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INDEPENDENT BANK CORP /MI/  
Form DEF 14A  
March 17, 2005

OMB APPROVAL

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-12

INDEPENDENT BANK CORPORATION

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i) (4) 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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[ ] Fee paid previously with preliminary materials.

[ ] 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.:

3) Filing Party:  
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4) Date Filed:  
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SEC 1913 (02-02)

(INDEPENDENT BANK CORPORATION LOGO)

March 21, 2005

Dear Shareholder:

We invite you to attend our 2005 Annual Meeting of Shareholders. This year's meeting will be held on Tuesday, April 26, 2005, 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/ Michael M. Magee, Jr.  
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Michael M. Magee, Jr.  
President and  
Chief Executive Officer

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/s/ Charles Van Loan  
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Charles Van Loan  
Chairman of the Board

INDEPENDENT BANK CORPORATION  
230 West Main Street  
Ionia, Michigan 48846

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held April 26, 2005

The Annual Meeting of Shareholders of Independent Bank Corporation will be held at the Ionia Theater, 205 West Main Street, Ionia, Michigan 48846, on Tuesday, April 26, 2005, 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 one-year term expiring in 2006.
  - b. To elect three nominees to our Board of Directors to serve three-year terms expiring in 2008.
2. To consider and vote upon the proposed amendment to our Long-Term Incentive Plan to make an additional 750,000 shares of our common stock available for issuance under that plan.
3. 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 25, 2005, 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. We encourage you to vote on the internet or by phone in order to reduce our mailing and handling costs. 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  
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Robert N. Shuster  
Secretary

Dated: March 21, 2005

INDEPENDENT BANK CORPORATION  
230 West Main Street  
Ionia, Michigan 48846

PROXY STATEMENT

MARCH 21, 2005

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This Proxy Statement is furnished in connection with the solicitation, beginning approximately March 21, 2005, by our Board of Directors, of proxies for use at the Annual Meeting of Shareholders. This meeting will be held on Tuesday, April 26, 2005, 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 and for the amendment to our Long-Term Incentive Plan.

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 25, 2005, the record date for the Annual Meeting, we had issued and outstanding 21,238,473, 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 25, 2005, no person was known by us to be the beneficial owner of 5% or more of our Common Stock, except as follows:

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Approximate Percent of Class
Common Stock, \$1 par value	Independent Bank Corporation Employee Savings and Stock Ownership Trust ("ESSOT") 230 West Main Street Ionia, Michigan 48846	1,092,052	5.0%

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Employee Savings and Stock Ownership Plan ("ESSOP"). The Principal Financial Group 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 three of our officers: Robert N. Shuster, James J. Twarozynski and Laurinda M. Neve. Except for the shares of Common Stock allocated to their respective accounts as participants in the ESSOP, each member of our Administrative Committee disclaims beneficial ownership of the shares held by the ESSOT.

### 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 eight members. Stephen L. Gulis, Terry L. Haske and Charles A. Palmer are nominees to serve three-year terms expiring in 2008, and Michael M. Magee, Jr., is a nominee to serve a one-year term expiring in 2006. Mr. Bratsburg, Mr. Van Loan, Mr. Hetzler and Mr. McCarty are incumbent directors previously elected by our shareholders.

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 in the following table. 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 25, 2005, 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 non-vote or otherwise, will not be treated as votes cast at the meeting. Our Board of Directors recommends a vote FOR the election of each of the four nominees.

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Amount and Nature of Beneficial Ownership(1)	Perce Outsta
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NOMINEES FOR THREE-YEAR TERMS EXPIRING IN 2008

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Stephen L. Gulis, Jr. (age 47)	0 (2)	.0
Mr. Gulis is the Executive Vice President, Chief Financial Officer and Treasurer of Wolverine World Wide, Inc. He became a Director in 2004.		

Terry L. Haske (age 56)	56,833 (3)	.2
Mr. Haske is the President of Ricker & Haske, CPAs, P.C. He became a Director in 1996.		

Charles A. Palmer (age 60)	94,362	.4
Mr. Palmer is an attorney and a professor of law at Thomas M. Cooley Law School. He became a Director in 1991.		

### NOMINEE FOR ONE-YEAR TERM EXPIRING IN 2006

Michael M. Magee, Jr. (age 49)	83,199 (4)	.3
Mr. Magee is the President and Chief Executive Officer of Independent Bank Corporation. Prior to his appointment as President and CEO as of January 1, 2005, Mr. Magee served as Chief Operating Officer since February 2004 and prior to that he served as President and Chief Executive Officer of Independent Bank since 1993. He became a Director in 2005.		

### DIRECTORS WHOSE TERMS EXPIRE IN 2006

Robert L. Hetzler (age 59)	44,152	.2
Mr. Hetzler is the retired President of Monitor Sugar Company (food processor). He became a Director in 2000. Mr. Hetzler was appointed Lead Outside Director effective January 1, 2005.		

James E. McCarty (age 57)	19,429 (5)	.0
Mr. McCarty is the President of McCarty Communications (commercial printing). He became a Director in 2002.		

### DIRECTORS WHOSE TERMS EXPIRE IN 2007

Jeffrey A. Bratsburg (age 61)	134,448 (6)	.6
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.		

Charles C. Van Loan (age 57)	342,453 (7)	1.5
Mr. Van Loan is the Chairman of the Board of Directors of Independent Bank Corporation. Mr. Van Loan served as President and CEO of Independent Bank Corporation since 1993. He became a Director in 1992.		

- (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 1,266 common stock units held in Mr. Gulis' account under our deferred compensation and stock purchase plan for non-employee directors that are payable in our Common Stock upon retirement.
- (3) Includes 5,278 shares owned jointly with Mr. Haske's father with respect to which Mr. Haske shares voting and investment power.
- (4) Includes 18,561 shares allocated to Mr. Magee's account under the ESSOT.
- (5) Excludes 4,036 common stock units held in Mr. McCarty's account under our

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deferred compensation and stock purchase plan for non-employee directors that are payable in our Common Stock upon retirement. Includes 4,779 shares held in a spousal trust and 902 shares held by a corporation owned by Mr. McCarty.

- (6) Excludes 774 common stock units held in Mr. Bratsburg's account under our deferred compensation and stock purchase plan for non-employee directors that are payable in our Common Stock upon retirement.
- (7) Includes 34,114 shares allocated to Mr. Van Loan's account under the ESSOT, 2,836 shares held by Mr. Van Loan's dependent children and 27,341 shares held in a spousal trust.

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### CORPORATE GOVERNANCE AND BOARD MATTERS

#### CORPORATE GOVERNANCE PRINCIPLES

For many years, our Board of Directors has been committed to sound and effective corporate governance practices. The Board has documented those practices in our Corporate Governance Principles. These principles address director qualifications, periodic performance evaluations, stock ownership guidelines and other corporate governance matters. Under those principles, a majority of the members of our Board must qualify as independent under the rules established by the NASDAQ stock market on which our stock trades. Our principles also require the Board to have an audit committee, compensation committee and a nominating and corporate governance committee, and that each member of those committees qualifies as independent under the NASDAQ rules. Our corporate governance principles, as well as the charters of each of the foregoing committees are available for review on our website at [www.ibcp.com](http://www.ibcp.com) under the "Investor Relations" tab.

#### CODE OF BUSINESS CONDUCT AND ETHICS AND CODE OF ETHICS FOR SENIOR FINANCIAL OFFICERS

Our Board has also adopted a Code of Business Conduct and Ethics that applies to all of our employees, officers and directors. In addition, the Board has adopted a Code of Ethics for Senior Financial Officers, which includes our principle executive officer, principle financial officer and controller. Each of these codes is posted on our website and can also be obtained free of charge through our Corporate Secretary at 230 West Main Street, Ionia, Michigan 48846. Any changes to or waivers of either code for our CEO or senior financial officers will be disclosed at our website.

#### DETERMINATION OF INDEPENDENCE OF BOARD MEMBERS

As required by our Corporate Governance Principles, our Board has determined that each of the following directors qualifies as an "Independent Director", as such term is defined in Market Place Rules 4200(a)(15) of the National Association of Securities Dealers (the "NASD"): Jeffrey A. Bratsburg, Stephen L. Gulis, Terry L. Haske, Robert L. Hetzler, James E. McCarty and Charles A. Palmer. Our Board has also determined that each member of the three committees of the Board meets the independence requirements applicable to those committees as prescribed by the NASDAQ listing requirements, and, as to the audit committee, under the applicable rules of the Securities and Exchange Commission. There are no family relationships between or among our directors, nominees or executive officers.

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### MEETING ATTENDANCE

Each of our directors is expected to attend all meetings of the Board, applicable committee meetings, and our annual meeting of shareholders. Each of our directors, serving at that time, attended our 2004 annual shareholder meeting. During 2004, the Board held 7 meetings; each director attended at least 75% of the aggregate number of meetings of our Board and Board committees on which they served.

### BOARD COMMITTEES

Our audit committee, which met on 22 occasions in 2004, consists of directors Haske, Hetzler and Palmer. Stephen L. Gulis was also appointed to the audit committee effective November 17, 2004. Our Board has determined that Mr. Gulis qualifies as the "Audit Committee Financial Expert", as that term is defined in the rules established by the Securities and Exchange Commission. Prior to Mr. Gulis' appointment to the audit committee Mr. Haske had been determined by the Board to qualify as the "Audit Committee Financial Expert." The primary purpose of the audit committee is to assist the Board in overseeing (1) the quality and integrity of our accounting, auditing and reporting practices, (2) the performance of our internal audit function and independent auditor, and (3) our disclosure controls and system of internal controls regarding, finance, accounting, legal compliance, and ethics that management and our Board have established. A copy of the committee's charter, which was amended and restated this past year following the committee's annual review and reassessment of its charter, is attached to this Proxy Statement as Appendix A.

Our compensation committee, consisting of Directors Bratsburg (Chairman), Hetzler and Haske, met three times in 2004. This committee reviews and makes recommendations to the Board on executive compensation matters, including any benefits to be paid to our executives and officers.

Our nominating and corporate governance committee, consisting of directors Palmer (Chairman), Bratsburg and Haske met two times in 2004. This committee is responsible for making recommendations on the qualification and standards to serve on our Board, identifying board candidates and monitoring our corporate governance standards.

Our Articles of Incorporation contain certain procedural requirements applicable to shareholder nominations of directors. Shareholders may nominate a person to serve as a director if they provide written notice to us not later than sixty and no more than ninety days prior to the first anniversary date of the preceding year's annual meeting. The notice must include (1) name and address of the shareholder who intends to make the nomination and of the person or persons nominated, (2) a representation that

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the shareholder is a current record holder and will continue to hold those shares through the date of the meeting and intends to appear in person or by proxy at the meeting, (3) a description of all arrangements between the shareholder and each nominee, (4) the information regarding each nominee as would be required to be included in a proxy statement filed under Regulation 14A of the Exchange Act had the nominee been nominated by the Board of Directors, and (5) the consent of each nominee to serve as director.

Our governance committee does not currently utilize the services of any third party search firm to assist in the identification or evaluation of board member candidates. However, the committee may use the services of such a firm in



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the future if it deems necessary or appropriate.

The governance committee has not established specific, minimum qualifications for director nominees. Our Corporate Governance Principles mandate that directors possess the requisite background and experience to make a strong, positive contribution to Independent Bank Corporation and our shareholders. Our governance committee is responsible for reviewing the qualifications and independence of the members of the Board. This assessment includes a consideration of the skills, experience and diversity of the prospective candidates. In light of these general requirements, our governance committee reviews the suitability of each person nominated to our Board. These same standards and suitability requirements are applicable to all director nominees, regardless of the party making the director nomination. Mr. Stephen L. Gulis and Mr. Michael M. Magee were appointed to our Board on November 17, 2004, and January 1, 2005, respectively. Mr. Gulis has served as a director of one of our subsidiary banks for over three years. Mr. Magee, our CEO, has served as an executive officer for over 11 years. Both of these directors were nominated to serve on our Board by our Nominating and Corporate Governance Committee.

The committee has not received any recommended director nominations from any of our shareholders in connection with our 2005 annual meeting. The nominees that are standing for election as directors at the 2005 annual meeting are incumbent directors nominated by the committee.

### SHAREHOLDER COMMUNICATIONS WITH THE BOARD

The Board of Directors has implemented a process by which a shareholder may send written communications to the Board's attention. Any shareholder desiring to communicate with the Board or one or more of our directors may send a letter addressed to the Company's Corporate Secretary at P.O. Box 491, Ionia, Michigan 48846. The Secretary has been directed to promptly forward all communications to the full Board or the specific director indicated in the letter.

### 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, the compensation committee may grant options to purchase shares of Common Stock to each Non-employee Director. During 2004, each Non-employee Director received an option to purchase 3,398 shares of Common Stock at \$26.12 per share, the fair market value of the Common Stock on the date of the grant. These options could not be exercised prior to December 31, 2004, are restricted as to transferability and expire 10 years after the date of 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

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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.

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### REPORT OF OUR AUDIT COMMITTEE

The information contained in this report shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the Securities and Exchange Commission, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934.

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, 2004.

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, 2004.

STEPHEN L. GULIS      ROBERT L. HETZLER

TERRY L. HASKE      CHARLES A. PALMER

### AUDIT MATTERS AND OUR RELATIONSHIP WITH OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Representatives of KPMG, LLP, our independent registered public accounting firm, will be present at the annual meeting and will be given the opportunity to make a statement if desired. They will also be available to respond to appropriate questions. Our audit committee has yet to take action on the selection of our independent registered public accounting firm for 2005, which is expected to occur by May, 2005.

The following sets forth the fees paid to our independent registered public

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accounting firm for the last two fiscal years:

	Year ended December 31,	
	2004	2003
	-----	-----
Audit fees	\$348,000	\$260,000
Audit related fees(1)	25,000	29,000
Tax fees(2)	63,000	84,000
All other fees	75,000(3)	
	-----	-----
Total	\$511,000	\$373,000
	=====	=====

- (1) Consists primarily of fees related to an audit required under Housing and Urban Development loan program and fees related to benefit plan audits.
- (2) Consists primarily of fees related to the preparation of corporate tax returns and corporate tax planning.
- (3) Amount in 2004 consists of costs relating to the Mepco investigation disclosed in appendix C to this proxy statement.

Our audit committee has established a pre-approval policy for procedures for audit, audit related and tax services that can be performed by our independent public accountants. A copy of that policy is attached to this Proxy Statement as Appendix B. For 2004 and 2003, all of these fees were pre-approved by the audit committee under that policy. Subject to certain limitations, the authority to grant pre-approvals may be delegated to one or more members of the audit committee.

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PROPOSAL TO MAKE ADDITIONAL SHARES AVAILABLE FOR ISSUANCE  
UNDER THE COMPANY'S LONG-TERM INCENTIVE PLAN

PROPOSED AMENDMENT TO THE COMPANY'S LONG-TERM INCENTIVE PLAN

In 2002, the Board of Directors adopted, and our shareholders approved, the Independent Bank Corporation Long-Term Incentive Plan (the Plan). The Plan provides for the grant of a variety of equity-based awards, described in more detail below, such as stock options, including incentive stock options as defined in Section 422 of the Internal Revenue Code, as amended (the Code), reload options, stock appreciation rights, restricted stock, performance shares, and other stock based awards. As of February 25, 2005, there were 61,000 shares of common stock available for the grant of future awards under the Plan.

The Plan is intended to promote the long-term success of the company for the benefit of our shareholders through stock-based compensation, by aligning the personal interests of Plan participants with those of our shareholders. The Plan is designed to allow selected Plan participants to participate financially in our future, as well as to enable us to attract, retain, and reward those individuals.

Our Board of Directors has approved an amendment to the Plan, subject to

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shareholder approval, to make an additional 750,000 shares available for issuance under the Plan. At the annual meeting, our shareholders are being requested to consider and approve this amendment. The following paragraphs summarize the material features of the Plan, as amended.

### DESCRIPTION OF THE PLAN

The Plan is administered by the Compensation Committee of the Board (the committee), which is required to consist of not fewer than three non-employee directors, as defined in Rule 16b-3(b)(3) of the Securities Exchange Act of 1934. The committee determines the key employees of the company and its subsidiaries, as well as directors and consultants, who are to be granted awards, the types of awards (or combinations thereof) to be granted, the number of shares of common stock to be covered by each award, the terms and conditions of any award, such as conditions of forfeiture, transfer restrictions, and vesting requirements.

The Plan provides that no more than 20 percent of Plan shares may be awarded to any one employee, and not more than 15 percent of Plan shares may be awarded in the form of Restricted Stock grants.

If the amendment is approved, the maximum number of shares that may be issued under the Plan would be increased by 750,000 shares to 2,025,000 shares (this amount includes 1,214,000 of outstanding stock options at February 25, 2005). In addition, shares from the following sources are added to the Plan: (i) any shares subject to awards that have expired unexercised or that are forfeited, canceled, terminated, or settled in cash in lieu of common stock (provided that any shares subject to a forfeited or canceled award may not again be made subject to an award from a participant who received directly or indirectly any of the benefits of ownership of the securities underlying the award, excluding the right to vote such shares); (ii) any shares surrendered to us in payment of the exercise price of options or tax withholding obligations; (iii) shares subject to options withheld to pay the exercise price or tax withholding obligations; and (iv) the number of shares repurchased by us in the open market or otherwise having an aggregate purchase price no greater than the cash proceeds received by us from the sale of shares under the Plan.

### TYPES OF AWARDS

The following types of awards may be granted under the Plan.

An "OPTION" is a contractual right to purchase a number of shares at a price determined at the date the option is granted. The exercise price included in both incentive stock options and nonqualified stock options must equal at least 100 percent of the fair market value of the stock at the date of the grant. Awards of certain options also may include reload options. A reload option is an option to purchase shares equal to the number of shares of common stock delivered in payment of the exercise price (including, in the discretion of the committee, the number of shares tendered to the company to satisfy any withholding tax liability arising upon exercise), and is automatically granted upon delivery of the shares without further action by the committee. A reload option retains the same terms of the original option, including the exercise period; however, the exercise price of the reload option must equal the fair market value of our common stock on the date of grant of the reload option.

A "STOCK APPRECIATION RIGHT" is an award of the right to receive stock or cash of an equivalent value in an amount equal to the difference between the price specified in the stock appreciation right and the prevailing market price of our common stock at the time of exercise. Stock appreciation rights may be granted only in tandem with options.

"RESTRICTED STOCK" is an award of common stock granted to a participant for

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no or nominal consideration. Title to the shares passes to the participant at the time of that grant; however, the ability to sell or otherwise dispose of the shares is subject to restrictions and conditions determined by the committee.

"PERFORMANCE SHARES" are an award of the right to receive stock or cash of an equivalent value at the end of the specified performance period upon the attainment of specified performance goals.

An "OTHER STOCK-BASED AWARD" is any other award that may be granted under the Plan that is valued in whole or in part by reference to or is payable in, or otherwise based, on our common stock.

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Our Board may at any time amend, discontinue, or terminate all or any part of the Plan. However, no amendment may be made without shareholder approval that would (i) increase the aggregate number of shares of common stock that may be issued under the Plan, (ii) extend the maximum option period under the Plan, or (iii) decrease the option price of any option to less than 100 percent of the fair market value on the date of grant.

### FEDERAL TAX CONSEQUENCES

The following summarizes the consequences of the grant and acquisition of awards under the Plan for federal income tax purposes, based on management's understanding of existing federal income tax laws. This summary is necessarily general in nature and does not purport to be complete. Also, state and local income tax consequences are not discussed and may vary from locality to locality.

OPTION - Plan participants will not recognize taxable income at the time an option is granted under the Plan unless the option has a readily ascertainable market value at the time of grant. Management understands that options to be granted under the Plan will not have a readily ascertainable market value; therefore, income will not be recognized by participants before the time of exercise of an option. For Nonqualified Stock Options, the difference between the fair market value of the shares at the time an option is exercised and the option price generally will be treated as ordinary income to the optionee, in which case the company will be entitled to a deduction equal to the amount of the optionee's ordinary income.

With respect to incentive stock options, participants will not realize income for federal income tax purposes as a result of the exercise of such options. In addition, if the shares acquired as a result of the exercise of an incentive stock option are disposed of more than two years after the date the option is granted and more than one year after the date the option was exercised, the entire gain, if any, realized upon disposition of such shares will be treated as capital gain for federal income tax purposes. Under these circumstances, no deduction will be allowable to the company in connection with either the grant or exercise of an incentive stock option. Exceptions to the general rules apply in the case of a "disqualifying disposition."

If a participant disposes of shares of common stock acquired pursuant to the exercise of an incentive stock option before the expiration of one year after the date of exercise or two years after the date of grant, the sale of such stock will be treated as a "disqualifying disposition." As a result, such a participant would recognize ordinary income and the company would be entitled to a deduction in the year in which such disposition occurred. The amount of the deduction and the ordinary income recognized upon a disqualifying disposition

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would generally be equal to the lesser of: (i) the sale price of the shares sold minus the option price; or (ii) the fair market value of the shares at the time of exercise minus the option price. If the disposition is to a related party (such as a spouse, brother, sister, lineal descendant, or certain trusts for business entities in which the seller holds a direct or indirect interest), the ordinary income recognized generally is equal to the excess of the fair market value of the shares at the time of exercise over the exercise price. Any additional gain recognized upon disposition, in excess of the ordinary income, will be taxable as capital gain. In addition, the exercise of incentive stock options may result in an alternative minimum tax liability.

**RELOAD STOCK OPTIONS** - Participants will recognize no income on the grant of any reload option. On exercise of a reload option, the tax consequences to the participant and the company are the same as that for a nonqualified stock option.

**STOCK APPRECIATION RIGHTS** - Upon the grant of a stock appreciation right, the participant will realize no taxable income, and the company will receive no deduction. A participant will realize income at the time of exercise if the award becomes vested and is no longer subject to forfeiture and the participant is entitled to receive the value of the award. The company will receive a deduction of an equal amount in the same year the participant recognized income.

**RESTRICTED STOCK** - Recipients of shares of restricted stock that are not "transferable" and are subject to "substantial risk of forfeiture" at the time of grant will not be subject to federal income taxes until the lapse or release of the restrictions or sale of the shares, unless the recipient files a specific election under the Code to be taxed at the time of grant. The recipient's income and the company's deduction will be equal to the excess of the then fair market value (or sale price) of the share less any purchase price.

**PERFORMANCE SHARE** - Participants are not taxed upon the grant of performance shares. Upon receipt of the underlying shares or cash, a participant will be taxed at ordinary income tax rates (subject to withholding) on the amount of cash received and/or the current fair market value of stock received, and the company will be entitled to a corresponding deduction. The participant's basis in any Performance shares received will be equal to the amount of ordinary income on which he or she was taxed and, upon subsequent disposition, any gain or loss will be capital gain or loss.

**REQUIRED VOTE FOR APPROVAL** - The affirmative vote of a majority of the Company's Common Stock voted at the Annual Meeting, by person or by proxy, is required to approve the proposed amendment to the Plan. While broker non-votes will not be treated as votes cast on the proposal, shares voted as abstentions will be counted as votes cast. Since a majority of the votes cast is required for approval, the sum of any negative votes and abstentions will necessitate offsetting affirmative votes to assure approval. Unless otherwise directed by marking the accompanying proxy, the proxy holders named therein will vote FOR the approval of the proposed amendment to the Plan.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE PROPOSED AMENDMENT TO THE PLAN.

### 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

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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, 2004. The following information is based on an investment of \$100 on January 1, 2000, in our Common Stock, the Nasdaq Stock Market Index and the Nasdaq Bank Stocks Index, with dividends reinvested.

### (PERFORMANCE GRAPH)

	January 1,	December 31,				
	2000	2000	2001	2002	2003	2004
Independent Bank Corporation	\$100.00	\$146.10	\$220.71	\$256.85	\$406.39	\$435.23
Nasdaq Stock Market	100.00	60.31	47.84	33.07	49.45	53.81
Nasdaq Bank Stocks	100.00	114.23	123.68	126.65	162.92	186.45

### COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The information contained in this report shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the Securities and Exchange Commission, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934.

#### 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 review by nationally recognized compensation consultants, our Board of Directors has adopted a "pay-for-performance" compensation strategy. The strategy seeks to maintain a 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 the level established by our peers.

Annually, the compensation committee recommends a base salary for our President and Chief Executive Officer (and beginning in 2005 our Chairman of the Board) for consideration by the entire Board of Directors. The compensation committee's recommendation is based upon compensation levels established by our

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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 additional performance incentives, 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 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 or other subsidiaries.

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, 2004, our executive officers and our Bank Presidents received cash awards pursuant to our Management Incentive Compensation Plan that ranged from 15% to 20% 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 23, 2004, our Board of Directors granted options to purchase 106,500 shares of Common Stock to 43 of our executive officers and senior managers. These options provide the recipient the right to purchase shares of Common Stock at \$26.12 per share, the market price of our Common Stock as of the date of the grant. Such options could not be exercised before December 31, 2004, are restricted as to transferability and expire 10 years after the date of the grant.

On January 28, 2005, our Board of Directors granted options to purchase



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80,479 shares of Common Stock to our executive officers. Options covering 32,760 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 \$30.11 per share, the market price of our Common Stock as of the date of the grant. Such options may not be exercised prior to March 31, 2005, 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 our Company. 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, 2004, were equal to 2% of the eligible wages for each of the approximately 1,100 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. Effective on January 1, 2005, Mr. Van Loan resigned as Chief Executive Officer and was appointed as the Chairman of the Board. Also effective on January 1, 2005 Michael M. Magee was appointed as President and Chief Executive Officer. Mr. Magee had been the Chief Operating Officer of the Company since February 2004 and prior to that time had served 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 \$353,290 (for the reasons described below this was reduced to \$333,290 effective as of January 1, 2005). As a result of our earnings, relative to the goals established pursuant to our Management Incentive Compensation Plan, Mr. Van Loan's cash incentive for 2004 totaled \$70,658.

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In February 2004 we announced a transition plan, pursuant to which Mr. Magee began to gradually assume Mr. Van Loan's responsibilities. Following his appointment as Chief Operating Officer, our Bank Presidents began reporting directly to Mr. Magee while other corporate executives continued to report to Mr. Van Loan. Effective as of the date of his appointment as Chief Executive Officer, all of our other corporate executives (except for our Chief Financial Officer) began reporting to Mr. Magee. During 2005 Mr. Van Loan will provide continuing assistance to Mr. Magee and will continue to supervise the Chief Financial Officer who oversees the Company's Accounting, Finance and Risk Management Departments. We anticipate that the transition of duties from Mr. Van Loan to Mr. Magee will be substantially complete by December 31, 2005.

JEFFREY A. BRATSBURG

TERRY L. HASKE      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 other highest paid executive officers ("Named Executives") and by all directors and executive officers as a

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group as of February 25, 2005.

Name -----	Amount and Nature of Beneficial Ownership(1) -----	Percent of Outstanding -----
Charles C. Van Loan	342,453(2)	1.56%
Michael M. Magee	83,199	.38
Edward B. Swanson	141,818	.65
Ronald L. Long	68,768	.31
David C. Reglin	101,847	.47
All executive officers and directors as a group (consisting of 16 persons)	2,288,890(3)	10.46

- (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 1,015,024 shares, including 943,794 shares which are held by the ESSOT.

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SUMMARY COMPENSATION TABLE

The following table sets forth compensation received by our Named Executives for each of the three years ended December 31, 2004.

Name & Principal Position -----	Year ----	Annual Compensation -----		Long-Term Compensation Awards Securities Underlying Options (#) (3) -----	All Other Compen- sation(4) -----
		Salary(1) -----	Bonus(2) -----		
Charles C. Van Loan(5) Chairman of the Board	2004	\$353,290	\$ 70,658	61,574	\$10,250
	2003	343,200	171,600	62,209	18,000
	2002	330,000	185,000	30,809	18,000
Michael M. Magee(5) President and Chief Executive Officer	2004	\$256,216	\$ 37,297	12,408	\$10,250
	2003	218,400	76,440	12,861	18,000
	2002	210,000	83,500	16,765	18,000
Edward B. Swanson President and CEO Independent Bank South Michigan	2004	\$197,000	\$ 29,550	10,350	\$ 9,838
	2003	189,280	56,094	9,790	17,040
	2002	182,000	57,435	13,036	17,047

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Ronald L. Long(6)	2004	\$197,000	\$ 29,550	10,350	\$93,853
President and CEO	2003	189,280	66,248	11,512	17,040
Independent Bank East Michigan	2002	182,000	60,031	13,929	15,682
David C. Reglin	2004	\$197,000	\$ 29,550	10,350	\$ 9,838
President and CEO	2003	189,280	76,248	11,512	17,040
Independent Bank West Michigan	2002	170,000	59,500	14,616	15,511

- (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 2005 relating to 2004 performance.
- (4) Amounts represent our contributions to the ESSOP. Subject to certain age and service requirements, all of our employees are eligible to participate in this plan.
- (5) Effective January 1, 2005, Mr. Magee was appointed President and Chief Executive Officer and Mr. Van Loan was appointed Chairman of the Board.
- (6) Included in All Other Compensation for 2004 is an \$84,000 payment for relocation costs.

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OPTION GRANTS IN 2004

The following table provides information on options granted to our Named Executives during the year ended December 31, 2004.

	Number of Securities Underlying Options Granted(1)	Individual Grants Percent of Total Options Granted to Employees in 2004	Exercise or Base Price (per share) (2)	Expiration Date
Charles C. Van Loan	2,500	.66	\$26.12	April 23, 2005
	20,173	5.31	30.11	January 28, 2005
	38,901	10.24	(4)	
Michael M. Magee	2,500	.66	\$26.12	April 23, 2005
	9,908	2.61	30.11	January 28, 2005
Edward B. Swanson	2,500	.66	\$26.12	April 23, 2005
	7,850	2.07	30.11	January 28, 2005
Ronald L. Long	2,500	.66	\$26.12	April 23, 2005
	7,850	2.07	30.11	January 28, 2005
David C. Reglin	2,500	.66	\$26.12	April 23, 2005
	7,850	2.07	30.11	January 28, 2005

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- (1) Indicates number of shares which may be purchased pursuant to options granted under our Long-Term Incentive Plan. Options with an expiration date of April 23, 2014 could not be exercised in full or in part prior to December 31, 2004. Options with an expiration date of January 28, 2015 were granted in 2005 and vest on March 31, 2005. Such options relate to 2004 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 23, 2014, were expected volatility of 32.23%, risk-free rate of return of 4.40%, dividend yield of 2.45% and time to exercise of ten years. The assumptions employed on options with an expiration date of January 28, 2015, were expected volatility of 31.97%, risk-free rate of return of 4.14%, dividend yield of 2.26% and time to exercise of ten years.
- (4) Represents four separate grants to Mr. Van Loan for reload options on February 25, 2004. The exercise price of these options is \$27.69 per share and have expiration dates ranging from January 21, 2012 to January 18, 2013.

### AGGREGATED STOCK OPTION EXERCISES IN 2004 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, 2004. Options covering 340,364 shares of Common Stock were exercised in 2004.

Name	Shares Acquired on Exercise	Value Realized(1)	Number of Securities Underlying Unexercised Options		Value of
			Exercisable	Unexercisable	In-the-Mone Exercisable
Charles C. Van Loan	55,747	\$612,611	64,709	38,901	\$ 112,913
Michael M. Magee	53,310	943,651	33,483	--	345,769
Edward B. Swanson	5,483	104,998	71,048	--	1,091,797
Ronald L. Long	8,709	145,194	48,311	--	547,273
David C. Reglin	--	--	65,339	--	905,288

- (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, 2004 (\$29.83) and the exercise prices of the options.

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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 2004. 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 \$1,486,000 at December 31, 2004, equal to 0.6% of shareholders' equity.

Mr. McCarty (Director) owns a graphic design and commercial printing company which does business with us. During 2004 we purchased \$97,000 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 2004, except that Mr. Van Loan, an executive officer of the Company, filed one report late covering three gifts of Common Stock. Also, Mr. Bratsburg, was late in filing three reports, covering three transactions, and Mr. McCarty was late in filing one report, covering one transaction, all of which related to the crediting of deferred stock units in lieu of director fees under the Company's Deferred Compensation and Stock Purchase Plan for Nonemployee Directors.

### SHAREHOLDER PROPOSALS

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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 2006 Annual Meeting of Shareholders proxy materials must be received by us no later than November 21, 2005. If we receive notice of a shareholder proposal after February 4, 2006, the persons named as proxies for the 2006 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 The Altman Group 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 \$4,000, 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

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Robert N. Shuster  
Secretary

Dated: March 21, 2005

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### 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

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Sarbanes-Oxley Act, (2) shall not have participated in the preparation of the financial statements of the Company or any subsidiary during the prior three year period, and (3) 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 and Corporate Governance Committee and appointed annually to one-year terms by the Board. The Nominating and Corporate Governance 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 the Securities and Exchange Commission 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.

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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.

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2. Administer the Company's Policy Regarding the Approval of Audit and Nonaudit Services Provided by the Independent Auditor.
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 auditor;
  - (c) Other material written communications between the independent auditor and management including, but not limited to, management letter and schedule of unadjusted differences;
  - (d) An analysis of the independent auditor's 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; and
  - (e) 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.
4. At least annually, obtain and review a report by the independent auditor describing:
  - (a) The firm's internal quality control procedures;
  - (b) Any material issues raised by the most recent internal



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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 auditor 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 principals and practices as suggested by the independent auditors, management or the internal auditor.
3. Review and approve all related party 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

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those exposures.

5. Review and approve all "related party transactions," as defined in Item 404 of SEC Regulation S-K, involving directors, executive officers and their respective affiliates and immediate family members.

### 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 SEC 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.
6. At least annually, review and reassess the adequacy of this Charter in light of changes in law, governing rules, and applicable corporate governance best practices.

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## APPENDIX B

### POLICY REGARDING THE APPROVAL OF AUDIT AND NONAUDIT SERVICES PROVIDED BY THE INDEPENDENT AUDITOR

#### I. PURPOSE

Section 10A of the Securities Exchange Act of 1934 and the Charter of the Company's Audit Committee require that all audit services, as well as all non-audit services provided by the Company's auditors (the "Audit Firm"), to be pre-approved by the Company's Audit Committee. This policy sets forth the guidelines and procedures to be followed by the Company prior to the engagement of (a) any firm to provide audit services, and (b) the Company's Audit Firm to perform audit and non-audit services.

#### II. PRE-APPROVAL REQUIREMENT

- A. General. Each audit engagement and each service provided by the Audit Firm, both audit and non-audit (collectively a "Permitted Service"), must be pre-approved by the Audit Committee or a Designated Member. The SEC rules allow the pre-approval to be effected through the use of pre-approval policies and procedures as long as (1) those policies and procedures are (a) detailed as to the particular services to be

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provided, and (b) do not result in the delegation of the Audit Committee's authority to management, and (2) the Audit Committee is informed about each service. The appendices to this Policy describe the audit, audit-related, tax and all other services that have the pre-approval of the Audit Committee. Such pre-approval (1) may be given not more than one year before the commencement of the specified services, (2) may not exceed the budgeted amount pre-approved (unless subsequently approved), and (3) may not be given unless the description of the services to be pre-approved is accompanied by sufficient back-up documentation regarding the specific services to be provided. Unless the type of service has received such general pre-approval, it will require specific pre-approval by the Audit Committee.

- B. Delegation. Subject to the conditions in Section II(A), the Audit Committee may delegate to one or more member(s) of the Audit Committee (a "Designated Member"), the authority to grant pre-approvals of Permitted Services to be provided by the Audit Firm or audit services provided by another audit firm. The decisions of a Designated Member to pre-approve a Permitted Service shall be reported to the Audit Committee at each of its regularly scheduled meetings.

### III. DISCLOSURES

The Company shall disclose in each proxy statement filed in connection with annual meetings of shareholders the aggregate fees billed for (1) audit services, (2) audit-related services, (3) tax services, and (4) all other services provided by the Audit Firm.

### IV. PROHIBITED SERVICES

The Company may not engage the Audit Firm to provide the non-audit services described below to the Company (the "Prohibited Services").

- A. Bookkeeping or other services related to the Company's accounting records or financial statements.
- B. Financial information systems design and implementation, unless required to support the audit (i.e., using valuation experts to assist in auditing a valuation obtained by the Company).
- C. Appraisal or valuation services or fairness opinions, unless required to support the audit (i.e., setting actuarial reserves as opposed to actuarial audit work).
- D. Actuarial services.
- E. Internal audit outsourcing.
- F. Management functions or human resources.
- G. Broker-dealer investment adviser, or investment banking services.
- H. Legal services or expert services unrelated to the audit.

The list of Prohibited Services shall be automatically expanded to include those services that are proscribed by rule by the Securities and Exchange Commission.

### V. AUDIT COMMITTEE REVIEW OF SERVICES

At each regularly scheduled Audit Committee meeting, the Audit Committee

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shall review the following:

- A report summarizing the Permitted Services, or grouping of related services, including fees, provided by the Audit Firm since the last meeting
- A report summarizing the audit services and fees provided to the Company by any firm
- A listing of newly pre-approved Permitted Services (and estimated fees) since its last regularly scheduled meeting
- An updated projection for the current fiscal year, presented in a manner consistent with the proxy disclosure requirements, of the estimated annual fees to be paid to the Audit Firm

### VI. EFFECTIVE DATE

This policy, as revised, shall be effective immediately upon approval by the Audit Committee.

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### APPENDIX C

Independent Bank Corporation is an Ionia, Michigan-based bank holding company with total assets of \$3.1 billion. Our four subsidiary banks principally serve suburban and rural communities located across Michigan's Lower Peninsula through over 100 offices. We also provide financing for insurance premiums and vehicle service contracts across the United States, through our wholly owned subsidiary, Mepco Insurance Premium Financing, Inc.

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 local management. 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 (and their subsidiaries) on a centralized basis.

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SELECTED CONSOLIDATED FINANCIAL DATA

	Year Ended December 31			
	2004	2003	2002	
	(dollars in thousands, except per s			
<b>SUMMARY OF OPERATIONS</b>				
Interest income .....	\$ 162,547	\$ 139,366	\$ 129,815	\$
Interest expense .....	45,014	44,113	48,008	
Net interest income .....	117,533	95,253	81,807	
Provision for loan losses .....	4,309	4,032	3,562	
Net gains on the sale of real estate				
mortgage loans .....	5,956	16,269	8,178	
Other non-interest income .....	31,842	26,335	22,733	
Non-interest expenses .....	98,668	82,506	68,293	
Income before income tax expense .....	52,354	51,319	40,863	
Income tax expense .....	13,796	13,727	11,396	
Net income before cumulative effect of change in accounting principle .....	38,558	37,592	29,467	
Cumulative effect of change in accounting principle, net of related tax effect(1) .....				
Net income .....	\$ 38,558	\$ 37,592	\$ 29,467	\$
<b>PER COMMON SHARE DATA(2)</b>				
Net income before cumulative effect of change in accounting principle				
Basic .....	\$ 1.88	\$ 1.92	\$ 1.47	\$
Diluted .....	1.84	1.87	1.44	
Net income				
Basic .....	\$ 1.88	\$ 1.92	\$ 1.47	\$
Diluted .....	1.84	1.87	1.44	
Cash dividends declared .....	.66	.59	.44	
Book value .....	10.87	8.31	7.06	
<b>SELECTED BALANCES</b>				
Assets .....	\$3,094,027	\$2,361,014	\$2,058,975	\$1,
Loans .....	2,225,290	1,667,393	1,381,442	1,
Allowance for loan losses .....	24,737	16,836	15,830	
Deposits .....	2,176,947	1,702,806	1,535,603	1,
Shareholders' equity .....	230,292	162,216	138,047	
Long-term debt .....	7,000			
<b>SELECTED RATIOS</b>				
Tax equivalent net interest income to average earning assets .....	4.91%	4.88%	4.75%	
Net income to				
Average equity .....	19.42	24.89	21.34	
Average assets .....	1.42	1.69	1.52	
Average shareholders' equity to average assets .....	7.31	6.80	7.14	
Tier 1 capital to average assets .....	7.36	7.91	6.85	
Non-performing loans to Portfolio Loans .....	.68	.76	.72	

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- (1) Effect of the implementation of SFAS #133. (See note #15 to the consolidated financial statements.)
- (2) Per share data has been adjusted for a 10% stock dividend in 2003, 5% stock dividends in 2002, 2001, and 2000 and a three-for-two stock split in 2002.

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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.

### RESULTS OF OPERATIONS

SUMMARY. Net income totaled \$38.6 million in 2004 compared to \$37.6 million in 2003 and \$29.5 million in 2002. The increases in net income are primarily a result of increases in net interest income and service charges on deposit accounts partially offset by increases in non-interest expenses. Mortgage banking related revenues (net gains on real estate mortgage loan sales, title insurance fees and real estate mortgage loan servicing) were quite volatile

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during the periods presented due primarily to changes in mortgage loan refinance activity. 2004 results include the operations of Midwest Guaranty Bancorp, Inc. since the May 31, 2004, date of acquisition and include the operations of North Bancorp, Inc. since the July 1, 2004, date of acquisition. 2004 and 2003 results also include the operations of Mepco Insurance Premium Financing, Inc. since the April 15, 2003, date of acquisition.

### KEY PERFORMANCE RATIOS

	Year ended December 31,		
	2004	2003	2002
Net income to			
Average equity .....	19.42%	24.89%	21.34%
Average assets .....	1.42	1.69	1.52
Net income per share			
Basic .....	\$ 1.88	\$ 1.92	\$ 1.47
Diluted .....	1.84	1.87	1.44

We believe that our earnings per share growth rate over a long period of time (five years or longer) is the best single measure of our performance. We strive to achieve an average annual long term earnings per share growth rate of approximately 10% to 15%. Accordingly, our focus is our long-term results, taking into consideration certain components of our revenues that are cyclical in nature (such as mortgage-banking) which can cause fluctuations in our earnings per share from year to year. Our primary strategies for achieving long-term growth in earnings per share include: earning asset growth (both organic and through acquisitions), diversification of revenues (within the financial services industry), effective capital management (efficient use of our shareholders' equity) and sound risk management (credit, interest rate, liquidity and regulatory risks). Our discussion and analysis of results of operations and financial condition will focus on these elements.

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**NET INTEREST INCOME.** Net interest income is the most important source of our earnings and thus is critical in evaluating our results of operations. Changes in our tax equivalent net interest income are primarily influenced by our level of interest-earning assets and the income or yield that we earn on those assets and the manner and cost of funding our interest-earning assets. Certain macro-economic factors can also influence our net interest income such as the level and direction of interest rates, the difference between short-term and long-term interest rates (the steepness of the yield curve) and the general strength of the economies in which we are doing business. Finally, risk management plays an important role in our level of net interest income. The ineffective management of credit risk and interest-rate risk in particular can adversely impact our net interest income.

Tax equivalent net interest income totaled \$123.2 million during 2004, compared to \$100.4 million and \$86.2 million during 2003 and 2002, respectively. We review yields on certain asset categories and our net interest margin on a fully taxable equivalent basis. In this presentation, net interest income is adjusted to reflect tax-exempt interest income on an equivalent before tax basis. This measure ensures comparability of net interest income arising from

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both taxable and tax-exempt sources. The adjustments to determine tax equivalent net interest income were \$5.7 million, \$5.1 million and \$4.4 million in 2004, 2003 and 2002, respectively, and were computed using a 35% tax rate.

The increase in tax equivalent net interest income in 2004 compared to 2003 reflects a \$452.7 million increase in average interest-earning assets and a 3 basis point increase in our tax equivalent net interest income as a percent of average interest-earning assets ("Net Yield"). The increase in average interest-earning assets is due to our Midwest and North acquisitions as well as growth in commercial loans, finance receivables and investment securities. The Net Yield was equal to 4.91% in 2004 compared to 4.88% in 2003. The tax equivalent yield on average interest-earning assets declined to 6.71% in 2004 from 7.03% in 2003. This decline is due to the pay down of higher yielding loans and investment securities and the addition of new loans and new investment securities at lower interest rates. The decrease in the tax equivalent yield on average interest-earning assets was more than offset by a 35 basis point decline in our interest expense as a percentage of average interest-earning assets (the "cost of funds") to 1.80% in 2004 from 2.15% in 2003. The decline in our cost of funds was primarily due to the maturity of higher costing time deposits and borrowings, as well as increased levels of lower cost core deposits (including those added as a result of the Midwest and North acquisitions).

The 16.4% increase in tax equivalent net interest income in 2003 compared to 2002 principally reflects a \$241.5 million or 13.3% increase in the amount of average interest earning assets and a 13 basis point increase in Net Yield. This increase in the amount of average interest-earning assets primarily reflects growth in commercial loans and finance receivables.

Pursuant to Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS #133"), we recorded adjustments, which increased tax equivalent net interest income by \$0.1 million in 2004. This compares to adjustments, which reduced tax equivalent net interest income by \$0.1 million in 2003 and increased tax equivalent net interest income by approximately \$1.0 million in 2002. 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.

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AVERAGE BALANCES AND TAX EQUIVALENT RATES	2004			2003		
	Average Balance	Interest	Rate	Average Balance	Interest	R
	(dollars in thousands)					
<b>ASSETS</b>						
Taxable loans(1) .....	\$2,004,544	\$139,517	6.96%	\$1,612,316	\$118,277	7
Tax-exempt loans(1,2) .....	7,637	507	6.64	11,249	898	7
Taxable securities .....	266,704	12,497	4.69	239,296	11,687	4
Tax-exempt securities(2) .....	212,441	14,914	7.02	179,668	12,992	7
Other investments .....	16,283	765	4.70	12,341	611	4
	2,507,609	168,200	6.71	2,054,870	144,465	7
Cash and due from banks .....	55,728			48,839		



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Other assets, net .....	153,245			118,309	
	-----			-----	
Total assets .....	\$2,716,582			\$2,222,018	
	=====			=====	
LIABILITIES					
Savings and NOW .....	\$ 805,885	4,543	0.56	\$ 688,697	4,879
Time deposits .....	912,285	23,820	2.61	741,731	22,923
Long-term debt .....	4,549	177	3.89		
Other borrowings .....	480,956	16,474	3.43	407,264	16,311
	-----	-----		-----	-----
Interest bearing liabilities ...	2,203,675	45,014	2.04	1,837,692	44,113
		-----			-----
Demand deposits .....	240,800			183,032	
Other liabilities .....	73,574			50,283	
Shareholders' equity .....	198,533			151,011	
	-----			-----	
Total liabilities and shareholders' equity .....	\$2,716,582			\$2,222,018	
	=====			=====	
Net interest income .....		\$123,186			\$100,352
		=====			=====
Net interest income as a percent of average interest earning assets .....			4.91%		
			=====		

(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	2004 compared to 2003			2003 compared	
	Volume	Rate	Net	Volume	Rate
-----	-----	-----	-----	-----	-----
	(in thousands)				
Increase (decrease) in interest income(1)					
Taxable loans(2) .....	\$27,556	\$ (6,316)	\$21,240	\$13,763	\$ (4,150)
Tax-exempt loans(2,3) .....	(256)	(135)	(391)	(32)	(44)
Taxable securities .....	1,298	(488)	810	1,475	(1,999)
Tax-exempt securities(3) .....	2,310	(388)	1,922	2,742	(803)
Other investments .....	187	(33)	154	(475)	(203)
	-----	-----	-----	-----	-----
Total interest income .....	31,095	(7,360)	23,735	17,473	(7,199)
	-----	-----	-----	-----	-----
Increase (decrease) in interest expense(1)					
Savings and NOW .....	753	(1,089)	(336)	593	(3,158)
Time deposits .....	4,783	(3,886)	897	2,025	(6,792)
Long-term debt .....	177		177		
Other borrowings .....	2,714	(2,551)	163	4,889	(1,452)
	-----	-----	-----	-----	-----
Total interest expense .....	8,427	(7,526)	901	7,507	(11,402)
	-----	-----	-----	-----	-----
Net interest income .....	\$22,668	\$ 166	\$22,834	\$ 9,966	\$ 4,203

=====

- (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%.

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COMPOSITION OF AVERAGE INTEREST EARNING ASSETS  
AND INTEREST BEARING LIABILITIES

	Year ended December 31,		
	2004	2003	2002
	-----	-----	-----
As a percent of average interest earning assets			
Loans--all domestic .....	80.2%	79.0%	79.3%
Other interest earning assets .....	19.8	21.0	20.7
	-----	-----	-----
Average interest earning assets .....	100.0%	100.0%	100.0%
	=====	=====	=====
Savings and NOW .....	32.1%	33.5%	35.0%
Time deposits .....	17.5	19.8	24.5
Brokered CDs .....	18.9	16.3	13.4
Other borrowings and long-term debt .....	19.4	19.8	15.9
	-----	-----	-----
Average interest bearing liabilities .....	87.9%	89.4%	88.8%
	=====	=====	=====
Earning asset ratio .....	92.3%	92.5%	93.8%
Free-funds ratio .....	12.1	10.6	11.2

PROVISION FOR LOAN LOSSES. The provision for loan losses was \$4.3 million during 2004 compared to \$4.0 million and \$3.6 million during 2003 and 2002, 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 is a significant element in assessing our results of operations. On a long-term basis we are attempting to grow non-interest income in order to diversify our revenues within the financial services industry. We regard net gains on real estate mortgage loan sales as a core recurring source of revenue but they are quite cyclical and volatile. We regard net gains (losses) on securities as a "non-operating" component of non-interest income. As a result, we believe it is best to evaluate our success in growing non-interest income and diversifying our revenues by also comparing

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non-interest income when excluding net gains (losses) on assets (real estate mortgage loans and securities).

Non-interest income totaled \$37.8 million during 2004 compared to \$42.6 million and \$30.9 million during 2003 and 2002, respectively. Excluding net gains and losses on asset sales, non-interest income grew by 14.3% to \$31.0 million during 2004 and by 19.1% to \$27.1 million during 2003.

### NON-INTEREST INCOME

	Year ended December 31,		
	2004	2003	2002
	(in thousands)		
Service charges on deposit accounts .....	\$17,089	\$14,668	\$13,049
Net gains (losses) on assets			
Real estate mortgage loans .....	5,956	16,269	8,178
Securities .....	856	(779)	(24)
VISA check card interchange income .....	2,054	1,564	1,370
Title insurance fees .....	2,036	3,092	2,474
Bank owned life insurance .....	1,486	1,432	403
Manufactured home loan origination fees and commissions ...	1,264	1,769	1,949
Mutual fund and annuity commissions .....	1,260	1,227	979
Real estate mortgage loan servicing fees, net .....	1,427	(294)	(870)
Other .....	4,370	3,656	3,403
	\$37,798	\$42,604	\$30,911
	\$37,798	\$42,604	\$30,911

Service charges on deposit accounts totaled \$17.1 million during 2004, compared to \$14.7 million and \$13.0 million during 2003 and 2002, 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. The growth in 2004 also reflects our acquisitions of two banks during the year. We opened approximately 23,000 new checking accounts in 2004 compared to 23,000 in 2003 and 22,000 in 2002. Partially as a result of a leveling off in our growth rate of new checking accounts and the maturity of our high performance checking program, we would expect the growth rate of service charges on deposits to moderate in future periods.

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 \$6.0 million on the sale of such loans during 2004, compared to \$16.3 million and \$8.2 million during 2003 and 2002, 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

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revenues. In 2004, approximately 46% of the \$687.9 million of loans originated was the result of refinancing activity. We estimate that refinancing activities accounted for approximately 70% and 69% of the real estate mortgage loans originated during 2003 and 2002, respectively.

### NET GAINS ON THE SALE OF REAL ESTATE MORTGAGE LOANS

	Year ended December 31	
	2004	2003
	(dollars in thousands)	
Real estate mortgage loans originated .....	\$687,894	\$1,123,249
Real estate mortgage loans sold .....	385,445	892,482
Real estate mortgage loans sold with servicing rights released .....	53,082	51,847
Net gains on the sale of real estate mortgage loans .....	5,956	16,269
Net gains as a percent of real estate mortgage loans sold .....	1.55%	1.82%
SFAS #133 adjustments included in the Loan Sale Margin .....	0.00	0.10

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 (with servicing rights retained or released). The decrease in the Loan Sales Margin in 2004 primarily reflects increased pricing competition among mortgage lenders because of reduced demand for real estate mortgage loans due to a weaker refinance environment. The high demand for real estate mortgage loans by consumers in 2003 allowed us to increase our Loan Sales Margin in that period. Based upon our present expectations for real estate mortgage loan demand, we would expect our 2005 Loan Sales Margin to be similar to our 2004 level. Our decision to sell or retain real estate mortgage loan servicing rights is primarily influenced by an evaluation of the price being paid for real estate mortgage loan servicing by outside third parties compared to our calculation of the economic value of retaining such servicing. The sale of real estate mortgage loan servicing rights may result in declines in real estate mortgage loan servicing income in future periods. Gains on the sale of real estate mortgage loans can be impacted by recording changes in the fair value of certain derivative instruments pursuant to SFAS #133. These changes did not significantly impact the gains recorded in 2004, but did increase gains by \$1.0 million in 2003 and decreased gains by \$1.0 million in 2002. Excluding the aforementioned SFAS #133 adjustments, the Loan Sales Margin would have been 1.55% in 2004, 1.72% in 2003 and 1.52% in 2002.

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 \$57.4 million during 2004 compared to \$20.4 million and \$66.4 million during 2003 and 2002, respectively (See "Securities."). The \$0.9 million of securities gains in 2004 include \$1.6 million in "other than temporary" impairment charges (thus we actually had net gains on securities sales of approximately \$2.5 million). Approximately \$1.4 million of the other than temporary impairment charges relate to our Fannie Mae and Freddie Mac preferred stock portfolio. These preferred stocks are perpetual (i.e. they have no stated maturity date) and as a result they are treated like equity securities for purposes of impairment analysis. After the impairment charge our remaining book value in these preferred stocks was approximately \$25.9 million at December 31, 2004. We believe that recent events at Fannie Mae and Freddie Mac (including a review by regulators of their accounting practices) as well as the issuance of a large amount of new preferred securities by Fannie Mae in the fourth quarter of 2004 have resulted in a

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decline in the prices of these securities. Because it is difficult to forecast a recovery of these prices within a reasonable timeframe with any degree of certainty, we believe that recording the aforementioned other than temporary impairment charge is appropriate. In addition, we recorded other than temporary impairment charges of \$0.2 million on a mobile home asset backed security (See "Securities"). The net gains on sales of securities in 2004 relate primarily to the sale or call of U.S. Treasury, mortgage-backed, corporate and trust preferred securities. The net loss on securities in 2003 and 2002 includes impairment charges of \$0.75 million in each year 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 had been experiencing ongoing financial difficulties. As a result of these circumstances and an ongoing assessment of the market value of this security, the book value of this asset was written off. In the third quarter of 2004 we were able to sell this trust preferred security for \$0.5 million.

### GAINS AND LOSSES ON SECURITIES

Year ended December 31,				
-----	-----	-----	-----	-----
Proceeds	Gains	Losses(1)	Net	
-----	-----	-----	-----	
(in thousands)				
2004 ...	\$57,441	\$2,540	\$1,684	\$ 856
2003 ...	20,446	827	1,606	(779)
2002 ...	66,390	809	833	(24)

(1) The losses include impairment charges of: \$1.6 million in 2004 and \$0.75 million in each of 2003 and 2002.

VISA check card interchange income increased to \$2.1 million in 2004 compared to \$1.6 million in 2003 and \$1.4 million in 2002. These results can be primarily attributed to an increase in the size of our card base due to growth in checking accounts as well as the two acquisitions completed in 2004. In addition, the frequency of use of our VISA check card product by our customer base has increased.

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Title insurance fees decreased to \$2.0 million in 2004 compared to \$3.1 million in 2003 and \$2.5 million in 2002. The fluctuation in title insurance fees is primarily a function of the level of real estate mortgage loans that we originated.

Real estate mortgage loan servicing generated revenue of \$1.4 million in 2004, compared to expense of \$0.3 million in 2003 and expense of \$0.9 million in 2002. These yearly comparative increases or decreases are primarily due to changes in the impairment reserve on capitalized real estate mortgage loan servicing rights and the level of amortization of this asset. The period end impairment reserve is based on a third-party valuation of our real estate mortgage loan servicing portfolio and the amortization is primarily impacted by prepayment activity.

### CAPITALIZED REAL ESTATE MORTGAGE LOAN SERVICING RIGHTS

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	2004	2003	2002
	-----	-----	-----
	(in thousands)		
Balance at January 1, .....	\$ 8,873	\$ 4,455	\$ 4,299
Servicing rights acquired .....	1,138		
Originated servicing rights capitalized .....	3,341	7,700	3,637
Amortization .....	(1,948)	(3,655)	(2,386)
(Increase)/decrease in impairment reserve ...	(44)	373	(1,095)
	-----	-----	-----
Balance at December 31, .....	\$11,360	\$ 8,873	\$ 4,455
	=====	=====	=====
Impairment reserve at December 31, .....	\$ 766	\$ 722	\$ 1,095
	=====	=====	=====

At December 31, 2004 we were servicing approximately \$1.4 billion in real estate mortgage loans for others on which servicing rights have been capitalized. This servicing portfolio had a weighted average coupon rate of 5.87% and a weighted average service fee of approximately 26 basis points. Remaining capitalized real estate mortgage loan servicing rights at December 31, 2004 totaled \$11.4 million, representing approximately 81 basis points on the related amount of real estate mortgage loans serviced for others.

In August 2002 we acquired \$35.0 million in separate account bank owned life insurance on which we earned \$1.5 million in 2004, \$1.4 million in 2003 and \$0.4 million in 2002, as a result of increases in cash surrender value. Mutual fund and annuity commissions have increased over the past two years due primarily to increased sales of investment related products.

Manufactured home loan origination fees and commissions declined in each year since 2002. This industry has faced a challenging environment as several buyers of this type of loan have exited the market or materially altered the guidelines under which they will purchase such loans. In addition, relatively low interest rates for real estate mortgage loans have made traditional housing more affordable and reduced the demand for manufactured homes. Finally, regulatory changes have reduced the opportunity to generate revenues on the sale of insurance related to this type of lending. At the present time we do not anticipate any significant improvement in the circumstances adversely impacting manufactured home lending as outlined above. However, we do believe that industry conditions have somewhat stabilized and therefore do not presently anticipate further declines in this category of revenue below our 2004 level.

Other non-interest income rose to \$4.4 million in 2004 from \$3.7 million in 2003 and \$3.4 million in 2002. Increases in ATM fees, check printing charges and PMI reinsurance revenues have accounted for the majority of this growth. The growth is generally reflective of the overall expansion of the organization in terms of numbers of customers and accounts.

NON-INTEREST EXPENSE. Non-interest expense is an important component of our results of operations. However, we primarily focus on revenue growth, and while we strive to efficiently manage our cost structure, our non-interest expenses will generally increase from year to year because we are expanding our operations through acquisitions and by opening new branches and loan production offices.

Non-interest expense totaled \$98.7 million during 2004, compared to \$82.5 million and \$68.3 million during 2003 and 2002, respectively. The aforementioned two bank acquisitions in mid-2004 and the April 2003 acquisition of Mepco as well as growth associated with new branch offices and loan production offices

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account for much of the increases in non-interest expense. In addition, 2004 and 2003 included certain unusual charges or expenses as further detailed on the next page.

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### NON-INTEREST EXPENSE

	Year ended December 31,		
	2004	2003	2002
	(in thousands)		
Compensation .....	\$35,243	\$27,954	\$24,891
Performance-based compensation and benefits ...	4,851	6,872	5,247
Other benefits .....	9,987	8,732	7,205
	-----	-----	-----
Compensation and benefits .....	50,081	43,558	37,343
Occupancy, net .....	7,539	6,519	5,424
Furniture and fixtures .....	6,122	5,539	4,731
Advertising .....	3,787	4,011	2,813
Data Processing .....	4,462	3,942	3,209
Loan and collection .....	3,556	3,352	3,028
Communications .....	3,553	2,895	2,484
Supplies .....	2,140	1,920	1,626
Amortization of intangible assets .....	2,479	1,721	1,014
Legal and professional .....	2,718	1,651	1,238
Mepco claims expense .....	2,700		
Write-off of uncompleted software .....	977		
Loss on prepayment of borrowings .....	18	983	59
Other .....	8,536	6,415	5,324
	-----	-----	-----
Total non-interest expense .....	\$98,668	\$82,506	\$68,293
	=====	=====	=====

The increases in compensation and benefits in 2004 and 2003 compared to each prior year are primarily attributable to an increased number of employees resulting from acquisitions and the addition of new branch and loan production offices as well as to merit pay increases and increases in certain employee benefit costs such as health care insurance. Performance based compensation and benefits declined in 2004 compared to 2003 due primarily to a reduced funding level for our employee stock ownership plan and lower incentive compensation. These lower levels of performance based compensation are reflective of our flat earnings performance in 2004. In addition, compensation expense in 2004 includes \$2.3 million in severance expense related to the termination of employment contracts for three senior managers at Mepco. In general we do not provide employment contracts for our employees and substantially all of our employees are employed on an "at will" basis. The aforementioned employment contracts were executed in April 2003 as part of our acquisition of Mepco.

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 2004 and in prior years did not require the recognition of any expense in our consolidated statements of operations during those periods. In December 2004 the

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Financial Accounting Standards Board ("FASB") issued FASB Statement No. 123 (revised 2004), "Share-Based Payment" ("SFAS #123R) (See "Recent Accounting Pronouncement"). In general this accounting pronouncement requires that all share-based payments to employees, including grants of employee stock options, be recognized in the financial statements based on their fair values. This requirement will apply to us beginning on July 1, 2005.

Occupancy, furniture and fixtures, data processing, communications and supplies expenses all generally increased over the periods presented as a result of the growth of the organization through acquisitions and the opening of new branch and loan production offices. The increase in amortization of intangible assets is also a result of acquisitions.

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

Legal and professional expenses in 2004 include \$0.6 million of costs related to the implementation of Section 404 (internal control over financial reporting) of the Sarbanes Oxley Act of 2002 and \$0.8 million in costs related to the Mepco investigation.

In May 2004 we received an unsolicited anonymous letter regarding certain business practices at Mepco, which was acquired in April 2003 and is now a wholly-owned subsidiary of Independent Bank. We processed this letter in compliance with our Policy Regarding the Resolution of Reports on the Company's Accounting, Internal Controls and Other Business Practices. Under the direction of our Audit Committee, special legal counsel was engaged to investigate the matters raised in the anonymous letter. This investigation was completed during the first quarter of 2005 and we have determined that any amounts or issues relating to the period after our April 2003 acquisition of Mepco were not significant. The potential amount of liability related to periods prior to our April 2003 acquisition date primarily encompasses funds that may be due to former customers of Mepco related to loan overpayments or unclaimed funds that may be subject to escheatment. At this time we believe this potential liability to third parties will not exceed approximately \$5 million. Prior to our acquisition, Mepco had erroneously recorded these amounts as revenue over a period of several years. The final liability may, however, be less, depending on the facts related to each loan account and the applicable state escheatment requirements for unclaimed funds. In the second quarter of 2004 we recorded a liability of \$2.7 million with a corresponding charge to earnings (included in non-interest expenses) for potential amounts due to third parties (either former loan customers or to states for the escheatment of unclaimed funds). Further on September 30, 2004, we entered into an escrow agreement with the primary former shareholders of Mepco. This escrow agreement was entered into for the sole purpose of funding any obligations beyond the

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\$2.7 million amount that we already had accrued. The escrow agreement gives us the right to have all or a portion of the escrow account distributed to us from time to time if the aggregate amount that we (together with any of our affiliates including Mepco) are required to pay to any third parties as a result of the matters being investigated exceeds \$2.7 million. At December 31, 2004, the escrow account contained 92,766 shares of Independent Bank Corporation common stock (deposited by the primary former shareholders of Mepco) having an aggregate market value at that date of approximately \$2.8 million. The escrow agreement contains provisions that require the addition or distribution of shares of Independent Bank Corporation common stock if the total market value of



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such stock in the escrow account falls below \$2.25 million or rises above \$2.75 million. Consistent with these escrow agreement provisions, 2,000 shares of Independent Bank Corporation common stock were released from the escrow account and returned to the former primary shareholders of Mepco in January 2005. As a result of the aforementioned escrow agreement, as well as the \$2.7 million accrual established in the second quarter of 2004, we do not expect any future liabilities (other than investigation costs incurred during the first quarter of 2005) related to the Mepco investigation. The terms of the agreement under which we acquired Mepco obligates the former shareholders of Mepco to indemnify us for existing and resulting damages and liabilities from pre-acquisition activities at Mepco. Accordingly, to the extent that we actually incur any damages or liabilities resulting from these pre-acquisition activities, we believe that we have reasonable grounds to claim and collect full reimbursement. However, there can be no assurance that we will successfully prevail with respect to any of these potential indemnification claims.

The write-off of uncompleted software of \$1.0 million relates to previously capitalized software development costs at Mepco. This software was being developed over the past three years for internal use in connection with Mepco's lending activities. With the assistance of a third-party consultant, during the second quarter of 2004 we determined that this uncompleted internal use software was not expected to provide substantive service potential due primarily to performance, functionality and application server platform issues, and as a result, the capitalized software development costs were written off.

From time to time we may prepay borrowings in order to reduce our cost of funds. The prepayment of certain borrowings may result in a loss being incurred due to prepayment penalty or yield maintenance provisions. In determining whether to prepay a borrowing, we principally evaluate the reduction in future borrowing costs compared to the loss we expect to incur on the prepayment, as well as our overall asset liability management needs. During 2003, we prepaid \$5.0 million in FHLB advances with a weighted average cost of 7.45% and a weighted average remaining maturity of 6.5 years and incurred a loss of \$1.0 million. We replaced these FHLB advances with \$5.0 million in new borrowings with a weighted average cost of 3.65% and weighted average maturity of five years.

Other non-interest expense increased to \$8.6 million in 2004 compared to \$6.4 million in 2003 and \$5.3 million in 2002. The increase in 2004 over 2003 is primarily due to increased FDIC deposit insurance costs, an increase in our Michigan Single Business tax expense, a \$0.4 million write-off of receivables at our mobile home origination subsidiary, and a \$0.8 million increase in merchant (credit card) processing fees at Mepco. The increase in 2003 compared to 2002 is primarily due to our acquisition of Mepco.

Our federal income tax expense has increased generally commensurate with our increase in pre-tax 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. Our effective tax rate was 26.4%, 26.7% and 27.9% in 2004, 2003 and 2002, respectively. The decrease in the effective tax rate in 2004 and 2003 from 2002 is principally attributed to an increase in tax-exempt interest income and income from bank owned life insurance.

### FINANCIAL CONDITION

SUMMARY. Our total assets grew to \$3.1 billion at December 31, 2004, from \$2.4 billion at December 31, 2003. The growth in total assets primarily reflects increases in securities available for sale and loans. Loans, excluding loans held for sale ("Portfolio Loans") increased \$557.9 million in 2004 due primarily to the Midwest and North acquisitions as well as growth in commercial, real estate mortgage and finance receivable loans. Total deposits increased \$474.1

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million in 2004 primarily as a result of the aforementioned bank acquisitions and 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 regularly 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 are expected to be recovered within a reasonable time period. 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. During 2004 we recorded a \$1.4 million impairment charge on Fannie Mae and Freddie Mac preferred securities and a \$0.2 million impairment charge on a mobile home asset-backed security. We also recorded a \$1.5 million impairment charge (one-half in 2003 and one-half in 2002) on a trust preferred security issued by a bank holding company. In these instances we believe that the decline in value is directly due to matters other than changes in interest rates (such as financial difficulties or accounting problems encountered by the issuer), are not expected to be recovered within a reasonable timeframe based upon available information and are therefore other than temporary in nature. (See "Non-interest income" and "Asset/liability management.")

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### SECURITIES

	Amortized Cost	Unrealized ----- Gains      Losses -----		Fair Value -----
		(in thousands)		
Securities available for sale				
December 31, 2004 .....	\$539,162	\$13,448	\$1,702	\$550,908
December 31, 2003 .....	440,060	15,681	1,745	453,996

The increase in securities available for sale was due primarily to purchases of municipal, corporate, mortgage-backed and asset-backed securities during the year as well as our two bank acquisitions. Generally we cannot earn the same interest-rate spread on securities as we can on Portfolio Loans. As a result, 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, 2004 and 2003 we had \$23.6 million and \$33.1 million, respectively, of asset-backed securities included in securities available for sale. Approximately 87% of our asset-backed securities at December 31, 2004 were backed by mobile home loans (compared to 86% at December 31, 2003). All of our asset-backed securities are rated as investment grade (by the major rating agencies) except for one mobile home loan asset-backed security with a balance of \$2.7 million at December 31, 2004 that was down graded during 2004 to a below investment grade rating. During 2004 we recorded an impairment charge of \$0.2

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million on this security due primarily to some further credit related deterioration on the underlying mobile home loan collateral. We continue to closely monitor this particular security as well as our entire mobile home loan asset-backed securities portfolio. We do not foresee, at the present time, any risk of loss (related to credit issues) with respect to any of our other asset-backed securities. Currently the FASB is considering certain changes or clarifications related to the assessment of other than temporary impairment on investment securities as well as other related accounting matters (See Critical Accounting Policies and Recent Accounting Pronouncements).

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,	
	2004	2003
	(in thousands)	
Real estate (1)		
Residential first mortgages .....	\$ 590,949	\$ 546,647
Residential home equity and other junior mortgages	215,261	150,346
Construction and land development .....	261,505	194,340
Other(2) .....	546,789	389,617
Finance receivables .....	254,388	147,671
Consumer .....	182,374	139,261
Commercial .....	165,440	88,558
Agricultural .....	8,584	10,953
	\$2,225,290	\$1,667,393
	\$2,225,290	\$1,667,393

(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.

Our 2003 acquisition of Mepco added the financing of insurance premiums and extended automobile warranties to our lending activities. These are relatively new lines of business for us and expose us to new risks. Mepco conducts its lending activities across the United States although its insurance premium financing business is presently concentrated in California and Illinois. Mepco generally does not evaluate the creditworthiness of the individual borrower but instead primarily relies on the loan collateral (the unearned insurance premium or automobile warranty contract) in the event of default. As a result, we have established and monitor insurance carrier concentration limits in order to manage our collateral exposure. The insurance carrier concentration limits are primarily based on the insurance company's AM Best rating and statutory surplus level. Mepco also has established procedures for loan servicing and collections, including the timely cancellation of the insurance policy or automobile warranty contract in order to protect our collateral position in the event of default.

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Mepco also has established procedures to attempt to prevent and detect fraud since the loan origination activities and initial borrower contact is entirely done through unrelated third parties (primarily insurance agents and automobile warranty administrators or automobile dealerships). There can be no assurance that the aforementioned risk management policies and procedures will prevent us from the possibility of incurring significant credit or fraud related losses in this business segment.

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.

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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 commercial loans (including real estate construction and land development and real estate other in the table above) during 2004 principally reflects our acquisitions of Midwest and North as well as emphasis on lending opportunities within this category of loans and an increase in commercial lending staff. Loans secured by real estate comprise the majority of new commercial loans.

The \$254.4 million of finance receivables at December 31, 2004 are comprised principally of loans to businesses to finance insurance premiums and payment plans offered to individuals to finance extended automobile warranties. The finance receivables are a result of our acquisition of Mepco.

Future growth of overall Portfolio Loans is dependent upon a number of competitive and economic factors. Declines in Portfolio Loans or competition leading to lower relative pricing on new Portfolio Loans could adversely impact our future operating results. We continue to view loan growth consistent with prevailing quality standards as a major short- and long-term challenge.

### NON-PERFORMING ASSETS

	December 31,		
	2004	2003	2002
	(dollars in thousands)		
Non-accrual loans .....	\$11,804	\$ 9,122	\$ 5,738
Loans 90 days or more past due and still accruing interest .....	3,123	3,284	3,961
Restructured loans .....	218	335	270
	-----	-----	-----
Total non-performing loans .....	15,145	12,741	9,969
Other real estate .....	2,113	3,256	3,908
	-----	-----	-----

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Total non-performing assets .....	\$17,258	\$15,997	\$13,877
	=====	=====	=====
As a percent of Portfolio Loans			
Non-performing loans .....	.68%	.76%	.72%
Allowance for loan losses .....	1.11	1.01	1.15
Non-performing assets to total assets .....	.56	.68	.67
Allowance for loan losses as a percent of non-performing loans ...	163	132	159

Non-performing loans totaled \$15.1 million, or 0.68% of total Portfolio Loans at December 31, 2004, a \$2.4 million increase from December 31, 2003. This increase is primarily attributable to growth in the loan portfolio and the acquisitions of Midwest and North. Non-performing loans as a percent of Portfolio Loans declined to 0.68% at December 31, 2004 from 0.76% at December 31, 2003.

The increase in non-performing loans in 2003 compared to 2002 is primarily attributable to \$1.9 million of finance receivables added as the result of the Mepco acquisition and a \$1.5 million increase in non-performing commercial loans. The increase in non-performing commercial loans is primarily due to the addition of two credits totaling \$3.6 million partially offset by the reduction of certain other non-performing commercial credits from December 31, 2002.

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. Accordingly, we have determined that the collection of the accrued and unpaid interest on any loans that are 90 days or more past due and still accruing interest is probable.

Other real estate and repossessed assets totaled \$2.1 million at December 31, 2004 a decline of \$1.1 million from December 31, 2003. The decline in other real estate and repossessed assets is due primarily to a decrease in the level of residential homes acquired through foreclosure.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	December 31,		
	2004	2003	2002
	-----	-----	-----
	(in thousands)		
Specific allocations .....	\$ 2,874	\$ 1,362	\$ 1,313
Other adversely rated loans .....	9,395	6,487	6,067
Historical loss allocations .....	6,092	3,571	2,813
Additional allocations based on subjective factors ...	6,376	6,308	6,512
	-----	-----	-----
Total .....	\$24,737	\$17,728	\$16,705
	=====	=====	=====

In determining the allowance and the related provision for credit 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. Recent years are weighted more heavily in this average. 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 credit losses.")

Mepco's allowance for loan losses is determined in a similar manner as discussed above and takes into account delinquency levels, net charge-offs, unsecured exposure and other subjective factors deemed relevant to their lending activities.

ALLOWANCE FOR CREDIT LOSSES

-----

	2004		2003		
	Loan Losses	Unfunded Commitments	Loan Losses	Unfunded Commitments	
	(in thousands)				
Balance at beginning of year .....	\$16,836	\$ 892	\$15,830	\$875	\$
Allowance on loans acquired .....	8,236		517		
Provision charged to operating expense ...	3,355	954	4,015	17	
Recoveries credited to allowance .....	1,251		1,087		
Loans charged against the allowance .....	(4,941)		(4,613)		
Balance at end of year .....	\$24,737	\$1,846	\$16,836	\$892	\$
=====					
Net loans charged against the allowance to average Portfolio Loans .....		.19%		.23%	

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In the second quarter of 2004, we began to record the allowance for unfunded loan commitments in "Accrued expenses and other liabilities." Previously, this portion of the allowance was included in the allowance for loan losses and shown as a contra-asset on the Consolidated Statements of Financial Condition. Prior period amounts have been reclassified. The allowance for losses on unfunded commitments is determined in a similar manner to the allowance for loan losses.

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.

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### ALTERNATE SOURCES OF FUNDS

	December 31,					
	2004			2003		
	Amount	Average Maturity	Rate	Amount	Average Maturity	Rate
(dollars in thousands)						
Brokered CDs(1) .....	\$ 576,944	1.9 years	2.56%	\$416,566	2.3 years	2.56%
Fixed-rate FHLB advances(1,2) .....	59,902	6.4 years	5.55	84,638	5.0 years	5.55
Variable-rate FHLB advances(1) .....	164,000	0.4 years	2.32	104,150	0.4 years	2.32
Securities sold under agreements to repurchase(1) .....	169,810	0.2 years	2.27	140,969	0.3 years	2.27
Federal funds purchased .....	117,552	1 day	2.44	53,885	1 day	2.44
<b>Total .....</b>	<b>\$1,088,208</b>	<b>1.4 years</b>	<b>2.63%</b>	<b>\$800,208</b>	<b>1.8 years</b>	<b>2.63%</b>

(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 both December 31, 2004 and 2003, respectively, 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,

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other borrowings and Brokered CDs to fund a portion of the increases in securities available for sale and Portfolio Loans. 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 \$405.4 million at December 31, 2004, compared to \$331.8 million a year earlier. The \$73.6 million increase in other borrowed funds principally reflects a \$28.8 million increase in Repurchase Agreements, a \$35.1 million increase in FHLB advances and a \$9.0 million increase in our bank holding company credit facility. The increase in the outstanding balance of our bank holding company credit facility principally reflects funds needed for the cash portion of the Midwest acquisition. The increase in Brokered CDs was primarily utilized to fund commercial loan and finance receivables growth. In determining our borrowing sources, we primarily evaluate the interest cost, payment terms, facility structure and collateral requirements (also see "Liquidity and capital resources.").

We employ derivative financial instruments to manage our exposure to changes in interest rates. At December 31, 2004, we employed interest-rate swaps with an aggregate notional amount of \$602.7 million.

**LIQUIDITY AND CAPITAL RESOURCES.** Liquidity risk is the risk of being unable to timely meet obligations as they come due at a reasonable funding cost or without incurring unacceptable losses. Our liquidity management involves the measurement and monitoring of a variety of sources and uses of funds. Our Consolidated Statements of Cash Flows categorize these sources and uses into operating, investing and financing activities. We primarily focus our liquidity management on developing access to a variety of borrowing sources to supplement our deposit gathering activities and provide funds for growing our investment and loan portfolios as well as to be able to respond to unforeseen liquidity needs.

Our sources of funds include a stable deposit base, secured advances from the Federal Home Loan Bank of Indianapolis, both secured and unsecured federal funds purchased borrowing facilities with other commercial banks, an unsecured holding company credit facility and access to the capital markets (for trust preferred securities and Brokered CD's).

At December 31, 2004, we had \$630.4 million of time deposits that mature in 2005. Historically, a majority of these maturing time deposits are renewed by our customers or are Brokered CD's that we expect to replace. Additionally \$1.137 billion of our deposits at December 31, 2004, were in account types from which the customer could withdraw the funds on demand. Changes in the balances of deposits that can be withdrawn upon demand are usually predictable, and the total balances of these accounts have generally grown over time as a result of our marketing and promotional activities. There can be no assurance that historical patterns of renewing time deposits or overall growth in deposits will continue in the future.

We have developed contingency funding plans that stress tests our liquidity needs that may arise from certain events such as an adverse credit event, rapid loan growth or a disaster recovery situation. Our liquidity management also includes periodic monitoring of each bank that segregates assets between liquid and illiquid and classifies liabilities as core and non-core. This analysis compares our total level of illiquid assets to our core funding. It is our goal to have core funding sufficient to finance illiquid assets.

Over the past several years our Portfolio Loans have grown more rapidly than our core deposits. In addition, much of this growth has been in loan categories that cannot generally be used as collateral for FHLB advances (such



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as commercial loans and finance receivables). As a result, we have become more dependent on wholesale funding sources (such as brokered CD's and Repurchase Agreements). In order to reduce this greater reliance on wholesale funding we intend to explore the potential securitization of both commercial loans and finance receivables during 2005. It is likely that a securitization facility would have a higher all in cost than our current wholesale funding sources which would adversely impact our future net interest income. However we believe that the benefits from a liquidity risk management standpoint will likely outweigh the adverse impact on our net interest income.

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In the normal course of business, we enter into certain contractual obligations. Such obligations include obligations to make future payments on debt and lease arrangements, contractual commitments for capital expenditures, and service contracts. The table below summarizes our significant contractual obligations at December 31, 2004.

### CONTRACTUAL COMMITMENTS

	December 31, 2004			
	1 year or less	1-3 years	3-5 years	After
	-----			
	(dollars in thousands)			
Time deposit maturities .....	\$ 630,387	\$217,507	\$113,751	\$
Federal funds purchased and other borrowings ...	464,154	14,037	15,935	
Operating lease obligations .....	1,309	2,259	935	
Purchase obligations(1) .....	1,084	1,355		
	-----			
Total .....	\$1,096,934	\$235,158	\$130,621	\$1
	=====			

(1) Includes contracts with a minimum annual payment of \$1.0 million and are not cancellable within one year.

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 31,	
2004	2003
-----	
(in thousands)	

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Unsecured debt .....	\$ 9,000	
	-----	
Subordinated debentures .....	64,197	\$ 52,165
Amount not qualifying as regulatory capital ...	(1,847)	(1,565)
	-----	
Amount qualifying as regulatory capital ....	62,350	50,600
	-----	
Shareholders' equity		
Common stock .....	21,195	19,521
Capital surplus .....	158,797	119,401
Retained earnings .....	41,795	16,953
Accumulated other comprehensive income .....	8,505	6,341
	-----	
Total shareholders' equity .....	230,292	162,216
	-----	
Total capitalization .....	\$301,642	\$212,816
	=====	

In March 2003, a special purpose entity, IBC Capital Finance II (the "trust") issued \$1.6 million of common securities to Independent Bank Corporation and \$50.6 million of trust preferred securities to the public. Independent Bank Corporation issued \$52.2 million of subordinated debentures to the trust in exchange for the proceeds from the public offering. These subordinated debentures represent the sole asset of the trust.

Prior to 2004, the trust was consolidated in our financial statements and the common securities and subordinated debentures were eliminated in consolidation. Under new accounting guidance, FASB Interpretation No. 46, as revised in December 2003 ("FIN 46R"), the trust is no longer consolidated with Independent Bank Corporation. Accordingly, we no longer report the \$50.6 million of trust preferred securities issued by the trust as liabilities, but instead report the common securities of \$1.6 million held by Independent Bank Corporation in other assets and the \$52.2 million of subordinated debentures issued by Independent Bank Corporation in the liability section of our Consolidated Statements of Financial Condition. Amounts reported at December 31, 2003 were reclassified to conform to the current presentation. The effect of no longer consolidating the trust had no material impact on our operating results.

In connection with our acquisition of Midwest, we assumed all of the duties, warranties and obligations of Midwest as the sponsor and sole holder of the common securities of Midwest Guaranty Trust I ("MGT"). In 2002, MGT, a special purpose entity, issued \$0.2 million of common securities to Midwest and \$7.5 million of trust preferred securities as part of a pooled offering. Midwest issued \$7.7 million of subordinated debentures to the trust in exchange for the proceeds of the offering, which debentures represent the sole asset of MGT. Both the common securities and subordinated debentures are included in our Consolidated Statement of Financial Condition at December 31, 2004.

In connection with our acquisition of North, we assumed all of the duties, warranties and obligations of North as the sole general partner of Gaylord Partners, Limited Partnership ("GPLP"), a special purpose entity. In 2002, North contributed an aggregate of \$0.1 million to the capital of GPLP and GPLP issued \$5.0 million of floating rate cumulative preferred securities as part of a private placement offering. North issued \$5.1 million of subordinated debentures to GPLP in exchange for the proceeds of the offering, which debentures represent the sole asset of GPLP. Independent Bank purchased \$0.8 million of the GPLP floating rate cumulative

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preferred securities during the private placement offering. This investment security at Independent Bank and a corresponding amount of subordinated debentures are eliminated in consolidation. The remaining subordinated debentures as well as our capital investment in GPLP are included in our Consolidated Statement of Financial Condition at December 31, 2004.

In March 2005, the Federal Reserve Board issued a final rule that would retain trust preferred securities in the Tier 1 capital of bank holding companies. After a transition period ending March 31, 2009, the aggregate amount of trust preferred securities and certain other capital elements will be limited to 25 percent of Tier 1 capital elements, net of goodwill (less any associated deferred tax liability). The amount of trust preferred securities and certain other elements in excess of the limit could be included in the Tier 2 capital, subject to restrictions. Based upon our existing levels of Tier 1 capital, trust preferred securities and goodwill, this final Federal Reserve Board rule would have reduced our Tier 1 capital to average assets ratio by approximately 25 basis points at December 31, 2004 (this calculation assumes no transition period).

We have supplemented our balance-sheet management activities with purchases of our common stock. We repurchased 0.1 million shares of our common stock at an average price of \$24.53 in 2004 compared to 0.6 million shares of our common stock at an average price of \$21.97 per share in 2003 and compared to 1.2 million shares at an average price of \$18.82 per share in 2002. The level of share repurchases in a given year generally reflects changes in our need for capital associated with our balance sheet growth. In February 2005 we announced that our board of directors had authorized the repurchase of up to 0.8 million shares. This authorization expires on December 31, 2005.

Shareholders' equity totaled \$230.3 million at December 31, 2004. The increase from \$162.2 million at December 31, 2003 primarily reflects the retention of earnings (net of cash dividends paid), the issuance of common stock for the Midwest and North acquisitions and pursuant to various equity-based incentive compensation plans, and an increase in accumulated other comprehensive income. Shareholders' equity was equal to 7.44% of total assets at December 31, 2004, compared to 6.87% a year earlier.

### CAPITAL RATIOS

	December 31,	
	2004	2003
Equity capital .....	7.44%	6.87%
Average shareholders' equity to average assets ...	7.31	6.80
Tier 1 capital to average assets .....	7.36	7.91
Tier 1 risk-based capital .....	9.39	10.55
Total risk-based capital .....	10.53	11.57

**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

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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 alternative 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 regularly 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 Bank's 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 TAX EQUIVALENT NET INTEREST INCOME

Change in Interest Rates	Market Value of Portfolio Equity(1)	Percent Change	December 31, 2004 Tax Equivalent Net Interest Income
(dollars in thousands)			
200 basis point rise .....	\$210,000	(5.41)%	\$139,200
100 basis point rise .....	220,800	(0.54)	137,700
Base-rate scenario .....	222,000		135,100
100 basis point decline .....	214,400	(3.42)	132,800
200 basis point decline .....	205,200	(7.57)	133,000

- (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 immediate 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.

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### ACQUISITIONS

On July 1, 2004, we completed the acquisition of North. We issued 345,391

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shares of common stock to the North shareholders. 2004 includes the results of North's operations beginning on July 1, 2004. At the time of acquisition, North had total assets of \$155.1 million, total loans of \$103.6 million, total deposits of \$123.8 million and total stockholders' equity of \$3.3 million. We recorded purchase accounting adjustments related to the North acquisition including recording goodwill of \$2.9 million and establishing a core deposit intangible of \$2.2 million.

On May 31, 2004, we completed the acquisition of Midwest. We issued 997,700 shares of common stock and paid \$16.6 million in cash to the Midwest shareholders. 2004 includes the results of Midwest's operations subsequent to May 31, 2004. At the time of acquisition, Midwest had total assets of \$238.0 million, total loans of \$205.0 million, total deposits of \$198.9 million and total stockholders' equity of \$18.7 million. We recorded purchase accounting adjustments related to the Midwest acquisition including recording goodwill of \$23.1 million, establishing a core deposit intangible of \$4.9 million, and a covenant not to compete of \$1.3 million.

On April 15, 2003, we completed the acquisition of Mepco, a 40-year old Chicago-based company, that specializes in financing insurance premiums for businesses and providing payment plans to consumers for the purchase of vehicle service contracts.

### CRITICAL ACCOUNTING POLICIES

Our accounting and reporting policies are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. Accounting and reporting policies for other than temporary impairment of investment securities, the allowance for loan losses, originated real estate mortgage loan 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.

We are required to assess our investment securities for "other than temporary impairment" on a periodic basis. The determination of other than temporary impairment for an investment security requires judgment as to the cause of the impairment, the likelihood of recovery and the projected timing of the recovery. Our assessment process during 2004 resulted in recording a \$1.6 million impairment charge for other than temporary impairment on various investment securities within our portfolio. Currently the accounting profession (FASB) is considering the meaning of other than temporary impairment with respect to debt securities and has delayed the effective date of certain portions of a recent accounting pronouncement (see "Recent Accounting Pronouncements"). We believe that our assumptions and judgments in assessing other than temporary impairment for our investment securities are reasonable and conform to general industry practices.

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.

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At December 31, 2004 we had approximately \$11.4 million of real estate 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 real estate mortgage loans, the interest rate used to discount the net cash flows from the real estate 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 real estate mortgage loans. We utilize an outside third party (with expertise in the valuation of real estate 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.

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 real estate 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, 2004 we had approximately \$369.5 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. The fair market value of our fixed pay interest-rate swaps being accounted for as cash flow hedges is approximately \$1.3 million at December 31, 2004.

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, 2004 we had recorded a net deferred tax asset of \$8.7 million, which included a net operating loss carryforward of \$6.8 million. We have recorded

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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, 2004 we had recorded \$53.4 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 2004 acquisitions of Midwest and North, the 2003 acquisition of Mepco and 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.

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### RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share Based Payment," ("SFAS #123R") which is a revision of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("SFAS #123"). SFAS #123R supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB #25") and amends Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows." Generally the requirements of SFAS #123R are similar to the requirements described in SFAS #123. However, SFAS #123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values. Pro forma disclosure is no longer an alternative. Statement #123R is effective at the beginning of the first interim or annual period beginning after June 15, 2005. Early adoption is permitted in periods in which financial statements have not yet been issued. We expect to adopt SFAS #123R on July 1, 2005.

SFAS #123R permits companies to adopt its requirements using one of two methods. First, a "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS #123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS #123 for all awards granted to employees prior to the effective date of SFAS #123R that remain unvested on the effective date. Second, a "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS #123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption. We plan to adopt SFAS #123R using the modified prospective method described above.

As permitted by SFAS #123, we currently account for share-based payments to employees using APB #25's intrinsic value method and, as such, generally recognize no compensation cost for employee stock options. Accordingly, the adoption of SFAS 123R's fair value method will have a significant impact on our results overall financial position. The impact of SFAS #123R cannot be predicted at this time because it will depend on the level and type of share-based payments granted in the future. However, had we adopted SFAS #123R in prior periods, the impact of that standard would have approximated the impact of SFAS #123 as described in the disclosure of pro forma net income and earnings per share in Note #14 to our consolidated financial statements.

In March 2004, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 105, "Application of Accounting Principles to Loan Commitments," ("SAB #105") which provides guidance about the measurement of loan commitments required to be accounted for as derivative instruments and recognized at fair value under SFAS #133. SAB #105 also requires companies to disclose their accounting policy for those loan commitments including methods and assumptions used to estimate fair value and associated hedging strategies. SAB #105 is effective for all loan commitments accounted for as derivatives that are entered into after March 31, 2004. Our current policies are consistent with the guidance issued in SAB #105.

In 2003, the Emerging Issues Task Force ("EITF") issued Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The recognition and measurement guidance in EITF 03-1 should be applied in other-than-temporary impairment evaluations performed in reporting periods beginning after June 15, 2004. Disclosures were effective in annual financial statements for fiscal years ending after December 15, 2003, for investments accounted for under FASB Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and No. 124, "Accounting for Certain Investments Held by Not-for-Profit

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Organizations". The disclosure requirements for all other investments are effective in annual financial statements for fiscal years ending after June 15, 2004. Comparative information for periods prior to initial application is not required. On September 15, 2004, the FASB staff proposed two FASB Staff Positions ("FSP"). The first, proposed FSP EITF Issue 03-1-a, "Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments," would provide guidance for the application of paragraph 16 of EITF 03-1 to debt securities that are impaired because of interest rate and/or sector spread increases. The second, proposed FSP EITF Issue 03-1-b, "Effective Date of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments," would delay the effective date of EITF 03-1 for debt securities that are impaired because of interest rate and/or sector spread increases. Other investments within the scope of EITF 03-1 remain subject to its recognition and measurement provisions for interim and annual periods beginning after June 15, 2004. The disclosure provisions of EITF 03-1 also would not be affected by the two proposed FSPs.

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In December 2003, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 03-03, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer". This SOP addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. It includes loans acquired in purchase business combinations. This SOP does not apply to loans originated by us and is effective for loans acquired in fiscal years beginning after December 15, 2004. This SOP is expected to have a significant impact on our future acquisitions as it will require the allocation of the acquired entity's allowance for loan losses to individual loans.

In December 2003, the FASB issued Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities," ("FIN 46R"), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FIN 46. Under the general transition provisions of FIN 46R all public entities are required to fully implement FIN 46R no later than the end of the first reporting period ending after March 15, 2004. The adoption of FIN 46R during the quarter ended March 31, 2004 did not have a material impact on our financial condition or results of operations.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," ("SFAS #150") which requires issuers of financial instruments to classify as liabilities certain freestanding financial instruments that embody obligations for the issuer. SFAS #150 was effective for all freestanding financial instruments entered into or modified after May 31, 2003 and was otherwise effective at the beginning of the first interim period beginning after June 15, 2003. On October 29, 2003, the FASB voted to defer for an indefinite period the application of the guidance in SFAS #150, to non-controlling interests that are classified as equity in the financial statements of a subsidiary but would be classified as a liability on the parent's financial statements. The adoption of the sections of this Statement that have not been deferred did not have a significant impact on our financial condition or results of operations. The section noted above that has been



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deferred indefinitely is not expected to have a material impact on our financial condition or results of operations.

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### MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Independent Bank Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to us and the board of directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2004. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on our assessment, management has concluded that as of December 31, 2004, the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our independent auditor's have issued an audit report on our assessment of the Company's internal control over financial reporting. Their report immediately follows our report.

Independent Bank Corporation  
March 4, 2005

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
Independent Bank Corporation  
Ionia, Michigan

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting, that Independent Bank Corporation maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Independent Bank Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Independent Bank Corporation maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also, in our opinion, Independent Bank Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Independent Bank Corporation and subsidiaries as of December 31, 2004 and 2003, 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, 2004, and our report dated March 4, 2005, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Detroit, Michigan  
March 4, 2005

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2004 and 2003, 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, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). 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, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Independent Bank Corporation's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 4, 2005 expressed an unqualified opinion on management's assessment of and the effective operation of internal control over financial reporting.

/s/ KPMG LLP

Detroit, Michigan  
March 4, 2005

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### CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

December 31,	
2004	2003
(in thousands, except share amounts)	

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ASSETS

Cash and due from banks .....	\$ 72,815	\$ 61,741
Securities available for sale .....	550,908	453,996
Federal Home Loan Bank stock, at cost .....	17,322	13,895
Loans held for sale .....	38,756	32,642
Loans		
Commercial .....	931,251	603,558
Real estate mortgage .....	773,609	681,602
Installment .....	266,042	234,562
Finance receivables .....	254,388	147,671
	-----	-----
Total loans .....	2,225,290	1,667,393
Allowance for loan losses .....	(24,737)	(16,836)
	-----	-----
Net Loans .....	2,200,553	1,650,557
Property and equipment, net .....	56,569	43,979
Bank owned life insurance .....	38,337	36,850
Goodwill .....	53,354	16,696
Other intangibles .....	13,503	7,523
Accrued income and other assets .....	51,910	43,135
	-----	-----
Total Assets .....	\$3,094,027	\$2,361,014
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits		
Non-interest bearing .....	\$ 287,672	\$ 192,733
Savings and NOW .....	849,110	700,541
Time .....	1,040,165	809,532
	-----	-----
Total Deposits .....	2,176,947	1,702,806
Federal funds purchased .....	117,552	53,885
Other borrowings .....	405,386	331,819
Subordinated debentures .....	64,197	52,165
Financed premiums payable .....	48,160	26,340
Accrued expenses and other liabilities .....	51,493	31,783
	-----	-----
Total Liabilities .....	2,863,735	2,198,798
	-----	-----
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; 21,194,651 shares at December 31, 2004 and 19,521,137 shares at December 31, 2003 .....	21,195	19,521
Capital surplus .....	158,797	119,401
Retained earnings .....	41,795	16,953
Accumulated other comprehensive income .....	8,505	6,341
	-----	-----
Total Shareholders' Equity .....	230,292	162,216
	-----	-----
Total Liabilities and Shareholders' Equity .....	\$3,094,027	\$2,361,014
	=====	=====

See accompanying notes to consolidated financial statements

## CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2004	2003	2002
	(in thousands, except per share a		
<b>INTEREST INCOME</b>			
Interest and fees on loans .....	\$139,846	\$118,861	\$109,2
Securities available for sale .....			
Taxable .....	12,497	11,687	12,2
Tax-exempt .....	9,439	8,207	7,0
Other investments .....	765	611	1,2
Total Interest Income .....	162,547	139,366	129,8
<b>INTEREST EXPENSE</b>			
Deposits .....	28,363	27,802	35,1
Other borrowings .....	16,651	16,311	12,8
Total Interest Expense .....	45,014	44,113	48,0
Net Interest Income .....	117,533	95,253	81,8
Provision for loan losses .....	4,309	4,032	3,5
Net Interest Income After Provision for Loan Losses ...	113,224	91,221	78,2
<b>NON-INTEREST INCOME</b>			
Service charges on deposit accounts .....	17,089	14,668	13,0
Net gains (losses) on assets			
Real estate mortgage loans .....	5,956	16,269	8,1
Securities .....	856	(779)	(
VISA check card interchange income .....	2,054	1,564	1,3
Title insurance fees .....	2,036	3,092	2,4
Manufactured home loan origination fees and commissions...	1,264	1,769	1,9
Real estate mortgage loan servicing .....	1,427	(294)	(8
Other income .....	7,116	6,315	4,7
Total Non-interest Income .....	37,798	42,604	30,9
<b>NON-INTEREST EXPENSE</b>			
Compensation and employee benefits .....	50,081	43,558	37,3
Occupancy, net .....	7,539	6,519	5,4
Furniture and fixtures .....	6,122	5,539	4,7
Other expenses .....	34,926	26,890	20,7
Total Non-interest Expense .....	98,668	82,506	68,2
Income Before Income Tax .....	52,354	51,319	40,8
Income tax expense .....	13,796	13,727	11,3
Net Income .....	\$ 38,558	\$ 37,592	\$ 29,4
<b>Net income per share</b>			
Basic .....	\$ 1.88	\$ 1.92	\$ 1.

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Diluted .....	\$ 1.84	\$ 1.87	\$ 1.84
Cash dividends declared per common share .....	\$ .66	\$ .59	\$ .66

See accompanying notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Compre- hensive Income (Loss)
(in thousands)				
Balances at January 1, 2002 .....	\$17,749	\$ 76,628	\$ 39,355	\$ (1,829)
Net income for 2002 .....			29,467	
Cash dividends declared, \$.44 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, net of \$2.8 million of related tax effect .....				5,193
Balances at December 31, 2002 .....	17,774	75,124	41,785	3,364
Net income for 2003 .....			37,592	
Cash dividends declared, \$.59 per share .....			(11,642)	
10% stock dividend .....	1,776	48,969	(50,782)	
Issuance of 491,818 shares of common stock ....	492	7,365		
Repurchase and retirement of 520,607 shares of common stock .....	(521)	(12,057)		
Net change in accumulated other comprehensive income, net of \$1.6 million of related tax effect .....				2,977
Balances at December 31, 2003 .....	19,521	119,401	16,953	6,341
Net income for 2004 .....			38,558	
Cash dividends declared, \$.66 per share .....			(13,716)	
Issuance of 1,755,114 shares of common stock ..	1,755	41,317		
Repurchase and retirement of 81,600 shares of common stock .....	(81)	(1,921)		
Net change in accumulated other comprehensive income, net of \$1.2 million of related tax effect .....				2,164
Balances at December 31, 2004 .....	\$21,195	\$158,797	\$ 41,795	\$ 8,505

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2004	2003
		(in thousands)
Net income .....	\$38,558	\$37,599
Other comprehensive income		
Net change in unrealized gain (loss) on securities available for sale, net of related tax effect .....	(1,423)	(1,423)
Net change in unrealized gain (loss) on derivative instruments, net of related tax effect .....	3,587	2,146
Comprehensive Income .....	\$40,722	\$40,302

See accompanying notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December	
	2004	2003
		(in thousands)
Net Income .....	\$ 38,558	\$ 37,599
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH FROM (USED IN) OPERATING ACTIVITIES		
Proceeds from sales of loans held for sale .....	391,401	908,750
Disbursements for loans held for sale .....	(391,559)	(795,540)
Provision for loan losses .....	4,309	4,030
Deferred federal income tax expense .....	2,185	4,420
Deferred loan fees .....	(568)	(620)
Depreciation, amortization of intangible assets and premiums and accretion of discounts on securities and loans .....	(3,001)	1,250
Net gains on sales of real estate mortgage loans .....	(5,956)	(16,260)
Net (gains) losses on securities .....	(856)	770
Write-off of uncompleted software .....	977	-
Increase in accrued income and other assets .....	(11,432)	(12,070)
Increase in accrued expenses and other liabilities .....	40,366	1,020
Total Adjustments .....	25,866	95,750
Net Cash Provided by (Used in) Operating Activities .....	64,424	133,349
CASH FLOW USED IN INVESTING ACTIVITIES		
Proceeds from the sale of securities available for sale .....	57,441	20,440

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Proceeds from the maturity of securities available for sale .....	24,489	22,74
Principal received on securities available for sale .....	46,672	96,03
Purchases of securities available for sale .....	(132,190)	(226,89)
Portfolio loans originated, net of principal payments .....	(295,899)	(191,26)
Principal received on portfolio loans purchased .....	3,668	8,59
Acquisition of businesses, less cash received .....	12,905	(3,06)
Purchase of bank owned life insurance .....		
Purchases of property and equipment .....	(11,720)	(7,27)
	-----	-----
Net Cash Used in Investing Activities .....	(294,634)	(280,67)
	-----	-----
CASH FLOW FROM FINANCING ACTIVITIES		
Net increase in total deposits .....	150,930	167,20
Net increase (decrease) in other borrowings and federal funds purchased	88,306	(23,16)
Proceeds from Federal Home Loan Bank advances .....	509,100	645,65
Payments of Federal Home Loan Bank advances .....	(503,525)	(650,92)
Proceeds from issuance of long-term debt .....	10,000	
Repayment of long-term debt .....	(1,000)	
Dividends paid .....	(12,500)	(11,04)
Proceeds from issuance of subordinated debentures net of cash paid for common securities .....		48,71
Redemption of subordinated debentures net of cash receipt for common securities .....		(17,25)
Repurchase of common stock .....	(2,002)	(12,57)
Proceeds from issuance of common stock .....	1,975	1,73
	-----	-----
Net Cash From Financing Activities .....	241,284	148,34
	-----	-----
Net Increase in Cash and Cash Equivalents .....	11,074	1,01
Cash and Cash Equivalents at Beginning of Year .....	61,741	60,73
	-----	-----
Cash and Cash Equivalents at End of Year .....	\$ 72,815	\$ 61,74
	=====	=====
Cash paid during the year for		
Interest .....	\$ 43,253	\$ 44,69
Income taxes .....	5,666	10,73
Transfer of loans to other real estate .....	2,096	4,10
Real estate loans securitized .....	50,593	

See accompanying notes to consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ACCOUNTING POLICIES

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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 the assessment for other than temporary impairment on investment securities, the determination of 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



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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' cover traditional phases of commercial banking, including checking and savings accounts, commercial lending, direct and indirect consumer financing, mortgage lending as well as insurance premium and extended automobile warranty financing. 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. Our financing for insurance premiums and extended automobile warranties is provided across the United States through our wholly owned subsidiary, Mepco Insurance Premium Financing, Inc. 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, 2004, 72% 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 2004 reflects a net gain reclassified into earnings of \$0.9 million and reflects net losses reclassified into earnings of \$0.8 million and \$24,000, in 2003 and 2002, respectively. The reclassification of these amounts from comprehensive income resulted in income tax expense of \$0.3 million in 2004 and an income tax benefit of \$0.3 million and \$8,000 in 2003 and 2002, respectively.

### 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 primary 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

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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, 2004 and 2003. 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. Delinquency status is based on contractual terms of the loan agreement.

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

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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 incurred losses. We generally charge-off homogenous residential mortgage, installment and finance receivable loans when they are deemed uncollectible or reach a predetermined number of days past due based on loan product, industry practice and other factors. 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.

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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.

The allowance for loan losses on unfunded commitments is determined in a similar manner to the allowance for loan losses and is recorded in accrued expenses and other liabilities.

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. Buildings are generally depreciated over a period not exceeding 39 years and equipment is generally depreciated over periods not exceeding 7 years. Leasehold improvements are depreciated over the shorter of their estimated useful life or lease period.

OTHER REAL ESTATE - Other real estate at the time of acquisition is recorded at the lower of cost of acquisition or fair value, less estimated costs to sell, which becomes the property's new basis. Fair value is typically determined by a third party appraisal of the property. 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 2004 and 2003 we foreclosed on certain loans secured by real estate and transferred approximately \$2.1 million and \$4.1 million, respectively to other real estate. At the time of acquisition 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 2004 and 2003, we sold other real estate with book balances of approximately \$4.6 million and \$4.8 million, respectively. Gains or losses on the sale of other real estate are recorded in other expense on the income statement.

Other real estate and repossessed assets totaling \$2.1 million and \$3.3 million at December 31, 2004 and 2003, respectively, are included in accrued income and other assets.

INTANGIBLE ASSETS - 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") 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 requires that combinations be accounted for using the purchase method of accounting. SFAS #142 requires goodwill and intangible assets be reviewed for impairment. Based on our review of goodwill and intangible assets recorded on the Statement of Condition, no impairment existed as of December 31, 2004.

Other intangible assets, including core deposit, customer relationship intangibles, and covenants not to compete are amortized using both straight-line and accelerated methods over 5 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

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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 - Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("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.

We record the fair value of cash-flow hedging instruments ("Cash Flow Hedges") in accrued income and other assets and 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

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variable-rate debt obligations) affect earnings. It is anticipated that no unrealized gains on Cash Flow Hedges at December 31, 2004, 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, 2004 is 4.6 years.

We also record fair-value hedging instruments ("Fair Value Hedges") at fair value in accrued income and other assets and accrued expenses and other liabilities. The hedged items (primarily fixed-rate debt obligations) are 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 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 in earnings.

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

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balance sheet at its fair value, and gains and losses that were included in accumulated other comprehensive income are recognized immediately in earnings. 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 earnings.

STOCK BASED COMPENSATION - We apply APB Opinion No. 25 in accounting for our stock based compensation plans. We 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. For purposes of pro forma disclosures, we recognized compensation cost on stock options with pro rata vesting on a straight-line basis. Our stock based compensation plans are described more fully in Note #14.

COMMON STOCK - At December 31, 2004, 0.5 million shares of common stock were reserved for issuance under the dividend reinvestment plan and 1.3 million shares of common stock were reserved for issuance under stock option plans.

RECLASSIFICATION - Certain amounts in the 2003 and 2002 consolidated financial statements have been reclassified to conform with the 2004 presentation.

### NOTE 2 - ACQUISITIONS

On July 1, 2004, we completed our acquisition of North Bancorp, Inc. ("North"), with the purpose of expanding our presence in northern Michigan. North was a publicly held bank holding company primarily doing business as a commercial bank. As a result of the closing of this transaction, we issued 345,391 shares of common stock to the North shareholders. 2004 includes the results of North's operations beginning on July 1, 2004.

A condensed balance sheet of North at the date of acquisition follows:

	(in thousands)
	-----
Cash .....	\$ 21,505
Securities .....	26,418
Loans, net .....	97,573
Property and equipment .....	2,318
Intangible assets .....	2,240
Goodwill .....	2,948
Other assets .....	9,299
	-----
Total assets acquired .....	162,301
Deposits .....	124,088
Borrowings .....	27,090
Other liabilities .....	2,350
	-----
Total liabilities assumed ...	153,528
	-----
Net assets acquired .....	\$ 8,773
	=====

We recorded purchase accounting adjustments related to the North acquisition including recording goodwill of \$2.9 million (non-deductible for federal income tax purposes), and establishing a core deposit intangible of \$2.2 million. The core deposit intangible is being amortized on an accelerated basis

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over eight years. Included in 2004 results of operations was \$0.2 million for amortization of the core deposit intangible.

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The unaudited pro-forma information presented in the following table has been prepared based on our historical results combined with North. The information has been combined to present the results of operations as if the acquisition had occurred at the beginning of the periods presented. The proforma results are not necessarily indicative of the results which would have actually been attained if the acquisition had been consummated in the past or what may be attained in the future:

	Year Ended December 31,	
	2004	2003
	-----	-----
	(in thousands)	
Total revenue .....	\$205,300	\$195,900
	=====	=====
Net income .....	\$ 38,100	\$ 33,800
	=====	=====
Earnings per share ...	\$ 1.81	\$ 1.66
	=====	=====

On May 31, 2004, we completed our acquisition of Midwest Guaranty Bancorp, Inc. ("Midwest"), with the purpose of expanding our presence in southeastern Michigan. Midwest was a closely held bank holding company primarily doing business as a commercial bank. As a result of the closing of this transaction, we issued 997,700 shares of common stock and paid \$16.6 million in cash to the Midwest shareholders. 2004 results include Midwest's operations subsequent to May 31, 2004.

A condensed balance sheet of Midwest at the date of acquisition follows:

	(in thousands)
	-----
Cash .....	\$ 8,390
Securities .....	19,557
Loans, net .....	201,476
Property and equipment .....	5,674
Intangible assets .....	6,219
Goodwill .....	23,074
Other assets .....	1,824
	-----
Total assets acquired .....	266,214
	-----
Deposits .....	199,123
Borrowings .....	20,046
Other liabilities .....	2,931
	-----

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Total liabilities assumed ...	222,100
	-----
Net assets acquired .....	\$ 44,114
	=====

We recorded purchase accounting adjustments related to the Midwest acquisition including recording goodwill of \$23.1 million, (non-deductible for federal income tax purposes), establishing a core deposit intangible of \$4.9 million, and a covenant not to compete of \$1.3 million. The core deposit intangible is being amortized on an accelerated basis over ten years and the covenant not to compete on a straight-line basis over five years. Included in 2004 results of operations was \$0.5 million for amortization of the core deposit intangible and the covenant not to compete.

The unaudited pro-forma information presented in the following table has been prepared based on our historical results combined with Midwest. The information has been combined to present the results of operations as if the acquisition had occurred at the beginning of the periods presented. The proforma results are not necessarily indicative of the results which would have actually been attained if the acquisition had been consummated in the past or what may be attained in the future:

	Year Ended December 31,	
	2004	2003
	-----	-----
	(in thousands)	
Total revenue .....	\$206,400	\$196,600
	=====	=====
Net income .....	\$ 38,900	\$ 39,100
	=====	=====
Earnings per share ...	\$ 1.83	\$ 1.86
	=====	=====

On April 15, 2003, we completed the acquisition of Mepco Insurance Premium Financing, Inc. with the purpose of adding a high margin business with good growth prospects and to take advantage of our relatively lower cost of funds and greater access to capital. Mepco is a 40-year old Chicago-based company that specializes in financing insurance premiums for businesses and extended automobile warranties for consumers. As a result of the closing of this transaction we issued 272,439 shares of common stock, and paid out \$5.0 million in cash on April 15, 2003 as the initial consideration. Under the terms of the agreement and plan of

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merger additional contingent consideration may be paid in the future pursuant to an earn-out. During 2004 we issued 43,929 shares of common stock and paid out \$1.1 million in cash associated with the first year of the earn-out.

As a result of the termination of the employment contracts of certain Mepco officers in December 2004, the former shareholders of Mepco have the right, under the terms of our acquisition, to accelerate the earn-out amount payable to those shareholders rather than receive payments in annual installments

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through April, 2008. The precise earn-out amount of that accelerated payment is dependent upon the time of exercise of the shareholders' option to accelerate. That option expires on March 30, 2006. The payment of the earn-out amount, whether or not accelerated, will be recorded by us as goodwill. At December 31, 2004 we accrued approximately \$8.4 million (included in accrued expenses and other liabilities) and recorded a corresponding increase in goodwill for this accelerated earn-out option. Included in our 2003 results are Mepco's operations subsequent to April 15, 2003.

A condensed balance sheet of Mepco at the date of acquisition follows:

	(in thousands)
	-----
Cash .....	\$ 2,217
Finance receivables, net .....	99,156
Property and equipment .....	1,233
Intangible assets .....	2,824
Goodwill .....	9,390
Other assets .....	3,011
	-----
Total assets acquired .....	117,831
	-----
Short-term borrowings .....	79,893
Financed premiums payable .....	24,628
Other liabilities .....	3,028
	-----
Total liabilities assumed ...	107,549
	-----
Net assets acquired .....	\$ 10,282
	-----
	=====

We recorded purchase accounting adjustments related to the Mepco acquisition including recording goodwill of \$9.4 million (non-deductible for federal income tax purposes), establishing a customer relationship intangible of \$2.6 million, a covenant not to compete of \$0.2 million and writing down fixed assets (software in the process of development) by \$2.3 million. The customer relationship intangible is being amortized on an accelerated basis over ten years and the covenant not to compete on a straight-line basis over five years. Included in 2004 and 2003 results of operations were \$0.7 million and \$0.6 million, respectively, for amortization of the customer relationship intangible and the covenant not to compete.

The unaudited pro-forma information presented in the following table has been prepared based on our historical results combined with Mepco. The information has been combined to present the results of operations as if the acquisition had occurred at the beginning of the periods presented. The proforma results are not necessarily indicative of the results which would have actually been attained if the acquisition had been consummated in the past or what may be attained in the future:

Year Ended December 31,	
-----	
2003	2002
-----	-----



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(in thousands)

Total revenue .....	\$185,100	\$172,700
	=====	=====
Net income .....	\$ 37,800	\$ 30,300
	=====	=====
Earnings per share ...	\$ 1.87	\$ 1.46
	=====	=====

NOTE 3 - RESTRICTIONS ON CASH AND DUE FROM BANKS

Our Banks' legal reserve requirements were satisfied by average vault cash and non-interest earning balance with the Federal Reserve Bank of \$19.0 million and \$18.8 million during 2004 and 2003, respectively. Our Banks do not maintain compensating balances with correspondent banks.

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NOTE 4 - SECURITIES

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

	Amortized Cost	Unrealized ----- Gains      Losses		Fair Value
-----				
(in thousands)				
2004				
U.S. Treasury .....	\$ 9,949		\$ 25	\$ 9,924
Mortgage-backed .....	221,920	\$ 1,209	675	222,454
Other asset-backed .....	22,951	903	277	23,577
Obligations of states and political subdivisions ...	235,559	9,534	605	244,488
Trust preferred .....	18,296	1,623	3	19,916
Preferred stock .....	25,885	141	113	25,913
Corporate .....	1,966	34		2,000
Other .....	2,636			2,636
	-----	-----	-----	-----
Total .....	\$539,162	\$13,444	\$1,698	\$550,908
	=====	=====	=====	=====
2003				
U.S. Treasury .....	\$ 300	\$ 1		\$ 301
Mortgage-backed .....	137,839	1,396	\$ 249	138,986
Other asset-backed .....	32,721	648	239	33,130
Obligations of states and political subdivisions ...	188,076	10,570	855	197,791
Trust preferred .....	29,041	2,186	149	31,078
Preferred stock .....	30,374	142	253	30,263
Corporate .....	21,171	738		21,909
Other .....	538			538
	-----	-----	-----	-----
Total .....	\$440,060	\$15,681	\$1,745	\$453,996
	=====	=====	=====	=====

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Our investments' gross unrealized losses and fair values aggregated by investment type and length of time that individual securities have been at a continuous unrealized loss position, at December 31, 2004 follows:

	Less Than Twelve Months		Twelve Months or More		Fair Value
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
-----					
(in thousands)					
U.S. Treasury .....	\$ 9,924	\$ 25			\$
Mortgage-backed .....	55,082	534	\$10,904	\$141	
Other asset-backed .....			2,668	277	
Obligations of states and political subdivisions .....	10,183	93	8,644	512	
Trust preferred securities .....			606	3	
Preferred stock .....	1,091	113			
-----					
Total .....	\$76,280	\$765	\$22,822	\$933	\$
=====					

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. 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.

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The amortized cost and fair value of securities available for sale at December 31, 2004, 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 .....	\$ 10,251	\$ 10,412
Maturing after one year but within five years ....	50,948	53,082
Maturing after five years but within ten years ...	61,505	65,046
Maturing after ten years .....	143,066	147,788
	-----	-----
Mortgage-backed .....	265,770	276,328
Other asset-backed .....	221,920	222,454
Preferred stock .....	22,951	23,577
Other .....	25,885	25,913
	-----	-----
Total .....	\$539,162	\$550,908
	=====	=====

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

		Realized	
Proceeds	Gains	Losses (1)	
(in thousands)			
2004 ...	\$57,441	\$2,540	\$1,684
2003 ...	20,446	827	1,606
2002 ...	66,390	809	833

(1) Losses in 2004 include a \$1.6 million other than temporary impairment charge on preferred stock and other asset-backed securities and losses in 2003 and 2002 include a \$0.8 million other than temporary impairment charge on a trust-preferred security.

Securities with a book value of \$271.9 million and \$186.3 million at December 31, 2004 and 2003, respectively, were pledged to secure borrowings, 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, 2004 or 2003.

### NOTE 5 - LOANS

Our loan portfolios at December 31 follow:

	2004	2003
(in thousands)		
Real estate(1)		
Residential first mortgages .....	\$ 590,949	\$ 546,647
Residential home equity and other junior mortgages ...	215,261	150,346
Construction and land development .....	261,505	194,340
Other(2) .....	546,789	389,617
Finance receivables .....	254,388	147,671
Consumer .....	182,374	139,261
Commercial .....	165,440	88,558
Agricultural .....	8,584	10,953
Total loans .....	\$2,225,290	\$1,667,393

(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.

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

	2004		2003	
	Loan Losses	Unfunded Commitments	Loan Losses	Unfunded Commitments
	(in thousands)			
Balance at beginning of year .....	\$16,836	\$ 892	\$15,830	\$875
Allowance on loans acquired .....	8,236		517	
Provision charged to operating expense ...	3,355	954	4,015	17
Recoveries credited to allowance .....	1,251		1,087	
Loans charged against the allowance .....	(4,941)		(4,613)	
Balance at end of year .....	\$24,737	\$1,846	\$16,836	\$892

Loans are presented net of deferred loan fees of \$1.2 million at December 31, 2004, and \$1.8 million at December 31, 2003. Finance receivables totaling \$123.4 million and \$58.4 million at December 31, 2004 and 2003, respectively, are presented net of purchased discount of \$7.0 million and \$2.4 million, at December 31, 2004 and 2003, respectively. These finance receivables had effective interest rates at December 31, 2004 and 2003 of 17.0% and 18.7%, respectively. These receivables have various due dates through August, 2007.

Non-performing loans at December 31 follows:

	2004	2003	2002
	(dollars in thousands)		
Non-accrual loans .....	\$11,804	\$ 9,122	\$5,738
Loans 90 days or more past due and still accruing interest ...	3,123	3,284	3,961
Restructured loans .....	218	335	270
Total non-performing loans .....	\$15,145	\$12,741	\$9,969

If these loans had continued to accrue interest in accordance with their original terms, approximately \$1.1 million, \$0.7 million, and \$0.9 million of interest income would have been recognized in 2004, 2003 and 2002, respectively. Interest income recorded on these loans was approximately \$0.3 million, \$0.3 million and \$0.3 million in 2004, 2003 and 2002, respectively.

Impaired loans totaled approximately \$14.4 million, \$13.5 million and \$5.4 million at December 31, 2004, 2003 and 2002, respectively. Our Banks' average investment in impaired loans was approximately \$14.8 million, \$10.1 million and \$6.8 million in 2004, 2003 and 2002, 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 \$0.6 million, \$0.4 million and \$0.2 million in 2004, 2003 and 2002, respectively. Certain impaired loans with a balance of approximately \$10.8 million, \$9.6 million and

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\$3.1 million had specific allocations of the allowance for loan losses totaling approximately \$2.9 million, \$1.4 million and \$1.3 million at December 31, 2004, 2003 and 2002, respectively.

At December 31, 2004, 2003 and 2002, our Banks serviced residential mortgage loans totaling \$1.418 billion, \$1.179 billion and \$0.882 billion, respectively, for the benefit of third parties.

An analysis of capitalized mortgage servicing rights for the years ended December 31 follows:

	2004	2003
	-----	-----
	(in thousands)	
Balance at beginning of year .....	\$ 8,873	\$ 4,455
Servicing rights acquired from acquisition of business .....	1,138	
Originated servicing rights capitalized .....	3,341	7,700
Amortization .....	(1,948)	(3,655)
Change in impairment reserve .....	(44)	373
	-----	-----
Balance at end of year .....	\$ 11,360	\$ 8,873
	=====	=====
Impairment reserve .....	\$ 766	\$ 722
	=====	=====
Loans sold and serviced that have had servicing rights capitalized ...	\$1,392,400	\$1,140,600
	=====	=====

Capitalized mortgage servicing rights are included on the consolidated statement of financial position in accrued income and other assets.

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### NOTE 6 - PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31 follows:

	2004	2003
	-----	-----
	(in thousands)	
Land .....	\$ 12,788	\$ 9,202
Buildings .....	48,040	39,954
Equipment .....	46,503	39,881
	-----	-----
Accumulated depreciation and amortization ...	107,331	89,037
	(50,762)	(45,058)
	-----	-----
Property and equipment, net .....	\$ 56,569	\$ 43,979
	=====	=====

During 2004 we incurred a \$1.0 million impairment charge for the write-off

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of previously capitalized software development costs. This software was being developed by Mepco over the past three years for internal use in connection with its lending activities. With the assistance of a third-party consultant, we determined that this uncompleted internal use software was not expected to provide substantive service potential due primarily to performance, functionality and application server platform issues. This amount is recorded in other non-interest expense.

NOTE 7 - INTANGIBLE ASSETS

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

	2004		2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(in thousands)			
Amortized intangible assets				
Core deposit .....	\$20,545	\$ 9,685	\$13,386	\$ 8,067
Customer relationship .....	2,604	1,254	2,604	589
Covenants not to compete .....	1,520	227	220	31
Total .....	\$24,669	\$11,166	\$16,210	\$ 8,687
Unamortized intangible assets - Goodwill ...	\$53,354		\$16,696	

The \$36.7 million, \$7.2 million and \$1.3 million increases in the gross carrying amount of goodwill, core deposit intangibles and covenants not to compete, respectively, are the result of the acquisitions of Midwest and North, as well as estimated minimum payments under the earn-out relating to the Mepco acquisition discussed in Note 2. The core deposit intangibles are being amortized on an accelerated basis over eight to ten years and the covenant not to compete is being amortized straight-line over five years.

A summary of estimated intangible amortization, primarily amortization of core deposit, customer relationship and covenant not to compete intangibles, at December 31, 2004, follows:

(in thousands)	
	-----
2005 .....	\$ 2,774
2006 .....	2,572
2007 .....	2,382
2008 .....	2,061
2009 .....	966
2010 and thereafter ...	2,748
Total .....	\$13,503
	=====

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Changes in the carrying amount of goodwill and amortizing intangibles by reporting segment for the year ended December 31, 2004, follows:

	IB -----	IBWM ----	IBSM -----	IBEM -----	Mepco -----
	(in thousands)				
Goodwill					
Balance at beginning of year	\$6,754	\$ 32		\$ 180	\$ 9,397
Acquired during the year .....	2,948 (2)			23,025 (3)	10,638 (4)
	-----	----		-----	-----
Balance at end of year .....	\$9,702	\$ 32		\$23,205	\$20,035
	=====	=====		=====	=====
Core Deposit Intangible, net					
Balance at beginning of year .....	\$ 584	\$ 95	\$ 594	\$ 3,973	
Acquired during the year .....	2,240 (2)			4,919 (3)	
Amortization .....	(268)	(26)	(143)	(1,165)	
	-----	----	-----	-----	
Balance at end of year .....	\$2,556	\$ 69	\$ 451	\$ 7,727	
	=====	=====	=====	=====	
Customer Relationship Intangible, net					
Balance at beginning of year .....					\$ 2,015
Amortization .....					(665)
					-----
Balance at end of year .....					\$ 1,350
					=====
Covenants Not to Compete Intangible, net					
Balance at beginning of year .....					\$ 189
Acquired during year .....				\$ 1,300 (3)	
Amortization .....				(152)	(44)
				-----	-----
Balance at end of year .....				\$ 1,148	\$ 145
				=====	=====

- (1) Includes items relating to our parent company and certain insignificant operations.
- (2) Goodwill and intangible assets associated with the acquisition of North. See note #2.
- (3) Goodwill and intangible assets associated with the acquisition of Midwest. See note #2.
- (4) Goodwill associated with contingent consideration paid or accrued pursuant to an earn-out. See note #2.

NOTE 8 - DEPOSITS

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

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	2004	2003	2002
	-----	-----	-----
	(in thousands)		
Savings and NOW .....	\$ 4,543	\$ 4,879	\$ 7,444
Time deposits under \$100,000 .....	7,972	9,841	14,219
Time deposits of \$100,000 or more ...	15,848	13,082	13,471
	-----	-----	-----
Total .....	\$28,363	\$27,802	\$35,134
	=====	=====	=====

Aggregate time deposits in denominations of \$100,000 or more amounted to \$704.4 million, \$496.2 million, and \$347.5 million at December 31, 2004, 2003 and 2002, respectively.

A summary of the maturity of time deposits at December 31, 2004, follows:

	(in thousands)
	-----
2005 .....	\$ 630,387
2006 .....	135,727
2007 .....	81,780
2008 .....	35,823
2009 .....	77,928
2010 and thereafter ...	78,520
	-----
Total .....	\$1,040,165
	=====

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NOTE 9 - OTHER BORROWINGS

A summary of other borrowings at December 31 follows:

	2004	2003
	-----	-----
	(in thousands)	
Advances from Federal Home Loan Bank ...	\$223,902	\$188,788
Repurchase agreements .....	169,810	140,969
Notes payable .....	9,000	
U.S. Treasury demand notes .....	2,460	1,858
Other .....	214	204
	-----	-----
Total .....	\$405,386	\$331,819
	=====	=====

Advances from the Federal Home Loan Bank ("FHLB") are secured by our Banks' unencumbered qualifying mortgage and home equity loans equal to at least 160%



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and 300%, respectively of outstanding advances. Advances are also secured by FHLB stock owned by the Banks. As of December 31, 2004, our Banks had unused borrowing capacity with the FHLB (subject to the FHLB's credit requirements and policies) of \$172.5 million. Interest expense on advances amounted to \$5.2 million, \$5.4 million and \$5.2 million for the years ended December 31, 2004, 2003 and 2002, respectively. During 2004, 2003 and 2002 we prepaid \$11.5 million, \$5.0 million and \$4.0 million, respectively, of FHLB advances and incurred losses during those same periods of \$0.02 million, \$1.0 million and \$0.1 million, respectively. These losses were recorded in other expenses.

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, 2004, 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, 2004, advances totaling \$10.0 million, with a stated maturity of 2008 are convertible in 2005 and beyond.

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

	2004		2003	
	Amount	Rate	Amount	Rate
	(dollars in thousands)			
Fixed-rate advances				
2004 .....			\$ 34,000	1.44%
2005 .....	\$ 8,118	4.88%	3,100	4.10
2006 .....	3,046	3.94	1,500	2.32
2007 .....	6,991	3.20	5,000	2.83
2008 .....	11,462	5.22	11,000	5.43
2009 .....	1,473	5.93	1,000	7.27
2010 and thereafter .....	28,812	6.59	29,038	6.59
	59,902	5.55	84,638	3.99
Variable-rate advances				
2004 .....			104,150	1.30
2005 .....	164,000	2.32		
	164,000	2.32	104,150	1.30
	\$223,902	3.18%	\$188,788	2.51%
	=====	=====	=====	=====

Repurchase agreements are secured by U.S. Treasury, mortgage-backed, asset-backed and corporate securities with a book value of approximately \$183.7 million and \$161.0 million at December 31, 2004 and 2003, respectively which are being held by the counterparty to the repurchase agreement. The yield on repurchase agreements at December 31, 2004 and 2003 approximated 2.3% and 1.2%, respectively.

Repurchase agreements averaged \$155.6 million, \$122.4 million and \$93.1 million during 2004, 2003 and 2002, respectively. The maximum amounts outstanding at any month end during 2004, 2003 and 2002 were \$173.3 million,

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\$141.0 million and \$109.2 million, respectively. Interest expense on repurchase agreements totaled \$2.3 for the year ended 2004 and \$1.7 million, for the years ended 2003 and 2002.

Interest expense on Federal funds purchased totaled \$1.3 million, \$0.6 million and \$0.5 million for the years ended December 31, 2004, 2003 and 2002, respectively.

We have established an unsecured credit facility comprised of a \$9.0 million term loan and a \$10.0 million revolving credit agreement. At December 31, 2004, there was no balance outstanding on the revolving credit facility. The term loan and revolving credit agreement accrue interest at three month libor plus 90 basis points, which was 2.87% at December 31, 2004. We are also

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charged 28 basis points on the unused balance of the revolving credit facility. Under the credit facility, we are subject to certain restrictive covenants. As of December 31, 2004, we were in compliance with all covenants. Under the term loan we are required to make quarterly installments of \$0.5 million through June 30, 2009. Interest expense on the term loan totaled \$0.1 million during 2004.

Assets, including securities available for sale and loans, pledged to secure other borrowings totaled \$933.4 million at December 31, 2004.

### NOTE 10 - SUBORDINATED DEBENTURES

In March 2003 a special purpose entity, IBC Capital Finance II (the "trust") issued \$1.6 million of common securities to Independent Bank Corporation and \$50.6 million of cumulative trust preferred securities ("Preferred Securities") to the public. Independent Bank Corporation issued \$52.2 million of subordinated debentures to the trust in exchange for the proceeds from the public offering. These subordinated debentures represent the sole asset of the trust. The Preferred Securities have a liquidation preference of \$25 per security and represent an interest in the subordinated debentures, which have terms that are similar to the Preferred Securities. Distributions on the securities are payable quarterly at the annual rate of 8.25% 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 March 31, 2033, at our option after March 31, 2008, 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.

Prior to the first quarter of 2004 the trust was consolidated in our financial statements and the common securities and subordinated debentures were eliminated in consolidation. Under new accounting guidance, FASB Interpretation No. 46, as revised in December 2003 ("FIN 46R"), the trust is no longer consolidated with Independent Bank Corporation. Accordingly, we no longer report the \$50.6 million of trust preferred securities issued by the trust as liabilities, but instead report the common securities of \$1.6 million held by Independent Bank Corporation in other assets and the \$52.2 million of subordinated debentures issued by Independent Bank Corporation in the liability

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section of our Consolidated Statements of Financial Condition. Amounts reported at December 31, 2003 were reclassified to conform to the current presentation.

During 2004, we acquired North and its special purpose entity, Gaylord Partners, Limited Partnership (the "Partnership"). The Partnership is a subsidiary of Independent Bank Corporation, but similar to IBC Capital Finance II is not consolidated with Independent Bank Corporation. The Partnership has issued \$.1 million of common securities to Independent Bank Corporation and privately placed \$5.0 million of cumulative trust preferred securities ("GP Preferred Securities"). Independent Bank Corporation has \$5.1 million of subordinated debentures issued to the Partnership. The subordinated debentures are the sole asset of the Partnership. The GP Preferred Securities have a liquidation preference of \$25 per security and represent an interest in the subordinated debentures, which have terms that are similar to the GP Preferred Securities. The GP Preferred Securities were sold in two series. Series A totaled \$1.2 million and carries a variable interest rate equal to one month LIBOR plus 3.6 percent. Series B totaled \$3.9 million and carries a variable interest rate equal to the prime rate, plus 1 percent. For both Series A and Series B, the interest rates reprice quarterly and are not to exceed 12 percent annually. Distributions are payable quarterly and are included in interest expense in the consolidated financial statements.

The GP 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 May 31, 2032, at our option after May 31, 2007, 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.

During 2004 we acquired Midwest and its special purpose entity, Midwest Guaranty Trust I (the "MG Trust"). The MG Trust is a subsidiary of Independent Bank Corporation, but similar to IBC Capital Finance II, is not consolidated with Independent Bank Corporation. The MG Trust has issued \$.2 million of common securities to Independent Bank Corporation and \$7.5 of cumulative trust preferred securities ("MG Preferred Securities") as part of a pooled offering. Independent Bank Corporation has \$7.7 million of subordinated debentures issued to the MG Trust. The subordinated debentures are the sole asset of the MG Trust. The MG Preferred Securities have a liquidation preference of \$1,000 per security and represent an interest in the subordinated debentures, which have terms that are similar to the MG Preferred Securities. Distributions on the securities are payable quarterly based upon a floating rate equal to three month LIBOR plus 3.45%, not to exceed 12.5% through November 7, 2007 and are included in interest expense in the consolidated financial statements.

The MG 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 November 7, 2032, at our option after November 7, 2007, 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.

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Issue costs have been capitalized and are being amortized on a straight-line basis over a period not exceeding 30 years and are included in interest expense in the consolidated financial statements.

### NOTE 11 - 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:

	2004	2003
	-----	-----
	(in thousands)	
Financial instruments whose risk is represented		
by contract amounts		
Commitments to extend credit .....	\$250,607	\$146,265
Standby letters of credit .....	20,365	27,850

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 2005.

In May 2004 we received an unsolicited anonymous letter regarding certain business practices at Mepco, which was acquired in April 2003 and is now a wholly-owned subsidiary of Independent Bank. We processed this letter in compliance with our Policy Regarding the Resolution of Reports on the Company's Accounting, Internal Controls and Other Business Practices. Under the direction of our Audit Committee, special legal counsel was engaged to investigate the matters raised in the anonymous letter. This investigation was completed during

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the first quarter of 2005 and we have determined that any amounts or issues relating to the period after our April 2003 acquisition of Mepco were not significant. The potential amount of liability related to periods prior to our April 2003 acquisition date primarily encompasses funds that may be due to former customers of Mepco related to loan overpayments or unclaimed funds that may be subject to escheatment. At this time we believe this potential liability to third parties will not exceed approximately \$5 million. Prior to our acquisition, Mepco had erroneously recorded these amounts as revenue over a period of several years. The final liability may, however, be less, depending on the facts related to each loan account, the application of the law to those facts and the applicable state escheatment requirements for unclaimed funds. In the second quarter of 2004 we recorded a liability of \$2.7 million with a corresponding charge to earnings (included in non-interest expenses) for potential amounts due to third parties (either former loan customers or to states for the escheatment of unclaimed funds). Further on September 30, 2004 we entered into an escrow agreement with the primary former shareholders of Mepco. This escrow agreement was entered into for the sole purpose of funding any obligations beyond the \$2.7 million amount that we already had accrued. The escrow agreement gives us the right to have all or a portion of the escrow account distributed to us from time to time if the aggregate amount that we (together with any of our affiliates including Mepco) are required to pay to any third parties as a result of the matters being investigated exceeds \$2.7 million. At December 31, 2004 the escrow account contained 92,766 shares of Independent Bank Corporation common stock (deposited by the primary former shareholders of Mepco) having an aggregate market value at that date of approximately \$2.8 million. The escrow agreement contains provisions that require the addition or distribution of shares of Independent Bank Corporation common stock if the total market value of such stock in the escrow account falls below \$2.25 million or rises above \$2.75 million. Consistent with these escrow agreement provisions 2,000 shares of Independent Bank Corporation common stock were released from the escrow account and returned to the former primary shareholders of Mepco in January 2005. As a result of the aforementioned escrow agreement as well as the \$2.7 million accrual established in the second quarter of 2004, we do not expect any future liabilities (other than certain investigation costs incurred during the first quarter of 2005) related to the Mepco investigation. The terms of the agreement under which we acquired Mepco, obligates the former shareholders of Mepco to indemnify us for existing and

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resulting damages and liabilities from pre-acquisition activities at Mepco. Accordingly, to the extent that we actually incur any damages or liabilities resulting from these pre-acquisition activities, we believe that we have reasonable grounds to claim and collect full reimbursement. However, there can be no assurance that we will successfully prevail with respect to any of these potential idemnification claims.

### NOTE 12 - EARNINGS PER SHARE

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

2004	2003	2002
-----	-----	-----
(in thousands, except per share amounts)		

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Net income .....	\$38,558	\$37,592	\$29,467
	=====	=====	=====
Shares outstanding(1) .....	20,462	19,588	20,089
Effect of stock options.....	392	424	385
Stock units for deferred compensation plan for non-employee directors .....	46	47	42
	-----	-----	-----
Shares outstanding for calculation of diluted earnings per share(1) .....	20,900	20,059	20,516
	=====	=====	=====
Net income per share			
Basic .....	\$ 1.88	\$ 1.92	\$ 1.47
	=====	=====	=====
Diluted .....	\$ 1.84	\$ 1.87	\$ 1.44
	=====	=====	=====

(1) Shares outstanding have been adjusted for a 10% stock dividend in 2003 and a 5% stock dividend and three-for-two stock split in 2002.

NOTE 13 - INCOME TAX

The composition of income tax expense for the years ended December 31 follows:

	2004	2003	2002
	-----	-----	-----
	(in thousands)		
Current .....	\$11,611	\$ 9,299	\$10,422
Deferred .....	2,185	4,428	974
	-----	-----	-----
Income tax expense ...	\$13,796	\$13,727	\$11,396
	=====	=====	=====

A reconciliation of income tax expense to the amount computed by applying the statutory federal income tax rate of 35% in each year presented to income before income tax for the years ended December 31 follows:

	2004	2003	2002
	-----	-----	-----
	(in thousands)		
Statutory rate applied to income before income tax .....	\$18,324	\$17,962	\$14,302
Tax-exempt interest income .....	(3,732)	(3,358)	(2,848)
Bank owned life insurance .....	(520)	(501)	(141)
Dividends paid to Employee Savings and Stock Ownership Plan .....	(262)	(188)	
Other, net .....	(14)	(188)	83
	-----	-----	-----
Income tax expense .....	\$13,796	\$13,727	\$11,396
	=====	=====	=====

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The deferred income tax expense of \$2.2 million, \$4.4 million and \$1.0 million in 2004, 2003 and 2002, respectively can be attributed to tax effects of temporary differences. The tax benefit related to the exercise of stock options recorded in shareholders' equity was \$1.5 million, \$1.1 million and \$0.9 million during 2004, 2003 and 2002, respectively. 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:

	2004	2003
	-----	-----
	(in thousands)	
Deferred tax assets		
Allowance for loan losses .....	\$ 8,931	\$ 6,264
Net operating loss carryforward .....	6,815	7,194
Mepco claims expense .....	1,142	
Severance payable .....	970	
Deferred compensation .....	927	634
Other than temporary impairment charge on securities available for sale .....	580	
Deferred insurance premiums .....	268	520
Loans held for sale .....	208	171
Deferred loan fees .....	180	170
Unrealized loss on derivative financial instruments .....		1,614
Fixed assets .....		545
Other .....	129	385
	-----	-----
Gross deferred tax assets .....	20,150	17,497
Deferred tax liabilities		
Unrealized gain on securities available for sale .....	4,111	4,875
Mortgage servicing rights .....	3,976	3,105
Purchase premiums, net .....	2,440	491
Fixed assets .....	560	
Unrealized gain on derivative financial instruments .....	360	
	-----	-----
Gross deferred tax liabilities .....	11,447	8,471
	-----	-----
Net deferred tax assets .....	\$ 8,703	\$ 9,026
	=====	=====

At December 31, 2004, the Company had a net operating loss ("NOL") carryforward of approximately \$19.5 million which, if not used against taxable income, will expire as follows:

	(in thousands)
	-----
2008 .....	\$ 5,849
2009 .....	81
2010 .....	6,779
2011 .....	929
2012 .....	411
2013 .....	3,437
2014 .....	189
2019 .....	1,437

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2020 .....	359
	-----
Total .....	\$19,471
	=====

The use of the \$19.5 million NOL carryforward, which was acquired through the acquisitions of Mutual Savings Bank, f.s.b. and North, is limited to \$3.3 million per year as the result of a change in control as defined in the Internal Revenue Code.

We believe that a valuation reserve is not necessary for any of the deferred tax assets since it is more likely than not that these assets will be realized principally through carry back to taxable income in prior years, future reversals of existing taxable temporary differences and to future taxable income. Our conclusion that it is "more likely than not" that the deferred tax assets will be realized is based on federal taxable income in excess of \$90 million in the carry-back period as well as a history of growth in earnings and the prospects for continued earnings growth.

NOTE 14 - 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 or other subsidiaries. Options that were granted under these plans were granted with vesting periods of up to one year, 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.

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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:

	2004	2003	2002
	-----	-----	-----
Expected dividend yield .....	2.37%	2.53%	2.48%
Risk-free interest rate .....	4.26	4.04	5.11
Expected life (in years) .....	9.6	9.4	9.9
Expected volatility .....	32.53%	33.20%	35.91%
Per share weighted-average fair value .....	\$10.56	\$ 7.57	\$ 6.87

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

	2004	2003	2002
	-----	-----	-----
	(in thousands, except per share amounts)		
Net income - as reported .....	\$38,558	\$37,592	\$29,467
Stock based compensation expense determined under fair value based method, net of			



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related tax effect .....	(2,273)	(1,355)	(1,572)
	-----	-----	-----
Pro-forma net income .....	\$36,285	\$36,237	\$27,895
	=====	=====	=====
Income per share			
Basic			
As reported .....	\$ 1.88	\$ 1.92	\$ 1.47
Pro-forma .....	1.77	1.85	1.39
Diluted			
As reported .....	\$ 1.84	\$ 1.87	\$ 1.44
Pro-forma .....	1.74	1.81	1.36

A summary of outstanding stock option grants and transactions follows:

	Number of Shares	Average Exercise Price
	-----	-----
Outstanding at December 31, 2001 .....	1,218,188	\$ 9.38
Granted .....	376,624	16.77
Exercised .....	(384,981)	8.96
	-----	-----
Outstanding at December 31, 2002 .....	1,209,831	11.82
Granted .....	306,136	21.06
Exercised .....	(384,344)	11.75
Forfeited .....	(10,992)	18.13
	-----	-----
Outstanding at December 31, 2003 .....	1,120,631	14.30
Granted .....	391,854	22.28
Exercised .....	(340,364)	11.73
Forfeited .....	(2,500)	26.12
	-----	-----
Outstanding at December 31, 2004 .....	1,169,621	\$17.69
	=====	=====

A summary of stock options outstanding at December 31, 2004 follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number of Shares	Weighted-Average Remaining Life (years)	Exercise Price	Number of Shares	Weighted-Average Remaining Life (years)	Exercise Price
-----	-----	-----	-----	-----	-----	-----
\$3.52 to \$8.26 .....	153,859	4.92	\$ 6.79	153,859	4.92	\$ 6.79
\$8.88 to \$13.12 .....	216,446	6.03	10.79	216,446	6.03	10.79
\$13.19 to \$17.03 .....	271,318	7.26	16.50	271,318	7.26	16.50
\$17.26 to \$19.22 .....	122,247	8.12	19.09	122,247	8.12	19.09
\$19.30 to \$30.40 .....	405,751	8.25	25.89	336,587	8.42	25.89
	-----	-----	-----	-----	-----	-----
	1,169,621	7.16	\$17.69	1,100,457	7.14	\$17.69
	=====	=====	=====	=====	=====	=====

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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. The maximum

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contribution is 6% of employees' eligible wages. During 2004, 2003 and 2002, \$1.5 million, \$2.8 million and \$2.4 million respectively, and was expensed for these retirement plans.

Our officers participate in various performance-based compensation plans. Amounts expensed for all incentive plans totaled \$2.2 million, \$3.2 million, and \$2.6 million, in 2004, 2003 and 2002, respectively.

We also provide certain health care and life insurance programs to substantially all full-time employees. Amounts expensed for these programs totaled \$4.2 million, \$3.5 million and \$2.8 million, in 2004, 2003 and 2002, respectively. These insurance programs are also available to retired employees at their expense.

### NOTE 15 - DERIVATIVE FINANCIAL INSTRUMENTS

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

	Notional Amount	2004 Average Maturity (years)	Fair Value
	-----	-----	-----
(dollars in thousands)			
Fair Value Hedge - pay variable interest-rate swap agreements ...	\$193,159	3.4	\$ (341)
	=====	===	=====
Cash Flow Hedge - pay-fixed interest-rate swap agreements .....	\$369,500	1.4	\$1,339
	=====	===	=====
No hedge designation			
Pay-fixed interest-rate swap agreements .....	\$ 15,000	.8	\$ 86
Pay-variable interest-rate swap agreements .....	25,000	.6	(68)
Rate-lock real estate mortgage loan commitments .....	17,465	.1	92
Mandatory commitments to sell real estate mortgage loans .....	54,438	.1	(60)
	=====	===	=====
Total .....	\$111,903	0.3	\$ 50
	=====	===	=====

	Notional Amount	2003 Average Maturity (years)	Fair Value
	-----	-----	-----

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(dollars in thousands)

Fair Value Hedge - pay variable interest-rate swap agreements ...	\$ 81,159	4.5	\$ 141
	=====	===	=====
Cash Flow Hedge - pay-fixed interest-rate swap agreements .....	\$343,500	1.5	\$(4,180)
	=====	===	=====
No hedge designation			
Pay-fixed interest-rate swap agreements .....	\$ 30,000	1.0	\$ (83)
Rate-lock real estate mortgage loan commitments .....	15,400	.1	194
Mandatory commitments to sell real estate mortgage loans .....	46,200	.1	(140)
	-----	---	-----
Total .....	\$ 91,600	.4	\$ (29)
	=====	===	=====

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 Bank's 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.

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.

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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 in earnings.

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 reduce the impact of price fluctuations of mortgage loans held for sale and Rate Lock Commitments. Mandatory Commitments help protect our

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Bank's 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. We obtain market prices from an outside third party on Mandatory Commitments and Rate Lock Commitments. Net gains on the sale of real estate mortgage loans, as well as net income may be more volatile as a result of these 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 Comprehensive Income
	-----	-----
		(in thousands)
Change in fair value during the year ended December 31, 2004		
Interest rate swap agreements not designated as hedges .....	\$ 101	
Rate-lock real estate mortgage loan commitments .....	(102)	
Mandatory commitments to sell real estate mortgage loans ....	80	
Ineffectiveness of cash flow hedges .....	16	
Cash flow hedges .....		\$ 704
Reclassification adjustment .....		4,815
	-----	-----
Total .....	95	5,519
Federal income tax .....	33	1,932
	-----	-----
Total, net of federal income tax .....	\$ 62	\$ 3,587
	=====	=====
Change in fair value during the year ended December 31, 2003		
Interest rate swap agreements not designated as hedges .....	\$ (83)	
Rate-lock real estate mortgage loan commitments .....	(310)	
Mandatory commitments to sell real estate mortgage loans ....	1,352	
Ineffectiveness of cash flow hedges .....	(33)	
Cash flow hedges .....	(24)	\$ (3,178)
Reclassification adjustment .....		6,920
	-----	-----
Total .....	902	3,742
Federal income tax .....	316	1,310
	-----	-----
Total, net of federal income tax .....	\$ 586	\$ 2,432
	=====	=====
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	\$ (8,182)
Reclassification adjustment .....		6,807
	-----	-----
Total .....	(931)	(1,375)
Federal income tax .....	(326)	(481)
	-----	-----
Total, net of federal income tax .....	\$ (605)	\$ (894)
	=====	=====

## NOTE 16 - 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 2004 and 2003.

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:

	2004	2003
	-----	-----
	(in thousands)	
Balance at beginning of year ...	\$ 26,759	\$ 26,000
New loans and advances .....	4,263	23,611
Repayments .....	(19,265)	(22,852)
	-----	-----
Balance at end of year .....	\$ 11,757	\$ 26,759
	=====	=====

Deposits held by us for directors and executive officers totaled \$3.4 million and \$4.9 million at December 31, 2004 and 2003, respectively.

All loans and commitments included in the table above 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.

## NOTE 17 - OTHER NON-INTEREST EXPENSES

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

	2004	2003	2002
	-----	-----	-----
	(in thousands)		
Data processing .....	\$ 4,462	\$ 3,942	\$ 3,209
Advertising .....	3,787	4,011	2,813
Loan and collection .....	3,556	3,352	3,028
Communications .....	3,553	2,895	2,484
Legal and professional .....	2,718	1,651	1,238
Mepco claims expense .....	2,700		
Amortization of intangible assets ...	2,479	1,721	1,014
Supplies .....	2,140	1,920	1,626
Other .....	9,531	7,398	5,383
	-----	-----	-----
Total non-interest expense .....	\$34,926	\$26,890	\$20,795
	=====	=====	=====

## NOTE 18 - LEASES

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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, 2004, follows:

	(in thousands)
	-----
2005 .....	\$1,309
2006 .....	1,194
2007 .....	1,065
2008 .....	576
2009 .....	359
2010 and thereafter...	
	-----
Total .....	\$4,503
	=====

Rental expense on operating leases totaled \$1.1 million, \$0.8 million and \$0.4 million in 2004, 2003 and 2002, respectively.

NOTE 19 - CONCENTRATIONS OF CREDIT RISK

Credit risk is the risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with our organization, or otherwise fail to perform as agreed. Credit risk can occur outside of our traditional lending activities and can exist in any activity where success depends on counter-party, issuer or borrower performance. Concentrations of credit risk (whether on- or off-balance sheet) arising from financial instruments can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries or certain geographic regions. Credit risk associated with these concentrations could arise when a significant amount of loans or other financial instruments, related by similar characteristics, are simultaneously impacted by changes in economic or other conditions that cause their probability of repayment or other type of settlement to be adversely affected. Our major concentrations of credit risk arise by collateral type in relation to loans and commitments. The significant concentrations by collateral type at December 31, 2004 include loans secured by residential real estate which totaled

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\$806.2 million and construction and development loans which totaled \$261.5 million. Additionally, within our commercial real estate and commercial loan portfolio we had significant standard industry classification concentrations in the following categories as of December 31, 2004: Operators of Nonresidential Buildings; Operators of Apartment Buildings; Construction and General Contractors; and Land Subdividers and Developers. A geographic concentration arises because the Company primarily conducts its lending activities in the State of Michigan.

NOTE 20 - REGULATORY MATTERS

Capital guidelines adopted by Federal and State regulatory agencies and

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restrictions imposed by law limit the amount of cash dividends our Banks can pay to us. At December 31, 2004, using the most restrictive of these conditions for each Bank, the aggregate cash dividends that our Banks can pay us without prior approval was \$66.2 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. Management is not aware of any conditions or events that would have changed the most recent FDIC categorization.

Our actual capital amounts and ratios at December 31, 2004 follow:

	Actual		Minimum Ratio for Adequately Capitalized Institutions	Mi for We In
	Amount	Ratio		
	(dollars in thousands)			
2004				
Total capital to risk-weighted assets				
Consolidated .....	\$243,876	10.55%	8.00%	
Independent Bank .....	115,909	10.68	8.00	
Independent Bank West Michigan .....	41,440	10.48	8.00	
Independent Bank South Michigan .....	32,365	10.69	8.00	
Independent Bank East Michigan .....	55,000	10.67	8.00	
Tier 1 capital to risk-weighted assets				
Consolidated .....	\$217,280	9.40%	4.00%	
Independent Bank .....	102,850	9.48	4.00	
Independent Bank West Michigan .....	36,824	9.31	4.00	
Independent Bank South Michigan .....	29,719	9.82	4.00	
Independent Bank East Michigan .....	48,680	9.44	4.00	
Tier 1 capital to average assets				
Consolidated .....	\$217,280	7.36%	4.00%	
Independent Bank .....	102,850	7.41	4.00	
Independent Bank West Michigan .....	36,824	7.44	4.00	
Independent Bank South Michigan .....	29,719	7.11	4.00	
Independent Bank East Michigan .....	48,680	7.65	4.00	

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	Actual		Minimum Ratio for Adequately Capitalized Institutions	Mi for We In
	Amount	Ratio		

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(dollars in thousands)

2003

Total capital to risk-weighted assets			
Consolidated .....	\$199,823	11.57%	8.00%
Independent Bank .....	93,029	10.76	8.00
Independent Bank West Michigan .....	38,566	10.83	8.00
Independent Bank South Michigan .....	27,351	10.78	8.00
Independent Bank East Michigan .....	26,529	10.81	8.00
Tier 1 capital to risk-weighted assets			
Consolidated .....	\$182,145	10.55%	4.00%
Independent Bank .....	84,592	9.78	4.00
Independent Bank West Michigan .....	34,152	9.59	4.00
Independent Bank South Michigan .....	24,859	9.80	4.00
Independent Bank East Michigan .....	24,080	9.81	4.00
Tier 1 capital to average assets			
Consolidated .....	\$182,145	7.91%	4.00%
Independent Bank .....	84,592	7.46	4.00
Independent Bank West Michigan .....	34,152	7.42	4.00
Independent Bank South Michigan .....	24,859	7.06	4.00
Independent Bank East Michigan .....	24,080	6.85	4.00

NOTE 21 - 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.

We have purchased a "stable value wrap" for our bank owned life insurance that permits a surrender of this investment at the greater of its fair market or book value.

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.

Capitalized mortgage servicing rights have been valued based upon a valuation performed by an independent third party.



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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:

	2004		2003	
	Estimated Fair Value	Recorded Book Balance	Estimated Fair Value	Recorded Book Balance
	(in thousands)			
<b>Assets</b>				
Cash and due from banks .....	\$ 72,800	\$ 72,800	\$ 61,700	\$ 61,700
Securities available for sale .....	550,900	550,900	454,000	454,000
Net loans and loans held for sale .....	2,223,900	2,239,300	1,690,700	1,683,200
Bank owned life insurance .....	38,300	38,300	36,900	36,900
Accrued interest receivable .....	12,600	12,600	11,100	11,100
Capitalized mortgage servicing rights ...	12,800	11,400	10,100	8,900
Derivative financial instruments .....	1,000	1,000		
<b>Liabilities</b>				
Deposits with no stated maturity .....	\$1,136,800	\$1,136,800	\$ 893,300	\$ 893,300
Deposits with stated maturity .....	1,038,100	1,040,200	816,100	809,500
Other borrowings .....	595,800	587,100	449,500	436,300
Accrued interest payable .....	5,800	5,800	4,100	4,100
Derivative financial instruments .....			4,100	4,100

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.

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### NOTE 22 - OPERATING SEGMENTS

Our reportable segments are based upon legal entities. We have five reportable segments: Independent Bank ("IB"), Independent Bank West Michigan ("IBWM"), Independent Bank South Michigan ("IBSM"), Independent Bank East Michigan ("IBEM") and Mepco Insurance Premium Financing, Inc. ("Mepco"). 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. Certain operational and administrative functions have been consolidated at the parent company and the costs of these functions are allocated to each segment.

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

	IB	IBWM	IBSM	IBEM	Mepco	Other (1)
	-----	-----	-----	-----	-----	-----
	(in thousands)					
2004						
Total assets .....	\$1,183,924	\$507,574	\$433,573	\$674,799	\$282,680	\$321,4
Interest income .....	63,317	28,539	20,780	29,063	20,856	
Net interest income .....	45,223	22,568	14,500	22,685	17,496	(4,9
Provision for loan losses ...	2,095	681	466	644	423	
Income (loss) before						
income tax .....	24,085	14,751	8,858	9,515	3,045	(7,2
Net income (loss) .....	17,816	10,480	6,567	7,232	1,999	(4,9
2003						
Total assets .....	\$1,008,409	\$464,927	\$360,059	\$352,933	\$164,707	\$224,8
Interest income .....	60,821	28,508	18,473	20,073	11,534	
Net interest income .....	40,762	21,081	12,454	14,339	10,474	(3,8
Provision for loan losses ...	2,060	1,056	(118)	630	404	
Income (loss) before						
income tax .....	23,317	15,249	7,857	6,196	3,942	(4,3
Net income (loss) .....	17,212	10,681	5,816	5,076	2,412	(2,6
2002						
Total assets .....	\$ 965,653	\$427,578	\$322,118	\$342,069		\$176,5
Interest income .....	61,450	27,678	19,622	21,112		
Net interest income .....	37,698	19,682	12,511	13,754		(1,8
Provision for loan losses ...	1,657	890	390	625		
Income (loss) before						
income tax .....	19,970	11,716	6,697	5,615		(2,4
Net income (loss) .....	14,628	8,125	4,849	4,539		(1,9

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

### NOTE 23 - INDEPENDENT BANK CORPORATION (PARENT COMPANY ONLY) FINANCIAL INFORMATION

Presented below are condensed financial statements for our parent company.

#### CONDENSED STATEMENTS OF FINANCIAL CONDITION

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	December 31,	
	2004	2003
	(in thousands)	
<b>ASSETS</b>		
Cash and due from banks .....	\$ 12,688	\$ 10,894
Investment in subsidiaries .....	295,585	200,070
Other assets .....	11,450	9,900
	-----	-----
Total Assets .....	\$319,723	\$220,864
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Notes payable .....	\$ 9,000	
Subordinated debentures .....	64,947	\$ 52,165
Other liabilities .....	15,484	6,483
Shareholders' equity .....	230,292	162,216
	-----	-----
Total Liabilities and Shareholders' Equity .....	\$319,723	\$220,864
	=====	=====

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CONDENSED STATEMENTS OF OPERATIONS

	Year ended December	
	2004	2003
	(in thousands)	
<b>OPERATING INCOME</b>		
Dividends from subsidiaries .....	\$26,350	\$26,775
Management fees from subsidiaries and other income .....	20,246	19,252
	-----	-----
Total Operating Income .....	46,596	46,027
	-----	-----
<b>OPERATING EXPENSES</b>		
Interest expense .....	5,000	3,892
Administrative and other expenses .....	23,467	21,084
	-----	-----
Total Operating Expenses .....	28,467	24,976
	-----	-----
Income Before Income Tax and Undistributed Net Income of Subsidiaries .....	18,129	21,051
Income tax credit .....	2,685	2,119
	-----	-----
Income Before Equity in Undistributed Net Income of Subsidiaries ...	20,814	23,170
Equity in undistributed net income of subsidiaries .....	17,744	14,422
	-----	-----

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Net Income .....	\$38,558	\$37,592
	=====	=====

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2004	2003	2002
	(in thousands)		
Net Income .....	\$ 38,558	\$ 37,592	\$ 29,467
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 .....	1,238	1,191	1,087
Gain on sale of securities .....			(146)
Increase in other assets .....	(457)	(1,093)	(886)
Increase in other liabilities .....	2,930	1,925	1,388
Equity in undistributed net income of subsidiaries .....	(17,744)	(14,422)	(5,691)
Total Adjustments .....	(14,033)	(12,399)	(4,248)
Net Cash from Operating Activities .....	24,525	25,193	25,219
CASH FLOW USED IN INVESTING ACTIVITIES			
Proceeds from the sale of securities available for sale .....			206
Investment in subsidiaries .....	(16,889)	(15,610)	(1,824)
Capital expenditures .....	(2,315)	(799)	(1,833)
Net Cash Used in Investing Activities .....	(19,204)	(16,409)	(3,451)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from short-term borrowings .....			2,100
Proceeds from long-term debt .....	10,000		
Repayment of long-term debt .....	(1,000)		
Repayment of other borrowings .....		(12,600)	
Proceeds from issuance of subordinated debentures net of cash paid for common securities .....		48,712	
Redemption of subordinated debentures net of cash receipt for common securities .....		(17,250)	
Dividends paid .....	(12,500)	(11,040)	(8,406)
Repurchase of common stock .....	(2,002)	(12,578)	(23,191)
Proceeds from issuance of common stock .....	1,975	1,738	2,565
Net Cash Used in Financing Activities .....	(3,527)	(3,018)	(26,932)
Net Increase (Decrease) in Cash and Cash Equivalents .....	1,794	5,766	(5,164)
Cash and Cash Equivalents at Beginning of Year .....	10,894	5,128	10,292
Cash and Cash Equivalents at End of Year .....	\$ 12,688	\$ 10,894	\$ 5,128
	=====	=====	=====

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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,	December 31,
(in thousands, except per share amounts)				
2004				
Interest income .....	\$35,615	\$37,732	\$43,469	\$45,731
Net interest income .....	25,375	27,748	31,456	32,954
Provision for loan losses .....	801	709	2,456	343
Income before income tax expense ...	11,353	12,080	14,313	14,608
Net income .....	8,443	8,983	10,318	10,814
Income per share				
Basic .....	\$ .43	\$ .45	\$ .49	\$ .51
Diluted .....	.42	.44	.48	.50
2003				
Interest income .....	\$31,620	\$35,458	\$35,971	\$36,317
Net interest income .....	20,807	23,467	25,259	25,720
Provision for loan losses .....	1,000	785	606	1,641
Income before income tax expense ...	12,167	12,521	14,210	12,421
Net income .....	8,817	9,131	10,320	9,324
Income per share				
Basic .....	\$ .45	\$ .46	\$ .53	\$ .48
Diluted .....	.44	.45	.51	.47

During the fourth quarter of 2004 we recognized \$2.3 million of severance costs as a result of the termination of the employment contracts of certain Mepco officers in December 2004. These costs are included in compensation and benefits in the consolidated statements of operations.

QUARTERLY SUMMARY

	Reported Sale Prices of Common Shares						Cash Dividends Declared	
	2004			2003			2004	2003
	High	Low	Close	High	Low	Close		
First quarter ....	\$29.50	\$26.55	\$27.86	\$19.55	\$17.41	\$18.27	\$.16	\$.13
Second quarter ...	28.37	23.77	25.40	25.00	17.96	23.36	.16	.15
Third quarter ....	27.09	24.41	27.00	27.95	22.96	26.62	.17	.16
Fourth quarter ...	30.85	25.82	29.83	31.00	26.61	28.36	.17	.16

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We have approximately 2,700 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 #20 to the Consolidated Financial Statements.)

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### SHAREHOLDER INFORMATION

#### HOW TO ORDER FORM 10-K

Shareholders may obtain, without charge, a copy of Form 10-K, the 2004 Annual Report to the Securities and Exchange Commission, through our website at [www.ibcp.com](http://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](mailto: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](http://www.ibcp.com).

#### NOTICE OF ANNUAL MEETING

Our Annual Meeting of Shareholders will be held at 3:00 p.m. on April 26, 2005, in the Ionia Theater located at 205 West Main Street, Ionia, Michigan, 48846.

#### TRANSFER AGENT AND REGISTRAR

EquiServe, P.O. Box 43010, Providence, RI 02940-3011, 800/426-5523, [www.equiserve.com](http://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, Chairman of the Board, Independent Bank Corporation

Michael M. Magee, Jr., President and Chief Executive Officer, Independent Bank Corporation

William B. Kessel, President and Chief Executive Officer, Independent Bank

Ronald L. Long, President and Chief Executive Officer, Independent Bank

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East Michigan

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

Stephen L. Gulis, Jr., Executive Vice President and Chief Financial Officer,  
Wolverine World Wide, Inc., Rockford

Terry L. Haske, President, Ricker & Haske, C.P.A.s, P.C., Marlette

Robert L. Hetzler, Retired, former President, Monitor Sugar Company, Food  
Processor, Bay City

Michael M. Magee, Jr., President and Chief Executive Officer, Independent  
Bank Corporation

James E. McCarty, President, McCarty Communications, Graphic Design and  
Commercial Printing, Saranac

Charles A. Palmer, Professor of Law, Thomas M. Cooley Law School, Lansing

Charles C. Van Loan, Chairman of the Board, Independent Bank Corporation,  
Ionia

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INDEPENDENT BANK CORPORATION  
P.O. Box 491, 230 West Main Street  
Ionia, Michigan 48846  
616-527-9450

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

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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 26, 2005.

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

Sincerely,

The Board of Directors  
INDEPENDENT BANK CORPORATION

DETACH HERE

ZIBC62

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 26, 2005

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 Tuesday, April 26, 2005 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 AND FOR PROPOSAL 2.

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?

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-----  
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(INDEPENDENT BANK CORPORATION LOGO)

P.O. BOX 491  
IONIA, MI 48846



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YOUR VOTE IS IMPORTANT. PLEASE VOTE IMMEDIATELY.

VOTE-BY-INTERNET (COMPUTER GRAPHIC) VOTE-BY-TELEPHONE (TELEPHONE GRAPHIC)
LOG ON TO THE INTERNET AND GO TO OR CALL TOLL-FREE
HTTP://WWW.EPROXYVOTE.COM/IBCP 1-877-PRX-VOTE (1-877-779-8683)

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

DETACH HERE IF YOU ARE RETURNING YOUR PROXY CARD BY MAIL ZIBC61
3567

[X] PLEASE MARK
VOTES AS IN
THIS EXAMPLE.

INDEPENDENT BANK CORPORATION

1. Election of Directors.

NOMINEE FOR ONE-YEAR TERM EXPIRING IN 2006:
(01) Michael M. Magee, Jr.
NOMINEES FOR THREE-YEAR TERMS EXPIRING IN 2008:
(02) Stephen L. Gulis, Jr., (03) Terry L. Haske,
(04) Charles A. Palmer

FOR WITHHELD
ALL [ ] [ ] FROM ALL
NOMINEES NOMINEES

2. To consider and vote upon a proposal to amend our Long-Term Incentive Plan to make an additional 750,000 shares of our common stock available for issuance under that plan.

3. To transact such other business that may come before the meeting or any adjournment.

[ ]
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For all nominees except as noted above

Mark box at right if an address change or comment has been noted on the reverse side of this card.

PLEASE BE SURE TO SIGN AND DATE THIS PROXY.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_ Signature: \_\_\_\_\_ Date: \_\_\_\_\_