for sale balance of $176.1 million at December 31, 2000, the mortgage loans held for sale balance increased $141.6 million since year-end. This increase was caused by an increase in residential mortgage loan closings during the third quarter of 2001 over the fourth quarter of 2000 (loans closed generally remain in loans held for sale for 30 to 60 days after closing).

Portfolio Loans

Total portfolio loans were $3.57 billion at September 30, 2001, a decrease of $206.4 million, or 5%, from $3.77 billion at December 31, 2000. This decrease was due to decreases in the residential real estate mortgage and consumer indirect loan portfolios which were partially offset by an increase in the commercial loan balance.

The commercial portfolio loan balance increased $188.4 million during the first nine months of 2001, for an annualized growth rate of 22%, reflecting continued strong demand for real estate-secured lending in markets served by the Company. During the third quarter of 2001 and 2000, the Company closed $8.4 million and $6.2 million, respectively, in Small Business Administration (SBA) loans. For the first nine months of 2001 and 2000, SBA loan closings were $22.9 million and $25.2 million, respectively. The Company sold $9.2 million and $10.3 million of the guaranteed portion of SBA loans in the first nine months of 2001 and 2000, respectively, resulting in gains of $424,000 and $403,000, respectively.

The residential mortgage portfolio loan balance decreased $316.1 million, or 16%, since year-end 2000 to $1.65 billion at September 30, 2001. The decrease in residential mortgage loans was due to a significant increase of loans being refinanced from the residential mortgage loan portfolio. The Company refinanced a significant portion of these mortgage portfolio loans, which are subsequently reflected as loans held for sale.

The installment loan portfolio decreased $78.6 million at September 30, 2001 compared to December 31, 2000, primarily to due to loan sales and runoff from the indirect consumer loan portfolio. During the first nine months of 2001, the Company sold $39 million of indirect marine and RV loans. There was no material gain on the sale. The direct consumer loan portfolio increased $31.0 million, or 7% at September 30, 2001 compared to year-end 2000.

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

	September 30, 2001		December 31, 2000	
(Dollars in thousands)	Amount	Percent	Amount	Percent
Commercial loans:				
Commercial and industrial	$ 69,431	1.9%	$ 79,544	2.1%
Commercial real estate mortgage ...	1,251,237	35.1	1,052,748	27.9
Total commercial loans	1,320,668	37.0	1,132,292	30.0
Residential real estate mortgages	1,648,277	46.2	1,964,394	52.1
Installment loans:				
Consumer direct	490,399	13.8	459,359	12.2
Consumer indirect	105,968	3.0	215,631	5.7
Total installment loans	596,367	16.8	674,990	17.9
Total portfolio loans	$3,565,312	100.0%	$3,771,676	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 loans, commercial real estate construction loans, residential real estate mortgage loans, residential real estate construction loans, and home equity loans). As of September 30, 2001, such loans comprised approximately 93% 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 substantial majority of the Company's residential mortgage loan production is underwritten in compliance with the requirements for sale to or conversion to mortgage-backed securities issued by Freddie Mac, the Federal National Mortgage Association (FNMA), or 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 on non-accrual status earlier when, in the opinion of management, reasonable doubt exists as to the full, timely collection of interest or principal.

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

(Dollars in thousands)	September 30, 2001	December 31, 2000
Non-Performing Assets:		
Non-accrual loans:		
Commercial	$ 6,842	$ 5,499
Residential real estate mortgages	18,920	13,429
Installment	3,092	2,167
Total non-performing loans	28,854	21,095
Other real estate owned	3,847	4,906
Total non-performing assets	$32,701	$26,001
Non-performing assets as a percentage of:		
Portfolio loans and OREO	.92%	.69%
Portfolio loans, mortgage loans held for sale and OREO	.83%	.62%
Total assets	.74%	.56%
Loans past due 90 days or more and still accruing interest:		
Commercial	$ 16	$ 209
Residential real estate	--	--
Installment	--	--
Total loans past due 90 days or more	$ 16	$ 209

At September 30, 2001, approximately $41.2 million, or 1.16% of total portfolio loans were 30-89 days delinquent, compared to $45.2 million, or 1.20%, at December 31, 2000.

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 general allowance is determined based on the application of projected risk percentages to graded loans by categories. In addition, specific reserves are established for individual loans when deemed necessary by management. Management also 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.

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 allowance is, typically, written down to the fair value of the underlying collateral at the time it is placed in non-accrual status via a direct charge-off against the allowance for loan losses. Consequently, those impaired loans not requiring a specific 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 depend 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.

Gross loan charge-offs increased $1.9 million to $6.5 million for the nine months ended September 30, 2001 compared to $4.6 million for the same period of 2000. The increase is primarily related to charge-offs of certain commercial loans during the first nine months of 2001. The Company recorded provision for loan losses of $6.3 million for the nine months ended September 30, 2001 compared to $4.8 million for 2000 as a result the increase in charge-offs.

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

(Dollars in thousands)	Nine Months Ended September 30, 2001	2000
Allowance for loan losses:		
Balance at January 1	$ 28,450	$ 27,128
Loans charged off	(6,498)	(4,565)
Recoveries of loans previously charged off	738	1,016
Net charge-offs	(5,760)	(3,549)
Provision charged to expense	6,300	4,800
Balance at September 30	$ 28,990	$ 28,379
Annualized net charge-offs as a percentage of average loans (including loans held for sale)	.18%	.12%
Allowance for loan losses as a percentage of total portfolio loans outstanding at period-end	.81	.76
Allowance for loan losses as a percentage of non-performing		

loans	100.47	125.77

Off-Balance Sheet Instruments

At September 30, 2001, the Company had outstanding $336 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 September 30, 2001, the Company had outstanding mandatory forward commitments to sell $631 million of residential mortgage loans, of which $351 million covered mortgage loans held for sale and $280 million covered Interest Rate Lock Commitments. These outstanding forward commitments to sell mortgage loans are expected to settle in the fourth quarter of 2001 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 nine months ended September 30, 2001, the Company's hedging policies using mandatory forward commitments, 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 $4.10 billion at September 30, 2001, a $183 million, or 4% decrease from $4.29 billion at December 31, 2000. This decrease was primarily due to decreases in FHLB advances (used to fund mortgage loans held for sale) and accrued expenses and other liabilities related to Market Street Mortgage.

Deposits

Total deposits decreased $30.5 million, or 1%, to $2.70 billion at September 30, 2001 from $2.73 billion at December 31, 2000. Noninterest bearing deposits were down $19 million and certificates of deposit were down $215 million at September 30, 2001 while savings and money market accounts increased $210 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 nine months ended September 30, 2001 and the year ended December 31, 2000, were as follows:

	September 30, 2001			December 31, 2	
(Dollars in thousands)	Ending Balance	Average Balance	Average Rate During Period	Ending Balance	Average Balance
Federal funds purchased	$131,000	$ 69,639	4.22%	$ --	$ 53,687

Other short-term borrowings	11,000	7,453	5.41	1,729	1,360
Total short-term borrowings ...	$142,000	$ 77,092	4.34%	$ 1,729	$ 55,047

At September 30, 2001, other short-term borrowings consisted of treasury, tax and loan (TT&L) demand notes and amounts owed by the parent company under a revolving credit agreement. At December 31, 2000, other short-term borrowings consisted of treasury, tax and loan (TT&L) demand notes.

FHLB Advances

Republic Bank routinely borrows short- and long-term advances from the Federal Home Loan Bank (FHLB) to provide fund mortgage loan originations and to minimize the interest rate risk associated with certain fixed rate commercial and residential mortgage portfolio loans and investment securities. 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 September 30, 2001 and December 31, 2000, were as follows:

(Dollars in thousands)	September 30, 2001		December 31, 2000	
	Ending Balance	Average Rate At Period-End	Ending Balance	Average Rate At Period-End
Short-term FHLB advances ...	$ 415,000	4.12%	$ 555,000	6.08%
Long-term FHLB advances	767,218	5.65	828,513	5.82
Total	$1,182,218	5.11%	$1,383,513	5.92%

The long-term FHLB advances have original maturities ranging from October 2001 to October 2017.

Long-Term Debt

Obligations with original maturities of more than one year consisted of the following:

(Dollars in thousands)	September 30, 2001	December 31, 2000
7.17% Senior Debentures due 2001	$ --	$25,000
6.75% Senior Debentures due 2001	--	9,000
6.95% Senior Debentures due 2003	13,500	13,500
Total long-term debt	$13,500	$47,500

The Company paid-off the 7.17% Senior Debentures and the 6.75% Senior Debentures on April 1, 2001 and January 15, 2001, respectively, in accordance with the terms of the debenture agreements.

CAPITAL

Shareholders' equity was $312.1 million at September 30, 2001, a $17.2 million, or 6%, increase from $294.9 million at December 31, 2000. This increase primarily resulted from the retention of $13.7 million in earnings after the payment of dividends and the repurchase of 703,000 shares of common stock during the first nine months of 2001.

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 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 September 30, 2001, 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:

	September 30, 2001	December 31, 2000
Total capital to risk-weighted assets (1)...........	11.40%	10.38%
Tier 1 capital to risk-weighted assets (1)..........	10.49	9.50
Tier 1 capital to average assets (1)................	7.54	6.82

(1) As defined by the regulations.

As of September 30, 2001, the Company's total risk-based capital was $360.7 million and Tier 1 risk-based capital was $331.7 million, an excess of $44.4 million and $141.9 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, reprice 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.

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,

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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 September 30, 2001, the Company's cumulative one-year gap was a positive 8.15% 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 quarterly 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 September 30, 2001, the earnings simulation model projects net interest income would decrease by 0.38% 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 0.39%. These projected levels are well within the Company's policy limits. 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.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, the Company and its 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 August 17, 2001, the Board of Directors declared a quarterly cash dividend of $0.085 per share of common stock, payable on October 8, 2001 to shareholders of record September 7, 2001.

On October 18, 2001, the Board of Directors declared a 10% stock dividend on common stock to shareholders of record on November 9, 2001 and payable December 3, 2001.

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

None

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the third quarter of 2001.

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: November 14, 2001

BY: /s/ Thomas F. Menacher

Thomas F. Menacher

Executive Vice President, Treasurer and
Chief Financial Officer
(Principal Financial and
Accounting Officer)