INDEPENDENT BANK CORP /MI/
Form DEF 14A
March 12, 2003

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934 (AMENDMENT NO.)

Filed by the registrant [X]

Filed by a party other than the registrant [ ]

Check the appropriate box:

[ ] Preliminary proxy statement.

[ ] Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2)).

[X] Definitive proxy statement.

[ ] Definitive additional materials.

[ ] Soliciting material pursuant to Section 240.14a-12

Independent Bank Corporation

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of filing fee (check the appropriate box):

[X] No fee required.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

March 14, 2003

Dear Shareholder:

We invite you to attend our 2003 Annual Meeting of Shareholders. This year's meeting will be held on Thursday, April 17, 2003, at 3:00 p.m. at the Ionia Theater, 205 West Main Street, Ionia, Michigan 48846.

It is important that your shares are represented at the Annual Meeting. Please carefully read the Notice of Annual Meeting and Proxy Statement. Whether or not you expect to attend the Annual Meeting, please sign, date and return the enclosed Proxy in the envelope provided or register your vote by phone or the Internet.

Sincerely,

/s/ Charles Van Loan

Charles Van Loan

President and

Chief Executive Officer

INDEPENDENT BANK CORPORATION

230 West Main Street

Ionia, Michigan 48846

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held April 17, 2003

The Annual Meeting of Shareholders of Independent Bank Corporation will be held at the Ionia Theater, 205 West Main Street, Ionia, Michigan 48846, on Thursday, April 17, 2003, at 3:00 p.m. (local time) for the following purposes:

1. Election of Directors

   a. To elect one nominee to our Board of Directors to serve a two-year term expiring in 2005.

   b. To elect three nominees to our Board of Directors to serve three-year terms expiring in 2006.

2. To transact such other business as may properly come before the meeting or any adjournment thereof.

Shareholders of record as shown by our transfer books at the close of business on February 18, 2003, are entitled to notice of and to vote at the meeting or any adjournment thereof. Whether or not you expect to be present in person at this meeting, please sign the enclosed proxy and return it promptly in the enclosed envelope or register your vote by phone or the internet. If you attend the meeting and wish to vote in person, you may do so even though you have submitted a proxy.

By order of our Board of Directors,

/s/ Robert N. Shuster

Robert N. Shuster
Secretary

Dated: March 14, 2003

INDEPENDENT BANK CORPORATION

230 West Main Street

Ionia, Michigan 48846

PROXY STATEMENT

MARCH 14, 2003

This Proxy Statement is furnished in connection with the solicitation, beginning approximately March 14, 2003, by our Board of Directors, of proxies

for use at the Annual Meeting of Shareholders. This meeting will be held on Thursday, April 17, 2003, at 3:00 p.m. at the Ionia Theater, 205 West Main Street, Ionia, Michigan 48846.

If the form of the Proxy accompanying this Proxy Statement is properly executed and returned, the shares represented by the Proxy will be voted at the Annual Meeting of Shareholders in accordance with the directions given in such Proxy. If no choice is specified, the shares represented by the Proxy will be voted for the election of directors listed as nominees.

To vote by telephone, shareholders of record (shareholders who have been issued a certificate representing their shares) may call toll free on a touch-tone telephone 1-877-PRX-VOTE (1-877-779-8683); enter the control number located on your proxy card and follow the recorded instructions. To vote by internet, go to the site http://www.eproxyvote.com/ibcp; enter the control number located on your proxy card and follow the instructions provided.

If your shares are held through a bank or a broker (referred to as "street name"), you may also be eligible to vote your shares electronically. Simply follow the instructions on your voting form, using either the toll-free telephone number or the internet address that is listed.

A Proxy may be revoked prior to its exercise by delivering a written notice of revocation to our Secretary, executing a subsequent Proxy or attending the meeting and voting in person. Attendance at the meeting does not, however, automatically serve to revoke a Proxy.

VOTING SECURITIES AND RECORD DATE

As of February 18, 2003, the record date for the Annual Meeting, we had issued and outstanding 17,869,902 shares of Common Stock. Shareholders are entitled to one vote for each share of our Common Stock registered in their names at the close of business on the record date. Votes cast at the meeting and submitted by proxy are counted by the inspectors of the meeting, who are appointed by us.

As of February 18, 2003, no person was known by us to be the beneficial owner of more than 5% of our Common Stock, except as follows:

Title of Class	Name and Address of Beneficial Owner	Amount an Nature o Beneficia Ownershi
Common Stock, $1 par value	Independent Bank Corporation Employee Savings and Stock Ownership Trust ("ESSOT") 230 West Main Street Ionia, Michigan 48846	960,586

1

Our ESSOT holds shares of Common Stock pursuant to the terms of our Employee Savings and Stock Ownership Plan ("ESSOP"). U.S. Bank administers the ESSOP and serves as directed trustee. Our ESSOP Administrative Committee has investment power with respect to the shares of Common Stock held by the ESSOT and has voting power to the extent that the ESSOP participants do not direct the voting of the shares of Common Stock allocated to their accounts.

Our Administrative Committee is comprised of Robert N. Shuster, James J. Twarozynski and Laurinda M. Neve, each of whom are officers of Independent Bank Corporation. Except for the shares of Common Stock allocated to their account as participants in the ESSOP, each member of our Administrative Committee disclaims beneficial ownership of the shares held by the ESSOP.

ELECTION OF DIRECTORS

Our Articles of Incorporation provide that our Board be divided into three classes of nearly equal size, with the classes to hold office for staggered terms of three years each. Our Bylaws permit our Board of Directors to establish the size of our Board from three to fifteen members. Our current Board has fixed the size of our Board at seven members. Robert L. Hetzler, James E. McCarty and Arch V. Wright, Jr. are nominees to serve three-year terms expiring in 2006. Mr. Hetzler and Mr. Wright are incumbent directors previously elected by our shareholders, while Mr. McCarty was appointed on July 16, 2002. Under our board retirement policy, Mr. Wright's term of office will expire on December 31, 2003. Because of the requirement to maintain our board classes of nearly equal size, Charles A. Palmer, an incumbent director whose term of office was due to expire in 2004, has been nominated to serve a two-year term that expires in 2005.

The Proxies cannot be voted for a greater number of persons than the number of nominees named. In the event that any nominee is unable to serve, which is not now contemplated, our Board may designate a substitute nominee. The proxy holders, to the extent they have been granted authority to vote in the election of directors, may or may not vote for a substitute nominee.

In addition to the nominees for director, each director whose term will continue after the meeting is named on the following page. Each nominee and director owned beneficially, directly or indirectly, the number of shares of Common Stock set forth opposite their respective names. The stock ownership information and the information relating to each nominee's and director's age, principal occupation or employment for the past five years has been furnished to us as of February 18, 2003, by the respective nominees and directors.

A plurality of the votes cast at the Annual Meeting of Shareholders is required to elect the nominees as directors. Accordingly, at this year's meeting, the four individuals who receive the largest number of votes cast at the meeting will be elected as directors. Shares not voted at the meeting, whether by abstention, broker nonvote or otherwise, will not be treated as votes cast at the meeting. Our Board of Directors recommends a vote FOR the election of the persons nominated by our Board.

	Amount a Nature Benefici Ownership
NOMINEES FOR THREE-YEAR TERMS EXPIRING IN 2006	
Robert L. Hetzler (age 58) Mr. Hetzler is the President of Monitor Sugar Company (food processor). He became a Director in 2000.	33,755
James E. McCarty (age 55) Mr. McCarty is the President of McCarty Communications (commercial printing). He became a Director in 2002.	10,682(
Arch V. Wright, Jr. (age 70) Mr. Wright is the President of Charlevoix Development Company (real estate development). He became a Director in 1974.	113,423
NOMINEE FOR A TWO-YEAR TERM EXPIRING IN 2005	
Charles A. Palmer (age 58) Mr. Palmer is an attorney and a professor of law at Thomas M. Cooley Law School. He became a Director in 1991.	90,506
DIRECTORS WHOSE TERMS EXPIRE IN 2004	
Jeffrey A. Bratsburg (age 59) Mr. Bratsburg served as President and Chief Executive Officer of Independent Bank West Michigan from 1985 until his retirement in 1999. He became a Director in 2000.	140,763
Charles C. Van Loan (age 55) Mr. Van Loan is the President and Chief Executive Officer of Independent Bank Corporation. He became a Director in 1992.	267,946(
DIRECTOR WHOSE TERM EXPIRES IN 2005	
Terry L. Haske (age 54) Mr. Haske is the President of Ricker & Haske, CPAs, P.C. He became a Director in 1996.	52,626(

(1) Except as described in the following notes, each nominee owns the shares directly and has sole voting and investment power or shares voting and investment power with his spouse under joint ownership. Includes shares of Common Stock that are issuable under options exercisable within 60 days.

(2) Excludes 2,756 common stock units held in Mr. McCarty's account under our deferred compensation and stock purchase plan for non-employee directors that are payable in our Common Stock upon retirement.

(3) Includes 36,549 shares allocated to Mr. Van Loan's account under the ESSOT, 6,066 shares held by Mr. Van Loan's dependent children and 24,856 shares held in a spousal trust.

(4) Includes 4,570 shares owned jointly with Mr. Haske's father with respect to which Mr. Haske shares voting and investment power.

3

Our Board of Directors is committed to sound and effective corporate governance practices. Currently, a majority of our directors are independent, and each member of our Audit and Compensation Committees are independent, under Nasdaq's current listing standards.

There are no family relationships between or among our directors, nominees or executive officers. Our Board of Directors had seven meetings in 2002. During 2002, all directors attended at least 75% of the aggregate number of meetings of our Board and Board committees on which they served. In addition to the audit and compensation committees, our Board has a corporate development committee.

Our compensation committee (consisting of directors Hetzler, Palmer and Wright) met three times in 2002 to review and make recommendations to our Board relating to remuneration, including benefit plans, to be paid to our directors and officers.

Our corporate development committee (consisting of directors Palmer, Hetzler, Haske, Bratsburg and Wright) met once in 2002 to consider and approve Mr. McCarty to serve on our Board of Directors until our next Annual Meeting of Shareholders. Although nominees to serve as directors have been selected from individuals serving as directors of our Banks, the committee will consider other qualified individuals who are recommended by shareholders. Written recommendations of individuals for Board nomination may be forwarded to our Secretary for consideration as nominees at the 2004 Annual Meeting of Shareholders. Such recommendations must be received no earlier than January 18, 2004, and no later than February 17, 2004.

Our audit committee currently consists of directors Haske, Hetzler, and Palmer, each of whom qualifies as an independent director under the Sarbanes-Oxley Act of 2002 and Nasdaq's current listing standards. The committee met eight times in 2002 to select independent auditors and discuss financial matters with such independent auditors; review internal audit reports as well as our responses thereto; and review and discuss other pertinent financial, accounting, audit, and policy matters with us.

The Board of Directors adopted revisions to the written charter for our audit committee. A copy of that charter as revised, is included as Appendix A to this Proxy Statement. On February 24, 2003, the committee submitted to our Board the following report.

REPORT OF OUR AUDIT COMMITTEE

Our audit committee has met with Management and the independent auditors to review and discuss our audited financial statements as of and for the year ended December 31, 2002.

Our audit committee obtained from our independent auditors a formal written statement describing the relationships between us and our auditors that might bear on the auditors' independence, which is consistent with Independence

Standards Board Standard No. 1, "Independence Discussions with Audit Committees." Our audit committee has also discussed with our auditors any relationships that may impact their objectivity and independence and satisfied itself as to our auditors' independence.

Our audit committee has reviewed with our independent auditors all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, as amended, "Communication with Audit Committees." Our audit committee also discussed, with and without management present, the results of our independent auditors' examination of our financial statements.

Based on the reviews and discussions referred to above, the audit committee has recommended to our Board of Directors that the financial statements referred to above be included in our Annual Report on Form 10-K for the year ended December 31, 2002.

TERRY L. HASKE

ROBERT L. HETZLER   CHARLES A. PALMER.

COMPENSATION OF DIRECTORS

Directors who are not employed by us or any of our subsidiaries ("Non-employee Directors") receive an annual retainer of $10,000. Each Non-employee Director also serves as a director of one of our subsidiary banks. Non-employee Directors of our subsidiaries receive monthly meeting fees of $850. Our Non-employee Directors are not compensated for committee meetings.

Pursuant to our Long-Term Incentive Plan, a committee designated by our Board may grant options to purchase shares of Common Stock to each Non-employee Director. These options are not exercisable for 12 months and expire not more than ten years after the date of the grant. During 2002, each Non-employee Director received an option to purchase 6,784 shares of Common Stock at $18.73 per share, the fair market value of the Common Stock on the date of the grant.

We maintain a Deferred Compensation and Stock Purchase Plan for Non-employee Directors (the "Purchase Plan"). The Purchase Plan provides that Non-employee Directors may defer payment of all or a part of their director fees ("Fees") or receive shares of Common Stock in lieu of cash payment of Fees. Under the Purchase Plan, each Non-employee Director may elect to participate in a Current Stock Purchase Account, a Deferred Cash Investment Account or a Deferred Stock Account.

A Current Stock Purchase Account is credited with shares of Common Stock having a fair market value equal to the Fees

otherwise payable. A Deferred Cash Investment Account is credited with an amount equal to the Fees deferred and on each quarterly credit date with an appreciation factor that may not exceed the prime rate of interest charged by Independent Bank. A Deferred Stock Account is credited with the amount of Fees deferred and converted into stock units based on the fair market value of our Common Stock at the time of the deferral. Amounts in the Deferred Stock Account are credited with cash dividends and other distributions on our Common Stock. Fees credited to a Deferred Cash Investment Account or a Deferred Stock Account are deferred for income tax purposes. The Purchase Plan does not provide for distributions of amounts deferred prior to a participant's termination as a

Non-employee Director, and the participant may generally elect either a lump sum or installment distribution.

SHAREHOLDER RETURN PERFORMANCE GRAPH

Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on our Common Stock (based on the last reported sales price of the respective year) with the cumulative total return of the Nasdaq Stock Market Index (United States stocks, only) and the Nasdaq Bank Stocks Index for the five-year period ended December 31, 2002. The following information is based on an investment of $100 on January 1, 1998, in our Common Stock, the Nasdaq Stock Market Index and the Nasdaq Bank Stocks Index, with dividends reinvested.

	January 1,			December 31,	
	1998	1998	1999	2000	20
Independent Bank Corporation	$100.00	$ 79.74	$ 61.78	$ 90.27	$13
Nasdaq Stock Market	100.00	140.99	261.48	157.42	12
Nasdaq Bank Stocks	100.00	99.36	95.51	108.95	11

COMMITTEE REPORT ON EXECUTIVE COMPENSATION

GENERAL

Our ability to create shareholder wealth is predicated on our ability to attract and retain qualified executives and senior managers. Our Board of Directors, therefore, believes that our compensation policies and practices must: 1) provide incentives and rewards for superior performance; 2) align the interests of our executive officers and senior managers with the interests of our shareholders, and; 3) provide executive officers and senior managers with the opportunity to accumulate wealth that is commensurate with increases in the value of our Common Stock.

COMPENSATION STRATEGY

Consistent with these objectives and based on a compensation review by nationally recognized compensation consultants, our Board of Directors adopted a "pay-for-performance" compensation strategy in 1991. The strategy seeks to maintain an optimum balance among three principal components of total compensation, as follows:

BASE SALARY--Excluding consideration of other relevant factors, which may include individual performance, experience, expertise and tenure, our Board intends to maintain the base salaries of executive officers and senior managers at approximately 95% of the level established by our peers.

Annually, the compensation committee recommends a base salary for our President and Chief Executive Officer for consideration by the entire Board of Directors. The compensation committee's recommendation is based upon compensation levels established by our peers and the compensation committee's evaluation of the relevant factors that are described above. The base salaries of the Presidents of each of our Banks are determined in a similar manner by our President and Chief Executive Officer and our Banks' respective boards of directors. The base salaries of other executive officers are established by our President and Chief Executive Officer.

ANNUAL CASH INCENTIVE--To provide performance incentives and to compensate for the below-peer base salary, the strategy provides for annual cash awards that are payable if we meet or exceed annual performance objectives established by our Board of Directors. Assuming "target performance" is achieved under the Management Incentive Compensation Plan described below, our Board intends that aggregate annual cash compensation (the total of base salary and annual cash incentive) will equal approximately 105% of peer level.

LONG-TERM INCENTIVES--To align the interests of our executive officers and senior managers with our shareholders, our Board's compensation strategy provides for equity-based compensation plans, including our Employee Savings and Stock Ownership Plan and our Long-Term Incentive Plan described below. These compensation plans have been adopted by our Board of Directors, and our Long-Term Incentive Plan has been approved by our shareholders. Such plans are, however, administered by the committee.

COMPENSATION PLANS

Pursuant to our MANAGEMENT INCENTIVE COMPENSATION PLAN, our Board of Directors establishes annual performance levels as follows: 1) threshold represents the performance level which must be achieved before any incentive awards are granted; 2) target performance is defined as the desired level of performance in view of all relevant factors, as discussed below, and; 3) maximum represents that which reflects outstanding performance.

The principal factors considered by our Board in the determination of these performance levels include peer performance and investment community expectations for our return on equity and earnings per common share, as well as similar expectations for our competitors in the financial services industry. Corresponding performance levels are established for each of our Banks.

In addition to our objective earnings goals, payments pursuant to this plan may also be subject to certain pre-determined individual goals. Such individual goals may be objective or subjective in nature. The individual performance component is, however, limited to 20% of the total incentive formula for our executive officers and our Bank Presidents.

For our Chief Executive Officer, cash payments made pursuant to this plan may range from 20% to 50% of base salary. For other executive officers and our Bank Presidents, such cash payments may range from 15% to 35% of their base salary. For the year ended December 31, 2002, our executive officers and our Bank Presidents received cash awards pursuant to our Management Incentive Compensation Plan that ranged from 32% to 50% of their respective base salaries.

Our LONG-TERM INCENTIVE PLAN, is intended to provide our executive officers and senior managers with additional long-term incentives to manage our affairs in the best interests of our shareholders. On April 16, 2002, our Board of Directors granted options to purchase 189,430 shares of Common Stock to 38 of our executive officers and senior managers. Each of the options provides the recipient the right to purchase 4,985 shares of Common Stock at $18.73 per share, the market price of our Common Stock as of the date of the grant. Such options may not be exercised prior to the expiration of one year from the date of the grant, are restricted as to transferability and expire 10 years after the date of the grant.

On January 18, 2003, our Board of Directors granted options to purchase 69,491 shares of Common Stock to our executive officers. Options covering 34,617

shares were designated as incentive stock options, as defined by the Internal Revenue Code. Each option provides the recipient the right to purchase the underlying shares of Common Stock at $21.25 per share, the market price of our Common Stock as of the date of the grant. Such options may not be exercised prior to the expiration of one year from the date of the grant, are restricted as to transferability and expire 10 years after the date of the grant.

Our EMPLOYEE SAVINGS AND STOCK OWNERSHIP PLAN provides substantially all full-time employees an equity interest in us. Contributions to the ESSOP are determined annually and are subject to the approval of our Board of Directors. Contributions for the year ended December 31, 2002, were equal to 6% of the eligible wages for each of the approximately 830 participants in the ESSOP.

CHIEF EXECUTIVE OFFICER COMPENSATION

Charles C. Van Loan has served as our Chief Executive Officer since December 16, 1992. Prior to that time, Mr. Van Loan served as our President and Chief Operating Officer and as the President and Chief Executive Officer of Independent Bank.

Consistent with our existing policies and practices, the Committee reviewed compensation data from our peers and evaluated Mr. Van Loan's contributions to our success as well as his experience and expertise. On the basis of its evaluation, the Committee recommended for consideration by our full Board of Directors a base salary of $330,000. As a result of our record earnings, relative to the goals established pursuant to our Management Incentive Compensation Plan, Mr. Van Loan's cash incentive for 2002 totaled $165,000. Given the superior results in 2002, our Board of Directors also granted a discretionary bonus to Mr. Van Loan in the amount of $20,000.

CHARLES A. PALMER

ARCH V. WRIGHT, JR. ROBERT L. HETZLER

SECURITIES OWNERSHIP OF MANAGEMENT

The following table sets forth the beneficial ownership of our Common Stock by our Chief Executive Officer and our four highest paid executive officers ("Named Executives") and by all directors and executive officers as a group as of February 18, 2003.

Name	Amount and Nature of Beneficial Ownership(1)	Per Out
Charles C. Van Loan	267,946(2)	
Michael M. Magee	73,307	
Edward B. Swanson	115,558	
Ronald L. Long	50,037	
David C. Reglin	67,833	
All executive officers and directors as a group (consisting of 15 persons)	2,022,767(3)	

(1) In addition to shares held directly or under joint ownership with their spouses, beneficial ownership includes shares that are issuable under options exercisable within 60 days, and shares that are allocated to their accounts as participants in the ESSOP.

(2) Includes shares held by Mr. Van Loan's dependent children and in a spousal trust.

(3) Includes shares held by the ESSOT. Beneficial ownership is disclaimed as to 909,347 shares, including 832,979 shares which are held by the ESSOT.

SUMMARY COMPENSATION TABLE

The following table sets forth compensation received by our Named Executives for each of the three years ended December 31, 2002

		Annual Compensation	
Name & Principal Position	Year	Salary(1)	Bonus(2)
Charles C. Van Loan	2002	$330,000	$ 185,000
President and Chief	2001	300,000	150,000
Executive Officer	2000	252,000	126,000
Michael M. Magee	2002	$210,000	$ 83,500
President and CEO	2001	190,000	66,500
Independent Bank	2000	175,000	61,250
Edward B. Swanson	2002	$182,000	$ 57,435
President and CEO	2001	170,000	59,500
Independent Bank South Michigan	2000	157,500	55,125
Ronald L. Long	2002	$182,000	$ 60,031
President and CEO	2001	170,000	59,500
Independent Bank East Michigan	2000	157,500	55,125
David C. Reglin	2002	$170,000	$ 59,500
President and CEO	2001	150,000	52,500
Independent Bank West Michigan	2000	130,000	45,500

(1) Includes elective deferrals by employees pursuant to Section 401(k) of the Internal Revenue Code.

(2) Includes amounts earned under the Company's Management Incentive Compensation Plan.

(3) Includes options granted in 2003 relating to 2002 performance.

(4) Amounts represent our contributions to the Employee Savings and Stock Ownership Plan. Subject to certain age and service requirements, all of our employees are eligible to participate in this plan.

OPTION GRANTS IN 2002

The following table provides information on options granted to our Named Executives during the year ended December 31, 2002.

	Individual Grants		
	Number of Securities Underlying Options Granted(1)	Percent of Total Options Granted to Employees in 2002	Exercise or Base Price (per share)(2)
Charles C. Van Loan	4,985	1.74%	$18.73
	23,023	8.02	21.25
Michael M. Magee	4,985	1.74%	$18.73
	10,256	3.57	21.25
Edward B. Swanson	4,985	1.74%	$18.73
	6,866	2.39	21.25
Ronald L. Long	4,985	1.74%	$18.73
	7,678	2.67	21.25
David C. Reglin	4,985	1.74%	$18.73
	8,302	2.89	21.25

(1) Indicates number of shares which may be purchased pursuant to options granted under our Long-Term Incentive Plan. Options may not be exercised in full or in part prior to the expiration of one year from the date of grant. Options with an expiration date of January 18, 2013 were granted in 2003. Such options relate to 2002 performance.

(2) The exercise price equals the prevailing market price of our Common Stock on the date of grant. The exercise price may be paid in cash, by the delivery of previously owned shares, through the withholding of shares otherwise issuable upon exercise or a combination thereof.

(3) The values reflect application of the Black-Scholes option pricing model. The assumptions employed on options with an expiration date of April 16, 2012, were expected volatility of 35.72%, risk-free rate of return of 5.19%, dividend yield of 2.44% and time to exercise of ten years. The assumptions employed on options with an expiration date of January 18, 2013, were expected volatility of 33.55%, risk-free rate of return of 4.14%, dividend yield of 2.64% and time to exercise of ten years.

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AGGREGATED STOCK OPTION EXERCISES IN 2002 AND YEAR END OPTION VALUES

The following table provides information on the number and value of options exercised in the past year, as well as the number and value of unexercised options held by our Named Executives at December 31, 2002. Options covering

349,983 shares of Common Stock were exercised in 2002.

Name	Shares Acquired on Exercise	Value Realized(1)	Number of Securities Underly Unexercised Options Exercisable	Unexercisab
Charles C. Van Loan	4,985	$50,187	71,621	28,515
Michael M. Magee	4,985	51,483	44,248	15,418
Edward B. Swanson	4,985	46,105	42,200	14,318
Ronald L. Long	3,000	40,352	22,402	14,318
David C. Reglin	0	0	35,107	13,221

(1) The value realized upon the exercise of options is equal to the difference between the market value of the shares of Common Stock acquired at the time of exercise and the aggregate exercise price paid by our Named Executives.

(2) The value of unexercised options is based on the difference between the closing price of our Common Stock on December 31, 2002 ($20.17) and the exercise prices of the options.

MANAGEMENT CONTINUITY AGREEMENTS

We have entered into individual Management Continuity Agreements with our executive officers and certain senior managers, including our Named Executives. These agreements provide severance benefits if the individual's employment is terminated within 36 months after a change in control or within six months before a change in control if we terminate the individual's employment in contemplation of a change in control and to avoid the agreement. For the purposes of these agreements, a "change in control" is any occurrence reportable as such in a proxy statement under applicable rules of the Securities and Exchange Commission, and would include, without limitation, the acquisition of beneficial ownership of 20% of our voting securities by any person, certain extraordinary changes in the composition of our Board of Directors, or a merger or consolidation in which we are not the surviving entity, or our sale or liquidation.

Severance benefits are not payable if we terminate the employment for cause, if employment terminates due to the individual's death or disability, or if the individual resigns without "good reason." An individual may resign with "good reason" after a change in control and retain benefits if we reduce the individual's salary or bonus, assign duties inconsistent with the individual's prior position, or make other material, adverse changes in the terms or conditions of the individual's employment. The agreements are for self-renewing terms of eighteen months to three years unless we take action to terminate further extensions. The agreements are automatically extended for an eighteen month to three-year term from the date of a change in control. These agreements provide a severance benefit of a lump-sum payment equal to eighteen months to three-years' salary and bonus and a continuation of benefits coverage for eighteen months to three years.

TRANSACTIONS INVOLVING MANAGEMENT

Our Board of Directors and executive officers and their associates were

customers of, and had transactions with, our subsidiaries in the ordinary course of business during 2002. All loans and commitments included in such transactions were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve an unusual risk of collectibility or present other unfavorable features. Such loans totaled $1,006,000 at December 31, 2002, equal to 0.7% of shareholders' equity.

Mr. McCarty (Director) owns a graphic design and commercial printing company which does business with us. During 2002 we purchased $154,000 in goods and services from his company.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Pursuant to Section 16 of the Securities Exchange Act of 1934, our directors and executive officers, as well as any person holding more than 10% of our Common Stock, are required to report initial statements of ownership of our securities and changes in such ownership to the Securities and Exchange Commission. Based solely upon written representations by each Director and Executive Officer and our review of those reports furnished to us, all of the required reports were timely filed by such persons during 2002.

RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANTS

Representatives of KPMG LLP will be present at the Annual Meeting and will have the opportunity to make a statement if desired and will be available to respond to appropriate questions. Our audit committee has yet to take action on the selection of our independent auditors for 2003, which is expected to occur in March, 2003. The following table sets forth the aggregate fees billed to us for the fiscal year ended December 31, 2002, by our principal auditing firm, KPMG LLP:

Audit fees	$179,000
Financial information systems design and implementation fees	0
All other fees(1)	
Corporate tax returns	65,000
Audit required under Housing and Urban Development loan program	33,000
Corporate tax planning	16,000
Benefit plan audits	15,000
Federal Deposit Insurance Corporation Improvement Act reporting	10,000
Securities and Exchange Commission Filings	2,000
	$320,000

(1) The audit committee has considered whether the provision of these services is compatible with maintaining our principal auditors' independence. Following the adoption of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder, our independent auditors are proscribed from offering certain services to us. None of those proscribed services were provided to us in 2002.

SHAREHOLDER PROPOSALS

Article VIII of our Articles of Incorporation contains certain procedural requirements applicable for shareholder nominations of persons to be elected as directors. Also, Article III of our Bylaws contain procedural requirements for shareholder proposals, generally. Copies of our Articles of Incorporation and Bylaws have been filed with the Securities and Exchange Commission and can be obtained from its Public Reference Section or from us. Any other shareholder proposal to be considered by us for inclusion in the 2004 Annual Meeting of Shareholders proxy materials must be received by us no later than November 14, 2003. If we receive notice of a shareholder proposal after January 28, 2004, the persons named as proxies for the 2004 Annual Meeting of Shareholders will have discretionary voting authority to vote on that proposal at that meeting.

GENERAL

The cost of soliciting proxies will be borne by us. In addition to solicitation by mail, our officers and employees may solicit proxies by telephone, telegraph or in person. We have retained the services of Georgeson Shareholder to deliver proxy materials to brokers, nominees, fiduciaries and other custodians for distribution to beneficial owners, as well as solicit proxies from these institutions. The cost of such services is expected to total approximately $5,000, plus reasonable out of pocket expenses.

As of the date of this proxy statement, Management knows of no other matters to be brought before the meeting. However, if further business is presented by others, the proxy holders will act in accordance with their best judgment.

By order of our Board of Directors,

/s/ Robert N. Shuster

Robert N. Shuster

Secretary

Dated: March 14, 2003

APPENDIX A

CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

I. PURPOSE

The primary function of the Audit Committee is to assist the Board by overseeing (1) the quality and integrity of the Company's accounting, auditing and reporting practices, (2) the performance of the Company's internal audit function and independent auditor, and (3) the Company's disclosure controls and system of internal controls regarding finance, accounting, legal compliance, and ethics that management and the Board of Directors have established.

The Audit Committee shall provide an open avenue of communication among the independent auditors, financial and senior management, the internal auditor and the Board of Directors.

II. MEMBERSHIP

A. Independence--The Audit Committee shall be comprised of three or more members, each of whom (1) must qualify as an independent director under the listing requirements of Nasdaq and Section 301 of the Sarbanes-Oxley Act, and (2) shall be free from any relationship to the Company that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee. All members of the Committee shall have a working familiarity with basic financial and accounting practices, and on or before January 1, 2004, at least one member of the Committee shall be a "financial expert" in compliance with the criteria established by the Securities and Exchange Commission.

B. Appointment--The members shall be nominated by the Nominating Committee and appointed annually to one-year terms by the Board. The Nominating Committee shall recommend, and the Board shall designate, one member of the Audit Committee as Chair.

C. Limitations. A member of the Audit Committee shall not simultaneously serve on the audit committee of more than two other public companies.

III. MEETINGS

Meetings of the Audit Committee shall be subject to the Committee procedure rules set forth in the Company's Bylaws and its own rules of procedure, which shall be consistent with those Bylaws and the following:

A. The Audit Committee shall meet at least four (4) times annually and more frequently as circumstances require. Each regularly scheduled meeting of the Committee shall conclude with an executive session of the Committee, absent members of management and on such terms and conditions as the Committee may elect. In addition, the Committee may meet periodically with management, the head of the Company's internal auditing department and the independent auditors in separate executive sessions to discuss any matters that the Audit Committee or the internal audit department or independent auditors believe should be discussed privately.

B. Following each of its meetings, the Audit Committee shall deliver a report on the meeting to the Board, including a description of all actions taken by the Audit Committee.

C. The Audit Committee shall keep written minutes of its meetings, which minutes shall be maintained with the books and records of the Company.

IV. RESPONSIBILITIES, DUTIES AND AUTHORITY

The Audit Committee shall have the following responsibilities, duties and authority:

A. Document and Report Review

1. Review and update this Charter periodically or as conditions dictate (at least, annually).

2. Review the Company's annual financial statements and any reports or

other financial information submitted to any governmental body or to the public, including any report issued by the independent auditors.

3. Review the summary report of the internal auditor and management's response to such reports.

4. Recommend to the Board whether the financial statements should be included in the Annual Report on Form 10-K.

5. Review with financial management and the independent auditors the quarterly report on Form 10-Q prior to its filing.

6. Review earnings press releases with management prior to dissemination.

7. Discuss with management financial information and earnings guidance provided to analysts and rating agencies.

B. Independent Auditors

1. Appoint, approve the compensation of, and provide oversight of the Company's independent auditors, including the removal of the Company's independent auditors. The independent auditors shall report directly to the Committee, and the Committee shall oversee the resolution of any disagreements between management and the independent auditors.

2. Administer the Company's Policy Regarding the Approval of Audit and Nonaudit Services Provided by the Independent Auditors.

3. Review the independent auditors' attestation and report on management's internal control report, and hold timely discussions with the independent auditors regarding:

(a) All critical accounting policies and practices;

(b) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors;

(c) Other material written communications between the independent auditors and management including, but not limited to, the management letter and schedule of unadjusted differences; and

(d) An analysis of the independent auditors' judgment as to the quality of the Company's accounting principles, setting forth significant reporting issues and judgments made in connection with the preparation of the financial statements.

4. At least annually, obtain and review a report by the independent auditors describing:

(a) The firm's internal quality control procedures;

(b) Any material issues raised by the most recent internal

quality-control review, peer review or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues;

(c) All relationships between the independent auditors and the Company; and

(d) All significant relationships the independent auditors have with the Company to determine the independent auditors' objectivity and independence, undertaking or recommending appropriate action to ensure and continue that independence.

C. Financial Reporting Processes

1. Review the integrity of the Company's financial reporting process, both internal and external, giving consideration to consultation with management, the independent auditors and the internal auditor.

2. Consider and approve, as appropriate, major changes to the Company's auditing and accounting principles and practices as suggested by the independent auditors, management or the internal auditor.

3. Review and approve all transactions with the Company's directors, officers and controlling shareholders, excluding those transactions between the Company's subsidiaries and such persons that are in compliance with applicable banking regulations.

4. Establish and maintain procedures for the receipt, retention and treatment of complaints regarding accounting, or auditing matters, including procedures necessary to receive and respond to confidential and anonymous submissions by Company employees regarding questionable accounting or auditing matters.

D. Internal Audit

1. Review activities, organizational structure and qualifications of the Company's internal audit department.

2. Periodically review the head of the Company's internal audit department and any significant difficulties, disagreements with management or scope restrictions encountered in the course of that department's work.

E. Ethical and Legal Compliance

1. Review the Company's Code of Business Conduct, approved by the Board of Directors, to ensure that management has maintained a system to comply with expected ethical and legal requirements.

2. Review, with the Company's counsel, legal compliance matters including corporate securities trading policies.

3. Review, with the Company's counsel, any legal matter that could have a significant impact on the Company's financial statements.

4. Discuss the Company's major financial and accounting risk exposures and steps taken by management to control or mitigate those exposures.

F. Other

1. Review with the independent auditors, the internal auditing department and management the extent to which changes or improvement in financial or accounting practices, as approved by the Audit Committee, have been implemented.

2. Prepare the report that the Securities and Exchange Commission requires to be included in the Company's annual Proxy Statement.

3. Perform an annual self-assessment relative to the Audit Committee's purpose, duties and responsibilities set forth in this Charter.

4. To the extent it deems appropriate, and with or without full Board approval, obtain advice and assistance from outside legal, accounting or other advisors as deemed appropriate to perform its duties and responsibilities.

5. Perform any other activities consistent with this Charter, the Company's Bylaws and governing law, as the Audit Committee or the Board of Directors deems necessary or appropriate.

APPENDIX B

Independent Bank Corporation is an Ionia, Michigan-based bank holding company with total assets of $2.1 billion. Our four subsidiary banks principally serve suburban and rural communities located across Michigan's Lower Peninsula through 97 offices.

We emphasize service and convenience as the principal means of competing in the delivery of financial services. Accordingly, our community banking philosophy vests discretion and authority in our management while providing financial incentives to align the interests of such management with those of our shareholders.

To support our service and sales efforts, while providing the controls that are consistent with our decentralized decision-making structure, we have consolidated many operational and administrative functions and provide these services to our four subsidiary banks on a centralized basis.

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

Any statements in this document that are not historical facts are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Words such as "expect," "believe," "intend," "estimate," "project," "may" and similar expressions are intended to identify forward-looking statements. These forward-looking statements are predicated on management's beliefs and assumptions based on information known to Independent Bank Corporation's management as of the date of this document and do not purport to speak as of any other date. Forward-looking statements may include descriptions of plans and objectives of Independent Bank Corporation's management for future or past operations, products or services, and forecasts of the Company's revenue, earnings or other measures of economic performance, including statements of profitability, business segments and subsidiaries, and estimates of credit quality trends. Such statements reflect the view of Independent Bank Corporation's management as of this date with respect to future events and are not guarantees of future performance; involve assumptions and are subject to substantial risks and uncertainties, such as the changes in Independent Bank Corporation's plans, objectives, expectations and intentions. Should one or more of these risks materialize or should underlying beliefs or assumptions prove incorrect, the Company's actual results could differ materially from those discussed. Factors that could cause or contribute to such differences are changes in interest rates, changes in the accounting treatment of any particular item, the results of regulatory examinations, changes in industries where the Company has a concentration of loans, changes in the level of fee income, changes in general economic conditions and related credit and market conditions, and the impact of regulatory responses to any of the foregoing. Forward-looking statements speak only as of the date they are made. Independent Bank Corporation does not undertake to update forward-looking statements to reflect facts; circumstances, assumptions or events that occur after the date the forward-looking statements are made. For any forward-looking statements made in this document, Independent Bank Corporation claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The following section presents additional information to assess the financial condition and results of operations of Independent Bank Corporation and its subsidiaries. This section should be read in conjunction with the consolidated financial statements and the supplemental financial data contained elsewhere in this appendix.

A-1

RESULTS OF OPERATIONS

SUMMARY. Net income totaled $29.5 million in 2002 compared to $24.4 million in 2001 and $20.0 million in 2000. The increases in net income are primarily a result of increases in net interest income, service charges on deposit accounts and net gains on the sale of real estate mortgage loans, partially offset by increases in non-interest expense and federal income taxes.

KEY PERFORMANCE RATIOS	Year ended Dec	
	2002	2001
Net income to		
Average equity	21.34%	18.52%
Average assets	1.52	1.35
Net income per share		

Basic	$ 1.61	$ 1.29
Diluted	1.58	1.27

NET INTEREST INCOME. Tax equivalent net interest income totaled $86.2 million during 2002, compared to $75.8 million and $68.7 million during 2001 and 2000, respectively. The increase in 2002 compared to 2001 reflects an increase in average earning assets and an increase in tax equivalent net interest income as a percent of average earning assets ("Net Yield") as well as adjustments related to Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS #133").

Pursuant to SFAS #133, we recorded adjustments, which increased tax equivalent net interest income by $1.0 million in 2002. This compares to adjustments, which reduced tax equivalent net interest income by approximately $0.3 million in 2001. These adjustments relate principally to certain derivative financial instruments that are not designated as hedges. The changes in the fair value of these derivative financial instruments are recognized currently as adjustments to interest expense. Average earning assets totaled $1.813 billion in 2002 compared to $1.705 billion in 2001, principally reflecting an increase in securities available for sale.

Net Yield increased by 30 basis points to 4.75% in 2002 compared to 4.45% in 2001. The increase in Net Yield was primarily due to a decline in interest expense as a percent of average earning assets resulting from a lower interest rate environment. The Federal Reserve Bank cut the target federal funds rate by 50 basis points in 2002, in addition to the 475 basis points in 2001, leading to generally lower rates on our deposits and borrowings. Partially offsetting the decline in interest expense was a decline in tax equivalent interest income as a percent of average earning assets ("Yield on Interest Earning Assets"). The decline in Yield on Interest Earning Assets was also generally due to a lower interest rate environment that resulted in the prepayment of higher yielding loans and the origination of new loans and the purchase of securities available for sale at lower relative interest rates. A continued decline in the cost of interest bearing liabilities is dependent, in part, upon external factors that include the slope of the yield curve, availability of credit, and customer preferences that may result in changes in the mix or amount of our deposits. The 10.4% increase in tax equivalent net interest income in 2001 compared to 2000 principally reflects a $72.0 million or 4.4% increase in the amount of average earning assets and a 5.7% increase in Net Yield.

AVERAGE BALANCES AND TAX EQUIVALENT RATES	2002			2001		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate
				(dollars in thousands)		
ASSETS						
Taxable loans(1)	$1,426,286	$108,664	7.62%	$1,415,136	$117,002	8.27%
Tax-exempt loans(1,2)	11,639	974	8.37	13,058	1,127	8.63
Taxable securities	211,777	12,211	5.77	137,085	9,334	6.81
Tax-exempt securities(2)	142,320	11,053	7.77	119,282	9,333	7.82
Other investments	21,342	1,289	6.04	20,348	1,513	7.44

Interest earning assets...	1,813,364	134,191	7.40	1,704,909	138,309	8.11
Cash and due from banks	40,533			38,602		
Other assets, net	79,848			66,383		
Total assets	$1,933,745			$1,809,894		
LIABILITIES						
Savings and NOW	$ 634,357	7,444	1.17	$ 583,817	11,484	1.97
Time deposits	688,297	27,690	4.02	623,657	33,127	5.31
Long-term debt				371	26	7.01
Other borrowings	287,983	12,874	4.47	304,973	17,823	5.84
Interest bearing liabilities	1,610,637	48,008	2.98	1,512,818	62,460	4.13
Demand deposits	156,294			138,200		
Other liabilities	28,762			27,162		
Shareholders' equity	138,052			131,714		
Total liabilities and shareholders' equity	$1,933,745			$1,809,894		
Net interest income		$ 86,183			$ 75,849	
Net interest income as a percent of earning assets			4.75%			4.45%

(1) All domestic.
(2) Interest on tax-exempt loans and securities is presented on a fully tax equivalent basis assuming a marginal tax rate of 35%.

CHANGE IN TAX EQUIVALENT NET INTEREST INCOME	2002 compared to 2001 Volume	Rate	Net
			(in thousa
Increase (decrease) in interest income(1)			
Taxable loans(2)	$ 915	$ (9,253)	$ (8,338)
Tax-exempt loans(2,3)	(120)	(33)	(153)
Taxable securities	4,478	(1,601)	2,877
Tax-exempt securities(3)	1,790	(70)	1,720
Other investments	71	(295)	(224)
Total interest income	7,134	(11,252)	(4,118)
Increase (decrease) in interest expense(1)			
Savings and NOW	923	(4,963)	(4,040)
Time deposits	3,184	(8,621)	(5,437)
Long-term debt	(26)		(26)
Other borrowings	(948)	(4,001)	(4,949)
Total interest expense	3,133	(17,585)	(14,452)

Net interest income	$ 4,001	$ 6,333	$ 10,334

(1) The change in interest due to changes in both balance and rate has been allocated to change due to balance and change due to rate in proportion to the relationship of the absolute dollar amounts of change in each.
(2) All domestic.
(3) Interest on tax-exempt loans and securities is presented on a fully tax equivalent basis assuming a marginal tax rate of 35%.

A-3

COMPOSITION OF AVERAGE EARNING ASSETS AND INTEREST BEARING LIABILITIES	Year ended December 31, 2002	2001	2000
As a percent of average earning assets			
Loans--all domestic	79.3%	83.8%	82.8%
Other earning assets	20.7	16.2	17.2
Average earning assets	100.0%	100.0%	100.0%
Savings and NOW	35.0%	34.2%	35.2%
Time deposits	24.5	27.5	29.3
Brokered CDs	13.4	9.1	10.9
Other borrowings and long-term debt	15.9	17.9	15.0
Average interest bearing liabilities	88.8%	88.7%	90.4%
Earning asset ratio	93.8%	94.2%	93.7%
Free-funds ratio	11.2	11.3	9.6

PROVISION FOR LOAN LOSSES. The provision for loan losses was $3.6 million during 2002 compared to $3.7 million and $3.3 million during 2001 and 2000, respectively. Changes in the provision for loan losses reflect our assessment of the allowance for loan losses. While we use relevant information to recognize losses on loans, additional provisions for related losses may be necessary based on changes in economic conditions; customer circumstances and other credit risk factors. (See "Portfolio Loans and asset quality.")

NON-INTEREST INCOME. Non-interest income totaled $30.9 million during 2002 compared to $26.9 million and $19.0 million during 2001 and 2000, respectively. Excluding net gains and losses on assets, non-interest income grew by 13.2% to $22.8 million during 2002 and by 20.1% to $20.1 million during 2001 from each comparable prior year. Increases in service charges on deposit accounts, title insurance fees and other non-interest income account for the majority of the increase in total non-interest income during 2002 and 2001. The overall increases in 2002 and 2001 from each comparable prior year were partially offset by a decline in real estate mortgage loan servicing fees.

NON-INTEREST INCOME	Year ended December 31, 2002	2001	2000
	(in thousands)		
Service charges on deposit accounts	$ 13,049	$ 9,936	$ 6,857
Net gains (losses) on assets			
Real estate mortgage loans	8,178	6,306	2,209
Securities	(24)	522	9
Title insurance fees	2,474	1,874	912
Manufactured home loan origination fees and commissions	1,949	2,108	2,144
Mutual fund and annuity commissions	979	798	1,199
Real estate mortgage loan servicing fees, net	(870)	833	1,490
Other	5,176	4,558	4,141
Total non-interest income	$ 30,911	$26,935	$ 18,961

Service charges on deposit accounts totaled $13.0 million during 2002, compared to $9.9 million and $6.9 million during 2001 and 2000, respectively. The increases in such service charges principally relate to growth in checking accounts as a result of deposit account promotions, including direct mail solicitations and increases in certain fees on retail and commercial checking accounts that were implemented in the second quarter of 2001. We opened 22,000 new checking accounts in 2002 compared to 24,000 in 2001 and 22,000 in 2000. Partially as a result of a leveling off in our growth rate of new checking accounts, we would expect the growth rate of service charges on deposits to moderate in future periods. (See "Deposits and borrowings.")

Net gains on the sale of real estate mortgage loans are generally a function of the volume of loans sold. We realized net gains of $8.2 million on the sale of such loans during 2002, compared to $6.3 million and $2.2 million during 2001 and 2000, respectively. The volume of loans sold is dependent upon our ability to originate real estate mortgage loans as well as the demand for fixed-rate obligations and other loans that we cannot profitably fund within established interest-rate risk parameters. (See "Portfolio Loans and asset quality.") Net gains on real estate mortgage loans are also dependent upon economic and competitive factors as well as our ability to effectively manage exposure to changes in interest rates and thus can often be a volatile part of our overall revenues. In 2002, approximately 69% of the $876.7 million of loans originated was the result of refinancing activity. We estimate that refinancing activities accounted for approximately 63% and 58% of the real estate mortgage loans originated during 2001 and 2000, respectively. Based on forecasts by the Mortgage Bankers Association and potential changes in market interest rates we would expect overall mortgage loan refinance activity in 2003 to decline from our 2002 levels.

NET GAINS ON THE SALE OF REAL ESTATE MORTGAGE LOANS	Year ended December 31, 2002	2001	20
	(dollars in thousands)		
Real estate mortgage loans originated	$876,667	$680,702	$345
Real estate mortgage loans sold	600,300	410,998	153

Real estate mortgage loans sold with servicing rights released ...	165,133	282,240	36
Net gains on the sale of real estate mortgage loans	8,178	6,306	2
Net gains as a percent of real estate mortgage loans sold	1.36%	1.53%	

Net gains as a percentage of real estate mortgage loans sold (our "Loan Sales Margin") are impacted by several factors including competition and the manner in which the loan is sold. Because of generally higher prices being paid for mortgage loan servicing in 2001, we began to sell our real estate mortgage loans on a service-released basis. Beginning in the third quarter of 2001, the price being paid for mortgage loan servicing declined and we began to then retain the servicing on the majority of our real estate mortgage loan sales. In mid-2002 mortgage loan servicing values firmed and we once again began to sell real estate mortgage loans on a service-released basis. Our decision to sell or retain mortgage loan servicing rights is primarily influenced by an evaluation of the price being paid for mortgage loan servicing by outside third parties compared to our calculation of the economic value of retaining such servicing. The sale of mortgage loan servicing rights may result in declines in mortgage loan servicing income in future periods. In addition, gains on the sale of real estate mortgage loans were reduced by approximately $1.0 million in 2002 as a result of recording changes in the fair value of certain derivative instruments pursuant to SFAS #133. This SFAS #133 adjustment in gains on the sale of real estate mortgage loans in 2002 primarily represents a timing difference that is expected to reverse when the applicable commitments to sell real estate mortgage loans in the secondary market are fulfilled. Excluding this SFAS #133 adjustment, the Loan Sales Margin would have been 1.53% in 2002, which is consistent with 2001.

The purchase or sale of securities is dependent upon our assessment of investment and funding opportunities as well as asset/liability management needs. We sold securities with an aggregate market value of $66.4 million during 2002 compared to $18.9 million and $22.3 million during 2001 and 2000, respectively. (See "Securities."). The net loss on securities in 2002 includes an impairment charge of $0.8 million on a $1.5 million trust preferred security that was purchased in 1999, and which was issued by an unaffiliated bank holding company. This bank holding company is currently experiencing financial difficulties and has suspended the payment of interest on this security. As a result of these circumstances and the current indicated market value of this security, the book value of this asset was written down.

GAINS AND LOSSES ON SECURITIES

	Year ended December 31,			
	Proceeds	Gains	Losses	Net
	(in thousands)			
2002(1).............	$66,390	$809	$833	$ (24)
2001................	18,925	524	2	522
2000................	22,319	94	85	9

(1) Losses in 2002 include a $0.8 million impairment charge on a trust-preferred security (as described above).

Title insurance fees increased to $2.5 million in 2002 compared to $1.9 million in 2001 and $0.9 million in 2000. The increase in title insurance fees is primarily a function of the increased level of real estate mortgage loans originated as well as our title insurance agency gaining an increasing share of our mortgage loan origination business. Mutual fund and annuity commissions increased in 2002 compared to 2001, but remain below 2000 levels. The decline in these commissions from the 2000 level is attributable to lower sales volumes,

due in part to a more difficult environment for selling equity-based investments over the past two years.

Real estate mortgage loan servicing fees, net declined to a negative $0.9 million in 2002, compared to $0.8 million in 2001 and $1.5 million in 2000. The decline in 2002 compared to 2001, is due to a $0.8 million increase in the amortization of capitalized mortgage servicing rights and a $1.1 million impairment charge that we recorded in the third quarter of 2002 on our capitalized mortgage servicing rights. There was essentially no change in this impairment reserve at December 31, 2002 from September 30, 2002. Both the increased level of amortization and the impairment reserve reflect the decline in interest rates, which has resulted in an increase in the prepayment of real estate mortgage loans, as well as a dramatic increase in the expected future level of mortgage loan refinancing/prepayment activity. The decline in 2001 compared to 2000 is due to an increase in the amortization of capitalized mortgage servicing rights of $0.5 million in 2001 as a result of a rise in the prepayment of real estate mortgage loans serviced for others as well as an $88 million decline in the average balance of real estate mortgage loans serviced for others during 2001. For much of 2001, we sold a majority of real estate mortgage loans on a "service-released basis." As a result, we were retaining less servicing rights in 2001, as compared to prior periods. At December 31, 2002 we were servicing approximately $794 million in real estate mortgage loans for others on which servicing rights have been capitalized. This servicing portfolio had a weighted average coupon rate of 6.78% and a weighted average service fee of approximately 26 basis points. Remaining capitalized mortgage servicing rights at December 31, 2002 totaled $4.5 million,

representing approximately 56 basis points on the related amount of real estate mortgage loans serviced for others.

Other non-interest income totaled $5.2 million in 2002, compared to $4.6 million and $4.1 million during 2001 and 2000, respectively. The increases in 2002 and 2001 from their respective previous years was partially attributed to increases in debit card related fees associated with the growth in our checking account base. Income from bank owned life insurance purchased during 2002 also contributed to the increase in other non-interest income from 2001.

NON-INTEREST EXPENSE. Non-interest expense totaled $68.3 million during 2002, compared to $61.5 million and $53.4 million during 2001 and 2000, respectively.

NON-INTEREST EXPENSE	Year ended December 31, 2002	2001	2000
	(in thousands)		
Compensation	$24,891	$22,226	$20,236
Performance-based compensation and benefits ..	5,247	3,392	2,916
Other benefits	7,205	5,927	5,162
Compensation and benefits	37,343	31,545	28,314
Occupancy, net	5,424	4,966	4,653
Furniture and fixtures	4,731	4,371	4,382
Data processing	3,209	2,558	2,467

Loan and collection	3,028	2,598	1,463
Advertising	2,813	2,490	2,129
Communications	2,484	2,275	2,128
Supplies	1,626	1,442	1,155
Amortization of intangible assets	1,014	1,704	1,728
Other	6,621	7,570	4,956
Total non-interest expense	$68,293	$61,519	$53,375

The increase in compensation and benefits in 2002 and 2001 compared to each prior year is primarily attributable to merit pay increases and staffing level increases associated with the growth and expansion of the organization as well as increases in certain employee benefit costs such as health care insurance. Based on current conditions, we expect health care insurance costs to continue to rise at levels significantly above the general rate of inflation.

We maintain performance-based compensation plans. In addition to commissions and cash incentive awards, such plans include employee stock ownership and employee stock option plans. Stock options granted during 2002 and in prior years did not require the recognition of any expense in our consolidated statements of operations during those periods. Presently, the Financial Accounting Standards Board is reviewing the accounting for stock options and in the future we may be required to recognize the expense of issuing stock options in our consolidated statements of operations. We believe that these equity-based plans help align the interests of our officers and employees with those of our shareholders.

Occupancy, furniture and fixtures, advertising, communications and supplies expenses all generally increased over the periods presented as a result of the growth of the organization and expansion of our number of offices. In 2002 we opened four new full-service banking offices and added loan production offices related to our purchase of a mortgage brokerage company in March 2002.

The increase in loan and collection expense in 2002 and 2001 over 2000 reflects costs associated with holding or disposal of other real estate and collection costs associated with increases in the level of non-performing loans.

The increase in data processing costs in 2002 compared to 2001 and 2000 reflects a new five-year contract that we entered into for core data processing services effective in March 2002, the growth of our organization and additional third-party vendor costs for several special projects such as disaster recovery and upgrades to our network.

We adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," ("SFAS #142") on January 1, 2002 and as a result, intangible asset amortization declined by approximately $0.7 million in 2002 compared to the prior two years.

Other non-interest expense decreased to $6.6 million in 2002 compared to $7.6 million in 2001. This decrease is primarily attributable to 2001 including a $0.9 million loss on de-designating certain cash flow hedges. We terminated the cash flow hedging relationships relating to $26 million of notional value fixed pay interest rate swaps in December 2001. As a result, in the fourth quarter of 2001, pursuant to SFAS #133, we reclassified a $0.9 million charge from accumulated other comprehensive income to earnings. This charge was included in other expenses.

Our federal income tax expense has increased generally commensurate with our increase in pretax earnings. Our actual federal income tax expense is lower than the amount computed by applying our statutory federal income tax rate to

our pre-tax earnings primarily due to tax exempt interest income.

FINANCIAL CONDITION

SUMMARY. Our total assets grew to $2.1 billion at December 31, 2002 from $1.9 billion at December 31, 2001. The growth in total assets primarily reflects increases in securities available for sale, loans held for sale and the purchase of $35 million in bank owned life insurance in August 2002. Loans, excluding loans held for sale ("Portfolio Loans"), totaled $1.381 billion at December 31, 2002, and were relatively unchanged since year end 2001. Total deposits increased $148.2 million in 2002 primarily as a result of increases in checking and savings deposits and in brokered certificates of deposit ("Brokered CDs").

SECURITIES. We maintain diversified securities portfolios, which include obligations of the U.S. Treasury and government-sponsored agencies as well as securities issued by states and political subdivisions, corporate securities, mortgage-backed securities and asset-backed securities. We also invest in capital securities, which include preferred stocks and trust preferred securities. We continually evaluate asset/liability management needs and attempt to maintain a portfolio structure that provides sufficient liquidity and cash flow. We believe that the unrealized losses on securities available for sale are temporary in nature and due primarily to changes in interest rates and not a result of credit related issues, except for a $0.8 million impairment charge that we recorded on a trust preferred security issued by a bank holding company as discussed in "Results of Operations" above. In this instance, we believe that the decline in value is directly due to the issuer's financial difficulties and is other than temporary in nature. We also believe that we have the ability to hold securities with unrealized losses to maturity or until such time as the unrealized losses reverse. (See "Non-interest income" and "Asset/liability management.")

SECURITIES	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(in thousands)		
Securities available for sale				
December 31, 2002	$358,149	$ 14,890	$ 1,793	$371,246
December 31, 2001	286,571	5,789	2,057	290,303

Securities available for sale increased by $80.9 million during 2002 to $371.2 million at December 31, 2002. This increase was due primarily to purchases of municipal, corporate, mortgage-backed and asset-backed securities during the year to offset the lack of growth in Portfolio Loans. Generally we cannot earn the same interest-rate spread on securities as we can on Portfolio Loans. As a result, offsetting slow Portfolio Loan growth with purchases of securities will tend to erode some of our profitability measures such as our Net Yield and our return on assets.

At December 31, 2002 and 2001, we had $42.1 million and $3.2 million of asset-backed securities included in securities available for sale. All of these asset-backed securities are rated AAA or AA by a major rating agency. Approximately 81% of our asset-backed securities at December 31, 2002 are backed by mobile home loans. The majority of the mobile home loans underlying our asset-backed securities are being serviced by Conseco Finance Corporation, who recently declared bankruptcy. Conseco Finance Corporation continues to service these mobile home loans underlying our asset-backed securities. We do not

foresee, at the present time, any risk of loss or risk of a credit downgrade below investment quality (by a major rating agency) on our asset-backed securities.

PORTFOLIO LOANS AND ASSET QUALITY. We believe that our decentralized loan origination structure provides important advantages in serving the credit needs of our principal lending markets. In addition to the communities served by our bank branch networks, principal lending markets include nearby communities and metropolitan areas. Subject to established underwriting criteria, we also participate in commercial lending transactions with certain non-affiliated banks and may also purchase real estate mortgage loans from third-party originators.

LOAN PORTFOLIO COMPOSITION	December 31, 2002	2001
	(in thousands)	
Real estate(1)		
Residential first mortgages	$ 506,652	$ 511,019
Residential home equity and other junior mortgages	126,742	181,905
Construction and land development	185,583	185,004
Other(2)	325,176	292,548
Consumer	137,631	134,367
Commercial	86,413	65,275
Agricultural	13,245	14,566
Total loans	$1,381,442	$1,384,684

(1) Includes both residential and non-residential commercial loans secured by real estate.
(2) Includes loans secured by multi-family residential and non-farm, non-residential property.

Although the management and board of directors of each of our banks retain authority and responsibility for credit decisions, we have adopted uniform underwriting standards. Further, our loan committee structure as well as the centralization of commercial loan credit services and the loan review process, provides requisite controls and promotes compliance with such established underwriting standards. Such centralized functions also facilitate compliance with consumer protection laws and regulations.

We generally retain loans that may be profitably funded within established risk parameters. (See "Asset/liability management.") As a result, we may hold adjustable-rate and balloon real estate mortgage loans as Portfolio Loans, while 15- and 30-year, fixed-rate obligations are generally sold to mitigate exposure to changes in interest rates. (See "Non-interest income.")

The increase in other real estate and commercial loans reflects our emphasis on lending opportunities within these categories, particularly within the Grand Rapids and Lansing, Michigan markets. The decline in residential home equity and other junior mortgages is primarily due to a significant increase in prepayments due to refinance activity associated with lower interest rates. Construction and land development loans, other commercial real estate loans and indirect consumer loans are generally thought to expose us to a higher risk of loss than residential mortgage lending or direct consumer lending. Continued

growth and changes in the mix of Portfolio Loans is dependent upon our assessment of risks and opportunities in our future lending activities as well as a variety of competitive and economic factors.

NON-PERFORMING ASSETS	December 31,		
	2002	2001	200
	(dollars in thousands)		
Non-accrual loans	$ 5,738	$ 5,990	$ 5,2
Loans 90 days or more past due and still accruing interest	3,961	2,771	1,5
Restructured loans	270	285	2
Total non-performing loans	9,969	9,046	7,0
Other real estate	3,908	1,610	2,1
Total non-performing assets	$13,877	$10,656	$ 9,2
As a percent of Portfolio Loans			
Non-performing loans	.72%	.65%	.
Allowance for loan losses	1.21	1.17	1.
Non-performing assets to total assets	.67	.56	.
Allowance for loan losses as a percent of non-performing loans	168	179	1

Non-performing loans totaled $10.0 million, or 0.72% of total Portfolio Loans at December 31, 2002, a $1.0 million increase from December 31, 2001. The increase is attributable to a $0.3 million increase in non-performing commercial loans and a $0.7 million increase in non-performing mortgage loans. The increase in non-performing loans is generally a result of weaker economic conditions, which have adversely impacted businesses and consumers.

The increase in non-performing loans in 2001 compared to 2000 is primarily the result of one commercial real estate loan totaling $1.3 million at December 31, 2001 [$1.1 million at December 31, 2002]. This loan is secured by a office building in the Lansing area with an original appraised value of approximately $1.6 million. However, due to the current vacancy level in the building, a specific valuation allowance of approximately $0.4 million has been established on this loan. Although this loan is on non-accrual because of the aforementioned vacancy level and past delinquencies, it is now current with respect to payments. This loan matures in June 2003.

We will place a loan that is 90 days or more past due on non-accrual, unless we believe the loan is both well secured and in the process of collection. The increase in the level of loans 90 days or more past due and still accruing interest at December 31, 2002 and 2001 compared to the December 31, 2000 level is primarily due to increases in residential mortgage loans and commercial loans in this category. We believe the collection of the accrued but unpaid interest on these loans is probable.

The increase in other real estate in 2002 is due primarily to the addition of a hotel property that was foreclosed upon during the year. The hotel property was transferred to other real estate at its estimated fair value (less expected costs to sell) of $1.5 million. The balance of the increase in other real estate is due to an increase in the level of residential properties acquired through foreclosure.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES	December 31, 2002	2001	2000
	(in thousands)		
Specific allocations	$ 1,313	$ 500	$ 100
Other adversely rated loans	6,067	7,284	3,166
Historical loss allocations	2,813	2,837	4,717
Additional allocations based on subjective factors	6,512	5,546	5,999
Total	$16,705	$16,167	$13,982

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In determining the allowance and the related provision for loan losses, we consider four principal elements: (i) specific allocations based upon probable losses identified during the review of the loan portfolio, (ii) allocations established for other adversely rated loans, (iii) allocations based principally on historical loan loss experience, and (iv) additional allowances based on subjective factors, including local and general economic business factors and trends, portfolio concentrations and changes in the size, mix and/or the general terms of the loan portfolios.

The first element reflects our estimate of probable losses based upon our systematic review of specific loans. These estimates are based upon a number of objective factors, such as payment history, financial condition of the borrower, and discounted collateral exposure.

The second element reflects the application of our loan rating system. This rating system is similar to those employed by state and federal banking regulators. Loans that are rated below a certain predetermined classification are assigned a loss allocation factor for each loan classification category that is based upon a historical analysis of losses incurred. The lower the rating assigned to a loan or category, the greater the allocation percentage that is applied.

The third element is determined by assigning allocations based principally upon the ten-year average of loss experience for each type of loan. Average losses may be further adjusted based on the current delinquency rate. Loss analyses are conducted at least annually.

The fourth element is based on factors that cannot be associated with a specific credit or loan category and reflects our attempt to ensure that the overall allowance for loan losses appropriately reflects a margin for the imprecision necessarily inherent in the estimates of expected credit losses. We consider a number of subjective factors when determining the unallocated portion, including local and general economic business factors and trends, portfolio concentrations and changes in the size, mix and the general terms of the loan portfolios. (See "Provision for loan losses.")

ALLOWANCE FOR LOAN LOSSES	Year ended December 31, 2002	2001	2000
	(dollars in thousands)		
Balance at beginning of year	$ 16,167	$ 13,982	$ 12,985

Provision charged to operating expense	3,562	3,737	3,287
Recoveries credited to allowance	733	644	678
Loans charged against allowance	(3,757)	(2,196)	(2,968)
Balance at end of year	$ 16,705	$ 16,167	$ 13,982
Net loans charged against the allowance to average Portfolio Loans	.23%	.11%	.17%

Loans charged against the allowance for loan losses, net of recoveries, were equal to 0.23% of average Portfolio Loans during 2002, compared to 0.11% and 0.17% during 2001 and 2000, respectively. The increase in net loans charged against the allowance during 2002 relates to a $0.6 million charge-off related to the aforementioned hotel property loan that was transferred to other real estate in the fourth quarter of 2002 and higher levels of charge-offs in both the consumer and mortgage loan portfolios. We believe that the higher level of charge-offs in the consumer and mortgage loan portfolios relate primarily to a weaker economic environment leading to higher unemployment rates, higher overall levels of consumer debt and increased bankruptcy filings. As a result, we believed it was appropriate to increase the portion of the allowance for loan losses allocated due to subjective factors as described above. Our provision for loan losses in 2002 was lower than 2001, despite a higher level of loans charged against the allowance for loan losses, net of recoveries, primarily because of a decline in the level of other adversely rated loans.

DEPOSITS AND BORROWINGS. Our competitive position within many of the markets served by our branch networks limits our ability to materially increase deposits without adversely impacting the weighted-average cost of core deposits. Accordingly, we principally compete on the basis of convenience and personal service, while employing pricing tactics that are intended to enhance the value of core deposits.

To attract new core deposits, we have implemented a high-performance checking program that utilizes a combination of direct mail solicitations, in-branch merchandising, gifts for customers opening new checking accounts or referring business to our banks and branch staff sales training. This program has generated increases in customer relationships as well as deposit service charges. We believe that the new relationships that result from these marketing and sales efforts provide valuable opportunities to cross sell related financial products and services.

ALTERNATE SOURCES OF FUNDS	December 31, 2002			
	Amount	Average Maturity	Rate	Amount
	(dollars in thousands)			
Brokered CDs(1)	$278,012	1.9 years	3.03%	$163,315
Fixed-rate FHLB advances(1,2)	62,861	7.9 years	5.83	129,084
Variable-rate FHLB advances(1)	131,200	.3 years	1.50	93,000
Securities sold under agreements to repurchase(1)	98,712	.1 years	1.74	54,963
Federal funds purchased	23,840	1 day	1.38	35,100

Total................................	$594,625	1.8 years	2.71%	$475,462

(1) Certain of these items have had their average maturity and rate altered through the use of derivative instruments, including pay-fixed and pay-variable interest-rate swaps.
(2) Advances totaling $10 million, at December 31, 2002 and 2001, have provisions that allow the FHLB to convert fixed-rate advances to adjustable rates prior to stated maturity.

We have implemented strategies that incorporate federal funds purchased, other borrowings and Brokered CDs to fund a portion of the increases in securities available for sale and loans held for sale. The use of such alternate sources of funds supplements our core deposits and is an integral part of our asset/liability management efforts.

Other borrowed funds, principally advances from the Federal Home Loan Bank (the "FHLB") and securities sold under agreements to repurchase ("Repurchase Agreements"), totaled $310.4 million at December 31, 2002, compared to $288.0 million a year earlier. The $22.4 million increase in other borrowed funds principally reflects an increase in Repurchase Agreements of $43.7 million, partially offset by a decline in FHLB advances. The increase in Brokered CDs was primarily utilized to fund the increase in loans held for sale and securities available for sale. We were generally able to obtain more favorable pricing on Brokered CDs than FHLB advances during most of 2002.

We employ derivative financial instruments to manage our exposure to changes in interest rates. At December 31, 2002, we employed interest-rate caps, floors and collars with an aggregate notional amount of $10.0 million. We also employed interest-rate swaps with an aggregate notional amount of $261.0 million. During 2000, we terminated interest-rate caps with a notional amount of $72.0 million. The realized loss of $0.8 million is amortized as an adjustment to interest expense over the shorter of the expected remaining term of the hedged debt or the terminated cap. (See "Asset/liability management.")

LIQUIDITY AND CAPITAL RESOURCES. Effective management of capital resources is critical to our mission to create value for our shareholders. The cost of capital is an important factor in creating shareholder value and, accordingly, our capital structure includes unsecured debt and cumulative trust preferred securities.

We believe that a diversified portfolio of quality loans will provide superior risk-adjusted returns. Accordingly, we have implemented balance sheet management strategies that combine efforts to originate Portfolio Loans with disciplined funding strategies. Acquisitions are also an integral component of our capital management strategies.

CAPITALIZATION	December 3 2002	
	(in thousand	
Unsecured debt	$ 12,600	$ 1
Guaranteed preferred beneficial interests in Company's subordinated debentures...	17,250	1
Shareholders' equity		

Common stock	17,822	1
Capital surplus	75,076	7
Retained earnings	41,785	3
Accumulated other comprehensive income (loss)	3,364	(
Total shareholders' equity	138,047	13
Total capitalization	$ 167,897	$ 15

We have supplemented our balance-sheet management activities with purchases of our common stock. We repurchased 1.1 million shares of our common stock at an average price of $20.70 in 2002 compared to 0.8 million shares of our common stock at an average price of $16.37 per share in 2001 and compared to 0.3 million shares at an average price of $10.97 per share in 2000. We anticipate that repurchases of our common stock will continue in the foreseeable future. We have approximately 0.8 million shares remaining to be repurchased on plans expiring through December 31, 2003.

Shareholders' equity totaled $138.0 million at December 31, 2002. The increase from $131.9 million at December 31, 2001 reflects the retention of earnings (net of cash dividends paid), the issuance of common stock pursuant to various equity-based incentive compensation plans and an increase in accumulated other comprehensive income. Shareholders' equity was equal to 6.71% of total assets at December 31, 2002, compared to 6.98% a year earlier.

CAPITAL RATIOS	December 31, 2002	2001
Equity capital	6.71%	6.98%
Average shareholders' equity to average assets	7.14	7.28
Tier 1 capital to average assets	6.85	7.46
Tier 1 risk-based capital	9.36	9.82
Total risk-based capital	10.49	10.98

ASSET/LIABILITY MANAGEMENT. Interest-rate risk is created by differences in the cash flow characteristics of our assets and liabilities. Options embedded in certain financial instruments, including caps on adjustable-rate loans as well as borrowers' rights to prepay fixed-rate loans also create interest-rate risk.

Our asset/liability management efforts identify and evaluate opportunities to structure the balance sheet in a manner that is consistent with our mission to maintain profitable financial leverage within established risk parameters. We evaluate various opportunities and alternate balance-sheet strategies carefully and consider the likely impact on our risk profile as well as the anticipated contribution to earnings. The marginal cost of funds is a principal consideration in the implementation of our balance-sheet management strategies, but such evaluations further consider interest-rate and liquidity risk as well as other pertinent factors. We have established parameters for interest-rate risk. We continually monitor our interest-rate risk and report quarterly to our respective banks' boards of directors.

We employ simulation analyses to monitor each Bank's interest-rate risk profiles and evaluate potential changes in our Banks' net interest income and market value of portfolio equity that result from changes in interest rates. The purpose of these simulations is to identify sources of interest-rate risk inherent in our balance sheets. The simulations do not anticipate any actions that we might initiate in response to changes in interest rates and, accordingly, the simulations do not provide a reliable forecast of anticipated results. The simulations are predicated on immediate, permanent and parallel shifts in interest rates and generally assume that current loan and deposit pricing relationships remain constant. The simulations further incorporate assumptions relating to changes in customer behavior, including changes in prepayment rates on certain assets and liabilities.

CHANGES IN MARKET VALUE OF PORTFOLIO EQUITY AND NET INTEREST INCOME	December 31,2002		
Change in Interest Rates	Market Value of Portfolio Equity(1)	Percent Change	Net Interest Income(2)
	(dollars in thousands)		
200 basis point rise................	$158,100	- %	$85,900
100 basis point rise................	161,000	1.83	86,200
Base-rate scenario..................	158,100		86,800
100 basis point decline.............	152,900	(3.29)	86,700
200 basis point decline.............	146,400	(7.40)	84,700

(1) Simulation analyses calculate the change in the net present value of our assets and liabilities, including debt and related financial derivative instruments, under parallel shifts in interest rates by discounting the estimated future cash flows using a market-based discount rate. Cash flow estimates incorporate anticipated changes in prepayment speeds and other embedded options.

(2) Simulation analyses calculate the change in net interest income under parallel shifts in interest rates over the next twelve months, based upon a static balance sheet, which includes debt and related financial derivative instruments, and do not consider loan fees.

ACQUISITIONS

In March 2002, we acquired substantially all of the assets of Saginaw Bay Mortgage, a mortgage-broker primarily operating in Bay, Gladwin, Midland and Saginaw counties in Michigan. As a result of this acquisition, we recorded $0.4 million in goodwill. In October 2002, we acquired a bank branch in Rogers City, Michigan. At the time of acquisition, this branch had approximately $13.0 million in deposits and we recorded a core deposit premium of approximately $0.7 million (which is being amortized on an accelerated basis over ten years). The operations of this purchased branch were immediately merged into our already existing branch in this market.

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CRITICAL ACCOUNTING POLICIES

Our accounting and reporting policies are in accordance with accounting principles generally accepted within the United States of America and conform to general practices within the banking industry. Accounting and reporting policies for the allowance for loan losses, mortgage servicing rights, derivative

financial instruments, income taxes and goodwill are deemed critical since they involve the use of estimates and require significant management judgments. Application of assumptions different than those that we have used could result in material changes in our financial position or results of operations.

Our methodology for determining the allowance and related provision for loan losses is described above in "Portfolio Loans and asset quality." In particular, this area of accounting requires a significant amount of judgment because a multitude of factors can influence the ultimate collection of a loan or other type of credit. It is extremely difficult to precisely measure the amount of losses that are probable in our loan portfolio. We use a rigorous process to attempt to accurately quantify the necessary allowance and related provision for loan losses, but there can be no assurance that our modeling process will successfully identify all of the losses that are probable in our loan portfolio. As a result, we could record future provisions for loan losses that may be significantly different than the levels that we have recorded in the past three-year period.

At December 31,2002 we had approximately $4.5 million of mortgage loan servicing rights capitalized on our balance sheet. There are several critical assumptions involved in establishing the value of this asset including estimated future prepayment speeds on the underlying mortgage loans, the interest rate used to discount the net cash flows from the mortgage loan servicing, the estimated amount of ancillary income that will be received in the future (such as late fees) and the estimated cost to service the mortgage loans. We utilize an outside third party (with expertise in the valuation of mortgage loan servicing rights) to assist us in our valuation process. We believe the assumptions that we utilize in our valuation are reasonable based upon accepted industry practices for valuing mortgage servicing rights and represent neither the most conservative or aggressive assumptions. Using more aggressive assumptions (primarily lower estimated rates of prepayments) would have resulted in a higher valuation of approximately $0.7 million at December 31, 2002. Using more conservative assumptions (primarily higher estimated rates of prepayments) would have resulted in a lower valuation of approximately $0.9 million at December 31.2002.

We use a variety of derivative instruments to manage our interest-rate risk. These derivative instruments include interest-rate swaps, collars, floors and caps and mandatory forward commitments to sell mortgage loans. Under SFAS #133 the accounting for increases or decreases in the value of derivatives depends upon the use of the derivatives and whether the derivatives qualify for hedge accounting. In particular, we use pay-fixed interest-rate swaps to convert the variable-rate cash flows on short-term or variable-rate debt obligations to fixed rates. At December 31, 2002 we had approximately $236.0 million in fixed pay interest-rate swaps being accounted for as cash flow hedges, thus permitting us to report the related unrealized gains or losses in the fair market value of these derivatives in other comprehensive income and subsequently reclassify such gains or losses into earnings as yield adjustments in the same period in which the related interest on the hedged item (primarily short-term or variable-rate debt obligations) affect earnings. Because of the steep decline in interest rates over the past two years, the fair market value of our fixed pay interest-rate swaps being accounted for as cash flow hedges is approximately negative $7.5 million at December 31, 2002. If we could not continue to account for these fixed pay interest-rate swaps as cash flow hedges, because for example, we were unable to continue to renew some or all of the related short-term or variable-rate debt obligations that are being hedged, we could have to recognize same or all of the $7.5 million negative fair market value as an immediate charge against earnings. We expect to continue to be able to qualify for and account for these fixed pay interest-rate swaps as cash flow hedges.

Our accounting for income taxes involves the valuation of deferred tax

assets and liabilities primarily associated with differences in the timing of the recognition of revenues and expenses for financial reporting and tax purposes. At December 31, 2002 we had recorded a net deferred tax asset of $13.3 million, which included a net operating loss carryforward of $8.2 million. We have recorded no valuation allowance on our net deferred tax asset because we believe that the tax benefits associated with this asset will more likely than not, be realized. However, changes in tax laws, changes in tax rates and our future level of earnings can adversely impact the ultimate realization of our net deferred tax asset.

At December 31, 2002 we had recorded $7.3 million of goodwill. Under SFAS #142, amortization of goodwill ceased, and instead this asset must be periodically tested for impairment. Our goodwill primarily arose from the past acquisitions of other banks and a mobile home loan origination company. We test our goodwill for impairment utilizing the methodology and guidelines established in SFAS #142. This methodology involves assumptions regarding the valuation of the business segments that contain the acquired entities. We believe that the assumptions we utilize are reasonable and even utilizing more conservative assumptions on valuation would not presently result in any impairment in the amount of goodwill that we have recorded. However, we may incur impairment charges related to our goodwill in the future due to changes in business prospects or other matters that could affect our valuation assumptions.

RECENT ACCOUNTING PRONOUNCEMENTS

In October, 2001 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS #144") which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS #144 was effective for fiscal years beginning after December 15, 2001. The adoption of SFAS #144 did not have a material impact on our financial condition or results of operations.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," ("SFAS #145") which rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." SFAS #145 also rescinds FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers" and amends FASB Statement No. 13, "Accounting for Leases." SFAS #145 amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. SFAS #145 is effective for fiscal years beginning after May 15, 2002, with early adoption of the provisions related to the rescission of Statement #4 encouraged. The adoption of SFAS #145 is not expected to have a material impact on our financial condition or results of operations.

In July 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," ("SFAS #146") which addresses financial accounting and reporting for costs associated with exit or disposal activities (including restructuring) and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS #146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. Under Issue 94-3 the liability was recognized at the date of an entity's commitment to an exit plan. SFAS #146 is effective for exit or disposal activities (including restructuring) that are initiated after December 31, 2002,

with early adoption encouraged. Adoption of SFAS #146 is not expected to have a material impact on our financial condition or results of operations.

In October 2002, the FASB issued Statement of Financial Accounting Standards No. 147, "Acquisitions of Certain Financial Institutions," ("SFAS #147") which requires that all acquisitions of financial institutions that meet the definition of a business, including acquisitions of part of a financial institution that meet the definition of a business, must be accounted for in accordance with SFAS No. 141, "Business Combinations" and the related intangibles accounted for in accordance with SFAS #142. SFAS #147 removes such acquisitions from the scope of SFAS No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions," and also amends SFAS #144, to include in its scope long-term customer-relationship intangible assets of financial institutions. SFAS #147 is generally effective immediately and did not have a material impact on our financial condition or results of operations.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," ("SFAS #148") which amends SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS #123"). SFAS #148 amends the disclosure requirements of SFAS #123 for stock-based compensation for annual periods ending after December 15, 2002 and for interim periods beginning after December 15, 2002. These disclosure requirements apply to all companies, including those that continue to recognize stock-based compensation under APB Opinion No. 25, "Accounting for Stock Issued to Employees." Effective for fiscal years ending after December 15, 2002, SFAS #148 also provides three alternate transition methods for companies that choose to adopt the fair value measurement provisions of SFAS #123. Adoption of this Statement did not have a significant impact on our financial condition or results of operations. See note #13 to the consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," ("FIN #45") which addresses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. The initial recognition and measurement provisions of FIN #45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN #45 are effective for interim and annual periods ending after December 15, 2002 and are included in note #10 to the consolidated financial statements. Adoption of this Interpretation is not expected to have a material impact on our financial condition or results of operations.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," ("FIN #46") which addresses consolidation by business enterprises of variable interest entities. This Interpretation applies immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. For enterprises with variable interest entities created before February 1, 2003, this Interpretation applies no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. However, certain disclosure requirements are effective for all financial statements issued after January 31, 2003. The adoption of this Interpretation is not expected to have a material impact on our financial condition or results of operations.

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SELECTED CONSOLIDATED FINANCIAL DATA

	Year Ended December		
	2002	2001	2000
	(dollars in thousands, except per		
SUMMARY OF OPERATIONS			
Interest income	$ 129,815	$ 134,502	$ 132,841
Interest expense	48,008	62,460	67,865
Net interest income	81,807	72,042	64,976
Provision for loan losses	3,562	3,737	3,287
Net gains on the sale of real estate mortgage loans	8,178	6,306	2,209
Other non-interest income	22,733	20,629	16,752
Merger-related securities losses, charges and litigation settlement			
Other non-interest expenses	68,293	61,519	53,375
Income before federal income tax expense	40,863	33,721	27,275
Federal income tax expense	11,396	9,288	7,266
Net income before cumulative effect of change in accounting principle	29,467	24,433	20,009
Cumulative effect of change in accounting principle, net of related tax effect(1)		(35)	
Net income	$ 29,467	$ 24,398	$ 20,009
PER COMMON SHARE DATA(2)			
Net income before cumulative effect of change in accounting principle			
Basic	$ 1.61	$ 1.29	$ 1.03
Diluted	$ 1.58	$ 1.27	$ 1.02
Net income			
Basic	1.61	1.29	1.03
Diluted	1.58	1.27	1.02
Cash dividends declared	.48	.41	.35
Book value	7.75	7.06	6.68
SELECTED BALANCES			
Assets	$ 2,057,562	$ 1,888,457	$ 1,783,791
Loans	1,381,442	1,384,684	1,379,664
Allowance for loan losses	16,705	16,167	13,982
Deposits	1,535,603	1,387,367	1,389,900
Shareholders' equity	138,047	131,903	128,336
Long-term debt			
SELECTED RATIOS			
Tax equivalent net interest income to average earning assets	4.75%	4.45%	4.21%

Net income to			
Average equity	21.34	18.52	16.59
Average assets	1.52	1.35	1.15
Average shareholders' equity to			
average assets	7.14	7.28	6.92
Tier 1 capital to average assets	6.85	7.46	7.31
Non-performing loans to Portfolio Loans	.72	.65	.51

(1) Effect of the implementation of SFAS #133. (See note #14 to the consolidated financial statements.)
(2) Per share data has been adjusted for three-for-two stock splits in 2002 and 1998 and 5% stock dividends in each of the years presented.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Independent Bank Corporation
Ionia, Michigan

We have audited the accompanying consolidated statements of financial condition of Independent Bank Corporation and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity, comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express our opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Independent Bank Corporation and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31,2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in notes 1 and 14 to the consolidated financial statements, Independent Bank Corporation changed its method of accounting for derivative financial instruments and hedging activities in 2001.

/s/ KPMG LLP
KPMG LLP
Detroit, Michigan
February 4, 2003

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	2002
	(in thou
ASSETS	
Cash and due from banks	$ 60
Securities available for sale	371
Federal Home Loan Bank stock, at cost	9
Loans held for sale	129
Loans	
Commercial	536
Real estate mortgage	601
Installment	242
Total Loans	1,381
Allowance for loan losses	(16
Net Loans	1,364
Property and equipment, net	40
Bank owned life insurance	35
Accrued income and other assets	45
Total Assets	$ 2,057
LIABILITIES AND SHAREHOLDERS' EQUITY	
Deposits	
Non-interest bearing	$ 179
Savings and NOW	657
Time	698
Total Deposits	1,535
Federal funds purchased	23
Other borrowings	310
Guaranteed preferred beneficial interests in Company's subordinated debentures	17
Accrued expenses and other liabilities	32
Total Liabilities	1,919
Commitments and contingent liabilities	
Shareholders' Equity	
Preferred stock, no par value-200,000 shares authorized; none issued or outstanding	
Common stock, $1.00 par value-30,000,000 shares authorized; issued and outstanding: 17,822,090 shares at December 31,2002 and 17,797,314 shares at December 31, 2001	17
Capital surplus	75
Retained earnings	41
Accumulated other comprehensive income (loss)	3
Total Shareholders' Equity	138

Total Liabilities and Shareholders' Equity	$ 2,057

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS

	Ye
	2002
	(in thousands,
INTEREST INCOME	
Interest and fees on loans	$ 109,297
Securities available for sale	
Taxable	12,211
Tax-exempt	7,018
Securities held to maturity	
Taxable	
Tax exempt	
Other investments	1,289
Total Interest Income	129,815
INTEREST EXPENSE	
Deposits	35,134
Other borrowings	12,874
Total Interest Expense	48,008
Net Interest Income	81,807
Provision for loan losses	3,562
Net Interest Income After Provision for Loan Losses	78,245
NON-INTEREST INCOME	
Service charges on deposit accounts	13,049
Net gains (losses) on assets	
Real estate mortgage loans	8,178
Securities	(24)
Title insurance fees	2,474
Manufactured home loan origination fees and commissions	1,949
Other income	5,285
Total Non-interest Income	30,911
NON-INTEREST EXPENSE	
Compensation and employee benefits	37,343

Occupancy, net	5,424
Furniture and fixtures	4,731
Other expenses	20,795
Total Non-interest Expense	68,293
Income Before Federal Income Tax	40,863
Federal income tax expense	11,396
Net income before cumulative effect of change in accounting principle	29,467
Cumulative effect of change in accounting principle, net of related tax effect	
Net Income	$ 29,467
Net income per share before cumulative effect of change in accounting principle	
Basic	$ 1.61
Diluted	$ 1.58
Net income per share	
Basic	$ 1.61
Diluted	$ 1.58
Cash dividends declared per common share	$ .48

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended	
	2002	2
		(in
Net Income	$ 29,467	$ 2
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Proceeds from sales of loans held for sale	608,478	41
Disbursements for loans held for sale	(652,661)	(46
Provision for loan losses	3,562	
Deferred federal income tax expense (credit)	974	(
Deferred loan fees	443	
Depreciation, amortization of intangible assets and premiums and accretion of discounts on securities and loans	6,511	
Net gains on sales of real estate mortgage loans	(8,178)	(

Net (gains) losses on securities	24	
(Increase) decrease in accrued income and other assets	(3,438)	
Increase in accrued expenses and other liabilities	225	
Total Adjustments	(44,060)	(4
Net Cash Provided by (Used in) Operating Activities	(14,593)	(2
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from the sale of securities available for sale	66,390	1
Proceeds from the maturity of securities available for sale	4,315	2
Proceeds from the maturity of securities held to maturity		
Principal received on securities available for sale	49,676	2
Principal received on securities held to maturity		
Purchases of securities available for sale	(181,228)	(12
Purchases of securities held to maturity		
Portfolio loans originated, net of principal payments	(24,730)	1
Portfolio loans purchased		(3
Principal received on portfolio loans purchased	24,509	1
Purchase of bank owned life insurance	(35,000)	
Capital expenditures	(9,480)	(
Net Cash Used in Investing Activities	(105,548)	(6
CASH FLOW FROM FINANCING ACTIVITIES		
Net increase (decrease) in total deposits	148,236	(
Net increase (decrease) in other borrowings and federal funds purchased	39,165	6
Proceeds from Federal Home Loan Bank advances	485,090	99
Payments of Federal Home Loan Bank advances	(513,112)	(95
Retirement of long-term debt		(
Dividends paid	(8,406)	(
Repurchase of common stock	(23,191)	(1
Proceeds from issuance of common stock	2,565	
Net Cash Provided by Financing Activities	130,347	7
Net Increase (Decrease) in Cash and Cash Equivalents	10,206	(
Cash and Cash Equivalents at Beginning of Year	50,525	5
Cash and Cash Equivalents at End of Year	$ 60,731	$ 5
Cash paid during the year for		
Interest	$ 48,052	$ 6
Income taxes	11,693	
Transfer of loans to other real estate	5,399	
Transfer of securities held to maturity to available for sale		2
Real estate loans securitized		5

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income(Loss
				(in thousand
Balances at January 1, 2000	$ 16,853	$ 66,054	$ 33,921	$(2,283)
Net income for 2000			20,009	
Cash dividends declared, $.35 per share			(6,791)	
5% stock dividend	835	8,811	(9,659)	
Issuance of 161,942 shares of common stock ..	162	623		
Repurchase and retirement of 334,896 shares of common stock	(335)	(3,339)		
Net change in unrealized loss on securities available for sale, net of $2.2 million of related tax effect				4,210
Retirement of ESOP shares	(100)	(699)	64	
Balances at December 31, 2000	17,415	71,450	37,544	1,927
Net income for 2001			24,398	
Cash dividends declared, $.41 per share			(7,636)	
5% stock dividend	851	14,081	(14,951)	
Issuance of 335,748 shares of common stock ..	336	3,412		
Repurchase and retirement of 804,626 shares of common stock	(805)	(12,363)		
Net change in accumulated other comprehensive income (loss), net of $2.0 million of related tax effect				(3,756)
Balances at December 31, 2001	17,797	76,580	39,355	(1,829)
Net income for 2002			29,467	
Cash dividends declared, $.48 per share			(8,756)	
5% stock dividend	853	17,407	(18,281)	
Issuance of 291,891 shares of common stock ..	292	3,168		
Repurchase and retirement of 1,120,070 shares of common stock	(1,120)	(22,071)		
Cash in lieu of fractional shares for three-for-two stock split		(8)		
Net change in accumulated other comprehensive income (loss), net of $2.8 million of related tax effect				5,193
Balances at December 31, 2002	$ 17,822	$ 75,076	$ 41,785	$ 3,364

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2002
Net income	$ 29,467
Other comprehensive income	
Net change in unrealized gain (loss) on securities available for sale, net of related tax effect	6,087

Cumulative effect of change in accounting principle, net of related tax effect	
Net change in unrealized loss on derivative instruments, net of related tax effect	(894
Comprehensive Income	$ 34,660

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies and practices of Independent Bank Corporation and subsidiaries conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Our critical accounting policies include accounting for the allowance for loan losses, the valuation of derivative financial instruments, the valuation of originated mortgage servicing rights, the valuation of deferred tax assets and the valuation of goodwill. We are required to make material estimates and assumptions that are particularly susceptible to changes in the near term as we prepare the consolidated financial statements and report amounts for each of these items. Actual results may vary from these estimates.

Our Banks' transact business in the single industry of commercial banking. Our Banks' activities cover traditional phases of commercial banking, including checking and savings accounts, commercial lending, direct and indirect consumer financing, mortgage lending and deposit box services. The principal markets are the rural and suburban communities across lower Michigan that are served by our Banks' branches and loan production offices. The economies of these communities are relatively stable and reasonably diversified. Subject to established underwriting criteria, our Banks also participate in commercial lending transactions with certain non-affiliated banks and purchase real estate mortgage loans from third-party originators. At December 31, 2002, 83% of our Banks' loan portfolios were secured by real estate.

PRINCIPLES OF CONSOLIDATION - The consolidated financial statements include the accounts of Independent Bank Corporation and its subsidiaries. The income, expenses, assets and liabilities of the subsidiaries are included in the respective accounts of the consolidated financial statements, after elimination of all material intercompany accounts and transactions.

STATEMENTS OF CASH FLOWS - For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds are sold for one-day periods. We report net cash flows for customer loan and deposit transactions.

COMPREHENSIVE INCOME - Statement of Financial Accounting Standards, No. 130, "Reporting Comprehensive Income," established standards for reporting comprehensive income, which consists of unrealized gains and losses on securities available for sale and derivative instruments. The net change in unrealized gain or loss on securities available for sale in 2002 reflects a net loss reclassified into earnings of $24,000, and reflects net gains reclassified into earnings of $0.5 million and $9,000, in 2001 and 2000, respectively. The net change in unrealized loss on derivative instruments in 2001 reflects expense reclassified into earnings totaling $0.9 million. The reclassification of these amounts from comprehensive income resulted in a federal income tax benefit of

$8,000 and $0.1 million in 2002 and 2001, respectively, and a federal income tax expense of $3,000 in 2000.

LOANS HELD FOR SALE - Loans held for sale are carried at the lower of aggregate amortized cost or market value. Lower of cost or market value adjustments, as well as realized gains and losses, are recorded in current earnings. We recognize as separate assets the rights to service mortgage loans for others. The fair value of originated mortgage servicing rights has been determined based upon market value indications for similar servicing. These mortgage servicing rights are amortized in proportion to and over the period of estimated net loan servicing income. The Banks assess mortgage servicing rights for impairment based on the fair value of those rights. For purposes of measuring impairment, the characteristics used by the Banks include interest rate, term and type.

SECURITIES - We classify our securities as trading, held to maturity or available for sale. Trading securities are bought and held principally for the purpose of selling them in the near term and are reported at fair value with realized and unrealized gains and losses included in earnings. We do not have any trading securities. Securities held to maturity represent those securities for which our Banks have the positive intent and ability to hold until maturity and are reported at cost, adjusted for amortization of premiums and accretion of discounts computed on the level-yield method. We did not have any securities held to maturity at December 31, 2002 and 2001. Securities available for sale represent those securities not classified as trading or held to maturity and are reported at fair value with unrealized gains and losses, net of applicable income taxes reported in comprehensive income. We determine whether a decline in fair value below the amortized cost basis is other than temporary. If the decline in value is judged to be other than temporary, the cost basis of the security is written down to fair value as a new cost basis and the amount of the write-down is recognized as a charge to non-interest income. Gains and losses realized on the sale of securities available for sale are determined using the specific identification method and are recognized on a trade-date basis. Premiums and discounts are recognized in interest income computed on the level-yield method.

LOAN REVENUE RECOGNITION - Interest on loans is accrued based on the principal amounts outstanding. The accrual of interest income is discontinued when a loan becomes 90 days past due and the borrower's capacity to repay the loan and collateral values appear insufficient. A non-accrual loan may be restored to accrual status when interest and principal payments are current and the loan appears otherwise collectible.

Certain loan fees and direct loan origination costs, are deferred and recognized as an adjustment of yield over the anticipated life of the related loan. Fees received in connection with loan commitments are deferred until the loan is advanced and are then recognized over the anticipated life of the loan as an adjustment of yield. Fees on commitments that expire unused are recognized at expiration. Fees received for a letter of credit are recognized as revenue over its life.

ALLOWANCE FOR LOAN LOSSES - Some loans will not be repaid in full. Therefore, an allowance for loan losses is maintained at a level which represents our best estimate of losses incurred. In determining the allowance and the related provision

for loan losses, we consider four principal elements: (i) specific allocations based upon probable losses identified during the review of the loan portfolio, (ii) allocations established for other adversely rated loans, (iii) allocations

based principally on historical loan loss experience, and (iv) additional allowances based on subjective factors, including local and general economic business factors and trends, portfolio concentrations and changes in the size and/or the general terms of the loan portfolios. Increases in the allowance are recorded by a provision for loan losses charged to expense. Although we periodically allocate portions of the allowance to specific loans and loan portfolios, the entire allowance is available for any losses which occur. Collection efforts may continue and recoveries may occur after a loan is charged against the allowance.

While we use relevant information to recognize losses on loans, additional provisions for related losses may be necessary based on changes in economic conditions, customer circumstances and other credit risk factors.

We measure our investment in an impaired loan based on one of three methods: the loan's observable market price, the fair value of the collateral or the present value of expected future cash flows discounted at the loan's effective interest rate. We do not measure impairment on homogenous residential mortgage and installment loans.

PROPERTY AND EQUIPMENT - Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using both straight-line and accelerated methods over the estimated useful lives of the related assets.

OTHER REAL ESTATE - Other real estate at the time of foreclosure is recorded at the lower of cost of acquisition or fair value, less estimated costs to sell, which becomes the property's new basis. Any write-downs at date of acquisition are charged to the allowance for loan losses. Expense incurred in maintaining assets and subsequent write-downs to reflect declines in value are recorded as other expense.

During 2002 we foreclosed on certain loans secured by real estate and transferred approximately $5.4 million to other real estate. At the time of foreclosure amounts were charged-off against the allowance for loan losses to bring the carrying amount of these properties to their estimated fair market values, less estimated costs to sell. During 2002, we sold other real estate with a book balance of approximately $2.9 million.

Other real estate and repossessed assets totaling $3.9 million and $1.6 million at December 31, 2002 and 2001, respectively, are included in accrued income and other assets.

INTANGIBLE ASSETS - We adopted Statement of Financial Accounting Standards No. 141, "Business Combinations," ("SFAS #141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," ("SFAS #142"). These two Statements have a profound effect on how organizations account for business combinations and for the purchased goodwill and intangible assets that arise from those combinations or are acquired otherwise. SFAS #141 was effective for all business combinations initiated after June 30, 2001, and for all purchase method business combinations completed after June 30, 2001, and requires that such combinations be accounted for using the purchase method of accounting. SFAS #142 was effective for fiscal years beginning after December 15, 2001 and requires that the amortization of goodwill cease and that goodwill instead only be reviewed for impairment. Prior to 2002, we recognized approximately $0.7 million, net of tax, of goodwill amortization annually. This amortization ceased upon adoption of SFAS #142 on January 1, 2002. Based on our review of goodwill recorded on the Statement of Condition, no impairment existed as of January 1, 2002 or December 31, 2002. Prior to the year ended December 31, 2001 goodwill was being amortized on a straight-line basis over the period of expected benefit, generally 12 to 20 years.

Other intangible assets, including core deposit intangibles, are amortized using both straight-line and accelerated methods over 10 to 15 years.

INCOME TAXES - We employ the asset and liability method of accounting for income taxes. This method establishes deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities at tax rates expected to be in effect when such amounts are realized or settled. Under this method, the effect of a change in tax rates is recognized in the period that includes the enactment date. The deferred tax asset is subject to a valuation allowance for that portion of the asset for which it is more likely than not that it will not be realized.

We file a consolidated federal income tax return. Intercompany tax liabilities are settled as if each subsidiary filed a separate return.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE - Securities sold under agreements to repurchase are treated as debt and are reflected as a liability in the consolidated statements of financial condition. The book value of securities pledged to secure the repurchase agreements remains in the securities portfolio.

DERIVATIVE FINANCIAL INSTRUMENTS - We adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS #133") on January 1, 2001. SFAS #133, which was subsequently amended by SFAS #138, requires companies to record derivatives on the balance sheet as assets and liabilities measured at their fair value. The accounting for increases and decreases in the value of derivatives depends upon the use of derivatives and whether the derivatives qualify for hedge accounting.

Upon adoption of SFAS #133, we recorded the fair value of cash-flow hedging instruments ("Cash Flow Hedges") in accrued expenses and other liabilities. On an ongoing basis, our Banks adjust their balance sheets to reflect the then current fair value of the Cash Flow Hedges. The related gains or losses are reported in other comprehensive income and are subsequently reclassified into earnings, as a yield adjustment in the same period in which the related interest on the hedged items (primarily variable-rate debt obligations) affect earnings. It is anticipated that approximately $4.7 million, net of tax, of unrealized losses on

Cash Flow Hedges at December 31, 2002, will be reclassified to earnings over the next twelve months. To the extent that the Cash Flow Hedges are not effective, the ineffective portion of the Cash Flow Hedges are immediately recognized as interest expense. The maximum term of any Cash Flow Hedge at December 31, 2002 is 4.8 years.

Also upon adoption of SFAS #133, we recorded fair-value hedging instruments ("Fair Value Hedges") at fair value in accrued expenses and other liabilities. The hedged items (primarily fixed-rate debt obligations) were also recorded at fair value through the statement of operations, which offsets the adjustment to the Fair Value Hedges. On an ongoing basis, our Banks adjust their respective balance sheets to reflect the then current fair value of both the Fair Value Hedges and the respective hedged items. To the extent that the change in value of the Fair Value Hedges do not offset the change in the value of the hedged items, the ineffective portion is immediately recognized as interest expense.

Certain derivative financial instruments are not designated as hedges. The fair value of these derivative financial instruments have been recorded on our balance sheet and are adjusted on an ongoing basis to reflect their then current fair value. The changes in the fair value of derivative financial instruments not designated as hedges, are recognized currently as interest expense.

When hedge accounting is discontinued because it is determined that a derivative financial instrument no longer qualifies as a fair-value hedge, we continue to carry the derivative financial instrument on the balance sheet at its fair value, and no longer adjust the hedged item for changes in fair value. The adjustment of the carrying amount of the previously hedged item is accounted for in the same manner as other components of similar instruments. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, we continue to carry the derivative financial instrument on the balance sheet at its fair value, and gains and losses that were included in accumulated other comprehensive income are recognized immediately in other non-interest expense. In all other situations in which hedge accounting is discontinued, we continue to carry the derivative financial instrument at its fair value on the balance sheet and recognize any changes in its fair value in interest expense.

For the year ended December 31, 2000, prior to the adoption of SFAS #133, derivative financial instruments were employed to reduce the cost of certain liabilities as well as to manage interest-rate risk. Such instruments included interest-rate swaps, collars, floors and caps. These instruments were accounted for on an accrual basis. Any net interest differential, including premiums paid, was recognized as an adjustment to interest expense of the related liability. We considered our interest-rate swaps to be synthetic alterations of the related liability as long as (i) a specific liability was designated; (ii) there was a high correlation with the changes in interest expense generated by the liability; and (iii) the notional amount was less than or equal to the principal amount of the designated liability. If these criteria were not met, the swap was no longer considered a synthetic alteration and changes in fair value were included in other income in the consolidated financial statements. The criteria for consideration of a collar, floor or cap as a synthetic alteration were similar to those for a swap arrangement.

If a synthetic alteration was terminated before maturity, the net proceeds received or paid were deferred and amortized as an adjustment to interest expense over the shorter of the remaining contract life or the maturity of the designated liability. If the designated liability was sold or matured, the synthetic alteration was marked to market and the gain or loss was included with the gain or loss on the sale/maturity of the designated liability.

STOCK BASED COMPENSATION - We apply APB Opinion No. 25 in accounting for our stock based compensation plans and, accordingly, no compensation cost has been recognized for our stock options. We have elected to provide pro forma disclosures for our net income and earnings per share as if we had adopted the fair value accounting method for stock-based compensation. Our stock based compensation plans are described more fully in Note #13.

COMMON STOCK - At December 31, 2002, 0.5 million shares of common stock were reserved for issuance under the dividend reinvestment plan and 1.8 million shares of common stock were reserved for issuance under stock option plans.

RECLASSIFICATION - Certain amounts in the 2001 and 2000 consolidated financial statements have been reclassified to conform with the 2002 presentation.

NOTE 2 - RESTRICTIONS ON CASH AND DUE FROM BANKS

Our Banks' legal reserve requirements were satisfied by average vault cash and non-interest earning balances with the Federal Reserve Bank of $15.7 million and $13.3 million during 2002 and 2001, respectively. Our Banks do not maintain compensating balances with correspondent banks.

NOTE 3 - SECURITIES

Securities available for sale consist of the following at December 31:

	Amortized Cost	Unrealized Gains	Unrealized Losses	
	(in thousands)			
2002				
U.S. Treasury	$ 300	$ 6		$
Mortgage-backed	81,941	2,983	$ 1	
Other asset-backed	42,114	855	831	
Obligations of and states political subdivisions....	155,076	8,090	249	
Trust preferred	32,013	1,743	545	
Preferred stock	25,386	911		
Corporate	20,682	302	167	
Other	637			
Total	$358,149	$14,890	$ 1,793	$
2001				
U.S. Treasury	$ 10,282			$
Mortgage-backed	73,459	$ 2,353	$ 6	
Other asset-backed	3,044	156		
Obligations of states and political subdivisions....	131,120	2,345	1,671	
Trust preferred	31,150	723	66	
Preferred stock	19,669	1	34	
Corporate	17,151	211	280	
Other	696			
Total	$286,571	$ 5,789	$ 2,057	$

The amortized cost and fair value of securities available for sale at December 31, 2002, by contractual maturity, follow. The actual maturity will differ from the contractual maturity because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(in thousands)	
Maturing within one year	$ 3,674	$ 3,714
Maturing after one year but within five years	37,847	39,404
Maturing after five years but within ten years ...	41,969	44,964
Maturing after ten years	124,581	129,169
	208,071	217,251

Mortgage-backed	81,941	84,923
Other asset-backed	42,114	42,138
Preferred stock	25,386	26,297
Other	637	637
Total	$358,149	$371,246

A summary of proceeds from the sale of securities and gains and losses follows:

	Proceeds	Realized Gains	Realized Losses
	(in thousands)		
2002 (1)	$66,390	$809	$833
2001	18,925	524	2
2000	22,319	94	85

(1) Losses in 2002 include a $0.8 million other than temporary impairment charge on a trust-preferred security.

Securities with a book value of $136.8 million and $123.4 million at December 31, 2002 and 2001, respectively, were pledged to secure public deposits and for other purposes as required by law. There were no investment obligations of state and political subdivisions that were payable from or secured by the same source of revenue or taxing authority that exceeded 10% of consolidated shareholders' equity at December 31, 2002 or 2001.

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NOTE 4 - LOANS

An analysis of the allowance for loan losses for the years ended December 31 follows:

	2002	2001	2000
	(in thousands)		
Balance at beginning of year	$ 16,167	$ 13,982	$ 12,985
Provision charged to operating expense	3,562	3,737	3,287
Recoveries credited to allowance	733	644	678
Loans charged against allowance	(3,757)	(2,196)	(2,968)
Balance at end of year	$ 16,705	$ 16,167	$ 13,982

Loans are presented net of deferred loan fees of $2.4 million at December 31, 2002, and $2.0 million at December 31, 2001.

Loans on non-accrual status, 90 days or more past due and still accruing interest, or restructured amounted to $10.0 million, $9.0 million and $7.0 million at December 31, 2002, 2001 and 2000, respectively. If these loans had continued to accrue interest in accordance with their original terms, approximately $0.9 million, $0.6 million, and $0.5 million of interest income would have been realized in 2002, 2001 and 2000, respectively. Interest income realized on these loans was approximately $0.3 million, $0.2 million and $0.2 million in 2002, 2001 and 2000, respectively.

Impaired loans totaled approximately $5.4 million, $5.1 million and $3.7 million at December 31, 2002, 2001 and 2000, respectively. Our Banks' average investment in impaired loans was approximately $6.8 million, $4.1 million and $3.7 million in 2002, 2001 and 2000, respectively. Cash receipts on impaired loans on non-accrual status are generally applied to the principal balance. Interest income recognized on impaired loans was approximately $0.2 million, $0.1 million and $0.2 million in 2002, 2001 and 2000, respectively. Certain impaired loans with a balance of approximately $3.1 million, $1.4 million and $0.3 million had specific allocations of the allowance for loan losses totaling approximately $1.3 million, $0.5 million and $0.1 million at December 31, 2002, 2001 and 2000, respectively.

Our Banks capitalized approximately $3.6 million, $1.4 million and $1.0 million of servicing rights relating to loans that were originated and sold during the years ended December 31, 2002, 2001 and 2000, respectively. Amortization of capitalized servicing rights during those years was $2.4 million, $1.6 million and $1.1 million, respectively. The book value of capitalized mortgage servicing rights (net of a $1.1 million impairment reserve which was recognized as part of other non-interest income during 2002) was $4.5 million at December 31, 2002 and is included on the consolidated statement of financial position in accrued income and other assets. The fair value of capitalized servicing rights at that same date was approximately $4.7 million. There was no impairment reserve at December 31, 2001. The capitalized servicing rights relate to approximately $793.7 million of loans sold and serviced at December 31, 2002.

At December 31, 2002, 2001 and 2000, our Banks serviced loans totaling $881.7 million, $845.5 million and $995.0 million, respectively, for the benefit of third parties.

NOTE 5 - PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31 follows:

	2002	2001
	(in thousands)	
Land	$ 8,973	$ 7,255
Buildings	37,361	33,713
Equipment	34,359	30,863
	80,693	71,831
Accumulated depreciation and amortization	(39,958)	(35,887)
Property and equipment, net	$ 40,735	$ 35,944

NOTE 6 - INTANGIBLE ASSETS

Intangible assets, net of amortization, at December 31 follows:

	2002	
	Gross Carrying Amount	Accumulated Amortization
	(in tho	
Amortized intangible assets - Core deposit intangibles	$13,386	$6,966
Unamortized intangible assets - Goodwill	$ 7,299	

The $0.4 million increase in the gross carrying amount of goodwill is the result of the acquisition of substantially all of the assets of Saginaw Bay Mortgage, a mortgage-broker primarily operating in Bay, Gladwin, Midland and Saginaw counties in Michigan. The $0.7 million increase in the gross carrying amount of core deposit intangibles is the result of the acquisition of a bank branch in Rogers City, Michigan. The $0.7 million is being amortized on an accelerated basis over ten years.

A summary of estimated intangible amortization, primarily amortization of core deposit intangibles, at December 31, 2002, follows:

	(in thousands)
2003	$1,106
2004	1,093
2005	1,081
2006	1,056
2007	1,021
2008 and thereafter	1,063
Total	$6,420

Changes in the carrying amount of goodwill and core deposit intangibles by reporting segment for the year ended December 31, 2002 follows:

	IB	IBWM	IBSM	IBEM	Other(1)
			(in thousands)		
Goodwill					

Balance at beginning of year ...	$ 6,314	$ 32		$ 180	$ 333	$
Acquired during year	440					
Balance at end of year	$ 6,754	$ 32		$ 180	$ 333	$
Core Deposit Intangible, net						
Balance at beginning of year ...	$ 30	$ 159	$ 878	$ 5,540	$ 105	$
Acquired during year	722					
Amortization	(38)	(35)	(142)	(783)	(16)	
Balance at end of year	$ 714	$ 124	$ 736	$ 4,757	$ 89	$

(1) Includes items relating to our parent company and certain insignificant operations.

A reconciliation of reported net income to net income adjusted to reflect the adoption of SFAS #142 for the years ended December 31 follows:

	2002	2001	2000
	(in thousands, except per share amounts)		
Net income:			
Reported net income	$ 29,467	$ 24,398	$ 20,009
Add back - goodwill amortization		712	731
Adjusted net income	$ 29,467	$ 25,110	$ 20,740
Basic earnings per share:			
Reported net income	$ 1.61	$ 1.29	$ 1.03
Add back - goodwill amortization		.04	.04
Adjusted net income	$ 1.61	$ 1.33	$ 1.07
Diluted earnings per share:			
Reported net income	$ 1.58	$ 1.27	$ 1.02
Add back - goodwill amortization		.04	.04
Adjusted net income	$ 1.58	$ 1.31	$ 1.06

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NOTE 7 - DEPOSITS

A summary of interest expense on deposits for the years ended December 31 follows:

	2002	2001	2000
	(in thousands)		
Savings and NOW	$ 7,444	$11,484	$14,800
Time deposits under $100,000	14,219	20,705	21,444
Time deposits of $100,000 or more	13,471	12,422	15,529
Total	$35,134	$44,611	$51,773

Aggregate time deposits in denominations of $100,000 or more amounted to $347.5 million, $239.0 million, and $278.0 million at December 31, 2002, 2001 and 2000, respectively.

A summary of the maturity of time deposits at December 31, 2002, follows:

	(in thousands)
2003	$414,047
2004	119,845
2005	56,680
2006	35,449
2007	32,307
2008 and thereafter	39,874
Total	$698,202

NOTE 8 - OTHER BORROWINGS

A summary of other borrowings at December 31 follows:

	2002	2001
	(in thousands)	
Advances from Federal Home Loan Bank	$194,061	$222,084
Repurchase agreements	98,712	54,963
Notes payable	12,600	10,500
U.S. Treasury demand notes	4,840	438
Other	200	25
Total	$310,413	$288,010

Advances from the Federal Home Loan Bank ("FHLB") are secured by our Banks' unencumbered qualifying mortgage loans as well as U.S. Treasury and government agency securities equal to at least 160% of outstanding advances. Advances are also secured by FHLB stock owned by the Banks. As of December 31, 2002, the banks had unused borrowing capacity with the FHLB of $188.0 million. Interest expense on advances amounted to $5.2 million, $11.7 million and $11.3 million for the years ended December 31, 2002, 2001 and 2000, respectively.

As members of the FHLB, our Banks must own FHLB stock equal to the greater of 1.0% of the unpaid principal balance of residential mortgage loans or 5.0% of its outstanding advances. At December 31, 2002, our Banks were in compliance with the FHLB stock ownership requirements.

Certain fixed-rate advances have provisions that allow the FHLB to convert the advance to an adjustable rate prior to stated maturity. At December 31, 2002, advances totaling $10 million, with a stated maturity of 2008 are convertible in 2003 and beyond.

The maturity and weighted average interest rates of FHLB advances at December 31 follow:

	2002		2001	
	Amount	Rate	Amount	Rate
	(dollars in thousands)			
Fixed-rate advances				
2002			$ 70,270	2.51%
2003	$ 10,515	4.39%	12,515	4.69
2004	4,000	3.17	2,000	3.80
2005	2,100	5.05	2,100	5.05
2007	1,000	4.64	1,000	4.64
2008 and thereafter	45,246	6.46	41,199	6.36
Total fixed-rate advances	62,861	5.83	129,084	4.03
Variable-rate advances				
2002			93,000	1.83
2003	131,200	1.50		
Total variable-rate advances	131,200	1.50	93,000	1.83
Total advances	$194,061	2.90%	$222,084	3.11%

Repurchase agreements are secured by U.S. Treasury and mortgage-backed securities with a book value of approximately $106.0 million and $59.4 million at December 31, 2002 and 2001, respectively which are being held by our safekeeping agent.

Repurchase agreements averaged $93.1 million, $13.7 million and $3.3 million during 2002, 2001 and 2000, respectively. The maximum amounts outstanding at any month end during 2002, 2001 and 2000 were $109.2 million, $55.0 million and $20.0 million, respectively. Interest expense on repurchase agreements totaled $1.7 million, $0.3 million and $0.2 million for the years ended 2002, 2001 and 2000, respectively.

We have established an unsecured credit facility comprised of a $20.0 million revolving credit agreement. At December 31, 2002, the revolving credit facility had an unpaid principal balance of $12.6 million. The revolving credit facility accrues interest at federal funds, plus 1.00%. Under the revolving credit agreement, we are subject to certain restrictive covenants. As of December 31, 2002, we were in compliance with all covenants.

NOTE 9 - GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S SUBORDINATED DEBENTURES

Our consolidated trust subsidiary, IBC Capital Finance, has issued and outstanding, 690,000 shares of cumulative trust preferred securities ("Preferred Securities") with a liquidation preference of $25 per security. The Preferred Securities represent an interest in our Company's subordinated debentures, which have terms that are similar to the Preferred Securities. Distributions on the securities are payable quarterly at the annual rate of 9.25% of the liquidation preference and are included in interest expense in the consolidated financial statements.

The Preferred Securities are subject to mandatory redemption at the liquidation preference, in whole or in part, upon repayment of the subordinated debentures at maturity or their earlier redemption. The subordinated debentures are redeemable prior to the maturity date of December 31, 2026, at our option on or after December 31, 2001, in whole at any time or in part from time to time. The subordinated debentures are also redeemable at any time, in whole, but not in part, upon the occurrence of specific events defined within the trust indenture. We have the option to defer distributions on the subordinated debentures from time to time for a period not to exceed 20 consecutive quarters.

Interest expense on our Preferred Securities is recorded in interest expense on other borrowings.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

We and our Banks are routinely engaged in legal proceedings and regulatory matters that have occurred in the ordinary course of business and do not involve amounts in the aggregate that are believed to be material to our financial condition or results of operations.

In the normal course of business, our Banks enter into financial instruments with off-balance sheet risk to meet the financing needs of customers or to reduce exposure to fluctuations in interest rates. These financial instruments may include commitments to extend credit and standby letters of credit. Financial instruments involve varying degrees of credit and interest-rate risk in excess of amounts reflected in the consolidated balance sheets. Exposure to credit risk in the event of non-performance by the counterparties to the financial instruments for loan commitments to extend credit and letters of credit is represented by the contractual amounts of those instruments. We do not, however, anticipate material losses as a result of these financial instruments.

A summary of financial instruments with off-balance sheet risk at December 31 follows:

	2002	
	(in thousan	
Financial instruments whose risk is represented by contract amounts		
Commitments to extend credit	$141,197	$1
Standby letters of credit	26,731	

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses

and generally require payment of a fee. Since commitments may expire without being drawn upon, the commitment amounts do not represent future cash requirements. Commitments are issued subject to similar underwriting standards, including collateral requirements, as are generally involved in the extension of credit facilities.

Standby letters of credit are written conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in such transactions is essentially the same as that involved in extending loan facilities and, accordingly, standby letters of credit are issued subject to similar underwriting standards, including collateral requirements, as are generally involved in the extension of credit facilities. The majority of the letters of credit are to corporations and mature during 2003.

NOTE 11 - EARNINGS PER SHARE

A reconciliation of basic and diluted earnings per share for the years ended December 31 follows:

	2002	2001
	(in thousands, except per	
Net income before cumulative effect of change in accounting principle...	$29,467	$24,433
Net income	$29,467	$24,398
Shares outstanding(1)	18,301	18,947
Effect of stock options	350	303
Shares outstanding for calculation of diluted earnings per share(1)..	18,651	19,250
Net income per share before cumulative effect of change in accounting principle		
Basic	$ 1.61	$ 1.29
Diluted	$ 1.58	$ 1.27
Net income per share		
Basic	$ 1.61	$ 1.29
Diluted	$ 1.58	$ 1.27

(1) Shares outstanding have been adjusted for a three-for-two stock split in 2002 and 5% stock dividends in each year.

NOTE 12 - FEDERAL INCOME TAX

The composition of federal income tax expense (benefit) for the years ended December 31 follows:

	2002	2001	2000

	(in thousands)		
Current	$ 10,422	$ 10,374	$6,329
Deferred	974	(1,086)	937
Federal income tax expense	$ 11,396	$ 9,288	$7,266

A reconciliation of federal income tax expense to the amount computed by applying the statutory federal income tax rate of 35% in 2002, 2001, and 2000 to income before federal income tax for the years ended December 31 follows:

	2002	2001
	(in thousands)	
Statutory rate applied to income before federal income tax	$ 14,302	$ 11,802
Tax-exempt interest income	(2,848)	(2,387)
Amortization of goodwill		256
Other, net	(58)	(383)
Federal income tax expense	$ 11,396	$ 9,288

The deferred federal income tax expense of $1.0 million and $0.9 million in 2002 and 2000, respectively and the deferred federal income tax benefit of $1.1 million in 2001, resulted from the tax effect of temporary differences. Federal income tax expense in 2001 includes a benefit of $0.4 million resulting from an adjustment of net deferred tax assets associated with an increase in our tax rate from 34% to 35%.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31 follow:

	2002	2001
	(in thousands)	
Deferred tax assets		
Net operating loss carryforward	$ 8,202	$ 9,211
Allowance for loan losses	5,847	5,658
Unrealized loss on derivative financial instruments	3,190	2,709
Loans held for sale	670	346
Deferred compensation	431	511
Fixed assets	339	14
Purchase discounts	319	269

Deferred credit life premiums	287	334
Other	347	457
Gross deferred tax assets	19,632	19,509
Deferred tax liabilities		
Unrealized gain on securities available for sale	4,584	1,306
Mortgage servicing rights	1,559	1,421
Deferred loan fees	216	660
Gross deferred tax liabilities	6,359	3,387
Net deferred tax assets	$13,273	$16,122

At December 31, 2002, the Company had a net operating loss ("NOL") carryforward of approximately $23.4 million which, if not used against taxable income, will expire as follows:

	(in thousands)
2008	$11,799
2009	81
2010	6,779
2011	929
2012	411
2018	3,437
Total	$23,436

The use of the $23.4 million NOL carryforward, which was acquired through the acquisition of Mutual Savings Bank, f.s.b., is limited to $2.9 million per year as the result of a change in control as defined in the Internal Revenue Code.

We believe that the tax benefits associated with the deferred tax assets will more likely than not be realized, and therefore no valuation allowance is considered necessary.

NOTE 13 - EMPLOYEE BENEFIT PLANS

We maintain stock option plans for our non-employee directors as well as certain of our officers and those of our Banks. Options that were granted under these plans are exercisable not earlier than one year after the date of grant, at a price equal to the fair market value of the common stock on the date of grant, and expire not more than ten years after the date of grant.

The per share weighted-average fair value of stock options was obtained using the Black Scholes options pricing model. A summary of the assumptions used and values obtained follows:

	2002	2001	2000
Expected dividend yield	2.48%	3.17%	4.46%
Risk-free interest rate	5.11	5.22	6.22
Expected life (in years)	10	10	10
Expected volatility	35.91%	41.62%	27.94%
Per share weighted-average fair value ..	$ 10.41	$ 7.45	$ 4.15

The following table summarizes the impact on our net income had compensation cost included the fair value of options at the grant date:

	2002	2001
	(in thousands, except per	
Net income - as reported	$29,467	$24,398
Stock based compensation expense determined under fair value based method, net of related tax effect	(2,318)	(1,685)
Pro-forma net income	$27,149	$22,713
Income per share		
Basic		
As reported	$ 1.61	$ 1.29
Pro-forma	1.48	1.20
Diluted		
As reported	$ 1.58	$ 1.27
Pro-forma	1.46	1.18

A summary of outstanding stock option grants and transactions follows:

	Number of Shares	Average Exercise Price
Outstanding at January 1, 2000	1,139,957	$ 8.75
Granted	327,482	7.60
Exercised	(214,080)	4.28
Forfeited	(46,220)	12.48
Outstanding at December 31, 2000	1,207,139	9.03
Granted	347,725	12.20
Exercised	(434,618)	8.26
Forfeited	(12,802)	11.28
Outstanding at December 31, 2001	1,107,444	10.32

Granted	342,385	18.45
Exercised	(349,983)	9.86
Outstanding at December 31, 2002	1,099,846	$ 13.00

A summary of stock options outstanding at December 31, 2002 follows:

	Options Outstanding			Options Exercis	
		Weighted-Average			Weighted
Range of Exercise Prices	Number of Shares	Remaining Life (years)	Exercise Price	Number of Shares	Remaining Life (years)
$3.88 to $8.53	227,922	7.01	$7.43	227,922	7.01
$8.54 to $10.66	117,922	1.48	9.18	117,922	1.48
$10.67 to $12.79	269,709	8.21	12.03	269,709	8.21
$12.80 to $17.06	141,908	1.04	13.80	141,908	1.04
$17.07 to $21.33	342,385	9.13	18.45		
	1,099,846	6.60	$13.00	757,461	5.46

We maintain 401(k) and employee stock ownership plans covering substantially all of our full-time employees. We match employee contributions to the 401(k) up to a maximum of 3% of participating employees' eligible wages. Contributions to the employee stock ownership plan are determined annually and require approval of our Board of Directors. During 2002, 2001 and 2000, $2.4 million, $1.8 million and $1.9 million respectively, was expensed for these retirement plans.

Our officers participate in various performance-based compensation plans. Amounts expensed for all incentive plans totaled $2.6 million, $2.2 million, and $2.0 million, in 2002, 2001 and 2000, respectively.

We also provide certain health care and life insurance programs to substantially all full-time employees. Amounts expensed for these programs totaled $2.8 million, $2.1 million and $1.8 million, in 2002, 2001 and 2000, respectively. These insurance programs are also available to retired employees at their expense.

NOTE 14 - DERIVATIVE FINANCIAL INSTRUMENTS

Our derivative financial instruments according to the type of hedge in which they are designated under SFAS #133 at December 31 follow:

2002
Average

	Notional Amount	Maturity (years)	Fair Value
	(dollars in thousands)		
Fair Value Hedge - pay variable interest-rate swap agreements ...	$ 25,000	7.3	$ 28
Cash Flow Hedge			
Pay-fixed interest-rate swap agreements	$236,000	1.5	$ (7,494
Interest-rate collar agreements	10,000	0.9	(404
Total	$246,000	1.5	$ (7,898
No hedge designation			
Rate-lock real estate mortgage loan commitments	$ 59,000	.1	$ 504
Mandatory commitments to sell real estate mortgage loans	182,000	.1	(1,492
Total	$241,000	.1	$ (988

	Notional Amount	2001 Average Maturity (years)	Fair Value
	(dollars in thousands)		
Fair Value Hedge - pay variable interest-rate swap agreements ...	$ 24,000	6.4	$ (442
Cash Flow Hedge			
Pay-fixed interest-rate swap agreements	$175,000	2.0	$ (6,108
Interest-rate collar agreements	10,000	1.9	(458
Total	$185,000	2.0	$ (6,566
No hedge designation			
Pay-fixed interest-rate swap agreements	$ 26,000	.8	$ (848
Interest-rate cap agreements	47,000	.5	
Interest-rate floor agreements	10,000	.8	
Rate-lock real estate mortgage loan commitments	39,000	.1	(1,625
Mandatory commitments to sell real estate mortgage loans	114,000	.1	2,553
Total	$236,000	.3	$ 80

Our Banks have established management objectives and strategies that include interest-rate risk parameters for maximum fluctuations in net interest income and market value of portfolio equity. We monitor our Banks' interest rate risk position via simulation modeling reports. The goal of our Banks' asset/liability management efforts is to maintain profitable financial leverage within established risk parameters.

Our Banks use variable-rate and short-term fixed-rate (less than 12 months) debt obligations to fund a portion of their balance sheets, which expose our

Banks to variability in interest rates. To meet their objectives, our Banks may periodically enter into derivative financial instruments to mitigate exposure to fluctuations in cash flows resulting from changes in interest rates. Cash Flow Hedges currently include certain pay-fixed interest-rate swaps and interest-rate collars.

Pay-fixed interest-rate swaps convert the variable-rate cash flows on debt obligations to fixed-rates. Under interest-rate collars, our Banks will receive cash if interest rates rise above a predetermined level while our Banks will make cash payments if interest rates fall below a predetermined level. As a result, our Banks effectively have variable-rate debt with an established maximum and minimum rate.

Our Banks also use long-term, fixed-rate brokered CDs to fund a portion of their balance sheets. These instruments expose our Banks to variability in fair value due to changes in interest rates. To meet their objectives, our Banks may enter into derivative financial instruments to mitigate exposure to fluctuations in fair values of such fixed-rate debt instruments. Fair Value Hedges currently include pay-variable interest-rate swaps.

Certain financial derivative instruments have not been designated as hedges. The fair value of these derivative financial instruments have been recorded on our balance sheet and are adjusted on an ongoing basis to reflect their then current fair value. The changes in fair value of derivative financial instruments not designated as hedges, are recognized as interest expense.

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In the ordinary course of business, our Banks enter into rate-lock real estate mortgage loan commitments with customers ("Rate Lock Commitments"). These commitments expose our Banks to interest rate risk. Our Banks also enter into mandatory commitments to sell real estate mortgage loans ("Mandatory Commitments") to hedge price fluctuations of mortgage loans held for sale and Rate Lock Commitments. Mandatory Commitments help protect our Banks' loan sale profit margin from fluctuations in interest rates. The changes in the fair value of Rate Lock Commitments and Mandatory Commitments are recognized currently as part of gains on the sale of real estate mortgage loans. Interest expense and net gains on the sale of real estate mortgage loans, as well as net income may be more volatile as a result of derivative instruments, which are not designated as hedges.

The impact of SFAS #133 on net income and other comprehensive income is as follows:

	Net Income	Other Comprehens Income
		(in thousa
Change in fair value during the year ended December 31, 2002		
Interest rate swap agreements not designated as hedges	$ 848	
Rate-lock real estate mortgage loan commitments	2,129	
Mandatory commitments to sell real estate mortgage loans	(4,045)	
Fair value hedges	22	
Ineffectiveness of cash flow hedges	72	
Cash flow hedges	43	$ (8,
Reclassification adjustment		6,

Total	(931)	(1,
Federal income tax	(326)	(
Total, net of federal income tax	$ (605)	$ (
Cumulative effect of change in accounting principle at January 1, 2001		
Fair value adjustments of option contracts not designated as hedges	$ (215)	
Interest rate swap agreements not designated as hedges	310	
Fair value hedges	(39)	
Cash flow hedges	(110)	$ (1,
Total	(54)	(1,
Federal income tax	(19)	(
Total, net of federal income tax	$ (35)	$ (
Change in fair value during the year ended December 31, 2001		
Option contracts not designated as hedges	$ 26	
Interest rate swap agreements not designated as hedges	(310)	
Rate-lock real estate mortgage loan commitments	(1,625)	
Mandatory commitments to sell real estate mortgage loans	2,553	
Fair value hedges	16	
Ineffectiveness of cash flow hedges	(53)	
Cash flow hedges	26	$ (9,
Reclassification adjustment		3,
Total	633	(5,
Federal income tax	222	(1,
Total, net of federal income tax	$ 411	$ (3,

NOTE 15 - RELATED PARTY TRANSACTIONS

Certain of our directors and executive officers, including companies in which they are officers or have significant ownership, were loan and deposit customers of the Banks during 2002 and 2001.

A summary of loans to directors and executive officers whose borrowing relationship exceeds $60,000, and to entities in which they own a 10% or more voting interest for the years ended December 31 follows:

	2002	2001
	(in thousands)	
Balance at beginning of year	$ 25,628	$ 17,591
New loans and advances	18,668	21,411
Repayments	(18,296)	(13,374)
Balance at end of year	$ 26,000	$ 25,628

NOTE 16 - OTHER NON-INTEREST EXPENSES

Other non-interest expenses for the years ended December 31 follow:

	2002	2001	2000
	(in thousands)		
Data processing	$ 3,209	$ 2,558	$ 2,467
Loan and collection	3,028	2,598	1,463
Advertising	2,813	2,490	2,129
Communications	2,484	2,275	2,128
Supplies	1,626	1,442	1,155
Amortization of intangible assets	1,014	1,704	1,728
Other	6,621	7,570	4,956
Total non-interest expense	$20,795	$20,637	$16,026

NOTE 17 - LEASES

We have non-cancelable operating leases for office facilities that provide for renewal options.

A summary of future minimum lease payments under non-cancelable operating leases at December 31, 2002, follows:

	(in thousands)
2003	$ 445
2004	336
2005	213
2006	163
2007	149
2008 and thereafter	8
Total	$1,314

Rental expense on operating leases totaled $0.4 in 2002 and 2001, respectively, and $0.3 million in 2000.

NOTE 18 - REGULATORY MATTERS

Capital guidelines adopted by Federal and State regulatory agencies and restrictions imposed by law limit the amount of cash dividends our Banks can pay to us. At December 31, 2002, using the most restrictive of these conditions for each Bank, the aggregate cash dividends that our Banks can pay us without prior approval was $39.3 million. It is not our intent to have dividends paid in amounts which would reduce the capital of our Banks to levels below those which we consider prudent and in accordance with guidelines of regulatory authorities.

We are also subject to various regulatory capital requirements. Quantitative measures established by regulation to ensure capital adequacy require minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and Tier 1 capital to average assets. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly discretionary, actions by regulators that could have a material effect on our consolidated financial statements. Under capital adequacy guidelines, we must meet specific capital requirements that involve quantitative measures as well as qualitative judgments by the regulators. The most recent notification from the FDIC categorized each of our Banks as well capitalized.

Our actual capital amounts and ratios at December 31, 2002 follow:

	Amount	Actual Ratio	Minimum Ratio for Adequately Capitalized Institutions
			(dollars in thousands)
Total capital to risk-weighted assets			
Consolidated	$155,503	10.49%	8.00%
Independent Bank	72,863	10.95	8.00
Independent Bank West Michigan	33,741	10.38	8.00
Independent Bank South Michigan	26,009	10.74	8.00
Independent Bank East Michigan	25,951	10.67	8.00
Tier 1 capital to risk-weighted assets			
Consolidated	$138,798	9.36%	4.00%
Independent Bank	65,367	9.82	4.00
Independent Bank West Michigan	29,758	9.16	4.00
independent Bank South Michigan	23,219	9.59	4.00
Independent Bank East Michigan	23,515	9.67	4.00
Tier 1 capital to average assets			
Consolidated	$138,798	6.85%	4.00%
Independent Bank	65,367	6.93	4.00
Independent Bank West Michigan	29,758	7.11	4.00
Independent Bank South Michigan	23,219	7.38	4.00
Independent Bank East Michigan	23,515	6.94	4.00

NOTE 19 - FAIR VALUES OF FINANCIAL INSTRUMENTS

Most of our assets and liabilities are considered financial instruments. Many of these financial instruments lack an available trading market and it is our general practice and intent to hold the majority of our financial instruments to maturity. Significant estimates and assumptions were used to determine the fair value of financial instruments. These estimates are subjective in nature, involving uncertainties and matters of judgment, and therefore, fair values cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Estimated fair values have been determined using available data and methodologies that are considered suitable for each category of financial instrument. For instruments with adjustable-interest rates which reprice

frequently and without significant credit risk, it is presumed that estimated fair values approximate the recorded book balances.

Financial instrument assets actively traded in a secondary market, such as securities, have been valued using quoted market prices while recorded book balances have been used for cash and due from banks and accrued interest.

The fair value of loans is calculated by discounting estimated future cash flows using estimated market discount rates that reflect credit and interest-rate risk inherent in the loans.

Financial instrument liabilities with a stated maturity, such as certificates of deposit, have been valued based on the discounted value of contractual cash flows using a discount rate approximating current market rates for liabilities with a similar maturity.

Derivative financial instruments have principally been valued based on discounted value of contractual cash flows using a discount rate approximating current market rates.

Financial instrument liabilities without a stated maturity, such as demand deposits, savings, NOW and money market accounts, have a fair value equal to the amount payable on demand.

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The estimated fair values and recorded book balances at December 31 follow:

	2002		2001	
	Estimated Fair Value	Recorded Book Balance	Estimated Fair Value	Recorded Book Balance
	(in thousands)			
Assets				
Cash and due from banks	$ 60,700	$ 60,700	$ 50,500	$ 50,500
Securities available for sale	371,200	371,200	290,300	290,300
Net loans and loans held for sale	1,511,900	1,494,300	1,465,000	1,445,700
Accrued interest receivable	9,000	9,000	9,200	9,200
Liabilities				
Deposits with no stated maturity	$ 837,400	$ 837,400	$ 762,500	$ 762,500
Deposits with stated maturity	706,200	698,200	632,000	624,800
Other borrowings	361,200	351,500	345,900	340,400
Accrued interest payable	4,600	4,600	4,700	4,700
Derivative financial instruments	8,900	8,900	6,900	6,900

The fair values for commitments to extend credit and standby letters of credit are estimated to approximate their aggregate book balance.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale the entire holdings of a particular financial instrument.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business, the value of future earnings attributable to off-balance sheet activities and the value of assets and liabilities that are not considered financial instruments.

Fair value estimates for deposit accounts do not include the value of the substantial core deposit intangible asset resulting from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

NOTE 20 - OPERATING SEGMENTS

Our reportable segments are based upon legal entities. We have four reportable segments: Independent Bank ("IB"), Independent Bank West Michigan ("IBWM"), Independent Bank South Michigan ("IBSM") and Independent Bank East Michigan ("IBEM"). The accounting policies of the segments are the same as those described in Note 1 to the Consolidated Financial Statements. We evaluate performance based principally on net income of the respective reportable segments.

A summary of selected financial information for our reportable segments follows:

	IB	IBWM	IBSM	IBEM	O
					(in thousan
2002					
Total assets	$ 965,167	$ 427,465	$ 321,980	$ 341,931	$
Interest income	61,439	27,644	19,617	21,086	
Net interest income	37,698	19,682	12,511	13,754	
Provision for loan losses	1,657	890	390	625	
Income (loss) before income tax	19,970	11,716	6,697	5,615	
Net income (loss)	14,628	8,125	4,849	4,539	
2001					
Total assets	$ 878,664	$ 387,607	$ 295,683	$ 321,628	$
Interest income	64,902	28,883	17,973	22,713	
Net interest income	33,099	17,659	10,086	13,281	
Provision for loan losses	1,547	850	510	830	
Income (loss) before income tax	16,581	10,050	5,210	5,561	
Net income (loss)	11,894	6,804	3,829	4,356	
2000					
Total assets	$ 898,284	$ 353,556	$ 213,014	$ 313,536	$
Interest income	64,995	28,862	16,519	22,440	
Net interest income	30,484	15,368	8,921	12,684	

Provision for loan losses	1,887	540	380	480
Income (loss) before income tax	13,811	8,225	4,306	5,036
Net income (loss)	10,104	5,644	3,252	3,930

(1) Includes amounts relating to our parent company and certain insignificant operations.

NOTE 21- INDEPENDENT BANK CORPORATION (PARENT COMPANY ONLY) FINANCIAL INFORMATION

Presented below are condensed financial statements for our parent company.

CONDENSED STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2002	2001
	(in thousands)	
ASSETS		
Cash and due from banks	$ 5,128	$ 10,292
Investment in subsidiaries	158,676	145,857
Other assets	9,606	8,075
Total Assets	$173,410	$164,224
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes payable	$ 12,600	$ 10,500
Subordinated debentures	17,783	17,783
Other liabilities	4,980	4,038
Shareholders' equity	138,047	131,903
Total Liabilities and Shareholders' Equity	$173,410	$164,224

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CONDENSED STATEMENTS OF OPERATIONS

	Year Ended December 31		
	2002	2001	20
	(in thousands)		
OPERATING INCOME			

Dividends from subsidiaries	$26,450	$23,100	$15,
Management fees from subsidiaries and other income	17,708	14,944	12,
Total Operating Income	44,158	38,044	28,
OPERATING EXPENSES			
Interest expense	1,867	2,114	2,
Administrative and other expenses	19,340	16,764	14,
Total Operating Expenses	21,207	18,878	16,
Income Before Federal Income Tax and Undistributed Net Income of Subsidiaries	22,951	19,166	11,
Federal income tax credit	825	1,449	1,
Income Before Equity in Undistributed Net Income of Subsidiaries	23,776	20,615	12,
Equity in undistributed net income of subsidiaries	5,691	3,783	7,
Net Income	$29,467	$24,398	$20,

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2002	2001	200
	(in thousands)		
Net Income	$ 29,467	$ 24,398	$ 20,
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH FROM OPERATING ACTIVITIES			
Depreciation, amortization of intangible assets and premiums, and accretion of discounts on securities and loans	1,087	1,005	
Gain on sale of securities	(146)		
(Increase) decrease in other assets	(886)	(529)	2,
Increase in other liabilities	1,388	819	
Equity in undistributed net income of subsidiaries	(5,691)	(3,783)	(7,
Total Adjustments	(4,248)	(2,488)	(3,
Net Cash from Operating Activities	25,219	21,910	16,
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of securities available for sale		(100)	
Proceeds from the sale of securities available for sale	206		
Investment in subsidiaries	(1,824)		
Capital expenditures	(1,833)	(328)	(
Net Cash Used in Investing Activities	(3,451)	(428)	(
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from short-term borrowings	2,100		1,
Retirement of long-term debt		(1,000)	(2,
Dividends paid	(8,406)	(7,236)	(6,
Repurchase of common stock	(23,191)	(13,168)	(3,

Proceeds from issuance of common stock	2,565	2,718	
Net Cash Used in Financing Activities	(26,932)	(18,686)	(10,
Net Increase (Decrease) in Cash and Cash Equivalents	(5,164)	2,796	5,
Cash and Cash Equivalents at Beginning of Year	10,292	7,496	2,
Cash and Cash Equivalents at End of Year	$ 5,128	$ 10,292	$ 7,

QUARTERLY SUMMARY

	Reported Sale Prices of Common Shares 2002			2001			Cash Dividends Declared	
	High	Low	Close	High	Low	Close	2002	2001
First quarter	$19.05	$16.34	$18.26	$12.85	$10.99	$12.20	$.11	$.10
Second quarter	21.59	17.63	20.04	15.78	11.79	14.84	.11	.10
Third quarter	21.59	17.21	21.02	17.84	13.65	15.78	.11	.10
Fourth quarter	22.67	20.03	20.17	18.48	15.43	17.65	.14	.11

We have approximately 2,100 holders of record of our common stock. Our common stock trades on the Nasdaq National Market System under the symbol "IBCP." The prices shown above are supplied by Nasdaq and reflect the inter-dealer prices and may not include retail markups, markdowns or commissions. There may have been transactions or quotations at higher or lower prices of which the Company is not aware.

In addition to the provisions of the Michigan Business Corporation Act, our ability to pay dividends is limited by our ability to obtain funds from our Banks and by regulatory capital guidelines applicable to us. (See Note 18 to the Consolidated Financial Statements.)

QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of selected quarterly results of operations for the years ended December 31 follows:

	Three Months Ended March 31,	June 30,	September 30,	Decembe 31,
	(in thousands, except per share amounts)			
2002				
Interest income	$ 31,721	$ 32,255	$ 32,955	$ 32,88
Net interest income	19,467	20,243	21,004	21,09
Provision for loan losses	927	1,166	752	71
Income before income tax expense	9,923	10,158	9,856	10,92

Net income	7,109	7,288	7,113	7,95
Income per share				
Basic	$ .38	$ .39	$ .39	$ .4
Diluted	.38	.39	.38	.4
2001				
Interest income	$ 34,228	$ 33,326	$ 34,048	$ 32,90
Net interest income	17,112	17,110	18,440	19,38
Provision for loan losses	633	1,261	1,061	78
Income before income tax expense	7,386	8,219	8,731	9,38
Net income before cumulative effect of change in accounting principle	5,293	6,249	6,245	6,64
Net income	5,258	6,249	6,245	6,64
Income per share before cumulative effect of change in accounting principle				
Basic	$ .28	$ .33	$ .33	$ .3
Diluted	.27	.32	.32	.3
Net income				
Basic	$ .28	$ .33	$ .33	$ .3
Diluted	.27	.32	.32	.3

SHAREHOLDER INFORMATION

HOW TO ORDER FORM 10-K

Shareholders may obtain, without charge, a copy of Form 10-K, the 2002 Annual Report to the Securities and Exchange Commission, through our website at www.ibcp.com or by writing to the Chief Financial Officer, Independent Bank Corporation, P.O. Box 491, Ionia, Michigan 48846 or by e-mail at info@ibcp.com.

PRESS RELEASES

Our press releases, including earnings and dividend announcements as well as other financial information, are available on our website at www.ibcp.com.

NOTICE OF ANNUAL MEETING

Our Annual Meeting of Shareholders will be held at 3:00 p.m. on April 17, 2003, in the Ionia Theater located at 205 West Main Street, Ionia, Michigan, 48846.

TRANSFER AGENT AND REGISTRAR

EquiServe Trust Company, N.A., P.O. Box 43011, Providence, RI 02940-3011, 800/426-5523, www.equiserve.com, serves as transfer agent and registrar of our common stock.

DIVIDEND REINVESTMENT

We maintain an Automatic Dividend Reinvestment and Stock Purchase Plan which provides an opportunity for shareholders of record to reinvest cash dividends into our common stock. Optional cash purchases up to $10,000 per

quarter are also permitted. A prospectus is available by writing to our Chief Financial Officer.

EXECUTIVE OFFICERS AND DIRECTORS

EXECUTIVE OFFICERS

Charles C. Van Loan, President and Chief Executive Officer, Independent Bank Corporation
Ronald L. Long, President and Chief Executive Officer, Independent Bank East Michigan
Michael M. Magee, Jr., President and Chief Executive Officer, Independent Bank
David C. Reglin, President and Chief Executive Officer, Independent Bank West Michigan
Edward B. Swanson, President and Chief Executive Officer, Independent Bank South Michigan
Robert N. Shuster, Executive Vice President and Chief Financial Officer, Independent Bank Corporation
Richard E. Butler, Senior Vice President, Independent Bank Corporation
Peter R. Graves, Senior Vice President, Independent Bank Corporation
James J. Twarozynski, Senior Vice President and Controller, Independent Bank Corporation

DIRECTORS

Jeffrey A. Bratsburg, Retired, former President and Chief Executive Officer, Independent Bank West Michigan
Terry L. Haske, President, Ricker & Haske, C.P.A.s, P.C., Marlette
Robert L. Hetzler, President, Monitor Sugar Company, Food Processor, Bay City
Thomas F. Kohn, Chief Executive Officer, Belco Industries, Inc., Manufacturer, Belding(1)
Robert J. Leppink, President, Leppink's Inc., Retail Grocer, Belding(1)
James E. McCarty, President, McCarty Communications, Graphic Design and Commercial Printer, Saranac
Charles A. Palmer, Professor of Law, Thomas M. Cooley Law School, Lansing
Charles C. Van Loan, President and Chief Executive Officer, Independent Bank Corporation, Ionia
Arch V. Wright, Jr., President, Charlevoix Development Company, Real Estate Development, Charlevoix

(1) Retired at December 31, 2002.

Independent Bank Corporation

P.O. Box 491, 230 West Main Street

Ionia, Michigan 48846

616-527-9450

INP-PS-03

INDEPENDENT BANK CORPORATION

Dear Shareholder,

Please take note of the important information enclosed with this Proxy. Your

vote counts, and you are strongly encouraged to exercise your right to vote your shares.

Mark the boxes on this proxy card to indicate how your shares will be voted. Then sign the card, detach it and return your proxy vote in the enclosed postage paid envelope. If you wish to register your vote by touch-tone telephone or the Internet see the reverse side for instructions.

Your vote must be received prior to the Annual Meeting of Shareholders to be held April 17, 2003.

Thank you in advance for your prompt consideration of these matters.

Sincerely,

The Board of Directors
INDEPENDENT BANK CORPORATION

DETACH HERE ZINP42

INDEPENDENT BANK CORPORATION

230 WEST MAIN STREET, IONIA, MICHIGAN

PROXY SOLICITED BY THE BOARD OF DIRECTORS FOR THE
ANNUAL MEETING OF SHAREHOLDERS TO BE HELD APRIL 17, 2003

The undersigned hereby appoints Charles C. Van Loan and Robert N. Shuster and each of them, Proxies, with power of substitution, to vote all shares of common stock of Independent Bank Corporation, which the undersigned is entitled to vote at the Annual Meeting of Shareholders to be held at the Ionia Theater, located at 205 West Main Street, Ionia, Michigan 48846 on Thursday, April 17, 2003 at 3:00 p.m. (local time), and at all adjournments thereof, as directed on the reverse side.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED SHAREHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED "FOR" THE NOMINEES AS DIRECTORS.

PLEASE VOTE, DATE AND SIGN ON REVERSE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.

Please sign this Proxy exactly as your name(s) appear(s) hereon. Joint owners should each sign personally. Trustees and other fiduciaries should indicate the capacity in which they sign, and where more than one name appears, a majority must sign. If a corporation, this signature should be that of an authorized officer who should state his or her title.

HAS YOUR ADDRESS CHANGED? DO YOU HAVE ANY COMMENTS?

_________________________________ _________________________________
_________________________________ _________________________________

INDEPENDENT BANK
CORPORATION
C/O EQUISERVE TRUST COMPANY, N.A.
P.O. BOX 8694
EDISON, NJ 08818-8694

VOTER CONTROL NUMBER

YOUR VOTE IS IMPORTANT. PLEASE VOTE IMMEDIATELY.

VOTE-BY-INTERNET			VOTE-BY-TELEPHONE
1. LOG ON TO THE INTERNET AND GO TO http://www.eproxyvote.com/ibcp	[COMPUTER GRAPHIC]	OR	1. CALL TOLL-FREE 1-877-PRX-VOTE (1-877-779-8
2. ENTER YOUR VOTER CONTROL NUMBER LISTED ABOVE AND FOLLOW THE EASY STEPS OUTLINED ON THE SECURED WEBSITE.			2. ENTER YOUR VOTER CONTROL NU FOLLOW THE EASY RECORDED IN

IF YOU VOTE OVER THE INTERNET OR BY TELEPHONE, PLEASE DO NOT MAIL YOUR CA

DETACH HERE IF YOU ARE RETURNING YOUR PROXY CARD BY MAIL

/X/ PLEASE MARK VOTES AS IN THIS EXAMPLE.

INDEPENDENT BANK CORPORATION

1. Election of Directors
   a) One Director for term expiring in 2005. NOMINEE: (01) Charles A. Palmer
   b) Three Directors for terms expiring in 2006. NOMINEES: (02) Robert L. Hetzler, (03) James E. McCarty and (04) Arch V. Wright, Jr.

2. To transact such oth before the meeting o

FOR ALL NOMINEES / /   / / WITHHELD FROM ALL NOMINEES

/ / ______________________________________

For all nominees except as noted above

Mark box at right if an
been noted on the rever

PLEASE BE SURE TO SIGN

Signature: ____________________ Date: __________ Signature: ____________